

the Prudent Speculator 611

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With an exhibit hall full of marketers pushing cannabis investments, gold coins and trading systems, the *Moneyshows* always attract an eclectic mix. Last month's get-together in San Francisco was no exception, with the usual complement of those looking to get rich quick and folks focused on growing and protecting their wealth for the long haul. Ironically, your editor's *Secret to Success in Stocks* keynote address immediately followed a sponsor's pitch for a software platform that supposedly had called every market bottom and every market top over the last three decades. Alas, I had to concede that we have called exactly zero of the many peaks and valleys that have occurred since the launch of *The Prudent Speculator* in 1977...but as we have been more or less fully invested for 40 years, never once being scared out of stocks, we've managed to generate the best long-term track record of any publication tracked by *The Hulbert Financial Digest*.

Happily, our terrific returns over the past four decades attracted a standing-room only crowd the next day at my Investor Workshop. In *Dividends Are Still Valuable*, I presented on what the historical evidence shows about dividend-payers in terms of long-term total returns (they outperform), income competitiveness (our portfolios yield more than the 10-Year U.S. Treasury) and performance in rising interest rate environments (Value has had fantastic returns, while dividend stocks have done just fine), and offered a few undervalued yield-focused stock picks (**Amgen** (AMGN - \$178.71), **Seagate Tech** (STX - \$31.80) and **General Motors** (GM - \$37.36)).

Interestingly, despite a throng that should have been favorably disposed to undervalued dividend payers, the last of those recommendations elicited several questions, with the results of an audience poll I conducted on GM versus Tesla a bit surprising. Fully one-third of the room favored the investment prospects of the hot electric car pioneer, even as the maker of the Model S, Model X and Model 3 has been operating in the red, while government subsidies help drive sales. Of course, Tesla's market capitalization now exceeds that of GM, even though the lat-

ter boasts a 13.1% share of the fast-growing Chinese auto market, not to mention a 10.3% share of the global market. And, GM offers its own reasonably priced electric car, the Chevy Bolt EV, which was *Motor Trend's* Car of the Year 2017, with the publication stating, "This is a direct challenge for Tesla to make the Model 3 anything near the Bolt EV for the same price. Chevrolet has made affordable long-range electric transportation available to the masses. Elon Musk should be afraid. Very, very afraid." GM is also projected to earn \$6.13 per share in 2017 and analysts expect EPS of at least \$5.50 in each of 2018, 2019 and 2020, easily supporting the generous 4.2% dividend yield.

No doubt, Tesla has an exciting story (and Mr. Musk just managed to wow the credit markets with an oversubscribed \$1.8 billion junk-bond offering), but GM and its P/E ratio of less than 7 times forward earnings is the name that a disciplined investor focused on undervalued stocks should rather own. But, as we've seen in a year in which the Russell 3000 Growth index is up 18.5% compared to a 4.3% advance for the Russell 3000 Value index, Tesla (up 66%) isn't the only richly priced stock to have performed extremely well over the first eight months of the year.

To be sure, we are pleased that our broadly diversified portfolios have managed to nicely outperform the Value indexes so far in 2017, and we take a good deal of comfort in our valuation multiples, especially with the major market averages trading near all-time highs. Indeed, with the S&P 500 priced at 21.0 times LTM and 18.8 times NTM earnings, we like that the trailing and forward P/E ratios on TPS Portfolio are 15.4 and 13.6. We realize that the rabbit has bounded ahead of late in the proverbial race between the Tortoise and the Hare, but we are confident that the turtle will prevail in the long-term performance derby.

"Value investing is at its core the marriage of a contrarian streak and a calculator."
—Seth Klarman



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q2 Season

With real U.S. GDP in the second quarter estimated by Uncle Sam to have grown at a healthy 3.0%, it shouldn't have been a big surprise that earnings reporting season turned out to be very good, at least in regard to

quarterly results relative to expectations. Unfortunately, investor reactions to the generally better-than-expected numbers were not always favorable, but we were happy to see data provider Bloomberg calculate that the number

