

# the Prudent Speculator 623

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The financial media often turns to the Oracle of Omaha for words of wisdom when the stock markets are in turmoil, so it was nice to see Warren Buffett's mug on CNBC television the final week of August celebrating his 88th birthday along with new all-time highs for the major U.S. equity averages. Of course, whether stocks have soared or investors have soured on the asset class, Mr. Buffett has essentially offered the same mantra he repeated last week: "We're buying stocks this morning, and I'd rather buy them cheaper, but I've been buying stocks since March 11, 1942, and I bought them under every President, seven Republicans, seven Democrats. I've bought them quarter after quarter. Some of the buys were terrific, some of them weren't at such good times." Needless to say, Mr. Buffett learned very early on that the secret to success in stocks is not to get scared out of them, sage advice at the many market lows AND market highs through the years.

Sadly, though most are investing with long-term objectives in mind, not everyone has the patience or the discipline to ride through and to take advantage of the inevitable ups and downs of the stock markets. The challenge for many is that there are always seemingly legitimate reasons not to maintain (or add to) equity exposure, with the constant drama emanating from the White House and numerous disconcerting events taking place around the world the most recent worries. 'Twas ever thus, as our founder Al Frank liked to say, given that stocks have been overcoming adversity since the dawn of capitalism, with another example seen in August as the Russell 3000 jumped 3.51% and the Russell 3000 Value index advanced 1.55%, building on the handsome gains from July, even as the global trade skirmish remained a sizable headwind.

Certainly, we concede that we are now entering the two worst months of the year and that the Wall of Worry shows no sign of dissipating, especially with the mid-term elections on the horizon, but we think that folks who share our long-term investment time horizon can find plenty of reasons to remain optimistic about the equity markets in general and undervalued stocks in particular.

The historically low-interest-rate backdrop is one such example, with Mr. Buffett stating last week, "If you had your choice between buying and holding a 30-year bond for 30 years or holding a basket of American stocks, there's just no question, you're going to do better owning stocks." Indeed, income offered on instruments that compete with stocks is not very compelling, especially considering that the dividend yield on TPS Portfolio is presently 2.7%, while market history shows that there has never been even a 20-year period where Value Stocks, per Fama/French, have failed to produce an annualized return of at least 3.02% (the yield on the 30-year Treasury as of Aug. 31).

More importantly, perhaps, the outlook for corporate profits remains very favorable, buoyed by generally upbeat economic statistics, including a 0.6% increase in the Conference Board's Leading Economic Index for July, suggesting that U.S. GDP will continue expanding in Q3 and Q4. The Commerce Department also said that its broadest measure of after-tax profits across the U.S. rose 16.1% on an annual basis in Q2, the largest gain in six years, while Standard & Poor's now projects that bottom-up operating earnings for the S&P 500 will soar by 26.7% in 2018 and by another 12.2% in 2019. True, bottom-line results are being boosted by tax cuts, but top-line numbers for the S&P 500 have also been strong, climbing 11.2% in Q2 and topping expectations at a near-record pace.

None of the above precludes a downturn from happening, as corrections and even Bear Markets are a normal part of the investment process, but for those worried that stock market valuations are too rich, we note that TPS Portfolio now trades at just 15.8 times trailing earnings, 13.0 times forward earnings and 1.2 times sales, versus respective multiples of 21.0, 18.0 and 2.3 for the S&P 500.

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"I don't know when to buy stocks, but I know whether to buy stocks."  
— Warren Buffett

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Chief Investment Officer  
Al Frank Asset Management (AFAM)

# Earnings Scorecard

Q2 Season

With the U.S. economy growing at a robust 4.2% pace in the second quarter, company earnings reports generally were terrific, no doubt bolstered by lower corporate tax rates. In fact, overall net profits for the S&P

500 increased by a whopping 32.0%, with adjusted EPS showing 27.1% growth, according to Bloomberg. As usual, investor reactions to the specific releases were not always positive, but we were happy to see Bloomberg calculate

