April 3, 2018

the Prudent Speculator

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In *Seven Brief Lessons on Physics*, Carlo Rovelli examines the "birth certificate" of quantum theory, an Albert Einstein article on photons. Mr. Rovelli writes, "Note the wonderful initial, 'It seems to me...,' which recalls the 'I think..." with which Darwin introduces in his notebooks the great idea that species evolve, or the 'hesitation' spoken of by Faraday when introducing for the first time the revolutionary idea of magnetic fields. Genius hesitates."

> "The doorstep to the temple of wisdom is a knowledge of our own ignorance."
>
> —Ben Franklin

Contrast the lack of certainty expressed by the sharpest minds of science with the expert opinions served up by pundits every day to attempt to explain the gyrations of the equity markets. True, simply stating that there was more buying or selling pressure will not attract many eyeballs, but the reasons for the ups and downs are often plucked from the shelf once the direction is known.

For example, on March 30, stocks closed the first quarter on a high note, with *The Associated Press* stating, "The major market averages were headed higher from the start of trading as investors sized up several company earnings reports and new government data showing that spending by American consumers rose 0.2% in February, while their incomes increased 4.4%. The healthy income gains could spur more spending in the coming months." Alas, equities plumbed new depths on April 2 after China followed through on its tit-for-tat threat to impose tariffs on $3 billion of U.S. imports, countering President Trump's plan announced a couple of weeks prior for up to $60 billion of tariffs on imports from the Middle Kingdom. Not surprisingly, one market watcher told *CNNMoney*, "Global trade could slow down, global supply chains could be impacted, and CEOs could be more cautious on capital spending."

So, investors were upbeat about the economy one trading day and downcast the next, even as another strategist proclaimed, "None of it makes a lot of sense. I don't know what we learned that was new." It was a similar conundrum to attempt to recap and rationalize a very volatile first quarter that saw the S&P 500, Russell 3000 and Dow Jones Industrials lose 0.76%, 0.64% and 1.96%, respectively, while the Russell 3000 Value index retreated 2.82%. Of course, 2016 and 2017 enjoyed double-digit percentage returns, so we might argue that simple profit-taking was as good as any other reason for the Q1 red ink.

After all, January saw a terrific rally, thanks to strong corporate earnings and enthusiasm for the long-term ramifications of the Tax Cuts and Jobs Act, but February suffered a sizable setback, supposedly due to a hefty jump in Treasury yields on fears of increasing inflation, following strong economic reports. And March started off with a modest rebound when tamer wage growth, along with no change in the Federal Reserve's longer-run 2.0% per annum growth projection for personal consumption expenditures (PCE), temporarily quelled inflation worries. But the quarter ended with concerns about a trade war, Fed interest rate hikes and negative tech sector headlines.

We readily concede that we (nor anyone else) cannot predict what the near term will bring, and we know that pullbacks, corrections and even Bear Markets are always part of the successful long-term investment equation, so we would not be surprised to see further downside action this month. That said, we like that the yield on the 10-year Treasury is now 2.78%, compared to 2.84% when stocks peaked on January 26, while dividends are higher today (132 members of the S&P 500 boosted their payouts in Q1) and the outlook for corporate profits remains very robust, with Standard & Poor's now estimating bottom up operating EPS for the S&P 500 of $156.12 this year and $172.62 in 2019, up markedly from $124.52 last year. Clearly, Washington remains a major wildcard, both pro and con, but we think cooler heads will eventually prevail on trade, while elevated investor pessimism makes us want to be greedy when others are fearful, especially with equity valuations now even more reasonable.

