February 2, 2017

the Prudent Speculator

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It is said that the market doesn't like uncertainty, yet the Dow Jones Industrial Average eclipsed the psychologically important 20000 mark for the first time in history on Jan. 25. Yes, despite a lack of clarity on a whole host of issues, such as the timing and number of Federal Reserve interest rate hikes (it was amazing that the Feb. 1 decision to leave the Fed Funds rate unchanged at 0.50% to 0.75% was greeted with a collective yawn), the health of the U.S. economy (Q4 GDP growth was a dismal 1.9%, yet consumer confidence just hit levels not seen since before the Financial Crisis) and the various policy moves and associated drama coming out of the new Trump Administration, the major market averages are trading near historic highs after turning in a nice January.

> "What we learn from history is that people don't learn from history."
> — Warren Buffett

To be honest, we were of the mind that we might have had a bit of a pullback last month, given the strong and supposedly unexpected gains that had been seen since the Election, the potential for pent-up profit-taking as investors deferred selling winners in December in the hope of potential Schedule D IRS relief this year, and the ugliness endured the prior three Januarys, including the worst ever first week in 2016. Happily, though we have a little extra cash, we remembered that the only problem with market timing is getting the timing right, so we simply stayed the course with our holdings and managed gains of more than 2% in our newsletter portfolios, even as Value stocks were not grand performers.

As we look ahead, no doubt the question on a lot of minds is how changes in Washington will impact the markets and our portfolios. Of course, there is no easy answer, as even though President Trump has been quite busy in his first two weeks on the job, we do not know exactly what policies ultimately will be proposed and which eventually may be implemented. And even those that have been bandied about, like the Border Tax, have run hot and cold in terms of possible approval, both from the White House and on Capitol Hill. We also are not certain how much of the rhetoric and tweets coming from @realDonaldTrump are non-negotiable or simply part of the *Art of the Deal*.

In fact, when it comes to business, the Oval Office has appeared at times to be occupied by Protectionist Trump and then a few moments later by Pro-Growth Trump. For example, just this week, the President met with pharmceutical company CEOs, saying, "We have to get lower prices, we have to get even better innovation, and I want you to move your companies back to the United States. I want you to manufacture in the United States." Sounds like some very tough talk, yet shares of the drug makers actually rallied as Mr. Trump also pledged to speed up and reduce the cost of the regulatory approval process, while investors evidently had already priced in a worse outcome from the White House visit.

And therein lies the rub, as the stock market is an anticipatory mechanism that constantly suffers bouts of anxiety and euphoria, with share prices seldom reflecting true long-term value. As such, and while we are constantly tweaking our Target Prices, we prefer to make only gradual and modest adjustments to our portfolios, with the recent Trump-inspired (and last year's Clinton scare) weakness in the Health Care sector leading us to recommend a new medical device stock this month and to feature names in the Biotech, Big Pharma and Drugstore industries in our Portfolio Builder selection.

We reserve the right to move more quickly if events in Washington dictate, but we remain optimistic about the near- and long-term prospects of our broadly diversified portfolios. After all, as **JPMorgan Chase** (JPM - $84.59) CEO Jamie Dimon said last month, "The U.S. is well positioned to build on the momentum the U.S. economy is already showing. President Trump and the new Congress have both identified economic growth and job creation as top priorities, and America's business leaders fully agree."

Chief Investment Officer
Al Frank Asset Management (AFAM)

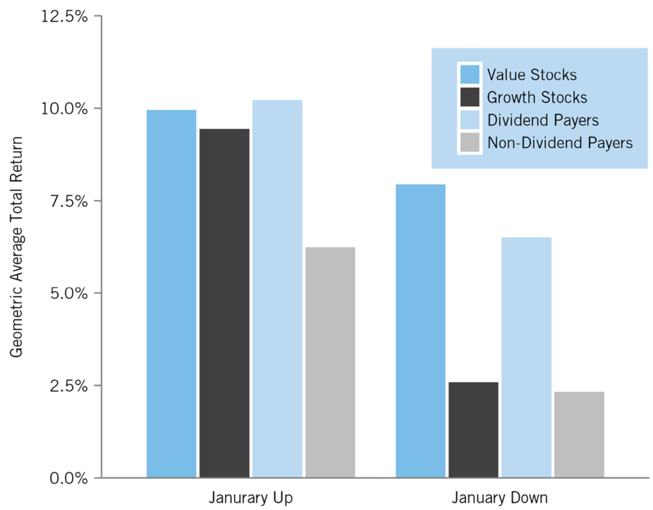
Graphic Detail

As Goes January...