Industry Group	Ticker	Company	06.18 Act EPS	06.17 Act EPS	06.18 Est EPS	TTM <sup>1</sup> EPS	NTM <sup>2</sup> Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Autos & Components	GM	General Motors	1.81	1.89	1.77	6.21	5.88	6.1	140,263	145,684	4%
	GT	Goodyear Tire & Rubber	0.62	0.70	0.61	2.81	3.23	7.0	15,663	16,155	3%
Banks	BAC	Bank of America	0.64	0.48	0.57	2.21	2.73	11.3	nmf	nmf	nmf
	BBT	BB&T	1.01	0.78	1.01	3.60	4.16	12.4	nmf	nmf	nmf
	C	Citigroup	1.62	1.28	1.56	5.92	6.98	10.2	nmf	nmf	nmf
	FITB	Fifth Third Bancorp	0.63	0.46	0.57	2.20	2.56	11.5	nmf	nmf	nmf
	JPM	JPMorgan Chase	2.30	1.71	2.22	8.10	9.63	11.9	nmf	nmf	nmf
	KEY	KeyCorp	0.45	0.34	0.42	1.54	1.84	11.5	nmf	nmf	nmf
	NYCB	New York Community Bancorp	0.20	0.22	0.21	0.69	0.81	13.3	nmf	nmf	nmf
	ONB	Old National Bancorp	0.29	0.29	0.25	1.16	1.38	14.8	nmf	nmf	nmf
Capital Goods	PNC	PNC Financial Services	2.68	2.10	2.57	9.56	11.16	12.9	nmf	nmf	nmf
	WFC	Wells Fargo	0.98	1.05	1.12	3.86	4.87	12.0	nmf	nmf	nmf
	ARII	American Railcar Industries	0.48	0.57	0.64	1.86	2.48	18.5	516	468	-9%
	CAT	Caterpillar	2.97	1.49	2.73	9.90	12.07	11.5	51,179	55,917	9%
	CMI	Cummins	3.29	2.53	3.63	12.33	14.70	9.6	22,463	23,817	6%
	DE	Deere & Co	2.59	1.79	2.74	8.61	11.14	12.9	35,960	35,507	-1%
	ETN	Eaton PLC	1.39	1.15	1.33	5.05	5.58	14.9	21,162	22,055	4%
	FLR	Fluor	0.81	-0.17	0.71	2.74	3.23	17.8	19,677	19,585	0%
	SIEGY	Siemens AG	0.78	0.77	0.89	4.64	4.59	14.1	98,710	100,570	2%
	TPC	Tutor Perini	0.49	0.59	0.31	1.56	2.66	7.6	4,541	5,251	16%
Commercial Services	TRN	Trinity Industries	0.48	0.33	0.37	1.64	1.75	20.5	3,654	3,995	9%
	MAN	ManpowerGroup	2.35	1.72	2.34	8.23	8.78	10.7	22,282	22,795	2%
Consumer Dur & App	MDC	MDC Holdings	1.12	0.59	0.85	3.31	3.75	8.5	2,726	3,086	13%
	TPR	Tapestry	0.60	0.50	0.57	2.63	2.79	18.1	5,880	6,172	5%
	WHR	Whirlpool	3.20	3.35	3.70	13.94	15.75	7.9	21,171	21,027	-1%
Consumer Services	RCL	Royal Caribbean Cruises Ltd	2.27	1.71	1.99	8.19	9.21	13.3	8,939	9,901	11%
Diversified Financials	BK	Bank of New York Mellon	1.03	0.93	1.02	4.07	4.24	12.3	nmf	nmf	nmf
	COF	Capital One Financial	3.22	1.96	2.63	9.91	10.86	9.1	nmf	nmf	nmf
	GS	Goldman Sachs Group	5.98	3.95	4.66	23.63	24.50	9.7	nmf	nmf	nmf
	SYF	Synchrony Financial	0.92	0.61	0.82	3.15	3.63	8.7	nmf	nmf	nmf
Energy	HAL	Halliburton	0.58	0.23	0.58	1.94	2.38	16.7	23,271	25,813	11%
	HFC	HollyFrontier	1.45	0.66	1.63	4.07	7.62	9.8	16,312	16,522	1%
	NOV	National Oilwell Varco	0.06	-0.14	0.02	-0.25	0.62	75.8	7,705	9,109	18%
	OII	Oceaneering Int'l	-0.23	0.02	-0.25	-0.70	-0.59	nmf	1,855	1,952	5%
	SLB	Schlumberger Ltd	0.43	0.35	0.43	1.71	2.18	28.9	32,216	36,036	12%
	TOT	Total SA	1.31	0.97	1.34	4.54	6.36	9.9	167,910	205,580	22%
	XOM	Exxon Mobil	0.92	0.78	1.26	3.82	5.40	14.8	261,958	309,049	18%
Food & Staples Retailing	WMT	Walmart	1.29	1.08	1.22	4.76	4.75	20.2	510,164	522,337	2%
Food, Bev & Tobacco	ADM	Archer-Daniels-Midland	1.02	0.57	0.77	2.97	3.61	14.0	63,491	66,594	5%
	TSN	Tyson Foods	1.50	1.28	1.38	6.01	5.61	11.2	40,198	41,038	2%
Health Care Equip/Srvcs	ABT	Abbott Laboratories	0.73	0.62	0.71	2.72	3.04	22.0	29,575	31,423	6%
	AET	Aetna	3.43	3.42	3.04	10.32	11.61	17.2	60,743	62,577	3%
	CAH	Cardinal Health	1.01	1.31	0.93	5.00	5.04	10.4	136,809	140,708	3%
	CVS	CVS Health	1.69	1.33	1.60	6.59	7.12	10.6	186,967	192,010	3%
	MCK	McKesson	2.90	2.46	2.86	13.08	13.50	9.5	209,913	216,966	3%
	MDT	Medtronic PLC	1.17	1.12	1.11	4.83	5.20	18.5	29,947	30,702	3%
Household Products	ZBH	Zimmer Biomet	1.92	2.08	1.88	7.65	7.84	15.8	7,918	8,009	1%
	KMB	Kimberly-Clark	1.59	1.49	1.57	6.47	6.75	17.1	18,557	18,436	-1%

