

the Prudent Speculator 605

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The Dow Jones Industrial Average hurdling 20000 and 21000 adding icing to the cake, it has been a festive period of late. Last month, your Editor celebrated his 30th Anniversary with Al Frank Asset Management and this month we publish our 40th Anniversary issue of *The Prudent Speculator*. No doubt, we owe a tremendous debt of gratitude to our founder Al Frank, who on March 10, 1977, hammered away at his typewriter, drafting the inaugural edition of the then-titled *Pinchpenny Speculator*.

Interestingly, it was not until 1983 that Al was finally able to make a living penning his “Fortnightly epistle about speculating with listed equities,” with the big break courtesy of Mark Hulbert and his fiercely independent rankings of investment newsletter performance. Via *The Hulbert Financial Digest*, launched in June 1980, Mark became the *Consumer Reports* for an industry filled with dubious claims and wild exaggerations designed to sell subscriptions by preying on the twin emotions of fear and greed, independent of whether readers actually made any money following the advice. Hulbert has for years ranked our publication near or at the top of his long-term performance ratings, and, as Al firmly believed in eating his own cooking, we have always had an alignment of interests with our subscribers, a relationship that endures today via the real-money Buckingham and TPS Portfolios.

Certainly, much has changed over the past four decades as technology has advanced, enabling enhanced analytics, and trading is vastly easier and less costly, while equities have endured numerous trials and tribulations, yet our basic investment strategy of ignoring market fluctuations and focusing on the long-term prospects of our broadly diversified portfolios of undervalued stocks has remained constant. In fact, the exact month that *The Hulbert Financial Digest* debuted some 37 years ago, Al wrote the following, “Thirteen fortnights have come and gone in one of the most dramatic financial periods that I have ever experienced [the Dow was then at 881]. How many thought that the prime rate would climb to 20% [today it is 3.75%]? And how many of those folks, let alone the rest

of us, thought it would drop at the rate of almost 1/2% per week for 16 weeks? There is no need to review the litany of amazing numbers for the past six months. In fact, it may

be time to return to fundamental analysis with a vengeance, and pretty much ignore the cacophony about how events affect the market, in order to concentrate on the euphonious perspective of ratios and statistics which identify undervalued common stocks and show that over extended time periods these out-of-favor issues advance in price more than their much promoted blue-chip Brethren and the market average in general.” Sound familiar?

While we know that we will not always outperform in the short term and Value strategies have not had a grand time of it on a relative basis over the last decade, Mark Hulbert wrote in *Barron’s (The Little Newsletter that Crushed the Market)* last month that our success is attributed in strong part to “nerves of steel,” but our ability to keep the faith has always been grounded in history. After all, nearly a century of statistics show that stocks trading for low multiples of earnings, sales and/or book value have outperformed over the long run, while a focus on dividend payers since Al’s passing in 2002 has augmented returns and, more importantly to some, modestly lowered volatility. Indeed, Hulbert stated, “On a risk-adjusted basis, the newsletter’s model portfolios have performed even better over the past two decades than in the first two.”

We are not resting on our laurels as we always have several pots on the proverbial stove, but readers can be assured that our commitment to our bargain-hunting philosophy will not waver, especially as a rising interest rate environment has often been favorable for Value. And, with the market averages at record highs, we like the reasonable price metrics and attractive yields on our stocks.

“The present reaps
what the past has sown,
and the future is the
product of the present.”

—Buddha



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q4 Season

Though U.S. economic growth decelerated last quarter to 1.9%, earnings reporting season turned out to be quite solid. Stocks certainly enjoyed a terrific first two months of the year, helped in large part by a return to im-

proved bottom lines on a year-over-year comparison basis. And, in the all-important actual vs. projected profits, data provider Bloomberg found that the number of companies in the S&P 500 that exceeded earnings expectations was

