February 2, 2016

the Prudent Speculator

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A month ago, we bid good riddance to a dismal 2015, only to see the new year start off even more miserably. The U.S. equity markets suffered their worst first-two-weeks on record, with the Dow Jones Industrial Average skidding more than 12% at the trough on Jan. 20. Incredibly, thanks to a sizable rebound in the last third of the month, January ended with the Dow off *only* 5.4% on a total return basis. The more broadly based and capitalization-weighted S&P 500 and Russell 3000 shed 5.0% and 5.6%, respectively, with the average stock in the latter index actually tumbling 9.6%.

> "The stock market is filled with individuals who know the price of everything but the value of nothing."
>
> —Philip Fisher

Certainly, we have been at this game long enough to know that pullbacks, downturns and sell-offs are very much normal. In fact, corrections of at least 10% occur every 10 months on average and Bear Market setbacks of at least 20% happen every 3.2 years, so while the speed of the January Swoon was disconcerting, the magnitude of the decline was hardly out of the ordinary.

Of course, the rationale—worries about Fed rate hikes, Chinese economic growth, plunging commodities prices and the health of corporate profits—was puzzling, given that nothing greatly changed on these fronts when the calendar turned and stock prices arguably already reflected many of these headwinds. As Kelly King, CEO of regional bank **BB&T Corp.** (BBT - $31.58), said last week, "It's like you woke up Jan. 2 and all of a sudden everyone decided the world is falling apart. We reject that."

That is not to say that there has been no bad news, as crude prices have continued their collapse, likely compelling oil-producing sovereign wealth funds to liquidate big equity positions and turning investor attention to energy risks on bank balance sheets and in the junk-bond market. Also, the Shanghai Composite index has plummeted more than 20% this year as growth in China has slowed further (6.8% GDP growth in Q4) and Beijing has made sophomoric efforts to intervene in its capital markets. And U.S. economic data has hardly been robust, with Q4 GDP growth hitting a lackluster 0.7%, orders for durable goods sinking 5.1% in December and the latest ISM Manufacturing index dipping further into contraction territory.

On the other hand, stats on unemployment, new home sales and consumer sentiment have been positive, while the Index of Leading Economic Indicators is not reflecting a substantial risk of recession, with most economists predicting U.S. GDP growth of 2%+ in 2016. In addition, central bankers in Japan and Europe have taken extra steps to bolster their economies, while the Federal Reserve has seemingly backed off plans for multiple hikes of the Fed Funds rate this year, with the net impact a significant drop in interest rates across developed countries around the world.

Amazingly, yields as of Feb. 2 on 10-year government bonds sit at 0.05% in Japan, 0.31% in Germany and 0.64% in France, with the U.S. Treasury benchmark at 1.83%. Obviously, a flight from fear has fueled the fascination with these "safe" instruments, but we very much like how dividend yields on stocks compare. Indeed, the yield on the S&P 500, where 344 members lifted their payouts last year, now stands at 2.32%, with our newsletter portfolios yielding more than 3% on average.

Certainly, the immediate future is as uncertain as ever, but we think that lower share prices have discounted much weaker economic growth and other negatives that may not materialize. For example, Q4 earnings generally have been healthy as Bloomberg states that with 244 S&P 500 members having turned in results as of Feb. 2, 76.6% have topped analyst EPS expectations. True, revenue growth has been disappointing and management teams have been cautious in their 2016 outlooks, given the impediment of the strong dollar, but both Bloomberg and Standard & Poor's are now estimating that operating EPS for the S&P 500 will rise to more than $120 this year, up nicely over 2015. Anything can happen, of course, but history shows that stock prices eventually follow earnings.

John Buckingham
Chief Investment Officer
Al Frank Asset Management (AFAM)

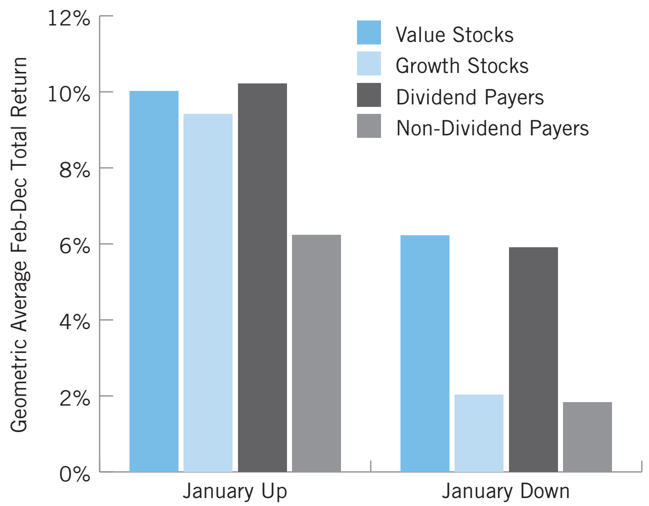
Graphic Detail

As Goes January...

