February 1, 2018

the Prudent Speculator

616

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

After an incredible run over the first four weeks of January that saw the S&P 500 close at a record high on 14 separate occasions, we were about set to dust off one of Al Frank's favorite sayings, "Too much of a good thing can be wonderful!" Alas, following a dismal final three days to end the month, especially for the Value indexes, most of which skidded more than 2%, the Mae West quip does not seem as apt.

"If we are facing in the right direction, all we have to do is keep on walking."
—Buddhist Proverb

Of course, given that our newsletter portfolios tacked on gains north of 4% during January, on top of the double-digit annual returns enjoyed in 2016 and 2017, we really can't complain about the modest pullback. After all, concerns about excessive investor optimism (there have been positive net flows into domestic equity mutual and exchange traded funds this year, bucking the near-constant redemption trend seen over the past three years) have been ameliorated somewhat. The most recent AAII Bull/Bear Sentiment Survey showed a 4.7 point increase in the number of pessimists to 28.8%, close to the 30.3% historical norm for this three-decade-old Main Street barometer, while the *CNNMoney* Fear & Greed Index ("What emotion is driving the market?") fell to a less-Greedy reading of 58, just above the neutral zone.

Certainly, it would not be a shock to see stocks retreat further in price in the near-term, especially as it has been more than 19 months since the last 5% downturn and nearly two years since the previous 10% correction. The former have taken place every 0.3 years on average, dating back to 1928, while the latter have occurred every 0.9 years. Indeed, volatility is very much a normal part of the investment process, but long-term-oriented investors should not be overly concerned about larger gyrations in their portfolios, especially as the global economic backdrop and outlook for corporate profit growth appear to be quite favorable. "The macro environment is as positive as we've seen in many years," Citigroup CEO Michael Corbat proclaimed last month. "Tax reform could change the sentiment among those making investment decisions from optimism to confidence and become the boost the U.S. economy needs to drive growth higher."

Nothing is ever guaranteed and your Editor has witnessed plenty of bizarre market events in his more than three decades at Al Frank Asset Management, but history suggests that Bear Markets and sizable, sustained selloffs are generally accompanied by a recession and a contraction in corporate profits. Such events do not appear to be in the cards, at least for the foreseeable future, as the International Monetary Fund just boosted its outlook for global economic growth in both 2018 and 2019 by two-tenths of a percent to 3.9% for each year. The IMF also lifted its GDP estimates for the U.S. by four-tenths of a percentage point for 2018 to 2.7%, and six-tenths of a percentage point for 2019 to 2.5%, due to "the impact of the recently approved U.S. tax policy changes."

And, speaking of tax reform, as discussed in this month's *Graphic Detail*, earnings estimates for Corporate America have been moving nicely higher. In fact, Standard & Poor's now projects that bottom-up operating EPS for the S&P 500 will soar to $153.20 this year and $169.43 in 2019, compared to $124.13 last year and $106.26 in 2016.

Not surprisingly, the healthier economic outlook has contributed to an increase in interest rates, with the yield on the 10-year U.S. Treasury climbing from 2.40% at the end of 2017 to 2.79% today. Clearly, this spike in rates has caused consternation in the fixed income market, where losses are being endured on some of the country's largest bond mutual funds and ETFs by investors unaccustomed to red ink, but we would argue that rates are rising for the right reasons. True, higher yields on bonds arguably make stocks less appealing, but interest rates remain incredibly low by historical standards...and the S&P 500 has returned 36% since July 8, 2016, despite the benchmark Treasury yield doubling from a record low of 1.36%!

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

2017 Tax Cuts and Jobs Act

Though the substantial equity gains since Election Day 2016 have discounted a more favorable business climate, the outlook for corporate profits has improved mightily over the last couple of months. No doubt, a healthier global and domestic economy has helped, but the passage of the *Tax Cuts and Jobs Act* on December 15 has been the primary catalyst. After all, the corporate tax rate was slashed from 35% to 21%, improving the bot-

