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the Prudent Speculator

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As *Auld Lang Syne* was warming up to welcome in 2018, it was fascinating to hear all of the negativity from folks bidding good riddance to the year just ended. To be sure, 2017 had its share of disconcerting headlines, with the *Year in Review* section of *The Wall Street Journal* offering *Sexual Misconduct Rocks Media, Politics* and *Election Probe Rattles White House* and *Shootings Stun Las Vegas, Tiny Texas Town* and *A Year of Costly Disasters (Hurricanes Harvey, Irma & Maria, Severe Storms and Wildfires)* and *North Korea Raises Tensions.*

> "Some people are always grumbling because roses have thorns; I am thankful that thorns have roses."
>
> —Alphonse Karr

Clearly, we understand that the political climate is also extremely polarized, but at the risk of sounding insensitive, bad news happens every year. For example, 12 months ago in this space we wrote: "*No doubt, there was no shortage of concerns in 2016 (as has been the case every year), starting almost from day one as the worst first week in history (the Dow Jones Industrial Average skidded 6.2%, or more than 1,000 points) supposedly portended an ugly year for equities. Worries were hardly alleviated over the ensuing five weeks, with the percentage losses hitting double-digits in February on fears that a Chinese economic slowdown would kill global growth, while here at home, many were spooked by sub-par GDP growth, uncertainty in regard to Federal Reserve monetary policy and question marks about the health of corporate profits. And that was all before the shocking Brexit vote and the unexpected Trump victory, both of which were widely thought to be black-swan events that would lead to massive stock market losses.*"

Despite all those headwinds, equities enjoyed a very nice 2016, with the S&P 500 climbing 11.95%, the Russell 3000 advancing 12.72% and the Russell 3000 Value index (R3KV) leaping 18.38%, all on a total return basis. Not surprisingly, those handsome 2016 gains helped convince supposed market experts that returns on stocks would be much more muted in 2017, with the consensus of 18 Wall Street strategists, according to analysis by Birinyi Associates compiled at the start of last year, warning that only a 5.5% increase for the S&P 500 was expected.

Certainly, given recent and current extraordinarily low interest rates, a 5.5% return would hardly have been the end of the world, so we hope that most investors had the courage to stick with equities, remembering that one of the secrets to success in stocks is not to get scared out of them. After all, when the total returns were tabulated for 2017, the S&P actually soared 21.82% and the Russell 3000 jumped 21.13%.

Alas, the Value stock gauges, after winning the performance race in 2016, lagged well behind Growth in 2017, due to massive gains in richly priced names like Facebook, Amazon and Alphabet (Google). Happily, our newsletter portfolio returns of 17.35% to 20.03%, were much better than the 13.19% return of the Russell 3000 Value benchmark, but even that figure was more than respectable. Interestingly, the R3KV number was about average, given that Value stocks historically (since 1927) have returned 13.3% per annum, compared to 9.3% for Growth stocks, per data from Fama/French.

Fortunately, as we look ahead to 2018, the primary catalysts for last year's rally—an improving economic backdrop, both in the U.S. and overseas, and healthier corporate profits—remain positive underpinnings, so we retain our optimism for equities. That is not to say that the road ahead will be smooth, especially as volatility is likely to pick up and we are overdue for a 5% sell-off, a 10% correction or even a 20% Bear Market. Nevertheless, with many of the fundamentally less expensive stocks in our portfolios likely to more strongly benefit from lower tax rates, we see no reason to alter our Bullish long-term course. And we like that history shows that Value strategies perform better in rising interest and inflation rate environments, while the valuation gap between Value and Growth is as wide today as it has been since the year 2000.

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

Sector and Industry Group Weightings

Time again to compare the current Sector and Industry Group weightings of our four newsletter portfolios to those of the broad-based Russell 3000 index, as well as the Russell 3000 Value index. The latter is germane in that our valuation metrics more closely resemble those of Value-oriented indexes. Of course, while we very much remain bottom-up stock pickers focused on the merits of individual companies, we also keep a watchful eye on the composition of the Russell 3000 in order to ensure that we are comfortable in the overweighting or underweighting of a particular Sector or Industry Group. Also, we are able to better focus our subjective reviews on the output of the objective new-idea generation screens that we run every day on areas in which we might desire additional exposure, be it to augment a sector with minimal ownership, add to a particularly undervalued industry or replace fairly valued names. Illustrative of this process are the recent recommendations of stocks in the Financial sector.

