August 2, 2016

the Prudent Speculator

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Certainly, seven straight sessions in the red for the Dow Jones Industrial Average, including a 91-point drop on the day we went to press, provides yet another reminder that stock prices move in both directions, but the equity markets turned in a terrific month of July. Quickly overcoming jitters surrounding the surprising late-June Brexit vote in the U.K., the S&P 500 climbed 3.69% last month, while the Russell 3000 gained 3.97%. For their part, our newsletter portfolios all managed to rally more than 4.5%, a welcome sight, given recent relative performance struggles.

> "Life is what happens while you are busy making other plans."
>
> —John Lennon

With trading fairly subdued, there was not an obvious catalyst that we could point to in order to account for the advance, but often such has been the case throughout market history. The key to success in stocks, then, is to be positioned ahead of the big moves, while accepting that we will have to endure more than a few downturns along the way. Happily, the evidence shows far more of the former than the latter over the long term. Indeed, those who have kept the faith generally have been rewarded in the fullness of time as data soon to be published in the 2016 edition of *Stocks, Bonds, Bills, and Inflation* show that equities have returned 10.0% to 12.0% per annum from 1926-2015.

Interestingly, we might argue that there were more negative headlines than positive last month. In addition to elevated uncertainty in the Brexit aftermath, investors had to contend with major terrorist attacks in Bangladesh, France and the Middle East, an attempted coup in Turkey, more vitriol in the U.S. presidential election campaign, a shooting rampage in Munich that brought the German city to a standstill, a renewed plunge in oil prices that sent crude skidding more than 20% and a lackluster 1.2% headline number for Q2 domestic GDP growth.

On the other hand, there were some favorable economic stats (e.g. unemployment claims, retail sales, industrial production), highlighted by the critical jobs report. June saw a dramatic rebound to 267,000 in new payrolls created, up sharply from May's dismal 11,000 figure and well above the consensus forecast in the 180,000 range.

More importantly, perhaps, second quarter earnings season appeared to be shaping up fairly well. Obviously, there were the usual assortment of beats and misses, but data provider Bloomberg reported that of the 354 S&P 500 companies to have announced results as of Aug. 2, 72.6% (257) exceeded EPS estimates, compared to 16.1% (57) that missed Street forecasts and 11.3% (40) that met analyst projections. For the full reporting period in 2015, *only* 68.3% topped bottom-line expectations, while 21.8% trailed. And the 2016 top-line comparisons were solid as well, given that 45% delivered a positive sales surprise in Q2, compared to 34% that disappointed.

With July in the rear-view mirror, and the seasonally less favorable months of September and October looming, we would not be surprised to see a pick-up in volatility and perhaps a more significant round of profit-taking in the near-term. Nevertheless, our oft-stated reasons for optimism on the long-term prospects of the undervalued stocks in our broadly diversified portfolios remain intact.

We continue to share the Federal Reserve's view that "economic activity will expand at a moderate pace," even as the most recent numbers on manufacturing, personal income, auto sales and retail sales were disappointing. We also think the backdrop for corporate profits remains decent, as though the earnings outlook has been tempered, the latest estimate from Standard & Poor's for bottom-up operating EPS for the S&P 500 shows solid growth to $112.85 this year, up from $100.45 in 2015, with the current admittedly high projection for 2017 standing at $133.16. Finally, we have to like how the 2.7% to 3.0% yield on our newsletter portfolios compares to income available from competing investments, especially when the yield on the 30-year U.S. Treasury is just 2.31%!

Chief Investment Officer
Al Frank Asset Management (AFAM)

