

the Prudent Speculator 602

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I am only 51, but seldom do I skip the obituaries in my daily read of *The Wall Street Journal*. A recent perusal featured a lengthy ode to fellow newsletter editor Howard Ruff. While I did not know Mr. Ruff personally, sadly, his is a path trod by many in our profession. As the *WSJ* wrote, “In the early 1980s, he urged followers to buy silver coins, antiques, diamonds, real estate and freeze-dried food. ‘We can’t avoid runaway inflation and probably a collapse of the economy,’ he warned cheerfully. Then things began going terribly wrong: Inflation and interest rates declined. The stock market boomed. Chastened, Mr. Ruff adopted a more positive tone—*Ruff Times* was temporarily renamed the *Financial Success Report*—but he found that happier tidings grabbed less attention.”

While we really shouldn’t be surprised that good news fails to sell, investors should understand that often the primary objective of many purveyors of doom and gloom is to sell books and newsletters. Yes, naysayers sometimes fully believe that economic disaster, runaway inflation or financial Armageddon is imminent, but it is telling that Mr. Ruff once said, “If I could teach my children only one thing, it would be the skill of marketing.”

And, he was a pretty good marketer, tapping into the fact that folks generally feel the intensity of a loss about twice as strongly as they feel the pleasure of an equivalent gain. Indeed, neuroeconomics, or how our brains respond in real-life financial situations, shows that loss aversion is a particularly tough hurdle for investors to overcome, even as overwhelming evidence suggests that the secret to success in stocks is not to get scared out of them.

Obviously, November provided a stunning example of why we stay invested through thick and thin rather than attempt to outguess the gyrations of market participants who have proven time and again to have little ability to predict the future or how equities might respond even if they’ve envisioned potential market-moving events correctly. After all, our broadly diversified newsletter portfolios enjoyed gains of more than 7% last month, while our benchmark Russell 3000 index advanced some 4.5%, de-

spite the shocking Election, a *Black Swan* event that was widely thought to have been a catalyst for a stock market rout, at least in the near term.

“Bad news travels at
the speed of light;
good news travels
like molasses.”
— Tracy Morgan

As we often say, far more money is lost in anticipation of a market correction than is lost in the corrections themselves. Vividly illustrating the point, November provided a double whammy for those who tilted toward the perceived safety of less risky assets, given all of the uncertainty. Not only did many miss out on the big equity rally, they saw substantial declines in defensive assets like gold, which tumbled 8% last month, and U.S. Treasuries, which suffered their worst losses in seven years. Many of the dollars fleeing fixed income (the giant DoubleLine Total Return Fund endured a \$990 million net outflow last month) made their way into equities, further dispelling the myth that rising interest rates are fatal for stocks.

Ironically, while we are glad that the race for the White House is over, the stampede into our favorite asset class has taken place even as uncertainty about the policies that President-Elect Trump may or may not implement could not possibly be higher. For now, it would seem that investors have decided that America has elected a pro-growth Trump and not a protectionist Trump, and we are pleased with our recent performance, but we very much realize that the markets move in both directions.

While we are always braced for added volatility, we continue to believe that equities remain attractive for the long haul, given the improving U.S. economy, solid corporate balance sheets and income statements, generous dividend yields and reasonable valuations within the context of the still-very-low interest rate environment. Optimism may sell fewer newsletters, but we’ll settle for helping our followers grow their wealth in the fullness of time.



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q3 Season

With U.S. economic growth accelerating last quarter to 3.2%, earnings reporting season turned out to be a good deal better than expected. True, profits are still not as strong as we might like, but Corporate America man-

aged to turn in solid Q3 EPS numbers relative to fairly subdued expectations, even as sales figures still did not compare as favorably. Data provider Bloomberg found that the number of companies in the S&P 500 that exceed-

