

the Prudent Speculator 617

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Nothing like a 3:50 AM wake-up on February 6 to put one's nerves of steel to the test. Your Editor's slumber was shattered on the first night of the *Forbes Australia Cruise* when a glass shelf in the bathroom chose that very moment to crash to the floor, fracturing into hundreds of (safety-glass) pieces. Incredibly, the timing of the cabin-drama coincided exactly with the acceleration of the big U.S. equity market sell-off on February 5, as a quick glance at the Bloomberg application on my iPhone showed the Dow Jones Industrial Average off 600 points, with a subsequent check 10 minutes later revealing a 900-point plunge, and then a 1500-point plummet by the time the terrific Crystal Symphony crewman had completed his wee-hour clean-up efforts and we could get back to sleep.

Yes, I actually did get some shut-eye (after texting with Jason and Chris about buy limits for a couple of stocks on which we have long had our eye; alas the prices have yet to drop far enough), as there was nothing that a long-term-oriented investor should have been doing in reaction to the extraordinarily volatile equity markets. In fact, I was on board to deliver a *Secret to Success in Stocks* presentation later in the week that focused on not getting scared out of them. Talk about great timing, especially as the Dow futures for the next day's trading were off another 1200 points at one point, before stocks bounced back.

No doubt, we understand that it was not easy for folks to stay calm in February, especially with CNBC flashing headlines like, "Biggest one-day decline for Dow EVER," and the Dow posting another quadruple-point loss on February 8 and successive big tumbles at month-end, but we trust that our readers were braced for volatility, given our repeated admonitions that 5% declines happen every 0.4 months, on average, with 10% corrections taking place in 25 of the 41 years we have been publishing *The Prudent Speculator*. Yes, the speed of stocks heading south was anything but ordinary, even as memories have grown a bit hazy about the Flash Crash in 2010 and huge swings in the Fall of 2011, not to mention the wild gyrations associated with the Financial Crisis, 9/11, the Bursting of

the Tech Bubble and many other scary events that have occurred this Millennium.

Obviously, anything can happen in the short run, and

we respect that it has been more than two years since the last Bear Market (the average stock in the Russell 3000 index lost 23.6% from June 23, 2015 to February 11, 2016), while most still think that the current Bull Market began March 9, 2009. Still, we are not overly concerned about the downturn, as the major market averages are near break-even in 2018, and ups and downs are not unusual. Indeed, our stellar long-term track record includes

losses in 1984, 1987, 1990, 1994, 2002, 2008, 2011 and 2015.

After all, the main cause of the swoon (the unwinding of levered bets against volatility didn't help) should not be worrisome to those with multi-year time horizons. As one analyst said, "If interest rates are going up because inflation is a little higher, because the economy is stronger, because earnings are better...these are all positive things!" Indeed, while there has often been short-term pain as folks get used to tighter monetary policy, data show that rising interest and inflation rates are actually positive, on average, for stocks (especially Value) in the long run.

True, some were spooked that there may be more than three interest rate hikes this year when new Fed Chair Jerome Powell said, "I would expect the next two years, on the current path, to be good years for the economy," but the present long-range Federal Reserve target for the Fed Funds rate of 2.8% is well below the 5.3% historical norm. Throw in a terrific outlook for corporate profits, despite new uncertainties related to global trade, along with hefty share buyback activity and rising dividends, and we have to be enthused about the very reasonable 13.1 forward P/E ratio and 2.8% dividend yield for TPS Portfolio!

"Everyone says stock market corrections are healthy...until they are in one."
—Wall Street Adage



Chief Investment Officer
Al Frank Asset Management (AFAM)

Earnings Scorecard

Q4 Season

The U.S. economy grew at a solid 2.5% pace in the fourth quarter, and company earnings reports generally were terrific. In fact, overall profits increased by nearly 15%, the best quarter since 2011, according to FactSet,

while the adjusted results compared quite favorably to expectations. As usual, investor reactions to the specific releases were not always positive, but we were happy to see Bloomberg calculate that the number of companies in