Industry Group	Ticker	Company	6.17 Act EPS	6.16 Act EPS	6.17 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Automobiles & Components	GM	General Motors	1.89	1.86	1.70	6.59	5.74	6.4	164,927	146,962	-10.9%
	GT	Goodyear Tire & Rubber	0.70	1.16	0.71	3.56	3.62	8.4	14,973	15,716	5.0%
	HMC	Honda Motor	1.04	0.90	0.79	3.30	3.19	8.8	130,777	134,062	2.5%
Banks	BAC	Bank of America	0.48	0.37	0.43	1.69	1.98	12.1	nmf	nmf	nmf
	BBT	BB&T	0.78	0.71	0.77	3.01	3.31	13.9	nmf	nmf	nmf
	CM	Canadian Imperial Bank	2.10	2.06	2.11	8.23	8.56	9.8	nmf	nmf	nmf
	FITB	Fifth Third Bancorp	0.46	0.41	0.43	1.75	1.92	13.6	nmf	nmf	nmf
	HSBC	HSBC Holdings PLC	0.86	0.92	0.82	3.73	3.55	13.6	nmf	nmf	nmf
	ING	ING Groep NV	0.40	0.41	0.40	1.48	1.51	11.8	nmf	nmf	nmf
	JPM	JPMorgan Chase	1.71	1.43	1.58	6.49	7.13	12.8	nmf	nmf	nmf
	KEY	KeyCorp	0.34	0.27	0.34	1.27	1.47	11.7	nmf	nmf	nmf
	ONB	Old National Bancorp	0.29	0.21	0.27	1.18	1.09	15.0	nmf	nmf	nmf
	PNC	PNC Financial Services Group	2.10	1.85	2.02	8.06	8.80	14.3	nmf	nmf	nmf
WFC	Wells Fargo	1.05	1.01	1.01	4.09	4.21	12.1	nmf	nmf	nmf	
Capital Goods	ARII	American Railcar Industries	0.57	1.02	0.62	3.22	2.31	15.6	536	461	-14.0%
	BA	Boeing	2.55	-0.44	2.30	10.54	10.78	22.2	90,899	92,858	2.2%
	CAT	Caterpillar	1.49	1.09	1.25	4.45	5.70	20.6	39,887	43,649	9.4%
	CMI	Cummins	2.53	2.40	2.58	9.16	10.42	15.3	18,357	19,771	7.7%
	DE	Deere	1.79	1.55	1.93	5.32	6.84	17.0	28,240	27,323	-3.2%
	ETN	Eaton PLC	1.15	1.07	1.16	4.38	4.84	14.8	19,834	20,532	3.5%
	FLR	Fluor	-0.17	0.72	0.60	2.35	2.43	15.9	19,308	18,648	-3.4%
	TPC	Tutor Perini	0.59	0.43	0.58	2.03	2.57	10.2	4,944	5,688	15.0%
TRN	Trinity Industries	0.33	0.62	0.30	1.61	1.22	23.6	3,998	3,790	-5.2%	
Commercial Services	MAN	ManpowerGroup	1.72	1.60	1.74	6.54	7.34	15.2	19,976	21,328	6.8%
Consumer Dur & App	COH	Coach	0.50	0.45	0.50	2.16	2.37	17.6	4,488	5,822	29.7%
	MDC	MDC Holdings	0.63	0.53	0.61	2.36	2.55	12.2	2,581	2,664	3.2%
	WHR	Whirlpool	3.35	3.50	3.54	13.84	15.90	10.8	21,037	21,957	4.4%
Consumer Services	RCL	Royal Caribbean Cruises Ltd	1.71	1.09	1.67	7.13	7.87	15.8	8,677	8,897	2.5%
Diversified Financials	BK	Bank of New York Mellon	0.93	0.76	0.84	3.40	3.73	14.0	nmf	nmf	nmf
	COF	Capital One Financial	1.96	1.76	1.90	7.19	8.35	9.5	nmf	nmf	nmf
	GS	Goldman Sachs Group	3.95	3.72	3.43	18.33	18.77	11.9	nmf	nmf	nmf
	SYF	Synchrony Financial	0.61	0.58	0.57	2.65	2.95	10.4	nmf	nmf	nmf
Energy	HAL	Halliburton	0.23	-0.14	0.18	0.32	1.78	21.9	17,090	22,235	30.1%
	HFC	HollyFrontier	0.66	0.28	0.47	0.86	1.84	17.0	12,342	12,606	2.1%
	NOV	National Oilwell Varco	-0.14	-0.30	-0.15	-0.80	0.06	nmf	6,838	7,919	15.8%
	OII	Oceaneering Int'l	0.02	0.27	-0.01	0.18	-0.03	nmf	1,999	1,968	-1.6%
	RDS/A	Royal Dutch Shell PLC	0.88	0.26	0.81	2.94	3.79	14.6	270,549	291,565	7.8%
	SLB	Schlumberger Ltd	0.35	0.23	0.30	1.12	1.89	33.7	28,482	32,879	15.4%
	TOT	Total SA	0.97	0.90	0.94	3.78	4.27	12.2	139,267	149,096	7.1%
	XOM	Exxon Mobil	0.78	0.41	0.84	3.25	3.68	20.7	215,287	272,034	26.4%
Food & Staples Retailing	CVS	CVS Health	1.33	1.32	1.31	5.85	6.05	12.8	180,785	188,141	4.1%
	WMT	Wal-Mart Stores	1.08	1.07	1.07	4.36	4.50	17.4	490,012	501,623	2.4%
Food Beverage & Tobacco	ADM	Archer-Daniels-Midland	0.57	0.41	0.52	2.51	2.77	14.9	62,264	64,478	3.6%
Food Bev & Tobacco	TSN	Tyson Foods	1.28	1.21	1.19	4.84	5.12	12.4	37,271	39,712	6.5%
Health Care Equip/Srvcs	ABT	Abbott Laboratories	0.62	0.55	0.61	2.34	2.62	19.5	23,607	27,293	15.6%
	AET	Aetna	3.42	2.21	2.34	9.83	8.99	17.5	62,197	62,093	-0.2%
	CAH	Cardinal Health	1.31	1.14	1.24	5.42	4.95	13.6	129,976	137,045	5.4%
	MCK	McKesson	2.46	3.52	2.83	11.87	12.42	12.0	199,851	206,911	3.5%
	MDT	Medtronic PLC	1.12	1.03	1.08	4.69	4.81	16.8	29,934	29,471	-1.5%
	ZBH	Zimmer Biomet Holdings	2.08	2.02	2.09	8.14	8.42	13.6	7,778	7,950	2.2%