		Tax Rate Excl. Q4	Forward P/E		BEST EPS Calendar 2018				BEST EPS Calendar 2019			
Ticker	Name	Prior 8FQ Mean	2018	2019	11.15.17	1.12.18	1.31.18	Chg.[1]	11.15.17	1.12.18	1.31.18	Chg.[1]
AAPL	Apple	24.9%	13.8	12.8	11.73	11.73	12.12	3%	11.98	12.07	13.05	9%
ABT	Abbott Labs	18.6%	21.8	19.4	2.83	2.83	2.85	1%	3.18	3.19	3.21	1%
ADM	Archer-Daniels	26.0%	15.8	14.6	2.74	2.72	2.72	-1%	2.93	2.92	2.95	1%
AEO	American Eagle	34.5%	13.4	12.9	1.17	1.32	1.35	15%	1.13	1.35	1.39	23%
AET	Aetna	42.2%	17.0	15.3	10.07	11.75	10.97	9%	11.13	12.78	12.23	10%
ALK	Alaska Air	37.4%	11.0	9.2	6.41	6.55	5.95	-7%	6.98	7.45	7.14	2%
ALL	Allstate	31.3%	12.2	11.9	7.37	7.98	8.07	9%	7.53	8.22	8.29	10%
AMGN	Amgen Inc	14.4%	14.6	14.2	12.75	12.78	12.73	0%	13.10	13.15	13.13	0%
ARII	American Railcar	38.6%	15.6	14.2	2.25	2.51	2.51	11%	2.38	2.77	2.77	16%
AVX	AVX Corp	27.6%	22.0	21.9	0.67	0.68	0.81	21%	0.76	0.76	0.82	8%
BAC	Bank Of America	29.7%	12.8	11.2	2.16	2.44	2.50	16%	2.42	2.81	2.86	18%
BBT	BB&T Corp	29.3%	14.0	13.0	3.42	3.84	3.93	15%	3.64	4.00	4.25	17%
BIIB	Biogen	24.4%	14.1	13.3	23.76	23.98	24.68	4%	25.00	25.24	26.15	5%
BK	Bank Of New York	24.1%	14.0	12.7	3.89	4.20	4.04	4%	4.26	4.55	4.45	4%
CA	CA Inc	27.4%	13.4	13.1	2.53	2.53	2.68	6%	2.60	2.59	2.74	5%
CAH	Cardinal Health	34.9%	11.7	11.0	5.31	6.17	6.13	15%	5.51	6.15	6.55	19%
CAT	Caterpillar	28.1%	18.0	15.5	7.81	8.07	9.02	16%	9.10	9.34	10.50	15%
CCL	Carnival Corp	1.2%	16.5	15.2	4.32	4.31	4.33	0%	4.94	4.80	4.70	-5%
CE	Celanese	16.7%	12.7	11.7	8.22	8.25	8.49	3%	8.96	9.00	9.27	3%
CMCSA	Comcast	35.7%	16.8	15.2	2.21	2.30	2.53	15%	2.44	2.56	2.80	15%
CMI	Cummins	24.1%	16.0	14.7	11.49	11.74	11.78	2%	12.66	12.85	12.81	1%
COF	Capital One Fin'l	30.4%	10.6	9.6	8.57	9.30	9.84	15%	9.62	10.43	10.79	12%
CSCO	Cisco Systems	19.0%	16.5	15.7	2.49	2.51	2.52	1%	2.57	2.65	2.65	3%
CVS	CVS Health	38.7%	12.0	11.1	6.36	6.48	6.56	3%	6.91	7.05	7.08	2%
DAL	Delta Air Lines	34.6%	9.0	8.0	5.51	6.33	6.31	15%	6.07	6.94	7.11	17%
DE	Deere & Co	31.8%	19.4	17.1	7.12	8.49	8.58	21%	8.30	9.54	9.73	17%
DIS	Walt Disney	33.1%	16.4	14.7	6.31	6.43	6.62	5%	6.77	7.29	7.41	9%
DSW	DSW Inc	38.6%	11.8	11.7	1.58	1.59	1.70	8%	1.62	1.63	1.71	5%
ETN	Eaton Corp	9.4%	16.8	15.5	5.16	5.10	5.00	-3%	5.62	5.57	5.43	-3%
FDX	Fedex	35.6%	16.4	15.2	14.12	15.79	16.05	14%	15.13	17.24	17.30	14%
FITB	Fifth Third Bancorp	26.1%	14.0	12.8	2.04	2.31	2.36	16%	2.21	2.51	2.59	17%
FL	Foot Locker	33.6%	11.3	10.7	3.87	4.23	4.36	13%	4.55	4.46	4.60	1%
FLR	Fluor Corp	36.0%	24.0	20.1	2.46	2.37	2.53	3%	2.94	2.97	3.03	3%
GILD	Gilead Sciences	21.9%	12.4	12.7	6.83	6.77	6.75	-1%	6.73	6.61	6.62	-2%
GLW	Corning	26.3%	18.3	16.0	1.83	1.81	1.71	-7%	2.03	2.02	1.95	-4%
GM	General Motors	31.0%	7.1	7.1	5.81	5.93	5.98	3%	5.80	5.96	5.99	3%
GS	Goldman Sachs	25.9%	12.4	11.2	20.37	21.47	21.54	6%	22.60	23.67	23.98	6%
GT	Goodyear Tire	25.4%	8.3	7.1	3.62	3.67	4.20	16%	4.53	4.61	4.93	9%
HAL	Halliburton	27.2%	21.0	15.7	2.11	2.19	2.56	21%	2.89	2.96	3.42	18%
HFC	HollyFrontier	27.1%	12.8	12.3	2.70	3.34	3.74	39%	3.16	3.77	3.92	24%
IBM	IBM	11.4%	11.8	11.5	13.93	13.88	13.85	-1%	14.34	14.36	14.20	-1%
INTC	Intel	22.6%	13.7	12.8	3.26	3.27	3.51	8%	3.35	3.36	3.75	12%
JBL	Jabil Inc	44.2%	9.6	8.1	2.70	2.68	2.66	-2%	3.02	3.14	3.14	4%

