July 3, 2018

the Prudent Speculator

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Though the last two weeks of June were disappointing as escalating trade tensions continued to weigh on investor psyches, the second quarter actually turned out to be fairly decent, all things considered. After all, the S&P 500 rebounded 3.43% and the Russell 3000 index gained 3.89%. True, Value again lagged Growth, with the Russell 3000 Value index advancing just 1.71%, versus a 5.87% total return for the Russell 3000 Growth index, but U.S. stocks performed admirably over the prior three months, especially as emerging economy equity markets struggled mightily and the primary global stock benchmark, the MSCI ACWI ex-U.S. index, retreated by 2.47%.

> "There's no bright line level of the stock market that's going to change policy."
> — Commerce Secretary Wilbur Ross

No doubt, equity markets around the world faced stiff headwinds from the tit-for-tat tariff announcements from the U.S., China, the European Union, Canada and Mexico, but the off-again, on-again U.S.-North Korea Summit in Singapore also kept traders on edge, with plenty of debate about what was achieved when that historic event actually took place on June 12. And, investors had to contend with rising inflation numbers, another 25 basis-point hike in the Fed Funds rate and a flattening Treasury yield curve that had some arguing that a U.S. economic recession could be on the horizon. Talk about a wall of worry!

Obviously, there can be no assurance that stocks will not soon suffer a sizable setback, especially as none of the combatants on the trade front have shown any sign of backing down, with the Trump Administration stating that even a stiff market downturn will not deter its tough stance. Of course, periodic bouts of red ink, or larger declines like 10% corrections and even 20% Bear Markets, are a normal part of the investment process, so we hardly think the current environment is any more troubling than what we have endured throughout our 41 years of publishing *The Prudent Speculator*.

We do not mean to sound cavalier, but there is almost always something to worry about, yet equities have proved extraordinarily rewarding for those who remember that the secret to success in stocks is not to get scared out of them. After all, the only time that we might argue that an 'all-clear' bell was tolled was Q1 2000. Back then, the Dot-Com revolution was in high gear, the U.S. economy was booming with virtually full employment, Y2K had proved a non-event, we had yet to endure the contentious 'Hanging-Chad' election and we had not had a foreign terrorist attack on U.S. soil. For many folks, though not for those who followed Value strategies, that proved to be one of the worst times to invest as the S&P 500 dropped 11.1% over the last nine months of 2000, dipped 11.9% in 2001 and skidded 22.1% in 2002.

We respect that the recent meteoric advance of many expensive Nasdaq stocks and the lousy performance of Value has echoes of early 2000 (we can only hope history repeats!), while unemployment is again at record-lows, but we see little in the way of investor euphoria today. Flows into equity mutual funds and ETFs have been lackluster at best and the latest AAII sentiment survey showed 28.4% Bulls vs. 40.8% Bears.

More importantly, corporate profits, certainly aided by the Tax Cuts and Jobs Act, are likely to be robust for the foreseeable future. Indeed, Standard & Poor's estimates that bottom-up operating EPS for the S&P 500 will jump to $157.82 this year and $175.02 next year, compared to $124.51 in 2017, even as the U.S. and global economies are not exactly showing signs of excessive growth. Of course, we think that the business backdrop is strong enough to withstand trade turbulence as domestic economic stats have generally been solid, with healthy data on consumer confidence, housing and manufacturing leading to a consensus Q2 U.S. GDP growth projection of 3.4%.

And, for those focused on the other Wall Street bogeymen, we like what the historical evidence (see our *Market Commentaries*) reveals about equity returns and increasing inflation, rising interest rates and a flatter yield curve!