Though volatility picked up over the last few trading sessions, the markets and our portfolios generally enjoyed a fine January, defying skeptics who thought that the New Year might bring about a correction. After all, the first month was rocky in 2016 and in 2015 and in 2014, though 2013 saw handsome gains. Of course, while we like that a positive January arguably bodes well for the balance of 2017, we welcome market analyses that focus on the calendar, given that most every review of the historical evidence favors Value-oriented strategies.

JANUARY BAROMETER

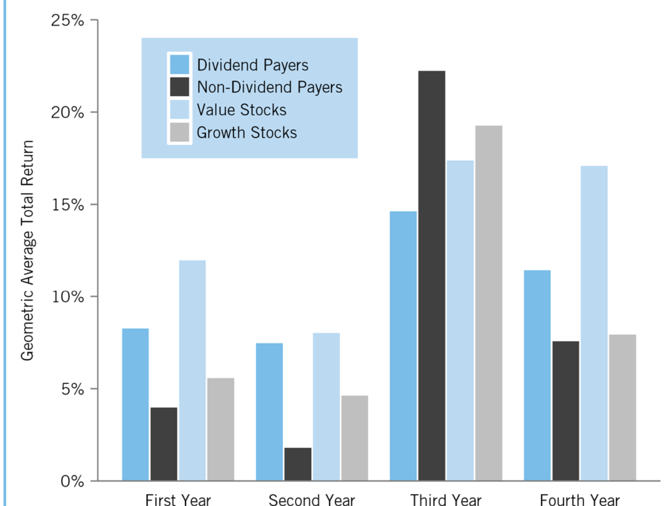
An up-January is preferable for the balance of the year, but Value Stocks and Dividend Payers win the performance race either way.



From 12.31.27 through 12.31.16. Geometric average of 11-month (February through December) total returns. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

PRESIDENTIAL PERFORMANCE

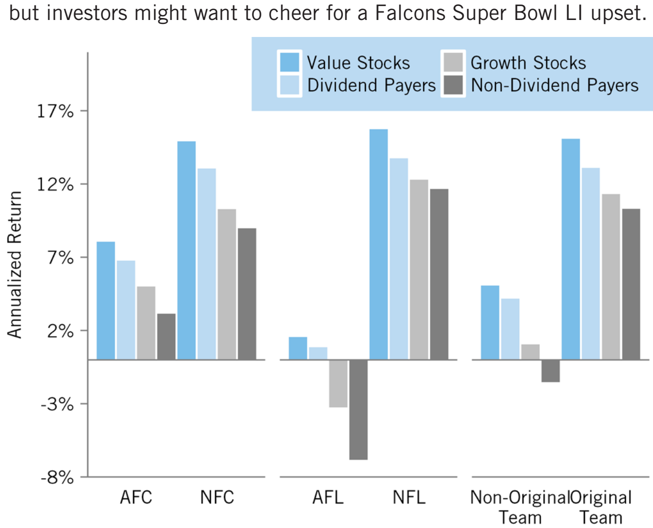
Though not as positive as years three and four, Value and Dividend Payers have earned high relative marks in Presidential first years.



From 12.31.27 through 12.31.16. Geometric average. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

THE SUPER BOWL INDICATOR

Stocks defied the Indicator last year, following the Broncos victory, but investors might want to cheer for a Falcons Super Bowl LI upset.



From 01.31.67 through 12.31.16. Geometric mean of 11-month returns each year following the Superbowl from Jan. 31 through Dec. 31. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

CHINESE NEW YEAR

The Year of the Monkey turned out quite well this time around, and history suggests the Year of the Rooster generally has been terrific.