Though the losses were pared over the last seven trading sessions, the S&P 500 endured an ugly January that has many prognosticators predicting further peril for stocks over the balance of the year. While simple math would suggest that a down January lessens the chance of an up year, for there is a higher hurdle to be cleared over the last 11 months just to make it back into the black, we always welcome market analyses that focus on the calendar, given that most every review of the historical evidence favors Value-oriented investment strategies.

JANUARY BAROMETER

An up first month would have been better, but Value has soundly beaten Growth over the balance of the year following a red January.



From 12.31.26 through 12.31.15. Geometric average of 11-month (February through December) total returns. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

DISTRIBUTION OF MONTHLY RETURNS

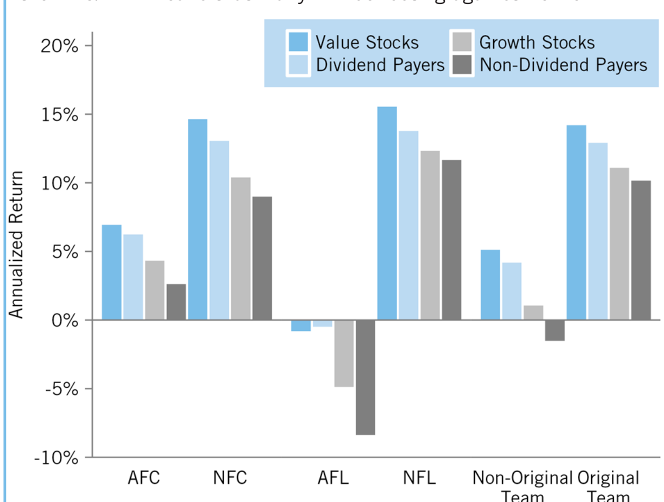
While January 2016 was one of the 10 worst performing on record, the monthly distribution table is more heavily weighted to the right.

	Below 7.5%	-7.5% to -5.0%	-5.0% to -2.5%	-2.5% to 0%	0% to 2.5%	2.5% to 5.0%	5.0% to 7.5%	Above 7.5%
Jan	1	7	15	10	18	17	14	6
Feb	3	2	14	17	28	13	9	2
Mar	4	3	5	20	22	22	7	5
Apr	5	3	7	18	20	21	4	10
May	5	5	10	13	26	13	12	4
Jun	3	6	6	22	25	15	5	6
Jul	4	6	6	21	13	17	13	8
Aug	3	10	7	13	27	15	7	6
Sep	10	5	10	21	14	20	5	3
Oct	8	2	7	16	22	15	8	10
Nov	1	7	15	10	18	17	14	6
Dec	1	2	7	10	32	21	13	2

From 12.31.27 through 12.31.15. Distribution (number of occurrences) of returns by month for large company stocks represented by the Ibbotson Associates SBBI S&P 500 Total Return Index. SOURCE: Al Frank via Morningstar

THE SUPER BOWL INDICATOR

While betting-favorite Carolina is an expansion team, its residency in the NFC/NFL means that many will be rooting against Denver.



From 01.31.67 through 12.31.15. Geometric mean of 11-month returns each year following the Superbowl from Jan. 31 through Dec. 31. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

CHINESE NEW YEAR

The Year of the Sheep/Goat/Ram was poor this time around, but we like that the Year of the Monkey begins this month.

	Value Stocks	Growth Stocks	Dividend Stocks	Non-Dividend Stocks
Horse	3.7%	3.2%	5.1%	5.2%
Sheep/Goat/Ram	16.6%	17.0%	8.0%	24.3%
Monkey	**19.6%**	**11.6%**	**11.9%**	**14.3%**
Rooster	26.9%	17.1%	14.6%	18.3%
Dog	9.5%	8.5%	11.2%	-1.7%
Pig	21.4%	14.4%	16.2%	15.9%
Rat	4.8%	2.9%	6.5%	-1.8%
Ox	7.7%	1.3%	8.0%	-1.8%
Tiger	16.3%	12.4%	16.0%	14.6%
Rabbit	8.5%	13.2%	10.4%	8.3%
Dragon	22.1%	11.2%	16.1%	11.4%
Snake	7.7%	-0.4%	2.2%	-0.3%

From 01.31.28 through 01.31.15. Geometric average of monthly returns from February through January (Chinese New Year generally begins within a few weeks after or prior to January 31). Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. SOURCE: Al Frank using data from Professors Fama and French.