Chief Investment Officer
Al Frank Asset Management (AFAM)

Graphic Detail

Sector and Industry Group Weightings

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

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

PORTFOLIO WEIGHTINGS

Sector	Industry Group	Russell 3K	Russell 3K Value	TPS	Buckingham	PruFolio	Millennium	Avg[1]
Consumer Discretionary		**13.1**	**8.6**	**13.9**	**12.8**	**13.5**	**12.4**	**13.2**
	Autos & Components	0.9	1.1	2.2	1.7	2.3	2.2	2.1
	Consumer Dur & App	1.4	1.1	3.3	2.1	3.1	2.5	2.8
	Consumer Services	2.2	1.9	1.1	1.5	1.3	1.5	1.4
	Media	2.3	2.9	3.4	3.0	3.3	1.6	2.8
	Retailing	6.4	1.6	3.8	4.5	3.5	4.5	4.1
Consumer Staples		**6.2**	**6.9**	**4.4**	**3.5**	**3.5**	**4.2**	**3.9**
	Food & Staples Retail	1.2	1.5	1.7	1.0	0.9	1.5	1.3
	Food Bev & Tobacco	3.6	3.5	1.9	1.9	1.8	2.0	1.9
	Household Products	1.4	1.9	0.9	0.7	0.9	0.7	0.8
Energy		**6.0**	**10.8**	**6.5**	**6.9**	**8.0**	**7.2**	**7.2**
Financials		**14.3**	**23.8**	**20.1**	**19.8**	**20.2**	**19.8**	**20.0**
	Banks	6.5	12.5	10.6	11.5	10.3	12.1	11.1
	Diversified Financials	5.2	7.1	5.0	4.2	5.1	3.3	4.4
	Insurance	2.6	4.2	4.5	4.1	4.8	4.4	4.5
Health Care		**13.8**	**13.1**	**12.9**	**14.0**	**13.5**	**11.6**	**13.0**
	Health Care Equip/Srvcs	6.1	6.0	5.6	6.8	7.5	5.7	6.4
	Pharma, Biotech & Life Sci	7.6	7.1	7.3	7.3	6.0	5.9	6.6
Industrials		**10.2**	**8.2**	**11.5**	**11.8**	**10.9**	**12.0**	**11.6**
	Capital Goods	7.1	5.9	7.0	7.0	7.2	5.9	6.8
	Commercial Services	1.1	0.8	0.8	0.8	0.8	0.8	0.8
	Transportation	2.1	1.5	3.6	4.1	2.9	5.3	4.0
Information Technology		**24.8**	**10.0**	**17.6**	**18.0**	**17.6**	**19.0**	**18.1**
	Semis & Cap Equipment	3.9	3.5	2.8	3.6	2.5	3.9	3.2
	Software	15.3	3.2	5.0	4.5	4.5	5.6	4.9
	Technology Hardware	5.6	3.3	9.8	9.9	10.7	9.5	10.0
Materials		**3.1**	**4.1**	**6.4**	**5.7**	**6.4**	**6.3**	**6.2**
Real Estate		**3.8**	**5.4**	**1.8**	**1.7**	**1.5**	**2.3**	**1.8**
Telecom Services		**1.8**	**3.4**	**1.6**	**1.5**	**2.3**	**1.4**	**1.7**
Utilities		**2.9**	**5.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Cash		**0.0**	**0.0**	**3.5**	**4.2**	**2.5**	**3.7**	**3.5**

As of 06.30.18. Numbers may not sum due to rounding. SOURCE: Al Frank using data from Bloomberg Investments L.P.

Graphic Detail

Performance Attribution

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

Depending upon the benchmark, TPS Portfolio had a dismal (versus the R3K) or a blah (versus the R3KV) first half of 2018, with our stock picking in Financials and Industrials having a negative effect in both comparisons. Interestingly, our Consumer Discretionary holdings were a sizable negative against the R3K (we don't own consumer powerhouses Amazon and Netflix), but that Sector actually accounted for a positive selection effect against the Amazon/Netflix-less R3KV. It was a similar story on the allocation side of the equation with Info Tech, as our underweight of that Sector versus the R3K accounted for 0.5% of unfavorable attribution, while an overweight against the R3KV accounted for 0.6% of favorable attribution.

