December 1, 2017

the Prudent Speculator

614

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

The first month of the seasonally strong half-year time span ended on quite a high note, with investors enthusiastic about significant progress in Congress on tax reform legislation. Indeed, the S&P 500 and Russell 3000 respectively rallied 3.07% and 3.04% to new all-time highs in November, with the Russell 3000 Value and Growth indexes showing similar advances, as it appears that the U.S. corporate tax rate soon could be slashed from 35% to 20%, while personal income levies will also be cut for many Americans, especially those not residing in high-tax states like California, New York and New Jersey.

> "The most important quality for an investor is temperament, not intellect."
>
> —Warren Buffett

While there is plenty of ball to be played before a final bill makes its way out of Capitol Hill, and there is no assurance that the White House will be happy with the compromise that will have to be reached between the House and the Senate, the possibility that Corporate America will see net income rise simply with the stroke of a pen adds to the generally favorable news that has buoyed stock prices of late. After all, earnings comparisons in the third quarter (see this month's *Earnings Scorecard*) were very good, with Standard & Poor's reporting that EPS for the S&P 500 rose 9.9% on an "operating" basis and 12.6% on an "as-reported" basis over the year-prior period.

No doubt, the improving economic backdrop (the estimate for Q3 GDP growth was just revised up 3.3%) has bolstered corporate profits. In late-November, Janet Yellen said, "Economic growth appears to have stepped up from its subdued pace early in the year," in remarks delivered to the Joint Economic Committee, with the current Fed Chair adding, "Moreover, the economic expansion is increasingly broad, based across sectors as well as across much of the global economy." And, the latest economic data, be they measures of consumer confidence or the health of manufacturing, support the upbeat outlook.

Of course, we realize that a robust economy has led to growing worry about the Fed and the path of interest rates, but Ms. Yellen stated this past week, "We welcome strong growth. The Fed is not trying to stifle growth. We're worried about trends that could push inflation above our 2% objective." To be sure, the leadership at the Fed (both the outgoing Ms. Yellen and the incoming Chair Jerome Powell) has continued to echo the party line that "gradual increases in the federal funds rate will be appropriate to sustain a healthy labor market and stabilize inflation," but current market expectations of a rate hike later this month to a range of 1.25% to 1.50%, with one or two quarter-point increases likely in 2018, are hardly cause for alarm. After all, the Fed's present long-run target for the fed funds rate is 2.8% and the historical average is 5.3%, meaning that interest rates are likely to remain low by historical standards for the foreseeable future.

We respect that rising interest rates could eventually be a headwind for equity prices, but so much money has flowed into fixed income investments and out of stocks in recent years that we would argue that the red-ink likely to be seen in bond-land should rates spike would lead to an exodus of funds out of the asset class, with those dollars potentially adding further fuel to stock prices. This is especially true when one considers that the relationship between dividend yields on stocks (1.9% on the S&P 500 and 2.6% on TPS Portfolio) and the yield on the benchmark 10-year U.S. Treasury (2.4%) has almost never been skewed so heavily in favor of equities.

Not surprisingly, we remain optimistic about the long-term prospects of our broadly diversified portfolios, especially as Value stocks have performed well in rising-rate environments and they tend to be higher tax payers. But, we also are realistic and braced for near-term volatility as equity prices move in both directions (as evidenced by the intra-day 1.5% Michael Flynn/ABC News-related plunge on Dec. 1) and it has been quite some time since we've witnessed anything more than a modest market pullback.

Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q3 Season

Economic statistics during Q3 remained healthy, so it was hardly a shock that Corporate America turned in another favorable earnings reporting season, at least in regard to quarterly results relative to expectations. As is usually the case, however, 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 of companies in the S&P 500