Graphic Detail

Valuation Factors Over Time

Benjamin Graham said, "In the short run, the market is a voting machine, but in the long run it is a weighing machine," but these days it appears as if the polls are all that matters and the scales have been locked away. Alas, few folks seem to be heeding the Father of Value Investing's admonition: "When shopping for stocks, choose them the way you would buy groceries, not the way you would buy perfume." After all, looking at data compiled by Professors Eugene F. Fama and Kenneth R. French, stocks trading for Low Price-to-Book-Value and Low Price-to-Earnings ratios significantly lagged their richly priced counterparts in 2015, while Dividend Payers didn't fare much better in the performance derby.

While not as dramatic as the run-up to the bursting of the Tech Bubble when Fama/French Growth Stocks outperformed Value Stocks in 1999 by a score of 37.9% to 3.6%, investors have been bidding up the price of fast-growing companies to dizzying heights, while harshly punishing even bargain-priced companies that fail to meet expectations. Certainly, there is no guarantee that we will see a repeat of what happened in 2000 (Value gained +21.9% and Growth plunged -17.1%) and 2001 (Value returned +11.1% and Growth lost -6.9%), but we very much believe that in the fullness of time we will look back at the current environment with similar fond Millennium memories.

Understanding that stocks are not cheap and popular at the same time, our faith in Value is based on 88 years of historical market data and 39 years of real-money returns. Our record shows that we are good stock pickers, but the key to our success is that we are superior stockholders.

LONG-TERM RETURNS

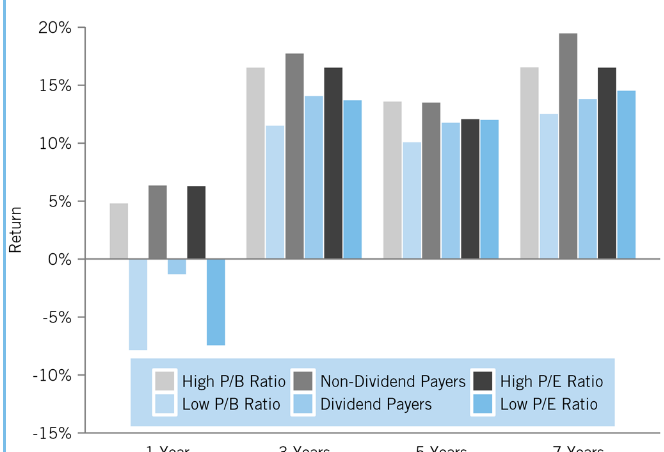
Though equities require tolerance of greater volatility, their returns over the decades generally have been handsome.

Category	Ann Ret	Std Dev
High P/B Ratio	9.4%	18.6%
Low P/B Ratio	12.7%	24.9%
Non-Dividend Paying Stocks	8.4%	29.9%
Dividend Paying Stocks	10.2%	18.3%
High P/E Ratio*	9.5%	16.0%
Low P/E Ratio*	15.3%	15.6%
Long Term Corporate Bonds	6.0%	7.5%
Long Term Gov't Bonds	5.6%	8.4%
Intermediate Gov't Bonds	5.2%	4.4%
Treasury Bills	3.4%	0.9%
Inflation	2.9%	1.8%

From 12.31.27 through 12.31.15; High P/E Ratio and Low P/E series begin on 06.30.51. The portfolios are formed on Earnings to Price at the end of each June using NYSE breakpoints. High P/B Ratio and Low P/B portfolios are formed on Book Equity to Market Equity at the end of each June using NYSE breakpoints. Dividend payers are a weighted average of the top 30%, middle 40% and lowest 30% of dividend payers, rebalanced monthly. Non-dividend payers are stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

SHORT-TERM RETURNS

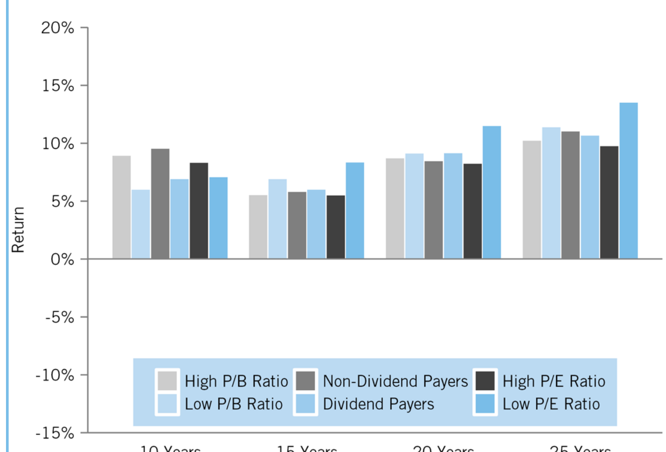
The one-year numbers showing the most striking divergences, Value-oriented factors have fared less well since the Financial Crisis.