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

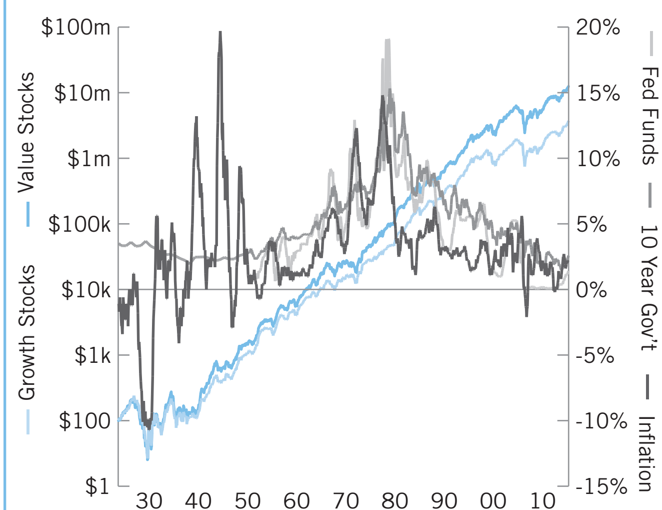
Fed Funds, Interest & Inflation Rates

No doubt, corporate and consumer borrowing costs have been moving higher, given six interest rate increases from the Federal Reserve since December 2015. And new chair Jerome Powell & Co. indicated when the Fed boosted its target for the Federal Funds rate to 1.75% last month that there will likely be two to three more hikes this year, with another three bump-ups possible in 2019. Sounds like a massive level of monetary tightening, until one remembers that the average Fed Funds rate dating back to 1967 is 5.25% and that the current longer-run Fed projection for the widely watched benchmark is 2.9%. More importantly, perhaps, as Mr. Powell recently said, "It's true that rates are higher than they've been in 10 years. On the other hand, the economy's healthier than it's been since before the Financial Crisis."

Indeed, we hardly think folks should Fear the Fed, especially given the latest Fed statement: "Information received since the FOMC met in January indicates that the labor market has continued to strengthen and that economic activity has been rising at a moderate rate. Job gains have been strong in recent months, and the unemployment rate has stayed low. Recent data suggest that growth rates of household spending and business fixed investment have moderated from their strong fourth-quarter readings. On a 12-month basis, both overall inflation and inflation for items other than food and energy have continued to run below 2%. Market-based measures of inflation compensation have increased in recent months but remain low; survey-based measures of longer-term inflation expectations are little changed, on balance."

RATES & RETURNS OVER TIME

The Fed Funds, Interest and Inflation rates have risen and fallen and risen and fallen, while stock prices have marched steadily higher.



As of 01.31.18. Left Axis: Logarithmic scale. Indexed to 100 on 06.30.26. SOURCE: Al Frank using data from Bloomberg, Professors Eugene F. Fama and Kenneth R. French, and Professor Robert J. Shiller.

FED FUNDS RATES & STOCK PERFORMANCE

While the Federal Reserve is likely to continue to move the target for the Fed Funds rate higher, history shows that no matter the level...

%	Geo. Avg	#Neg	#Pos	Min	Max
Value Stocks (Forward 1-Year Returns)					
<= 2.5	14.2%	44	150	-38.1%	84.6%
2.5 <= 5.0	11.4%	50	159	-51.6%	72.1%
5.0 <= 7.5	16.0%	42	146	-24.6%	60.1%
7.5 <= 10	13.4%	21	75	-29.6%	57.5%
10.0 <= 12.5	18.3%	5	27	-28.0%	62.1%
12.5 <= 20.0	26.3%	2	27	-0.7%	75.2%
Growth Stocks (Forward 1-Year Returns)					
<= 2.5	12.1%	34	160	-29.1%	55.9%
2.5 <= 5.0	7.3%	49	160	-39.4%	58.3%
5.0 <= 7.5	8.4%	57	131	-35.9%	57.8%
7.5 <= 10	8.1%	31	65	-35.4%	59.5%
10.0 <= 12.5	12.4%	6	26	-48.1%	56.0%
12.5 <= 20.0	18.2%	11	18	-22.1%	83.8%

From 07.31.54 through 01.31.18. Subsequent 12-month geometric mean. SOURCE: Al Frank using data from Bloomberg and Profs. Eugene F. Fama & Kenneth R. French

FED FUNDS RATE Δ & STOCK PERFORMANCE

...or the direction of the change over the ensuing month, quarter or year, Value stocks have on average proven the place to be.

Change	Geo. Avg	#Neg	#Pos	Min	Max
Value Stocks (Forward 1-Year Returns)					
Next Year Up	14.3%	80	326	-28.0%	67.7%
Next Year Down	14.6%	84	261	-51.6%	84.6%
Next Quarter Up	13.8%	87	310	-37.2%	78.2%
Next Quarter Down	15.1%	77	277	-51.6%	84.6%
Next Month Up	14.5%	77	306	-37.2%	66.4%
Next Month Down	14.3%	87	281	-51.6%	84.6%
Growth Stocks (Forward 1-Year Returns)					
Next Year Up	8.7%	97	309	-48.1%	58.3%
Next Year Down	10.7%	91	254	-39.4%	83.8%
Next Quarter Up	8.5%	102	295	-35.4%	58.3%
Next Quarter Down	10.8%	86	268	-48.1%	83.8%
Next Month Up	8.6%	97	286	-38.0%	63.4%
Next Month Down	10.7%	91	277	-48.1%	83.8%