Industry Group	Ticker	Company	09.17 Act EPS	09.16 Act EPS	09.17 Est EPS	TTM[1] EPS	NTM[2] Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Autos & Components	GM	General Motors	1.32	1.72	1.11	6.19	5.89	7.3	155,725	147,165	-5.5%
	GT	Goodyear Tire & Rubber	0.70	1.17	0.67	3.09	3.48	9.3	15,047	15,498	3.0%
Banks	BAC	Bank of America	0.48	0.42	0.46	1.75	2.08	13.6	nmf	nmf	nmf
	BBT	BB&T Corp	0.78	0.76	0.78	3.03	3.33	14.8	nmf	nmf	nmf
	CM	Canadian Imperial Bank	2.25	1.98	2.05	8.50	8.61	10.7	nmf	nmf	nmf
	FITB	Fifth Third Bancorp	0.48	0.43	0.47	1.80	1.99	15.4	nmf	nmf	nmf
	HSBC	HSBC Holdings PLC	0.92	1.01	0.90	3.64	3.67	13.5	nmf	nmf	nmf
	ING	ING Groep NV	0.41	0.39	0.40	1.50	1.80	10.1	nmf	nmf	nmf
	JPM	JPMorgan Chase	1.75	1.59	1.65	6.65	7.48	14.0	nmf	nmf	nmf
	KEY	KeyCorp	0.35	0.30	0.35	1.32	1.47	12.9	nmf	nmf	nmf
	ONB	Old National Bancorp	0.31	0.28	0.26	1.21	1.13	16.1	nmf	nmf	nmf
	PNC	PNC Financial Services	2.16	1.84	2.13	8.38	9.11	15.4	nmf	nmf	nmf
	WFC	Wells Fargo	1.04	1.03	1.03	4.10	4.18	13.5	nmf	nmf	nmf
Capital Goods	ARII	American Railcar Industries	0.46	0.94	0.57	2.75	2.13	19.1	512	481	-6.1%
	BA	Boeing	2.72	3.51	2.65	9.75	11.07	25.0	91,310	92,980	1.8%
	CAT	Caterpillar	1.95	0.85	1.25	5.55	7.34	19.2	42,140	46,544	10.5%
	CMI	Cummins	2.71	2.02	2.46	9.85	11.33	14.8	19,455	21,001	7.9%
	DE	Deere & Co	1.57	0.98	1.47	5.92	8.12	18.5	29,738	32,004	7.6%
	ETN	Eaton PLC	1.27	1.15	1.25	4.50	5.01	15.5	20,058	20,823	3.8%
	FLR	Fluor	0.67	1.13	0.61	1.89	2.43	19.9	19,483	19,010	-2.4%
	SIEGY	Siemens AG	0.88	0.79	0.99	3.99	4.34	15.7	91,752	98,983	7.9%
	TPC	Tutor Perini	0.47	0.57	0.73	1.92	2.40	10.5	4,811	5,496	14.3%
	TRN	Trinity Industries	0.43	0.54	0.32	1.50	1.40	25.4	3,860	4,080	5.7%
Commercial Services	MAN	ManpowerGroup	2.04	1.87	1.97	6.71	7.65	16.8	20,353	22,249	9.3%
Consumer Dur & App	MDC	MDC Holdings	1.16	0.51	0.57	3.00	2.55	14.0	2,590	2,785	7.5%
	TPR	Tapestry	0.42	0.45	0.36	2.13	2.45	17.0	4,740	5,874	23.9%
	WHR	Whirlpool	3.83	3.66	3.94	14.01	15.31	11.0	21,207	22,108	4.2%
Consumer Services	RCL	Royal Caribbean Cruises Ltd	3.49	3.20	3.32	7.42	8.25	15.0	8,683	9,142	5.3%
Diversified Financials	BK	Bank of New York Mellon	0.98	0.90	0.92	3.48	3.81	14.4	nmf	nmf	nmf
	COF	Capital One Financial	2.42	2.03	2.15	7.59	8.58	10.7	nmf	nmf	nmf
	GS	Goldman Sachs Group	5.02	4.88	4.25	18.47	19.69	12.6	nmf	nmf	nmf
	SYF	Synchrony Financial	0.70	0.73	0.64	2.62	3.03	11.8	nmf	nmf	nmf
Energy	HAL	Halliburton	0.42	0.01	0.38	0.73	1.90	22.0	18,701	22,802	21.9%
	HFC	HollyFrontier	1.15	0.38	0.90	1.63	2.90	15.3	13,214	13,323	0.8%
	NOV	National Oilwell Varco	-0.07	-0.34	-0.08	-0.53	0.09	360.8	7,027	7,921	12.7%
	OII	Oceaneering Int'l	0.02	0.17	0.03	0.03	-0.43	-45.3	1,926	1,742	-9.5%
	RDS/A	Royal Dutch Shell PLC	1.00	0.70	0.88	3.24	3.70	17.3	284,524	309,204	8.7%
	SFL	Ship Finance Int'l Ltd	0.25	0.35	0.28	1.21	1.03	15.0	383	391	2.3%
	SLB	Schlumberger Ltd	0.42	0.25	0.42	1.29	1.97	31.9	29,368	33,364	13.6%
	TNP	Tsakos Energy Navigation Ltd	-0.12	-0.02	-0.10	0.11	0.29	13.2	525	476	-9.5%
	TOT	Total SA	1.04	0.84	1.05	3.98	4.32	13.1	144,524	145,730	0.8%
	XOM	Exxon Mobil	0.93	0.63	0.87	3.55	4.06	20.5	222,508	281,452	26.5%
Food & Staples Retailing	CVS	CVS Health	1.50	1.64	1.49	5.71	6.22	12.3	182,351	190,150	4.3%
	KR	Kroger	0.44	0.41	0.40	1.94	1.97	13.1	119,242	125,498	5.2%
	WBA	Walgreens Boots Alliance	1.31	1.07	1.21	5.10	5.55	13.1	118,214	130,000	10.0%
	WMT	Wal-Mart Stores	1.00	0.98	0.98	4.38	4.62	21.1	495,012	508,630	2.8%
Food Beverage & Tobacco	ADM	Archer-Daniels-Midland	0.45	0.59	0.56	2.37	2.70	14.8	61,259	63,672	3.9%
	TSN	Tyson Foods	1.43	0.96	1.36	5.31	5.77	14.3	38,260	40,681	6.3%
Health Care Equip/Srvcs	ABT	Abbott Laboratories	0.66	0.59	0.65	2.41	2.76	20.4	25,134	29,822	18.7%
	AET	Aetna	2.45	2.07	2.08	10.21	9.27	19.4	61,409	60,682	-1.2%
	CAH	Cardinal Health	1.09	1.24	1.00	5.27	5.12	11.6	130,578	137,201	5.1%