As of 08.31.18. Real Estate (REIT) companies use Funds From Operations (FFO) instead of EPS. N/A=Not applicable. <sup>1</sup>Trailing 12-month. <sup>2</sup>Next 12-months. nmf=Not meaningful. SOURCE: AI Frank using data (EPS Adjusted) from Bloomberg

that the number of S&P 500 companies that exceeded earnings estimates was 81.3%, versus 13.1% that trailed forecasts and 5.6% that met projections. In Q2 2017, those same Beat/Miss/Match figures were 72.0%/18.4%/9.6%. The tally for our names was also very good. Of the 96 *Prudent Speculator* stocks presented in our Earnings Scorecard, 82.3% topped EPS estimates, 12.5% lagged and 5.2%

equaled. Management teams continued to be relatively upbeat in their outlooks and guidance, and Standard & Poor's now projects that after climbing 17% in 2017 to \$124.51, compared to \$106.26 in 2016, bottom-up operating EPS for the S&P 500 will soar to \$157.79 this year and to \$177.00 in 2019. Analysts are often too rosy in their views, but improving earnings aren't usually bad for stocks! ■

Industry Group	Ticker	Company	06.18 Act EPS	06.17 Act EPS	06.18 Est EPS	TTM <sup>1</sup> EPS	NTM <sup>2</sup> Est EPS	NTM P/E	LTM Sales	NTM Est Sales	Sales Growth
Insurance	ALL	Allstate	1.90	1.38	1.52	8.55	8.89	11.3	nmf	nmf	nmf
	AXS	Axis Capital Holdings Ltd	1.43	1.31	1.15	-2.22	4.79	12.0	nmf	nmf	nmf
	AZSEY	Allianz SE	0.55	0.52	0.51	1.95	2.36	9.0	nmf	nmf	nmf
	MET	MetLife	1.30	1.30	1.17	4.39	5.27	8.7	nmf	nmf	nmf
	PRU	Prudential Financial	3.01	2.09	3.07	11.79	12.55	7.8	nmf	nmf	nmf
Materials	CE	Celanese	2.90	1.79	2.43	9.60	10.52	11.1	6,854	7,331	7%
	IP	Int'l Paper	1.19	0.65	1.09	4.48	5.54	9.2	23,078	23,847	3%
	MOS	Mosaic	0.40	0.29	0.38	1.37	1.99	15.7	8,215	9,813	19%
	NEM	Newmont Mining	0.26	0.46	0.24	1.36	1.45	21.4	7,293	7,454	2%
Media	CMCSA	Comcast	0.65	0.52	0.60	2.28	2.60	14.2	87,424	89,554	2%
	DIS	Walt Disney	1.87	1.58	1.94	6.67	7.42	15.1	57,906	60,130	4%
Pharma/Biotech/Life Sci	AMGN	Amgen	3.83	3.27	3.56	13.46	13.77	14.5	23,188	22,968	-1%
	BIIB	Biogen	5.80	5.04	5.19	23.42	27.05	13.1	12,872	13,401	4%
	GILD	Gilead Sciences	1.91	2.56	1.56	7.44	6.46	11.7	23,197	21,596	-7%
	JNJ	Johnson & Johnson	2.10	1.83	2.07	7.80	8.39	16.1	80,684	81,997	2%