As of 01.31.18. [1]Change in Calendar EPS estimate from 11.15.17 to 1.31.18. SOURCE: Al Frank using data (EPS Adjusted) from Bloomberg tom lines across much of Corporate America with a simple stroke of the pen. Of course, the numbers now being reported for Q4 2017 have seen companies take massive one-time tax-related charges due to the repatriation of cash held overseas, not to mention giant write-downs and even write-ups associated with tax reform, but earnings should be juiced for calendar years 2018, 2019 and beyond.

Analysts likely will continue to play catch-up in hiking their projections, but the 85 non-foreign, non-REIT *TPS* stocks below show the positive trend (8% average increases) in 2018 and 2019 EPS forecasts one month prior to the signing of the tax bill to the present. Happily, the majority of our names are higher-tax payers (28.5% average), while most trade for reasonable forward earnings multiples.

		Tax Rates Excl. Q4	Forward P/E		BEST EPS Calendar 2018				BEST EPS Calendar 2019			
Ticker	Name	Prior 8FQ Mean	2018	2019	11.15.17	1.12.18	1.31.18	Chg.[1]	11.15.17	1.12.18	1.31.18	Chg.[1]
JNJ	Johnson & Johnson	17.6%	17.1	16.2	7.86	7.86	8.10	3%	8.39	8.39	8.54	2%
JPM	JPMorgan Chase	27.4%	13.0	11.9	7.68	8.73	8.90	16%	8.64	9.65	9.75	13%
KEY	KeyCorp	21.6%	12.8	11.6	1.51	1.65	1.68	11%	1.63	1.78	1.84	13%
KMB	Kimberly-Clark	31.5%	16.7	15.8	6.52	6.58	7.00	7%	6.90	6.97	7.41	7%
KR	Kroger	33.2%	14.5	13.8	1.95	2.03	2.10	8%	2.07	2.14	2.20	6%
KSS	Kohls	36.9%	13.9	13.6	3.67	4.29	4.65	27%	3.49	4.49	4.77	37%
LOW	Lowe's Cos	46.6%	19.2	16.4	5.03	5.23	5.46	9%	5.67	6.15	6.39	13%
MAN	Manpowergroup	35.8%	15.8	15.1	7.69	7.80	8.30	8%	8.40	8.52	8.73	4%
MCK	McKesson	30.9%	12.7	11.8	12.48	12.97	13.26	6%	13.47	13.89	14.29	6%
MDC	MDC Holdings	33.1%	11.4	10.4	2.51	2.66	2.96	18%	2.81	3.14	3.23	15%
MDT	Medtronic	10.5%	17.0	15.8	4.97	5.04	5.04	1%	5.57	5.43	5.43	-3%
MET	MetLife	18.4%	9.8	8.9	4.77	4.88	4.89	2%	5.18	5.39	5.39	4%
MOS	Mosaic Co	59.5%	22.5	16.8	1.14	1.17	1.21	6%	1.48	1.56	1.62	10%
MRK	Merck & Co	37.5%	14.5	13.7	4.10	4.07	4.09	0%	4.32	4.29	4.34	0%