Industry Group	Ticker	Company	09.16 Act EPS	09.15 Act EPS	09.16 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Autos & Components	GM	General Motors Co	1.72	1.50	1.47	6.23	5.77	6.0	162,083	158,221	-2.4%
	GT	Goodyear Tire & Rubber Co	1.17	0.99	1.16	3.98	4.16	7.4	15,480	15,555	0.5%
Banks	BAC	Bank of America	0.42	0.35	0.34	1.27	1.58	13.4	nmf	nmf	nmf
	BBT	BB&T	0.76	0.70	0.71	2.84	3.01	15.0	nmf	nmf	nmf
	CM	Canadian Imperial Bank	1.98	1.79	1.85	7.71	7.53	10.4	nmf	nmf	nmf
	FITB	Fifth Third Bancorp	0.43	0.39	0.41	1.62	1.68	15.5	nmf	nmf	nmf
	HSBC	HSBC Holdings PLC	1.01	1.14	0.88	3.41	3.33	11.9	nmf	nmf	nmf
	ING	ING Groep NV	0.39	0.31	0.33	1.27	1.19	11.4	nmf	nmf	nmf
	JPM	JPMorgan Chase & Co	1.59	1.29	1.39	5.83	6.20	12.9	nmf	nmf	nmf
	KEY	KeyCorp	0.30	0.27	0.26	1.09	1.23	14.1	nmf	nmf	nmf
	ONB	Old National Bancorp	0.28	0.26	0.22	1.00	1.04	16.5	nmf	nmf	nmf
	PNC	PNC Financial Services Group	1.84	1.72	1.78	7.11	7.41	14.9	nmf	nmf	nmf
Capital Goods	WFC	Wells Fargo & Co	1.03	1.05	1.01	4.06	4.03	13.1	nmf	nmf	nmf
	BA	Boeing Co	3.51	2.52	2.67	6.41	9.28	16.2	94,858	93,082	-1.9%
	CAT	Caterpillar	0.85	0.75	0.76	3.35	2.91	32.8	39,993	37,910	-5.2%
	CMI	Cummins	2.02	2.08	1.96	8.31	7.94	17.9	17,772	16,931	-4.7%
	DE	Deere & Co	0.98	1.08	0.39	4.89	4.39	22.8	26,644	23,466	-11.9%
	ETN	Eaton PLC	1.15	0.97	1.15	4.27	4.32	15.4	19,937	19,778	-0.8%
	FLR	Fluor	1.13	1.21	0.89	3.38	3.02	17.7	18,418	18,833	2.3%
	GE	General Electric Co	0.32	0.29	0.30	1.56	1.56	19.7	119,975	122,455	2.1%
	TPC	Tutor Perini	0.57	0.68	0.57	1.48	2.33	11.2	4,927	5,337	8.3%
	TRN	Trinity Industries	0.54	1.32	0.53	3.10	1.32	21.1	5,032	3,815	-24.2%
Commercial Services	MAN	ManpowerGroup	1.87	1.61	1.73	6.11	6.42	13.3	19,652	19,818	0.8%
Consumer Dur & App	COH	Coach	0.45	0.41	0.45	2.02	2.19	16.6	4,499	4,625	2.8%
	MDC	MDC Holdings	0.51	0.29	0.62	1.67	2.48	10.3	2,169	2,628	21.1%
	WHR	Whirlpool	3.66	3.45	3.86	13.89	15.28	10.6	20,622	21,282	3.2%
Consumer Services	RCL	Royal Caribbean Cruises Ltd	3.20	2.84	3.10	5.80	6.53	12.4	8,489	8,623	1.6%
Diversified Financials	BK	Bank of New York Mellon	0.90	0.74	0.81	3.08	3.37	14.1	nmf	nmf	nmf
	COF	Capital One Financial	2.03	2.10	1.95	7.31	7.91	10.6	nmf	nmf	nmf
	GS	Goldman Sachs Group	4.88	2.64	3.88	16.06	17.41	12.6	nmf	nmf	nmf
	SYF	Synchrony Financial	0.73	0.69	0.67	2.66	2.99	11.6	nmf	nmf	nmf
Energy	BHI	Baker Hughes	-0.15	-0.05	-0.44	-1.70	0.08	nmf	10,825	10,099	-6.7%
	BRS	Bristow Group	-0.35	0.04	-0.38	0.11	-1.41	nmf	1,528	1,431	-6.4%
	E	Eni SpA	-0.30	-0.16	-0.02	-0.64	1.60	17.5	46,492	71,752	54.3%
	ESV	Enesco PLC	0.21	0.90	0.14	2.38	0.23	42.2	3,100	1,959	-36.8%
	HAL	Halliburton Co	0.01	0.31	-0.06	0.25	0.60	88.6	16,948	17,731	4.6%
	HFC	HollyFrontier	0.38	1.82	0.36	0.36	1.94	14.8	10,524	12,101	15.0%
	NOV	National Oilwell Varco	-0.34	0.61	-0.28	-0.47	-0.79	nmf	8,281	6,871	-17.0%
	RDS/A	Royal Dutch Shell PLC	0.70	0.56	0.47	1.98	3.59	14.2	226,970	256,238	12.9%
	TNP	Tsakos Energy Navigation Ltd	-0.02	0.40	0.01	0.79	0.77	5.7	494	485	-1.9%
	TOT	Total SA	0.84	1.17	0.79	3.30	3.78	12.6	123,350	132,699	7.6%
Food & Staples Retailing	CVS	CVS Health	1.64	1.29	1.57	5.67	5.91	13.0	172,700	185,663	7.5%
Food Bev & Tobacco	ADM	Archer-Daniels-Midland Co	0.59	0.60	0.46	2.03	2.97	14.6	62,290	63,623	2.1%
	TSN	Tyson Foods	0.96	0.83	1.16	4.39	4.79	11.9	36,881	36,406	-1.3%
Health Care Equip/Srvcs	ABT	Abbott Laboratories	0.59	0.54	0.58	2.17	2.39	15.9	20,708	21,532	4.0%
	AET	Aetna	2.07	1.90	2.03	7.95	8.43	15.5	62,476	63,078	1.0%
	CAH	Cardinal Health	1.24	1.38	1.21	5.11	5.65	12.6	125,530	132,912	5.9%
	MCK	McKesson	2.94	3.31	3.05	12.81	12.17	11.8	194,267	199,330	2.6%
	MDT	Medtronic PLC	1.12	1.03	1.11	4.48	4.82	15.2	29,012	30,295	4.4%
Household Products	KMB	Kimberly-Clark	1.52	1.51	1.54	6.00	6.17	18.7	18,197	18,569	2.0%