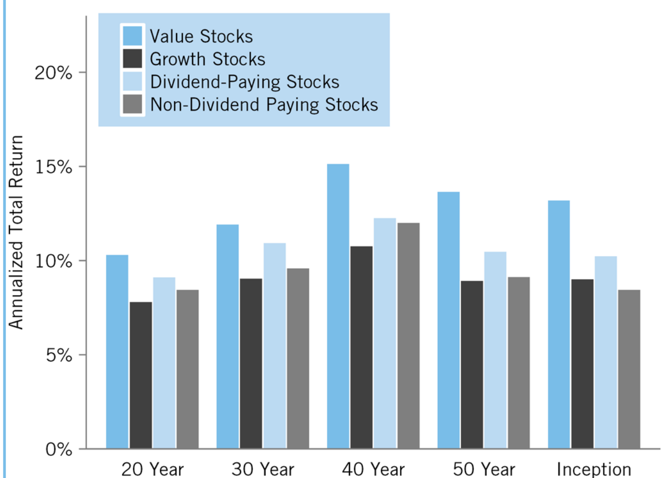
Graphic Detail

Valuation Factors: Historical Evidence

We might think that folks would naturally gravitate toward inexpensive stocks, given that most seek bargains in their everyday lives, whether at the grocery store, Amazon.com or even the auto dealership. However, Value strategies, which generally lack "hot" companies with exciting stories, often are a tough sell for many, even as the long-term data show that richly priced stocks do not perform as well as those that trade for more modest valuations. Of course, Growth has enjoyed its occasional times in the sun, including much of the last decade.

LT FF RETURNS—BV/PRICE & DIVIDENDS

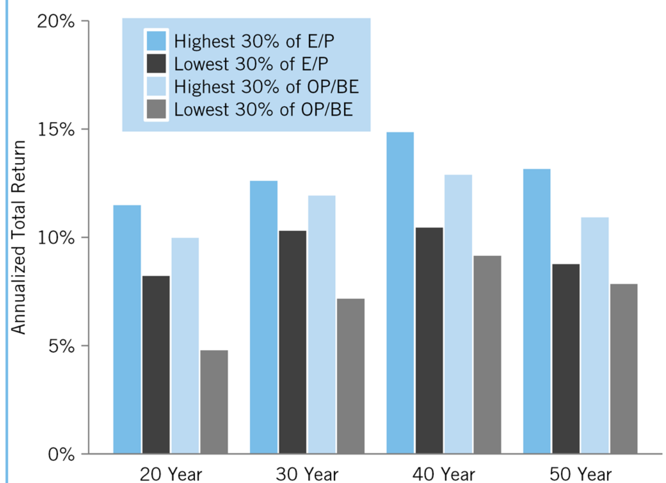
Historical data published by Fama & French illustrate the merits of Value stocks (high Book Equity to Price) and Dividend Payers...



As of 12.31.15. Value stocks are the highest 30% of Book Equity to Market Equity (BE/ME). Growth stocks are the lowest 30% of Book Equity to Market Equity (BE/ME). Common inception for the portfolios is 12.31.27. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

LT FF RETURNS—E/P AND OP/BV

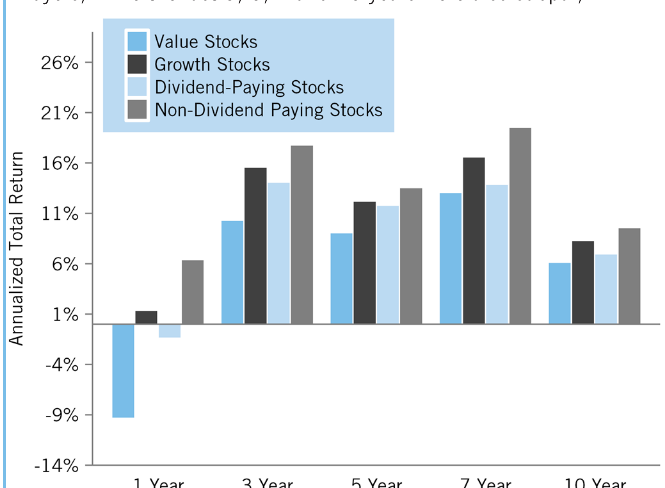
...not to mention those with high Earnings to Price (the inverse of the P/E ratio) and Operating Profit to Book Value metrics.



As of 12.31.15. E/P portfolios are formed on earnings divided by price. OP/BE portfolios are formed on operating profitability divided by book equity. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

ST FF RETURNS—BV/PRICE & DIVIDENDS

Alas, 2015 saw red ink for high Book Equity / Price and Dividend Payers, while the last 3, 5, 7 and 10 years were also subpar,...