As of 12.31.15. High P/B Ratio and Low P/B portfolios are formed on Book Equity to Market Equity at the end of each June using NYSE breakpoints. Dividend payers are a weighted average of the top 30%, middle 40% and lowest 30% of dividend payers, rebalanced monthly. Non-dividend payers are stocks that do not pay a dividend. High P/E Ratio and Low P/E portfolios are formed on Earnings to Price at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

INTERMEDIATE-TERM RETURNS

Over longer time spans, inexpensive (Low P/B Ratio and Low P/E Ratio) stocks and Dividend-Payers have won the performance race.



As of 12.31.15. High P/B Ratio and Low P/B portfolios are formed on Book Equity to Market Equity at the end of each June using NYSE breakpoints. Dividend payers are a weighted average of the top 30%, middle 40% and lowest 30% of dividend payers, rebalanced monthly. Non-dividend payers are stocks that do not pay a dividend. High P/E Ratio and Low P/E portfolios are formed on Earnings to Price at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

Recommended Stocks

In this space, we list each month 40 of our most attractively priced recommended stocks. All trade for significant discounts to our determination of long-term fair value and/or offer favorable risk/reward profiles. Note that, while we always seek substantial capital gains, we require lower appreciation potential for stocks that we deem to have more stable earnings streams, more diversified businesses and stronger balance sheets. The natural corollary is that riskier companies must offer far greater upside to warrant a recommendation. Further, as total return is how performance is ultimately judged, we explicitly factor dividend payments into our analytical work.

Industry Group	Ticker[1]	Company	Price	Target Price	Price Multiples EPS	Sales	TBV[2]	EV/ EBITDA[3]	Debt/ TE[4]	Div Yld	Mkt Cap
Autos & Components	GM	General Motors	29.64	45.05	6.1	0.3	1.6	2.8	141%	5.1%	46,125
Banks	BBT	BB&T	32.66	49.11	11.9	nmf	1.6	nmf	nmf	3.3%	25,480
	FITB	Fifth Third Bancorp	15.80	28.23	9.9	nmf	1.0	nmf	nmf	3.3%	12,550
	ONB	Old National Bancorp	12.32	20.19	12.4	nmf	1.7	nmf	nmf	4.2%	1,411
	WFC	Wells Fargo	50.23	66.58	12.1	nmf	1.8	nmf	nmf	3.0%	256,565
Capital Goods	CAT	Caterpillar	62.24	88.81	13.9	0.8	6.7	6.4	470%	4.9%	36,238
	CMI	Cummins	89.89	125.63	9.7	0.8	2.3	5.6	23%	4.3%	15,966
	ETN	Eaton PLC	50.51	76.17	11.5	1.1	nmf	9.5	nmf	4.4%	23,376
	TRN	Trinity Industries	21.42	42.83	4.6	0.5	1.2	3.9	121%	2.1%	3,274
Consumer Dur & App	MDC	MDC Holdings	21.76	41.15	16.8	0.6	0.9	16.5	72%	4.6%	1,064
	WHR	Whirlpool	134.39	216.43	10.8	0.5	nmf	7.5	nmf	2.7%	10,509
Diversified Financials	COF	Capital One Financial	65.62	100.32	8.7	nmf	1.2	nmf	nmf	2.4%	34,913
Energy	HFC	HollyFrontier	34.97	57.94	7.7	0.4	2.1	5.6	32%	3.8%	6,396
	NOV	National Oilwell Varco	32.54	42.72	7.7	0.7	2.2	5.1	71%	5.7%	12,227
	RDS/A	Royal Dutch Shell PLC	43.93	69.97	10.4	0.2	0.8	6.2	33%	7.3%	140,014
	SFL	Ship Finance Int'l	13.39	20.23	6.5	3.3	1.1	12.5	132%	13.4%	1,251
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	35.35	53.33	11.9	0.3	1.4	8.3	40%	3.2%	21,095
Health Care Equip/Srvcs	ABT	Abbott Laboratories	37.85	50.71	17.6	2.8	11.7	13.4	123%	2.7%	56,462
	• MCK	McKesson	160.98	241.88	12.8	0.2	nmf	9.9	nmf	0.7%	36,798
Insurance	MET	MetLife	44.65	78.81	8.9	nmf	0.8	nmf	nmf	3.4%	49,634
	PRU	Prudential Financial	70.08	116.89	6.9	nmf	0.8	nmf	nmf	4.0%	31,466
Materials	MOS	Mosaic	24.10	50.84	7.4	0.9	1.1	5.0	47%	4.6%	8,496
Media	DIS	Walt Disney	95.82	134.80	18.6	3.0	16.5	11.2	134%	1.5%	157,302
Pharma/Biotech/Life Sci	AMGN	Amgen	152.73	213.98	16.1	5.3	nmf	11.6	nmf	2.6%	115,808
	BIIB	Biogen	273.06	436.44	17.1	5.7	23.2	11.2	248%	0.0%	60,866
	GILD	Gilead Sciences	83.00	146.90	7.5	3.8	20.7	5.3	378%	2.1%	119,618
	MRK	Merck & Co	50.67	60.91	14.3	3.6	34.5	12.2	588%	3.6%	141,549
	PFE	Pfizer	30.49	41.21	13.8	3.9	nmf	12.0	nmf	3.9%	188,215
Real Estate	ANH	Anworth Mortgage Asset	4.26	6.79	7.3	nmf	0.7	nmf	nmf	14.1%	426
Retailing	KSS	Kohl's	49.75	75.74	11.6	0.5	1.7	5.5	84%	3.6%	9,444
Semis & Cap Equipment	INTC	Intel	31.02	40.87	13.1	2.6	3.1	6.1	43%	3.4%	146,383
Software & Services	IBM	Int'l Business Machines	124.79	193.43	8.4	1.5	nmf	8.1	nmf	4.2%	121,060
Technology Hardware	AAPL	Apple	97.34	142.61	10.3	2.3	4.5	4.7	45%	2.1%	539,710
	GLW	Corning	18.61	31.19	13.2	2.4	1.5	9.7	27%	2.6%	22,015
	QCOM	Qualcomm	45.34	75.79	13.2	2.8	3.3	7.2	49%	4.2%	67,778
	STX	Seagate Technology PLC	29.05	55.27	9.0	0.7	nmf	6.8	nmf	8.7%	8,611
Telecom Services	T	AT&T	36.06	43.39	13.4	1.5	nmf	7.4	nmf	5.3%	221,841
Transportation	CSX	CSX	23.02	34.26	11.5	1.9	1.9	6.6	92%	3.1%	22,443
	• FDX	FedEx	132.88	196.17	13.7	0.8	3.3	9.0	76%	0.8%	36,624
Utilities	ETR	Entergy	70.58	85.30	13.7	1.1	1.4	10.7	149%	4.8%	12,591