From 07.31.54 through 01.31.18. Subsequent 12-month geometric mean. SOURCE: Al Frank using data from Bloomberg and Profs. Eugene F. Fama & Kenneth R. French

Obviously, plenty of uncertainty exists in regard to the economic outlook, despite a recent upward revision in Q4 U.S. GDP growth to 2.9%. The ramifications of tough talk on global trade from the White House and the impact of the Tax Cuts and Jobs Act make forecasting even more difficult than usual, but we remain of the mind that a continuation of favorable economic data necessary to justify the planned Fed rate hikes this year and next would hardly be a negative for corporate profits or stock prices.

Of course, we know that many are convinced that rising Fed Funds, U.S. Treasury and/or Inflation rates will spell doom for equities, but history shows otherwise. Past performance is never a guarantee of future returns and statisticians may find fault with the relatively small sample set as well as the tremendous dispersion between the minimums and maximums, but we like what the data show on average in regard to equities in general and Value stocks in particular no matter the direction of rates.

INTEREST RATES & STOCK PERFORMANCE

Not surprisingly, both Value and Growth stocks have performed well in very low interest rate environments...

%	Geo. Avg	#Neg	#Pos	Min	Max
Value Stocks (Forward 1-Year Returns)					
<= 2.5	21.4%	54	159	-29.6%	134.0%
2.5 <= 3.5	6.2%	76	157	-71.4%	242.3%
3.5 <= 4.5	12.2%	45	126	-51.6%	358.1%
4.5 <= 6.0	6.5%	45	89	-32.3%	53.9%
6.0 <= 8.0	14.4%	43	137	-29.6%	60.1%
8 <= 20.0	21.5%	15	140	-24.5%	75.2%
Growth Stocks (Forward 1-Year Returns)					
<= 2.5	14.0%	55	158	-31.5%	64.2%
2.5 <= 5.0	9.8%	50	183	-64.8%	158.0%
5.0 <= 7.5	6.3%	48	123	-50.8%	221.9%
7.5 <= 10	6.1%	47	87	-36.5%	57.8%
10.0 <= 12.5	3.9%	60	120	-48.1%	59.5%
12.5 <= 20.0	15.7%	32	123	-22.6%	83.8%

From 07.31.26 through 01.31.18. 10-Year U.S. Treasury Yield. Subsequent 12-month geometric mean. SOURCE: Al Frank using data from Bloomberg and Professor Robert J. Shiller

INTEREST RATE Δ & STOCK PERFORMANCE

...but Value handily trumps Growth, on average, in periods where rates have been moving higher (and when rates have been dropping).

Change	Geo. Avg	#Neg	#Pos	Min	Max
Value Stocks (Forward 1-Year Returns)					
Next Year Up	14.5%	117	429	-71.4%	134.0%
Next Year Down	12.6%	161	380	-66.3%	358.1%
Next Quarter Up	11.3%	151	407	-71.4%	134.0%
Next Quarter Down	16.0%	127	402	-66.3%	358.1%
Next Month Up	11.5%	143	392	-71.4%	134.0%
Next Month Down	15.5%	135	417	-66.3%	358.1%
Growth Stocks (Forward 1-Year Returns)					
Next Year Up	9.1%	148	398	-64.8%	64.2%
Next Year Down	9.7%	144	397	-55.1%	221.9%
Next Quarter Up	6.2%	172	386	-64.8%	64.2%
Next Quarter Down	12.9%	120	409	-55.1%	221.9%
Next Month Up	6.9%	155	380	-64.8%	69.0%
Next Month Down	11.9%	137	415	-55.1%	221.9%

From 07.31.26 through 01.31.18. 10-Year U.S. Treasury Yield. Subsequent 12-month geometric mean. SOURCE: Al Frank using data from Bloomberg and Professor Robert J. Shiller

INFLATION RATES & STOCK PERFORMANCE

Stocks in general have provided an excellent hedge against the erosion of purchasing power caused by inflation...

