

# the Prudent Speculator 595

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The rapid rebound off of the February lows has run into some resistance in recent days, though our portfolios generally are still in the black for the year. Clearly, we understand that equity prices gyrate in both directions and a pullback is hardly surprising, given the magnitude of the advance, but it is always interesting to listen to the rationale put forth by those charged with explaining the mood swings. The simple answer of more selling pressure than buying for why stocks have headed south (and vice versa for moves in the other direction) is hardly sufficient, but we would submit that not a whole lot has changed to account for the correction endured over the first six weeks of the year that sent the S&P 500 to a closing low of 1829 on Feb. 11, nor the recovery over the ensuing 10 weeks that pushed the S&P to a closing high of 2102 on Apr. 20.

Just as it was at the start of the year, the outlook for the global economy continues to be muddled. The Federal Reserve said last week, “Information received since the Federal Open Market Committee met in March indicates that labor market conditions have improved further even as growth in economic activity appears to have slowed,” while the first estimate for Q1 U.S. GDP growth came in at just 0.5%. Of course, GDP growth in the eurozone for the first quarter of 0.6% was actually better than expected, even as it remained anemic. And data out of China has been mixed, with the latest numbers on manufacturing renewing concerns about the Middle Kingdom, while other economic stats have alleviated some of the worry.

No doubt, we would prefer a stronger economic back-drop, given that it would likely lead to a resumption of healthy corporate profit growth, but Q1 EPS numbers generally have been beating subdued expectations with Bloomberg reporting that 74% of S&P 500 companies have topped estimates. Management teams have been cautious in their guidance, but the recent weakness in the dollar and a bounce back in commodity prices suggests that these headwinds may soon shift a bit, while Corporate America continues to be generous in its return of capital to shareholders via buybacks and dividend hikes.

Though projections have come down since the start of the year, Standard & Poor’s now forecasts that bottom-up operating EPS for the S&P 500 will climb to \$115.48 this year, up from \$100.48 in 2015, with the early (and likely overly optimistic) estimate for 2017 calling for significant growth to \$135.06. Offsetting, at least in our view, the downgrade in the profit perspective (and as stock prices generally follow earnings, it is hard to imagine a sustained downturn occurring if the S&P numbers are in the ballpark), is the fact that interest rates have moved lower this year, with the yield on the benchmark 10-year U.S. Treasury skidding to 1.79%, down from 2.27% at the end of 2015.

While the long-term optimism we expressed at the start of the year remains unwavering, we think equities are very attractive today from an income perspective, with the S&P 500 offering a 2.19% yield and our newsletter portfolios providing an even higher payout. Also, the mid-teen average (P/E) valuations for our stocks seem quite reasonable, given what Warren Buffett told CNBC this week: “If you had zero interest rates and you knew you were going to have them forever, stocks should sell at, you know, 100 times earnings or 200 times earnings.”

True, the Federal Reserve is likely to raise the Fed Funds target one or two times this year, but rates are very low (0.25% to 0.50%) and Janet Yellen & Co. remain highly accommodative: “The Committee expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run.” Rates won’t stay low forever, of course, but Mr. Buffett added, “If the government absolutely said interest rates are going to be zero for 50 years, the Dow would be at 100,000.”

“It’s not what you  
look at that matters,  
it’s what you see.”  
—Henry David Thoreau



Chief Investment Officer  
Al Frank Asset Management (AFAM)

# Graphic Detail

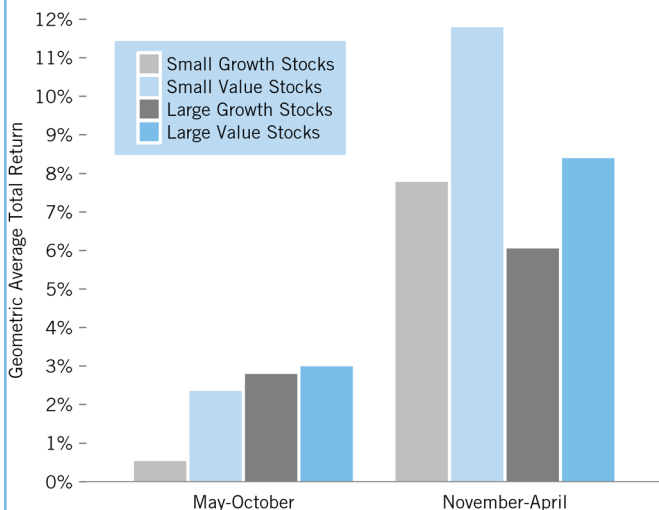
## Seasonality

The seasonally favorable November-April period this time around was disappointing as the S&P 500 and Russell 3000 posted total returns of less than 0.5%, so making major changes to one's portfolio based on the calendar is not a strategy we would embrace. Still, we re-