MRVL	Marvell Tech	8.4%	17.8	16.6	1.23	1.31	1.31	7%	1.33	1.40	1.40	5%
MSFT	Microsoft	20.5%	26.8	24.0	3.52	3.52	3.54	1%	3.87	3.91	3.95	2%
NEM	Newmont Mining	59.8%	30.4	25.9	1.34	1.33	1.33	0%	1.42	1.54	1.56	10%
NKE	Nike Inc	15.3%	27.7	23.8	2.47	2.45	2.46	0%	2.94	2.88	2.86	-3%
NSC	Norfolk Southern	35.0%	17.7	16.0	7.11	8.04	8.54	20%	7.79	8.88	9.44	21%
ONB	Old National Bancorp	27.3%	13.6	12.4	1.20	1.32	1.27	6%	1.32	1.47	1.40	6%
ORCL	Oracle	19.6%	16.8	15.5	3.09	3.07	3.08	0%	3.27	3.29	3.33	2%
PFE	Pfizer	15.2%	12.7	12.3	2.76	2.76	2.93	6%	2.86	2.86	3.01	5%
PNC	PNC Fin'l	24.8%	15.0	13.6	9.32	10.56	10.51	13%	10.17	11.56	11.59	14%
PRU	Prudential Fin'l	20.9%	9.8	9.3	11.38	12.01	12.07	6%	11.99	12.79	12.83	7%
QCOM	Qualcomm	23.2%	18.8	17.6	3.64	3.63	3.62	0%	3.83	3.83	3.88	1%
RCL	Royal Caribbean	0.0%	15.3	13.3	8.61	8.61	8.75	2%	10.02	9.91	10.02	0%
STX	Seagate Tech	52.4%	11.0	11.5	4.04	4.34	5.01	24%	4.17	4.38	4.81	15%
SYF	Synchrony Fin'l	36.8%	11.6	9.3	3.25	3.67	3.41	5%	3.61	4.49	4.26	18%
T	AT&T	33.2%	11.2	11.3	2.95	3.03	3.34	13%	2.98	3.11	3.30	11%
TGT	Target Corp	31.1%	14.6	13.9	4.28	4.98	5.15	20%	4.48	5.27	5.42	21%
TPC	Tutor Perini	33.9%	9.4	8.2	2.58	2.63	2.63	2%	3.13	3.00	3.00	-4%
TPR	Tapestry	22.3%	18.1	15.9	2.58	2.60	2.60	1%	2.81	2.87	2.95	5%
TRN	Trinity Industries	35.5%	25.8	20.2	1.24	1.31	1.34	8%	1.53	1.71	1.71	12%
TSN	Tyson Foods	31.8%	13.0	12.4	5.81	5.81	5.85	1%	6.14	6.15	6.15	0%
VZ	Verizon Comm	35.9%	11.9	11.6	3.87	3.98	4.53	17%	3.93	4.17	4.66	18%
WBA	Walgreens Boots	17.4%	12.5	11.7	5.78	5.94	6.00	4%	6.30	6.38	6.42	2%
WFC	Wells Fargo	30.4%	13.6	12.0	4.31	4.86	4.82	12%	4.74	5.45	5.46	15%
WHR	Whirlpool	26.0%	11.7	10.4	15.82	15.51	15.45	-2%	17.73	17.56	17.43	-2%
WMT	Wal-Mart Stores	30.3%	21.8	20.0	4.62	4.79	4.88	6%	4.88	5.29	5.33	9%
WSM	Williams-Sonoma	36.1%	13.2	12.7	3.78	3.82	3.89	3%	4.09	4.03	4.03	-1%
XOM	Exxon Mobil	23.9%	18.7	18.7	4.04	4.33	4.67	15%	4.34	4.51	4.68	8%
ZBH	Zimmer Biomet	38.4%	16.2	15.1	8.23	8.20	7.87	-4%	8.91	8.85	8.43	-5%
	Averages:	**28.5%**	**15.2**	**13.8**				**8%**				**8%**