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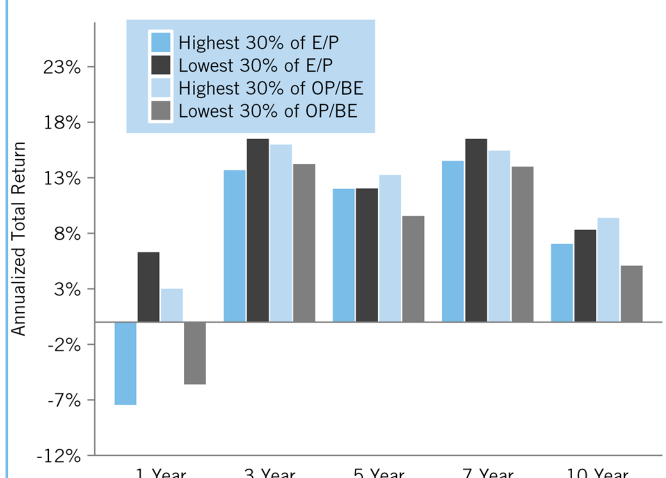
ST FF RETURNS—E/P AND OP/BV

...with a similarly poor story told by the Earnings / Price metric, but interestingly not by the OP/BE ratio.



As of 12.31.15. E/P portfolios are formed on earnings divided by price. OP/BE portfolios are formed on operating profitability divided by book equity. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

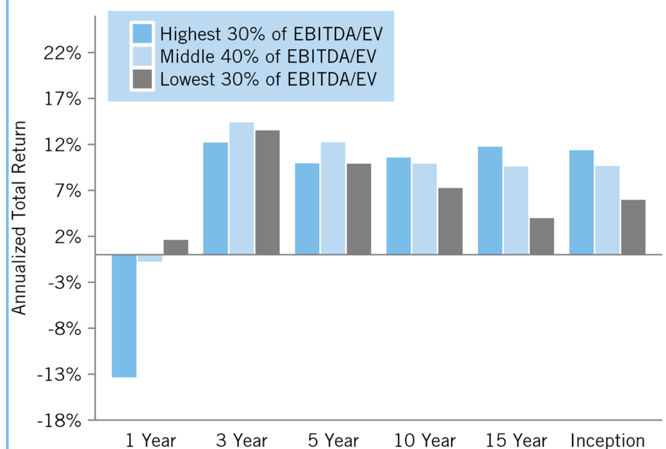
While Value has rebounded in 2016 from last year's miserable relative performance, we are constantly looking for additional metrics that can augment those focused on sales, earnings, book value and dividend yield that we have long incorporated into our analytical work. Intrepid readers will note that five years ago, we added Enterprise Value to EBITDA to the valuation measures we show on our Recommended Stocks listing as that metric had been shown to be an effective indicator of future returns by several academic studies and we had long monitored the ratio in our auxiliary company reviews.

This month, we are including Free Cash Flow Yield (FCFY), as we think those that study the Recommended Stocks info might like to see more than just ratios from the income statement and balance sheet. We also like the results of our own backtest, especially over the past decade, and we have often referenced the data point in our Portfolio Builder write-ups. Utilizing numbers compiled by Bloomberg, free cash flow is defined as cash that a company is able to generate after laying out the money required to maintain or expand its asset base; i.e. cash flow from operations less capital expenditures. As with most metrics, this one must be related to shares outstanding (i.e. free cash flow per share). FCFY is then determined by dividing free cash flow per share by the current share price (swap the numerator and denominator to find the price to free cash flow ratio). Like earnings yield, the inverse of the P/E ratio, a higher FCFY number is preferred.

To be sure, there is no one metric or even a combination of valuation metrics that are guaranteed to yield outsize returns, so a quantitative assessment of our 3000+ universe of investable stocks is just the first step in our process. Still, we like that our math forces us to fish from an undervalued pond, especially with the major market averages trading near all-time highs and our belief that Value's return to prominence is only just beginning.