As of 08.31.17. Real Estate (REIT) companies use Funds From Operations (FFO) instead of EPS. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

of companies in the S&P 500 that exceeded earnings estimates was 72.1%, compared to 18.5% that trailed forecasts and 9.4% that met projections. In Q2 2016, those same Beat/Miss/Match figures were 71.9%/17.6%/10.4%. Of the 100 *Prudent Speculator* stocks presented in our Earnings Scorecard, 73% topped EPS estimates, while 22% lagged and 5% equaled.

Of course, management teams often were cautious in their outlooks and guidance, even as Standard & Poor's now projects that after climbing 5.8% in 2016 to \$106.26, compared to \$100.45 in 2015, bottom-up operating EPS for the S&P 500 will jump to \$126.95 this year and to \$144.67 in 2018. Analysts are often much too rosy in their views, but improving earnings aren't usually bad for stocks! ■

Industry Group	Ticker	Company	6.17 Act EPS	6.16 Act EPS	6.17 Est EPS	TTM ¹ EPS	NTM ² Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Household Products	KMB	Kimberly-Clark	1.49	1.53	1.49	6.03	6.35	19.4	18,175	18,588	2.3%
Insurance	ALL	Allstate	1.38	0.62	0.87	6.46	6.95	13.0	nmf	nmf	nmf
	AXS	Axis Capital Holdings Ltd	1.31	0.51	1.19	4.82	4.52	13.3	nmf	nmf	nmf
	AZSEY	Allianz SE	0.49	0.37	0.43	1.82	2.02	10.6	nmf	nmf	nmf
	MET	MetLife	1.30	0.83	1.28	5.27	4.70	10.0	nmf	nmf	nmf
	PRU	Prudential Financial	2.09	1.84	2.70	10.00	10.84	9.4	nmf	nmf	nmf
	TRV	Travelers	1.92	2.20	2.12	9.68	9.41	12.9	nmf	nmf	nmf
Materials	ABX	Barrick Gold	0.22	0.14	0.17	0.82	0.74	24.3	8,769	8,340	-4.9%
	AGU	Agrium	4.09	4.18	4.04	4.67	5.33	18.4	13,564	14,202	4.7%
	AUY	Yamana Gold	-0.04	0.01	0.00	-0.02	0.08	36.5	1,780	1,910	7.3%
	CE	Celanese	1.79	1.59	1.76	6.79	7.71	12.6	5,615	6,023	7.3%
	MOS	Mosaic	0.29	0.07	0.23	1.00	0.95	21.0	7,147	7,380	3.3%
	NEM	Newmont Mining	0.46	0.44	0.26	1.47	1.19	32.2	7,114	7,351	3.3%
Media	CMCSA	Comcast	0.52	0.42	0.49	1.96	2.09	19.4	83,972	88,189	5.0%
	DIS	Walt Disney	1.58	1.62	1.55	5.73	6.33	16.0	55,500	58,399	5.2%
Pharma/Biotech/Life Sci	AMGN	Amgen	3.27	2.84	3.11	12.33	12.49	14.2	23,050	23,119	0.3%
	BIIB	Biogen	5.04	5.21	4.40	20.47	22.31	14.2	11,717	12,101	3.3%
	GILD	Gilead Sciences	2.56	3.08	2.14	10.24	8.04	10.4	28,466	23,999	-15.7%