Industry Group	Ticker	Company	12.16 Act EPS	12.15 Act EPS	12.16 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Automobiles & Components	GM	General Motors	1.28	1.39	1.17	6.12	6.03	6.1	166,380	164,623	-1.1%
	GT	Goodyear Tire & Rubber	0.95	0.93	0.87	4.00	3.95	8.9	15,158	16,337	7.8%
Banks	BAC	Bank of America	0.37	0.28	0.38	1.36	1.73	14.2	nmf	nmf	nmf
	BBT	BB&T Corp	0.73	0.68	0.74	2.89	3.10	15.5	nmf	nmf	nmf
	CM	Canadian Imperial Bank	2.17	1.86	1.96	8.02	8.01	11.0	nmf	nmf	nmf
	FITB	Fifth Third Bancorp	0.48	0.41	0.43	1.69	1.77	15.5	nmf	nmf	nmf
	ING	ING Groep NV	0.38	0.23	0.32	1.41	1.29	10.1	nmf	nmf	nmf
	JPM	JPMorgan Chase & Co	1.62	1.40	1.43	6.05	6.57	13.8	nmf	nmf	nmf
	KEY	KeyCorp	0.31	0.28	0.29	1.12	1.31	14.3	nmf	nmf	nmf
	ONB	Old National Bancorp	0.33	0.25	0.25	1.08	1.07	17.1	nmf	nmf	nmf
	PNC	PNC Financial Services	2.06	1.81	1.85	7.37	7.93	16.0	nmf	nmf	nmf
WFC	Wells Fargo	1.03	1.03	1.00	4.06	4.18	13.8	nmf	nmf	nmf	
Capital Goods	ARII	American Railcar Industries	1.16	1.82	1.01	4.28	2.88	15.5	639	425	-33.5%
	BA	Boeing	2.47	1.60	2.32	7.28	9.42	19.1	94,571	92,349	-2.3%
	CAT	Caterpillar	0.83	0.74	0.66	3.44	3.11	31.1	38,537	37,905	-1.6%
	CMI	Cummins	2.25	2.02	2.00	8.54	8.08	18.4	17,509	17,195	-1.8%
	DE	Deere & Co	0.59	0.80	0.55	4.68	4.98	22.0	26,745	24,404	-8.8%
	ETN	Eaton PLC	1.12	1.17	1.10	4.22	4.42	16.3	19,747	19,582	-0.8%
	FLR	Fluor	0.82	0.68	0.81	3.52	2.92	19.0	19,036	20,293	6.6%
	GE	General Electric	0.46	0.52	0.46	1.50	1.64	18.2	119,687	126,023	5.3%
	TPC	Tutor Perini	0.60	0.17	0.60	1.91	2.26	13.5	4,973	5,462	9.8%
	TRN	Trinity Industries	0.44	1.30	0.37	2.24	1.24	21.7	4,588	3,673	-19.9%
Commercial Services	MAN	ManpowerGroup	1.87	1.66	1.71	6.31	6.63	14.6	19,654	20,042	2.0%
Consumer Dur & App	COH	Coach	0.75	0.68	0.74	2.09	2.24	17.0	4,547	4,632	1.9%
	MDC	MDC Holdings	0.78	0.44	0.68	2.01	2.51	11.6	2,327	2,644	13.6%
	WHR	Whirlpool	4.33	4.10	4.44	14.12	15.62	11.4	20,718	21,557	4.1%
Consumer Services	RCL	Royal Caribbean Cruises Ltd	1.23	0.94	1.21	6.09	7.05	13.6	8,496	8,660	1.9%
Diversified Financials	BK	Bank of New York Mellon	0.77	0.68	0.77	3.17	3.47	13.6	nmf	nmf	nmf
	COF	Capital One Financial	1.45	1.67	1.62	7.09	7.94	11.8	nmf	nmf	nmf
	GS	Goldman Sachs Group	5.48	4.78	4.84	16.76	19.19	12.9	nmf	nmf	nmf
	SYF	Synchrony Financial	0.70	0.65	0.67	2.71	3.05	11.9	nmf	nmf	nmf
Energy	BHI	Baker Hughes	-0.30	-0.21	-0.12	-1.79	0.30	nmf	9,841	10,148	3.1%
	HAL	Halliburton	0.04	0.31	0.02	-0.02	1.24	43.3	15,887	18,860	18.7%
	HFC	HollyFrontier	-0.06	-0.24	-0.08	0.54	1.76	16.6	10,536	12,249	16.3%
	NOV	National Oilwell Varco	-0.15	0.23	-0.29	-0.85	-0.32	nmf	7,251	7,270	0.3%
	OII	Oceaneering Int'l	0.03	0.58	0.01	0.76	-0.20	nmf	2,272	1,924	-15.3%
	SFL	Ship Finance Int'l Ltd	0.31	0.58	0.32	1.65	1.24	11.9	413	401	-3.0%
	SLB	Schlumberger Ltd	0.27	0.65	0.26	1.15	1.78	45.2	27,810	31,096	11.8%
	TK	Teekay Corp	-0.22	0.41	-0.10	-0.52	-0.34	nmf	2,329	2,221	-4.6%
	TOT	Total SA	0.96	0.88	0.91	3.38	4.29	11.0	127,925	151,340	18.3%
	XOM	Exxon Mobil	0.89	0.67	0.70	2.36	4.17	19.5	197,518	301,831	52.8%
Food & Staples Retailing	CVS	CVS Health	1.71	1.53	1.67	5.85	5.87	13.7	177,526	184,757	4.1%
	WMT	Wal-Mart Stores	1.30	1.49	1.29	4.33	4.32	16.4	485,873	495,433	2.0%
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	0.75	0.61	0.77	2.17	2.85	16.5	62,346	63,967	2.6%
	TSN	Tyson Foods	1.59	1.15	1.27	4.83	4.81	13.0	36,911	36,568	-0.9%
Health Care Equip/Srvcs	ABT	Abbott Laboratories	0.65	0.62	0.64	2.20	2.45	18.4	20,853	26,115	25.2%
	AET	Aetna	1.63	1.37	1.44	8.21	8.78	14.7	63,154	60,640	-4.0%
	CAH	Cardinal Health	1.34	1.30	1.23	5.15	5.65	14.4	127,235	134,819	6.0%
	MCK	McKesson	3.05	3.18	2.92	12.68	11.76	12.8	196,498	198,287	0.9%
	MDT	Medtronic PLC	1.12	1.06	1.11	4.54	5.11	15.8	29,361	30,446	3.7%