	Value Stocks	Growth Stocks	Dividend Stocks	Non-Dividend Stocks
Horse	3.4%	3.2%	5.1%	5.2%
Sheep	13.0%	13.7%	6.7%	20.6%
Monkey	19.3%	11.8%	11.9%	14.3%
Rooster	**26.9%**	**17.2%**	**14.6%**	**18.3%**
Dog	9.2%	8.5%	11.2%	-1.7%
Pig	21.8%	14.5%	16.2%	15.9%
Rat	4.8%	2.8%	6.5%	-1.9%
Ox	8.0%	1.3%	8.0%	-1.8%
Tiger	16.4%	12.4%	16.0%	14.6%
Rabbit	8.2%	13.1%	10.4%	8.3%
Dragon	22.3%	11.2%	16.1%	11.4%
Snake	7.9%	-0.4%	2.2%	-0.3%

From 01.31.28 through 01.31.16. Geometric average of monthly returns from February through January (Chinese New Year generally begins within a few weeks after or prior to January 31). Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. SOURCE: Al Frank using data from Professors Fama and French.

Graphic Detail

Valuation Factors Over Time

As Chinese philosopher Lao Tzu said, "If you do not change direction, you may end up where you are heading." Indeed, as students of market history, we have never wavered in our view that strategies focused on undervalued and out-of-favor stocks will have more days in the sun, with our faith supported by data compiled by Professors Eugene F. Fama and Kenneth R. French that show that stocks trading for Low Price-to-Book-Value and Low Price-to-Earnings ratios, in addition to those that pay dividends, have outperformed their more expensive counterparts by a wide margin since 1927. That said, it was nice to see the clouds part and our patience in sticking with many of our heretofore lagging stocks rewarded last year, as Value strategies enjoyed excellent performance on both an absolute and relative basis in 2016.

And though Growth has been faster out of the gate in 2017, we continue to think that Value is the place to be going forward, especially given the likelihood that the Federal Reserve will continue to raise interest rates (historically a positive for less expensive stocks) in conjunction with a more favorable economic and corporate profit outlook. Also, we know from the long-term evidence and our own experience that periods of Value underperformance, as we've arguably endured since the Financial Crisis, have often been followed by several years of superior relative returns. No guarantees, to be sure, but with the major market averages trading near all-time highs, we like that multiples on our newsletter portfolios are well below those of the benchmarks with our dividend yields also nicely higher.

LONG-TERM RETURNS

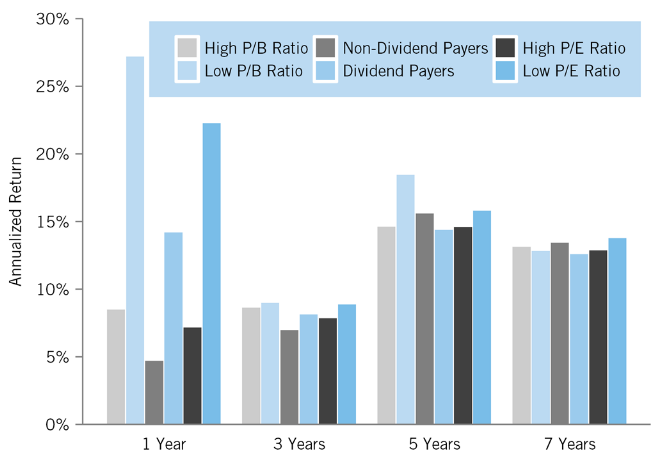
Though equities require tolerance of greater volatility, their returns over the decades generally have been handsome.

Category	Ann Ret	Std Dev
High P/B Ratio	9.4%	18.6%
Low P/B Ratio	12.9%	25.1%
Non-Dividend Paying Stocks	9.4%	15.9%
Dividend Paying Stocks	10.3%	18.2%
High P/E Ratio	9.4%	15.9%
Low P/E Ratio	15.5%	15.6%
Long Term Corporate Bonds	6.0%	7.5%
Long Term Gov't Bonds	5.5%	8.4%
Intermediate Gov't Bonds	5.1%	1.8%
Treasury Bills	3.4%	0.9%
Inflation	2.9%	1.8%

From 12.31.27 through 12.31.16. High P/E Ratio and Low P/E series begin on 06.30.51. The portfolios are formed on Earnings to Price at the end of each June using NYSE breakpoints. High P/B Ratio and Low P/B portfolios are formed on Book Equity to Market Equity at the end of each June using NYSE breakpoints. Dividend payers are a weighted average of the top 30%, middle 40% and lowest 30% of dividend payers, rebalanced monthly. Non-dividend payers are stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