%	Geo. Avg	#Neg	#Pos	Min	Max
Value Stocks (Forward 1-Year Returns)					
Negative	9.1%	57	98	-71.4%	358.1%
0 <= 1.5	12.2%	54	131	-47.9%	84.6%
1.5 <= 3.0	17.2%	62	230	-49.7%	149.1%
3.0 <= 4.5	11.1%	48	148	-66.3%	103.4%
4.5 <= 7.5	9.2%	41	100	-55.8%	75.2%
7.5 <= 20.0	22.1%	16	101	-22.6%	134.0%
Growth Stocks (Forward 1-Year Returns)					
Negative	16.6%	52	103	-64.8%	221.9%
0 <= 1.5	10.5%	42	143	-42.2%	55.9%
1.5 <= 3.0	15.3%	62	230	-43.4%	70.0%
3.0 <= 4.5	5.7%	70	126	-55.1%	57.8%
4.5 <= 7.5	10.9%	33	108	-48.1%	83.8%
7.5 <= 20.0	14.8%	33	84	-38.0%	64.2%

From 07.31.26 through 01.31.18. Subsequent 12-month geometric mean. SOURCE: Al Frank using data from Bloomberg and Profs. Eugene F. Fama & Kenneth R. French

INFLATION RATE Δ & STOCK PERFORMANCE

...though not surprisingly, they have generated stronger average returns when the Consumer Price Index has been declining.

Change	Geo. Avg	#Neg	#Pos	Min	Max
Value Stocks (Forward 1-Year Returns)					
Next Year Up	12.3%	163	370	-71.4%	358.1%
Next Year Down	14.8%	115	439	-66.5%	149.1%
Next Quarter Up	10.7%	157	333	-71.4%	242.3%
Next Quarter Down	15.9%	121	476	-64.7%	358.1%
Next Month Up	11.6%	124	303	-71.4%	299.7%
Next Month Down	14.8%	154	506	-66.5%	358.1%
Growth Stocks (Forward 1-Year Returns)					
Next Year Up	8.3%	166	367	-64.8%	221.9%
Next Year Down	10.5%	126	428	-60.6%	83.8%
Next Quarter Up	6.9%	162	328	-64.8%	158.0%
Next Quarter Down	11.5%	130	467	-56.9%	221.9%
Next Month Up	7.8%	129	298	-64.8%	162.5%
Next Month Down	10.4%	163	497	-60.6%	221.9%

From 07.31.26 through 01.31.18. Subsequent 12-month geometric mean. SOURCE: Al Frank using data from Bloomberg and Profs. Eugene F. Fama & Kenneth R. French

