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the Prudent Speculator

Established in March 1977 • 30 Enterprise, Suite 210 • Aliso Viejo, California 92656 • 800.258.7786

As we celebrate another milestone in our nearly four decades of publishing *The Prudent Speculator*, it was nice to see a return to form in the third quarter. Indeed, our brand of value investing regained a little favor, given that our newsletter portfolios returned better than 5% on average, compared to gains of 3.85% for the S&P 500 and 4.40% for our benchmark Russell 3000 index. And those advances were managed despite Brexit fallout, major terrorist attacks in Bangladesh, France and the Middle East, as well as frightening, though not as lethal, events in Minnesota, Washington and Manhattan, and an attempted coup in Turkey. Also, stocks managed to overcome worries about looming Federal Reserve interest rates hikes, mixed economic data with Q2 GDP growth coming in at just 1.4%, uninspiring corporate profit reports, the ongoing nasty Presidential campaign, a plunge in oil prices that saw crude tumble by more than 20% at one point and fears that Deutsche Bank might be enduring a Lehman moment that could cause global financial upheaval.

> "A large part of what we try to do is give readers the basis for a positive attitude toward the stock market."
>
> —Al Frank

Certainly, we recognize that this litany of issues could have easily led to losses, as stocks have suffered sizable declines on numerous occasions in the past, often with less obvious headwinds. Such is the nature of equity investing, where even if one had advance knowledge of the strength of the U.S. economy, the health of corporate profits, the magnitude of geopolitical events or the direction of interest rates, there is no assurance of outguessing the gyrations of short-sighted investors who may or may not have already discounted near-term developments.

As we constantly admonish, the only problem with market timing is getting the timing right, but this has been the case since our founder Al Frank walked out of his one-bedroom apartment in March 1977 headed for the local copy shop to make 100 Xerox copies of four typewritten double-spaced pages of the inaugural issue of *The Prudent Speculator*. Now 599 issues later, we remain convinced that, as Al said, "Speculating with undervalued stocks in a widely diversified portfolio to be held for long-term gains can provide superior returns."

Clearly, anything can happen in the near term and we know that October has been a scary month in the past, but we see little reason for those who share our long-term time horizon to consider changing course. Investor enthusiasm is hardly euphoric with the latest AAII Sentiment Survey showing Bulls at just 24.0% and Bears at 37.1% (the respective norms are 38.4% and 30.4%). Also, corporate balance sheets are generally healthy, facilitating stock buybacks and dividend increases and the Federal Reserve is likely to remain highly accommodative for quite some time as the U.S. economy is showing moderate growth.

Yes, we respect that the P/E ratio on the S&P 500 is elevated, but the stocks we own generally trade for multiples of earnings that are significantly lower than those of the market. And we think that valuations need to be considered in the context of the interest rate picture, as the yield on the S&P 500 is 2.15% (TPS Portfolio yields 3.0%), compared to 1.68% for the 10-Year U.S. Treasury. We recognize that Janet Yellen & Co. are likely to raise the Federal Funds rate very soon, but even their current longer-run target of 2.9% for this benchmark is far below normal.

For added perspective, especially for those who think higher interest rates will be fatal for stocks, we offer this blast from the past penned by Al Frank right when yours truly started writing for *The Prudent Speculator*. In *TPS 248*, Al looked back on 1988: "Just think, if someone had told you a year ago that the 91-day Treasury Bill yield would be 8.22% (compared to 5.73% then), that the prime rate would be 10.5% (compared to 8.75% then), and that the Fed Funds rate would be 8.87% (compared to 6.75% then), would you have believed that the Dow Jones Industrial Average would have gained 229.74 points and be up 11.85% for the year, not counting a 3.70% dividend yield?"

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

Washington

While we learned from the shocking results of the June *Brexit* vote in the United Kingdom that public opinion polls, not to mention the oddsmakers, are hardly infallible, most pundits have Hillary Clinton presently leading Donald Trump in the battle for the White House. The latest numbers (as of 10.3.16) from *Huffington Post* have the Democratic nominee in front by 5 percentage points (47% to 42%) in a two-horse race and by 4 percentage points (43% to 39%) in a three-horse race that includes Libertarian candidate Gary Johnson. No doubt, there are plenty of biases in the liberal-leaning media, but even the latest poll (as of 9.30.16) from conservative-leaning *Fox News* shows Mrs. Clinton leading Mr. Trump by a score of 49% to 44% in a head-to-head match-up, her standing undoubtedly boosted by her showing in the first Presidential Debate on 9.26.16. And *USA Today's* National Polling Average as of 10.2.16 had it Clinton: 43.8%; Trump: 41.0% and Johnson: 7.2%. Clearly, the polls are fickle and there are still five weeks and two more Presidential Debates until Election Day, so we know that the competition is a long way from being decided, though it would seem that Mr. Trump has a more difficult task in winning the Electoral College tally even if he closes the gap in the popular vote.