2018 YTD PERFORMANCE ATTRIBUTION

	TPS Portfolio			Russell 3000			Attribution Analysis	
Sector	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	14.9	2.8	0.4	12.9	10.1	1.2	0.2	-1.0
Consumer Staples	4.5	-8.4	-0.4	6.6	-7.6	-0.6	0.3	0.0
Energy	6.6	13.3	0.9	5.7	7.5	0.5	0.1	0.3
Financials	21.0	-6.0	-1.3	15.0	-2.8	-0.4	-0.4	-0.7
Health Care	12.8	-1.0	-0.2	13.5	3.9	0.5	0.0	-0.6
Industrials	12.4	-11.8	-1.5	10.8	-3.9	-0.4	-0.1	-1.1
Information Technology	17.4	7.0	1.3	24.0	11.2	2.6	-0.5	-0.7
Materials	6.1	0.5	0.1	3.3	-2.9	-0.1	-0.2	0.3
Real Estate	1.5	-2.6	0.1	3.6	1.4	0.1	0.1	0.0
Telecom Services	1.6	-9.4	-0.2	1.7	-7.9	-0.2	0.0	0.0
Utilities	0.0	0.0	0.0	2.8	1.1	0.0	0.1	0.0
Cash	1.2	0.5	0.0	0.0	0.0	0.0	0.1	0.0
	Total:		**-0.8**	**Total:**		**3.2**	**-0.4**	**-3.6**

	TPS Portfolio			Russell 3000 Value			Attribution Analysis	
Sector	Average Weight	Total Return	Contribution To Return	Average Weight	Total Return	Contribution To Return	Allocation Effect	Selection Effect
Consumer Discretionary	14.9	2.8	0.4	7.1	1.1	0.0	0.2	0.2
Consumer Staples	4.5	-8.4	-0.4	7.4	-10.7	-0.9	0.3	0.1
Energy	6.6	13.3	0.9	10.9	7.9	0.9	-0.3	0.3
Financials	21.0	-6.0	-1.3	27.3	-3.8	-1.0	0.2	-0.5
Health Care	12.8	-1.0	-0.2	13.3	1.0	0.1	0.0	-0.2
Industrials	12.4	-11.8	-1.5	8.5	-6.0	-0.5	-0.2	-0.8
Information Technology	17.4	7.0	1.3	9.1	4.9	0.4	0.6	0.3
Materials	6.1	0.5	0.1	3.1	-2.8	-0.1	0.0	0.2
Real Estate	1.5	-2.6	0.1	4.9	1.4	0.1	-0.1	0.0
Telecom Services	1.6	-9.4	-0.2	2.7	-9.8	-0.3	0.1	0.0
Utilities	0.0	0.0	0.0	5.7	1.1	0.1	-0.1	0.0
Cash	1.2	0.5	0.0	0.0	0.0	0.0	0.2	0.0
	Total:		**-0.8**	**Total:**		**-1.2**	**0.7**	**-0.3**

Russell 3000, Russell 3000 Value and Newsletter Portfolios from 12.31.17 though 06.30.18. Holdings-based attribution using end-of-day account positions. Return figures do not include fees or transaction costs. Numbers may not sum due to rounding. SOURCE: Al Frank using data from Bloomberg Investments L.P.