EBITDA TO ENTERPRISE VALUE (EV)

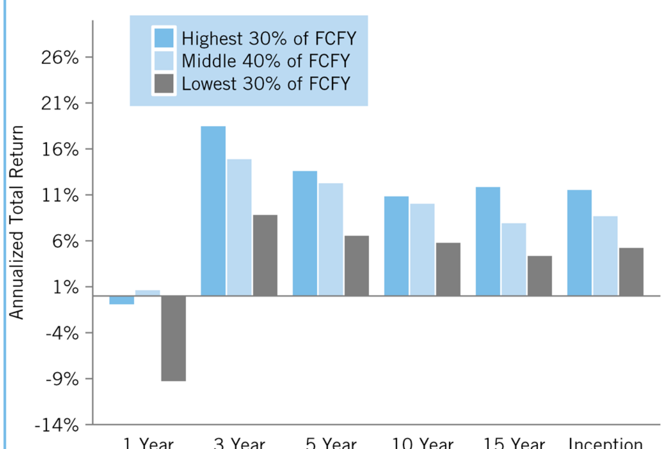
While the 2015 return for the least expensive stocks (Highest 30%) on EBITDA/EV was awful, the metric performs well longer term.



From 12.31.96 through 12.31.15. Portfolios are formed using the Russell 1000 ranked by decile on earnings before taxes, depreciation and amortization (EBITDA) to enterprise value (EV) at the end of each year. Stocks that cease trading mid-year are given the risk-free return for the balance of the year. Rebalanced annually.
SOURCE: Al Frank using data from Bloomberg

FREE CASH FLOW YIELD

As with Fama/French's OP/BE, the top FCFY stocks (Highest 30%) performed admirably last year as well as in all other periods studied.



From 12.31.96 through 12.31.15. Portfolios are formed using the Russell 1000 ranked by decile on free-cash-flow yield (trailing 12-month free cash flow divided by market capitalization) at the end of each year. Stocks that cease trading mid-year are given the risk-free return for the balance of the year. Rebalanced annually.
SOURCE: Al Frank using data from Bloomberg

PORTFOLIO VALUATION METRICS

With plenty of worry about lofty valuations for the major averages, we are happy that our portfolios sport inexpensive fundamentals.

Index	Price/ Book	Div Yield	Price/ Earns	EV/ EBITDA	FCF Yield
TPS Portfolio	1.5	3.0	16.7	10.8	7.7
Buckingham Portfolio	1.5	2.8	15.8	10.6	7.5
Millennium Portfolio	1.5	2.8	16.6	11.5	7.6
PruFolio	1.6	2.7	17.3	12.1	8.9
Russell 3000 Index	2.8	2.0	21.9	14.1	4.6
Russell 3000 Value	1.8	2.6	19.4	13.4	4.9
Russell 3000 Growth	5.7	1.4	25.2	14.9	4.3
Russell 2000 Index	2.1	1.6	40.5	21.0	1.9
Russell 2000 Value	1.4	2.3	25.1	19.8	2.0
Russell 2000 Growth	4.1	0.9	101.6	22.2	1.7
Russell 1000 Index	2.9	2.1	21.1	13.7	4.8
Russell 1000 Value	1.9	2.6	19.0	13.0	5.2
Russell 1000 Growth	5.8	1.5	23.7	14.5	4.5
S&P 500 Index	2.9	2.1	20.3	13.3	5.1