There is a great deal of art accompanying the science of portfolio construction and Sector and Industry Group weightings are always used as a guide and not as the gospel. Over time, the gaps have narrowed, but inevitably there will be dispersion across the newsletter portfolios due to the timing of purchases, cash availability and modest differences in the names held, but the same desire for broad diversification has always been pervasive.

PORTFOLIO WEIGHTINGS

Sector	Industry Group	Russell 3K	Russell 3K Value	TPS	Buckingham	PruFolio	Millennium	Avg[1]
Consumer Discretionary		**12.5**	**7.1**	**14.8**	**14.9**	**13.7**	**13.5**	**14.2**
	Autos & Components	1.0	1.1	2.4	2.0	2.7	2.6	2.4
	Consumer Dur & App	1.4	1.3	3.3	2.9	4.2	2.6	3.2
	Consumer Services	2.3	0.9	1.3	1.8	1.4	1.7	1.5
	Media	2.7	2.2	3.8	3.3	3.6	1.8	3.1
	Retailing	5.2	1.6	4.1	4.9	1.8	4.9	3.9
Consumer Staples		**7.3**	**8.2**	**4.8**	**4.2**	**4.5**	**4.3**	**4.4**
	Food & Staples Retail	1.6	2.2	1.9	1.5	1.8	1.6	1.7
	Food Bev & Tobacco	4.1	3.7	1.9	1.9	1.8	2.0	1.9
	Household Products	1.6	2.2	1.0	0.8	1.0	0.8	0.9
Energy		**5.8**	**10.7**	**6.8**	**7.7**	**6.4**	**6.7**	**6.9**
Financials		**15.1**	**26.9**	**21.2**	**21.1**	**20.3**	**19.7**	**20.6**
	Banks	6.9	13.5	10.7	11.9	10.1	11.9	11.1
	Diversified Financials	5.4	8.8	5.3	4.4	4.9	3.6	4.6
	Insurance	2.8	4.6	5.2	4.8	5.3	4.2	4.9
Health Care		**13.3**	**12.9**	**12.9**	**12.3**	**12.7**	**10.3**	**12.1**
	Health Care Equip/Srvcs	5.4	5.0	5.6	5.7	6.8	4.4	5.6
	Pharma, Biotech & Life Sci	7.9	8.0	7.3	6.6	6.0	5.9	6.5
Industrials		**11.0**	**8.6**	**12.9**	**12.7**	**12.3**	**14.5**	**13.1**
	Capital Goods	7.8	6.6	7.7	8.4	8.2	7.9	8.1
	Commercial Services	0.9	0.6	1.2	1.2	1.2	1.1	1.2
	Transportation	2.2	1.4	4.0	3.1	3.0	5.4	3.9
Information Technology		**22.8**	**8.5**	**16.9**	**15.7**	**17.3**	**19.2**	**17.3**
	Semis & Cap Equipment	3.8	2.8	2.8	2.2	2.5	3.8	2.8
	Software	13.6	2.6	3.9	4.7	4.5	6.1	4.8
	Technology Hardware	5.4	3.1	10.3	8.9	10.3	9.3	9.7
Materials		**3.5**	**3.1**	**4.8**	**4.6**	**5.2**	**5.5**	**5.0**
Real Estate		**3.9**	**5.1**	**1.5**	**1.3**	**1.7**	**1.6**	**1.5**
Telecom Services		**1.9**	**2.8**	**1.7**	**1.7**	**2.5**	**1.6**	**1.8**
Utilities		**3.0**	**6.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cash		**0.0**	**0.0**	**1.8**	**3.9**	**3.5**	**3.1**	**3.1**

Russell 3000, Russell 3000 Value and Newsletter Portfolios as of 12.31.17. [1]Average of the four newsletter portfolios. SOURCE: Al Frank using data from Russell Investments via Bloomberg

Graphic Detail

Performance Attribution

The following two paragraphs hardly do the subject justice, but the simple attribution displayed below (numbers are computed via a Bloomberg report and differ modestly in terms of portfolio-level total return from our portfolio-accounting-software calculated figures shown on Page 8) helps to better understand how TPS Portfolio is performing relative to the Russell 3000 (R3K) and Russell 3000 Value (R3KV) indexes. They allow us to gain more insight into the impact of our investment decisions as we are able to see which market Sectors contributed the most (or least) to performance and how much of the performance difference can be attributed to allocation (Sector weighting), versus selection (stock picking).