As of 11.30.16. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

ed earnings expectations was 72.5%, compared to 20.2% that trailed forecasts and 7.3% that met projections. In Q3 2015, the Beat/Miss/Match figures were 69.5%/21.9%/8.6%. Of the 101 *Prudent Speculator* stocks below, 75% topped EPS estimates, while only 16% lagged and 9% equaled.

Of course, management teams remained cautious in their outlooks and guidance, but Standard & Poor's pres-

ently projects that after declining 11.1% in 2015 to \$100.45, compared to \$113.01 in 2014, bottom-up operating EPS for the S&P 500 will rebound nicely this year to \$109.13. The current arguably very aggressive S&P EPS estimate of \$130.99 for 2017 has been coming down all year, but profits should improve going forward and history shows that stock prices eventually follow earnings. ■

Industry Group	Ticker	Company	09.16 Act EPS	09.15 Act EPS	09.16 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Insurance	ALL	Allstate	1.26	1.52	1.26	4.32	5.84	12.0	nmf	nmf	nmf
	AXS	Axis Capital Holdings Ltd	1.78	0.51	1.05	4.59	4.08	14.9	nmf	nmf	nmf
	AZSEY	Allianz SE	0.47	0.34	0.39	1.70	1.74	9.1	nmf	nmf	nmf
	MET	MetLife	1.28	0.62	1.15	4.53	5.48	10.0	nmf	nmf	nmf
	PRU	Prudential Financial	2.66	2.40	2.49	8.62	10.24	9.8	nmf	nmf	nmf
	TRV	Travelers Cos	2.40	2.93	2.36	9.83	9.53	11.9	nmf	nmf	nmf
Materials	ABX	Barrick Gold	0.24	0.11	0.21	0.57	1.03	14.6	8,477	8,611	1.6%
	AGU	Agrium	-0.03	0.71	0.11	5.74	5.11	19.8	13,792	14,012	1.6%
	CE	Celanese	1.67	1.50	1.60	6.34	6.97	11.4	5,412	5,536	2.3%
	MOS	Mosaic Co	0.41	0.62	0.10	1.15	0.83	34.3	7,464	7,124	-4.6%
	NEM	Newmont Mining	0.51	0.24	0.49	1.33	1.79	18.1	7,677	7,423	-3.3%
Media	CMCSA	Comcast	0.92	0.80	0.91	3.40	3.66	19.0	78,623	82,115	4.4%
	DIS	Walt Disney Co	1.10	1.20	1.16	5.71	5.93	16.7	55,632	57,695	3.7%
Pharma/Biotech/Life Sci	AMGN	Amgen	3.02	2.72	2.80	11.37	11.88	12.1	22,562	23,244	3.0%
	BIIB	Biogen	5.19	4.48	4.97	19.69	20.36	14.4	11,416	11,853	3.8%
	GILD	Gilead Sciences	2.75	3.22	2.85	12.18	10.56	7.0	31,576	28,562	-9.5%
	JNJ	Johnson & Johnson	1.68	1.49	1.65	6.54	6.93	16.1	71,595	74,425	4.0%
	MRK	Merck & Co	1.07	0.96	0.99	3.82	3.75	16.3	39,907	39,584	-0.8%