spect that we are now headed into the less favorable time of the year, but we like that the historical data show that Dividend and Value stocks have enjoyed positive returns during the seasonally weaker May-October period. No reason, then, in our view to *Sell in May and Go Away*. ■

### SEASONAL VALUE VS. GROWTH

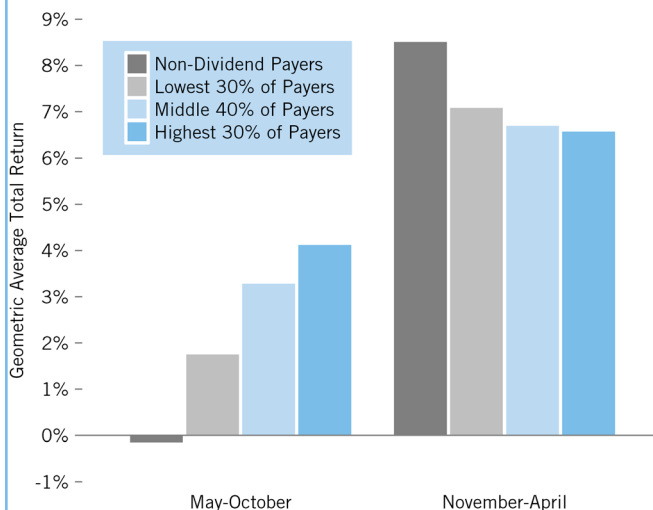
Gains have not been as strong starting this time of year, but Value has won the long-term returns race no matter the season...



From 04.30.28 through 10.31.15. Geometric average. SOURCE: AI Frank using data from Professors Eugene F. Fama and Kenneth R. French

### SEASONAL DIV VS. NON-DIV PAYERS

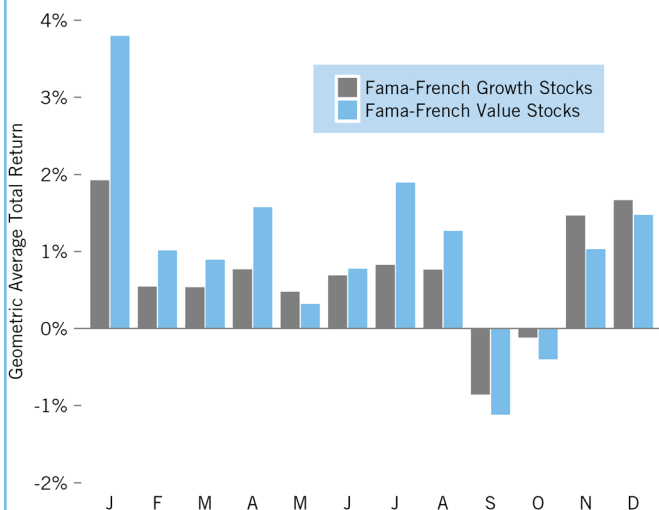
...and the historical outperformance of Dividend Payers during the seasonally less favorable six months has been striking.



From 04.30.28 through 10.31.15. Geometric average. SOURCE: AI Frank using data from Professors Eugene F. Fama and Kenneth R. French