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	36.34	56.03	5.5	0.3	1.7	2.1	16.9	231%	4.2%	50,895
	GT	Goodyear Tire	26.58	48.87	8.5	0.4	1.7	5.7	4.7	131%	2.1%	6,392
Banks	CM	Canadian Imperial Bank	88.28	110.62	10.0	nmf	2.2	nmf	nmf	nmf	4.7%	39,058
	SCGLY	Societe Generale SA	10.88	17.45	8.2	nmf	0.7	nmf	nmf	nmf	3.7%	43,951
Capital Goods	SIEGY	Siemens	63.92	92.60	13.7	2.1	16.2	10.0	4.7	501%	2.5%	108,664
Consumer Dur & App	MDC	MDC Holdings	27.92	47.80	11.2	0.6	1.1	11.2	4.1	78%	4.3%	1,570
	WHR	Whirlpool	153.11	230.49	11.1	0.5	nmf	8.8	5.5	nmf	2.9%	10,824
Diversified Financials	ANH	Anworth Mortgage	4.80	6.10	8.9	nmf	0.8	nmf	nmf	nmf	12.5%	471
	SYF	Synchrony Financial	33.53	50.97	12.8	nmf	2.0	nmf	nmf	nmf	1.8%	25,490
Energy	SLB	Schlumberger	64.78	107.99	43.2	2.9	37.9	34.5	4.0	628%	3.1%	89,782
	TNP	Tsakos Energy	3.30	7.28	82.5	0.5	0.2	9.0	nmf	116%	6.1%	280
	XOM	Exxon Mobil	74.61	100.21	21.1	1.3	1.7	11.3	4.6	13%	4.1%	316,157
Food & Staples Retailing	CVS	CVS Health	62.21	129.28	10.5	0.3	nmf	7.4	9.6	nmf	3.2%	63,114
	KR	Kroger	23.94	35.81	11.7	0.2	7.3	8.0	2.6	418%	2.1%	21,100
	WMT	Walmart	88.97	110.04	20.2	0.5	4.4	9.7	6.9	55%	2.3%	263,563
Health Care Equip/Srvcs	CAH	Cardinal Health	62.68	93.45	11.5	0.1	nmf	10.9	8.3	nmf	3.0%	19,726
	MDT	Medtronic	80.22	101.22	17.1	3.7	nmf	13.6	4.0	nmf	2.3%	108,728
	ZBH	Zimmer Biomet	109.04	170.60	13.6	2.8	nmf	17.0	4.9	nmf	0.9%	22,151
Household Products	KMB	Kimberly-Clark	110.13	145.09	17.7	2.1	nmf	11.4	5.5	nmf	3.6%	38,553
Insurance	AXAHY	AXA SA	26.58	43.74	9.8	nmf	1.1	nmf	nmf	nmf	3.9%	64,476
	PRU	Prudential Financial	103.55	140.11	9.8	nmf	0.9	nmf	nmf	nmf	3.5%	43,686
Materials	• IP	International Paper	53.43	76.92	14.8	1.0	8.4	11.1	1.7	413%	3.6%	22,063
Media	DIS	Walt Disney	100.44	143.67	16.6	2.7	30.6	10.6	6.3	407%	1.7%	151,029
Pharma/Biotech/Life Sci	AMGN	Amgen	170.48	220.95	13.6	5.4	65.7	9.8	8.4	1827%	3.1%	122,841
	PFE	Pfizer	35.49	45.08	13.4	4.0	nmf	11.8	6.9	nmf	3.8%	211,267
	SHPG	Shire PLC	149.39	252.21	9.9	3.0	nmf	13.7	7.6	nmf	0.7%	45,351
	SNY	Sanofi	40.08	58.13	11.8	4.5	17.3	11.4	nmf	302%	3.8%	100,525
Real Estate	DLR	Digital Realty Trust	105.38	130.33	17.2	nmf	4.0	nmf	nmf	nmf	3.8%	22,576
	DOC	Physicians Realty Trust	15.57	22.82	15.0	nmf	1.1	nmf	nmf	nmf	5.9%	2,830
	KIM	Kimco Realty	14.40	21.20	9.5	nmf	1.4	nmf	nmf	nmf	7.8%	6,119
Retailing	FL	Foot Locker	45.54	72.95	11.4	0.7	2.3	6.3	9.5	5%	3.0%	5,379
	WSM	Williams-Sonoma	52.76	74.01	14.5	0.8	3.7	6.8	7.0	25%	3.3%	4,395
Semis & Cap Equipment	QCOM	Qualcomm	55.41	73.87	13.6	3.7	6.0	19.4	5.2	141%	4.5%	82,027
Software & Services	IBM	Int'l Business Machines	153.43	196.71	11.1	1.8	nmf	11.4	9.4	nmf	3.9%	141,335
Technology Hardware	GLW	Corning	27.88	41.75	16.1	2.3	2.2	9.6	0.9	44%	2.2%	23,677
	JNPR	Juniper Networks	24.33	37.13	11.5	1.7	5.7	7.0	12.0	147%	3.0%	8,364
Telecom Services	T	AT&T	35.65	49.36	11.7	1.4	nmf	7.4	8.0	nmf	5.6%	218,946
Transportation	ALK	Alaska Air Group	61.96	104.10	9.3	1.0	4.6	5.3	6.9	138%	2.1%	7,646
	FDX	FedEx Corp	240.11	322.90	17.6	1.0	5.6	9.9	-2.9	140%	0.8%	64,161
	NSC	Norfolk Southern	135.78	166.23	20.9	3.6	2.4	10.3	3.9	56%	2.1%	38,467