	JNJ	Johnson & Johnson	1.83	1.74	1.79	6.92	7.48	17.7	72,531	78,492	8.2%
	MRK	Merck & Co	1.01	0.93	0.87	3.85	3.95	16.2	40,015	40,825	2.0%
	PFE	Pfizer	0.67	0.64	0.66	2.44	2.63	12.9	52,347	53,399	2.0%
Real Estate	SHPG	Shire PLC	3.73	3.36	3.56	13.90	14.93	10.0	14,576	15,059	3.3%
	SNY	Sanofi	0.74	0.74	0.76	3.17	3.34	14.6	39,577	42,540	7.5%
	DLR	Digital Realty Trust	1.54	1.42	1.49	5.91	6.25	19.0	nmf	nmf	nmf
	KIM	Kimco Realty	0.41	0.38	0.38	1.34	1.22	16.1	nmf	nmf	nmf
	REG	Regency Centers	0.93	0.82	0.90	3.50	3.70	17.4	nmf	nmf	nmf
	AEO	American Eagle Outfitters	0.19	0.23	0.16	1.15	1.14	10.5	3,644	3,747	2.8%
Retailing	DSW	DSW	0.38	0.35	0.29	1.41	1.55	12.0	2,743	2,838	3.5%
	FL	Foot Locker	0.62	0.94	0.90	4.48	3.92	9.0	7,701	7,700	0.0%
	KSS	Kohl's	1.24	1.22	1.19	3.87	3.72	10.7	18,519	18,540	0.1%
	TGT	Target	1.23	1.23	1.19	4.93	4.44	12.3	69,577	71,339	2.5%
	WSM	Williams-Sonoma	0.61	0.58	0.59	3.46	3.63	12.7	5,140	5,304	3.2%
	Semis & Cap Equipment	INTC	Intel	0.72	0.59	0.68	2.97	3.04	11.5	61,711	61,859
MRVL		Marvell Technology Group	0.30	0.18	0.28	0.96	1.17	15.3	2,410	2,393	-0.7%
QCOM		Qualcomm	0.83	1.16	0.81	4.64	3.41	15.3	22,570	23,092	2.3%
Software & Services	CA	CA	0.61	0.64	0.55	2.45	2.46	13.5	4,062	4,224	4.0%
	IBM	Int'l Business Machines	2.97	2.95	2.74	13.65	13.86	10.3	78,440	77,873	-0.7%
	MSFT	Microsoft	0.75	0.69	0.71	3.08	3.20	23.3	89,950	104,476	16.1%
	SYMC	Symantec	0.33	0.29	0.31	1.23	1.94	15.5	4,310	5,252	21.9%
Technology Hardware	AAPL	Apple	1.67	1.42	1.57	8.79	10.45	15.7	223,507	253,943	13.6%
	BHE	Benchmark Electronics	0.38	0.31	0.34	1.53	1.57	20.7	2,365	2,419	2.3%
	CSCO	Cisco Systems	0.61	0.63	0.61	2.39	2.43	13.3	48,005	48,131	0.3%
	GLW	Corning	0.42	0.37	0.40	1.73	1.75	16.5	9,855	10,266	4.2%
	STX	Seagate Technology PLC	0.65	0.69	0.98	4.12	3.71	8.5	10,771	10,065	-6.6%
Telecommunication Services	T	AT&T	0.79	0.72	0.74	2.93	2.97	12.6	161,933	163,719	1.1%
Telecom Services	VZ	Verizon Communications	0.96	0.94	0.96	3.78	3.85	12.5	123,639	125,663	1.6%
Transportation	ALK	Alaska Air Group	2.51	2.12	2.52	7.32	8.03	9.3	6,941	8,431	21.5%
	DAL	Delta Air Lines	1.64	1.47	1.66	4.93	5.93	8.0	39,880	41,463	4.0%
	DPSGY	Deutsche Post AG	0.54	0.50	0.56	2.51	2.85	14.6	64,287	73,078	13.7%
	NSC	Norfolk Southern	1.68	1.36	1.65	6.13	6.56	18.4	10,226	10,553	3.2%