As of 02.28.17. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

65.4%, compared to 23.0% that trailed forecasts and 11.5% that met projections. In Q4 2015, the Beat/Miss/Match figures were 69.4%/19.4%/11.3%. Of the 100 *Prudent Speculator* stocks presented in our Scorecard, 74% topped EPS estimates, while only 18% lagged and 8% equaled.

Of course, management teams were still 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 rebounded by 6.1% in 2016 to \$106.60. The current arguably very aggressive S&P EPS estimate of \$130.68 for 2017 has been coming down for several quarters, but profits should improve going forward and history shows that stock prices eventually follow earnings. ■

Industry Group	Ticker	Company	12.16 Act EPS	12.15 Act EPS	12.16 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Health Care Equip/Srvcs	KMB	Kimberly-Clark	1.45	1.42	1.42	6.03	6.28	21.1	18,202	18,323	0.7%
Insurance	ALL	Allstate	2.18	1.60	1.63	4.90	6.22	13.2	nmf	nmf	nmf
	AXS	Axis Capital Holdings Ltd	1.14	1.23	0.94	4.50	4.68	14.8	nmf	nmf	nmf
	AZSEY	Allianz SE	0.42	0.33	0.38	1.79	1.70	10.2	nmf	nmf	nmf
	MET	MetLife	1.28	1.23	1.35	4.58	5.28	9.9	nmf	nmf	nmf
	PRU	Prudential Financial	2.46	1.94	2.31	9.14	10.41	10.6	nmf	nmf	nmf
	TRV	Travelers Cos	3.20	2.90	2.81	10.13	9.52	12.8	nmf	nmf	nmf
Materials	ABX	Barrick Gold	0.22	0.08	0.20	0.71	0.83	22.4	8,558	8,717	1.9%
	AGU	Agrium	0.68	1.52	0.66	4.90	5.30	18.2	13,665	14,099	3.2%
	CE	Celanese	1.52	1.25	1.51	6.61	7.26	12.3	5,389	5,676	5.3%
	MOS	Mosaic	0.26	0.53	0.12	0.88	1.04	30.1	7,163	7,385	3.1%
	NEM	Newmont Mining	0.25	0.04	0.31	1.54	1.13	30.4	7,650	7,119	-6.9%
Media	CMCSA	Comcast	0.45	0.41	0.44	1.74	1.88	19.9	80,403	83,885	4.3%
	DIS	Walt Disney	1.55	1.63	1.49	5.63	6.03	18.3	55,172	57,480	4.2%
Pharma/Biotech/Life Sci	AMGN	Amgen	2.89	2.61	2.79	11.65	12.30	14.4	22,991	23,083	0.4%
	BIIB	Biogen	5.04	4.50	4.96	20.23	20.99	13.7	11,449	11,284	-1.4%
	GILD	Gilead Sciences	2.70	3.32	2.61	11.56	8.27	8.5	30,390	24,851	-18.2%
	JNJ	Johnson & Johnson	1.58	1.44	1.56	6.68	7.02	17.4	71,890	74,619	3.8%
	MRK	Merck & Co	0.89	0.93	0.89	3.78	3.81	17.3	39,807	39,721	-0.2%