SHORT-TERM RETURNS

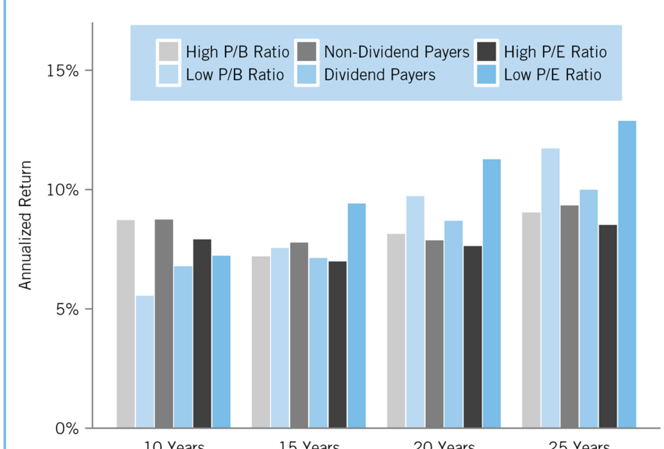
The one-year numbers showing a striking reversal to recent trends, Value-oriented factors still have a little catching up to do.



As of 12.31.16. High P/B Ratio and Low P/B portfolios are formed on Book Equity to Market Equity at the end of each June using NYSE breakpoints. Dividend payers are a weighted average of the top 30%, middle 40% and lowest 30% of dividend payers, rebalanced monthly. Non-dividend payers are stocks that do not pay a dividend. High P/E Ratio and Low P/E portfolios are formed on Earnings to Price at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

INTERMEDIATE-TERM RETURNS

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



As of 12.31.16. High P/B Ratio and Low P/B portfolios are formed on Book Equity to Market Equity at the end of each June using NYSE breakpoints. Dividend payers are a weighted average of the top 30%, middle 40% and lowest 30% of dividend payers, rebalanced monthly. Non-dividend payers are stocks that do not pay a dividend. High P/E Ratio and Low P/E portfolios are formed on Earnings to Price at the end of each June using NYSE breakpoints. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