As of 01.31.18. [1]Change in Calendar EPS estimate from 11.15.17 to 1.31.18. 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	42.41	55.83	6.9	0.4	1.7	2.8	8.6	184%	3.6%	60,239
	GT	Goodyear Tire & Rubber	34.82	50.91	11.3	0.6	2.1	7.1	1.4	138%	1.6%	8,577
Banks	BBT	BB&T Corp	55.19	62.09	17.6	nmf	2.7	nmf	nmf	nmf	2.4%	43,541
	ONB	Old National Bancor	17.30	21.92	15.8	nmf	2.1	nmf	nmf	nmf	3.0%	2,630
	SCGLY	Societe Generale SA	11.68	17.09	8.4	nmf	0.7	nmf	nmf	nmf	3.4%	47,182
Capital Goods	TPC	Tutor Perini	24.75	37.31	12.9	0.3	1.3	8.2	0.5	90%	0.0%	1,232
Consumer Dur & App	MDC	MDC Holdings	33.71	50.11	12.1	0.7	1.4	12.5	10.2	62%	3.6%	1,891
	WHR	Whirlpool	181.42	232.39	13.2	0.6	nmf	10.1	4.9	nmf	2.4%	13,037
Diversified Financials	ANH	Anworth Mortgage Asset	4.86	6.44	9.2	nmf	0.8	nmf	nmf	nmf	12.3%	477
	SYF	Synchrony Financial	39.68	50.97	15.1	nmf	2.5	nmf	nmf	nmf	1.5%	31,053
Energy	SLB	Schlumberger Ltd	73.58	107.99	49.1	3.3	43.0	38.6	3.5	628%	2.7%	101,830
	TNP	Tsakos Energy Navigation	3.65	7.95	33.2	0.6	0.2	8.8	nmf	119%	5.5%	310
	TOT	Total SA	58.06	76.92	12.9	0.9	1.2	6.3	4.1	36%	4.3%	147,245
Food & Staples Retailing	KR	Kroger Co	30.36	37.85	15.6	0.2	12.8	7.8	3.7	629%	1.6%	26,758
	WBA	Walgreens Boots Alliance	75.26	119.23	14.3	0.6	nmf	12.4	7.8	nmf	2.1%	74,558
Health Care Equip/Srvcs	CAH	Cardinal Health	71.79	91.73	13.6	0.2	nmf	12.1	8.3	nmf	2.6%	22,585
	ZBH	Zimmer Biomet Holdings	127.12	170.60	15.8	3.3	nmf	18.8	4.2	nmf	0.8%	25,738
Household Products	KMB	Kimberly-Clark	117.00	145.09	18.8	2.3	nmf	12.1	5.1	nmf	3.4%	41,156
Insurance	AXAHY	AXA SA	32.90	44.58	12.3	nmf	nmf	nmf	nmf	nmf	3.1%	79,790
	MET	MetLife	48.07	70.20	9.5	nmf	1.1	nmf	nmf	nmf	3.3%	50,584
Materials	ABX	Barrick Gold	14.38	23.87	19.4	2.0	2.1	4.5	4.9	79%	0.8%	16,775
	MOS	Mosaic	27.30	41.06	26.7	1.3	1.1	11.9	0.5	44%	0.4%	9,584
Media	DIS	Walt Disney	108.67	142.45	19.1	3.0	56.6	11.5	5.1	661%	1.5%	163,708
Pharma/Biotech/Life Sci	MRK	Merck & Co	59.25	75.03	15.2	4.1	33.8	15.4	2.6	458%	3.2%	161,423
	PFE	Pfizer	37.04	45.08	14.0	4.2	nmf	13.0	6.2	nmf	3.7%	220,785
	SHPG	Shire PLC	140.04	249.78	9.6	2.9	nmf	13.9	7.2	nmf	0.7%	42,469
Real Estate	DLR	Digital Realty Trust	111.95	129.26	18.7	nmf	4.1	nmf	nmf	nmf	3.3%	23,268
	DOC	Physicians Realty Trust	16.30	23.81	15.5	nmf	1.2	nmf	nmf	nmf	5.6%	2,921
	KIM	Kimco Realty	15.91	25.39	10.3	nmf	1.5	nmf	nmf	nmf	7.0%	6,772
Retailing	DSW	DSW Inc	20.03	29.85	14.8	0.6	1.7	5.7	11.6	0%	4.0%	1,602
	WSM	Williams-Sonoma	51.23	71.19	14.6	0.8	3.7	6.8	6.8	0%	3.0%	4,312
Software & Services	IBM	Int'l Business Machines	163.70	196.71	11.8	1.9	nmf	12.5	8.9	nmf	3.7%	151,552
	SYMC	Symantec	27.23	34.79	20.5	3.7	nmf	47.6	4.7	nmf	1.1%	16,882
Technology Hardware	AAPL	Apple	167.43	199.30	18.2	3.7	6.8	9.7	5.8	77%	1.5%	851,726
	GLW	Corning	31.22	41.75	18.0	2.7	2.5	10.9	0.8	44%	2.0%	27,132
	JBL	Jabil Inc	25.43	42.92	11.4	0.2	3.2	5.1	6.0	121%	1.3%	4,456
	• JNPR	Juniper Networks	26.15	37.13	12.4	2.0	6.7	8.3	11.2	147%	2.8%	9,804
Telecom Services	T	AT&T	37.45	49.36	12.8	1.4	nmf	7.0	7.4	nmf	5.3%	229,906
Transportation	ALK	Alaska Air Group	65.73	104.10	9.9	1.0	4.9	5.5	6.5	138%	1.9%	8,088
	DPSGY	Deutsche Post AG	47.19	58.25	16.4	0.8	nmf	9.9	3.8	nmf	2.4%	58,006