Depending upon the benchmark, TPS Portfolio had a slightly disappointing (versus the R3K) or a very good (versus the R3KV) 2017, even as our stock picking in Energy and Industrials was quite beneficial in both comparisons. Our Consumer Discretionary exposure was a negative against the R3K (we don't own online titans Amazon and Netflix), but a sizable positive versus the "FANG"-less R3KV. Lack of ownership of high-flyers Alphabet (Google) and Facebook, plus our underweight Info Tech position, proved to be very detrimental against the R3K, though we enjoyed a favorable IT allocation effect relative to the tech-light R3KV. Our modest exposure to Energy also provided a big boost compared to the Value benchmark. ■

2017 PERFORMANCE ATTRIBUTION

	TPS Portfolio			Russell 3000			Attribution Analysis	
Sector	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	15.0	18.7	2.8	12.5	22.8	2.8	0.1	-0.6
Consumer Staples	4.4	13.9	0.7	7.9	12.7	1.0	0.3	0.1
Energy	6.0	12.9	1.0	5.8	-2.0	-0.2	0.3	1.0
Financials	20.2	19.6	4.0	15.0	20.1	3.0	0.0	-0.1
Health Care	12.6	21.9	2.6	13.6	23.3	3.1	-0.1	-0.2
Industrials	12.8	30.0	3.7	10.9	21.7	2.4	0.0	1.1
Information Technology	17.5	22.1	4.0	21.9	37.0	7.5	-0.5	-2.5
Materials	5.7	20.3	1.2	3.2	22.6	0.7	0.1	-0.1
Real Estate	1.1	16.4	0.2	4.0	9.1	0.4	0.4	0.1
Telecom Services	1.8	3.9	0.1	2.0	-0.9	-0.1	0.1	0.1
Utilities	0.7	12.5	0.1	3.2	12.5	0.4	0.3	0.0
Cash	1.7	0.6	0.0	0.0	0.0	0.0	-0.4	0.0
	Total:		**20.4**	**Total:**		**21.1**	**0.5**	**-1.2**

	TPS Portfolio			Russell 3000 Value			Attribution Analysis	
Sector	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	15.0	18.7	2.8	6.0	13.6	0.9	0.1	0.8
Consumer Staples	4.4	13.9	0.7	8.2	12.9	1.0	0.0	0.1
Energy	6.0	12.9	1.0	11.0	-1.7	-0.4	1.2	0.9
Financials	20.2	19.6	4.0	26.7	19.1	4.9	-0.3	0.1
Health Care	12.6	21.9	2.6	11.9	19.2	2.0	0.2	0.4
Industrials	12.8	30.0	3.7	9.9	11.2	1.1	-0.1	2.3
Information Technology	17.5	22.1	4.0	9.1	26.8	2.3	1.2	-0.7
Materials	5.7	20.3	1.2	2.6	21.0	0.6	0.3	-0.1
Real Estate	1.1	16.4	0.2	5.2	4.5	0.2	0.4	0.1
Telecom Services	1.8	3.9	0.1	3.1	-3.5	-0.2	0.3	0.2
Utilities	0.7	12.5	0.1	6.3	12.4	0.8	0.2	0.0
Cash	1.7	0.6	0.0	0.0	0.0	0.0	-0.3	0.0
	Total:		**20.4**	**Total:**		**13.2**	**3.1**	**4.1**