Recommended Stocks

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

				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	36.61	46.73	5.9	0.3	1.5	2.4	10.1	140%	4.2%	55,806
	GT	Goodyear Tire & Rubber	32.39	49.07	8.1	0.5	2.2	6.5	2.9	144%	1.2%	8,455
Banks	BBT	BB&T Corp	46.19	54.02	16.0	nmf	2.3	nmf	nmf	nmf	2.6%	37,480
	CM	Canadian Imperial Bank	85.20	94.92	10.8	nmf	2.3	nmf	nmf	nmf	4.4%	33,896
Capital Goods	BA	Boeing	163.42	183.83	22.4	1.1	nmf	13.0	7.7	nmf	3.5%	100,857
	GE	General Electric	29.70	36.92	19.8	2.2	nmf	34.3	-1.1	nmf	3.2%	262,738
Consumer Dur & App	COH	Coach	37.35	48.35	17.9	2.3	5.3	10.4	3.1	30%	3.6%	10,472
	MDC	MDC Holdings	27.04	41.05	16.2	0.6	1.1	14.9	1.0	67%	3.7%	1,392
	NKE	Nike	52.90	73.10	24.7	2.6	7.4	16.5	3.0	29%	1.4%	87,522
Diversified Financials	ANH	Anworth Mortgage Asset	5.13	6.38	9.1	nmf	0.8	nmf	nmf	nmf	11.7%	491
	COF	Capital One Financial	87.39	106.05	12.3	nmf	1.5	nmf	nmf	nmf	1.8%	42,148
Energy	HFC	HollyFrontier	28.97	41.20	80.9	0.5	2.2	75.3	-1.3	72%	4.6%	5,114
	OII	Oceaneering Int'l	27.85	47.07	21.2	1.1	2.4	8.3	11.2	71%	2.2%	2,731
	SFL	Ship Finance Int'l	15.00	18.07	7.7	3.3	1.2	10.1	-0.4	131%	12.0%	1,403
	SLB	Schlumberger Ltd	83.71	112.33	72.8	4.2	18.7	49.7	3.7	264%	2.4%	116,480
	XOM	Exxon Mobil	83.89	98.31	35.6	1.7	2.0	17.7	0.2	17%	3.6%	347,866
Food & Staples Retailing	CVS	CVS Health	78.81	128.16	13.9	0.5	nmf	8.7	10.6	nmf	2.5%	84,046
	WMT	Wal-Mart Stores	66.74	81.15	14.8	0.4	3.4	7.5	10.2	65%	3.0%	205,105
Health Care Equip/Srvcs	MCK	McKesson	139.15	213.49	11.0	0.2	nmf	9.4	18.5	nmf	0.8%	29,507
	MDT	Medtronic PLC	76.02	94.67	17.0	3.6	nmf	15.1	4.7	nmf	2.3%	104,379
	• ZBH	Zimmer Biomet	118.33	170.72	14.9	3.1	nmf	18.4	4.7	nmf	0.8%	23,701
Household Products	KMB	Kimberly-Clark	121.13	141.37	20.1	2.4	nmf	12.5	5.7	nmf	3.2%	43,383
Insurance	AZSEY	Allianz SE	16.97	23.23	10.3	nmf	1.3	nmf	nmf	nmf	3.6%	77,530
Materials	AUY	Yamana Gold	3.31	6.39	87.1	2.2	0.9	nmf	12.0	37%	0.6%	3,137
Media	DIS	Walt Disney	110.65	140.70	19.4	3.2	20.6	11.6	4.7	194%	1.4%	175,251
Pharma/Biotech/Life Sci	AMGN	Amgen	156.68	216.53	13.8	5.2	22.1	10.0	7.3	578%	2.9%	116,558
	BIIB	Biogen	277.24	439.23	13.7	5.3	13.0	9.7	5.5	140%	0.0%	60,320
	GILD	Gilead Sciences	72.45	121.51	5.9	3.0	15.1	4.5	17.5	418%	2.6%	95,450
	MRK	Merck & Co	61.99	72.02	16.2	4.3	34.3	13.4	5.5	475%	3.0%	170,915
	PFE	Pfizer	31.73	42.08	13.3	3.6	nmf	12.5	6.7	nmf	4.0%	192,549
Retailing	AEO	American Eagle	15.11	23.22	11.8	0.8	2.5	4.7	8.1	0%	3.3%	2,748
	FL	Foot Locker	68.54	92.09	14.8	1.2	3.7	7.4	5.7	5%	1.6%	9,072
	KSS	Kohl's	39.83	62.65	10.2	0.4	1.4	5.1	22.1	88%	5.0%	7,029
Semis & Cap Equipment	INTC	Intel	36.82	45.13	13.5	2.9	4.0	8.5	5.6	47%	2.8%	174,490
	QCOM	Qualcomm	53.43	77.23	11.4	3.3	3.6	8.7	7.0	45%	4.0%	78,918
Software & Services	ORCL	Oracle	40.11	49.82	15.4	4.4	nmf	10.8	7.6	nmf	1.5%	164,545
Technology Hardware	AVX	AVX Corp	16.20	20.01	21.9	2.1	1.4	11.1	6.0	0%	2.7%	2,709
	CSCO	Cisco Systems	30.72	35.99	12.9	3.2	4.5	8.0	8.0	89%	3.4%	154,207
Telecom Services	T	AT&T	42.16	46.13	14.8	1.6	nmf	7.5	6.5	nmf	4.6%	258,905
Utilities	ETR	Entergy	71.64	85.24	8.6	1.2	1.3	7.6	-7.4	143%	4.9%	12,833

As of 01.31.17. 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

Still having cash to redeploy from recent sales and buyouts in our four newsletter portfolios, we will bring up the ownership in **Kohl's** to $29,000 and buy that amount of first-time recommendation **Zimmer Biomet** in TPS Portfolio. We will add $20,000 of **AT&T**, **CVS Health** and **General Motors** to PruFolio and we will pick up $10,000 of **Biogen**, **Boeing** and **ExxonMobil** in Millennium Portfolio. Finally, we will purchase $6,000 of **Foot Locker** and **Merck** in Buckingham Portfolio. As is our custom, we will wait four business days until February 8 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
BA	Boeing	Industrials	163.42	183.83
BIIB	Biogen	Health Care	277.24	439.23
CVS	CVS Health	Consumer Staples	78.81	128.16
FL	Foot Locker	Consumer Discretionary	68.54	92.09
GM	General Motors	Consumer Discretionary	36.61	46.73
KSS	Kohl's	Consumer Discretionary	39.83	62.65
MRK	Merck & Co	Health Care	61.99	72.02
T	AT&T	Telecom Services	42.16	46.13
XOM	Exxon Mobil	Energy	83.89	98.31
ZBH	Zimmer Biomet Hldgs	Health Care	118.33	170.72