### MONTHLY VALUE VS. GROWTH

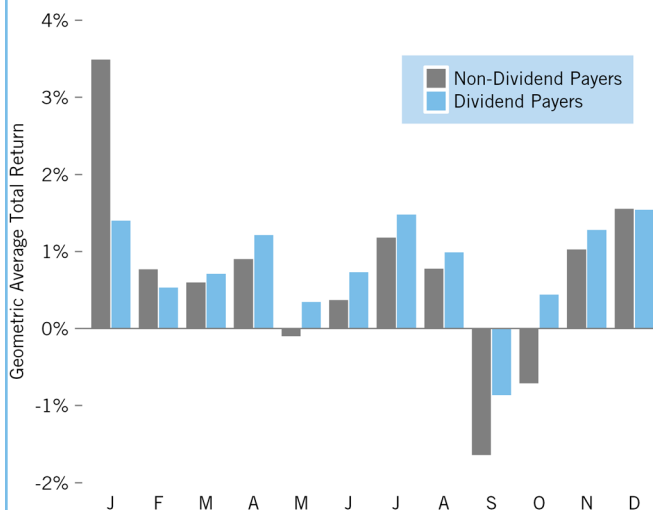
*Sell Labor Day and Buy Halloween* might be a better slogan as September and October are the only down months on average...



From 12.31.27 through 12.31.15. Geometric average. SOURCE: AI Frank using data from Professors Eugene F. Fama and Kenneth R. French

### MONTHLY DIV VS. NON-DIV PAYERS

...while Dividend Payers over the last 88 years have won the spoils in all but three months and had a positive return in the spookiest.



From 12.31.27 through 12.31.15. Geometric average. SOURCE: AI Frank using data from Professors Eugene F. Fama and Kenneth R. French

# Graphic Detail

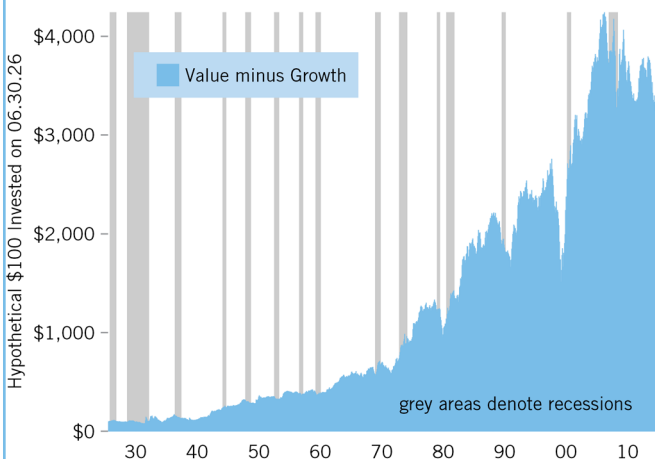
## Value vs. Growth

There have been more than a few big losers amongst undervalued companies, but Value stocks have staged a nice comeback so far this year. Over the first four months of 2016, the Russell 3000 Value index turned in a total return of +3.8%, compared to a drop of -0.4% for

the Russell 3000 Growth index. Of course, the race hasn't been close over the last decade as the tally for those two Russell indexes has been 116% to 72%, in favor of Growth, but history shows that while Growth may win more than a few battles, Value has won the war. ■

### THE RACE SINCE 1926

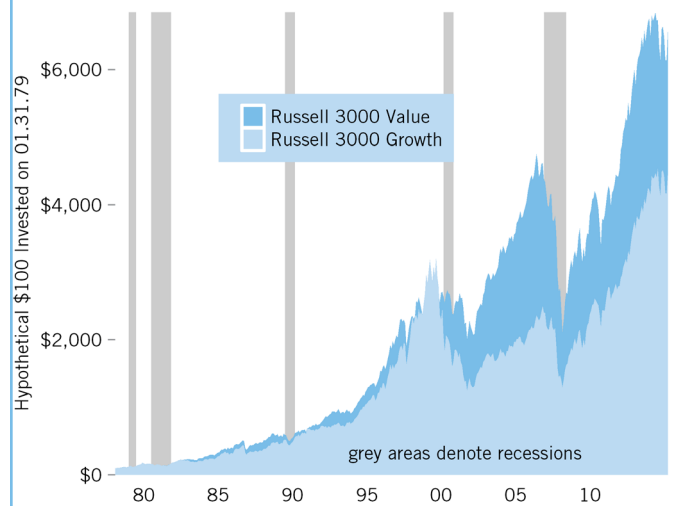
Returns on Fama/French Value stocks have trumped those of Growth stocks by a wide margin over the last nearly-nine decades...



From 06.30.26 through 03.31.16. Growth performance subtracted from Value performance each month. Value is 50% Small Value + 50% Large Value and Growth is 50% Small Growth + 50% Large Growth. SOURCE: AI Frank using data from Professors Eugene F. Fama and Kenneth R. French

### THE RACE SINCE 1979

...with the story similar, though not quite as dramatic, using Russell's Value and Growth indexes over the last 37 years.