Russell 3000, Russell 3000 Value and Newsletter Portfolios from 12.31.16 though 12.31.17. Holdings-based attribution using end-of-day account positions. Return figures do not include fees or transaction costs. Numbers may not sum due to rounding. SOURCE: Al Frank using data 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
Auto & Components	GM	General Motors	40.99	56.08	6.6	0.4	1.6	2.7	8.9	184%	3.7%	58,223
	GT	Goodyear Tire & Rubber	32.31	49.32	10.5	0.5	1.9	6.7	1.5	138%	1.7%	7,959
Banks	BBT	BB&T Corp	49.72	58.32	16.4	nmf	2.4	nmf	nmf	nmf	2.7%	39,225
	ONB	Old National Bancorp	17.45	21.85	14.4	nmf	1.9	nmf	nmf	nmf	3.0%	2,365
	SCGLY	Societe Generale SA	10.36	16.29	7.7	nmf	0.6	nmf	nmf	nmf	3.8%	41,850
Capital Goods	SIEGY	Siemens AG	69.27	86.92	16.0	2.4	23.2	11.4	4.0	650%	2.1%	117,759
Consumer Dur & App	MDC	MDC Holdings	31.88	47.69	11.5	0.7	1.3	11.9	10.9	62%	2.9%	1,788
	WHR	Whirlpool	168.64	222.30	12.0	0.6	nmf	9.6	5.3	nmf	2.6%	12,119
Consumer Services	CCL	Carnival Corp	66.37	83.74	17.4	2.7	2.4	12.1	5.0	35%	2.7%	47,586
Diversified Financials	ANH	Anworth Mortgage	5.44	6.44	10.3	nmf	0.9	nmf	nmf	nmf	11.0%	534
Energy	SLB	Schlumberger Ltd	67.39	101.37	nmf	3.2	19.0	20.8	3.5	323%	3.0%	93,353
	TNP	Tsakos Energy Navigation	3.91	7.95	35.5	0.6	0.2	8.9	nmf	119%	5.1%	332
	TOT	Total SA	55.28	76.92	12.8	0.9	1.2	6.2	4.2	36%	4.5%	139,793
Food & Staples Retailing	CVS	CVS Health	72.50	127.33	12.7	0.4	nmf	8.1	11.0	nmf	2.8%	73,442
	KR	Kroger	27.45	36.70	14.1	0.2	11.6	7.2	4.1	629%	1.8%	24,193
Health Care Equip/Srvcs	CAH	Cardinal Health	61.27	88.76	11.6	0.1	nmf	10.7	9.8	nmf	3.0%	19,276
	MDT	Medtronic PLC	80.75	99.32	17.4	3.7	nmf	14.2	3.9	nmf	2.3%	109,295
Household Products	KMB	Kimberly-Clark	120.66	143.28	19.7	2.3	nmf	12.3	5.0	nmf	3.2%	42,443
Insurance	AXAHY	AXA SA	29.67	44.58	11.1	nmf	nmf	nmf	nmf	nmf	3.5%	71,942
	AXS	Axis Capital Holdings	50.26	68.80	nmf	nmf	0.9	nmf	nmf	nmf	3.0%	4,180
	PRU	Prudential Financial	114.98	131.44	11.1	nmf	1.0	nmf	nmf	nmf	2.6%	48,752
Materials	ABX	Barrick Gold	14.47	23.10	19.6	2.0	2.1	4.5	4.8	79%	0.8%	16,876
Media	DIS	Walt Disney	107.51	139.13	18.9	2.9	56.1	11.4	5.2	661%	1.6%	162,374
Pharma/Biotech/Life Sci	AMGN	Amgen	173.90	224.83	13.8	5.5	14.7	9.8	8.2	394%	3.0%	126,236
	GILD	Gilead Sciences	71.64	121.90	7.3	3.4	6.1	4.8	12.9	179%	2.9%	93,581
	MRK	Merck & Co	56.27	72.29	14.5	3.9	32.1	14.7	2.8	458%	3.4%	153,304
	PFE	Pfizer	36.22	44.81	14.5	4.1	nmf	12.7	6.3	nmf	3.8%	215,897
	SHPG	Shire PLC	155.12	253.78	10.7	3.2	nmf	14.9	6.5	nmf	0.6%	47,031
Real Estate	DLR	Digital Realty Trust	113.90	129.26	19.0	nmf	4.2	nmf	nmf	nmf	3.3%	23,674
	DOC	Physicians Realty Trust	17.99	23.81	17.1	nmf	1.3	nmf	nmf	nmf	5.1%	3,224
	KIM	Kimco Realty	18.15	26.02	19.6	6.5	1.8	20.3	2.3	19%	6.2%	7,726
Retailing	DSW	DSW Inc	21.41	29.13	15.9	0.6	1.9	6.2	10.9	0%	3.7%	1,713
	TGT	Target	65.25	79.85	13.6	0.5	3.3	6.6	12.8	104%	3.8%	35,468
Software & Services	IBM	Int'l Business Machines	153.42	196.74	11.2	1.8	nmf	11.7	7.9	nmf	3.9%	142,035
	ORCL	Oracle	47.28	58.08	16.3	5.0	32.0	11.8	6.4	952%	1.6%	195,720
Technology Hardware	GLW	Corning	31.99	41.93	18.4	2.8	2.2	10.9	3.3	32%	1.9%	27,801
	JBL	Jabil Inc	26.25	42.20	11.8	0.2	3.3	5.2	5.9	121%	1.2%	4,642
Telecom Services	T	AT&T	38.88	44.84	13.3	1.5	nmf	7.2	6.9	nmf	5.1%	238,684
Transportation	ALK	Alaska Air Group	73.51	107.02	10.0	1.2	6.4	5.9	5.8	166%	1.6%	9,045
	FDX	FedEx	249.54	308.77	20.3	1.1	6.9	9.9	-1.9	156%	0.8%	66,849