As of 11.30.17. Real Estate (REIT) companies use Funds From Operations (FFO) instead of EPS. N/A=Not applicable. [1]Trailing 12-month. [2]Next 12-months. nmf=Not meaningful. SOURCE: Al Frank using data (EPS Adjusted) from Bloomberg that exceeded earnings estimates was 74.1%, compared to 17.2% that trailed forecasts and 8.7% that met projections. In Q3 2016, those same Beat/Miss/Match figures were 72.5%/20.0%/7.4%. The tally for our recommendations was very similar. Of the 101 *Prudent Speculator* stocks presented in our Earnings Scorecard, 75% topped EPS estimates, while 17% lagged and 8% equaled.

Management teams were still relatively cautious in their outlooks and guidance, but 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 $125.10 this year and to $144.33 in 2018. Analysts are often much too rosy in their views, but improving earnings aren't usually bad for stocks!

Industry Group	Ticker	Company	09.17 Act EPS	09.16 Act EPS	09.17 Est EPS	TTM[1] EPS	NTM[2] Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Health Care Equip/Srvcs	MCK	McKesson	3.28	2.94	2.80	12.21	12.41	11.9	201,955	206,510	2.3%
	MDT	Medtronic PLC	1.07	1.12	1.02	4.64	4.95	16.6	29,639	29,719	0.3%
	ZBH	Zimmer Biomet Holdings	1.72	1.79	1.74	8.07	8.05	14.5	7,763	7,886	1.6%
Household Products	KMB	Kimberly-Clark	1.60	1.52	1.54	6.11	6.36	18.8	18,221	18,547	1.8%
Insurance	ALL	Allstate	1.60	1.26	0.90	6.80	6.83	15.0	nmf	nmf	nmf
	AXS	Axis Capital Holdings Ltd	-5.35	1.78	-5.63	-2.31	4.48	11.7	nmf	nmf	nmf
	AZSEY	Allianz SE	0.42	0.47	0.43	1.77	2.04	11.5	nmf	nmf	nmf
	MET	MetLife	1.09	1.28	0.92	5.08	4.62	11.6	nmf	nmf	nmf
	PRU	Prudential Financial	3.01	2.66	2.71	10.35	11.22	10.3	nmf	nmf	nmf
Materials	ABX	Barrick Gold	0.16	0.24	0.16	0.74	0.78	17.6	8,465	8,306	-1.9%
	AGU	Agrium	-0.23	-0.03	-0.03	4.47	5.94	18.5	13,701	14,527	6.0%
	AUY	Yamana Gold	0.05	0.02	0.02	0.01	0.10	26.5	1,809	1,953	7.9%
	CE	Celanese	1.93	1.67	1.92	7.05	7.95	13.5	5,858	6,313	7.8%
	MOS	Mosaic	0.43	0.41	0.18	1.02	1.04	23.3	7,180	7,106	-1.0%
	NEM	Newmont Mining	0.35	0.51	0.33	1.31	1.43	25.9	7,202	7,326	1.7%
Media	CMCSA	Comcast	0.52	0.46	0.50	2.02	2.14	17.5	83,636	88,829	6.2%
	DIS	Walt Disney	1.07	1.10	1.14	5.70	6.25	16.8	55,137	58,727	6.5%
Pharma/Biotech/Life Sci	AMGN	Amgen	3.27	3.02	3.11	12.58	12.53	14.0	23,012	23,004	0.0%