As of 01.31.18. 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 Highlights

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 only modest cash in our newsletter portfolios, we will pick up $10,000 of **Physicians Realty Trust** in Millennium Portfolio, $7,000 of **Juniper Networks** in Buckingham Portfolio and $29,000 of **Digital Realty Trust** in TPS Portfolio. We will also bring the holdings of **Synchrony Fin'l** in PruFolio up to $20,000. We will buy on February 7, waiting our usual four days to transact. There are no additional purchases of **BB&T Corp**, **Corning**, **Deutsche Post**, **MetLife**, **Pfizer** and **Walgreens Boots** as we already have sufficient ownership and/or industry exposure.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
BBT	BB&T Corp	Financials	55.19	62.09
DOC	Physicians Realty Trust	Real Estate	16.30	23.81
DLR	Digital Realty Trust	Real Estate	111.95	129.26
DPSGY	Deutsche Post AG	Industrials	47.19	58.25
GLW	Corning	Information Technology	31.22	41.75
JNPR	Juniper Networks	Information Technology	26.15	37.13
MET	MetLife	Financials	48.07	70.20
PFE	Pfizer	Health Care	37.04	45.08
SYF	Synchrony Financial	Financials	39.68	50.97
WBA	Walgreens Boots	Consumer Staples	75.26	119.23

As of 01.31.18. SOURCE: Al Frank using data from Bloomberg

BB&T Corp (BBT)

BB&T is one of the larger financial services holding companies in the U.S. with almost $222 billion in assets. The company operates more than 2,000 financial centers in 15 states and Washington, D.C., and offers a wide range of financial services including retail and commercial banking, investments, insurance, wealth management, asset management, mortgage, corporate banking, capital markets and specialized lending. We were pleased with BBT's Q4 results and saw 2018 guidance as supportive of higher forward EPS estimates, driven by expectations for further efficiency improvements, greater clarity on the expense outlook and a potential inflection point in loan growth. We like the company's relatively conservative loan underwriting and believe reduced regulation and higher interest rates give shares room to run. BBT yields 2.4% and trades at 14 times NTM EPS forecasts.

Physicians Realty Trust (DOC)

Physicians Realty Trust is a small-cap health care REIT that acquires, owns and manages health care properties that are leased to physicians, hospitals and healthcare delivery systems, and other health care providers. Its properties are typically on a campus with a hospital or strategically located and affiliated with a hospital or physician organization. Shares are off more than 25% since 2017 summer highs, with the recent jump in interest rates and capital raised by additional share issuance taking a toll. That said, we are positive on the name and like that physician group and health system consolidations in outpatient facilities have been keeping operating fundamentals for DOC strong. We favor 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 real estate investment cash flow. The dividend yield is north of 5.5%.

Digital Realty Trust (DLR)

Digital Realty is an owner and manager of technology-related real estate. The data centers are located throughout the U.S. and England, along with Europe, Asia and Australia, and host critical infrastructure for clients of all sizes. With its 185 data centers in 33 markets, DLR offers customers a robust global ecosystem that utilizes more than 1,000 telecom providers, ISPs, content providers and enterprises to provide carrier-neutral interconnection facilities. The company provides its broad customer base (more than 2,300 clients; IBM is the largest at 7.8% of aggregate annualized rent) with multi-cloud connectivity and flexible bandwidth. We believe that the build-out of cloud infrastructure around the world creates growing demand for DLR's offerings, as major technology companies like Microsoft work to deploy their cloud-based applications and services. With DLR uniquely positioned to benefit from this growth, analysts expect 2018 funds from operations (FFO) of $6.51 per share (vs. $5.98 est. for 2017). The stock also has a 3.3% dividend yield.