From 01.31.79 through 03.31.16. SOURCE: AI Frank using data from Bloomberg

### FAMA FRENCH ROLLING-PERIOD COMPARISONS

Value has underperformed 46% of the time on a one-month basis, but the longer the measuring stick, the greater the victory rate.

	Value Stocks	Growth Stocks	Diff.	Periods Val beat Growth	Ct. of Periods
1-Month	1.32%	0.93%	0.38%	54%	1078
3-Month	4.20%	2.92%	1.28%	58%	1076
6-Month	8.40%	5.89%	2.50%	60%	1073
1-Year	17.45%	12.24%	5.21%	62%	1067
3-Year	14.46%	9.89%	4.57%	73%	1043
5-Year	14.10%	9.46%	4.63%	79%	1019
10-Year	14.74%	9.71%	5.03%	91%	959
20-Year	15.59%	10.19%	5.40%	100%	839
30-Year	15.79%	10.27%	5.52%	100%	719

From 06.30.26 through 03.31.16. Rolling periods annualized for periods greater than one year. Value Stocks are 50% Small Value + 50% Large Value and Growth Stocks are 50% Small Growth + 50% Large Growth. SOURCE: AI Frank Using Data from Professors Eugene F. Fama and Kenneth R. French

### RUSSELL ROLLING-PERIOD COMPARISONS

The Russell competition since 1979 is much closer over shorter time spans, but Value still holds a returns edge in every period.

	Value Stocks	Growth Stocks	Diff.	Periods Val beat Growth	Ct. of Periods
1-Month	1.03%	0.98%	0.05%	50%	447
3-Month	3.13%	2.99%	0.14%	50%	445
6-Month	6.41%	6.14%	0.27%	48%	442
1-Year	13.28%	12.73%	0.55%	50%	436
3-Year	12.45%	11.04%	1.41%	55%	412
5-Year	12.06%	10.53%	1.54%	54%	388
10-Year	11.62%	9.93%	1.70%	72%	328
20-Year	11.96%	10.19%	1.77%	94%	208
30-Year	11.43%	9.82%	1.61%	100%	88

From 1.31.79 through 03.31.16. Rolling periods annualized for periods greater than one year. SOURCE: AI Frank Using Data from Bloomberg