As of 01.31.16. N/A=Not applicable. nmf=Not meaningful. [1] •=First-time recommendation. [2]Tangible book value. [3]Enterprise value-to-earnings before interest taxes depreciation and amortization. [4]Tangible equity. SOURCE: Al Frank using data from Bloomberg

Portfolio Builder

Research Team Favorites

The Prudent Speculator follows an approach to investing that focuses on ***broadly diversified*** investments in ***undervalued*** stocks for their ***long-term*** appreciation potential. Does that mean we build portfolios of 20 stocks…30…? More like 50 and up. We like stocks. And we like a lot of 'em. We don't rely nearly as much on "how many" as we do "in which," but we tend to invest in far more names than most. This expansive diversification, we find, potentially serves us well in two ways: we can further minimize the risk of individual stock ownership, while maximizing the likelihood of finding the truly big winners among the undervalued masses.

As for the "in which" part, readers should know we discriminate among potential investments primarily by their relative valuation metrics and our assessments of stock-specific risk. We buy only those stocks we find undervalued along several lines relative to their own trading history, those of their peers or that of the market in general. The prices at which we'll buy and sell stocks incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal 3-to-5-year investing time horizon.

Each month in this column, we suggest to readers a group of ten stocks with which to populate portfolios. The list could serve as a portfolio foundation for new investors or as a pick-list for folks already maintaining well-diversified holdings. While other themes may be featured over time, our ongoing consolidation program has created opportunities (i.e. proceeds of sales) to simply add stocks each month to our newsletter portfolios.

Note that we are in no way suggesting that these stocks replace those featured in prior months as we will always issue a *Sales Alert* should we choose to exit a position.