To be sure, the equity markets will remain on pins and needles until November 8, with recent trading seeming to suggest that a Clinton victory is the preferred outcome for the majority of investors. While we are not picking sides, we understand why stock market participants might favor the "Establishment" candidate over the apparent "Wildcard" that is Mr. Trump, even as Republican candidates are usually much more pro-business and tax-friendly. In fact, the S&P 500 futures rallied during and immediately following the Debate as more viewers came to the conclusion that Mrs. Clinton was the winner that night. Of course, the S&P had dropped more than 1% during that day's trading, and has since yet to recover all of the lost ground, meaning that there are obviously plenty of other factors buffeting stocks these days. Still, Mr. Trump didn't exactly endear himself to many investors with his Debate assertions, "Now, look, we have the worst revival of an economy since the Great Depression. And believe me: We're in a bubble right now. And the only thing that looks good is the stock market, but if you raise interest rates even a little bit, that's going to come crashing down."

Needless to say, this is not a typical election campaign, as both candidates have plenty of flaws and Americans are set to elect either the first female or the oldest first-time president ever. But if history is any guide, the winner will likely have less of an impact on markets than many might anticipate, as pushing grandiose campaign promises through Congress is easier said than done. Indeed, the United States system of checks and balances, means that the legislative branch of government has the power over the purse strings to actually fund any executive branch actions. To be sure, a Democratic or Republican sweep of the White House and Congress would arguably alleviate the "gridlock" that has gripped American politics for quite some time, but the current polls suggest this is an unlikely possibility.

While we will make no major changes to our portfolios in anticipation of or reaction to the election, market history clearly shows that equities have performed much better under Democrats than Republicans (Herbert Hoover's 1928-1932 has been a very tough hurdle for the GOP to overcome), though some would argue that 22 total data points is not exactly statistically significant. There are 43 two-year President/Congress combinations to review, but those also favor a Democrat in the White House.

PARTIES IN POWER & ANNUALIZED RETURNS

Conceding that there are not a lot of data points from which to draw grand conclusions, stocks seem to like the letter D better than R.

Pres Pty	Con Pty	Div Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
D	R	17.1%	11.3%	17.2%	11.4%	17.2%	10.5%
D	D	14.1%	20.8%	20.6%	16.3%	12.9%	24.0%
D	S	15.3%	15.4%	14.5%	14.9%	15.6%	14.3%
R	R	-3.5%	-10.7%	-2.8%	-6.5%	-3.6%	-5.1%
R	D	9.8%	2.2%	10.7%	6.7%	9.5%	6.4%
R	S	6.7%	-3.5%	10.7%	1.9%	5.8%	5.4%
D Pres		**14.7%**	**18.6%**	**19.5%**	**15.3%**	**13.9%**	**20.7%**
R Pres		**5.0%**	**-3.0%**	**6.5%**	**1.6%**	**4.7%**	**2.6%**

Annualized Total Returns. From 12.31.28 through 12.31.14. Performance segregated by presidential and congressional party are geometric averages. Performance divided only by presidential party are also geometric averages. SOURCE: Al Frank using data from the U.S. House of Representatives, Morningstar and Professors Eugene F. Fama and Kenneth R. French