| Industry Group | Ticker | Company | 12.17 Act EPS | 12.16 Act EPS | 12.17 Est EPS | TTM ¹ EPS | NTM ² Est EPS | NTM P/E | LTM Sales | NTM Est Sales | Sales Growth |
|-------------------------|--------------------------|-----------------------------|------------------|------------------|------------------|-------------------------|-----------------------------|------------|--------------|------------------|-----------------|
| Autos & Components | GM | General Motors | 1.65 | 1.28 | 1.38 | 6.56 | 6.35 | 6.2 | 145,588 | 144,452 | -1% |
| | GT | Goodyear Tire & Rubber | 0.99 | 0.95 | 0.78 | 3.13 | 3.76 | 7.7 | 15,377 | 15,966 | 4% |
| Banks | BAC | Bank of America | 0.48 | 0.37 | 0.45 | 1.85 | 2.52 | 12.7 | nmf | nmf | nmf |
| | BBT | BB&T Corp | 0.84 | 0.73 | 0.79 | 3.14 | 3.93 | 13.8 | nmf | nmf | nmf |
| | CM | Canadian Imperial Bank | 2.51 | 2.17 | 2.24 | 8.84 | 9.25 | 9.9 | nmf | nmf | nmf |
| | FITB | Fifth Third Bancorp | 0.52 | 0.48 | 0.48 | 1.84 | 2.33 | 14.2 | nmf | nmf | nmf |
| | HSBC | HSBC Holdings PLC | 0.59 | 0.87 | 0.66 | 3.50 | 3.53 | 14.1 | nmf | nmf | nmf |
| | ING | ING Groep NV | 0.30 | 0.38 | 0.36 | 1.44 | 1.65 | 10.7 | nmf | nmf | nmf |
| | JPM | JPMorgan Chase | 1.74 | 1.62 | 1.69 | 6.76 | 8.92 | 13.0 | nmf | nmf | nmf |
| | KEY | KeyCorp | 0.36 | 0.31 | 0.36 | 1.37 | 1.67 | 12.6 | nmf | nmf | nmf |
| | ONB | Old National Bancorp | 0.22 | 0.33 | 0.24 | 1.09 | 1.28 | 13.3 | nmf | nmf | nmf |
| | PNC | PNC Financial Services | 2.29 | 2.06 | 2.20 | 8.61 | 10.56 | 14.9 | nmf | nmf | nmf |
| SCGLY | Societe Generale SA | 0.26 | 0.27 | 0.09 | 1.27 | 1.17 | 9.7 | nmf | nmf | nmf | |
| WFC | Wells Fargo | 0.86 | 1.03 | 1.02 | 3.92 | 4.75 | 12.3 | nmf | nmf | nmf | |
| Capital Goods | ARII | American Railcar Industries | 0.24 | 1.16 | 0.49 | 1.83 | 2.67 | 13.9 | 477 | 534 | 12% |
| | CAT | Caterpillar | 2.16 | 0.83 | 1.77 | 6.88 | 9.16 | 16.9 | 45,462 | 50,724 | 12% |
| | CMI | Cummins | 3.03 | 2.25 | 2.68 | 10.63 | 12.57 | 13.4 | 20,428 | 21,935 | 7% |
| | DE | Deere | 1.31 | 0.40 | 1.33 | 6.83 | 9.90 | 16.3 | 31,026 | 33,624 | 8% |
| | ETN | Eaton PLC | 1.29 | 1.12 | 1.24 | 4.67 | 5.16 | 15.7 | 20,404 | 21,325 | 5% |
| | FLR | Fluor | 0.70 | 0.82 | 0.63 | 1.77 | 3.20 | 17.8 | 19,521 | 18,810 | -4% |
| | SIEGY | Siemens AG | 1.55 | 1.24 | 1.26 | 4.29 | 4.37 | 15.1 | 94,619 | 110,090 | 16% |
| | TPC | Tutor Perini | 0.56 | 0.60 | 0.51 | 1.89 | 2.17 | 11.2 | 4,757 | 5,170 | 9% |
| | TRN | Trinity Industries | 0.43 | 0.44 | 0.42 | 4.48 | 1.31 | 25.0 | 3,663 | 3,757 | 3% |
| Commercial Services | MAN | ManpowerGroup | 2.11 | 1.87 | 2.06 | 6.96 | 9.12 | 13.0 | 21,034 | 23,172 | 10% |
| Consumer Dur & App | MDC | MDC Holdings | 0.43 | 0.72 | 0.68 | 2.49 | 2.96 | 9.4 | 2,578 | 2,942 | 14% |
| | TPR | Tapestry | 1.07 | 0.75 | 0.88 | 2.45 | 2.75 | 18.5 | 5,203 | 5,974 | 15% |
| WHR | Whirlpool | 4.10 | 4.33 | 3.99 | 13.78 | 15.49 | 10.5 | 21,253 | 22,149 | 4% | |
| Consumer Services | RCL | Royal Caribbean Cruises Ltd | 1.34 | 1.23 | 1.21 | 7.53 | 8.78 | 14.4 | 8,778 | 9,476 | 8% |
| Diversified Financials | BK | Bank of New York Mellon | 0.91 | 0.77 | 0.91 | 3.62 | 4.05 | 14.1 | nmf | nmf | nmf |
| | COF | Capital One Financial | 1.62 | 1.45 | 1.87 | 7.76 | 9.86 | 9.9 | nmf | nmf | nmf |
| | GS | Goldman Sachs Group | 5.68 | 5.48 | 4.90 | 18.66 | 21.55 | 12.2 | nmf | nmf | nmf |
| | SYF | Synchrony Financial | 0.70 | 0.70 | 0.64 | 2.62 | 3.41 | 10.7 | nmf | nmf | nmf |
| Energy | HAL | Halliburton | 0.53 | 0.04 | 0.47 | 1.22 | 2.52 | 18.4 | 20,620 | 24,770 | 20% |
| | HFC | HollyFrontier | 0.70 | -0.06 | 0.83 | 2.39 | 3.64 | 11.8 | 14,251 | 14,470 | 2% |
| | NOV | National Oilwell Varco | -0.04 | -0.15 | -0.04 | -0.42 | 0.25 | nmf | 7,304 | 8,160 | 12% |
| | OII | Oceaneering Int'l | -0.08 | 0.03 | -0.10 | -0.08 | -0.70 | nmf | 1,922 | 1,799 | -6% |
| | RDS/A | Royal Dutch Shell PLC | 1.04 | 0.44 | 1.00 | 3.84 | 4.76 | 13.3 | 305,180 | 323,510 | 6% |
| | SFL | Ship Finance Int'l Ltd | 0.20 | 0.31 | 0.25 | 1.16 | 0.94 | 15.3 | 381 | 397 | 4% |
| | SLB | Schlumberger Ltd | 0.48 | 0.27 | 0.44 | 1.50 | 2.19 | 30.0 | 30,440 | 34,240 | 12% |
| | TOT | Total SA | 1.10 | 0.96 | 1.13 | 4.12 | 4.70 | 12.1 | 149,100 | 169,140 | 13% |
| | XOM | Exxon Mobil | 0.88 | 0.89 | 1.03 | 3.54 | 4.79 | 15.8 | 236,050 | 308,970 | 31% |
| | Food & Staples Retailing | CVS | CVS Health | 1.92 | 1.71 | 1.89 | 5.92 | 6.39 | 10.6 | 184,765 | 189,142 |
| WMT | | Walmart | 1.33 | 1.30 | 1.37 | 4.41 | 4.96 | 18.1 | 500,343 | 511,498 | 2% |
| Food, Bev & Tobacco | ADM | Archer-Daniels-Midland | 0.82 | 0.75 | 0.70 | 2.44 | 2.83 | 14.7 | 60,828 | 62,541 | 3% |
| | TSN | Tyson Foods | 1.81 | 1.59 | 1.50 | 5.53 | 6.53 | 11.4 | 39,307 | 41,074 | 4% |
| Health Care Equip/Srvcs | ABT | Abbott Laboratories | 0.74 | 0.65 | 0.73 | 2.50 | 2.85 | 21.1 | 27,390 | 30,902 | 13% |
| | AET | Aetna | 1.25 | 1.63 | 1.17 | 9.83 | 10.93 | 16.2 | 60,535 | 61,959 | 2% |
| | CAH | Cardinal Health | 1.51 | 1.34 | 1.15 | 5.44 | 5.82 | 11.9 | 132,614 | 138,593 | 5% |
| | MCK | McKesson | 3.41 | 3.05 | 2.95 | 12.57 | 13.17 | 11.3 | 205,442 | 212,978 | 4% |