This Month's Theme

Cash having been augmented by the **BioMed Realty** buyout and most stocks having pulled back in price, we will pick up $10,000 of **Capital One Financial** and **FedEx Corp** in Millennium Portfolio. We will also add $29,000 of **AT&T** and **General Motors** to TPS Portfolio and we will buy $6,000 of **McKesson** and **Wells Fargo** in Buckingham Portfolio. Finally, we will bring the positions in PruFolio up to $20,000 for **Abbott Labs**, **Kohl's**, **Qualcomm** and **Whirlpool**. As is our custom, we will wait four trading days until February 8 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ABT	Abbott Laboratories	Health Care	37.85	50.71
COF	Capital One Financial	Financials	65.62	100.32
FDX	FedEx	Industrials	132.88	196.17
GM	General Motors Co	Consumer Discretionary	29.64	45.05
KSS	Kohl's	Consumer Discretionary	49.75	75.74
MCK	McKesson	Health Care	160.98	241.88
QCOM	Qualcomm	Information Technology	45.34	75.79
T	AT&T	Telecom Services	36.06	43.39
WFC	Wells Fargo & Co	Financials	50.23	66.58
WHR	Whirlpool	Consumer Discretionary	134.39	216.43

As of 01.31.16. SOURCE: Al Frank using data from Bloomberg

Abbott Laboratories (ABT)

Abbott Labs develops, manufactures and sells health care products and services. Shares are off 15% this year, prompting our feature this month, despite the posting of basically in-line Q4 financial results that included adjusted EPS of $0.62. The problem was in the guidance, as ABT warned that it expects significantly lower contribution from its Venezuelan operations this year due to "challenging market conditions" in the troubled South American country. Management now expects Q1 EPS of $0.38 to $0.40 and 2016 EPS of $2.10 to $2.20. Analysts had been modeling $0.47 for the quarter and $2.27 for the year. No doubt, the market is not looking favorably these days on lowered outlooks, even as the numbers were hardly disastrous for this high-quality name and we are buoyed by the fact that the quarterly dividend was recently increased to $0.26 per share, pushing the yield up to 2.7%. Additionally, ABT announced that it will acquire medical diagnostic product company Alere for $5.8 billion. The transaction is expected to be immediately accretive, adding $0.12 to $0.13 in EPS in 2017 while making the combined entity a leader in point-of-care and diagnostic test offerings.

Capital One Financial (COF)

Capital One is a diversified financial-services company involved in the full spectrum of domestic and international credit card lending, auto lending, consumer installment lending, small business lending and deposit-taking activities. Diversification into regional banking has benefited COF, reducing credit card lending cyclicality and adding stability to returns. Despite expectation-beating Q4 results, COF shares remain off more than 30% since last summer, which has made the valuation even more attractive with the shares currently trading at less than 9 times next-12-month earnings projections. We also like that the firm is in the midst of restructuring to improve cost management and overall operating efficiency. COF's strong brand and calculated customer targeting has resulted in stronger credit quality and below-average charge-offs, compared with many other credit card issuers. Additionally, we think that the company's purchase of GE's healthcare financing unit will prove beneficial. We see nice upside potential due to improving top-line growth and a healthy overall credit profile. COF yields 2.4%.

FedEx (FDX)

Memphis-based FedEx is the world's largest cargo airline and offers door-to-door package delivery services for consumers and businesses in more than 220 countries and territories. FedEx recently won approval from European, U.S. and Brazilian regulators to acquire TNT Express, a Dutch courier service with operations in 61 countries, for $4.8 billion. According to data from ShipMatrix, a shipping analytics firm, FDX recorded a solid on-time rate in the holiday season, delivering 98.7% of packages on time despite poor weather conditions in much of the U.S. We like that FedEx's margins in the Express segment grew to 9.4% last quarter, the best in nearly a decade, and that its cost-conscious SmartPost operation now delivers with FedEx Ground, an arrangement significantly less costly than paying for a U.S. Postal Service delivery. FDX also just announced a new 25 million share repurchase program (approximately $3.3 billion at current prices) and completed the buy back of 14 million shares from a previous authorization. With online shopping also booming, we think FDX has excellent long-term growth potential that makes the forward P/E of 13 or so look very cheap.

General Motors (GM)

General Motors designs and manufactures automobiles and trucks. Along with strategic partners, GM operates 11 distinct brands around the globe and delivered 9.8 million cars in 2015, experiencing strength in North America and China (where it delivered a record 3.6 million vehicles). GM has emerged stronger and more streamlined, following the 2009 Great Recession bankruptcy filing, repaying TARP bailout money and accumulating $23.5 billion of gross cash. Management expects positive operating momentum to continue, allowing GM to lift its 2016 EPS outlook to a range of $5.25 to $5.75. We see sales growth outside of North America as a long-term catalyst, especially in emerging economies that continue to experience shifts in their socioeconomic demographics. While we recognize that issues like pensions and union contracts will always be part of the equation, we think that the company's solid balance sheet, careful cost controls and positive free cash flow make the 'new' GM an attractive holding. GM has a forward P/E ratio under 6, a generous 5.1% dividend yield and a big stock buyback program.