President Party	Congress Party	Start Date	End Date	Dividend Payers	Non-Div Payers	Value Stocks	Growth Stocks	Large Stocks	Small Stocks
R	R	12.31.1928	12.31.1930	-39.5%	-65.3%	-56.0%	-54.4%	-31.2%	-69.9%
R	R	12.31.1930	12.31.1932	-50.1%	-50.8%	-52.6%	-44.2%	-48.0%	-52.5%
Hoover		**12.31.1928**	**12.31.1932**	**-69.8%**	**-82.9%**	**-79.1%**	**-74.5%**	**-64.2%**	**-85.7%**
D	D	12.31.1932	12.31.1934	80.1%	60.8%	116.0%	137.5%	51.8%	201.7%
D	D	12.31.1934	12.31.1936	83.4%	153.2%	152.1%	78.6%	97.8%	131.0%
Roosevelt		**12.31.1932**	**12.31.1936**	**230.3%**	**307.2%**	**444.6%**	**324.2%**	**200.1%**	**597.0%**
D	D	12.31.1936	12.31.1938	-13.7%	-31.2%	-31.3%	-19.3%	-14.8%	-44.2%
D	D	12.31.1938	12.31.1940	-3.0%	-22.0%	-16.1%	3.1%	-10.2%	-4.8%
Roosevelt		**12.31.1936**	**12.31.1940**	**-16.4%**	**-46.3%**	**-42.3%**	**-16.8%**	**-23.5%**	**-46.9%**
D	D	12.31.1940	12.31.1942	5.7%	13.5%	31.0%	-1.0%	6.4%	31.5%
D	D	12.31.1942	12.31.1944	61.5%	164.2%	143.3%	68.4%	50.8%	189.6%
Roosevelt		**12.31.1940**	**12.31.1944**	**70.7%**	**199.7%**	**218.8%**	**66.7%**	**60.4%**	**280.8%**
D	D	12.31.1944	12.31.1946	30.5%	44.3%	47.2%	31.8%	25.4%	53.4%
D	R	12.31.1946	12.31.1948	7.3%	-20.2%	8.5%	-5.0%	11.5%	-1.2%
Truman		**12.31.1944**	**12.31.1948**	**40.0%**	**15.1%**	**59.7%**	**25.2%**	**39.9%**	**51.6%**
D	D	12.31.1948	12.31.1950	59.2%	98.0%	84.7%	58.2%	56.5%	66.1%
D	D	12.31.1950	12.31.1952	38.0%	17.8%	28.9%	30.7%	46.8%	11.1%
Truman		**12.31.1948**	**12.31.1952**	**119.7%**	**133.2%**	**138.2%**	**106.8%**	**129.7%**	**84.5%**
R	R	12.31.1952	12.31.1954	51.7%	42.4%	58.2%	47.1%	51.1%	50.2%
R	D	12.31.1954	12.31.1956	36.8%	19.2%	33.7%	28.9%	40.2%	25.6%
Eisenhower		**12.31.1952**	**12.31.1956**	**107.5%**	**69.7%**	**111.6%**	**89.6%**	**111.8%**	**88.6%**
R	D	12.31.1956	12.31.1958	31.2%	30.6%	38.5%	37.5%	27.9%	40.9%
R	D	12.31.1958	12.31.1960	15.2%	0.8%	9.8%	13.8%	12.5%	12.6%
Eisenhower		**12.31.1956**	**12.31.1960**	**51.1%**	**31.6%**	**52.0%**	**56.5%**	**43.9%**	**58.6%**
D	D	12.31.1960	12.31.1962	17.7%	-8.1%	22.5%	4.3%	15.8%	16.4%
D	D	12.31.1962	12.31.1964	44.8%	15.4%	58.7%	28.0%	43.0%	52.6%
Kennedy/Johnson		**12.31.1960**	**12.31.1964**	**70.5%**	**6.0%**	**94.4%**	**33.6%**	**65.7%**	**77.6%**
D	D	12.31.1964	12.31.1966	1.6%	42.6%	20.1%	14.5%	1.1%	31.8%
D	D	12.31.1966	12.31.1968	42.9%	127.4%	103.6%	84.1%	37.7%	149.6%
Johnson		**12.31.1964**	**12.31.1968**	**45.1%**	**224.3%**	**144.6%**	**110.8%**	**39.3%**	**229.0%**
R	D	12.31.1968	12.31.1970	-7.4%	-48.9%	-13.9%	-23.9%	-4.8%	-38.1%
R	D	12.31.1970	12.31.1972	34.2%	21.4%	29.0%	38.7%	36.0%	21.7%