As of 07.31.16. SOURCE: Al 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[1]	Company	Price	Target Price	Price Multiples EPS	Sales	TBV[2]	EV/ EBITDA[3]	FCF Yield[4]	Debt/ TE[5]	Div Yield	Mkt Cap
Autos & Components	GM	General Motors	31.54	44.36	5.2	0.3	1.3	2.4	6.0	145%	4.8%	49,263
	GT	Goodyear Tire & Rubber	28.67	48.84	7.5	0.5	2.2	5.7	3.7	165%	1.0%	7,524
Banks	BBT	BB&T	36.87	48.72	13.3	nmf	1.9	nmf	nmf	nmf	3.3%	30,031
	FITB	Fifth Third Bancorp	18.98	27.78	12.0	nmf	1.1	nmf	nmf	nmf	2.7%	14,571
	KEY	KeyCorp	11.70	18.35	11.0	nmf	1.0	nmf	nmf	nmf	2.9%	9,856
	ONB	Old National Bancorp	13.16	17.50	13.6	nmf	1.6	nmf	nmf	nmf	4.0%	1,777
	PNC	PNC Financial Services	82.65	113.28	11.8	nmf	1.3	nmf	nmf	nmf	2.7%	41,269
	WFC	Wells Fargo & Co	47.97	61.60	11.8	nmf	1.6	nmf	nmf	nmf	3.2%	243,546
Commercial Services	MAN	ManpowerGroup	69.40	98.81	11.9	0.2	5.6	6.3	13.3	97%	2.5%	4,756
Consumer Dur & App	MDC	MDC Holdings	26.32	40.11	19.2	0.7	1.0	17.5	-2.6	68%	3.8%	1,290
Consumer Services	• CCL	Carnival	46.72	68.31	14.9	2.2	1.9	9.5	5.7	44%	3.0%	34,912
Diversified Financials	COF	Capital One Financial	67.08	95.20	9.1	nmf	1.2	nmf	nmf	nmf	2.4%	34,352
Energy	HFC	HollyFrontier	25.42	47.32	8.6	0.4	1.8	4.7	1.5	53%	5.2%	4,487
	TNP	Tsakos Energy Nav Ltd	5.12	12.27	3.4	0.8	0.4	5.9	4.2	89%	6.3%	447
	TOT	Total SA	48.10	71.72	13.1	0.9	1.3	11.7	-3.5	45%	4.8%	120,407
Food & Spls Retailing	CVS	CVS Health	92.72	148.54	17.8	0.6	nmf	10.8	6.1	nmf	1.8%	99,583
Health Care Equip/Srvcs	CAH	Cardinal Health	83.60	105.11	16.4	0.2	nmf	10.1	10.1	nmf	2.1%	27,238
Insurance	AZSEY	Allianz SE	14.28	21.43	8.3	nmf	1.1	nmf	nmf	nmf	4.3%	65,260
	MET	MetLife	42.74	77.29	9.3	nmf	0.7	nmf	nmf	nmf	3.7%	46,957
	PRU	Prudential Financial	75.29	103.96	8.0	nmf	0.7	nmf	nmf	nmf	3.7%	33,278
Materials	AGU	Agrium	90.76	121.92	12.9	0.9	3.7	8.0	3.1	129%	3.9%	12,541
	CE	Celanese	63.42	96.80	10.3	1.7	5.2	15.1	6.8	139%	2.3%	9,179
	MOS	Mosaic	27.00	48.92	11.6	1.1	1.1	6.5	4.3	45%	4.1%	9,445
Media	DIS	Walt Disney	95.95	135.16	17.0	2.8	16.8	10.6	4.4	166%	1.5%	155,673
Pharma/Biotech/Life Sci	AMGN	Amgen	172.03	217.40	17.5	5.7	30.2	11.4	6.7	655%	2.3%	128,741
	BIIB	Biogen	289.93	427.16	16.2	5.7	14.9	10.9	4.8	153%	0.0%	63,530
	GILD	Gilead Sciences	79.47	130.61	6.8	3.3	20.2	4.8	15.3	403%	2.4%	105,840
	MRK	Merck & Co	58.66	62.65	15.8	4.1	46.6	13.0	6.6	680%	3.1%	162,372
	SNY	Sanofi	42.63	57.67	13.7	5.6	26.7	15.1	4.3	404%	3.2%	109,739
Real Estate	ANH	Anworth Mortgage Asset	4.92	6.77	8.6	nmf	0.8	nmf	nmf	nmf	12.2%	475
Retailing	KSS	Kohl's	41.59	62.91	11.2	0.4	1.4	5.1	10.6	86%	4.8%	7,640
	SSI	Stage Stores	5.93	8.33	21.2	0.1	0.4	4.3	-23.8	49%	10.1%	161
Software & Services	IBM	Int'l Business Machines	160.62	192.06	11.9	1.9	nmf	10.9	9.6	nmf	3.5%	153,528
	ORCL	Oracle	41.04	53.94	18.5	4.6	21.8	10.4	7.1	517%	1.5%	169,197
Technology Hardware	AAPL	Apple	104.21	133.00	12.2	2.5	4.8	5.7	8.7	59%	2.2%	561,530
	AVX	AVX	13.66	18.61	18.5	1.9	1.2	7.5	5.2	0%	3.1%	2,287
	CSCO	Cisco Systems	30.53	37.32	15.2	3.1	4.7	8.3	8.2	74%	3.4%	153,557
	GLW	Corning	22.22	31.08	16.7	2.6	1.5	10.8	3.7	26%	2.4%	23,039
	STX	Seagate Technology PLC	32.03	45.11	13.6	0.8	nmf	9.1	10.2	nmf	7.9%	9,560
Transportation	DAL	Delta Air Lines	38.75	69.21	6.8	0.7	nmf	3.5	14.5	nmf	2.1%	29,020