	PFE	Pfizer	0.47	0.53	0.50	2.39	2.55	13.4	52,824	53,319	0.9%
	SHPG	Shire PLC	3.37	2.97	3.28	13.09	15.09	12.0	11,397	15,311	34.3%
Real Estate	SNY	Sanofi	0.67	0.72	0.67	3.15	2.98	14.5	38,416	38,890	1.2%
	DLR	Digital Realty Trust	1.43	1.38	1.43	5.72	5.95	18.2	nmf	nmf	nmf
Retailing	RYN	Rayonier	0.05	0.09	0.04	0.56	0.39	73.1	nmf	nmf	nmf
	FL	Foot Locker	1.37	1.16	1.32	4.83	5.37	14.1	7,766	8,171	5.2%
	KSS	Kohl's	1.44	1.58	1.33	3.77	3.61	11.8	18,686	18,631	-0.3%
	PETS	PetMed Express	0.24	0.24	0.25	1.07	1.12	18.8	242	247	2.1%
Semis & Cap Equipment	TGT	Target	1.45	1.52	1.51	5.01	4.14	14.2	69,496	68,909	-0.8%
	DIOD	Diodes	0.15	0.14	0.16	0.76	0.99	24.0	942	998	5.9%
	INTC	Intel	0.79	0.74	0.75	2.72	2.81	12.9	59,387	59,980	1.0%
Software & Services	QCOM	Qualcomm	1.19	0.97	1.18	4.67	4.68	12.1	23,778	24,327	2.3%
	CA	CA Inc	0.63	0.63	0.61	2.54	2.37	13.6	4,033	3,999	-0.9%
	IBM	Int'l Business Machines	5.01	4.84	4.88	13.60	13.80	13.0	79,918	78,627	-1.6%
	MSFT	Microsoft	0.84	0.78	0.79	2.91	3.01	21.3	85,688	100,030	16.7%
Technology Hardware	SYMC	Symantec	0.32	0.26	0.28	1.13	1.54	18.6	3,777	4,720	25.0%
	AAPL	Apple	3.36	3.28	3.22	8.35	9.20	14.9	218,118	231,469	6.1%
	AVX	AVX Corp	0.21	0.17	0.20	0.74	0.77	20.2	1,287	1,305	1.4%
	BHE	Benchmark Electronics	0.45	0.45	0.41	1.38	1.50	20.8	2,310	2,328	0.8%
	BRCD	Brocade Comm Systems	0.16	0.29	0.25	0.92	0.92	13.4	2,353	2,485	5.6%
	CSCO	Cisco Systems	0.57	0.57	0.56	2.38	2.41	14.2	48,570	48,697	0.3%
	ERIC	LM Ericsson	0.07	0.29	0.08	0.31	0.30	21.5	26,043	23,734	-8.9%
	GLW	Corning	0.50	0.34	0.44	1.57	1.69	16.4	9,390	10,053	7.1%
	STX	Seagate Technology PLC	1.38	0.82	1.08	3.28	4.62	10.4	10,940	11,054	1.0%
	Telecom Services	T	AT&T	0.66	0.63	0.66	2.84	2.96	14.1	163,786	165,968
Transportation	ALK	Alaska Air Group	1.56	1.46	1.42	7.33	8.02	12.2	5,931	8,176	37.9%
	CSX	CSX Corp	0.48	0.48	0.50	1.80	2.01	24.2	11,069	11,414	3.1%
	DAL	Delta Air Lines	0.82	1.18	0.82	5.31	5.27	9.5	39,639	40,883	3.1%
	NM	Navios Maritime Holdings	-0.28	-0.30	-0.27	-0.94	-0.97	nmf	431	456	5.9%
	NSC	Norfolk Southern	1.42	1.30	1.36	5.62	6.14	19.7	9,888	10,347	4.6%
Utilities	ETR	Entergy	0.31	1.58	0.12	7.08	4.66	16.5	10,846	11,508	6.1%