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	39.40	55.79	6.3	0.4	1.9	2.6	12.2	244%	3.9%	55,532
	GT	Goodyear Tire & Rubber	23.29	43.97	8.1	0.4	1.4	5.9	3.4	140%	2.4%	5,586
Banks	C	Citigroup	66.92	102.64	12.0	nmf	1.1	nmf	nmf	nmf	1.9%	170,642
	ING	ING Groep NV	14.32	22.20	9.6	nmf	1.0	nmf	nmf	nmf	4.5%	55,677
	NYCB	NY Communuity Banc	11.04	14.93	15.5	nmf	1.4	nmf	nmf	nmf	6.2%	5,414
Capital Goods	CAT	Caterpillar	135.67	182.36	16.1	1.7	12.2	9.2	3.1	347%	2.5%	81,124
	CMI	Cummins	133.00	199.11	11.5	1.0	4.1	8.0	5.8	29%	3.2%	21,915
	SIEGY	Siemens AG	65.89	94.05	19.4	2.3	16.1	11.2	4.3	434%	2.6%	112,005
Consumer Dur & App	MDC	MDC Holdings	30.77	50.96	11.1	0.7	1.2	11.5	-5.7	76%	3.9%	1,730
	WHR	Whirlpool	146.23	224.20	10.4	0.5	nmf	9.6	3.0	nmf	3.1%	10,352
Consumer Services	CCL	Carnival Corp	57.31	81.93	13.9	2.2	2.1	10.2	5.5	41%	3.5%	40,690
Diversified Financials	COF	Capital One Financial	91.90	119.02	10.6	nmf	1.5	nmf	nmf	nmf	1.7%	44,703
	GS	Goldman Sachs Group	220.57	294.66	10.2	nmf	1.3	nmf	nmf	nmf	1.5%	86,534
Energy	SLB	Schlumberger Ltd	67.03	104.89	41.1	3.0	35.9	33.5	3.7	523%	3.0%	92,845
	TNP	Tsakos Energy Nav Ltd	3.72	6.30	nmf	0.6	nmf	10.2	nmf	nmf	5.4%	325
	TOT	Total SA	60.56	80.32	14.6	1.0	1.4	7.6	2.0	34%	4.2%	161,351
Food & Staples Retailing	WBA	Walgreens Boots Alliance	60.02	114.90	10.3	0.5	nmf	9.7	9.9	nmf	2.9%	59,560
Health Care Equip/Srvcs	CAH	Cardinal Health	48.83	87.33	9.2	0.1	nmf	8.6	16.9	nmf	3.9%	15,171
	ZBH	Zimmer Biomet	111.44	168.75	14.3	2.9	nmf	17.6	6.0	nmf	0.9%	22,653
Household Products	KMB	Kimberly-Clark	105.34	136.28	16.5	2.0	nmf	12.7	6.1	nmf	3.8%	36,798
Insurance	AZSEY	Allianz SE	20.48	28.99	10.8	nmf	1.5	nmf	nmf	nmf	3.4%	88,039
	PRU	Prudential Financial	93.51	140.52	8.6	nmf	0.8	nmf	nmf	nmf	3.8%	39,274
Materials	IP	Int'l Paper	52.08	78.29	13.2	0.9	6.5	10.6	1.3	326%	3.6%	21,566
Media	DIS	Walt Disney	104.81	143.37	16.4	2.7	22.8	10.6	6.6	274%	1.6%	155,826
Pharma/Biotech/Life Sci	BIIB	Biogen	290.24	453.11	12.8	4.9	11.4	9.1	8.0	111%	0.0%	61,243
	MRK	Merck & Co	60.70	79.18	14.6	4.0	87.6	17.4	3.2	1153%	3.2%	163,301
	SNY	Sanofi	40.01	57.72	12.7	4.8	18.1	12.8	nmf	nmf	3.8%	100,109
Real Estate	DLR	Digital Realty Trust	111.58	131.95	17.9	nmf	4.4	nmf	nmf	nmf	3.6%	23,955
	DOC	Physicians Realty Trust	15.94	21.67	15.6	nmf	1.2	nmf	nmf	nmf	5.8%	2,901
Retailing	TGT	Target	76.12	85.15	15.8	0.6	3.9	7.6	7.9	107%	3.3%	40,582
Semis & Cap Equipment	• LRCX	Lam Research	172.85	241.60	11.0	2.8	5.7	7.9	8.7	37%	2.5%	28,355
Software & Services	GOOG	Alphabet	1115.65	1517.48	23.9	6.6	5.6	20.1	2.7	3%	0.0%	779,235
	IBM	Int'l Business Machines	139.70	193.35	10.1	1.6	nmf	10.2	10.8	nmf	4.5%	128,240
	ORCL	Oracle	44.06	58.04	14.0	4.4	nmf	10.3	7.5	nmf	1.7%	175,410
Technology Hardware	GLW	Corning	27.51	39.87	16.7	2.2	2.4	10.5	0.1	50%	2.6%	22,843
	JNPR	Juniper Networks	27.42	37.61	14.2	2.0	8.7	9.0	8.1	162%	2.6%	9,574
Telecom Services	NTTYY	Nippon Telegraph	45.34	62.36	10.9	0.9	1.6	5.4	13.3	45%	2.5%	95,051
	VZ	Verizon Communications	50.31	63.86	12.7	1.6	nmf	7.3	5.6	nmf	4.7%	207,876
Transportation	ALK	Alaska Air Group	60.39	107.57	10.6	0.9	5.5	5.6	4.6	151%	2.1%	7,443
	DPSGY	Deutsche Post AG	32.49	56.40	13.2	0.6	30.6	8.4	3.4	1114%	4.2%	40,089

As of 06.30.18. 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: AFAM Capital using data from Bloomberg Finance L.P.