As of 07.31.16. 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]Free cash flow yield. [5]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

Spending cash generated by our **Waste Management** sale, we will add $20,000 of **KeyCorp** to PruFolio, $10,000 of **General Motors** to Millennium Portfolio and $29,000 of **Carnival** to TPS Portfolio. In Buckingham Portfolio, we will pick up $6,000 of **Capital One Financial** and we will bring the holdings in **Kohl's** up to that amount. We already have sufficient ownership across all four newsletter portfolios in **Agrium**, **Celanese**, **Corning**, **International Business Machines** and **Oracle**. As is our custom, we will wait four trading days, until August 8, to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AGU	Agrium	Materials	90.76	121.92
CCL	Carnival	Consumer Discretionary	46.72	68.31
CE	Celanese	Materials	63.42	96.80
COF	Capital One Financial	Financials	67.08	95.20
GLW	Corning	Information Technology	22.22	31.08
GM	General Motors	Consumer Discretionary	31.54	44.36
IBM	Int'l Business Machines	Information Technology	160.62	192.06
KEY	KeyCorp	Financials	11.70	18.35
KSS	Kohl's	Consumer Discretionary	41.59	62.91
ORCL	Oracle	Information Technology	41.04	53.94

As of 07.31.16. SOURCE: Al Frank using data from Bloomberg

Agrium (AGU)

Agrium is one of the largest retail suppliers of agricultural products and services in North America, South America, Europe and Australia, as well as a wholesale producer and marketer of all three major agricultural nutrients (nitrogen, potash and phosphates). Despite lower nutrient prices and overall headwinds in the commodity space, the company managed to report better-than-expected earnings ($0.05 per share, vs. an expected loss of $0.05) in the March quarter, due in part to a significant increase in proprietary product offerings, strengthening nutrient margins and solid performance for its international operations. Though a difficult near-term operating environment will persist, we remain positive on the long-term prospects of AGU and its diversified business, as well as the long-term potential of agriculture in general. The decline of global arable land and population growth should force farmers to be more productive and should drive growth of crop inputs. We like that Agrium has extensive retail and wholesale operations, and is well-positioned throughout the agriculture value chain. AGU generates solid free cash flow and yields 3.9%.

Carnival (CCL)

Carnival is the world's largest cruise ship operator with over 100 vessels across 10 brands and sailings from ports around the globe. Shares have tumbled since the December high, as seemingly incessant media reports about the fear of travel due to terrorism continue to cause consternation among investors. Management has had a different take on the health of the cruise business, explaining that for its fiscal quarter ended in May, strong underlying ticket demand drove record adjusted earnings per share of $0.49 (vs. $0.39 est.), despite a $0.17 per share drag from fuel and currency movements. We believe that plenty of bad news is priced into the stock at the current level, and we continue to think demographic trends strongly favor the cruise industry. Management has also noted that China is expected to be the largest market opportunity for CCL, which is encouraging for global revenue diversification and the ability to rapidly reach a new customer base. In addition to our bullishness on the qualitative side of the business, we like that CCL trades at 14 times forward earnings and sports a generous 3.0% yield.