	BIIB	Biogen	6.31	5.19	5.73	21.59	23.47	13.7	11,839	12,593	6.4%
	GILD	Gilead Sciences	2.27	2.75	2.13	9.76	7.13	10.5	27,478	22,608	-17.7%
	JNJ	Johnson & Johnson	1.90	1.68	1.80	7.14	7.70	18.1	74,361	80,016	7.6%
	MRK	Merck & Co	1.11	1.07	1.04	3.89	3.99	13.9	39,804	40,854	2.6%
	PFE	Pfizer	0.67	0.61	0.65	2.50	2.67	13.6	52,470	53,627	2.2%
	SHPG	Shire PLC	3.81	3.17	3.66	14.54	15.49	9.6	14,822	15,509	4.6%
	SNY	Sanofi	1.00	1.00	1.00	3.18	3.33	13.7	40,214	41,854	4.1%
Retailing	DSW	DSW	0.45	0.51	0.53	1.35	1.55	13.7	2,754	2,860	3.8%
	FL	Foot Locker	0.87	1.13	0.80	4.22	4.00	10.7	7,685	7,751	0.9%
	KSS	Kohl's	0.70	0.80	0.72	3.77	3.76	12.8	18,524	18,608	0.5%
	LOW	Lowe's Cos	1.05	0.88	1.02	4.51	4.99	16.7	68,909	70,614	2.5%
	TGT	Target	0.91	1.04	0.86	4.80	4.27	14.0	69,803	72,007	3.2%
	WSM	Williams-Sonoma	0.84	0.79	0.84	3.51	3.61	14.2	5,194	5,366	3.3%
Semis & Cap Equipment	INTC	Intel	1.01	0.80	0.80	3.18	3.21	14.0	62,082	63,335	2.0%
	MRVL	Marvell Technology	0.34	0.20	0.33	0.76	1.20	18.6	2,372	2,409	1.6%
	QCOM	Qualcomm	0.92	1.28	0.82	4.28	3.55	18.7	22,291	22,942	2.9%
Software & Services	CA	CA Inc.	0.62	0.67	0.62	2.40	2.49	13.3	4,078	4,282	5.0%
	IBM	Int'l Business Machines	3.30	3.29	3.28	13.66	14.03	11.0	78,367	78,957	0.8%
	MSFT	Microsoft	0.84	0.76	0.72	3.16	3.42	24.6	94,035	108,357	15.2%
	SYMC	Symantec	0.40	0.30	0.43	1.33	1.82	15.9	4,571	5,060	10.7%
Technology Hardware	AAPL	Apple	2.07	1.67	1.87	9.19	11.41	15.1	229,234	272,862	19.0%
	AVX	AVX	0.21	0.15	0.20	0.80	0.69	26.3	1,354	1,519	12.2%
	BHE	Benchmark Electronics	0.39	0.36	0.34	1.56	1.55	19.7	2,394	2,417	0.9%
	CSCO	Cisco Systems	0.61	0.61	0.60	2.39	2.49	15.0	47,789	48,644	1.8%
	GLW	Corning	0.43	0.42	0.41	1.74	1.75	18.5	9,955	10,565	6.1%
	STX	Seagate Technology PLC	0.96	0.99	0.86	4.09	4.06	9.5	10,606	10,260	-3.3%
Telecom Services	T	AT&T	0.74	0.74	0.74	2.93	2.91	12.5	160,711	163,208	1.6%
	VZ	Verizon Communications	0.98	1.01	0.98	3.75	3.85	13.2	124,419	127,105	2.2%
Transportation	ALK	Alaska Air Group	2.24	2.20	2.26	7.36	5.96	11.6	7,495	8,426	12.4%
	DAL	Delta Air Lines	1.57	1.70	1.52	4.80	5.30	10.0	40,457	42,386	4.8%
	DPSGY	Deutsche Post AG	0.60	0.55	0.59	2.56	2.84	16.8	66,005	73,041	10.7%
	NSC	Norfolk Southern	1.65	1.55	1.64	6.24	6.82	20.3	10,372	10,821	4.3%