Nixon		**12.31.1968**	**12.31.1972**	**24.2%**	**-38.0%**	**11.1%**	**5.6%**	**29.4%**	**-24.7%**
R	D	12.31.1972	12.31.1974	-36.1%	-63.2%	-33.7%	-54.6%	-37.2%	-44.7%
R	D	12.31.1974	12.31.1976	81.0%	127.1%	139.5%	88.6%	69.9%	140.5%
Nixon/Ford		**12.31.1972**	**12.31.1976**	**15.7%**	**-16.5%**	**58.7%**	**-14.4%**	**6.6%**	**33.0%**
D	D	12.31.1976	12.31.1978	5.2%	41.7%	26.2%	17.3%	-1.1%	54.8%
D	D	12.31.1978	12.31.1980	60.3%	161.8%	56.5%	90.6%	56.8%	100.7%
Carter		**12.31.1976**	**12.31.1980**	**68.7%**	**270.9%**	**97.5%**	**123.6%**	**55.1%**	**210.6%**
R	S	12.31.1980	12.31.1982	20.4%	-4.2%	55.3%	9.7%	15.4%	45.8%
R	S	12.31.1982	12.31.1984	29.3%	-1.9%	54.1%	8.5%	30.2%	30.4%
Reagan		**12.31.1980**	**12.31.1984**	**55.6%**	**-6.1%**	**139.3%**	**19.1%**	**50.3%**	**90.0%**
R	S	12.31.1984	12.31.1986	57.9%	26.4%	56.2%	42.2%	56.6%	33.2%
R	D	12.31.1986	12.31.1988	21.8%	8.9%	23.1%	10.2%	22.9%	11.5%
Reagan		**12.31.1984**	**12.31.1988**	**92.3%**	**37.7%**	**92.3%**	**56.8%**	**92.5%**	**48.5%**
R	D	12.31.1988	12.31.1990	24.2%	2.8%	0.3%	15.6%	27.3%	-13.6%
R	D	12.31.1990	12.31.1992	45.2%	70.3%	73.5%	56.8%	40.6%	78.4%
Bush H.		**12.31.1988**	**12.31.1992**	**80.4%**	**75.1%**	**74.1%**	**81.3%**	**79.0%**	**54.2%**
D	D	12.31.1992	12.31.1994	9.9%	17.4%	20.8%	3.1%	11.4%	24.7%
D	R	12.31.1994	12.31.1996	69.6%	56.9%	69.6%	55.4%	69.1%	58.2%
Clinton		**12.31.1992**	**12.31.1996**	**86.4%**	**84.1%**	**104.9%**	**60.3%**	**88.5%**	**97.3%**
D	R	12.31.1996	12.31.1998	65.7%	60.8%	50.5%	41.1%	71.5%	13.8%
D	R	12.31.1998	12.31.2000	16.9%	16.6%	28.4%	13.4%	10.0%	25.1%
Clinton		**12.31.1996**	**12.31.2000**	**93.7%**	**87.4%**	**93.3%**	**60.0%**	**88.7%**	**42.4%**
R	R	12.31.2000	12.31.2002	-18.7%	-45.5%	-10.5%	-32.4%	-31.4%	6.5%
R	R	12.31.2002	12.31.2004	41.7%	62.0%	75.6%	56.9%	42.7%	90.3%
Bush W.		**12.31.2000**	**12.31.2004**	**15.2%**	**-11.7%**	**57.1%**	**6.0%**	**-2.1%**	**102.6%**
R	R	12.31.2004	12.31.2006	23.0%	19.1%	37.1%	12.7%	21.5%	22.8%
R	S	12.31.2006	12.31.2008	-31.7%	-36.4%	-39.8%	-31.3%	-33.5%	-40.0%
Bush W.		**12.31.2004**	**12.31.2008**	**-16.0%**	**-24.3%**	**-17.4%**	**-22.5%**	**-19.3%**	**-26.4%**
D	D	12.31.2008	12.31.2010	41.8%	84.4%	46.9%	64.9%	45.5%	68.1%
D	S	12.31.2010	12.31.2012	17.5%	15.5%	13.1%	14.0%	18.5%	14.4%
Obama		**12.31.2008**	**12.31.2012**	**66.7%**	**112.9%**	**66.2%**	**88.0%**	**72.4%**	**92.3%**
D	S	12.31.2012	12.31.2014	50.3%	53.5%	52.1%	52.8%	50.5%	49.3%
Obama		**12.31.2012**	**12.31.2014**	**50.3%**	**53.5%**	**52.1%**	**52.8%**	**50.5%**	**49.3%**