As of 03.31.18. 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 a modest amount of cash left to deploy, we will pick up $29,000 of **International Paper** in TPS Portfolio and we will bring the ownership in Buckingham Portfolio up to $7,000 in **CVS Health**, **Qualcomm** and **Sanofi**. We already have sufficient company and/or sector exposure in **Walt Disney**, **MDC Holdings**, **Norfolk Southern**, **Siemens AG**, **Williams-Sonoma** and **Exxon Mobil**, so no new purchases of those six stocks are planned this month. As is our custom, we will wait four trading days, until April 9, to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
CVS	CVS Health	Consumer Staples	62.21	129.28
DIS	Walt Disney	Consumer Discretionary	100.44	143.67
IP	International Paper	Materials	53.43	76.92
MDC	MDC Holdings	Consumer Discretionary	27.92	47.80
NSC	Norfolk Southern	Industrials	135.78	166.23
QCOM	Qualcomm	Information Technology	55.41	73.87
SIEGY	Siemens AG	Industrials	63.92	92.60
SNY	Sanofi	Health Care	40.08	58.13
WSM	Williams-Sonoma	Consumer Discretionary	52.76	74.01
XOM	Exxon Mobil	Energy	74.61	100.21

As of 03.31.18. SOURCE: Al Frank using data from Bloomberg

CVS Health (CVS)

CVS operates one of the largest domestic retail pharmacy networks with more than 9,600 locations, and is also a leading provider of pharmacy benefits management (PBM) services. CVS's purchase of Aetna, which "fills an unmet need in the current health care system and presents a unique opportunity to redefine access to high-quality care in lower cost, and local settings," has received shareholder approval, but still needs to pass muster with the Justice Department. The PBM business is challenged, but with a whopping 1.78 billion adjusted claims processed in 2017, CVS has scale that gives it negotiating power to reduce branded drug prices for its customers. While there is perpetual concern that Amazon will enter the retail pharma sales space, we don't believe it will happen anytime soon, and we like that CVS offers numerous walk-in medical clinics and multiple client touch points as differentiators. We also believe that CVS will benefit from growth in pharma product sales due to the aging of the U.S. population, with analysts looking for EPS to rise from $5.90 in 2017 to $7.30 in 2020. CVS will benefit from its tax rate dropping from 39% last year to 27% this year, and it generates strong free cash flow, which supports the generous dividend (the yield is currently 3.2%).

Walt Disney (DIS)

Disney operates one of the largest diversified media companies in the U.S. and is a global leader in producing branded family entertainment. Disney shares have not been the happiest place on earth for investors so far this year, especially considering that ESPN subscriber numbers continue to cause consternation. With Disney's bid for British broadcaster Sky PLC outdone by Comcast and cable TV under intense pressure from a la carte streaming alternatives, we can appreciate the investor concern. However, Disney has been a "monetization machine" (as coined by an analyst) under the leadership of Bob Iger and we see little sign of that waning. While the near-term ESPN challenges are unlikely to abate soon and the previously announced alternative sport streaming package is unlikely to provide a cure, we see potential positive offsetting catalysts, including the blockbuster *Black Panther* movie, growth of Shanghai Disney, the addition of three new cruise ships to its fleet and the 25th Anniversary Celebration at Disneyland Paris. High-quality DIS now trades for just 14.3 times estimated earnings.

International Paper (IP)

Int'l Paper produces and distributes paper products primarily for industrial use, including printing and writing papers, pulp and corrugated boxes. IP manufactures one in three corrugated boxes in North America and generates three quarters of revenue from the U.S. The company has been unsuccessful (thus far) in its attempts to acquire corrugated packaging concern Smurfit Kappa Group in an effort to grow its market share in Europe. Whether or not its lands Smurfit, we think that IP has plenty of opportunity on its own. In addition to solid free cash flow and analyst EPS growth estimates of at least 7% for each of the next three years, IP should benefit from a lower tax rate (33% in 2017 to 26% in 2018+) and a solid 25% EBITDA margin in its Industrial Packaging (69% of total revenue) business. After tumbling from January highs, IP sports attractive valuation metrics, including a forward P/E ratio below 11 and a dividend yield of 3.6%.

MDC Holdings (MDC)

MDC is a builder and seller of homes with ongoing operations in numerous communities throughout 9 states (including California, Colorado, Maryland, Virginia, Arizona and Florida) under the name Richmond American Homes, and also is an originator of mortgage loans and title agency services primarily to its home buyers. Below-estimate new and existing home sales reports this year, along with rising interest rates have sent ripples through the whole homebuilding sector. Alas, MDC has not been immune, falling more than 15% since the end of January. We continue to like MDC and think that the selloff in the stock doesn't fit the crime. While interest rates could move higher in the coming months, we expect levels that are low on the historical spectrum for the foreseeable future. Additionally, the U.S. economy continues to show improvement, with a solid outlook for employment, consumer confidence and wage inflation for its prospective customers. MDC sports a broad geographic footprint, boasts successful cost control initiatives and maintains a solid balance sheet. The stock trades for less than 10 times NTM estimated earnings and yields 4.3%.