As of 11.30.17. Real Estate (REIT) companies use Funds From Operations (FFO) instead of EPS. N/A=Not applicable. [1]Trailing 12-month. [2]Next 12-months. nmf=Not meaningful. SOURCE: Al Frank using data (EPS Adjusted) from Bloomberg

Recommended Stocks

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

				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	43.09	56.08	7.0	0.4	1.7	2.9	8.5	184%	3.5%	61,205
	GT	Goodyear Tire & Rubber	32.37	49.32	10.5	0.5	1.9	6.8	1.5	138%	1.7%	7,974
Banks	BBT	BB&T Corp	49.42	58.32	16.3	nmf	2.4	nmf	nmf	nmf	2.7%	38,988
	CM	Canadian Imperial Bank	91.76	103.32	10.6	nmf	2.4	nmf	nmf	nmf	4.4%	40,341
	• SCGLY	Societe Generale SA	10.05	16.29	7.6	nmf	0.6	nmf	nmf	nmf	4.0%	40,598
Capital Goods	SIEGY	Siemens AG	68.02	86.92	15.8	2.3	22.8	11.2	4.1	650%	2.1%	115,634
Consumer Dur & App	WHR	Whirlpool	168.57	222.30	12.0	0.6	nmf	9.6	5.3	nmf	2.6%	12,114
Diversified Financials	ANH	Anworth Mortgage Asset	5.62	6.44	10.6	nmf	0.9	nmf	nmf	nmf	10.7%	551
	COF	Capital One Financial	92.00	113.87	12.1	nmf	1.4	nmf	nmf	nmf	1.7%	44,596
Energy	RDS/A	Royal Dutch Shell PLC	64.12	84.12	16.5	0.4	1.3	8.5	5.3	47%	5.0%	268,217
	SLB	Schlumberger Ltd	62.85	101.37	48.7	3.0	17.7	19.5	3.8	323%	3.2%	87,064
	TNP	Tsakos Energy Nav	3.84	8.37	34.9	0.6	0.2	8.8	nmf	119%	5.2%	326
Food & Staples Retailing	KR	Kroger	25.86	36.70	13.3	0.2	11.2	7.0	4.4	636%	1.9%	23,003
	WBA	Walgreens Boots Alliance	72.76	115.27	14.3	0.6	42.9	11.7	7.6	756%	2.2%	72,058
Food Bev & Tobacco	ADM	Archer-Daniels-Midland	39.88	50.18	16.8	0.4	1.6	12.3	6.7	48%	3.2%	22,303
Health Care Equip/Srvcs	CAH	Cardinal Health	59.19	88.76	11.2	0.1	nmf	10.5	10.2	nmf	3.1%	18,621
	ZBH	Zimmer Biomet Hldgs	117.10	169.04	14.5	3.1	nmf	16.2	5.5	nmf	0.8%	23,710
Household Products	KMB	Kimberly-Clark	119.76	143.28	19.6	2.3	nmf	12.2	5.1	nmf	3.2%	42,126
Insurance	AXAHY	AXA SA	30.22	44.58	11.3	nmf	1.1	nmf	nmf	nmf	3.4%	73,329
	PRU	Prudential Financial	115.84	131.44	11.2	nmf	1.0	nmf	nmf	nmf	2.6%	49,116
Materials	ABX	Barrick Gold	13.78	23.10	18.6	1.9	2.0	4.3	5.1	79%	0.9%	16,071
Media	CMCSA	Comcast	37.54	46.34	18.6	2.1	nmf	8.6	6.9	nmf	1.7%	175,453
	DIS	Walt Disney	104.82	136.98	18.4	2.9	54.7	11.1	5.3	661%	1.6%	158,311
Pharma/Biotech/Life Sci	AMGN	Amgen	175.66	222.85	14.0	5.5	14.9	9.9	8.2	394%	2.6%	127,513
	GILD	Gilead Sciences	74.78	121.90	7.7	3.6	6.4	5.0	12.3	179%	2.8%	97,683
	MRK	Merck & Co	55.27	72.29	14.2	3.8	31.6	14.4	2.8	458%	3.5%	150,580
	PFE	Pfizer	36.26	44.30	14.5	4.1	nmf	12.7	6.3	nmf	3.5%	216,135
	SHPG	Shire PLC	148.75	253.78	10.2	3.1	nmf	14.3	6.9	nmf	0.6%	45,053
Real Estate	DOC	Physicians Realty Trust	17.87	23.81	17.0	nmf	1.3	nmf	nmf	nmf	5.1%	3,203
	KIM	Kimco Realty	18.52	26.02	12.0	nmf	1.8	nmf	nmf	nmf	6.0%	7,883
Retailing	FL	Foot Locker	42.84	70.65	10.2	0.7	2.2	4.5	7.3	5%	2.9%	5,312
	LOW	Lowe's Cos	83.37	114.69	18.5	1.0	15.7	10.2	6.5	353%	2.0%	69,432
	TGT	Target	59.90	77.12	12.5	0.5	3.0	6.2	14.0	104%	4.1%	32,560
	WSM	Williams-Sonoma	51.16	64.68	14.6	0.8	3.7	6.8	6.9	0%	3.0%	4,322
Semis & Cap Equipment	INTC	Intel	44.84	50.82	14.1	3.4	6.1	8.7	5.6	80%	2.4%	209,851
Software & Services	IBM	Int'l Business Machines	153.97	195.74	11.3	1.8	nmf	11.7	7.9	nmf	3.9%	142,544
	ORCL	Oracle	49.06	58.89	17.5	5.3	35.6	12.4	6.2	839%	1.5%	204,730
Telecom Services	VZ	Verizon Communications	50.89	56.31	13.6	1.7	nmf	6.8	2.4	nmf	4.6%	207,603
Transportation	ALK	Alaska Air Group	69.17	105.29	9.4	1.1	6.0	5.6	6.2	166%	1.7%	8,511
	FDX	FedEx	231.46	280.20	19.4	1.0	6.7	9.3	-0.6	164%	0.9%	62,065

As of 11.30.17. 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 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

Cash is still at low levels in our newsletter portfolios, but we will pick up $10,000 of **Societe Generale SA** in Millennium Portfolio and $20,000 of **FedEx** in PruFolio. We will also bring the holdings of **Merck** in Buckingham Portfolio up to $7,000, with that amount the account's new "normal" position size. We will buy on December 7, waiting our usual four days to transact. There are no additional purchases of **Anworth**, **Canadian Imperial**, **IBM**, **Royal Dutch**, **Target**, **Verizon** and **Whirlpool** as we already have sufficient ownership and/or industry exposure.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
ANH	Anworth Mortgage Asset	Financials	5.62	6.44
CM	Canadian Imperial Bank	Financials	91.76	103.32
FDX	FedEx	Industrials	231.46	280.20
IBM	Int'l Business Machines	Information Technology	153.97	195.74
MRK	Merck & Co	Health Care	55.27	72.29
RDS/A	Royal Dutch Shell PLC	Energy	64.12	84.12
SCGLY	Societe Generale SA	Financials	10.05	16.29
TGT	Target	Consumer Discretionary	59.90	77.12
VZ	Verizon Communications	Telecom Services	50.89	56.31
WHR	Whirlpool	Consumer Discretionary	168.57	222.30