As of 12.31.17. N/A=Not applicable. nmf=Not meaningful. [1] ●=First-time recommendation. [2]Tangible book value. [3]Enterprise value-to-earnings before interest taxes depreciation and amortization. [4]Free cash flow yield. [5]Tangible equity.
SOURCE: Al Frank using data from Bloomberg

Portfolio Builder

Research Team Favorites

The Prudent Speculator follows an approach to investing that focuses on ***broadly diversified*** investments in ***undervalued*** stocks for their ***long-term*** appreciation potential. Does that mean we build portfolios of 20 stocks...30...? More like 50 and up. We like stocks. And we like a lot of 'em. We don't rely nearly as much on "how many" as we do "in which," but we tend to invest in far more names than most. This expansive diversification, we find, potentially serves us well in two ways: we can further minimize the risk of individual stock ownership, while maximizing the likelihood of finding the truly big winners among the undervalued masses.

As for the "in which" part, readers should know we discriminate among potential investments primarily by their relative valuation metrics and our assessments of stock-specific risk. We buy only those stocks we find 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 **Kroger** in Millennium Portfolio and $20,000 of **DSW** in PruFolio. We will also bring the holdings of **Gilead Sciences** in Buckingham Portfolio up to $7,000, that amount the account's new "normal" position size. We will buy on January 9, waiting our usual four days to transact. There are no additional purchases of **Goodyear Tire**, **Jabil**, **Medtronic**, **Old National Bancorp**, **Prudential Fin'l**, **AT&T** or **Tsakos Energy** as we already have sufficient ownership and/or industry exposure.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
DSW	DSW Inc	Consumer Discretionary	21.41	29.13
GILD	Gilead Sciences	Health Care	71.64	121.90
GT	Goodyear Tire & Rubber	Consumer Discretionary	32.31	49.32
JBL	Jabil Inc	Information Technology	26.25	42.20
KR	Kroger	Consumer Staples	27.45	36.70
MDT	Medtronic PLC	Health Care	80.75	99.32
ONB	Old National Bancorp	Financials	17.45	21.85
PRU	Prudential Financial	Financials	114.98	131.44
T	AT&T	Telecom Services	38.88	44.84
TNP	Tsakos Energy Nav	Energy	3.91	7.95

As of 12.31.17. SOURCE: Al Frank using data from Bloomberg

DSW Inc (DSW)

DSW is a leading branded footwear and accessories retailer that operates more than 500 stores in 43 states and Puerto Rico, sells products via e-commerce channels and supplies footwear to more than 396 leased departments for other retailers across the United States. As with other brick-and-mortar retailers, DSW shares have been whacked over the past few years amid pressure from online retailers like Amazon and an expanding online presence from shoe manufacturers. While the first half of 2017 was challenging, DSW made significant progress in the second half, in terms of share price (which ended the year nearly flat), improving inventory management (fulfillment center consolidation), strong online sales (DSW's website was recently redesigned) and a bit of luck with the early arrival of cold weather (which boosts boot sales). Analysts are looking for EPS of $1.42 for fiscal '18 (ends this month) and $1.52 for fiscal '19. While near-term challenges persist, we believe that DSW's investments in technology to strengthen its omni-channel business strategy will pay off. We also are encouraged by the rollout of DSW's Rewards VIP program, which will be available to over 25 million existing Rewards members. DSW yields 3.7%, while the cash-rich balance sheet is healthy.