As of 02.28.18. Real Estate (REIT) companies use Funds From Operations (FFO) instead of EPS. N/A=Not applicable. ¹Trailing 12-month. ²Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

the S&P 500 that exceeded earnings estimates was 73.9%, versus 17.8% that trailed forecasts and 8.3% that met projections. In Q4 2016, those same Beat/Miss/Match figures were 65.7%/22.9%/11.4%. The tally for our recommendations was not too dissimilar. Of the 98 *Prudent Speculator* stocks presented in our Earnings Scorecard, 71.4% topped EPS estimates, 22.4% lagged and 6.1% equaled.

Management teams were relatively upbeat in their outlooks and guidance, and Standard & Poor's now projects that after climbing 17.5% in 2017 to \$124.87, compared to \$106.26 in 2016, bottom-up operating EPS for the S&P 500 will soar to \$156.19 this year and to \$173.11 in 2019. Analysts are often much too rosy in their views, but improving earnings aren't usually bad for stocks!

| Industry Group | Ticker | Company | 12.17 Act EPS | 12.16 Act EPS | 12.17 Est EPS | TTM ¹ EPS | NTM ² Est EPS | NTM P/E | LTM Sales | NTM Est Sales | Sales Growth |
|-------------------------|--------|------------------------------|------------------|------------------|------------------|-------------------------|-----------------------------|------------|--------------|------------------|-----------------|
| Health Care Equip/Srvcs | MDT | Medtronic PLC | 1.17 | 1.12 | 1.17 | 4.69 | 5.03 | 15.9 | 29,725 | 30,605 | 3% |
| | ZBH | Zimmer Biomet Holdings | 2.10 | 2.14 | 2.10 | 8.03 | 7.81 | 14.9 | 7,824 | 7,961 | 2% |
| Household Products | KMB | Kimberly-Clark | 1.57 | 1.45 | 1.55 | 6.23 | 7.00 | 15.8 | 18,259 | 18,613 | 2% |
| Insurance | ALL | Allstate | 2.09 | 2.18 | 1.50 | 6.71 | 8.25 | 11.2 | nmf | nmf | nmf |
| | AXS | Axis Capital Holdings Ltd | 0.24 | 1.14 | 0.27 | -3.21 | 4.38 | 11.3 | nmf | nmf | nmf |
| | AZSEY | Allianz SE | 0.46 | 0.42 | 0.49 | 1.84 | 2.13 | 10.9 | nmf | nmf | nmf |
| | MET | MetLife | 0.64 | 1.28 | 0.85 | 4.44 | 4.89 | 9.4 | nmf | nmf | nmf |
| Materials | PRU | Prudential Financial | 2.69 | 2.46 | 2.64 | 10.58 | 12.06 | 8.8 | nmf | nmf | nmf |
| | ABX | Barrick Gold | 0.22 | 0.22 | 0.21 | 0.74 | 0.80 | 14.5 | 8,374 | 8,271 | -1% |
| | AUY | Yamana Gold | 0.06 | 0.01 | 0.03 | 0.07 | 0.11 | 26.5 | 1,804 | 2,043 | 13% |
| | CE | Celanese | 1.98 | 1.52 | 1.87 | 7.51 | 8.55 | 11.8 | 6,140 | 6,694 | 9% |
| | MOS | Mosaic | 0.34 | 0.26 | 0.28 | 1.10 | 1.38 | 19.1 | 7,409 | 8,462 | 14% |
| | NEM | Newmont Mining | 0.40 | 0.25 | 0.37 | 1.46 | 1.49 | 25.6 | 7,348 | 7,727 | 5% |
| Media | CMCSA | Comcast | 0.49 | 0.45 | 0.47 | 2.06 | 2.52 | 14.4 | 84,526 | 89,529 | 6% |
| | DIS | Walt Disney | 1.89 | 1.55 | 1.61 | 6.04 | 7.08 | 14.6 | 55,704 | 58,915 | 6% |
| Pharma/Biotech/Life Sci | AMGN | Amgen | 2.89 | 2.89 | 3.03 | 12.58 | 13.47 | 13.6 | 22,849 | 22,681 | -1% |
| | BIIB | Biogen | 5.26 | 5.04 | 5.45 | 21.81 | 24.91 | 11.6 | 12,274 | 12,987 | 6% |
| | GILD | Gilead Sciences | 1.78 | 2.70 | 1.67 | 8.84 | 6.45 | 12.2 | 26,107 | 21,299 | -18% |
| | JNJ | Johnson & Johnson | 1.74 | 1.58 | 1.72 | 7.30 | 8.04 | 16.2 | 76,450 | 81,101 | 6% |
| | MRK | Merck & Co | 0.98 | 0.89 | 0.94 | 3.98 | 4.17 | 13.0 | 40,122 | 41,653 | 4% |
| | PFE | Pfizer | 0.62 | 0.47 | 0.56 | 2.65 | 2.94 | 12.3 | 52,546 | 54,424 | 4% |