	MRK	Merck & Co	1.06	1.01	1.03	4.20	4.39	15.6	41,260	43,001	4%
	PFE	Pfizer	0.81	0.67	0.74	2.87	3.06	13.6	53,243	55,322	4%
Real Estate	SNY	Sanofi	0.75	0.74	0.70	3.16	3.29	13.0	40,700	41,650	2%
	DLR	Digital Realty Trust	1.66	1.54	1.60	6.33	6.81	18.2	nmf	nmf	nmf
	DOC	Physicians Realty Trust	0.28	0.24	0.28	1.06	1.10	15.9	nmf	nmf	nmf
	KIM	Kimco Realty	0.37	0.41	0.36	1.51	1.42	12.0	nmf	nmf	nmf
Retailing	REG	Regency Centers	0.93	0.93	0.91	3.72	3.86	17.1	nmf	nmf	nmf
	DSW	DSW	0.63	0.38	0.46	1.85	1.73	19.2	2,936	3,060	4%
	FL	Foot Locker	0.75	0.62	0.70	4.33	4.57	10.8	7,887	7,832	-1%
	KSS	Kohl's	1.76	1.24	1.64	4.97	5.64	14.0	19,886	19,565	-2%
	LOW	Lowe's Cos	2.07	1.57	2.02	5.05	5.47	19.9	70,512	72,829	3%
Semis & Cap Equipment	TGT	Target	1.47	1.23	1.40	5.07	5.52	15.9	73,990	75,311	2%
	WSM	Williams-Sonoma	0.77	0.61	0.68	3.96	4.42	15.9	5,457	5,719	5%
	COHU	Cohu	0.64	0.48	0.47	1.71	1.70	15.5	373	390	5%
	INTC	Intel	1.04	0.72	0.96	4.00	4.17	11.6	66,230	70,809	7%
	LRCX	Lam Research	5.82	3.11	4.94	18.41	15.60	11.1	11,077	10,449	-6%
	QCOM	Qualcomm	1.01	0.83	0.71	3.71	3.81	18.0	22,833	22,137	-3%
Software & Services	GOOG	Alphabet	13.28	11.22	11.59	49.37	55.16	22.3	123,898	119,938	-3%
	IBM	Int'l Business Machines	3.08	2.97	3.04	14.01	13.75	10.7	80,771	80,011	-1%
	MSFT	Microsoft	1.13	0.75	1.08	3.89	4.27	26.3	110,360	122,736	11%
	SYMC	Symantec	0.34	0.33	0.33	1.69	1.57	12.8	4,827	4,772	-1%
Technology Hardware	AAPL	Apple	2.31	1.81	2.18	11.30	13.20	17.2	255,274	273,551	7%
	BHE	Benchmark Electronics	0.30	0.38	0.30	1.59	1.48	17.5	2,552	2,583	1%
	CSCO	Cisco Systems	0.70	0.61	0.69	2.60	2.98	16.0	49,330	51,538	4%
	GLW	Corning	0.38	0.42	0.37	1.61	1.95	17.2	10,491	11,761	12%
	JNPR	Juniper Networks	0.48	0.57	0.44	1.84	1.88	15.1	4,784	4,759	-1%
	STX	Seagate Technology PLC	1.62	0.65	1.45	5.52	6.25	8.6	11,184	11,719	5%
Telecom Services	T	AT&T	0.91	0.79	0.85	3.28	3.61	8.9	158,368	185,969	17%
	VZ	Verizon Communications	1.20	0.96	1.14	4.21	4.66	11.7	129,647	131,483	1%
Transportation	ALK	Alaska Air Group	1.66	2.51	1.65	4.87	4.93	13.7	8,070	8,505	5%
	DAL	Delta Air Lines	1.77	1.64	1.72	5.04	5.90	9.9	43,048	45,305	5%
	DPSGY	Deutsche Post AG	0.50	0.51	0.47	2.45	2.25	16.2	72,210	72,820	1%
	NSC	Norfolk Southern	2.50	1.68	2.33	7.77	9.51	18.3	10,954	11,635	6%