As of 01.31.17. SOURCE: Al Frank using data from Bloomberg

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 (seven years at current production rates), including the ever-popular 737, 787 Dreamliner and 777 families. The combined backlog for the Commercial and Defense segments totals $473 billion. In Q4, Boeing earned an adjusted $2.47 (vs. $2.32 est.) on revenue of $23.3 billion (vs. $23.1 billion est.). CEO Dennis Muilenburg said, "We are giving clear and consistent attention to the profitable ramp up in commercial airplane production, continuing to strengthen our defense and space business, growing services, delivering on our development programs, driving world class levels of productivity and performance throughout the enterprise to fund our investments in innovation and growth and to develop and maintain the best team and talent in the industry." BA is a reasonably priced (17.4 times NTM earnings) stock with solid growth potential and a generous dividend yield of 3.5%.

Biogen (BIIB)

Biogen discovers, develops and delivers innovative therapies for the treatment of neurodegenerative diseases and autoimmune disorders. While Biogen leads the $20+

billion global Multiple Sclerosis market with Avonex, Tysabri, and Tecfidera (which should secure the firm's leadership for the next several years), shares are down since the Election. True, BIIB recently had disappointing results from what was thought to be a promising compound, but we are optimistic about its spinal muscular atrophy treatment, Spinraza, and its recent labeling by United Healthcare as proven and medically necessary. We continue to like the prospects of Biogen's pipeline, its strong free cash flow generation and its willingness to aggressively buy back shares while investing in the future. With cash and marketable securities of more than $7.5 billion, BIIB also has the ability to grow via acquisition, though the company just spun off its hemophilia business into **Bioverativ** (BIVV - $44.98), while the shares trade for just above 13 times next-12-month (NTM) estimated earnings.

CVS Health (CVS)

CVS is the largest retail pharmacy chain in the U.S. with a network of more than 9,600 locations and is also a leading provider of pharmacy benefits management (PBM) services. We like the company's 1,100 walk-in medical clinics, believing this is the way that more Americans will seek to receive convenient basic medical treatment. CVS's PBM business continues to face stiff headwinds following some key contract losses, as well as negative press about overall domestic drug pricing. Still, with more than a billion adjusted claims expected to be processed in 2017, CVS's PBM business has desirable scale that gives it negotiating power to reduce branded drug prices for its customers. Long-term, we believe CVS will benefit from robust growth rates on pharma products due to the aging of the U.S. population. We also like that the firm is in the midst of a $3 billion cost-cutting plan and that management believes its diverse business mix and multiple client touch points will help deliver multiple years of double-digit future earnings growth. CVS generates solid free cash flow which can be used to increase its dividend (the yield is currently 2.5%), buy back shares and fuel growth.

Foot Locker (FL)

Foot Locker is an athletic footwear and apparel retailer, operating 3,394 stores throughout North America, Europe, Australia and New Zealand. FL's marketing format also includes Champs Sports, Footlocker.com and Eastbay. Shares are down more than 10% since early December in response to weak holiday sales at other retailers and Under Armour (which is one of the brands FL sells) reporting poor results in the latest quarter. We believe that the drop in FL is overdone. While changing consumer preferences and growing online competition are perpetual issues, we note that FL has been turning in strong results, with broad strength across distribution channels, geographic locations, banners and product categories. We think FL will continue to benefit from its strategic cost control and productivity plans, the specialty sneakers it exclusively offers from the likes of Nike and Adidas, and solid growth of its digital shopping platforms. Further, we like the strong balance sheet that sports $5.57 of net cash per share, and think the dividend (yield is 1.6%) will rise over time. FL trades at less than 14 times NTM EPS.