| | SHPG | Shire PLC | 3.98 | 3.37 | 3.92 | 15.15 | 15.34 | 8.3 | 15,161 | 15,510 | 2% |
| Real Estate | SNY | Sanofi | 0.62 | 0.67 | 0.71 | 3.13 | 3.35 | 11.7 | 39,600 | 42,430 | 7% |
| | DLR | Digital Realty Trust | 1.55 | 1.43 | 1.51 | 6.14 | 6.50 | 15.5 | nmf | nmf | nmf |
| | DOC | Physicians Realty Trust | 0.27 | 0.28 | 0.27 | 1.04 | 1.12 | 12.8 | nmf | nmf | nmf |
| Retailing | KIM | Kimco Realty | 0.39 | 0.38 | 0.38 | 1.52 | 1.47 | 10.2 | nmf | nmf | nmf |
| | REG | Regency Centers | 0.92 | 0.86 | 0.92 | 3.69 | 3.79 | 15.3 | nmf | nmf | nmf |
| | FL | Foot Locker | 1.14 | 1.37 | 1.28 | 3.99 | 4.60 | 10.0 | 7,780 | 7,780 | 0% |
| | KSS | Kohl's | 1.87 | 1.44 | 1.77 | 4.20 | 4.90 | 13.5 | 19,095 | 19,149 | 0% |
| Semis & Cap Equipment | LOW | Lowe's Cos | 0.74 | 0.86 | 0.87 | 4.39 | 5.54 | 16.2 | 68,619 | 71,260 | 4% |
| | INTC | Intel | 1.08 | 0.79 | 0.87 | 3.47 | 3.54 | 13.9 | 62,761 | 65,001 | 4% |
| Software & Services | QCOM | Qualcomm | 0.98 | 1.19 | 0.91 | 4.07 | 3.37 | 19.3 | 22,360 | 22,058 | -1% |
| | IBM | Int'l Business Machines | 5.18 | 5.01 | 5.17 | 13.83 | 13.85 | 11.3 | 79,140 | 80,396 | 2% |
| | MSFT | Microsoft | 0.96 | 0.84 | 0.86 | 3.28 | 3.78 | 24.8 | 102,273 | 111,641 | 9% |
| | SYMC | Symantec | 0.49 | 0.32 | 0.44 | 1.50 | 1.73 | 15.2 | 4,739 | 4,880 | 3% |
| Technology Hardware | AAPL | Apple | 3.89 | 3.36 | 3.84 | 9.72 | 12.28 | 14.5 | 239,176 | 266,213 | 11% |
| | AVX | AVX | 0.22 | 0.21 | 0.18 | 0.81 | 0.78 | 22.2 | 1,445 | 1,551 | 7% |
| | BHE | Benchmark Electronics | 0.49 | 0.45 | 0.37 | 1.60 | 1.70 | 17.6 | 2,467 | 2,527 | 2% |
| | CSCO | Cisco Systems | 0.63 | 0.57 | 0.59 | 2.45 | 2.70 | 16.6 | 48,096 | 49,945 | 4% |
| | GLW | Corning | 0.49 | 0.50 | 0.47 | 1.73 | 1.70 | 17.1 | 10,116 | 10,926 | 8% |
| | JNPR | Juniper Networks | 0.53 | 0.66 | 0.52 | 2.11 | 1.80 | 14.2 | 5,027 | 4,713 | -6% |
| Telecom Services | STX | Seagate Technology PLC | 1.48 | 1.38 | 1.40 | 4.19 | 5.01 | 10.7 | 10,626 | 10,738 | 1% |
| | NTYY | Nippon Telegraph & Telephone | 0.93 | 0.98 | 0.88 | 3.87 | 4.31 | 10.8 | 104,790 | 110,710 | 6% |
| | T | AT&T | 0.78 | 0.66 | 0.65 | 3.05 | 3.48 | 10.4 | 160,546 | 161,312 | 0% |
| Transportation | VZ | Verizon Communications | 0.86 | 0.86 | 0.88 | 3.75 | 4.57 | 10.4 | 126,034 | 128,591 | 2% |
| | ALK | Alaska Air Group | 0.83 | 1.56 | 0.82 | 6.63 | 5.79 | 11.1 | 7,933 | 8,506 | 7% |
| | DAL | Delta Air Lines | 0.96 | 0.82 | 0.87 | 4.94 | 6.27 | 8.6 | 41,244 | 43,654 | 6% |
| | NSC | Norfolk Southern | 1.69 | 1.42 | 1.57 | 6.51 | 8.54 | 16.3 | 10,551 | 11,007 | 4% |

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Recommended Stocks

In this space, we list each month 40 of our most attractively priced recommended stocks. All trade for significant discounts to our determination of long-term fair value and/or offer favorable risk/reward profiles. Note that, while we always seek substantial capital gains, we require lower appreciation potential for stocks that we deem to

have more stable earnings streams, more diversified businesses and stronger balance sheets. The natural corollary is that riskier companies must offer far greater upside to warrant a recommendation. Further, as total return is how performance is ultimately judged, we explicitly factor dividend payments into our analytical work.