Total Returns Non-Annualized. From 12.31.28 through 12.31.14. SOURCE: Al Frank using data from the U.S. House of Representatives, Morningstar and 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.

				Target	Price Multiples			EV/	FCF	Debt/	Div	Mkt
Industry Group	Ticker[1]	Company	Price	Price	EPS	Sales	TBV[2]	EBITDA[3]	Yield[4]	TE[5]	Yield	Cap
Autos & Components	GM	General Motors	31.77	41.77	5.3	0.3	1.3	2.5	5.9	145%	4.8%	49,622
	GT	Goodyear Tire & Rubber	32.30	50.00	8.5	0.5	2.4	6.1	3.3	165%	1.2%	8,477
Banks	BAC	Bank of America	15.65	23.96	13.1	nmf	0.9	nmf	nmf	nmf	1.9%	159,705
	BBT	BB&T Corp	37.72	48.72	13.6	nmf	1.9	nmf	nmf	nmf	3.2%	30,723
	KEY	KeyCorp	12.17	18.35	11.5	nmf	1.3	nmf	nmf	nmf	2.8%	13,170
	PNC	PNC Financial Services	90.09	113.28	12.9	nmf	1.4	nmf	nmf	nmf	2.4%	44,271
Capital Goods	BA	Boeing	131.74	151.70	24.3	0.8	nmf	12.1	9.0	nmf	3.3%	82,183
	GE	General Electric	29.62	38.11	19.4	2.2	nmf	32.0	-1.0	nmf	3.1%	265,432
Consumer Dur & App	MDC	MDC Holdings	25.80	42.19	17.0	0.6	1.0	15.5	-5.6	67%	3.9%	1,265
Consumer Services	RCL	Royal Caribbean Cruises	74.95	99.61	13.8	1.9	2.1	14.4	-2.1	116%	2.6%	16,134
Diversified Financials	ANH	Anworth Mortgage Asset	4.92	6.80	8.6	nmf	0.8	nmf	nmf	nmf	12.2%	472
	COF	Capital One Financial	71.83	95.20	9.7	nmf	1.2	nmf	nmf	nmf	2.2%	36,784
	SYF	Synchrony Financial	28.00	38.18	10.7	nmf	1.9	nmf	nmf	nmf	1.9%	23,350
Energy	HFC	HollyFrontier	24.50	41.34	13.6	0.4	1.9	21.1	1.5	74%	5.4%	4,325
	NOV	National Oilwell Varco	36.74	43.22	76.5	1.4	2.6	nmf	10.1	60%	0.5%	13,874
	RDS/A	Royal Dutch Shell PLC	50.07	72.03	24.1	0.4	1.1	16.4	-3.6	47%	6.4%	207,419
	TNP	Tsakos Energy Navigation	4.82	11.25	4.0	0.8	0.3	6.7	-8.9	109%	6.6%	421
	TOT	Total SA	47.70	72.81	12.9	0.9	1.3	11.8	-3.4	45%	4.9%	119,414
Food & Staples Retailing	CVS	CVS Health	88.99	151.38	16.7	0.6	nmf	10.2	7.0	nmf	1.9%	94,882
	WMT	Wal-Mart Stores	72.12	81.00	15.9	0.5	3.7	7.8	9.3	65%	2.8%	223,086
Health Care Equip/Srvcs	AET	Aetna	115.45	144.38	14.8	0.7	7.4	7.5	10.0	363%	0.9%	40,500
	MCK	McKesson	166.75	239.09	12.7	0.2	nmf	9.5	11.9	nmf	0.7%	37,636
Insurance	AZSEY	Allianz SE	14.83	21.02	9.3	nmf	1.1	nmf	nmf	nmf	4.1%	67,773
	MET	MetLife	44.43	71.78	11.5	nmf	0.7	nmf	nmf	nmf	3.6%	48,823
	PRU	Prudential Financial	81.65	102.23	9.8	nmf	0.7	nmf	nmf	nmf	3.4%	35,681
Materials	CE	Celanese	66.56	96.80	10.8	1.8	5.4	15.9	6.4	139%	2.2%	9,634
	MOS	Mosaic	24.46	46.03	18.0	1.1	1.0	8.4	5.1	46%	4.5%	8,566
Media	DIS	Walt Disney	92.86	131.09	16.0	2.7	15.9	10.0	5.1	161%	1.5%	149,235
Pharma/Biotech/Life Sci	AMGN	Amgen	166.81	213.80	17.0	5.6	29.3	10.9	7.0	655%	2.4%	124,834
	GILD	Gilead Sciences	79.12	128.12	6.8	3.2	22.4	4.8	15.3	461%	2.4%	104,411
	JNJ	Johnson & Johnson	118.13	133.07	18.6	4.6	13.1	13.8	4.4	99%	2.7%	323,189
	PFE	Pfizer	33.87	43.05	13.9	3.9	nmf	12.7	6.4	nmf	3.5%	205,444
	SNY	Sanofi	38.19	57.67	12.1	5.0	23.7	13.6	4.8	404%	3.6%	98,457
Retailing	DSW	DSW Inc	20.48	32.19	15.4	0.6	2.1	6.2	4.8	0%	3.9%	1,684
	KSS	Kohl's	43.75	65.77	11.3	0.4	1.5	5.4	16.3	86%	4.6%	7,857
	TGT	Target	68.68	85.76	14.0	0.6	3.5	6.5	7.5	107%	3.5%	39,482
Technology Hardware	AVX	AVX Corp	13.79	18.61	18.7	1.9	1.2	8.4	9.0	0%	3.0%	2,309
	BRCD	Brocade Communications	9.23	14.89	13.4	1.6	nmf	9.3	9.5	nmf	2.4%	3,700
Transportation	DAL	Delta Air Lines	39.36	63.05	6.9	0.7	nmf	3.5	14.5	nmf	2.1%	29,477
	NSC	Norfolk Southern	97.06	107.99	17.6	2.8	2.3	9.4	1.4	78%	2.4%	28,492