As of 11.30.17. SOURCE: Al Frank using data from Bloomberg

Anworth Mortgage Asset (ANH)

Anworth is a REIT focused mainly on U.S. mortgage-backed securities (MBS) issued or guaranteed by an agency of the U.S. (Ginnie Mae) or a U.S. government-sponsored entity (Fannie Mae or Freddie Mac). Anworth's core business produced adjusted EPS of $0.12 in its recently reported Q3, in line with consensus analyst estimates. We appreciate management's efforts to diversify and plan for the long term via the ownership of 88 single-family residential rental properties located in southern Florida. With shares off more than 7% since the summer, impacted by rising rates and a less-steep yield curve, ANH is now trading at 93% of its latest reported book value of $6.04 per share, while yielding a massive 10.7%. True, the company must continue to navigate a more volatile interest rate environment that could include an even flatter yield curve, but management generally has proven adept thus far, supporting the dividend, while buying back stock at favorable times...such as when it trades below book value.

Canadian Imperial Bank (CM)

Canadian Imperial Bank, often referred to as CIBC (note that the ticker is CM), is the fifth-largest Canadian bank by market capitalization, providing banking services through three operating segments: Retail and Business Banking, Wealth Management and Wholesale Banking. In fiscal Q4, CM earned $2.25 per share, versus the $2.05 consensus estimate, and generated a robust return on equity measure of 15.8%. The bank also reported strong borrower credit quality, loan growth and consistent strength in the Capital Markets business despite the "quiet trading environment." CM expects EPS growth around 5% per annum for the foreseeable future and CEO Victor Dodig added, "We advanced our U.S. growth strategy with the acquisitions of PrivateBancorp and Geneva Advisors. We truly have a North American franchise, a platform from which to grow and leverage the strengthening U.S. economy." Management also raised the dividend three times in 2017, increasing the payment by 7% versus 2016. Although shares have risen sharply since the June low, we believe that CM still trades at a relative discount with a forward P/E ratio under 11 and a 4.4% dividend yield.

FedEx (FDX)

Memphis-based FedEx is the world's largest cargo airline and offers door-to-door package delivery services for consumers and businesses in more than 220 countries and territories. With the holiday retail season underway and early tallies of Black Friday and Cyber Monday activity indicating that Americans were busily shopping on the Internet, we expect that demand for FDX's services will continue to be strong. In October, FDX reminded investors, "e-commerce, including B2B e-commerce, and global trade growth are increasing demand for our services," while the company is working to stay ahead of competitors with "significant enhancements to the FedEx portfolio that include a long-term alliance agreement with Walgreens for FedEx OnSite and launching FedEx Fulfillment." By the end of this year, FedEx estimates that 80% of the U.S. population will be 9 minutes or less from a package hold location. We think that FDX's improvement plan is both important and substantial, and should give smaller online retailers to online giants plenty of options when it comes to delivering merchandise. We like FedEx's strong balance sheet, modest dividend yield and position as an industry leader. FDX trades at a reasonable (for a company of its ilk) 17.3 times NTM estimated earnings.

Int'l Business Machines (IBM)

IBM is a leading provider of enterprise solutions, offering a broad portfolio of IT hardware, business and IT services, and a full suite of software solutions. After surging 9% on strong Q3 earnings (EPS beat, better-than-expected outlook), shares have given up about half of the gain. IBM, guilty by association, has been dragged down as part of a broader Info Tech retreat due to Wall Street traders allegedly rotating out of the sector. Although IT stocks in general have been on an almost-uninterrupted rise since 2009, IBM's leadership and execution have left lots to be desired, resulting in the company being excluded from the party. We think that may be beginning to change, as IBM reported that its Strategic Imperatives have been making a difference, growing to $34 billion in revenue (43% of the total) for the past year, and the company expects revenue to increase sequentially again in Q4. While our patience has been tested on more than one occasion, we remain long-term fans of Big Blue and believe that a stand-alone Strategic Imperatives business would likely be worth more on its own than the current overall market cap. Inexpensive IBM trades for 11.1 times forward EPS, while the company has $1.5 billion remaining on its share repurchase plan and the yield is now 3.9%.