# 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 <sup>1</sup>	Company	Price	Target Price	Price Multiples			EV/ EBITDA <sup>3</sup>	Debt/ TE <sup>4</sup>	Div Yld	Mkt Cap
					EPS	Sales	TBV <sup>2</sup>				
Autos & Components	GM	General Motors	31.80	45.14	5.8	0.3	1.4	2.9	141%	4.8%	48,966
	GT	Goodyear Tire & Rubber	28.97	48.70	8.3	0.5	2.3	5.7	168%	1.0%	7,704
	HMC	Honda Motor	26.96	36.85	11.6	0.4	0.8	8.0	61%	2.5%	48,836
Banks	BBT	BB&T	35.38	48.13	12.8	nmf	1.8	nmf	nmf	3.2%	28,730
	FITB	Fifth Third Bancorp	18.31	27.74	11.4	nmf	1.1	nmf	nmf	2.8%	14,351
	HSBC	HSBC Holdings PLC	33.33	48.90	7.8	nmf	0.8	nmf	nmf	7.7%	132,063
	KEY	KeyCorp	12.29	18.64	11.6	nmf	1.1	nmf	nmf	2.4%	10,178
	ONB	Old National Bancorp	13.40	18.08	13.5	nmf	1.8	nmf	nmf	3.9%	1,532
	WFC	Wells Fargo	49.98	63.78	12.2	nmf	1.7	nmf	nmf	3.0%	252,761
	TRN	Trinity Industries	19.51	37.18	4.3	0.5	1.0	3.6	107%	2.3%	2,942
Consumer Dur & App	MDC	MDC Holdings	24.61	39.96	18.3	0.6	1.0	16.9	74%	4.1%	1,206
Diversified Financials	COF	Capital One Financial	72.39	98.40	9.8	nmf	1.3	nmf	nmf	2.2%	37,576
Energy	HFC	HollyFrontier	35.60	55.18	8.5	0.5	2.4	4.8	39%	3.7%	6,286
	TK	Teekay	11.20	22.77	11.9	0.3	1.3	9.6	992%	2.0%	814
	TNP	Tsakos Energy Navigation	6.36	14.33	3.8	0.9	0.5	6.3	89%	5.0%	555
	TOT	Total SA	50.75	70.07	10.8	0.8	1.3	10.7	53%	4.6%	125,797
Health Care Equip/Srvcs	ABT	Abbott Laboratories	38.90	53.28	18.6	2.8	9.5	13.9	98%	2.7%	57,309
	CAH	Cardinal Health	78.46	105.25	15.4	0.2	nmf	9.7	nmf	2.0%	25,839
	MCK	McKesson	167.82	239.65	13.4	0.2	nmf	10.3	nmf	0.7%	38,361
Insurance	MET	MetLife	45.10	78.95	9.3	nmf	0.9	nmf	nmf	3.3%	49,638
	PRU	Prudential Financial	77.64	108.39	7.7	nmf	0.9	nmf	nmf	3.6%	34,494
Materials	AGU	Agrium	86.12	121.54	12.1	0.8	3.5	7.9	133%	4.1%	11,900
	MOS	Mosaic	27.99	49.24	9.7	1.1	1.2	6.1	48%	3.9%	9,797
Pharma/Biotech/Life Sci	AMGN	Amgen	158.30	217.16	16.0	5.4	48.9	11.2	1319%	2.5%	118,730
	BIIB	Biogen	274.99	443.38	16.3	5.5	17.7	10.4	192%	0.0%	60,237
	GILD	Gilead Sciences	88.21	141.11	7.5	3.6	40.9	5.0	725%	2.1%	119,493
	PFE	Pfizer	32.71	41.90	14.9	4.1	nmf	12.9	nmf	3.7%	202,283
	SNY	Sanofi	41.10	59.90	12.7	5.3	14.6	12.7	nmf	3.3%	107,633
Real Estate	ANH	Anworth Mortgage Asset	4.72	6.80	8.1	nmf	0.7	nmf	nmf	12.7%	457
Retailing	AEO	American Eagle Outfitters	14.31	21.34	13.1	0.7	2.6	5.0	0%	3.5%	2,587
	KSS	Kohl's	44.30	72.29	11.0	0.4	1.5	4.9	83%	4.5%	8,203
Semiconductors	INTC	Intel	30.28	40.34	12.2	2.5	4.2	6.5	64%	3.4%	142,843
Software & Services	MSFT	Microsoft	49.87	60.21	18.5	4.5	7.5	15.7	78%	2.9%	392,001
Technology Hardware	AAPL	Apple	93.74	136.54	10.4	2.3	4.2	4.6	57%	2.4%	513,454
	AVX	AVX	13.22	18.83	17.4	1.9	1.2	7.4	0%	3.2%	2,215
	CSCO	Cisco Systems	27.49	36.73	13.7	2.8	4.1	7.1	64%	3.8%	138,333
	ERIC	Ericsson	8.09	13.90	11.2	0.9	1.5	5.5	25%	3.5%	26,776
	GLW	Corning	18.67	30.06	13.9	2.3	1.5	10.3	29%	2.9%	20,077
	JBL	Jabil Circuit	17.36	34.16	8.9	0.2	2.1	3.8	115%	1.8%	3,319
	STX	Seagate Technology	21.77	43.94	9.3	0.6	nmf	6.9	nmf	11.6%	6,498

As of 04.30.16. N/A=Not applicable. nmf=Not meaningful. <sup>1</sup> =First-time recommendation. <sup>2</sup>Tangible book value. <sup>3</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>4</sup>Tangible equity. SOURCE: AI Frank using data from Bloomberg

# Portfolio Builder

Research Team Favorites

**T**he *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

Though our available cash has dwindled, we will add \$20,000 of **Cardinal Health** to PruFolio and \$10,000 of **Goodyear Tire** and **Sanofi** to Millennium Portfolio. In TPS Portfolio, we will bring up to \$29,000 the positions in **Abbott Labs** and **Seagate Technology**. And, we will purchase \$6,000 of **Gilead Sciences** and raise the ownership in **Trinity Industries** up to that amount in Buckingham Portfolio. We already have sufficient sector exposure and/or hold a sizable position in **American Eagle Outfitters**, **BB&T Corp.** and **Microsoft**. We will transact on May 9.

## NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ABT	Abbott Laboratories	Health Care	38.90	53.28
AEO	American Eagle	Consumer Discretionary	14.31	21.34
BBT	BB&T	Financials	35.38	48.13
CAH	Cardinal Health	Health Care	78.46	105.25
GILD	Gilead Sciences	Health Care	88.21	141.11
GT	Goodyear Tire & Rubber	Consumer Discretionary	28.97	48.70
MSFT	Microsoft	Information Technology	49.87	60.21
SNY	Sanofi	Health Care	41.10	59.90
STX	Seagate Technology PLC	Information Technology	21.77	43.94
TRN	Trinity Industries	Industrials	19.51	37.18

As of 04.30.16. SOURCE: AI Frank using data from Bloomberg

## Abbott Laboratories (ABT)

Abbott Labs develops, manufactures and sells health care products and services. Despite beating analyst expectations on both the top and bottom lines for Q1, shares fell sharply after Abbott announced that it was acquiring medical device maker St. Jude Medical for \$25 billion. Combined with the recent purchase of Alere (though this deal's closing is now in question), we understand why some are concerned about Abbott's upcoming increase in debt and its announcement that it will issue \$3 billion in common stock to rebalance its capital structure. That said, we are constructive on the acquisition as it is expected to be accretive in the first full year following closing. The combined company should have an industry-leading pipeline expected to deliver a steady stream of new medical device products across cardiovascular, diabetes, vision and neuromodulation patient care. Additionally, there is seemingly very little overlap as the businesses are complementary, and the union will be able to better compete in an increasingly consolidated market. Although financial flexibility will be limited over the next few years, we see the combined firm generating solid free cash flow which can be used to reduce debt and support the dividend. The yield is a presently 2.7%.

## American Eagle Outfitters (AEO)

American Eagle is a retailer of high-quality clothing focused on 15- to 25-year-old shoppers. The firm operates 949 American Eagle and 97 Aerie stores in North America,



as well as 141 licensed international stores in 22 countries. AEO's online storefront ships to 81 countries. Happily, higher merchandise quality, improved styling and innovation resonated with customers, translating to higher average selling prices and better margins last quarter. We believe that increasing brand momentum through more focused merchandising (especially in women's clothing and accessories), selling higher quality products and improving e-commerce are at the top of the improvement list to bring back an outstanding customer experience and are investments that will add to the bottom line over time. AEO ended last quarter with total cash of \$260 million, despite buying back 14.6 million shares for \$212 million, yet the balance sheet still carries no long-term debt (though there are lease obligations). AEO trades for 12 times forward earnings estimates and yields 3.5%.

### **BB&T (BBT)**

BB&T is one of the larger financial services holding companies in the U.S. with \$212 billion in assets. The company operates 2,137 financial centers in 15 states and Washington, D.C., and offers a full range of consumer and commercial banking, securities brokerage, asset management, mortgage and insurance product services. BBT posted better-than-expected Q1 adjusted EPS of \$0.69. The bank enjoyed record net interest income and saw its strategic acquisitions and organic growth improve market share while maintaining low funding costs and achieving positive operating leverage. BBT also announced that since its introduction, the firm has experienced a rapid adoption rate of its customizable digital banking platform. We like the company's relatively conservative loan underwriting and its insurance operation that diversifies the revenue stream. BBT trades for less than 13 times forward earnings projections and yields 3.2%.

### **Cardinal Health (CAH)**

Cardinal is one of the nation's largest wholesalers of pharmaceutical and medical products, and is building its presence in a number of ancillary services which should aid future growth. Shares recently fell after the company slightly tightened its full-year earnings guidance from a range of \$5.15 to \$5.35 to a range of \$5.17 to \$5.27, as the firm said the environment for generic drug pricing is tough due to an overall slowing generic pipeline. Despite the operating headwinds, CAH reported a solid Q1 with both its top- and bottom-line results beating analyst expectations. We believe the selloff was very much overdone

and we see attractive upside in the name. We think Cardinal can capitalize 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. CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 2.0%), buy back stock and invest in the business via research, development, mergers and acquisitions.