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 a few dollars to deploy, we will pick up $29,000 of **Lam Research** in TPS Portfolio. In Buckingham Portfolio, we will buy $7,000 of **Physicians Realty** and we will bring up the holdings in **Goodyear Tire** and **Nippon T&T** to that level. In PruFolio, we will add $20,000 of **Deutsche Post** and **Digital Realty**, while we will purchase $10,000 of **ING Groep** and **Juniper Networks** in Millennium Portfolio. We already have sufficient company/sector exposure in **Caterpillar** and **Target**, so no new buys of those two. We will wait four trading days (until July 10) to transact.

NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
CAT	Caterpillar	Industrials	135.67	182.36
DLR	Digital Realty Trust	Real Estate	111.58	131.95
DOC	Physicians Realty Trust	Real Estate	15.94	21.67
DPSGY	Deutsche Post AG	Industrials	32.49	56.40
GT	Goodyear Tire & Rubber	Consumer Discretionary	23.29	43.97
ING	ING Groep NV	Financials	14.32	22.20
JNPR	Juniper Networks	Information Technology	27.42	37.61
LRCX	Lam Research	Information Technology	172.85	241.60
NTTYY	Nippon Telegraph	Telecom Services	45.34	62.36
TGT	Target	Consumer Discretionary	76.12	85.15

As of 06.30.18. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

Caterpillar (CAT)

Caterpillar is a leading global manufacturer of construction and mining equipment. CAT continues to have a dominant share in the U.S. market and is making headway in emerging economies such as China, India, Africa and the Middle East. Operating momentum has been solid with management predicting that full-year adjusted EPS should come in between $10.25 and $11.25. Despite improving financial metrics, CAT is down more than 13% on the year as investors have become concerned that the company is a prime target for retaliatory tariffs in the ongoing global trade skirmish. While we don't think this overhang will disappear anytime soon, we think the potential for increased global infrastructure spend and the company's continuing emphasis on growing leaner and meaner bode well for its already-solid free cash flow (FCF) generation. With almost $7.9 billion in cash and billions more in FCF expected over the next few years, we see CAT becoming more aggressive in buying back shares and boosting the dividend (current yield is 2.5%). CAT also trades at just 12.5 times NTM adjusted EPS.

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 205 data centers in 32 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 6.5% 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 $6.52 per share (vs. $6.14 for 2017). The stock also has a 3.6% dividend yield.

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 20% from their recent highs, with rising interest rates and capital raises (via stock 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, the favorable demographic trends (e.g. 20% of the U.S. population is projected to be older than 64 before 2030), 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. Of its 13.6 million square feet of leasable space, almost 97% is filled with a weighted average lease term of 8.2 years. The dividend yield is north of 5.8%.

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. Shares have struggled in 2018, as CEO Frank Appel leads the company through a restructuring program focused on the Post - eCommerce - Parcel (PeP) division. "In order to deliver long-term sustainable growth, we are now consciously accepting short-term negative effects on our earnings," said Dr. Appel. According to *Handelsblatt*, a German business newspaper, DHL also lowered its order volume plans due to cheaper pricing from a main competitor. Despite the concerns, we believe that DPSGY (which yields 4.2% and trades for a current P/E of 13.2) 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 on the Continent).