Celanese (CE)

Celanese, a global value-added industrial chemicals company, is one of the world's largest producers of acetyls and a top producer of polymers used in auto, consumer and industrial products. The company's sales are almost equally divided between North America, Europe and Asia. Shares of CE recently pulled back following Q2 earnings (which beat forecasts on the bottom-line), as investors grew concerned about the second half of the year. Despite the continued headwinds and near-term growth uncertainty, we believe that CE shares offer additional upside to investors. We like that CE possesses proprietary technology that allows it to produce acetic acid at a lower cost than most of its competitors and we believe that the company can generate attractive revenue growth from further geographic expansion and new application development. Furthermore, we like the strong free cash flow the firm continues to generate and the continued progress that management has made in strengthening the financial position, highlighted by the recent debt rating upgrade to investment grade status. CE trades at 9 times the next-twelve-month EPS projection and yields 2.3%.

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. A Q2 earnings miss and investor concerns about potential increases in credit losses have taken a toll on the stock, however. Despite slightly higher net charge-offs (which have been at historic lows), COF's recent data has shown strong card loan growth. We are attracted to COF's valuation, with the stock currently trading at less than 9 times the next-12-month earnings projection. We also like that the firm is in the midst of a restructuring to improve cost management and overall operating effectiveness and efficiency. We also still believe that the company's purchase of GE's healthcare financing unit will prove beneficial. COF shares currently yield 2.4%

Corning (GLW)

Corning is the leading designer and manufacturer of glass and ceramic substrates found in liquid crystal displays, fiber-optic cables, automobiles and laboratory products. GLW earned $0.37 per share in fiscal Q2 2016 (vs. $0.32 est.) on sales of $2.4 billion. Corning's $4.8 billion cash swap for its 50% position in Dow Corning last year has unlocked significant value for shareholders, according to management. Also noted was that display revenue stabilized somewhat and Gorilla Glass for automotive applications is starting to gain traction with manufacturers. Corning expects Gorilla Glass 5, a glass with 1.8 times better damage resistance than the last generation, to command a significant price premium. We continue to be fans of Corning's ongoing business improvement plan and of the solid balance sheet which recently became a whole lot stronger after the Dow transaction. We also like that management had been taking advantage of stock market softness to pick up shares at depressed prices and has added a more aggressive repurchase plan. GLW yields 2.4% and trades for 15 times the next-12-month earnings estimate.

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). Despite exceptional Q2 financial results, GM shares were hit hard on modestly weaker-than-expected July auto sales, which fueled concerns that domestic car sales are peaking. 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 for GM, we think that the company's solid balance sheet ($23 billion in cash and short-term investments), improving cost controls, free cash flow generation and shareholder capital return initiatives make the 'new' GM a long-term buy. GM now trades for around 5 times trailing and projected earnings, while yielding 4.8%.

Int'l Business Machines (IBM)

IBM is a leading provider of enterprise solutions, offering a broad portfolio of IT hardware, business and IT services, and a full suite of software solutions. IBM posted decent earnings in Q2 (adjusted $2.95 per share vs. $2.89 est.), and shares have responded accordingly, jumping more than 35% since the February lows. The company continues to execute on its plan to grow strategic imperatives, which now account for 38% of the total revenue. Cloud product sales have risen more than 30% year-over-year to $3.4 billion last quarter, thanks to infrastructure projects and business services. We are pleased that the long-awaited rebound finally arrived, and are constructive on the company's continuing push to transform itself, focusing on higher value offerings, with aggressive investments in emerging technologies and markets (including Smarter Planet, Cloud, Healthcare and Business Analytics growth initiatives). IBM slightly lowered its outlook for the rest of fiscal 2016, and now expects to earn at least $12.23 per share, versus a prior estimate of at least $12.35. The company continues to be an aggressive returner of capital to holders via share buybacks and dividends, which year to date total $4.4 billion and $2.6 billion, respectively. The stock also yields 3.5%.

KeyCorp (KEY)

KeyCorp is a financial services company with over $100 billion of assets, providing retail, commercial and investment banking. KEY recently announced that its acquisition of First Niagara Financial is completed, which expands its presence to 15 states. Q2 earnings per share of $0.27 were largely in line with expectations. Despite lower interest rates and challenging market conditions, revenue was stable compared with the same period last year and up 3% from Q1. Expenses seemed to be well-managed, and credit quality remained solid, with net charge-offs to average loans of 0.28%, below the company's targeted range. Additionally, KEY received no objections from the Federal Reserve concerning its 2016 capital plan which included a 13% increase in its dividend and a $350 million share repurchase program. We think KEY continues to offer investors solid growth potential, thoughtful expense management and desirable capital returns, all at a good value. Shares yield 2.9%.