Gilead Sciences (GILD)

Gilead is a biotech giant whose portfolio of products and pipeline of investigational drugs includes treatments for HIV/AIDS, liver diseases, cancer, inflammatory and respiratory diseases, and cardiovascular conditions. In the fall of 2017, Gilead announced that it was adding to its stable of offerings by moving to purchase Kite Pharma, a developer and manufacturer of cancer immunotherapeutic products and therapies. Shares were relatively flat in last year on concerns about drug pricing and increased competition for its top-selling hepatitis C drugs, which actually cure patients. Q3 EPS of $2.27 and revenue of $6.5 billion both exceeded analyst expectations, even as we know that near-term headwinds persist. Still, we continue to believe that GILD offers attractive long-term upside. Even after the acquisition, we are fond of the solid balance sheet that allows management to buy back shares, and support and boost the dividend. GILD trades for less than 11 times estimated earnings and yields 2.8%.

Goodyear Tire & Rubber (GT)

Goodyear is a leading supplier of light vehicle tires, selling in two distinct markets: replacement and vehicle manufacturers. After encountering a rocky 2017 due to weaker vehicle-miles-traveled growth and raw-material-cost volatility, CEO Richard Kramer said, "Our 2020 Segment Operating Income Plan of volume, mix and net cost savings to drive growth is on track. You can expect a more aggressive focus on our cost structure including a look at our footprint as we look out into the future." While overall vehicle demand remains strong, we think that GT should be more sensitive to overall miles traveled than to new sales, given the company's two-pronged market exposure. We feel that strong employment, rising wages and moderate fuel prices are conducive to folks traveling more and therefore creating more wear and tear on tires (spurring replacements). We think that Goodyear should gain from higher long-term demand in emerging markets, and management remains focused on reducing expenses, improving cash flow and strengthening the balance sheet. GT trades below 10 times estimated earnings and the quarterly dividend was recently increased to $0.14 per share.

Jabil Inc (JBL)

Jabil is an electronic manufacturing services (EMS) provider that specializes in circuit boards for a variety of uses around the world. In fiscal Q4, JBL earned an adjusted $0.80 per share on revenue of $5.6 billion, both ahead of estimates. CEO Mark Mondello said, "A key element of the transformation is the deliberate pivot towards higher margin businesses, as the team leverages engineering excellence and deep domain knowhow day-in and day-out. These two businesses continue to grow at a rate of 20% to 25% per year through fiscal 2019." We like Jabil's diversified business, though we note that Apple is a major customer, and are fans of the company's focus on cash flow and earnings. We think that the EMS business is attractive, especially as the company's products reach a wide array of markets. JBL trades for 10.1 times the current EPS estimate for the next 12 months and yields 1.2%.

Kroger (KR)

Kroger is one of the world's largest grocers, operating 2,790 supermarkets in 35 states and serving more than 9 million customers daily. KR also owns 738 convenience stores, 2,266 pharmacies and 306 fine jewelry stores. Although shares have climbed more than 30% since September, KR is still down more than 15% in the last year. At a recent conference, CFO Mike Schlotman said that he expects the tax changes to bolster KR (the company usually pays around 34%): "We would benefit from the ability to deduct equipment immediately. A big chunk of our $3 billion a year of capital spend would get swept up, and the ability to deduct it immediately is a timing difference. The tax bill will give us incremental dollars to decide how we invest it back in the business and associates and how much would go as return back to shareholders." Competition has continued to intensify, with German chains Lidl and Aldi entering the fray, in addition to the long-standing pressures from Amazon/Whole Foods and Walmart, but the difficult backdrop is well-understood and we think is already priced into the stock. KR trades at less than 14 times estimated earnings and yields 1.8%.