Merck & Co. (MRK)

Merck is a global pharmaceutical giant focused on drugs for respiratory and cardiovascular ailments, diabetes, infectious diseases and oncology, in addition to maintaining a significant presence in immunooncology (IO). The flagship IO product, Keytruda, quickly became the company's top-selling drug, helped by its first-mover advantage in front-line lung cancer. While shares recently took a significant step back following amendments and delay to the readout of an important lung trial, we ultimately think Keytruda will be able to maintain its solid position as a backbone IO therapy over the long term and will materially drive sales for MRK. Financial results for Q3 were solid, with the company reporting adjusted EPS of $1.11 on revenue of $10.3 billion. MRK trades at less than 14 times NTM EPS projections and the company boasts a history of returning cash to shareholders, a diversified revenue stream, an improving pipeline of products and solid free-cash-flow generation, while management is on the hunt for acquisitions and drug-licensing deals that could bolster its drug development. MRK yields 3.5%.

Royal Dutch Shell PLC (RDS/A)

Royal Dutch is engaged in the exploration, production, refining and sale of petroleum products worldwide. Shares have moved up nicely since the summer as oil prices have rallied, while the company turned in solid Q3 results, announced that it would stop issuing stock as part of its dividend program and suggested a $25 billion buyback program was in the works. We continue to think Royal Dutch is a core holding as 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 reason for exposure to integrated oil names like Royal Dutch is that they partake in numerous aspects of the energy stream, so if upstream is not performing well because of lower oil prices, downstream operations (refining) might benefit from spikes in refined product demand or pricing. 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 has a net dividend yield of 5.0%.

Societe Generale SA (SCGLY)

Paris-based Societe Generale SA ("SocGen") offers commercial, retail, investment and private banking services. The bank has more than 3,000 branches in France, plus an additional 4,000+ branches in nearly 70 other countries. At the company's recent Investor Day, management noted multiple points of reform to combat "deep and long-term transformations" in the European banking industry. Among the areas of improvement, SocGen is focusing on improving customer banking experiences via digitalization, decreasing office costs (including the elimination of some retail bank positions and branches) and jettisoning non-core subsidiaries. While some analysts have cautioned that the transition may be slow and painful, we think that the strengthening European macroeconomic environment will serve as a tailwind for the bank. We believe that the 2020 strategic plan is on the ambitious end of the spectrum, and that the company will need to execute strongly on multiple fronts to achieve goals like 3%+ revenue growth per annum, cost reduction to below 17.8 billion euros (fiscal 2016 non-interest expense was 20.2 billion euros) and EPS above 6.50 euros per share (2016 was 4.55 euros). Despite the challenges, we think SocGen adds geographic diversity to a broadly diversified portfolio and trades at reasonable valuation levels, including a forward P/E of 11.2 and net dividend yield of 4.0%.

Target (TGT)

Target is one of the largest domestic discount retailers, operating 1,834 stores, and continuing to build out its omni-channel presence. Shares have recouped most of the losses suffered after investors were disappointed by the company's projections for the all-important Q4. While the estimates were below plan, we like that much of the "softness" is expected from TGT's continued long-term-focused investments in its online business, improving its physical store experience and launching new brands and partnerships across its home and apparel categories. There will continue to be no shortage of challenges in the retail space, however, we think that Target's strong balance sheet and large investments in e-commerce will help solidify its foundation for the future. TGT shares trade for 14.1 times forward earnings and yield 4.1%.

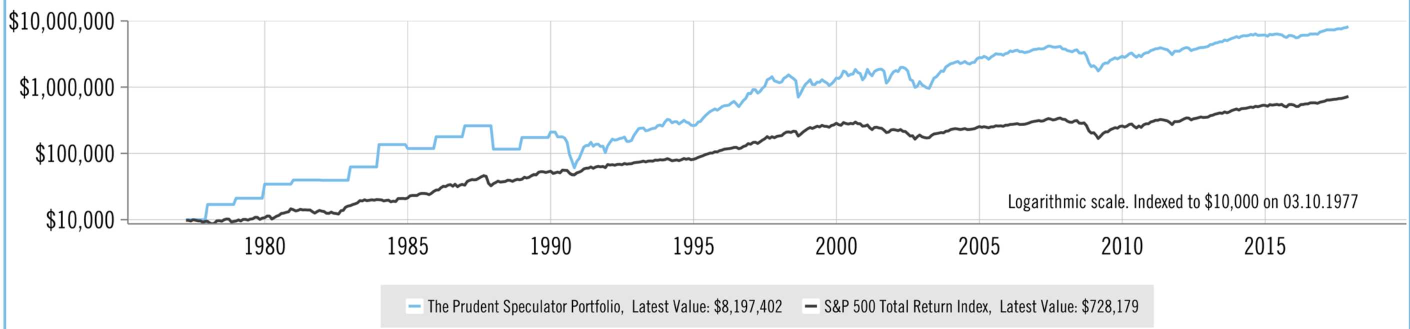
Verizon Communications (VZ)

Verizon is an integrated telecom company that provides voice and data services to wired and wireless customers. Shares have rallied over the past few weeks, as it grows more likely that Ajit Pai, chairman of the FCC, will roll back Obama-era "net neutrality" rules that require Internet Service Providers (ISPs) to treat all traffic equally. While the reversal would be a setback for consumers, ISPs like Verizon would be able to sign deals with content providers to prioritize Web traffic and encourage 'zero ratings' (allowed by current rules), the practice of exempting traffic from data limits for a fee. As Verizon tries to move away from being a Title II 'utility' and into a diversified media company, we think that some of the tough competitive landscape concerns will evaporate more quickly than the status quo might have allowed. Elsewhere in Washington, Verizon would benefit from even a small reduction in the corporate tax rate, as the company pays in the 34% to 35% range currently. VZ trades with a current P/E of 13.0, below the 3-, 5- and 10-year averages for the metric, and the stock yields a rich 4.7%.