| Industry Group | Ticker ¹ | Company | Price | Target Price | Price Multiples | | | EV/ EBITDA ³ | FCF Yield ⁴ | Debt/ TE ⁵ | Div Yield | Mkt Cap |
|--------------------------|---------------------|-------------------------|--------|--------------|-----------------|-------|------------------|-------------------------|------------------------|-----------------------|-----------|---------|
| | | | | | EPS | Sales | TBV ² | | | | | |
| Autos & Components | GT | Goodyear Tire & Rubber | 28.94 | 48.87 | 9.2 | 0.5 | 1.8 | 5.9 | 4.3 | 131% | 1.9% | 6,955 |
| | HMC | Honda Motor | 36.09 | 44.17 | 6.6 | 0.5 | 1.0 | 7.8 | 9.0 | 55% | 2.3% | 65,374 |
| Banks | CM | Canadian Imperial Bank | 91.25 | 110.62 | 10.3 | nmf | 2.3 | nmf | nmf | nmf | 4.6% | 40,465 |
| | SCGLY | Societe Generale SA | 11.38 | 17.96 | 8.7 | nmf | 0.7 | nmf | nmf | nmf | 3.5% | 45,971 |
| Capital Goods | SIEGY | Siemens AG | 65.98 | 92.60 | 14.3 | 2.2 | 17.0 | 10.4 | 4.5 | 501% | 2.4% | 112,166 |
| Consumer Durables | MDC | MDC Holdings | 27.68 | 47.80 | 11.1 | 0.6 | 1.1 | 11.1 | 4.1 | 78% | 4.3% | 1,553 |
| | WHR | Whirlpool | 162.43 | 230.49 | 11.8 | 0.5 | nmf | 9.2 | 5.2 | nmf | 2.7% | 11,482 |
| Diversified Financials | ANH | Anworth Mortgage Asset | 4.56 | 6.10 | 8.4 | nmf | 0.8 | nmf | nmf | nmf | 13.1% | 448 |
| Energy | SLB | Schlumberger Ltd | 65.64 | 107.99 | 43.8 | 3.0 | 38.3 | 34.8 | 3.9 | 628% | 3.0% | 90,841 |
| | TNP | Tsakos Energy Nav | 3.31 | 7.25 | 30.1 | 0.5 | 0.2 | 8.6 | nmf | 119% | 6.0% | 281 |
| | TOT | Total SA | 56.69 | 77.91 | 12.9 | 0.9 | 1.2 | 5.6 | 5.9 | 35% | 4.4% | 143,776 |
| Food & Staples Retailing | CVS | CVS Health | 67.73 | 135.50 | 11.4 | 0.4 | nmf | 7.8 | 8.8 | nmf | 3.0% | 68,714 |
| | WMT | Walmart | 90.01 | 110.04 | 20.4 | 0.5 | 4.5 | 10.0 | 6.8 | 62% | 2.3% | 266,644 |
| Health Care Equip/Srvcs | CAH | Cardinal Health | 69.21 | 94.97 | 12.7 | 0.2 | nmf | 11.6 | 7.5 | nmf | 2.7% | 21,945 |
| | ZBH | Zimmer Biomet Hldgs | 116.25 | 170.60 | 14.5 | 3.0 | nmf | 17.8 | 4.6 | nmf | 0.8% | 23,616 |
| Household Products | KMB | Kimberly-Clark | 110.92 | 145.09 | 17.8 | 2.1 | nmf | 11.4 | 5.5 | nmf | 3.6% | 38,900 |
| Insurance | ALL | Allstate | 92.26 | 112.20 | 13.7 | nmf | 1.8 | nmf | nmf | nmf | 2.0% | 33,007 |
| | AXAHY | AXA SA | 31.35 | 45.79 | 11.6 | nmf | nmf | nmf | nmf | nmf | 3.3% | 76,274 |
| | PRU | Prudential Financial | 106.32 | 140.11 | 10.0 | nmf | 0.9 | nmf | nmf | nmf | 3.4% | 44,867 |
| Materials | ABX | Barrick Gold | 11.52 | 21.10 | 15.6 | 1.6 | 1.7 | 3.8 | 5.0 | 83% | 1.0% | 13,509 |
| | BHP | BHP Billiton Ltd | 46.50 | 53.87 | 16.4 | 3.0 | nmf | nmf | 8.9 | nmf | 4.7% | 118,245 |
| Media | CMCSA | Comcast | 36.21 | 52.70 | 17.6 | 2.0 | nmf | 8.3 | 6.9 | nmf | 2.1% | 170,082 |
| | DIS | Walt Disney | 103.16 | 144.79 | 17.1 | 2.8 | 31.5 | 10.9 | 6.1 | 407% | 1.6% | 155,119 |
| Pharma/Biotech/Life Sci | AMGN | Amgen | 183.77 | 223.18 | 14.6 | 5.8 | 70.8 | 10.6 | 7.8 | 1827% | 2.9% | 133,347 |
| | BIIB | Biogen | 288.99 | 445.68 | 13.3 | 5.0 | 14.9 | 9.4 | 6.0 | 145% | 0.0% | 61,639 |
| | MRK | Merck & Co | 54.22 | 74.05 | 13.6 | 3.6 | 78.2 | 14.2 | 3.1 | 1142% | 3.5% | 146,187 |
| | SHPG | Shire PLC | 128.00 | 252.21 | 8.5 | 2.6 | nmf | 12.3 | 8.9 | nmf | 0.8% | 38,828 |
| | SNY | Sanofi | 39.25 | 59.23 | 11.7 | 4.5 | 17.2 | 11.3 | nmf | 302% | 3.4% | 98,444 |
| Real Estate | DLR | Digital Realty Trust | 100.64 | 130.33 | 16.4 | nmf | 3.8 | nmf | nmf | nmf | 3.7% | 21,533 |
| | DOC | Physicians Realty Trust | 14.37 | 22.82 | 13.8 | nmf | 1.0 | nmf | nmf | nmf | 6.4% | 2,575 |
| | REG | Regency Centers | 58.11 | 89.02 | 15.8 | nmf | 1.6 | nmf | nmf | nmf | 3.8% | 9,935 |
| Retailing | DSW | DSW Inc | 19.61 | 29.85 | 14.5 | 0.6 | 1.7 | 5.6 | 11.9 | 0% | 4.1% | 1,569 |
| | WSM | Williams-Sonoma | 51.76 | 71.19 | 14.7 | 0.8 | 3.7 | 6.8 | 6.8 | 0% | 3.0% | 4,357 |
| Semis & Cap Equipment | COHU | Cohu Inc | 20.03 | 31.94 | 13.0 | 1.6 | 2.7 | 9.7 | nmf | 0% | 1.2% | 567 |
| Software & Services | IBM | Int'l Business Machines | 155.83 | 196.71 | 11.3 | 1.8 | nmf | 11.5 | 9.3 | nmf | 3.9% | 143,546 |
| Technology Hardware | GLW | Corning | 29.08 | 41.75 | 16.8 | 2.5 | 2.3 | 10.1 | 0.9 | 44% | 2.1% | 24,935 |
| | JNPR | Juniper Networks | 25.66 | 37.13 | 12.2 | 1.8 | 6.1 | 7.4 | 11.4 | 147% | 2.8% | 8,821 |
| Telecom Services | T | AT&T | 36.30 | 49.36 | 11.9 | 1.4 | nmf | 7.5 | 7.9 | nmf | 5.5% | 222,938 |
| Transportation | DAL | Delta Air Lines | 53.90 | 75.16 | 10.9 | 0.9 | nmf | 5.3 | 3.3 | nmf | 2.3% | 38,103 |
| | FDX | FedEx | 246.41 | 316.43 | 20.0 | 1.1 | 6.8 | 9.8 | -1.9 | 156% | 0.8% | 66,011 |