# 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 <sup>1</sup>	Company	Price	Target Price	Price Multiples	EV/EBITDA <sup>3</sup>	FCF Yield <sup>4</sup>	Debt/TE <sup>5</sup>	Div Yield	Mkt Cap
					EPS Sales TBV <sup>2</sup>					
Autos & Components	GM	General Motors	36.05	55.88	5.8 0.4 1.7	2.5	13.1	230%	4.2%	50,863
	GT	Goodyear Tire	22.69	41.92	8.1 0.3 1.4	5.7	7.7	146%	2.5%	5,378
Banks	CM	Canadian Imperial Bank	93.68	113.04	10.2 nmf 2.2	nmf	nmf	nmf	4.5%	41,526
	C	Citigroup	71.24	102.87	12.0 nmf 1.2	nmf	nmf	nmf	2.5%	179,283
	ING	ING Groep	13.58	21.33	9.1 nmf 0.9	nmf	nmf	nmf	3.4%	52,847
Capital Goods	DE	Deere & Co	143.80	192.08	16.7 1.3 8.1	7.2	-3.3	468%	1.9%	46,257
	SIEGY	Siemens AG	64.81	90.58	14.5 2.3 13.6	11.5	4.2	384%	2.6%	110,169
Commercial Services	MAN	Manpower	93.73	142.40	11.4 0.3 5.2	7.1	6.0	89%	2.2%	6,083
Consumer Dur & App	MDC	M.D.C. Holdings	31.70	51.99	9.6 0.7 1.2	10.4	-7.1	72%	3.8%	1,789
	WHR	Whirlpool	124.98	209.74	9.0 0.4 nmf	15.7	2.2	nmf	3.7%	8,069
Consumer Services	CCL	Carnival Corp	61.49	81.93	14.9 2.3 2.2	10.6	5.1	41%	3.3%	43,040
Diversified Financials	GS	Goldman Sachs	237.81	304.17	10.1 nmf 1.3	nmf	nmf	nmf	1.3%	93,259
	SYF	Synchrony Fin'l	31.67	50.30	10.1 nmf 1.9	nmf	nmf	nmf	2.7%	23,458
Energy	HAL	Halliburton	39.89	63.26	20.6 1.5 5.9	11.8	5.2	174%	1.8%	35,099
	RDS/A	Royal Dutch Shell	65.23	91.02	12.6 0.3 1.4	7.0	3.8	41%	4.9%	274,405
Food & Staples Retailing	WBA	Walgreens Boots Alliance	68.56	112.32	11.7 0.5 nmf	10.8	8.6	nmf	2.6%	68,040
Food, Bev & Tobacco	TSN	Tyson Foods	62.81	86.85	10.5 0.6 nmf	9.2	8.3	nmf	1.9%	24,988
Health Care Equip/Srvcs	ZBH	Zimmer Biomet	123.63	171.11	16.2 3.2 nmf	18.7	5.3	nmf	0.8%	25,157
	CAH	Cardinal Health	52.19	80.87	10.4 0.1 nmf	20.2	14.5	nmf	3.7%	16,118
Household Products	KMB	Kimberly-Clark	115.54	136.04	17.9 2.2 nmf	14.0	5.5	nmf	3.5%	40,169
Insurance	PRU	Prudential Fin'l	98.25	138.75	8.3 nmf 0.9	nmf	nmf	nmf	3.7%	40,970
	AZSEY	Allianz SE	21.26	28.15	11.3 nmf 1.7	nmf	nmf	nmf	3.3%	91,370
Materials	• WRK	WestRock	55.08	83.44	15.0 0.9 5.3	8.0	7.7	225%	3.1%	14,052
Media	DIS	Walt Disney	112.02	147.37	16.8 2.9 21.1	11.1	5.8	224%	1.5%	166,601
Pharma/Biotech/Life Sci	MRK	Merck & Co	68.59	80.21	16.3 4.4 nmf	20.0	2.8	nmf	2.8%	182,417
	GILD	Gilead Sciences	75.73	118.17	10.2 4.2 nmf	8.0	8.5	nmf	3.0%	98,172
	SNY	Sanofi	42.85	58.12	13.9 5.3 nmf	16.8	nmf	nmf	3.4%	107,351
Real Estate	DOC	Physicians Realty Trust	17.49	22.99	16.4 nmf 1.3	nmf	nmf	nmf	5.3%	3,184
	KIM	Kimco Realty	17.11	22.73	11.3 nmf 1.7	nmf	nmf	nmf	6.5%	7,210
Retailing	FL	Foot Locker	49.30	76.91	11.4 0.7 2.5	6.6	13.5	5%	2.8%	5,764
Semis & Cap Equipment	• MU	Micron Technology	52.52	99.71	28.9 1.2 22.1	17.9	3.7	200%	0.0%	60,913
	LRCX	Lam Research	173.09	253.20	9.4 2.5 5.8	7.0	8.5	40%	2.5%	27,276
Software & Services	GOOG	Alphabet Class C	1218.19	1581.25	25.0 6.9 6.0	22.7	2.2	3%	0.0%	851,855
	IBM	Int'l Business Machines	146.48	195.67	10.5 1.7 nmf	10.0	9.3	nmf	4.3%	133,702
Technology Hardware	BHE	Benchmark Electronic	25.85	34.15	16.3 0.5 1.2	6.5	-2.2	19%	2.3%	1,204
	JNPR	Juniper Networks	28.43	37.09	15.5 2.0 8.2	10.1	6.7	149%	2.5%	9,803
Telecom Services	NTTY	Nippon T&T	44.41	63.02	10.3 0.9 1.6	5.5	12.0	42%	2.6%	93,101
	T	AT&T	31.94	43.85	9.7 1.5 nmf	9.3	9.4	nmf	6.3%	231,948
Transportation	ALK	Alaska Air Group	67.49	101.95	13.9 1.0 5.5	7.1	3.1	131%	1.9%	8,311
	DPSGY	Deutsche Post	36.38	56.46	15.2 0.6 nmf	8.8	4.0	nmf	3.8%	44,896

As of 08.31.18. N/A=Not applicable. nmf=Not meaningful. <sup>1</sup>•=First-time recommendation. <sup>2</sup>Tangible book value. <sup>3</sup>Enterprise value-to-earnings before interest taxes depreciation and amortization. <sup>4</sup>Free cash flow yield. <sup>5</sup>Tangible equity. SOURCE: AFAM Capital using data from Bloomberg Finance LP.