Medtronic PLC (MDT)

Medtronic is one of the largest health care equipment companies in the world, developing and manufacturing therapeutic medical devices for chronic diseases. The acquisition of Covidien a few years ago has produced a stronger, more appealing company. Pairing MDT's diversified product portfolio aimed at a wide range of chronic diseases with Covidien's breadth of products for acute care in hospitals has strengthened the firm's position as a key partner for its hospital customers, which boosts our optimism about the long-term growth prospects. Halfway through fiscal 2018, Medtronic continues to expect comparable constant currency revenue growth in the range of 4% to 5% for the full year, with diluted adjusted EPS growth in the range of 9% to 10% (versus last fiscal year's $4.37 per share). "We are seeing increased revenue momentum from several important new product launches, which we expect to continue into the second half of the fiscal year," said CEO Omar Ishrak. We remain fans of Medtronic's diverse portfolio, as when certain product lines wane, new offerings are seemingly always rolled out to help offset slowdowns and foster growth. With domestic demographic trends in its favor, we like its products and pipeline, including treatments for atrial fibrillation, aortic stenosis and various neurological disorders. MDT yields 2.3% and trades for a reasonable (sub-18) P/E ratio.

Old National Bancorp (ONB)

With $15.1 billion in assets and headquarters in Evansville, Indiana, ONB owns multiple financial services operations in Indiana, Wisconsin, Kentucky and Michigan. The 183-year-old company provides commercial and retail banking, trust, comprehensive wealth management, investments and brokerage services. We view Old National as a quality bank whose management balances a conservative culture with aspirations for growth. ONB closed on its acquisition of Anchor Bancorp on November 1, which added $1.7 billion of deposits and 18 total branches in the Twin Cities area. Management expects the deal to be 9.2% accretive by 2019 (about $0.11 per share) with fully phased-in cost savings. CEO Bob Jones noted that December's Federal Reserve interest rate hike was expected and added, "Future rate increases are somewhat myopic at this stage based on the potential for changes in Fed leadership. Of greater importance would be the shape of the yield curve and its impact. This lack of clarity in the interest rate environment only enhances our focus on expense management." ONB remains well capitalized with regulatory Tier 1 and Total Risk-Based capital ratios of 12.0% and 12.5%, respectively. Shares yield 3.0%.

Prudential Financial (PRU)

Prudential is the second-largest life insurer in the U.S. with more than $1 trillion of assets under management. The company also has operations in Asia, Europe and Latin America. PRU provides insurance, investment management, brokerage services and other financial products. On the company's 2018 guidance, CEO John Strangfeld said, "We continue to believe that our differentiated business mix will produce steady growth and earnings and book value per share, strong cash flows and a sustainable high return on equity. There are clearly challenges, including the sustained low interest rate environment; however, we benefit from our complementary mix of Protection, Retirement and Investment Management businesses that are well-positioned to thrive even in the face of these challenges." We think PRU's overall execution has been solid over the last few years and shares could see a further bump from a rollback in domestic governmental regulation and further increases in interest rates. Shares trade at 10.1 times estimated earnings and yield 2.6%.

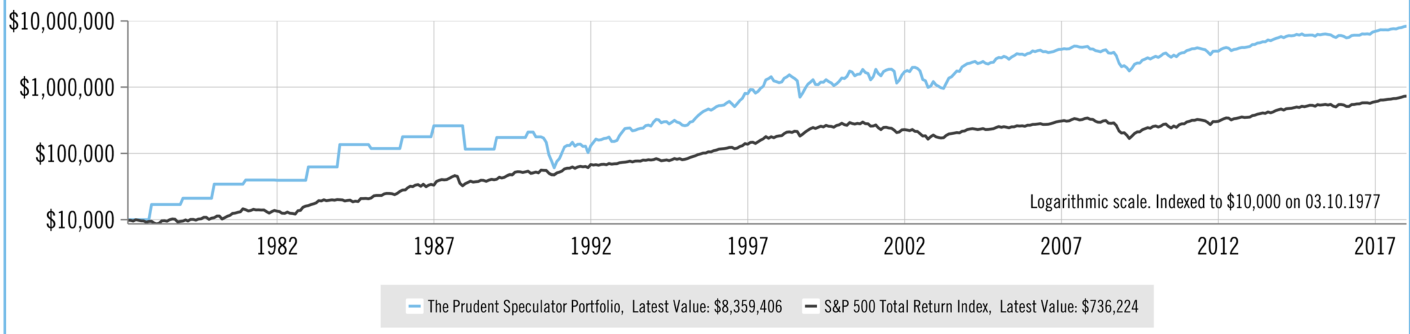
AT&T (T)