Norfolk Southern (NSC)

Norfolk is a leading North American transportation provider, operating some 20,000 rail route miles in 22 states and the District of Columbia, serving every major container port in the Eastern U.S., and providing efficient connections to other rail carriers. The firm operates the most extensive intermodal network in the East and is a major transporter of coal, automotive and industrial products. NSC shares have pulled back sharply from all-time highs in January, in part due to ongoing service disruptions, which affected nearly all Class I rail operators. At a JPMorgan conference in March, CMO Allan Shaw said, "We're not operating right now as fluidly as we need to or as our customers need us to…we will get this fixed and we'll have the network velocity in place to support even more growth as we move through this year." NSC increased its capex budget to $1.8 billion ($1.7 billion in 2017) and raised its dividend by 18% to target a one-third payout ratio. While Norfolk may continue to see headwinds in the near term, we expect the operating delays to decline and both shipment volume and pricing to improve over the long term. The dividend yield is now 2.1%.

Qualcomm (QCOM)

Qualcomm is a designer and manufacturer of wireless communications equipment. The company holds a large number of wireless-related patents, and is a key contributor to the development of CDMA, a communications technology that is heavily used around the world. We think that Qualcomm's incredibly drawn-out bid to buy NXP Semi will give it a crucial boost in the automotive space, even if it is forced to raise the offer price. With Broadcom's bid for QCOM dead, management will be able to return its focus to closing the NXP deal and growing earnings. While patent defense lawsuits provide headlines, the Snapdragon mobile platform has been well-received by

OEMs and consumers alike, with deployments in smartphones, virtual reality headsets and tablets. The platform offers users processing strength, power efficiency, exceptional graphics and security. While rumors of a takeover still swirl sometimes, we think that QCOM will be better off not having sold out in the long run, especially if it can achieve something near its stated pro-forma $6.75 to $7.50 adjusted fiscal 2019 EPS estimate (management expects 1/3 of that to come from royalty litigation). We also like the solid balance sheet and the recently hiked yield of 4.5%.

Siemens AG (SIEGY)

Siemens is an engineering and manufacturing giant that specializes in electrification, automation and digitization. The company has nine business segments with more than a billion dollars in revenue and representation in more than 190 countries. Although Siemens began 2018 by beating analyst EPS estimates ($1.55 vs. $1.26 est.), shares have tumbled from the all-time highs set in January due to concerns over U.S. foreign policy (related to trade, lobbying rules in particular), a Healthineers IPO price of 28€ (target range between 26€ and 31€) and headwinds in the gas and power unit. We like Siemens' worldwide footprint, diversified business portfolio and strong emphasis on the digitization of infrastructure. The merger with Gamesa (wind power) has kept managers busy, while the IPO of Healthineers should result in a more focused company once the dust settles. SIEGY also expects that U.S. tax reform will result in a tax rate at the "low end" of the 27% to 33% guidance window. The German 'blue-chip' trades for 14.8 times forward earnings and yields 2.5%.

Sanofi (SNY)

Sanofi is a global integrated health care company focused on Diabetes Solutions, Vaccines, Genzyme, Emerging Markets, Consumer Health Care, Animal Health and Other Innovative Products. Sanofi and partner Regeneron continue to battle Amgen in Federal Court over cholesterol drug Praluent, but we eventually expect the combatants to settle their patent litigation. Studies have shown that Praluent, which has a price tag between $4,500 and $8,000 per year, "significantly reduced the risk of major adverse cardiovascular events." Dupixent, a drug that treats severe forms of eczema, is expected by some analysts to be a blockbuster with a $37,000 per year list price (though actual payments are usually lower), and an estimated 300,000 people in the U.S. suffering from the condition. While it seems likely that the diabetes franchise will continue to struggle in the near-term and the ongoing Amgen litigation could have a materially adverse impact on one of its potential blockbusters, we believe that many investors underappreciate Sanofi's non-diabetes businesses and think that the strength from the rest of the company will provide plenty of opportunity for upside. SNY trades for less than 12 times earnings and yields 3.8%.