	PFE	Pfizer	0.61	0.60	0.62	2.45	2.45	13.1	53,244	53,785	1.0%
	SHPG	Shire PLC	3.17	3.26	3.17	12.70	14.34	12.2	9,306	15,040	61.6%
Real Estate	SNY	Sanofi	1.00	0.90	0.84	3.20	2.96	13.6	36,348	39,472	8.6%
	RYN	Rayonier	0.33	0.17	0.13	0.60	0.43	61.2	nmf	nmf	nmf
Retailing	AEO	American Eagle Outfitters	0.41	0.35	0.41	1.28	1.29	12.8	3,618	3,687	1.9%
	DSW	DSW	0.51	0.44	0.49	1.40	1.54	15.5	2,709	2,810	3.7%
	FL	Foot Locker	1.13	1.00	1.11	4.62	5.11	14.0	7,660	8,014	4.6%
	KSS	Kohl's	0.80	0.75	0.70	3.91	4.03	13.4	18,868	18,926	0.3%
	SPLS	Staples	0.34	0.35	0.34	0.89	0.87	11.1	20,476	19,905	-2.8%
	SSI	Stage Stores	-0.57	-0.29	-0.36	-0.19	-0.29	nmf	1,491	1,409	-5.5%
	TGT	Target	1.04	0.86	0.83	5.08	5.40	14.3	70,432	70,424	0.0%
Semis & Cap Equipment	INTC	Intel	0.80	0.62	0.73	2.67	2.77	12.5	57,927	60,706	4.8%
	MRVL	Marvell Technology Group	0.20	0.05	0.12	0.50	0.85	17.0	2,438	2,291	-6.0%
	QCOM	Qualcomm	1.28	0.91	1.13	4.45	4.74	14.4	23,554	24,083	2.2%
Software & Services	CA	CA	0.67	0.56	0.62	2.54	2.51	12.7	4,060	4,055	-0.1%
	IBM	Int'l Business Machines	3.29	3.34	3.23	13.43	14.37	11.3	80,207	79,621	-0.7%
	MSFT	Microsoft	0.76	0.67	0.68	2.85	2.98	20.2	85,394	94,741	10.9%
	SYMC	Symantec	0.23	0.44	0.20	1.00	1.37	17.8	3,645	4,436	21.7%
Technology Hardware	AAPL	Apple	1.67	1.96	1.66	8.27	9.01	12.3	215,639	229,731	6.5%
	BHE	Benchmark Electronics	0.36	0.41	0.36	1.38	1.52	18.7	2,329	2,324	-0.2%
	BRCD	Brocade Comm Systems	0.33	0.26	0.22	1.05	1.01	12.2	2,346	2,591	10.4%
	CSCO	Cisco Systems	0.61	0.59	0.59	2.38	2.38	12.6	48,917	48,187	-1.5%
	ERIC	LM Ericsson	0.04	0.19	0.05	0.54	0.28	18.6	27,433	23,109	-15.8%
	GLW	Corning	0.42	0.34	0.39	1.41	1.65	14.6	9,145	9,891	8.2%
	IM	Ingram Micro	0.71	0.67	0.62	2.68	2.89	13.0	40,998	41,740	1.8%
	STX	Seagate Technology PLC	0.99	0.54	0.79	2.72	3.78	10.6	11,032	10,744	-2.6%
Telecom Services	T	AT&T	0.74	0.74	0.74	2.81	2.94	13.1	164,064	166,475	1.5%
Transportation	ALK	Alaska Air Group	2.20	2.16	2.07	7.23	6.73	12.2	5,784	6,494	12.3%
	CSX	CSX	0.48	0.52	0.45	1.80	1.92	18.6	10,813	11,083	2.5%
	DAL	Delta Air Lines	1.70	1.74	1.65	5.67	5.20	9.3	39,683	39,709	0.1%
	NSC	Norfolk Southern	1.55	1.57	1.45	5.50	5.81	18.3	9,916	10,129	2.2%
Utilities	ETR	Entergy	2.31	1.90	2.02	8.35	4.59	15.0	10,706	11,923	11.4%