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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	36.54	45.04	5.5	0.3	1.3	2.0	16.3	149%	4.2%	53,246
	GT	Goodyear Tire & Rubber	30.30	50.83	8.5	0.5	1.8	6.1	5.0	129%	1.3%	7,628
Banks	BBT	BB&T Corp	46.09	56.72	15.3	nmf	2.2	nmf	nmf	nmf	2.9%	37,245
	CM	Canadian Imperial Bank	83.96	98.93	9.6	nmf	1.8	nmf	nmf	nmf	5.0%	36,786
	ONB	Old National Bancorp	16.35	20.65	13.9	nmf	1.8	nmf	nmf	nmf	3.2%	2,216
Capital Goods	• SIEGY	Siemens AG	65.58	88.62	15.4	2.3	40.5	10.5	5.8	1238%	2.2%	111,486
Consumer Dur & App	MDC	MDC Holdings	31.25	48.30	13.3	0.6	1.2	10.5	16.0	63%	3.2%	1,621
	NKE	Nike	52.81	65.18	22.2	2.5	7.2	15.5	2.9	29%	1.4%	86,682
	WHR	Whirlpool	171.62	225.72	12.4	0.6	nmf	9.5	5.8	nmf	2.6%	12,525
Diversified Financials	COF	Capital One Financial	79.61	107.36	11.1	nmf	1.3	nmf	nmf	nmf	2.0%	38,507
	SYF	Synchrony Financial	30.79	40.82	11.6	nmf	2.0	nmf	nmf	nmf	1.9%	24,488
Energy	HAL	Halliburton	38.97	57.98	nmf	2.0	5.2	20.9	4.5	166%	1.8%	33,966
	RDS/A	Royal Dutch Shell PLC	55.18	80.19	18.9	0.8	1.1	8.2	6.5	48%	5.8%	229,760
	TNP	Tsakos Energy Navigation	4.50	10.03	11.5	0.8	0.3	9.9	nmf	127%	4.4%	379
Food & Staples Retailing	CVS	CVS Health	77.34	124.87	13.2	0.4	nmf	8.5	11.8	nmf	2.6%	78,621
	KR	Kroger	21.87	36.20	11.0	0.2	9.9	6.2	5.6	587%	2.3%	19,625
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	41.32	51.83	16.5	0.4	1.7	11.1	9.3	45%	3.1%	23,244
Health Care Equip/Srvcs	MCK	McKesson	149.31	213.27	12.6	0.2	nmf	5.0	10.0	nmf	0.9%	31,394
	ZBH	Zimmer Biomet Hldgs	114.27	170.63	14.0	3.0	nmf	16.0	5.0	nmf	0.8%	23,105
Household Products	KMB	Kimberly-Clark	123.29	145.20	20.4	2.4	nmf	12.6	5.3	nmf	3.1%	43,559
Insurance	MET	MetLife	46.83	74.90	8.9	nmf	0.9	nmf	nmf	nmf	3.4%	49,774
	PRU	Prudential Financial	102.08	128.02	10.2	nmf	0.9	nmf	nmf	nmf	2.9%	43,588
Materials	MOS	Mosaic	19.98	39.05	20.0	1.0	0.9	11.1	0.1	47%	3.0%	7,014
Media	DIS	Walt Disney	101.20	137.92	17.7	2.8	19.8	10.6	5.5	239%	1.5%	156,200
Pharma/Biotech/Life Sci	AMGN	Amgen	177.77	221.26	14.4	5.6	17.5	10.0	7.4	454%	2.6%	129,714
	MRK	Merck & Co	63.86	76.25	16.6	4.4	34.9	16.4	4.8	435%	2.9%	174,169
	PFE	Pfizer	33.92	43.79	13.9	3.9	nmf	12.6	6.6	nmf	3.8%	201,734
	SHPG	Shire PLC	149.39	262.26	10.8	3.1	nmf	20.1	5.6	nmf	0.6%	45,221
Real Estate	• DOC	Physicians Realty Trust	18.73	25.33	17.7	nmf	1.6	nmf	nmf	nmf	4.9%	3,356
	KIM	Kimco Realty	19.62	27.27	14.6	nmf	1.9	nmf	nmf	nmf	5.5%	8,351
Retailing	• LOW	Lowe's Companies	73.89	111.77	17.0	0.9	14.6	9.9	7.8	369%	2.2%	62,380
	TGT	Target	54.53	74.28	11.1	0.4	2.7	5.6	15.8	100%	4.5%	29,786
	WSM	Williams-Sonoma	46.00	65.11	13.3	0.8	3.4	6.2	8.0	0%	3.4%	3,985
	Semis & Cap Equipment	INTC	Intel	35.07	48.24	11.8	2.7	3.5	6.8	7.1	60%	3.1%
Software & Services	QCOM	Qualcomm	52.27	70.36	11.3	3.4	3.7	11.2	4.9	93%	4.4%	77,154
	IBM	Int'l Business Machines	143.03	187.66	10.5	1.7	nmf	11.1	9.0	nmf	4.2%	133,295
	Technology Hardware	CSCO	Cisco Systems	32.21	37.08	13.5	3.4	4.8	8.7	8.0	76%	3.6%
Telecom Services	STX	Seagate Tech	31.53	44.00	7.7	0.8	nmf	6.4	15.8	nmf	8.0%	9,075
	T	AT&T	37.46	47.07	12.8	1.4	nmf	7.0	6.7	nmf	5.2%	230,004
Transportation	ALK	Alaska Air Group	74.66	107.89	10.2	1.3	7.8	6.1	7.8	208%	1.6%	9,222

As of 08.31.17. 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 to be undervalued along several lines relative to their own trading history, those of their peers or that of the market in general. Our Target Prices incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal three-to-five-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 we usually add the names to one of 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. And, until such time as we say sell, any of our 100+ recommended stocks should be viewed as a worthy purchase candidate.