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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	36.84	46.84	6.0	0.3	1.5	2.2	12.3	148%	4.1%	55,185
Banks	BBT	BB&T	48.22	54.02	16.7	nmf	2.4	nmf	nmf	nmf	2.5%	38,981
	HSBC	HSBC Holdings	40.30	47.20	14.3	nmf	0.8	nmf	nmf	nmf	6.3%	160,131
	ING	ING Groep NV	13.83	19.96	10.2	nmf	1.0	nmf	nmf	nmf	3.6%	53,639
Capital Goods	BA	Boeing	180.23	188.82	24.8	1.2	nmf	14.4	6.9	nmf	3.2%	111,232
	ETN	Eaton	71.98	81.79	17.1	1.6	nmf	12.6	6.3	nmf	3.2%	32,369
	FLR	Fluor	55.39	75.48	15.7	0.4	3.2	8.9	6.1	63%	1.5%	7,719
Consumer Dur & App	MDC	MDC Holdings	29.19	43.07	14.5	0.6	1.1	12.9	7.4	73%	3.4%	1,503
	NKE	Nike	57.16	73.10	26.7	2.8	7.9	17.9	2.8	29%	1.3%	94,570
	WHR	Whirlpool	178.59	214.44	12.6	0.6	nmf	8.8	4.2	nmf	2.2%	13,299
Consumer Services	CCL	Carnival	55.95	71.32	16.1	2.5	2.2	10.2	5.0	45%	2.5%	40,297
Diversified Financials	ANH	Anworth Mortgage	5.44	6.38	9.9	nmf	0.9	nmf	nmf	nmf	11.0%	521
Energy	HFC	HollyFrontier	29.28	40.29	54.0	0.5	2.2	26.3	2.4	96%	4.5%	5,193
	OII	Oceaneering Int'l	28.32	45.33	37.0	1.2	2.5	9.7	11.0	73%	2.1%	2,777
	SFL	Ship Finance Int'l	14.75	17.91	9.0	3.3	1.2	10.0	-0.4	131%	12.2%	1,379
	TOT	Total SA	49.97	74.92	15.4	1.0	1.4	8.9	-1.4	49%	4.4%	122,610
Food & Staples Retailing	CVS	CVS Health	80.58	130.30	13.8	0.5	nmf	8.3	9.1	nmf	2.5%	82,651
	WMT	Wal-Mart Stores	70.93	83.75	16.4	0.4	3.6	7.9	9.4	69%	2.9%	217,981
Food Bev & Tobacco	TSN	Tyson Foods	62.56	77.28	13.0	0.7	nmf	8.0	8.8	nmf	1.4%	24,327
Health Care Equip/Srvcs	AET	Aetna	128.76	144.16	15.7	0.7	7.8	8.8	7.6	328%	1.6%	45,285
	ZBH	Zimmer Biomet	117.08	170.72	14.7	3.1	nmf	18.2	4.7	nmf	0.8%	23,451
Insurance	AZSEY	Allianz SE	17.41	23.92	10.1	nmf	1.4	nmf	nmf	nmf	3.5%	79,564
	TRV	Travelers Cos	122.24	133.06	12.1	nmf	1.8	nmf	nmf	nmf	2.2%	34,189
Materials	AGU	Agrium	96.60	118.34	19.7	1.0	3.8	10.5	7.1	125%	3.6%	13,348
	CE	Celanese	89.17	106.04	13.5	2.3	7.9	12.9	4.9	181%	1.6%	12,566
	NEM	Newmont Mining	34.24	43.95	22.2	2.4	1.7	12.7	9.1	38%	0.6%	18,187
Media	DIS	Walt Disney	110.09	141.91	19.6	3.2	20.4	11.7	4.3	174%	1.4%	174,080
Pharma/Biotech/Life Sci	GILD	Gilead Sciences	70.48	117.01	6.1	3.0	10.5	4.6	16.9	301%	3.0%	92,122
	MRK	Merck & Co	65.87	72.31	17.4	4.5	52.9	14.1	5.1	692%	2.9%	180,851
	SHPG	Shire PLC	180.70	265.59	13.8	4.8	nmf	31.6	4.3	nmf	0.4%	54,494
Real Estate	DLR	Digital Realty Trust	108.00	118.75	18.9	8.1	5.3	22.9	-5.1	0%	3.3%	17,437
Retailing	TGT	Target	58.77	82.37	11.7	0.5	3.1	6.0	11.7	103%	4.1%	33,011
	WSM	Williams-Sonoma	48.59	71.33	14.1	0.8	3.7	6.6	8.7	0%	3.0%	4,268
Semis & Cap Equipment	QCOM	Qualcomm	56.48	77.23	12.1	3.5	3.8	9.4	6.6	45%	3.8%	83,423
Software & Services	MSFT	Microsoft	63.98	71.06	22.0	5.8	21.2	16.7	5.5	255%	2.4%	494,407
	ORCL	Oracle	42.59	49.82	16.3	4.7	nmf	11.4	7.1	nmf	1.4%	174,719
Technology Hardware	CSCO	Cisco Systems	34.18	36.98	14.4	3.5	4.9	9.4	7.2	87%	3.4%	171,169
Telecom Services	T	AT&T	41.79	46.13	14.7	1.6	nmf	7.5	6.6	nmf	4.7%	256,656
Transportation	FDX	FedEx	192.98	217.78	16.8	0.9	6.8	10.3	1.8	178%	0.8%	51,431
Utilities	ETR	Entergy	76.66	84.13	10.8	1.3	1.8	22.7	-8.2	188%	4.5%	13,732