As of 11.30.16. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) 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			EV/ EBITDA ³	FCF Yield ⁴	Debt/ TE ⁵	Div Yield	Mkt Cap
					EPS	Sales	TBV ²					
Autos & Components	GM	General Motors	34.53	41.92	5.5	0.3	1.4	2.3	10.1	140%	4.4%	52,636
	GT	Goodyear Tire & Rubber	30.69	49.07	7.7	0.5	2.1	6.3	3.0	144%	1.3%	8,012
Banks	BBT	BB&T Corp	45.25	51.08	15.9	nmf	2.2	nmf	nmf	nmf	2.7%	36,717
	CM	Canadian Imperial Bank	78.67	88.61	7.7	nmf	1.7	nmf	nmf	nmf	6.3%	31,236
Capital Goods	GE	General Electric	30.76	37.05	19.7	2.3	nmf	36.6	-1.0	nmf	3.0%	272,115
Consumer Dur & App	MDC	MDC Holdings	26.88	42.09	15.3	0.6	1.0	14.3	1.0	67%	3.7%	1,318
	NKE	Nike	50.07	71.77	23.9	2.5	7.1	16.4	2.6	17%	1.4%	83,388
	WHR	Whirlpool	162.44	214.18	11.7	0.6	nmf	8.5	4.3	nmf	2.5%	12,201
Consumer Services	CCL	Carnival Corp	51.41	68.14	15.6	2.3	2.0	9.6	5.5	45%	2.7%	37,252
Diversified Financials	ANH	Anworth Mortgage Asset	5.20	6.73	9.2	nmf	0.8	nmf	nmf	nmf	11.5%	498
Energy	HFC	HollyFrontier	28.77	41.20	80.3	0.5	2.2	75.8	-1.3	72%	4.6%	5,078
	RDS/A	Royal Dutch	51.10	74.27	24.2	0.4	1.2	13.4	-4.8	53%	6.3%	212,098
	SFL	Ship Finance Int'l	14.40	18.07	7.3	3.1	1.2	9.3	-19.3	134%	12.5%	1,346
	TNP	Tsakos Energy	4.39	11.12	5.6	0.8	0.3	7.7	-9.6	112%	4.6%	383
	TOT	Total SA	47.66	73.39	15.1	1.0	1.4	11.5	-3.5	48%	4.7%	120,560
Food & Staples Retailing	CVS	CVS Health Corp	76.89	132.78	13.6	0.5	nmf	8.5	10.9	nmf	2.2%	81,999
Health Care Equip/Srvcs	ABT	Abbott Laboratories	38.07	50.96	17.5	2.7	6.8	13.3	3.3	72%	2.7%	56,051
	CAH	Cardinal Health	71.01	105.21	13.9	0.2	nmf	8.7	11.3	nmf	2.5%	22,728
	MDT	Medtronic PLC	73.01	94.67	16.3	3.5	nmf	14.4	5.0	nmf	2.4%	100,895
Household Products	KMB	Kimberly-Clark	115.61	138.99	19.3	2.3	nmf	12.5	5.3	nmf	3.2%	41,406
Insurance	AZSEY	Allianz SE	15.87	22.13	9.8	nmf	1.2	nmf	nmf	nmf	3.9%	72,503
	PRU	Prudential Financial	100.60	114.41	11.7	nmf	0.8	nmf	nmf	nmf	2.8%	43,258
Materials	AUY	Yamana Gold	2.99	6.39	81.2	2.1	0.9	nmf	13.4	37%	0.7%	2,848
	MOS	Mosaic Co	28.40	44.25	24.8	1.3	1.2	11.4	2.9	42%	3.9%	9,947
Media	DIS	Walt Disney	99.12	135.16	17.4	2.8	18.5	10.6	5.3	194%	1.4%	157,746
Pharma/Biotech/Life Sci	AMGN	Amgen	144.07	213.67	12.7	4.8	20.3	9.1	8.0	578%	2.8%	107,177
	GILD	Gilead Sciences	73.70	124.59	6.1	3.1	15.4	4.5	17.3	418%	2.6%	97,097
	JNJ	Johnson & Johnson	111.30	132.20	17.0	4.2	13.8	12.6	4.5	107%	2.9%	302,795
	PFE	Pfizer	32.14	42.91	13.1	3.7	nmf	12.4	6.7	nmf	3.7%	195,037
Real Estate	DLR	Digital Realty Trust	92.33	115.39	16.3	7.2	4.9	24.3	-6.1	4%	3.8%	14,907
Retailing	AEO	American Eagle Outfitters	16.56	23.22	12.9	0.8	2.7	5.3	8.0	0%	3.0%	3,010
	TGT	Target	77.24	87.61	15.2	0.6	4.0	6.9	7.5	112%	3.1%	43,385
Software & Services	IBM	Int'l Business Machines	162.22	191.42	12.1	1.9	nmf	11.4	9.8	nmf	3.5%	154,248
	ORCL	Oracle	40.19	51.04	15.3	4.4	23.6	9.7	7.8	759%	1.5%	165,006
Technology Hardware	AAPL	Apple	110.52	138.30	13.4	2.7	4.9	6.2	8.8	63%	2.1%	589,327
	CSCO	Cisco Systems	29.82	35.99	12.5	3.1	4.4	7.6	8.3	89%	3.5%	149,689
	GLW	Corning	24.03	32.13	17.0	2.5	1.8	10.7	3.7	30%	2.2%	22,858
	JBL	Jabil Circuit	21.15	34.19	11.3	0.2	2.5	4.1	-0.2	134%	1.5%	3,925
Telecom Services	NTT	Nippon Telegraph	40.21	57.21	11.5	0.8	1.6	4.8	16.3	56%	2.6%	84,296
Utilities	ETR	Entergy Corp	68.73	85.24	8.2	1.1	1.3	7.5	-7.7	143%	5.1%	12,311