This Month's Theme

Having cash to redeploy from recent sales, we will buy \$29,000 of **Qualcomm** and **Siemens** in TPS Portfolio, while we will purchase \$6,000 of **Alaska Air** and **Nike** in Buckingham Portfolio, where we will also bring the ownership of Shire PLC up to \$6,000. We will add \$10,000 of **CVS Health** and **Lowe's Cos** in Millennium Portfolio, while we will pick up \$20,000 of **McKesson** and **Physicians Realty** in PruFolio, where we will also raise our stake in **Royal Dutch** up to that amount. As is our custom, we will wait four trading days until September 8 to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ALK	Alaska Air Group	Industrials	74.66	107.89
CVS	CVS Health	Consumer Staples	77.34	124.87
DOC	Physicians Realty Trust	Real Estate	18.73	25.33
LOW	Lowe's Companies	Consumer Discretionary	73.89	111.77
MCK	McKesson	Health Care	149.31	213.27
NKE	Nike	Consumer Discretionary	52.81	65.18
QCOM	Qualcomm	Information Technology	52.27	70.36
RDSA	Royal Dutch Shell PLC	Energy	55.18	80.19
SHPG	Shire PLC	Health Care	149.39	262.26
SIEGY	Siemens AG	Industrials	65.54	88.62

As of 08.31.17. SOURCE: AI Frank using data from Bloomberg

Alaska Air Group (ALK)

Alaska Air provides passenger, mail and freight air service to more than sixty cities in three countries through its Alaska Airlines, Virgin America and Horizon Airlines subsidiaries. ALK operates a fleet of 156 Boeing 737 and 65 Airbus A320 single-aisle jets for mainline service, while Horizon operates 52 turboprops and 7 regional jets for feeder or thinner routes. Alaska shares, and airlines in general, have plunged since March, as low-cost carrier competition, weather, fuel price and capacity concerns have been worrisome. We appreciate the headwinds, but we think that in the last decade, airlines have operated in a way that is a substantial departure from history (and that is sustainable!). Capacity continues to wax and wane, but new, fuel-efficient and more-capable airplanes afford the ability to right-size capacity on routes. Although Alaska paid a high price, we think the acquisition of Virgin America is working out well, even as fleet synergies won't be fully realized for years, given that many of the A320s are locked in lease contracts. We think that the combined entity will remain the premier airline in the Pacific Northwest, offering travelers low fares and a top-level customer experience. ALK trades for 9.4 times NTM earnings.

CVS Health (CVS)

CVS operates one of the largest domestic retail pharmacy networks with more than 9,700 locations and is also a leading provider of pharmacy benefits management (PBM) services. The PBM business is challenged, but

with more than a billion adjusted claims expected to be processed in 2017, CVS has scale that gives it negotiating power to reduce branded drug prices for its customers. While there is concern that Amazon will enter the retail pharma sales space, we don't believe it is likely anytime soon, and we like that CVS offers numerous walk-in medical clinics and multiple client touch points as differentiators. We also believe that CVS will benefit from growth in pharma product sales due to the aging of the U.S. population, with analysts looking for EPS to rise from \$5.84 this year to \$6.34 in 2018 to \$6.83 in 2019. CVS, a high-tax-rate payer, generates strong free cash flow which can be used to increase its dividend (the yield is currently 2.6%), buy back shares and fuel growth.

Physicians Realty Trust (DOC)

Physicians Realty Trust is a small-cap healthcare REIT that acquires, owns and manages healthcare properties that are leased to physicians, hospitals and healthcare delivery systems and other healthcare providers. Its properties are typically on a campus with a hospital or strategically located and affiliated with a hospital or physician organization. With the stock off 14% after a recent share offering to raise money for additional property purchases in the competitive medical office building space, we see an attractive entry point to add healthcare exposure via a name outside of traditional pharma and medical devices. With DOC growing rapidly, while maintaining a 4.9% dividend yield, we like the expertise and experience of the management team with a proven track record of property acquisitions, as well as the continued focus on leveraging its physician and hospital relationships nationwide to invest in off-market assets that maximize returns to shareholders. DOC has a solid balance sheet with strong liquidity and access to various sources of capital which should support meaningful growth in Funds From Operations.