### **Gilead Sciences (GILD)**

Gilead is a biotech giant whose portfolio of products and pipeline of investigational drugs includes treatments for HIV/AIDS, liver diseases, cancer, inflammatory and respiratory diseases, and cardiovascular conditions. GILD shares recently fell after the firm's quarterly results fell short of expectations as competition and pricing pressures impacted its blockbuster Hepatitis C drugs. Gilead reported adjusted EPS of \$3.03, versus an estimate of \$3.15, on revenue of \$7.79 billion, versus forecasts calling for \$8.07 billion. Despite the Hepatitis C hurdles, GILD saw encouraging strength in its HIV/AIDS franchise. We continue to be fans of Gilead shares and believe they offer attractive upside. Headwinds will persist, but we like that the company's mountain of cash allows it to buy back shares (\$8 billion in Q1) and increase the dividend (just raised by 10% to a yield of 2.1%). Additionally, we would not be surprised to see Gilead involved in an acquisition in the coming quarters to further fill out its own pipeline and lineup offerings. GILD trades at less than 8 times earnings, while consensus EPS forecasts for this year and each of the next three years exceed \$12.00.

### **Goodyear Tire & Rubber (GT)**

Goodyear a leading supplier of light vehicle tires, selling in two distinct markets: replacement and vehicle manufacturers. Shares were hit following its Q1 earnings release as revenue came in shy of analyst expectations due to currency translation headwinds and the deconsolidation of the company's volatile Venezuelan subsidiary. We continue to like the iconic brand and are attracted to its global revenue diversification and believe that in the long run, Goodyear should gain from higher demand in emerging markets, given the rise in new vehicle sales as more people move into the middle class. Nearer term, GT should benefit from continued strong demand in developed markets, an improving product mix, tailwinds (albeit a bit less than expected) from the decline in input prices

es (rubber, carbon black and oil) and consumers driving more and opting to replace worn tires after years of deferral. Management continues to focus on reducing expenses, strengthening the balance sheet, improving cash flow and returning capital to shareholders. GT shares trade at less than 8 times consensus forward earnings estimates.

### **Microsoft (MSFT)**

Microsoft is a global leader in the development and sale of computer, mobile device and cloud computing software. MSFT earned an adjusted \$0.62 per share on \$22.08 billion of revenue in fiscal Q3 2016, versus estimates of \$0.64 and \$22.11 billion, respectively. Microsoft crossed the halfway point on its goal to have \$20 billion of annual revenue from commercial cloud products by 2018 and surpassed 270 million devices running the Windows 10 operating system. Azure, Microsoft's cloud computing platform processed about 2 trillion Internet of Things (IoT) transactions per week in the quarter, and more than 200,000 customers now use the analytics tools. Currency movements continued to be a headwind for MSFT, negatively impacting year-over-year revenue growth by approximately 3%. We continue to like the great number of platforms that are integrated into Azure, and are pleased that cloud revenue continues on its impressive growth trajectory. We also like the solid dividend yield near 2.9% and the terrific balance sheet.

### **Sanofi (SNY)**

Sanofi is a global integrated health care company focused on Diabetes Solutions, Vaccines, Genzyme, Emerging Markets, Consumer Health Care, Animal Health and Other Innovative Products. Despite a Q1 earnings beat, shares of SNY fell as revenue missed expectations as sales of the firm's biggest selling drug Lantus continued to slide. On a brighter note, SNY saw strength in its Genzyme biotech unit and its animal health business. Also pressuring the stock, Sanofi offered to buy Medivation for \$9.3 billion (which the target rejected). Management hasn't given up on acquiring the cancer drug developer as the firm seeks to add to its pipeline and benefit from operational synergies. We continue to like that SNY has a robust and promising pipeline of new pharmaceuticals, including several that address diseases that have no current treatments. While its leading diabetes line of medicines face tough competition, we like the overall opportunity in the diabetes space as the worldwide population of diagnosed diabetics is likely to show growth as global obesity

rates continue to climb. We also like the firm's footprint within emerging economies. SNY shares currently yield 3.3% on a net basis.