Kohl's (KSS)

Kohl's is a leading specialty department store with 1,166 stores in 49 states, offering moderately priced apparel, footwear, accessories and home goods. An off-the-mall format distinguishes Kohl's from the majority of department store operators. While the company still has room to expand into new and existing markets, we like that the majority of current stores are predominately new or remodeled. The Kohl's sales mix is well-diversified and the retailer has increased sales of higher-margin private and exclusive brands. Management continues to look for creative ways to drive new traffic and increase ticket levels, via key initiatives like localization of store assortments, expanded beauty offerings and its loyalty program. Kohl's has a solid balance sheet and generates robust free cash flow, which provides flexibility for expansion, investments in Internet commerce and the return of capital to shareholders. There have been rumors that KSS may be looking to take itself private, but we believe that there is plenty of upside as a public company, given a forward P/E ratio below 12 and a 3.6% dividend yield.

McKesson (MCK)

McKesson is the largest pharmaceuticals distributor in the U.S., providing drugs, medical products and supplies, as well developing, implementing and supporting information technology software that facilitates the integration of data through the health enterprise. While profit margins have always been relatively thin, the firm has been negatively impacted by contract shifts and price inflation of generic drugs, leading to a 25%+ share price hit over the last 6 months. Still, we like that MCK's large size gives it economies of scale that position it favorably with both drug companies and retail pharmacy customers. We see MCK capitalizing on pharmaceutical spending in the U.S. that is projected to grow robustly in the coming years, given continued demographic shifts and the expansion of medical insurance coverage. Additionally, the firm has ongoing opportunity to move customers that procure their own generic drugs to MCK's generic procurement business (as was recently done by Albertsons and Ahold). We see future strong cash flow being used for shareholder capital returns and acquisitions. MCK trades for less than 12 times forward earnings estimates.

Qualcomm (QCOM)

Qualcomm is a designer and manufacturer of wireless communications equipment. The company holds a large number of wireless-related patents, and is a key contributor to the development of CDMA, a communications technology that is heavily used around the world. QCOM reported earnings of $0.97 per share for fiscal Q1 2016, versus estimates of $0.90. While the stock has been beaten down over the last few months, QCOM announced plans to supply Audi with Snapdragon 602 processors to power the infotainment systems in its new cars and there are rumors that Samsung will use the Snapdragon 820 chipset in the new Galaxy S7 smartphone. For Q2, Qualcomm expects sales of $4.9 billion to $5.7 billion with earnings between $0.90 and $1.00 per share. Both guidance figures were behind analyst expectations. We believe that headwinds such as South Korea's ongoing investigation into Qualcomm's licensing agreements are likely to linger, though the company seems to be making progress. We continue to like that QCOM yields a solid 4.2%, in addition to sporting other attractive valuation metrics like a forward P/E ratio of 13 and zero long-term debt.

AT&T (T)

Telecom behemoth AT&T provides telephone, television, Internet and wireless service across the country. The company maintains a high-speed LTE network for mobile devices that covers 335 million people and a broadband service with 60 million customer locations with plans to roll out fiber service to 14 million business locations over the next four years. AT&T completed the acquisition of DirecTV in July 2015, bringing an additional 18 million Latin American customers, the rights to NFL Sunday Ticket and an expected $2.5 billion of annual synergies by 2018. The company reported in-line EPS of $0.63 per share in Q4 on $42.1 billion in revenue. Although performance in the Wireless segment was weaker than expected, DirecTV saw 214,000 net customer additions. Management reiterated 2016 guidance, which includes double-digit revenue growth and single-digit earnings growth. In addition to its strategic spending for parts of the wireless spectrum and content, we like that T continues to distribute cash to holders via buybacks and dividends, with the yield on the low-beta stock now 5.3%.

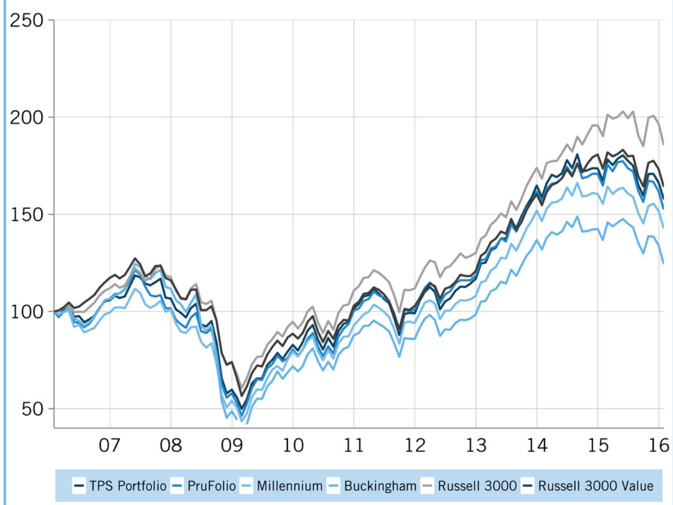
Wells Fargo (WFC)