As of 09.30.16. 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

While our newsletter portfolios now have minimal cash, given that we have strived to add most of our monthly Portfolio Builder selections to one of the accounts, this go round we feature 10 favorites that have not been discussed in this space in some time. Of course, we already own these companies in one or more of the portfolios and readers should note that the performance of *The Prudent Speculator* is based on the returns of TPS, Buckingham, Millennium and PruFolio, so any of our 100+ holdings should be viewed as a buy until such time as we say sell.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ANH	Anworth Mortgage Asset	Financials	4.92	6.80
AVX	AVX Corp	Information Technology	13.79	18.61
BA	Boeing	Industrials	131.74	151.70
BAC	Bank of America	Financials	15.65	23.96
DSW	DSW Inc	Consumer Discretionary	20.48	32.19
GE	General Electric	Industrials	29.62	38.11
JNJ	Johnson & Johnson	Health Care	118.13	133.07
MCK	McKesson	Health Care	166.75	239.09
RCL	Royal Caribbean Cruises	Consumer Discretionary	74.95	99.61
TNP	Tsakos Energy Nav	Energy	4.82	11.25

As of 09.30.16. SOURCE: Al Frank using data from Bloomberg

Anworth Mortgage Asset (ANH)

Anworth is a REIT focused mainly on U.S. mortgage-backed securities (MBS) issued or guaranteed by an agency of the U.S. (Ginnie Mae) or a U.S. government-sponsored entity (Fannie Mae or Freddie Mac). Anworth's core business produced solid adjusted Q2 EPS of $0.15, and we see that trend continuing. We appreciate management's efforts to diversify and plan for the long term via the ownership of 88 single-family residential rental properties located in southern Florida. ANH's book value per share ended Q2 at $6.06. ANH shares trade at just 81% of book value, while yielding a massive 12.5%. True, the company must successfully navigate the potential for a more volatile interest rate environment, especially given that it employs significant leverage (which has decreased over the last few quarters, with the effective leverage ratio standing at 6.8 at the end of Q2), but management generally has proven adept thus far, supporting the dividend, while buying back stock at favorable prices.

AVX Corp. (AVX)

AVX, 73% owned by Kyocera of Japan, is a manufacturer and supplier of electronic components, including ceramic and tantalum capacitors for use in products that need to store energy. The company reported a challenging fiscal Q1 2017, due to U.S. election uncertainty, a strong U.S. dollar, and political and economic issues in Brazil. Demand has been improving at a steady, yet pedestrian pace, and management expects that most customer inventory-reduction programs are now complete. Looking forward, AVX expects increasing demand for its 4.5G (an incremental upgrade before 5G) and 5G wireless communication products in China and strong growth rates for its city-to-city and continent-to-continent 100,000 GB per second lines over the next few years. We believe that AVX will benefit as smartphone demand (expected to reach 1.6 billion shipments in 2017 according to Statista) keeps growing, especially as Chinese and Korean telecom manufacturers roll out next-generation 4G and 5G networks. We also like the buyback program and 3.0% yield.