Goodyear Tire & Rubber (GT)

Goodyear is a leading supplier of light vehicle tires, selling in two distinct markets: replacement and vehicle manufacturers. GT is down more than 25% this year as investors flattened shares because of concerns about rising input costs, worries over possible trade tariffs and a lack of enthusiasm for its distribution partnership with competitor Bridgestone. We think that the sell-off is overdone as overall vehicle demand remains strong, both at home and in markets like China, which supports its OEM business. We also believe that its replacement tire business has attractive potential in emerging and frontier markets. We expect large increases in Goodyear's Asia Pacific profits going forward, supported by a rebound in its Off-the-Road business at the same time as structural growth in the Chinese aftermarket heats up and the firm gains share in the China OEM market. Additionally, we like that management remains focused on reducing expenses, improving cash flow and strengthening the balance sheet. True, trade tensions with China are a major near-term headwind, but GT trades for less than 7 times estimated earnings and the dividend yield now stands at 2.4%.

ING Groep NV (ING)

ING, a Netherlands-based financial institution, operates as a pure bank with a European retail focus and maintains a global commercial banking business. Along with many other European banks, ING has experienced a challenging 2018 and saw a drop in net interest income in Q1. ING announced in June that it will move back into the insurance market with France's Axa SA. The deal will let ING offer "stripped down" versions of property and casualty products to consumers that are available via its online bank in six European countries. In addition, ING will also continue its build-out of debt capital markets in the Americas, with an emphasis on underwriting U.S. investment-grade bond issues. ING noted that the U.S. market is three times as large as the European market and offers the bank significant opportunity for the business lines it started a year and a half ago. Along with the U.S. and Europe, we think the firm has ample opportunity to move its offerings into higher growth neighboring markets and like that ING has solid capital levels, including a Basel Tier 1 ratio of 14.7%. Shares currently offer a 4.5% net dividend yield, ING now trades for 9.3 times estimated earnings and near tangible book value.

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. After three consecutive challenging quarters, JNPR caught a break in Q1, posting EPS of $0.28 per share (vs. $0.26 est.) and sales of $1.08 billion (vs. $1.05 billion est.). The company said that the transition from the MX to PTX cloud router platform is expected to create some average sale price (ASP) pressure in the next few quarters, but overall it sees the cloud as the greatest near-term opportunity. The challenge for JNPR will be to convince cloud-using companies to convert to large-scale routers, rather than using many smaller (and less expensive) routers to right-size demand at any given point. We think that JNPR can overcome its issues, while tax reform provides an expected 2018 U.S. tax rate of 21% (down 5% from 2017) and has spurred the repatriation of $2.1 billion ($1.2 billion is offshore still, of which another $500 million will come in this year). The company previously said that it will buy back 20% of the outstanding stock. JNPR now trades with a forward P/E of 14.2, much lower than the broader S&P Info Tech sector's 19.5 times figure, and yields a rich (for a tech stock) 2.6%.

Lam Research (LRCX)

Lam Research is a manufacturer and designer of semiconductor processing equipment used in the making of integrated circuits. The company's sales are weighted towards memory manufacturers (which can create big swings in the stock price), while smaller portions of total revenue come from silicon foundries and integrated device manufacturers. A strong IT environment has caused demand for Lam's gear to swell, with sales rising from $4.0 billion in 2013 to $9.6 billion in 2017, while analysts project $12.9 billion in 2020. Though the semiconductor space (especially memory) is notoriously cyclical, we have had our eye on LRCX for a while now, with the recent share price pullback from well over $200 prompting a new recommendation of this old friend (we made 180% more than a decade ago on our first go-round). We like the strong balance sheet with nearly $20 per share in cash, while consensus analyst EPS forecasts for calendar 2018, 2019 and 2020 now stand at $17.65, $18.17 and $19.84, respectively. LRCX trades for 11 times trailing earnings and has a recently increased dividend yield of 2.5%. Also, management back in March added another $2 billion to its now-$4 billion share buyback authorization.