Wells Fargo, a San Francisco-based financial services company with $1.8 trillion in assets, serves one in three U.S. households and offers a wide array of financial products ranging from banking, investments and insurance to mortgages and commercial finance. Headwinds from the low-interest-rate environment and increased regulatory costs have hurt, but Wells' unique business model (which leads us to think of it as not simply a bank) has aided results, including recently announced expectation-beating Q4 EPS of $1.03. WFC realized a 6% increase in bank assets as a growing customer base, loan and deposit growth and improving credit quality continued to bolster performance. Furthermore, on its earnings call, management said the firm's energy loan portfolio currently accounts for less than 2% of total loans. We like that WFC has a solid reputation with its customers, and a strong and growing foothold in metro America and the heavily populated coastal regions. Wells has good capital ratios and liquidity, and appealing core earnings power. WFC trades for less than 12 times forward earnings estimates and yields 3.0%.

Whirlpool (WHR)

WHR is the top major appliance manufacturer in the world with $21 billion in 2015 sales, marketing its numerous brands in 170 countries. WHR shares are off more than 30% in the last year as currency pressures have taken their toll. That said, the firm's underlying results have been solid. While Q4 revenue of $5.56 billion came in a bit below expectations, WHR posted adjusted EPS of $4.10 (versus estimates of $3.91). Additionally, the company announced full-year 2016 EPS guidance of $14.00 to $14.75. We see WHR as well positioned in the U.S. to capitalize on the appliance replacement cycle and continued housing recovery. Its Hefei and Indesit acquisitions should bring stronger platforms in Asia and Europe while improving overall margins. Near-term struggles in a number of emerging economies are a headwind, but long-term growth potential is still significant. We appreciate the likelihood of strong free cash flow growth, as well as the forward P/E ratio of 9 and the dividend yield of 2.7%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jan	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	-7.26	-7.26	-9.13	5.75	6.93	2.20
Millennium	-5.88	-5.88	-8.11	7.47	8.32	3.63
PruFolio	-5.78	-5.78	-7.51	6.44	8.46	4.31
TPS	-5.19	-5.19	-5.66	8.14	8.68	4.66
Major Indexes						
Russell 3000	-5.64	-5.64	-2.48	10.55	10.41	6.38
Russell 3000 Value	-5.29	-5.29	-5.42	8.45	9.33	5.08
S&P 500	-4.96	-4.96	-0.67	11.29	10.90	6.48
Dow Jones Industrial Avg	-5.39	-5.39	-1.67	8.50	9.46	6.99

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	10.51	8.67	Russell 3000
Millennium	12.31.99	8.35	4.14	Russell 3000
PruFolio	12.29.00	12.23	4.95	Russell 3000
TPS	03.10.77	17.63	10.65	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,850 stock recommendations have returned, on average, an annualized 16.98%, not including dividends.

As of 01.31.16. All data are total returns, except for that of all recommended stocks, which excludes dividends. Data for periods greater than one year are annualized. The Dow Jones Industrial Average (DJIA or Dow) is a price-weighted average of 30 actively traded "blue chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The Russell 3000 Index measure the performance of the largest 3,000 U.S. companies. The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. [1]The Russell 3000 Index lacks sufficient history to match that of Al Frank's TPS Portfolio. We therefore have shown the S&P 500 Index for comparison purposes. SOURCE: Al Frank using data from Bloomberg

TPS Portfolio is Al Frank's actual investment portfolio. Though not presently leveraged, it has been so in the past. Buckingham Portfolio is John Buckingham's actual investment portfolio. Though not presently leveraged, it has been so in the past. Millennium Portfolio is unleveraged and hypothetical. PruFolio is unleveraged and hypothetical.

All portfolio returns are calculated on a total return basis and reflect the reinvestment of dividends, if any, margin leverage and margin interest charges, trading costs and subscription costs. There are inherent limitations with in hypothetical or model portfolio results as the securities are not actually purchased or sold. They may not reflect the impact, if any, of material market conditions which could have has an impact on AFAMs decision making if the hypothetical portfolios were real. Hypothetical performance is shown for illustrative purposes only and should not be interpreted as an indication of performance of any AFAM portfolio. The use of leverage magnifies gains and losses and increases risk to a portfolio.

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