Whirlpool (WHR)

Whirlpool is the top major appliance manufacturer in the world with an expected $21 billion+ in 2017 sales, marketing its numerous brands in approximately 170 countries. Shares fell 11% in late October after the company reported a weaker-than-expected Q3 and lowered its full-year guidance, impacted by increased input costs and competition. Whirlpool now expects adjusted EPS for the full-year of $13.60 to $13.90, with cash from operating activities between $1.55 billion and $1.6 billion and free cash flow near $900 million. While we can't ignore potential headwinds, we still believe WHR is solidly positioned in the U.S. to capitalize on the appliance replacement cycle and continued housing recovery, and we think that there is plenty of growth potential overseas. With investors still looking for adjusted EPS to grow to more than $17.70 in 2019, the current forward P/E ratio of 11 appears to be very cheap, especially given the 2.6% dividend yield.

NEWSLETTER PORTFOLIO PERFORMANCE



	Nov	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	3.72	16.87	19.82	9.00	13.81	5.04	NA
Millennium	3.05	15.51	18.50	9.07	14.55	7.69	11.42
PruFolio	2.62	15.20	18.12	8.94	13.74	7.94	12.46
TPS	3.15	17.71	20.91	10.25	15.27	8.07	13.61
Major Indexes							
Russell 3000	3.04	19.93	22.27	10.75	15.63	8.43	9.75
Russell 3000 Value	3.05	11.76	14.70	8.53	14.16	6.95	9.22
S&P 500	3.07	20.49	22.87	10.90	15.74	8.29	9.40
Dow Jones Indu. Avg.	4.24	25.69	30.02	13.68	16.11	9.00	9.65

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	12.11	10.23	Russell 3000
Millennium	12.31.99	9.80	5.81	Russell 3000
PruFolio	12.29.00	13.23	6.65	Russell 3000
TPS	03.10.77	17.94	11.12	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,878 stock recommendations have returned, on average, an annualized 17.35%, not including dividends.

IMPORTANT INFORMATION

As of 11.30.17. 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.

Nothing presented herein is, or is intended to constitute, specific investment advice or marketing material. Information provided reflects the views of AFAM Capital, Inc. as of a particular time. Such views are subject to change at any point and AFAM shall not be obligated to provide notice of any change. Any securities information regarding holdings, allocations and other characteristics are presented to illustrate examples of the types of investments or allocations that AFAM may have bought or pursued as of a particular date. It may not be representative of any current or future investments or allocations and nothing should be construed as a recommendation to follow any investment strategy or allocation. Any forward looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While AFAM has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in securities. Past performance is not a guarantee of future performance.

Past specific recommendations: Investment recommendations provided herein are subject to change at any time. Past and current recommendations that are profitable are not indicative of future results, which may in fact result in a loss. See prudentspeculator.com or contact AFAM at info@theprudentspeculator.comfor a list of all past specific investment recommendations. Performance and characteristics of AFAM portfolios and securities are subject to risks and uncertainties. The stocks selected for listing and discussion in the newsletter were based on proprietary analytical work performed by AFAM, and not based on performance, meaning that they are chosen irrespective of profits or losses. The securities presented do not represent all of the securities bought, sold or recommended.

Many of the securities contained within this newsletter mentioned are analyzed, recommended and transacted in by AFAM and/or its associated persons for client and personal accounts. It is also possible that AFAM and/or its associated persons may take a position in a security that is inconsistent with the recommendations provided in TPS or may purchase securities not mentioned in TPS without notice to its subscribers.

Subscribers who wish to have their names removed from the mailing list should contact TPS by e-mailing info@theprudentspeculator.com.

For compliance and regulatory purposes, the staff at *The Prudent Speculator* can only answer questions of a general nature and are unable to provide specific buy/sell recommendations or specific investment advice on an individual basis. For those interested in obtaining individual management services in accordance with our approach, please contact AFAM Capital, Inc. AFAM is a Registered Investment Advisor, editor of *The Prudent Speculator* newsletter and weekly Market Commentary (TPS: ISSN 0743-0809) and serves as investment advisor to individually managed client accounts and certain mutual funds. Investing involves risk. Registration of an investment adviser does not imply any certain level of skill or training. Form ADV and other disclosure documents are available upon request or at afamcapital.com.

TPS is published monthly, with weekly e-mail updates, at the following rates: 1-year: $295; 2-years: $495. Subscriptions are not assignable. For subscribing, please contact us at info@theprudentspeculator.com or call 800.258.7786.