Boeing (BA)

Boeing is a global aerospace titan that designs and manufactures commercial airplanes. In addition, its Defense, Space & Security segment contributes about one-third of revenue and has benefitted from long-term government contracts around the world, growing delivery volume and improving product mix. We like that Boeing has a wide product range with a backlog of nearly 5,700 airplanes, including the ever-popular 737, 787 Dreamliner and 777 families. The combined backlog for the Commercial and Defense segments totals approximately $500 billion. Shares have rebounded from their February lows, when the SEC announced an investigation into Boeing's 747 and 787 Dreamliner accounting methods. Boeing is one of the last major companies to use 'Program Accounting,' allowing it to spread enormous up-front airplane program costs over a number of years. The accounting method has had the approval of auditors and regulators for decades, and is GAAP compliant, but it has critics and we might expect revisions to financial statements to result at some point, although the investigation is likely to take years. Nonetheless, we view BA as a high-quality stock with an inexpensive valuation (13.6 times forward earnings estimates) and a generous dividend yield of 3.3%.

Bank of America (BAC)

Bank of America is a global financial giant, serving individual consumers, small- and middle-market businesses and large corporations with a full range of banking, investing, asset management, and other financial and risk management products and services. In the U.S., BAC serves 47 million customers via 4,700 retail financial centers, 16,000 ATMs, and online banking services with 32 million active users, including 20 million active mobile users. With many of the problems of the past decade seemingly in the rear-view mirror, BAC has numerous opportunities to capitalize, from its large deposit base and consumer lending franchise to its "thundering herd" of Merrill Lynch's financial advisors and wealth managers. We are constructive on the recent successes of its cost-control programs and see more opportunity for the bank to become even leaner. Though BAC has rallied since our original recommendation, the stock still trades for less than tangible book value, while we think share buybacks and dividends will grow as the company gains further operational and capital strength. BAC current yields 1.9%.

DSW Inc (DSW)

DSW is a leading branded footwear and accessories retailer that operates more than 480 stores in 42 states and Puerto Rico, sells products via e-commerce channels and supplies footwear to 385 leased departments for other retailers in the U.S. Despite having recovered during the second quarter, shares tumbled again at the end of August after the company reported that it expects same-store-sales comparisons to be negative in the "low single digits." Even with the weak outlook, DSW still expects to earn between $1.32 and $1.42 per share for fiscal 2017. While the near-term will remain trying, we believe the latest sell-off provides an attractive entry point. DSW has been investing in technology to strengthen its omni-channel business strategy, and while it has recently taken its toll on earnings (DSW took a $25 million Q2 charge), we think there will be increased sales and profits over the long term. Also, newly announced cost cuts should be beneficial and we like the firm's growing customer loyalty program. We believe DSW has an opportunity to take market share in the fragmented footwear market. DSW shares yield 3.9%, while the balance sheet has no long-term debt.

General Electric (GE)

GE is a highly diversified, global industrial corporation, with products and services that include power generation equipment, aircraft engines, locomotives, medical equipment, appliances and commercial leasing. Over the past year, GE has been hard at work restructuring. In November 2015, it split off its consumer finance arm (rebranded as Synchrony Financial) and completed the purchase of French industrial firm Alstom for $9.5 billion. In June 2016, it agreed to sell its appliances business to Haier for $5.6 billion after its earlier deal with Electrolux was broken up by the Justice Department. GE also successfully petitioned to have its Systematically Important Financial Institution designation removed, which analysts estimate will free up about $20 billion of capital. While GE will continue to face operational challenges in some business lines as it evolves, we see the recent success of the company's core industrial business continuing. We believe that the additional focus will unlock value and generate substantial cash flow for long-term investors in the future. GE shares yield a solid 3.1%.

Johnson & Johnson (JNJ)

Johnson & Johnson is a leading global health care company, with a diversified portfolio of pharmaceutical, medical device, diagnostic and consumer health products. We like that JNJ maintains a broad revenue stream, which helps insulate the firm from economic downturns and offers investors a defensive growth opportunity that pays a stable dividend. We are constructive on the recent purchase of Abbott Lab's Medical Optics business, with its three business segments: cataract surgery (including LASIK), laser refractive surgery and consumer eye health. The acquisition should support management's focus on boosting overall growth and further diversifies the revenue stream. Additionally, we like JNJ's restructuring of its medical device business. The company faces relatively few major patent losses over the next few years and the majority of its pharmaceutical offerings are specialty drugs, which frequently carry stronger pricing power. Further, due to favorable demographics, we see long-term potential for the company's orthopedics business. JNJ has a strong balance sheet and solid potential for a number of its compounds in clinical trials. The yield is 2.7%.