As of 02.28.17. 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: AI Frank using data from Bloomberg

AFAM also offers private asset management services. To learn more, contact 512.600.1818 or visit afamcapital.com

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

Only having a little bit of cash to deploy, we will bring up the positions in **HollyFrontier** and **Shire PLC** to \$29,000 in TPS Portfolio on March 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 newsletter portfolios and readers should always be aware 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.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
AGU	Agrium	Materials	96.60	118.34
CCL	Carnival	Consumer Discretionary	55.95	71.32
CE	Celanese	Materials	89.17	106.04
CSCO	Cisco Systems	Information Technology	34.18	36.98
DIS	Walt Disney	Consumer Discretionary	110.09	141.91
ETN	Eaton	Industrials	71.98	81.79
HFC	HollyFrontier	Energy	29.28	40.29
HSBC	HSBC Holdings PLC	Financials	40.30	47.20
SHPG	Shire PLC	Health Care	180.70	265.59
TRV	Travelers Cos	Financials	122.24	133.06

As of 02.28.17. SOURCE: AI Frank using data from Bloomberg

Agrium (AGU)

Agrium is one of the largest retail suppliers of agricultural products and services in North America, South America, Europe and Australia, as well as a wholesale producer and marketer of all three major agricultural nutrients (nitrogen, potash and phosphates). Despite lower nutrient prices and headwinds in the agriculture space, AGU's retail distribution business continued to shine in 2016, helping to offset the weakness in fertilizer production. With its plan to merge with Potash Corp in mid-2017, Agrium will become the world's largest crop nutrient company and should benefit from the stability of retail, which has grown via bolt-on acquisitions, as well as the leverage towards fertilizer production once prices rebound. Although near-term operating challenges will persist, we remain positive on the long-term prospects of AGU and its diversified business, as well as the long-term potential of agriculture in general. The decline of global arable land, continued population growth and the growing demand for increased meat proteins in emerging economies should force farmers to be more productive and should drive growth of crop inputs. AGU yields 3.6%.

Carnival (CCL)

Carnival is the world's largest cruise ship operator with over 100 vessels across 10 brands and sailings from ports around the globe. Shares have rallied more than 30% including dividends since July, as the company closed 2016 with record profitability, a result of a solid operating en-

vironment supported by demand in excess of capacity growth, careful cost controls and high return on invested capital. The company also recorded \$5 billion in cash flow from operations, which allowed \$1 billion to be returned to shareholders via dividends, and an additional \$2.3 billion via buybacks. Management has also reiterated that China is expected to be the largest market opportunity for CCL, which is encouraging for global revenue diversification and the ability to rapidly reach a new customer base. The company said it expects full year 2017 adjusted earnings per share to be in the range of \$3.30 to \$3.60, compared to 2016 adjusted EPS of \$3.45. In addition to our bullishness on the qualitative side (including very favorable demographic trends), we like that CCL trades at 16 times forward earnings and sports a 2.5% yield.

Celanese (CE)

Celanese, a global value-added industrial chemicals company, is one of the world's largest producers of acetyls and a top producer of polymers used in auto, consumer and industrial products. The company's sales are almost equally divided between North America, Europe and Asia. Although CE continues to face currency headwinds, we are constructive on the firm's ability to offset with increased pricing, lower raw material input costs and a number of new efficiency programs. We believe CE can continue to spark EPS growth from geographic expansion and new application development. Given its size, CE also enjoys cost advantages, via economies of scale, in many of its markets. Celanese has operating margins of almost 25% and strong free cash flow, while we like management's work to strengthen its financial position, willingness to return capital to shareholders and efforts to make acquisitions that are quickly accretive to earnings. Shares currently trade at just 12.4 times forward earnings estimates and offer a 1.6% dividend yield.

Cisco Systems (CSCO)

Cisco Systems is a leading tech company that specializes in Internet Protocol (IP)-based networking equipment for professional, telecom provider and residential use. In fiscal Q2 2017, the company beat analyst expectations on the top and bottom lines despite the challenging macroeconomic backdrop. CSCO's emphasis on four main areas: Security, Collaboration, Data Center and Software Subscriptions has continued to propel the company forward. At a Morgan Stanley Technology Conference in February, David Goeckeler, the Senior VP of Networking

& Security said, "I think a lot of people don't really understand how much goes on behind the scenes that we're able to use all of this data to find out where anomalous traffic is, or find out behavior patterns, or all of these kinds of things. We're getting a lot better at using that dataset to solve really interesting problems for our customers." In our view, CSCO can lead with its best-of-breed product pipeline and loyal customer base. We think that CSCO shares trade at a significant discount with a forward P/E ratio of 14 and a 3.4% dividend yield.