Telecom behemoth AT&T provides telephone, television, Internet and wireless service across the country. The company maintains a high-speed mobile internet network that covers 400 million people in North America and a broadband service with 60 million customer locations. With its purchase of DirecTV complete, AT&T has added more than 1 million satellite subscribers and management reports that the cost synergies are ahead of plan. T also expects to be a major beneficiary of U.S. tax cuts, with CEO Randall Stephenson explaining, "Tax reform will drive economic growth and create good-paying jobs. In fact, we will increase our U.S. investment and pay a special bonus to our U.S. employees." AT&T claims that it has invested more in the U.S. than any other public company since 2012. In addition to ongoing strategic spending for parts of the wireless spectrum and digital content, we like that T continues to return cash to holders, with the recently increased yield at 5.1%. Of course, we would be happier if its $109 billion "vertical" merger with media titan Time Warner was not stalled by regulators.

Tsakos Energy Navigation (TNP)

Tsakos Energy owns and operates a diverse and relatively modern fleet of marine tankers that transport crude oil, petroleum products and other liquids. Although it endured a "difficult" Q3, posting a net adjusted loss of $0.12 per share and adjusted revenue of $96.9 million, the company continues to see operational strength, as evidenced by 96.4% fleet utilization in the quarter. TNP has 51 of 65 vessels in secured revenue contracts with an average charter time of 2.5 years and minimum secured revenue of $1.3 billion. The shares change hands at 0.7 times estimated sales and 1.7 times estimated cash flow. With a young fleet, a more subdued industry-wide order book going forward and relatively consistent growth in global oil demand likely for the foreseeable future, we continue to think this micro-cap name fits in well with our much more well-known integrated oil companies and oil-service names. TNP yields a hefty 5.1%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Dec	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	2.28	19.54	19.54	9.77	13.86	5.37	NA
Millennium	1.98	17.79	17.79	9.90	14.56	7.77	11.96
PruFolio	1.86	17.35	17.35	9.62	13.68	8.15	12.98
TPS	1.98	20.03	20.03	10.99	15.24	8.32	14.61
Major Indexes							
Russell 3000	1.00	21.13	21.13	11.12	15.58	8.60	10.25
Russell 3000 Value	1.28	13.19	13.19	8.71	13.95	7.19	9.63
S&P 500	1.10	21.82	21.82	11.40	15.78	8.49	9.92
Dow Jones Indu. Avg.	1.92	28.11	28.11	14.36	16.37	9.28	10.25

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	12.21	10.25	Russell 3000
Millennium	12.31.99	9.87	5.84	Russell 3000
PruFolio	12.29.00	13.28	6.68	Russell 3000
TPS	03.10.77	17.95	11.13	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,879 stock recommendations have returned, on average, an annualized 17.35%, not including dividends.

IMPORTANT INFORMATION

As of 12.31.17. All data are total returns, except for that of all recommended stocks, which exclude dividends. Data for periods greater than one year are annualized. The Dow Jones Industrial Average Index is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrial, including stocks that trade on the New York Stock Exchange and NASDAQ. The Russell 3000 Index measures the performance of the largest 3,000 US companies and represents approximately 98% of the investable US equity market. The Russell 3000 Value Index measures the performance of those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth values. The Standard & Poor's 500 Stock Index (S&P 500) is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. 1 The Russell 3000 Index lacks sufficient history to match that of Al Frank's TPS Portfolio. We therefore have shown the S&P 500 Index for comparison purposes. It is not possible to invest directly in an index. SOURCE: Al Frank using data from Bloomberg

TPS Portfolio is Al Frank's actual investment portfolio. Though not presently leveraged, it has been so in the past. Buckingham Portfolio is John Buckingham's actual investment portfolio. Though not presently leveraged, it has been so in the past. Millennium Portfolio is unleveraged and hypothetical. PruFolio is unleveraged and hypothetical.

All portfolio returns are calculated on a total return basis and reflect the reinvestment of dividends, if any, margin leverage and margin interest charges, trading costs and subscription costs. There are inherent limitations with in hypothetical or model portfolio results as the securities are not actually purchased or sold. They may not reflect the impact, if any, of material market conditions which could have has an impact on AFAM's decision making if the hypothetical portfolios were real. Hypothetical performance is shown for illustrative purposes only and should not be interpreted as an indication of performance of any AFAM portfolio. The use of leverage magnifies gains and losses and increases risk to a portfolio.

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