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. MCK has been negatively impacted by contract shifts and price inflation of generic drugs, not to mention the attention the pharma industry has recently garnered on Capitol Hill and in the media. 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 continued pharmaceutical spending in the U.S. that is projected to grow robustly in the coming years, given the aging of our population, as well as the continued expansion of medical insurance coverage. Operational headwinds won't subside soon, but the important role the company plays in getting medical supplies and medicines from manufacturers to pharmacies, clinics and hospitals remains vital. Additionally, continued integration of acquisitions and pending improvements in its healthcare IT business should help drive growth. MCK trades for 12.3 times forward earnings estimates.

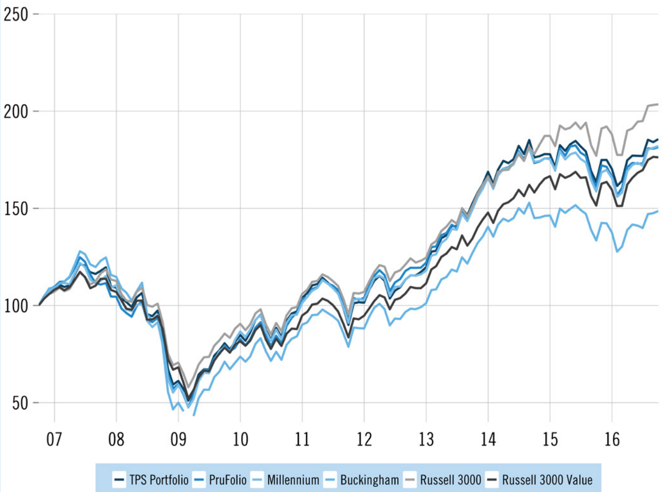
Royal Caribbean Cruises (RCL)

RCL is the world's second-largest cruise company, operating globally via Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises, as well as with partners at TUI Cruises, Pullmantur and CDF Croisières de France. The company has firm orders for eight more ships that are expected to enter service before 2021, increasing the current fleet capacity of 110,900 berths by 27,750. Although Q2 results were decent, shares initially slid on worries about the Zika virus and terrorism. The retreat reversed when news broke that CEO Richard Fain used the dip to scoop up $2 million worth of RCL. Management reduced its full-year adjusted EPS guidance to $6.00 to $6.10, but confirmed that its Double-Double program of increasing return on invested capital (ROIC) to double-digits and doubling 2014 EPS by 2017 is still on track. We remain fans of RCL and the overall prospects of the cruise industry, especially given favorable demographic trends. Despite persistent currency and fuel headwinds, we believe that cost control and operational initiatives will make a difference. RCL trades for 13.8 times earnings.

Tsakos Energy Navigation Ltd (TNP)

Tsakos Energy owns and operates a diverse and relatively modern fleet of marine tankers essentially spread over every major class of ship. Its vessels transport crude oil, petroleum products and other liquids. We like that TNP has seen utilization rates above 96% the last few quarters. Near-term charter rates have been relatively weak, but we are still optimistic over the long term as emerging economies around the world realize increased energy consumption. CEO Nikolas P. Tsakos said last month, "With oil prices still at low levels with no signs today of reaching the lofty heights of 2014, a significant part of the world's order book already absorbed, and few vessels expected to be ordered in the next eighteen months, the tanker markets should return to healthier levels in the near future albeit with the customary and expected aberrations that characterize the seasonality of the industry." Tsakos has recommitted to its buyback program, while the stock yields 6.5% and trades for 30% of book value.

NEWSLETTER PORTFOLIO PERFORMANCE



	Sep	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	0.78	7.95	11.39	5.38	13.54	4.04
Millennium	0.51	9.88	14.73	6.82	14.85	6.17
PruFolio	0.41	9.04	12.78	6.26	14.36	6.14
TPS	0.83	8.96	13.53	6.77	15.57	6.38
Major Indexes						
Russell 3000	0.16	8.18	14.95	10.44	16.36	7.36
Russell 3000 Value	-0.13	10.40	16.37	9.45	16.09	5.83
S&P 500	0.02	7.84	15.42	11.15	16.36	7.24
Dow Jones Industrial Avg	-0.41	7.21	15.46	9.23	13.77	7.39

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.20	9.32	Russell 3000
Millennium	12.31.99	9.01	4.83	Russell 3000
PruFolio	12.29.00	12.72	5.65	Russell 3000
TPS	03.10.77	17.72	10.81	S&P 500[1]

Since *The Prudent Speculator's* launch in March 1977, its 1,860 stock recommendations have returned, on average, an annualized 17.07%, not including dividends.

As of 09.30.16. 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. [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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