Lowe's Companies (LOW)

Lowe's is the second-largest home improvement retailer in the United States, distributing building materials, construction supplies and home products to professionals and DIY-ers via 1,820 stores in the U.S., 300 stores in Canada and 10 stores in Mexico. LOW also operates an expansive online store that features traditional shipping, ship-to-store and in-store pickup services. Shares have fallen from the May high due to Amazon worries (the online giant recently joined with Sears to sell appliances) and weaker-than-expected fiscal Q2 2018 results (\$1.57 in

actual EPS vs. a \$1.62 estimate). Of course, earnings are still expected to grow at a double-digit percentage pace for the foreseeable future, no doubt helped by a favorable macroeconomic backdrop that should continue to bolster the home improvement industry. And while the devastation from Hurricane Harvey in Houston is tragic, we think that the rebuilding effort will require substantial demand for the products Lowe's sells. Trading for a healthy discount to historical norms, LOW shares also yield 2.2%.

McKesson (MCK)

McKesson is the largest pharmaceuticals distributor in the U.S., providing drugs, medical products and supplies, as well developing, implementing and supporting information technology software that facilitates the integration of data through the health enterprise. MCK has been negatively impacted by contract shifts and lower price inflation of generic drugs, not to mention the attention that the pharma industry garners on Capitol Hill and in the media. Still, we like that MCK's large size gives it economies of scale that position it favorably with both drug companies and retail pharmacy customers. We see MCK capitalizing on continued pharmaceutical spending in the U.S. that is projected to grow robustly in the coming years, given the aging of our population, as well as the continued expansion of medical insurance coverage. Operational headwinds are unlikely to subside soon, but the important role the company plays in getting medical supplies and medicines from manufacturers to pharmacies, clinics and hospitals remains vital. Additionally, continued integration of acquisitions and pending improvements in its healthcare IT business should help drive growth. MCK trades for 12 times NTM earnings.

Nike (NKE)

Nike is a globally recognized designer and manufacturer of athletic footwear, apparel, equipment and accessories. The company sponsors hundreds of individual athletes (e.g. Michael Jordan, Roger Federer), teams (Chelsea, FC Barcelona) and colleges (USC, University of Michigan). These elite tie-ups enhance Nike's brand image and allow for wider margins and higher price points than competitors. Despite posting at the end of June terrific EPS (\$0.60 act. vs. \$0.50 est.) for fiscal Q4 2017, shares have been dragged down of late due to footwear and sporting goods retailers reporting weak results and soft outlooks. While fashion trends are fickle and Nike's summer offerings may not have been well received, the com-

pany has inked a deal to sell directly on Amazon, whereby the online retailing giant will step up anti-counterfeit operations, a positive for NKE and its intellectual property. True, the 'althleisure' market has cooled, but we think the comfortable, versatile attire will remain popular with consumers and will eventually have greater appeal than sports-specific products. We think it a fine time to pick up a best-of-breed, high-quality name at a reasonable price.

Qualcomm (QCOM)

Qualcomm is a designer and manufacturer of wireless communications equipment. The company holds a large number of wireless-related patents, and is a key contributor to the development of CDMA, a communications technology that is heavily used around the world. We think that Qualcomm's drawn-out bid to buy NXP Semi will give it a crucial boost in the automotive space, even if it is forced to raise the offer price. We are pleased that Qualcomm's Snapdragon mobile platform has been well-received by OEMs and consumers alike, with deployments in the new Samsung Galaxy S8, LG G6 and HTC U Ultra smartphones. The platform offers users processing strength, power efficiency, exceptional graphics and security. QCOM shares have been in the dog house, due to legal fights in many jurisdictions, mostly related to licensing and patent defense, which management contends are winnable. We think that the battles are commonplace for Qualcomm and don't detract from the attractiveness of the core businesses, while the company reported EPS of \$0.83 for fiscal Q3 2017, versus estimates of \$0.81. We also like the solid balance sheet, and note that the stock yields 4.4% and trades for a forward P/E of 15.

Royal Dutch Shell PLC (RDS/A)

Royal Dutch is engaged in the exploration, production, refining and sale of petroleum products worldwide. Shares have moved sideways this year as the stock remains highly impacted by day-to-day changes in energy prices. While we do not expect a return to \$100 per barrel oil anytime soon, we still believe that global energy demand will increase over the long term, given that usage in emerging economies should continue to rise. We also note that a core reason for exposure to integrated oil names like Royal Dutch is that they partake in numerous aspects of the energy stream. So, while E&P might not be performing as well with lower oil prices, downstream operations (refining) potentially benefit from spikes in refined product demand or pricing (like gasoline), as is be-

ing experienced post-Hurricane Harvey. We also continue to like the acquisition of BG, as it accelerates Shell's position in liquefied natural gas and other projects, materially boosting reserves and production, while offering cost savings opportunities. RDS/A yields 5.8%.