Walt Disney (DIS)

Disney operates one of the largest diversified media companies in the U.S. and is a global leader in producing branded family entertainment. Shares have made quite a recovery since October, after dipping as low as \$90.83. In fiscal Q1 2017, Disney earned \$1.55 per share on \$14.8 billion of sales, compared with analyst estimates of \$1.49 and \$15.3 billion, respectively. Strength in Parks & Resorts (attendance at the new Shanghai Disneyland topped 10 million in its first year, though domestic park attendance dropped 5%) and the success of Studio (*Rogue One: A Star Wars Story* was a blockbuster) helped offset a 7% drop in ESPN ad revenue and declining ratings for *SportsCenter* and *Monday Night Football*. Additionally, Disney announced plans to raise prices for single-day Disneyland tickets for adults and children between 2.1% and 4.8%. While DIS faced some headwinds in Q1, we like that the company has a solid pipeline of park improvements coming up, including *Star Wars Land* (2019) and an *Avatar*-themed resort (May 2017). A new Hulu-based online streaming service has also made it to beta testing (a final testing phase before wide public release) and management expects that upgrades to ESPN mobile will help retain existing TV customers. With unparalleled content and characters, we think DIS should be a core holding.

Eaton (ETN)

Eaton is a power management firm, providing energy-efficient solutions that help customers manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably. We like that ETN's global expansion (about 45% of sales come from outside the U.S.) has increased its access to rapidly growing emerging markets and their expanding auto markets. We also like that its diversification combines businesses that tend to perform well during different stages of the economic cycle, while steady aftermarket sales provide a more stable

income stream. At Eaton's Annual Investor Conference, CEO Craig Arnold said, "Our strategy is working. We're delivering solid margins in this environment, generating significant cash flow and redeploying it quite effectively. We're reinvigorating organic growth, we're excited by the growth opportunities that we have as a company becoming more focused." We are fans of ETN's strong cash flow, which allows the company to repurchase shares and pay a generous dividend (yield is 3.2%).

HollyFrontier (HFC)

Holly is one of the largest independent petroleum refiners in the U.S. Through five complex refineries (which process lower-cost heavy sour crude into a higher percentage of fuel), its subsidiaries produce and market gasoline, diesel, jet fuel, asphalt, heavy products and specialty lubricant products. HFC shares are down more than 10% this year on margin weakness due to high inventories and narrow crude spreads, but acquisitions of lubricant businesses (the latest from Suncor) are helping to diversify earnings and create a platform for future growth (the Suncor purchase is expected to be immediately accretive to cash flow and earnings). We continue to like that HFC's refinery capabilities give the firm flexibility to tailor its output more towards higher yielding products in a given period. We also note that a more business-friendly Washington could prove to be a major positive for highly-regulated and highly-taxed Holly, even as the so-called Border Tax would likely be a negative. Weighing all of the evidence, we think the pros trump the cons, as we like the strong competitive position, shareholder-friendly management and solid balance sheet. HFC yields 4.5%.

HSBC Holdings PLC (HSBC)

HSBC Holdings is one of the world's largest banking and financial services organizations, serving more than 37 million clients through an international network of 4,000 offices in 70 countries and territories. We like the bank's unrivaled global footprint and exposure to higher economic growth markets, helping drive demand for its diversified products and services, from checking accounts and international trade services to wealth management. Additionally, we are constructive on the potential long-term benefits of management's decision to align itself to the world's largest trade and economic zones, shifting its business mix further towards Asia, as well as its continued focus on cutting costs and strengthening the balance sheet. While the latest quarterly results were disappoint-

ing, and the strong dollar and drama in the United Kingdom won't help the near term, HSBC trades for less than 14 times estimated earnings and yields more than 6%.