Deutsche Post AG (DPSGY)

Deutsche Post provides freight forwarding, international express parcel, mail delivery and supply chain services. The 520-year-old company delivers more than 59 million letters daily in Germany to more than 40 million customers, and its DHL express parcel service operates in more than 220 countries. DPSGY has a diversified revenue stream, with 31% coming from Germany, 30% from the rest of Europe and 39% from the rest of the world. After having a solid 2017, the stock has tumbled in the first month of the year, but we think that snail mail will have a place for the foreseeable future and DPSGY's effort to diversify with the DHL Supply Chain business (the largest global contract logistics provider) will give it a leg up on its European competition. Supply Chain margin growth should also pick up as the company sheds unprofitable customers as a part of its 2020 plan. We also believe that DPSGY (which yields 2.4%) can benefit from the Amazon-style online shopping that hasn't taken over Europe yet, as well as its leading position in more profitable European express and parcel mail (most other carriers haven't diversified yet in Europe). While online shopping might not reach the level it has in the U.S., primarily because of different consumer behavior, a global marketplace of goods available at the click of a button is incredibly enticing.

Corning (GLW)

Corning is the leading designer and manufacturer of glass and ceramic substrates found in liquid crystal displays, fiber-optic cables, automobiles and laboratory products. GLW reported EPS of $0.49 (vs. $0.47 est.) in fiscal Q4 2017 and had sales of $2.74 billion (vs. $2.65 billion est.). The company benefitted from strong growth in the Optical Communications and Specialty Materials segments. Shares sold off, however, after Corning said it expects gross margin to be 40% in the first quarter (vs. 41.1% est.), with improvement as the year progresses. "We exited 2017 running at full capacity in several of our businesses and with committed customer demand that supports our current capacity-expansion initiatives. We expect to see the benefits of these initiatives in the second half of 2018 and beyond as production ramps," said CEO Wendell Weeks. Corning remains focused on its "Strategy and Capital Allocation" framework, which targets $26 billion to $30 billion in cash generation through 2019 and the return of more than $12.5 billion to investors (at the halfway mark, GLW has returned $9 billion). GLW yields 2.0%.

Juniper Networks (JNPR)

Juniper Networks provides Internet infrastructure solutions for ISPs and other telecom service providers. The company designs IP routing, Ethernet switching, security and application acceleration solutions. Shares sold off in January after the company reported Q1 guidance that trailed expectations. Analysts expect the challenges, including long-term earnings and gross margin pressure due to revenue mix towards cheaper products, to continue into 2018, but Juniper CEO Rami Rahim is optimistic, "JNPR has the right strategy and solution portfolio needed to win in the market and drive a return to growth by the end of 2018." We think that JNPR can overcome the product mix issues, while tax reform provides an expected 2018 U.S. tax rate of 21% (about -5% vs. 2017) and has spurred the repatriation of $3 billion, two-thirds of which will be used to repurchase approximately 20% of the company's outstanding shares. In addition, Juniper increased its quarterly dividend by 80% to $0.18 per share. JNPR now trades with a forward P/E of 14.3, much less expensive than the broader S&P Info Tech sector's 19.5 times figure, and yields a rich (for a tech stock) 2.8%.

MetLife (MET)

MetLife, a global provider of life insurance, annuities, employee benefits and asset management, serves 100 million customers in nearly 50 countries and holds leading market positions in the U.S., Japan, Latin America, Asia, Europe and the Middle East. Shares fell more than 10% recently when the company announced it would need to boost reserves by $525 million to $575 million due to the previously acknowledged issue of "losing track" of certain pension customers owed monthly payouts. Obviously, we are disappointed by the misstep, but we are glad that MET is taking a hard look at its processes and procedures, not only in its pension benefits area, but across the firm. Overall, MET still has a solid financial foundation, and getting this right will only strengthen that position. That said, the reserve boost will undoubtedly impact near-term earnings, but we think the stock hit has been overdone, as we like METs business mix and ability to generate stable cash flow. We are fans of the substantial international operations and see them as a core driver for raising the growth profile, and we note that recent weakness in the U.S. dollar serves as a near-term tailwind for these businesses. We are fond of MET's underwriting discipline and its position as the market leader in group life, where it provides insurance to 90% of the companies in the Fortune 100. MET trades at less than 10 times the 2018 consensus EPS projection and yields 3.3%.

Pfizer (PFE)

Pfizer is a well-known global pharma giant. While it is difficult to forecast whether chatter from Washington will lead to action that pressures future product pricing, we were pleased with Q4 results and a bottom-line that beat the consensus estimate by more than 10%. PFE also expects its effective tax rate to be 17% for the foreseeable future. We like the strong balance sheet and that management said it will continue to focus on dividend growth, share repurchases and M&A (which remains a high priority). Additionally, the company continues to strategically review its consumer products business. We believe that Pfizer's pipeline remains solid, and note that recent new drug releases are beginning to make meaningful contributions to the bottom line. PFE yields 3.7% and trades for less than 13 times NTM earnings.