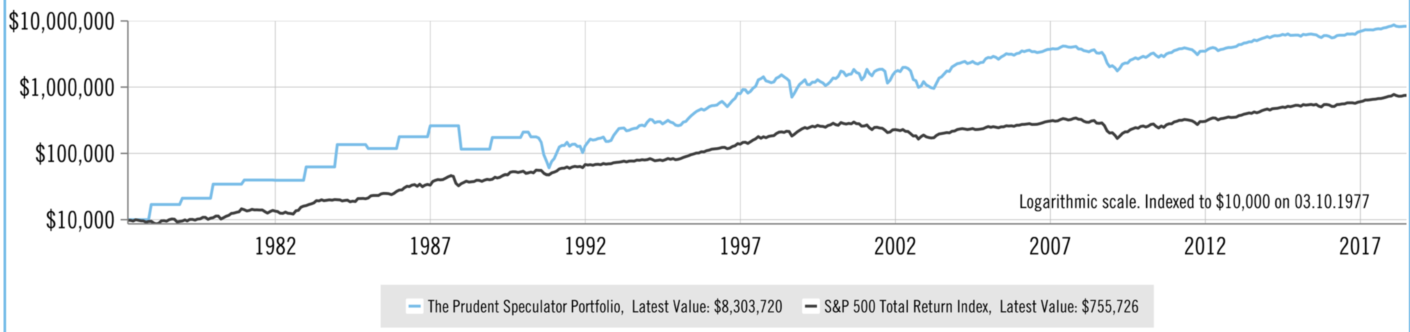
Nippon Telegraph (NTTYY)

NTT is Japan's largest comprehensive telecom company with top market share in both fixed-line and mobile telecom businesses. NTT dominates the Japanese fiber-optic market with approximately two-thirds fixed-line market share and, as a majority owner of DoCoMo, is the largest Japanese wireless provider. While fixed line in Japan isn't a growth business and wireless revenue is sluggish, we expect NTT to continue to focus on global cloud infrastructure as a service product. Further, we like management's continued focus on cost controls and push for NTT group companies to better collaborate. Additionally, we are constructive on the firm's overall large customer reach, wide array of services and solid cash flow generation. NTT offers a 2.5% net dividend yield, and trades for less than 11 times estimated earnings and less than one-times sales. We think that the stock, which is off 14% from its 52-week high, now offers a very favorable entry point.

Target (TGT)

Target is one of the largest domestic discount retailers, operating 1,829 stores and continuing to build out its omni-channel presence. While there continues to be no shortage of competitive headwinds for TGT, shares have enjoyed a solid 2018 thus far, and we continue to be pleased with management's focus on its online business, improving its physical store experience and launching new brands and partnerships across its home and apparel categories. Additionally, we have been happy to see that its new smaller store concept has been gaining headway. We think that Target's strong balance sheet, smaller urban store formats and large investments in its multi-channel sales network should help solidify its foundation for the future. Meanwhile, TGT shares trade for 14 times forward earnings estimates and yield 3.3%.

NEWSLETTER PORTFOLIO PERFORMANCE



	Jun	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Newsletter Portfolios							
Buckingham	-0.04	0.06	12.14	9.12	10.54	7.35	10.52
Millennium	-0.20	-0.99	9.66	9.59	10.69	9.66	10.14
PruFolio	-0.44	-2.58	6.55	8.16	10.08	9.24	10.80
TPS	-0.01	-0.69	10.48	9.95	11.42	9.72	12.45
Major Indexes							
Russell 3000	0.65	3.22	14.78	11.58	13.29	10.23	9.61
Russell 3000 Value	0.28	-1.16	7.25	8.48	10.40	8.60	8.73
S&P 500	0.62	2.65	14.36	11.92	13.41	10.16	9.30
Dow Jones Indu. Avg.	-0.49	-0.73	16.31	14.07	12.96	10.78	9.57

	Inception Date	Since Inception	Index Return	Index
Newsletter Portfolios				
Buckingham	01.21.03	12.34	10.12	Russell 3000
Millennium	12.31.99	9.55	5.86	Russell 3000
PruFolio	12.29.00	12.73	6.68	Russell 3000
TPS	03.10.77	17.70	11.05	S&P 500

Since *The Prudent Speculator's* launch in March 1977, its 1,886 stock recommendations have returned, on average, an annualized 17.28%, not including dividends.

IMPORTANT INFORMATION

As of 06.30.18. 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: AFAM Capital using data from Bloomberg Finance L.P.

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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