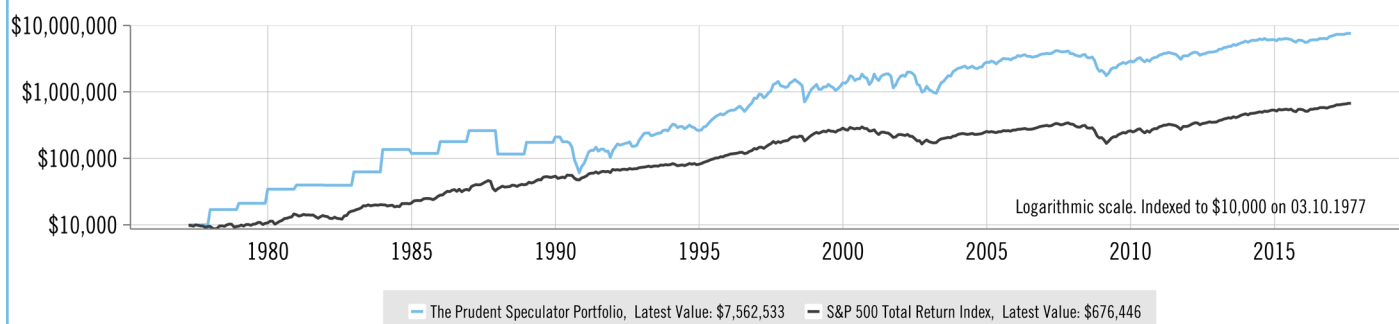
Shire PLC (SHPG)

Shire is a leading global biotech company focused on serving people with rare diseases and other highly specialized conditions. Shares are off more than 20% since the spring as the firm's CFO announced he would join a startup at the end of the year and the company said that it is weighing a possible spin-off of its large neuroscience division, which mainly sells drugs for attention-deficit and hyperactivity disorder. We believe the decline in share price has been overdone, especially as Q2 EPS numbers were terrific. CEO Flemming Ornskov said, "During the second quarter, we delivered strong top-line growth of 7% on a pro forma basis, generating product sales of \$3.6 billion. Our Immunology franchise grew by 18%, and we saw significant contributions across our broad and diverse portfolio. Shire remains ahead of schedule to deliver at least \$700 million in cost synergies from the Baxalta integration by Year 3. The Q2 performance resulted in strong operating cash flow of \$1.2 billion and enabled us to reduce Non GAAP net debt by \$880 million in the quarter." Shire trades for a very attractive 10 times NTM earnings.

Siemens AG (SIEGY)

Siemens is an engineering and manufacturing giant that specializes in electrification, automation and digitization. The company has nine business segments with more than a billion dollars in revenue and representation in more than 190 countries. Shares retreated after the company reported adjusted fiscal Q3 2017 EPS of \$0.95 (est. \$1.00) on revenue of \$23.6 billion (\$25.7 billion). Vision 2020, Siemens' strategy first outlined in 2014 to capitalize on the global digital transformation, remains on track, with management cautioning recently that power generation (20% of revenue) is expected to evolve from large turbines to centralized renewable sources. We like Siemens' worldwide footprint, diversified business portfolio and strong emphasis on the digitization of infrastructure. The merger with Gamesa (wind power) has kept managers busy, while the upcoming IPO of Healthineers (the health care division, expected in early 2018) should result in a more focused company once the dust settles. The German 'blue-chip' trades for 15 times earnings and yields 2.2%. ■

NEWSLETTER PORTFOLIO PERFORMANCE



	Aug	YTD	1-Year	3-Year	5-Year	10-Year	15-Year	Inception Date	Since Inception	Index Return	Index	
Newsletter Portfolios								Newsletter Portfolios				
Buckingham	-0.86	7.51	17.98	4.41	12.49	3.81	NA	Buckingham	01.21.03	11.69	9.84	Russell 3000
Millennium	-1.05	6.96	16.45	5.19	13.31	6.65	11.00	Millennium	12.31.99	9.47	5.45	Russell 3000
PruFolio	-1.37	8.26	17.99	5.62	12.72	6.59	11.57	PruFolio	12.29.00	13.02	6.27	Russell 3000
TPS	-0.86	8.59	19.49	5.91	14.19	6.58	12.77	TPS	03.10.77	17.82	10.99	S&P 500
Major Indexes								Since <i>The Prudent Speculator's</i> launch in March 1977, its 1,874 stock recommendations have returned, on average, an annualized 17.20%, not including dividends.				
Russell 3000	0.19	11.20	16.05	9.08	14.27	7.69	9.37					
Russell 3000 Value	-1.26	4.32	11.71	6.75	13.18	5.99	8.81					
S&P 500	0.31	11.93	16.23	9.54	14.33	7.61	9.05					
Dow Jones Indu. Avg.	0.65	13.01	22.29	11.46	13.70	7.93	9.12					

IMPORTANT INFORMATION

As of 08.31.17. 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. 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 had 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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