As of 11.30.16. N/A=Not applicable. nmf=Not meaningful. ¹●=First-time recommendation. ²Tangible book value. ³Enterprise value-to-earnings before interest taxes depreciation and amortization. ⁴Free cash flow yield. ⁵Tangible 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 we still have minimal cash, we will add \$10,000 of first-time recommendation **Digital Realty Trust** to Millennium Portfolio and \$29,000 of **Cardinal Health** to TPS Portfolio on Dec. 8. Our Portfolio Builder selection also features eight other favorites that have not been discussed in this space in a while. 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 the four newsletter portfolios, so any of our 100+ holdings should be viewed as a buy.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ABT	Abbott Laboratories	Health Care	38.07	50.96
BBT	BB&T	Financials	45.25	51.08
CAH	Cardinal Health	Health Care	71.01	105.21
DLR	Digital Realty Trust	Real Estate	92.33	124.38
GILD	Gilead Sciences	Health Care	73.70	124.59
GT	Goodyear Tire & Rubber	Consumer Discretionary	30.69	49.07
JBL	Jabil Circuit	Information Technology	21.15	34.19
NTT	Nippon Telegraph	Telecom Services	40.21	57.21
RDSA	Royal Dutch Shell PLC	Energy	51.10	74.27
WHR	Whirlpool	Consumer Discretionary	162.44	214.18

As of 11.30.16. SOURCE: AI Frank using data from Bloomberg

Abbott Laboratories (ABT)

Abbott Labs develops, manufactures and sells health care products and services. Despite slightly beating analyst expectations on both the top and bottom lines for Q3, shares sold off, with the loss on the year now sitting at more than 16%. The quarter saw strength in its domestic businesses which offset some weakness in the firm's nutrition division (materially impacted by sales in China). While there also has been regulatory noise surrounding the company's big acquisition of medical device maker St. Jude Medical, it seems like the transaction will ultimately be approved. The \$25 billion deal is expected to be accretive in the first full year following closing and the expanded Abbott 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, the union will be able to better compete in an increasingly consolidated market. Although management will have to deal with decreased financial flexibility over the next few years, the combined firm should generate solid free cash flow which can be used to reduce debt and support the dividend. The yield is presently 2.7%.

BB&T (BBT)

BB&T is one of the larger financial services holding companies in the U.S. with almost \$223 billion in assets. The company operates 2,220 financial centers in 15 states and Washington, D.C., and offers a full range of consum-

er and commercial banking, securities brokerage, asset management, mortgage and insurance product services. BBT posted better-than-expected Q3 adjusted EPS of \$0.76 (versus consensus expectations of \$0.71). The bank continued to enjoy solid net interest income and saw its strategic acquisitions and organic growth improve market share while the company maintained low funding costs and achieved positive operating leverage. BBT also continues to experience a strong 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. While shares have recently been boosted by rising interest rates and the belief that the incoming administration in D.C. will lighten burdensome regulations, we believe the shares have additional room to run. BBT yields 2.7%.