# Portfolio Builder

Research Team Highlights

**T**he *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

Still having some cash to redeploy, we will buy \$10,000 of **WestRock** in Millennium Portfolio, \$20,000 of **Foot Locker** in PruFolio and \$30,000 of **Micron Tech** in TPS Portfolio. In Buckingham Portfolio, we will pick up \$8,000 of **Zimmer Biomet** and we will raise the ownership of **Halliburton** and **Tyson Foods** to that level. We already have sufficient company/sector exposure in **Canadian Imperial Bank**, **Deere**, **Merck** and **Prudential Fin'l**, so no additional purchases of any of those four this month. We will wait four trading days, until September 10, to transact.

## NEWSLETTER PORTFOLIO PURCHASES

Ticker	Company	Sector	Price	Target Price
CM	Canadian Imperial Bank	Financials	93.68	113.04
DE	Deere & Co	Industrials	143.80	192.08
FL	Foot Locker	Consumer Discretionary	49.30	76.91
HAL	Halliburton	Energy	39.89	63.26
MRK	Merck & Co	Health Care	68.59	80.21
MU	Micron Technology	Information Technology	52.52	99.71
PRU	Prudential Financial	Financials	98.25	138.75
TSN	Tyson Foods	Consumer Staples	62.81	86.85
WRK	WestRock	Materials	55.08	83.44
ZBH	Zimmer Biomet	Health Care	123.63	171.11

As of 08.31.18. SOURCE: AFAM Capital using data from Bloomberg Finance L.P.

## Canadian Imperial Bank (CM)

Canadian Imperial Bank, often referred to as CIBC (note that the ticker is CM), is the fifth-largest Canadian bank by market capitalization, providing banking services through three operating segments: Retail and Business Banking, Wealth Management and Wholesale Banking. In fiscal Q3, CM earned \$2.36 per share, versus the \$2.24 consensus estimate, the company's sixteenth consecutive quarter of year-over-year growth. The bank also reported growing digital engagement, expansion in the U.S., good expense management and a widening net interest margin. CFO Kevin Glass added, "We are very pleased with the quality and consistency of our results, reflecting continued execution of our client-focused strategy. After another very good quarter, we remain on track to meet our medium-term targets for the full year." Management also raised the dividend for the second time in 2018, increasing the payment by 5% versus the 2017 mean. Although shares have recovered some after a challenging start to the year, we believe that CM still trades at a discount with a forward P/E ratio under 10 and a 4.5% dividend yield.

## Deere & Co (DE)

Deere is the largest manufacturer and distributor of agricultural equipment worldwide with a leading market share in large farm equipment segments. In fiscal Q3, DE earned \$2.59 per share, missing analyst expectations by 6%, while adjusted revenue of \$9.3 billion was 1% ahead. Shares moved higher thanks to management comments

that were bullish on 2019 economic conditions for farming, particularly for corn, wheat and cotton crops. Despite the uncertainty related to global trade, we think that long-term global demand for ag equipment is likely to gain strength as global socioeconomic trends evolve, especially within emerging market regions. Additionally, government pricing support programs, domestically and abroad, should lead to increased farm incomes and drive additional equipment demand. Trading for 12.7 times earnings, we think the recent volatility in DE shares offers long-term-oriented investors an appealing entry point. While the company has tempered near-term forecasts, we believe the confidence in the future is obvious as management continues to buy back shares given their view that DE's "intrinsic value is much higher." DE offers a 2.0% dividend yield and strong free-cash-flow generation.

### **Foot Locker (FL)**

Foot Locker is an athletic footwear and apparel retailer, operating 3,310 stores in 24 countries in North America, Europe, Australia and New Zealand, as well as the popular Eastbay.com and Footlocker.com websites. Although FL posted EPS of \$0.75 in fiscal Q2 (vs. \$0.70 est.), investors remain concerned about store traffic, margin pressures due to increased wage expenses and the cost of further digital investment. CEO Richard Johnson defended the results, "Our performance reflects the work we are doing on several fronts to position the company to succeed in a rapidly evolving retail environment." We think that the negativity isn't deserved, as the company has several competitive edges, including broad distribution channels, geographic locations, multiple banners and product categories. We believe FL will continue to benefit from its strategic cost control and productivity plans, in addition to further penetration of its apparel offerings and solid growth of its digital shopping platforms. Additionally, we like the strong balance sheet that sports \$6.89 of net cash per share, providing operational flexibility and the ability to buy back shares and increase the dividend (yield is 2.9%). FL also trades for 10.5 times NTM earnings.