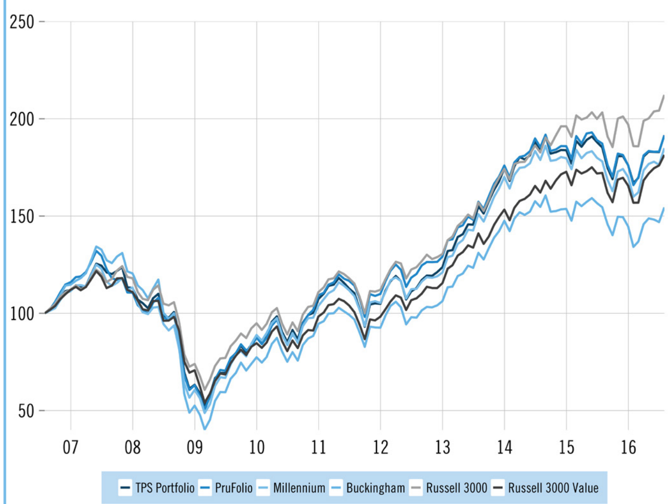
Kohl's (KSS)

Kohl's is a leading specialty department store with 1,100 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. Shares have been under pressure along with numerous other brick-and-mortar retailers as same store sales growth has drastically weakened and/or disappeared. KSS shares have also suffered from recent struggles in its once strong private-label brands. That said, we like that 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. While retail stocks have been in the investor doghouse, we think the selling in KSS has been overdone as we remain long-term fans of the stock. There is no doubt that Kohl's will have to continue to invest in and evolve its online business, while decreasing its store count, though we like the experimentation with a smaller store concept. Kohl's has a solid balance sheet and generates robust free cash flow. KSS currently trades for 10 times the next-12-month earnings projection and offers a 4.8% dividend yield.

Oracle (ORCL)

Oracle is a worldwide leader in software for enterprise information and database management. ORCL is the only major technology vendor that offers one-stop shopping: applications, infrastructure and a platform—a meaningful competitive advantage as it allows a single cloud environment to be accessed, shared and used in a variety of ways. On July 28, Oracle announced that it plans to acquire NetSuite, the self-described first cloud company (which is more than 40% owned by Oracle co-founder Larry Ellison), for $9.3 billion. ORCL Co-CEO Mark Hurd said, "Oracle and NetSuite cloud applications are complementary, and will coexist in the marketplace forever. We intend to invest heavily in both products—engineering and distribution." In addition to the NetSuite buy, we like that the company bought back 272 million shares of its stock for $10.4 billion over the last twelve months, while we think that ORCL's still-strong balance sheet and superior products will continue to help navigate the turbulent competitive waters. Oracle sports a reasonable forward P/E ratio under 15 and yields 1.5%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jul	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	5.13	6.80	-0.07	5.63	9.79	4.44
Millennium	4.85	8.81	3.83	6.99	11.19	6.34
PruFolio	4.53	8.71	2.22	6.75	10.87	6.71
TPS	4.72	8.77	3.37	7.30	11.66	6.71
Major Indexes						
Russell 3000	3.97	7.73	4.44	10.59	12.99	7.82
Russell 3000 Value	3.09	9.56	5.38	8.74	12.53	6.14
S&P 500	3.69	7.66	5.60	11.15	13.37	7.75
Dow Jones Industrial Avg	2.94	7.38	7.01	8.57	11.52	7.92

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.25	9.41	Russell 3000
Millennium	12.31.99	9.04	4.85	Russell 3000
PruFolio	12.29.00	12.84	5.68	Russell 3000
TPS	03.10.77	17.80	10.86	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,859 stock recommendations have returned, on average, an annualized 17.05%, not including dividends.

As of 07.31.16. 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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