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 reported earnings per share of \$1.24 (vs. \$1.21 est.) in fiscal Q1 2017, but tightened its full-year EPS guidance from a range of \$5.48 to \$5.73 to a range of \$5.40 to \$5.60. Cardinal said there are pressures coming primarily from generic pharmaceutical pricing and, to a lesser extent, reduced levels of branded drug price inflation. Although shares fell hard after the earnings report, CAH reacted positively to the results of the U.S. Election as investors are now expecting that the regulatory environment will be a bit less hostile. We believe the selloff was very much overdone and we see plenty of upside in the name. CAH continues to generate strong free cash flow, which can be used to increase the dividend (the yield is currently 2.5%), buy back stock and invest in the business via research, development, mergers and acquisitions.

Digital Realty Trust (DLR)

Digital Realty is an owner and manager of technology-related real estate. The firm's data centers are located throughout the U.S. and England, and host critical infrastructure for clients of all sizes. The buildout of cloud infrastructure around the world creates growing demand for DLR's offerings, as major technology companies like Microsoft work to deploy their cloud-based applications and services. We believe that DLR is uniquely positioned to benefit from this growth. The company's 119 data cen-

ters in North America, 30 in Europe and 7 in Asia-Pacific are situated to provide move-in ready or custom-built solutions to Cloud, Managed Service, Network and Implementation Providers. We like that the company has a broad client base (more than 1,750 clients; IBM is the largest at 7.5% of aggregate annualized rent), an expected FFO (a measure of real estate investment cash flow) of \$6.02 per share in 2017 and a solid 3.8% dividend yield.

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 are down some 28% this year as the firm's blockbuster Hepatitis C franchise has been under pricing and competitive pressures. Despite a slightly better-than-forecasted top-line number for Q3 (\$7.50 billion vs. \$7.47 billion), Gilead reported adjusted EPS of \$2.75, which fell \$0.10 short of expectations. Happily, GILD saw encouraging continued 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 (\$12.3 billion in Q3) and increase the dividend (currently yielding 2.6%). Additionally, we continue to believe that for the right opportunity and right price, Gilead would not hesitate to get 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 \$10.50.

Goodyear Tire & Rubber (GT)

Goodyear is a leading supplier of light vehicle tires, selling in two distinct markets: replacement and vehicle manufacturers. Shares were hit following its Q3 earnings release as revenue came in shy of analyst expectations due to volatility in North American light truck volumes and weakness in its European business. We continue to like the iconic brand and are attracted to its global revenue diversification. Further, we 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, 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 estimated earnings, while the company has had a respectable free cash flow yield for the last 7 quarters.

Jabil Circuit (JBL)

Jabil Circuit is an electronic manufacturing services (EMS) provider that specializes in circuit boards for a variety of uses around the world. In fiscal Q4, JBL earned an adjusted \$0.28 per share on revenue of \$4.4 billion, both ahead of estimates. Shares plunged, however, on concerns that a slowdown in the company's business with Apple could hit fiscal 2017 results if the iPhone's market share drops. Apple-related manufacturing in the Diversified Manufacturing Services (DMS) segment made up 24% of revenue in 2015 and 2016, while the DMS segment as a whole accounted for 40% of Jabil's revenue in those years. No doubt, Apple is a big customer of the company, but it's not the only one. Even if the business declines somewhat, we continue to like JBL's product mix and believe that the diversification that comes with the growth in the core EMS segment will prove beneficial. We are also pleased that the strength of the U.S. dollar continues to have little effect on the company's operations. We find JBL's valuation to be very attractive, including a forward P/E ratio of 10, price to sales ratio of 0.2 and dividend yield of 1.5%.

Nippon Telegraph (NTT)

NTT is Japan's largest comprehensive telecom company with top market share in both fixed-line and mobile telecom businesses. NTT dominates the Japanese fiber-optic market and also owns more than 60% of DoCoMo, the largest Japanese wireless provider with more than a 40% subscription market share. NTT saw strong cross-selling order volume last quarter and net subscriber adds for mobile communication services in Japan, while appreciation of the yen proved to be a headwind. We like the firm's overall large customer reach, opportunity for cross-selling of its wide array of services and solid cash flow generation. We also believe that the Japanese telecom market has been more robust than many give it credit for and the fundamental valuation metrics are much more favorable now than they were earlier this year. NTT's financial condition affords management the ability to invest in its business and buy back stock. NTT offers a 2.6% net dividend yield and trades for less than 12 times estimated

forward 12-month earnings, while the stock is off more than 15% since late summer.