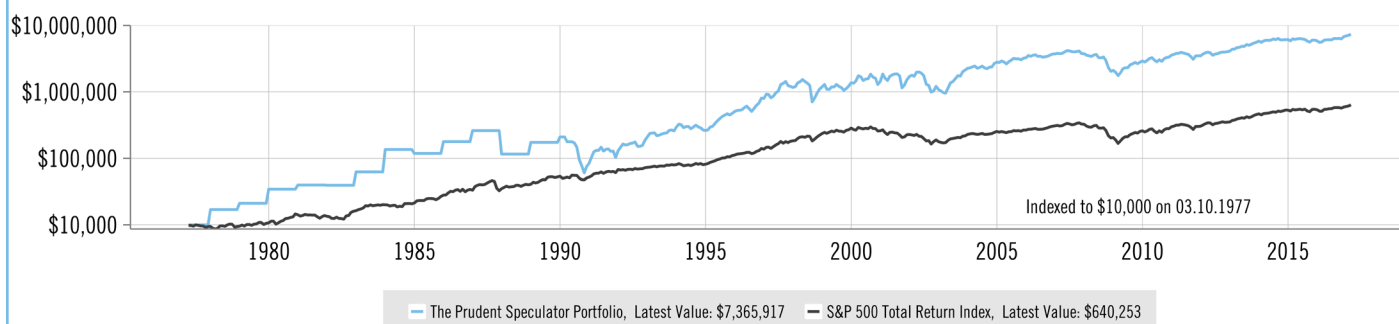
Shire PLC (SHPG)

Shire is a leading global biotech company focused on serving people with rare diseases and other highly specialized conditions. Many of its products are available in more than 100 countries, across multiple core therapeutic areas. Core focus areas are central nervous system, gastrointestinal and rare diseases (as well as a growing oncology franchise). 2016 was a transformational year as Shire generated double-digit pro-forma top-line growth, materially advanced its pipeline, successfully integrated the acquisition of Dyax and showed ahead-of-schedule progress on its big Baxalta integration. The firm expects 2017 full-year EPS in the range of \$14.60 to \$15.20, with revenue in the range of \$14.5 billion to \$14.8 billion, and an improvement in its gross margin by as much as 650 basis points with a 74.5% to 76.5% target. We are optimistic on Shire's rare disease drug portfolio and diversified biologics pipeline. The drug Vyvanse continues to do well in ADHD and binge-eating disorder markets, while the launch of dry-eye drug Xiidra is very encouraging with data suggesting SHPG is gaining 50% share of new patients. We also continue to be attracted to Shire's strong free cash flow generation and inexpensive valuation (trading at slightly more than 12 times consensus forward estimates).

Travelers Cos (TRV)

Travelers is a leading provider of property and casualty insurance for auto, home and business. The company's diverse business lines offer its global customers a wide range of coverage sold primarily through independent agents and brokers. TRV posted EPS of \$3.20 in Q4, compared with analyst estimates of \$2.81, thanks to a solid combined ratio, 3% growth in net written premiums and a one-time gain from a settlement of a reinsurance dispute. TRV returned \$942 million to shareholders in the quarter via dividends and repurchases. CEO Alan Schnitzer noted that the company has been able to maintain high client retention while "achieving stable and positive renewal premiums." We think that the firm boasts top-notch risk management and underwriting skills, and are encouraged by the meaningful growth opportunities outside the U.S., as premiums have roughly doubled over the past few years. We see TRV as one of the better managed insurers, and like the P/E of 12 and the yield of 2.2%. ■

NEWSLETTER PORTFOLIO PERFORMANCE



	Feb	YTD	1-Year	3-Year	5-Year	10-Year	15-Year	Inception Date	Since Inception	Index Return	Index	
Newsletter Portfolios								Newsletter Portfolios				
Buckingham	2.87	5.31	30.73	6.36	11.51	4.25	NA	Buckingham	01.21.03	11.96	9.81	Russell 3000
Millennium	3.12	5.88	31.63	7.64	12.78	6.43	8.82	Millennium	12.31.99	9.64	5.30	Russell 3000
PruFolio	3.12	5.84	29.42	7.39	12.52	6.34	10.25	PruFolio	12.29.00	13.33	6.13	Russell 3000
TPS	3.15	5.75	30.48	8.02	13.70	6.94	10.21	TPS	03.10.77	17.99	10.98	S&P 500
Major Indexes								Since <i>The Prudent Speculator's</i> launch in March 1977, its 1,867 stock recommendations have returned, on average, an annualized 17.24%, not including dividends.				
Russell 3000	3.72	5.67	26.28	9.92	13.85	7.64	7.73					
Russell 3000 Value	3.42	4.04	30.00	9.76	13.97	6.19	7.84					
S&P 500	3.97	5.94	24.97	10.63	14.00	7.62	7.35					
Dow Jones Indu. Avg.	5.17	5.82	29.33	11.18	12.77	8.25	7.60					

IMPORTANT INFORMATION

As of 02.28.17. 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. 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.

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