As of 02.28.18. N/A=Not applicable. nmf=Not meaningful. ¹ =First-time recommendation. ²Tangible book value. ³Enterprise value-to-earnings before interest taxes depreciation and amortization. ⁴Free cash flow yield. ⁵Tangible equity. SOURCE: AI Frank using data from Bloomberg

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

Portfolio Builder

Research Team 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

Taking advantage of the February downturn and spending some of the cash that has accumulated, we will pick up \$7,000 of **Cohu**, **Delta Air Lines** and **Regency Centers** in Buckingham Portfolio. We will also buy \$10,000 of **Allstate** and **Zimmer Biomet** in Millennium Portfolio and we will purchase \$20,000 of **Schlumberger** in PruFolio. We already have sufficient company and/or sector exposure in **Barrick Gold**, **Honda Motor**, **Kimberly-Clark** and **Walmart**, so no new purchases of those four. We will wait our usual four trading days, until March 8, to transact.

NEWSLETTER PORTFOLIO PURCHASES

| Ticker | Company | Sector | Price | Target Price |
|--------|--------------------|------------------------|--------|--------------|
| ABX | Barrick Gold | Materials | 11.52 | 21.10 |
| ALL | Allstate | Financials | 92.26 | 112.20 |
| COHU | Cohu | Information Technology | 20.03 | 31.94 |
| DAL | Delta Air Lines | Industrials | 53.90 | 75.16 |
| HMC | Honda Motor | Consumer Discretionary | 36.09 | 44.17 |
| KMB | Kimberly-Clark | Consumer Staples | 110.92 | 145.09 |
| REG | Regency Centers | Real Estate | 58.11 | 89.02 |
| SLB | Schlumberger Ltd | Energy | 65.64 | 107.99 |
| WMT | Walmart | Consumer Staples | 90.01 | 110.04 |
| ZBH | Zimmer Biomet Hlgs | Health Care | 116.25 | 170.60 |

As of 02.28.18. SOURCE: AI Frank using data from Bloomberg

Barrick Gold (ABX)

The world's #1 producer of the precious yellow, Barrick Gold beat Q4 estimates by one and a half cents, posting adjusted EPS of \$0.22, on sales of \$2.3 billion. For all of 2017, ABX generated over \$2 billion of operating cash flow and \$670 million of free cash flow, allowing the company to make reinvestments and advance its pipeline of organic growth projects, which could contribute more than 1 million ounces of total production. Last year, gold production totaled 5.3 million ounces at an all-in sustaining cost of \$750 per, while the company produced 413 million pounds of copper at an all-in sustaining cost of \$2.34 per. ABX President Kelvin Dushnisky said, "In 2017, we reduced our total debt by over \$1.5 billion and our liquidity also continues to improve. We now have less than \$100 million of debt due before 2020 and more than 75% of our debt is due post 2032." The stock off more than 35% over the past year, despite the price of gold creeping up over the same span, we believe there is plenty of room for recovery, even if metals prices languish near current levels.

Allstate (ALL)

Allstate is the largest publicly traded personal lines insurance company in the U.S. Primarily a direct writer of a full array of property and casualty products (preferred, standard and nonstandard auto insurance and homeowners' insurance), ALL also offers life insurance and annuities. While a stellar performer in 2017, the stock is down more than 12% in 2018 as investors bailed following Q4

earnings on worries about margin trends. We were not overly concerned, and think the sell-off has been overdone. In our view, Q4 was superb with EPS of \$2.09, comfortably above the \$1.50 consensus. Results in the period were driven by lower losses, higher favorable reserve development, better property/casualty investment income and better life insurance earnings. The auto insurance business saw underlying margins improve year over year, while premium growth trended somewhat higher. We remain confident that Allstate is well-positioned for the long term, thanks to its vast distribution network, scale and resulting cost advantages, pricing sophistication and product design. Additionally, we like that the company actively buys back stock and increased its dividend by 24% this year (now yielding 2.0%). ALL trades for 11 times NTM consensus earnings projections.