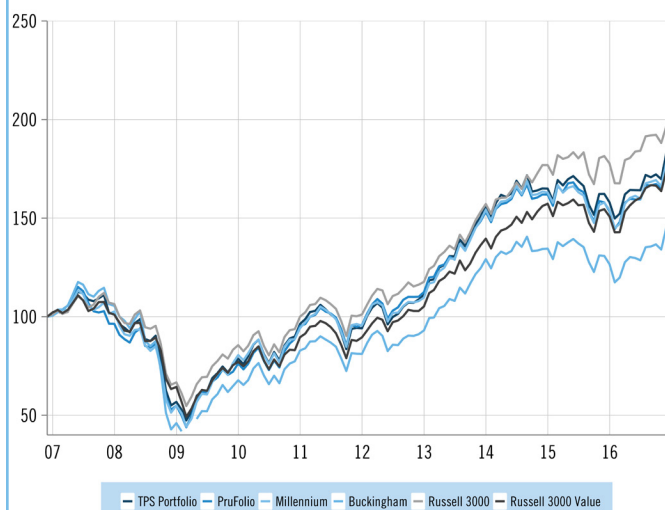
Royal Dutch Shell PLC (RDS/A)

Royal Dutch is engaged in the exploration, production, refining and sale of petroleum products worldwide. While shares have rebounded sharply from January's multi-year low, and also got a recent boost from the announcement of an OPEC supply cut, they remain more than 35% off the high set more than two years ago. Some investors continue to be concerned that the firm paid too much for its purchase of BG Group. However, we like the acquisition and recent results have shown the new assets are already transforming RDS's business and cash flow profile. Additionally, BG accelerates Shell's position in liquefied natural gas and other projects, materially boosting reserves and production, and potentially generating annual cost savings of more than \$2 billion. While we don't expect near-term operational challenges to fully dissipate, we still subscribe to the long-term global energy increasing demand thesis, given that usage in emerging economies continues to rise and should materially add to demand dynamics in the coming years. In the meantime, we think the company can generate meaningful cash through divestitures, supporting the attractive dividend (the net yield is 6.3%).

Whirlpool (WHR)

Whirlpool is the top major appliance manufacturer in the world with an expected \$21 billion in 2016 sales, marketing its numerous brands in approximately 170 countries. Shares tumbled more than 10% after the company reduced its full-year outlook on the basis that U.S. demand would be soft and Brexit-related currency weakness would also bring weakness to the general United Kingdom market. WHR now sees EPS in the \$14.00 to \$14.25 range for 2016 (vs. a prior range of \$14.25 to \$14.75). Although shares have recovered somewhat following the result of the U.S. Presidential Election, we believe that WHR shares continue to offer good upside for long-term investors. We see WHR as well positioned in the U.S. to capitalize on the appliance replacement cycle and continued housing recovery. Near-term struggles in a number of emerging economies are a headwind, as are geopolitics, but we believe that the long-term growth potential is still significant. We appreciate the likelihood of strong free cash flow growth, as well as the forward P/E ratio of 11 and the dividend yield of 2.5%. ■

NEWSLETTER PORTFOLIO PERFORMANCE



	Nov	YTD	1-Year	3-Year	5-Year	10-Year
Newsletter Portfolios						
Buckingham	8.21	14.61	10.90	5.22	12.31	3.79
Millennium	7.25	15.66	12.85	6.16	13.11	5.95
PruFolio	6.97	15.10	11.74	5.96	13.21	5.85
TPS	7.73	15.74	12.70	6.67	14.15	6.22
Major Indexes						
Russell 3000	4.47	10.57	8.30	8.67	14.41	6.99
Russell 3000 Value	6.28	15.36	12.58	8.49	14.67	5.69
S&P 500	3.70	9.79	8.05	9.06	14.44	6.89
Dow Jones Industrial Avg	5.88	12.62	10.91	8.62	12.51	7.38

	Inception Date	Since Inception	Index Return	Index
Buckingham	01.21.03	11.53	9.38	Russell 3000
Millennium	12.31.99	9.25	4.91	Russell 3000
PruFolio	12.29.00	12.96	5.73	Russell 3000
TPS	03.10.77	17.82	10.81	S&P 500 ¹

Since *The Prudent Speculator's* launch in March 1977, its 1,861 stock recommendations have returned, on average, an annualized 17.12%, not including dividends.

As of 11.30.16. 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. ¹The 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 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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