### **Halliburton (HAL)**

Halliburton is one of the world's largest providers of products and services to the energy industry. The company serves the upstream oil and gas industry throughout the life cycle of the reservoir, from locating hydrocarbons and managing geological data, to drilling and formation evaluation, well construction and completion,

and optimizing production. HAL has endured a tough 2018, including a sharp drop following Q2 results, with which we really didn't see anything wrong. That said, a Q3 forecast well below consensus estimates took its toll. However, the lowered guidance is mostly due to shale activity slowing in the U.S. during the back part of the year as the Permian Basin pipeline takeaway faces short-term constraints. Given this was well known, we see the selloff as overdone and we still think that long-term exposure to the energy industry will prove quite profitable, especially when shares of a best-of-breed company like HAL can be purchased at a steep discount. We like that HAL has remained focused on reactivating rigs, expanding outside the U.S. land market and keeping up with customers as they invest to meet increased production targets.

### **Merck & Co (MRK)**

Merck is a global pharmaceutical giant focused on drugs for respiratory and cardiovascular ailments, diabetes, infectious diseases and oncology, in addition to maintaining a significant presence in immuno-oncology (IO). The flagship IO product, Keytruda, represents a key blockbuster with multi-billion-dollar potential, helped by its first-mover advantage in front-line lung cancer. Also, we expect new cancer drug combinations will further propel Merck's overall drug sales. While the stock has performed very well in 2018, we believe there is still attractive long-term opportunity with the potential of Keytruda and a wide lineup of high-margin drugs, as well as a pipeline of new drugs which should ensure strong returns on invested capital over the long term. MRK trades at less than 16 times NTM EPS projections and the company boasts a history of returning cash to shareholders, a diversified revenue stream and solid free-cash-flow generation, while management is on the hunt for acquisitions and drug-licensing deals that could bolster its drug development.

### **Micron Technology (MU)**

Micron is a manufacturer of semiconductor components and memory modules. Through its global brands – Micron, Crucial and Ballistix–, Micron manufactures all of today's major memory technologies: DRAM, NAND, NOR and 3D XPoint. We believe that MU's solid-state products play a critical role in a myriad of personal and enterprise tech devices, and sustained demand for them should boost Micron despite market supply increases. Solid-state drives were initially used in small quantities for up-scale devices, however, advances in manufacturing have

led to substantial price improvements and performance gains, resulting in enterprise adoption at a faster pace than many had expected. Micron CEO Sanjay Mehrotra added, “Data center trends are also driving momentum for Micron’s DRAM and NAND solutions, with combined revenue up 87% year-over-year. We stand to benefit from the significant investments cloud service providers are making to build out their IT infrastructure. Cloud Cap-Ex is expected to be \$50 billion in 2018...and \$108 billion by 2021.” While the bottom line has been extraordinarily cyclical, MU now trades for a super-low 5 times earnings, with analysts expecting EPS of \$11.67 and \$10.32 in fiscal ‘19 and ‘20 (vs. \$4.96 in fiscal ‘17). There is also the support of a \$10 billion share repurchase authorization.

### **Prudential Financial (PRU)**

Prudential is a large U.S. life insurer with more than \$1 trillion of assets under management and additional operations in Asia, Europe and Latin America. PRU provides insurance, investment management, brokerage services and other financial products. Shares have struggled in 2018, as interest rates haven’t increased the way some expected and results for the company were impacted by larger-than-expected additions to reserves for its discontinued long-term-care business. Even so, underlying results have remained solid, especially as the company’s asset management business has performed well. We continue to like that management has actively divested non-core businesses and shown discipline in its international expansion, while the domestic businesses could benefit from further deregulation. We also like the potential of its sales of pension de-risking products. Further, we believe the international business can continue to deliver earnings growth, despite low interest rates and challenging demographics in Japan. PRU shares trade at less than 8 times NTM adjusted EPS expectations and 85% of book value, while offering investors a 3.7% dividend yield.

### **Tyson Foods (TSN)**

Tyson Foods is one of the world’s largest food companies with a broad portfolio of products and brands like Tyson, Jimmy Dean, Hillshire Farm and Ball Parks. While bouncing back a bit of late, shares have been beaten up in 2018 over concerns about its products being targeted in global trade disputes, a strong U.S. dollar and the mounting inventory of meats in the U.S. During the summer, TSN announced that the cumulative impact of its operating headwinds forced a reduction in its EPS outlook to a

range of \$5.70 to \$6.00, from \$6.55 to \$6.70. Nevertheless, we think Tyson’s near-term challenges will be concentrated in the chicken and pork segments. Management cited lower competing protein prices as a headwind for chicken as cattle herd sizes normalize and trade feuds weigh on pork. Longer term, we think chicken can take share from other protein sources as it offers a relatively better cost and health profile to consumers. We also think that prepared foods and increasing protein consumption around the globe, especially in emerging economies, provide a solid footing for top-line growth. TSN currently trades at 11.2 times NTM adjusted EPS expectations.