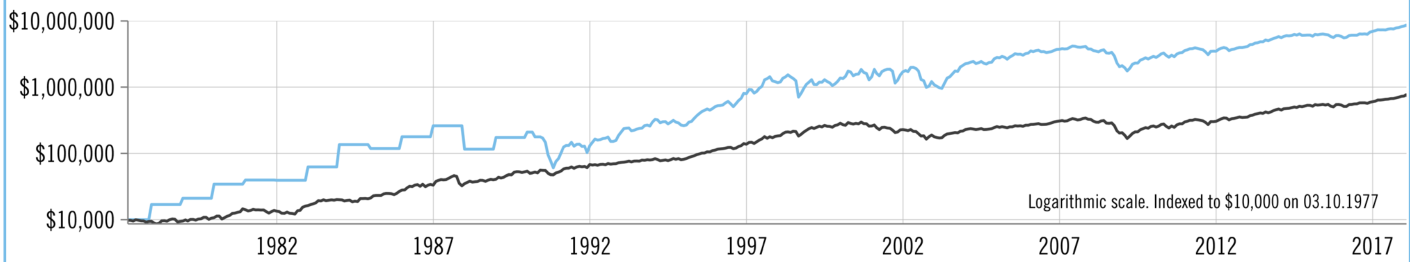
Synchrony Financial (SYF)

Synchrony provides a range of credit products through programs established with local, regional and national retailers, manufacturers, industry associations and healthcare providers. The company's success has been driven by its private-label credit business. SYF performs the underwriting for the partners and retains the receivables while paying out rewards to retailers. This business has resulted in higher credit yields, interchange fees through its dual-use cards and durable partner relationships, which has allowed SYF to generate strong returns on equity. We were pleased to see Q4 earnings that topped consensus forecasts by almost 10%. While expectations for future net charge-offs were bumped up, we think that management smartly inserted constructive conservatism into the 2018 outlook, leaving room to surprise on the upside, especially given the acquisition of PayPal's U.S. consumer credit receivables portfolio and being named the exclusive issuer of PayPal Credit online consumer financing program. The shares trade at 11.6 times NTM estimates and yield 1.5%. We think credit concerns are manageable and that gradually increasing interest rates will be a benefit.

Walgreens Boots Alliance (WBA)

Walgreens Boots operates 13,200 retail pharmacies in 11 countries, selling prescription and non-prescription drugs and peddling a wide variety of general goods. The company also offers health services and beauty products in its stores and has a wholesale drug operation that serves 230,000 pharmacies worldwide. Shares sold off at the end of January on renewed concerns that Amazon may enter the health care fray as it was reported that founder Jeff Bezos was leading an effort with Berkshire Hathaway's Warren Buffet and JPMorgan Chase's Jamie Dimon to create an independent health care company. While we appreciate that the trio wish to bring less expensive health care to more people, we think that actually breaking into the space and threatening WBA is a very long-term and difficult task, especially considering that health care is highly regulated. With a forward P/E ratio under 13, solid free cash flow generation and a yield of 2.1% (which we expect to rise), we think that WBA has a solid foundation to scrap it out with any possible new entrants.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jan	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	4.48	4.48	22.12	12.93	13.40	6.40	13.52
Millennium	4.56	4.56	20.27	12.84	14.20	9.09	12.44
PruFolio	4.30	4.30	19.56	12.60	13.26	9.29	13.38
TPS	4.25	4.25	22.20	14.02	14.73	9.36	15.33
Major Indexes							
Russell 3000	5.27	5.27	25.16	14.11	15.53	9.85	10.81
Russell 3000 Value	3.67	3.67	16.65	11.54	13.35	8.02	10.08
S&P 500	5.72	5.72	26.40	14.65	15.90	9.77	10.52
Dow Jones Indu. Avg.	5.88	5.88	34.80	17.98	16.36	10.41	10.93

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	13.03	10.56	Russell 3000
Millennium	12.31.99	10.11	6.12	Russell 3000
PruFolio	12.29.00	13.51	6.97	Russell 3000
TPS	03.10.77	18.03	11.25	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,880 stock recommendations have returned, on average, an annualized 17.39%, not including dividends.

IMPORTANT INFORMATION

As of 01.31.18. 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.com for 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.