General Motors (GM)

Auto and truck maker General Motors saw strong sales in December, selling almost 250,000 cars to retail customers nationwide, with an average transaction price of $36,386, more than $4,000 above the industry average and $720 above the company's 2015 average. For 2017, GM now expects to make $6.00 to $6.50 per share, a nice improvement from the $5.50 to $6.00 range in 2016. The company attributed the guidance increase to stronger-than-expected performance in North America and China, as well as a "strong vehicle launch cadence." GM also added another $5 billion to its common stock buyback plan and expects to spend $3 billion of the revised $8 billion authorization this year. We see sales growth outside of North America as a long-term catalyst, especially in emerging economies. While we recognize that pensions and union contracts will always be part of the equation, we think the solid balance sheet ($24 billion in cash and short-term investments), improving cost controls, free cash flow generation and capital return initiatives make the 'new' GM a buy. GM now trades for 6.3 times earnings, while yielding 4.2%.

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 fallen by more than a third since December, along with those of numerous other brick-and-mortar retailers, after the company reported a 2.1% decline in comparable sales for November and December and cut earnings guidance for fiscal 2016 to between $2.92 and $2.97 per share, compared with an earlier forecast between $3.12 and $3.32. The company explained that the cut was reflective of lower-than-planned sales and lower gross margins due to product mix and timing of sales and promotions. Though there is no doubt that Kohl's will have to continue to invest in and evolve its online business, and decrease its store count, we think the selling in KSS has been overdone. We are fans of the experimentation with a smaller store concept, solid balance sheet and robust free cash flow. KSS also trades for 10.7 times estimated earnings and yields 5.0%.

Merck & Co (MRK)

Merck is a global pharmaceutical giant focused on drugs for respiratory, immunology, cardiovascular, diabetes, infectious diseases, oncology and other ailments. Merck is also a global leader in vaccines and operates an animal health division. The company has seen its sales slow, enduring patent losses for some of its top drugs, yet it has managed consistent profitability over the last three years (adjusted EPS of $3.49, $3.59 and $3.78). We like that MRK is slowly backing away from its patent cliff with a solid lineup of new products, including expected blockbuster cancer drug Keytruda (with 2016 growth in sales of 125%) and potential blockbuster Bridion (anesthesia), creating long-term opportunities. We are constructive on its diabetes drug Januvia, which looks to be potentially safer than competitor's compounds. The firm generates high returns on invested capital, enjoys solid free cash flow and boasts a track record of returning cash to shareholders, while management is on the hunt for acquisitions and drug-licensing deals that could bolster its drug development. We also like that MRK has a yield of 3.0%.

AT&T (T)

Telecom behemoth AT&T provides telephone, television, Internet and wireless service across the country. The company maintains a high-speed mobile internet network that covers 400 million people in North America and a broadband service with 60 million customer locations with plans to roll out fiber service to 12.5 million locations over the next four years. With its acquisition of DirecTV complete, AT&T has added more than 1 million satellite subscribers and management reports that the cost synergies are ahead of plan. For 2017, T expects low single-digit revenue growth and adjusted earnings per share growth in the mid-single-digit range or better. CEO John Stephens said, "We are in the process of closing our Time Warner transaction. We remain confident that the deal will be approved later this year. We'll continue to move forward on all the operational initiatives that we have underway with our network." In addition to its strategic spending for parts of the wireless spectrum and content, we like that T continues to distribute cash to holders, with the yield on the low-beta stock at 4.6%.