Cohu (COHU)

Cohu designs and manufactures equipment that tests semiconductors and light-emitting diodes (LEDs), as well as manufactures closed circuit television equipment, metal detectors and microwave equipment. Cohu's top customers are Intel (18% of sales) and NXP Semi (11% of sales; NXP is being acquired by Qualcomm). Management expects growing traction in automotive and mobility markets, as well as a book-to-bill ratio above 1.0. Cohu has been battered since October, hence our first-time recommendation this month, but the company maintains a pristine balance sheet with \$5.39 in net cash per share, and had record orders in 2017. We think that Cohu's reasonable valuation (12 times NTM earnings estimates, 1.4 times NTM sales estimates), earnings growth estimates for the next three years of at least 8% and 1.2% yield make the company's shares a compelling bargain in an otherwise expensive Information Technology sector.

Delta Air Lines (DAL)

Delta Air Lines is one of the largest air carriers in North America by passengers flown and fleet size. Delta serves more than 160 million customers each year and offers service to more than 325 destinations in 60 countries. Delta shares have encountered some turbulence since mid-January, as a result of winter storms and political haranguing (first with the Bombardier C-Series trade dispute and more recently Georgia lawmakers passed a bill to remove tax benefits related to the company's cutting of NRA and "other divisive groups" discounts). DAL continues to battle for market share in the Pacific Northwest, ending

a partnership agreement with Alaska Airlines and starting one with Korean Air Lines. The moves should give Delta customers better route choices when flying over the Pacific and boost competition in the Seattle region. Delta continues to strive to woo business travelers by renovating lounges around the world, offering gate transfers via Porsche and serving top-notch food, in an effort to ensure that the highest-margin travelers return. DAL trades for 8.4 times NTM earnings with profit growth for 2018 and 2019 expected to be 28% and 13%, respectively.

Honda Motor (HMC)

Honda is a global leader in the development, manufacturing and distribution of automobiles, motorcycles and power products. While Automobile revenue is nearly three quarters of Honda's total, the segment contributed just under half of operating income over the past four quarters, with Motorcycles accounting for about 30%, despite representing only 13% of total revenue. Honda set all-time company records for auto sales in Asia and China in calendar 2017, and sold 5.24 million vehicles worldwide (a 4.8% increase from 2016). For fiscal 2018, Honda raised its guidance last month, and now expects revenue to be near \$139 billion, with GAAP EPS around \$5.09 (currency adjusted; analysts expect \$4.66 per share). Honda also raised its quarterly dividend payment, resulting in a net yield of approximately 2.3%. We continue to like the geographically diverse revenue stream and are encouraged by Honda's progress in emerging markets (including India and China) and modest opportunity for growth in North America. HMC has a current P/E under 7.

Kimberly-Clark (KMB)

Kimberly-Clark manufactures tissue, personal care and healthcare products. Its global brands include: Huggies, Pull-Ups, Kotex, Kleenex, Viva, Scott, Depend and Poise. KMB has leading market share positions in some of the larger household product categories, while its focus on increasing its emerging market businesses has been and should continue to be an important long-term growth driver. Shares have fallen almost 15% over the past year as KMB navigates through a challenging operational environment, yet it has managed to grow earnings consistently since 2015 via cost savings, despite more pedestrian growth in sales. While we would like to see better organic growth, we have been pleased with the improvements in working capital and the continued commitment to returning capital to shareholders—more than \$2 billion per year

for the past seven years via stock buybacks and increased dividends (the yield is now 3.6%). We think that KMB should realize future pricing and margin improvements through product innovation and marketing. Long-term sales growth should be aided by expansion in non-traditional categories and deeper penetration into emerging economies to capitalize on rising incomes and birth rates. KMB also generates solid free cash flow, while the stock trades for a reasonable 16 times forward earnings.

Regency Centers (REG)

Real estate investment trust (REIT) Regency Centers is a national owner, operator and developer of neighborhood and community shopping centers. The company's portfolio is primarily anchored by productive grocers and is located in affluent and attractive more-populated metro areas. Like other retail REITs, REG was hit hard in 2017 as concerns that Amazon and online retailing would pummel brick-and-mortar retailers. Additionally, investors reacted harshly to news that Amazon was buying Whole Foods, not seemingly realizing that Whole Foods was actually one of REG's top tenants. Then, as the stock price bounced back in late-2017 and early-2018, shares were again sent into retreat, this time due to rising interest rates (with REG now down 15% YTD). We think that REG is very attractive at these levels and we liked the company's recent quarterly results, including projections for 2018 full-year FFO to come in between \$3.73 and \$3.82 per share. Additionally, management announced a new \$250 million share buyback program and an increase to the dividend of about 5% (the yield is now 3.8%).

Schlumberger (SLB)

Schlumberger is the world's largest provider of services and equipment used in drilling, evaluation, completion, production and maintenance of oil and natural gas wells. Having the largest global oil services platform, a dominant international franchise, the potential benefits from recent acquisitions and the most balanced exposures of the diversified service providers, we continue to believe that SLB is one of the best-positioned energy names to not only hold up during softer times in the oil patch, but to thrive when energy prices trend higher. We are pleased to see that the internal transformation and restructuring initiatives continue to take hold, as was evident in the Q4 financial results that included revenue (\$8.2 billion) and adjusted earnings per share (\$0.48) that beat consensus analyst estimates. We believe the international space is

poised for an upturn, with SLB the services heavyweight there. We also like the solid free cash flow and that the high-quality stock currently yields a rich 3.0%.