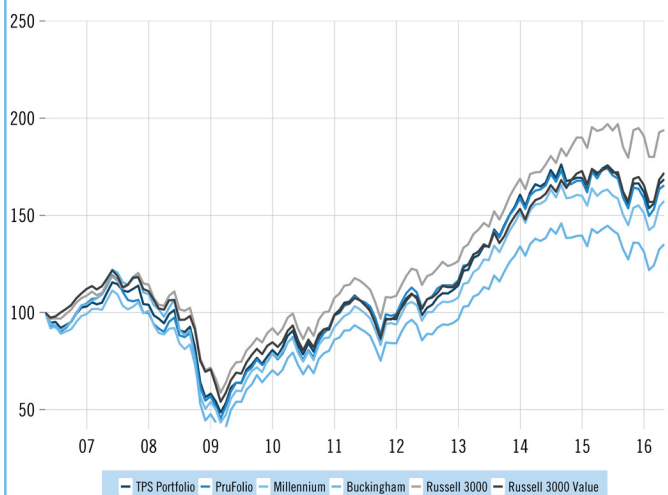
### **Seagate Technology PLC (STX)**

Despite being punished mid-April after reporting preliminary fiscal Q3 results, shares of hard disk drive maker Seagate Technology plunged another 19% after announcing final results that were much worse than the already-lowered estimates. STX earned \$0.22 per share in the quarter, versus the \$0.39 estimate. The company explained that the results were "reflective of a generally weak macroeconomic environment" and "accelerating usage shifts." In the question-and-answer session, CFO David Morton said of the rich (the yield is north of 10%) dividend, "We think that is well manageable, albeit at the higher end of those levels of a payout ratio...We feel that it's very defensible against what we're able to generate moving forward." There's little doubt that STX is one of the most volatile stocks around, while weakness in consumer PC markets shows few signs of picking up and the threat from solid-state drives is omnipresent, but we continue to believe that the data generated by billions of consumer devices has to be cost-effectively stored, and that the burden will fall on data centers loaded with spinning hard disks and hybrid drives like the models STX produces. In fact, analyst estimates still call for EPS to grow from \$1.81 in fiscal '16 to \$2.11 in fiscal '17 to \$2.49 in fiscal '18.

### **Trinity Industries (TRN)**

Trinity is a diversified industrial company that provides products and services to the transportation, chemical, energy and construction sectors. TRN has five principal business segments: the Rail Group, Railcar Leasing and Management Services Group, Inland Barge Group, Construction Product Group and the Energy Equipment Group. Trinity reported Q1 EPS of \$0.64 (vs. \$0.69 est.) on revenue of \$1.2 billion (vs. \$1.3 billion est.), while saying that despite the continued slowdown and overall operating headwinds, the company still has in excess of \$5 billion of backlogged business. Additionally, the firm repurchased more than 2 million shares during the quarter and still has \$215.4 million remaining under its current buyback authorization (a little more than 7% of the outstanding shares). We continue to like that TRN has some business diversification and has leading market positions in numerous areas. TRN trades for 10 times forward earnings estimates and yields 2.3%. ■

## NEWSLETTER PORTFOLIO PERFORMANCE



	Apr	YTD	1-Year	3-Year	5-Year	10-Year
<b>Newsletter Portfolios</b>						
Buckingham	2.02	2.88	-5.40	7.30	7.66	3.06
Millennium	1.89	4.03	-3.06	8.69	8.80	4.64
PruFolio	1.25	4.18	-4.68	8.10	8.85	5.17
TPS	1.37	3.98	-3.20	9.18	9.16	5.36
<b>Major Indexes</b>						
Russell 3000	0.62	1.59	-0.18	10.77	10.50	6.85
Russell 3000 Value	2.10	3.78	-0.69	9.34	9.85	5.57
S&P 500	0.39	1.74	1.20	11.25	11.01	6.91
Dow Jones Industrial Avg	0.62	2.83	2.25	8.82	9.52	7.34

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.17	9.11	Russell 3000
Millennium	12.31.99	8.89	4.55	Russell 3000
PruFolio	12.29.00	12.76	5.37	Russell 3000
TPS	03.10.77	17.79	10.77	S&P 500 <sup>1</sup>

Since *The Prudent Speculator's* launch in March 1977, its 1,854 stock recommendations have returned, on average, an annualized 17.07%, not including dividends.

As of 04.30.16. 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. <sup>1</sup>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 an impact on AFAM's 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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