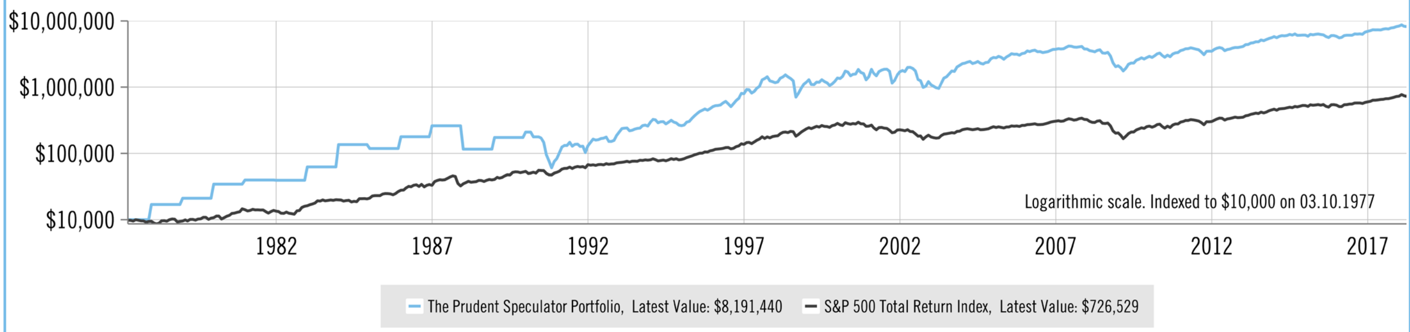
Williams-Sonoma (WSM)

Williams-Sonoma is a retailer of cooking equipment, home furnishings and home accessories through retail stores, mail-order catalogs and e-commerce. Believe it or not, more than half of the company's $5.3 billion in annual revenue is derived online, but the stock has taken a few beatings in the recent past on concerns ranging from Amazon competition to gross margin pressures. Happily, WSM posted terrific Q4 earnings of $1.68 per share (vs. $1.61 est.) thanks to investments in advertising, shipping and pricing. WSM boosted fiscal 2019 revenue guidance to $5.64 billion (est. $5.48 billion) and its EPS projection to $4.22 (est. $4.07), thanks in part to a drop in its domestic tax rate to between 24% and 26%, down from 36.5% last year. The company will spend half of its $50 million tax windfall on share repurchases. We continue to like the investments in technology and in WSM's online presence, and think that exceptional customer service differentiates its brands from the rest of the retail world. WSM trades for 12.5 times forward earnings estimates and yields 3.3%.

Exxon Mobil (XOM)

Exxon is the world's largest integrated oil and gas company, but the stock is down more than 15% since early February, despite crude prices having risen by 20% or so over the past year. XOM posted Q4 2017 adjusted EPS of $0.88 (vs. $1.03 est.) with weakness in its refining operations and at its chemicals unit hurting results. "The impact of tax reform on our earnings reflects the magnitude of our historic investment in the U.S. and strengthens our commitment to further grow our business here," said CEO Darren Woods. "We're planning to invest over $50 billion in the U.S. over the next five years." Exxon generates strong cash flow from operations and is comfortably able to cover the investments in the business and dividend payments. Additionally, XOM is the only energy player with a Aaa credit rating (issued by Moody's) and its fortress balance sheet and capital discipline gives it the financial flexibility to potentially acquire assets at a discount. XOM yields a rich 4.1%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Mar	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	-1.86	-2.27	11.74	8.63	10.79	6.33	12.88
Millennium	-1.94	-2.20	10.01	9.19	11.53	8.95	12.51
PruFolio	-1.96	-2.97	7.98	8.34	10.59	8.98	12.63
TPS	-1.53	-2.04	11.69	9.92	12.11	9.15	15.40
Major Indexes							
Russell 3000	-2.01	-0.64	13.81	10.22	13.03	9.62	10.43
Russell 3000 Value	-1.54	-2.82	6.81	7.87	10.71	7.84	9.79
S&P 500	-2.54	-0.76	13.98	10.77	13.30	9.49	10.10
Dow Jones Indu. Avg.	-3.59	-1.96	19.39	13.48	13.32	9.86	10.38

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	12.38	10.02	Russell 3000
Millennium	12.31.99	9.61	5.72	Russell 3000
PruFolio	12.29.00	12.90	6.54	Russell 3000
TPS	03.10.77	17.78	11.02	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,882 stock recommendations have returned, on average, an annualized 17.30%, not including dividends.

IMPORTANT INFORMATION

As of 03.31.18. 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.

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