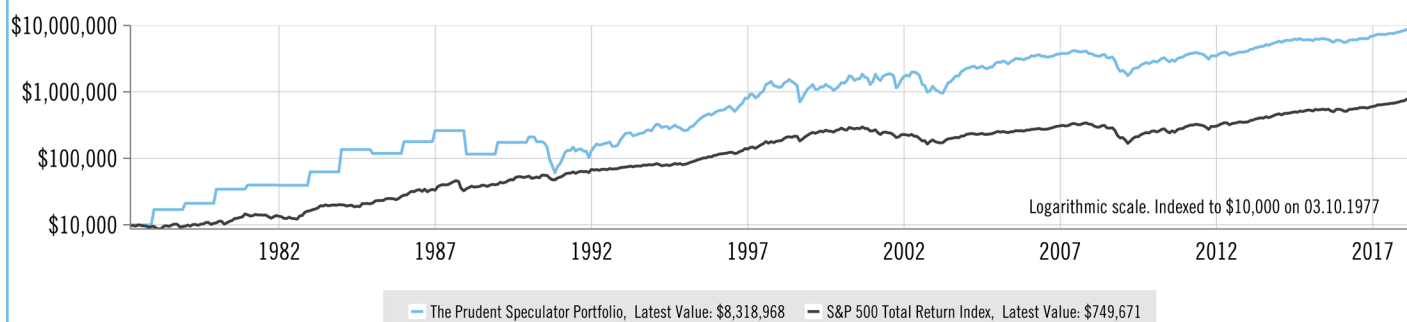
Walmart (WMT)

Retailing titan Walmart conducts domestic operations under numerous store formats, and has a growing international footprint. Although WMT enjoyed a fabulous 2017, this year has not been kind with shares down more than 10%, as investors were not pleased with the latest online results. While e-commerce represents only a small portion of the company's revenue, we understand its importance for the future as it battles rivals like Amazon. Despite turning in growth in this segment of better than 40% last year, and projecting a 40%+ increase this year, growth in the previous quarter was "only" 23%. With shares dipping hard, we think those that missed previous opportunities to add WMT should now pick them up on sale. While some short-term pain must be endured, we think that the steps that WMT has taken over the last few years to transform itself has it on the right long-term track. We continue to like the company's international footprint, strong free cash flow generation and commitment to returning capital to shareholders. WMT currently yields 2.3%.

Zimmer Biomet Holdings (ZBH)

Zimmer Biomet is a global leader in orthopedic implants (hips, knees, spine, trauma and dental) as well as related orthopedic surgical products. ZBH is by far the king in hip and knee implants and we believe favorable demographics, which include aging Baby Boomers and increasing obesity rates, will drive solid demand for large-joint replacement. We like that Zimmer has a history of strong relationships with its clients, and we don't see that changing anytime soon. While shares have been weak over the last month, we think that new CEO Bryan Hanson can help execute the company's turnaround process of improving manufacturing capacity and efficiency, as well as driving organic growth. He has experience in the medical device space, including leading Covidien's integration into Medtronic. Shares did jump on March 2 on news that management was considering selling the firm's dental unit to focus on strengthening and growing its core competencies. With respective EPS projections of \$8.40, \$9.20 and \$10.40 for 2019, 2020 and 2021, we see ZBH as a value-priced growth stock. Zimmer has consistently generated strong free cash flow and the shares change hands at less than 15 times NTM adjusted EPS forecasts. ■

NEWSLETTER PORTFOLIO PERFORMANCE



| | Feb | YTD | 1-Year | 3-Year | 5-Year | 10-Year | 15-Year | Inception Date | Since Inception | Index Return | Index | |
|------------------------------|-------|-------|--------|--------|--------|---------|---------|---|-----------------|--------------|-------|--------------|
| Newsletter Portfolios | | | | | | | | Newsletter Portfolios | | | | |
| Buckingham | -4.69 | -0.42 | 13.15 | 8.78 | 12.25 | 6.11 | 13.26 | Buckingham | 01.21.03 | 12.59 | 10.23 | Russell 3000 |
| Millennium | -4.61 | -0.26 | 11.25 | 9.05 | 12.99 | 9.07 | 12.57 | Millennium | 12.31.99 | 9.78 | 5.87 | Russell 3000 |
| PruFolio | -5.11 | -1.03 | 10.03 | 8.34 | 11.99 | 8.98 | 13.10 | PruFolio | 12.29.00 | 13.10 | 6.70 | Russell 3000 |
| TPS | -4.57 | -0.51 | 13.05 | 9.89 | 13.58 | 9.04 | 15.35 | TPS | 03.10.77 | 17.86 | 11.13 | S&P 500 |
| Major Indexes | | | | | | | | Since <i>The Prudent Speculator's</i> launch in March 1977, its 1,881 stock recommendations have returned, on average, an annualized 17.36%, not including dividends. | | | | |
| Russell 3000 | -3.69 | 1.39 | 16.22 | 10.59 | 14.37 | 9.78 | 10.66 | | | | | |
| Russell 3000 Value | -4.79 | -1.30 | 7.39 | 8.02 | 11.93 | 7.95 | 9.92 | | | | | |
| S&P 500 | -3.69 | 1.83 | 17.09 | 11.13 | 14.72 | 9.72 | 10.36 | | | | | |
| Dow Jones Indu. Avg. | -3.96 | 1.69 | 23.10 | 14.16 | 15.02 | 10.27 | 10.76 | | | | | |

IMPORTANT INFORMATION

As of 02.28.18. 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. The Russell 3000 Index lacks sufficient history to match that of Al Frank's TPS Portfolio. We therefore have shown the S&P 500 Index for comparison purposes. It is not possible to invest directly in an index. SOURCE: Al Frank using data from Bloomberg

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

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

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