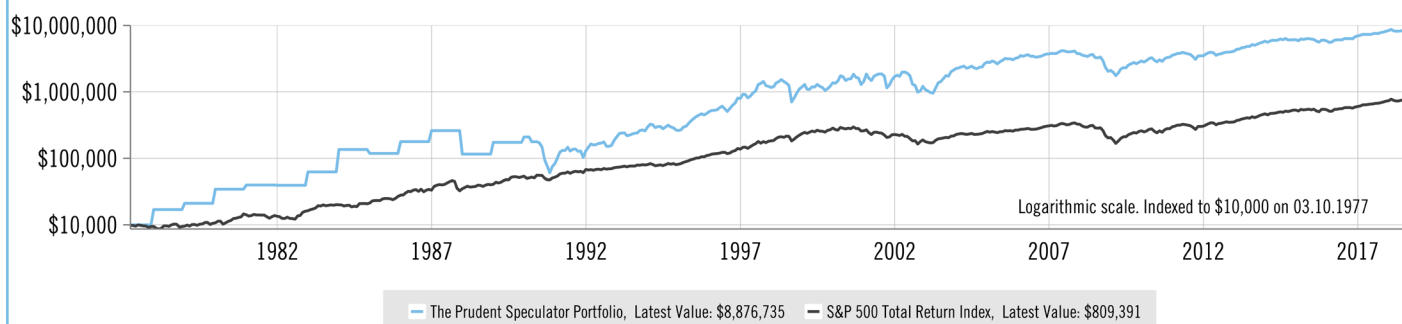
### **WestRock (WRK)**

One of North America’s containerboard giants, WestRock (formerly Rock-Tenn) produces packaging for food, hardware, apparel and other consumer goods. With approximately 9.2 million tons of mill capacity, the company’s lineup includes recycled and bleached paperboard, containerboard, consumer and corrugated packaging, and point-of-purchase displays. We are attracted to WRK as a high-yielding and reasonably priced e-commerce play (via shipping boxes), and think that the current stock quotation hovering near the year’s low makes for a good entry point. Despite some headwinds on inputs and cost of delivering products, we like that WRK has improving pricing with the economy strong and more delivered products being purchased by consumers. Scoring very well in our quantitative framework, WRK yields 3.2%.

### **Zimmer Biomet (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. ZBH posted a solid Q2, and we think that these results add credibility to the turnaround story, which could attract more investors. Additionally, we believe that new product launches should bolster both the top- and bottom-lines as the firm heads into 2019. Zimmer expects to generate free cash flow of \$1.2 billion to \$1.35 billion this year, while the shares trade at less than 16 times NTM adjusted earnings projections, materially lower than the average of its key competitors. ■

## NEWSLETTER PORTFOLIO PERFORMANCE



	Aug	YTD	1-Year	3-Year	5-Year	10-Year	15-Year	Inception Date	Since Inception	Index Return	Index	
<b>Newsletter Portfolios</b>								<b>Newsletter Portfolios</b>				
Buckingham	2.43	6.96	19.02	14.26	11.26	8.09	9.75	Buckingham	01.21.03	12.68	10.49	Russell 3000
Millennium	2.36	6.12	17.15	14.58	11.53	10.51	9.67	Millennium	12.31.99	9.87	6.19	Russell 3000
PruFolio	2.68	4.36	13.41	13.27	10.79	9.84	10.09	PruFolio	12.29.00	13.04	7.02	Russell 3000
TPS	2.26	6.16	17.44	15.18	12.04	10.24	11.42	TPS	03.10.77	17.81	11.19	S&P 500
<b>Major Indexes</b>								Since <i>The Prudent Speculator's</i> launch in March 1977, its 1,887 stock recommendations have returned, on average, an annualized 17.37%, not including dividends.				
Russell 3000	3.51	10.39	20.25	15.86	14.25	10.89	9.77					
Russell 3000 Value	1.55	4.17	13.04	12.58	11.25	8.95	8.86					
S&P 500	3.26	9.94	19.65	16.10	14.51	10.85	9.53					
Dow Jones Indu. Avg.	2.56	6.73	21.00	19.17	14.64	11.34	9.73					

## IMPORTANT INFORMATION

As of 08.31.18. 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. 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.

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