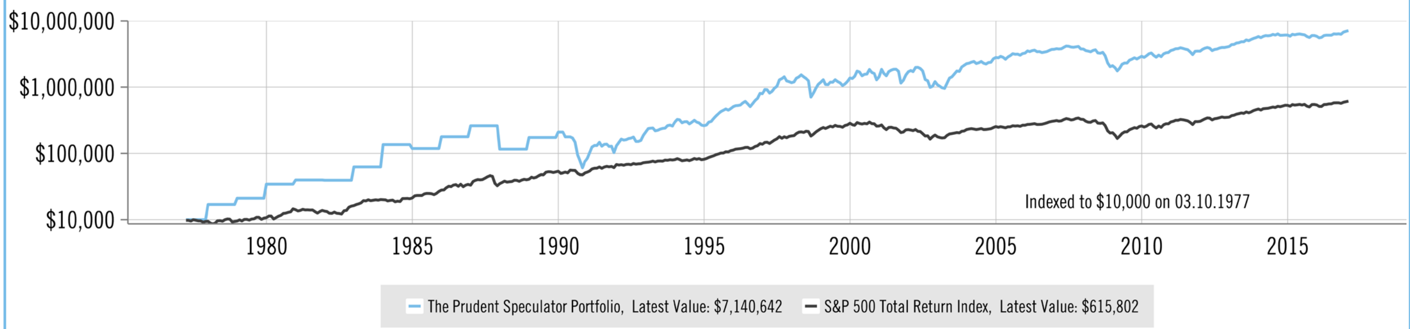
Exxon Mobil (XOM)

While Exxon is the world's largest international integrated oil and gas company, its shares have declined more than 12% since the July peak, despite oil trading above $50 per barrel recently. We don't expect operational challenges to go away anytime soon, but we believe they are not permanent in nature as we still subscribe to the long-term global-energy story that usage in emerging economies will continues to rise. We like that the company is well-run and that management is focused on operating fundamentals in this lower price environment. Exxon generates strong cash flow from operations and is comfortably able to cover the net investments in the business and dividend payments. Additionally, XOM is the only player in the energy patch with a Aaa credit rating and its fortress balance and capital discipline gives it the financial flexibility to selectively invest in higher value products and, given the environment, potentially acquire assets on the cheap. We are constructive on XOM's cost control initiatives and the value that its upstream and downstream operations achieve due to a high level of integration. XOM shares presently yield 3.6%.

Zimmer Biomet Holdings (ZBH)

Zimmer Biomet is a global leader in orthopedic implants (hips, knees, spine, trauma and dental) as well as related orthopedic surgical products. ZBH is by far the leader in hip and knee implants and we believe favorable demographics, which include aging Baby Boomers and increasing obesity rates, will drive solid demand for large joint replacement. Additionally we like that Zimmer has a history of strong relationships with the orthopedic surgeons that use its products. The doctors in this specialty have frequently shown resistance to efforts by hospitals or health systems to limit their ability to choose their brand. Zimmer reported strong Q4 earnings, driven by the reacceleration of its knee and hip businesses, as well as strength in the Asia Pacific region. ZBH consistently generates strong free cash flow and management forecasts 2017 adjusted EPS of $8.50 to $8.68. Shares are trading at less than 14 times the midpoint of guidance, with that multiple only 63% of the average of its peer group.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jan	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	2.38	2.38	29.70	6.94	11.92	4.07	NA
Millennium	2.68	2.68	29.43	8.04	13.23	6.12	8.56
PruFolio	2.64	2.64	28.54	7.88	12.83	6.04	9.61
TPS	2.52	2.52	28.54	8.49	13.92	6.49	9.70
Major Indexes							
Russell 3000	1.88	1.88	21.71	10.28	13.97	7.07	7.32
Russell 3000 Value	0.60	0.60	25.74	10.09	14.05	5.67	7.61
S&P 500	1.90	1.90	20.03	10.84	14.08	6.99	6.93
Dow Jones Indu. Avg	0.62	0.62	23.89	10.88	12.28	7.43	7.39

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	11.77	9.55	Russell 3000
Millennium	12.31.99	9.48	5.10	Russell 3000
PruFolio	12.29.00	13.17	5.92	Russell 3000
TPS	03.10.77	17.89	10.87	S&P 500

IMPORTANT INFORMATION

As of 01.31.17. All data are total returns, except for that of all recommended stocks, which exclude dividends. Data for periods greater than one year are annualized. The Dow Jones Industrial Average Index is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrial, including stocks that trade on the New York Stock Exchange and NASDAQ. The Russell 3000 Index measures the performance of the largest 3,000 US companies and represents approximately 98% of the investable US equity market. 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. It is not possible to invest directly in an index. 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 AFAM's decision making if the hypothetical portfolios were real. Hypothetical performance is shown for illustrative purposes only and should not be interpreted as an indication of performance of any AFAM portfolio. The use of leverage magnifies gains and losses and increases risk to a portfolio.

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