AFAM CAPITAL

AAII San Diego 2017

Dividends are Still Valuable

John Buckingham
Chief Investment Officer
April 8, 2017

INTRODUCTION

"Successful speculating is more a matter of character than mathematics, analysis or luck."

– Al Frank

INTRODUCTION
The Prudent Speculator

Liz Claman @LizClaman · 19h
The "Buffett Beater" is on @fbncountdown 3pET: 15 yr annualized returns are beating @WarrenBuffett Who is he? Stocks he's picking now EXCLSV

John Buckingham has been called the "Buffett Beater" by Liz Claman. Hear his exclusive interview with Fox Business by clicking the image below.

John Buckingham, Chief Investment Officer, Editor of *The Prudent Speculator* newsletter

- John joined AFAM in 1987
- Worked with Al Frank, founder of AFAM
- Chief Portfolio Manager since 1990
- Manager of AFAM proprietary mutual funds

They're the Tops

These three advisory services have beaten the S&P 500's dividend-adjusted annualized return of 11.7%.

SERVICE	ADVISER	YEARLY SUBSCRIPTION PRICE	ANNUALIZED GAIN SINCE JUNE 30, 1980	INVESTMENT APPROACH
The Prudent Speculator	John Buckingham	$195	15.8%	Buying and holding undervalued stocks
NoLoad FundX	Janet Brown	$89	12.6%	Short-term momentum using no-load funds
Value Line Investment Survey	Value Line	$598	12.5%	Price and earnings momentum

Source: Hulbert Financial Digest — The Wall Street Journal

INTRODUCTION

1. The Secret to Success in Stocks

2. Valuable Properties

3. Myth Debunking

4. Undervalued Dividend Payers

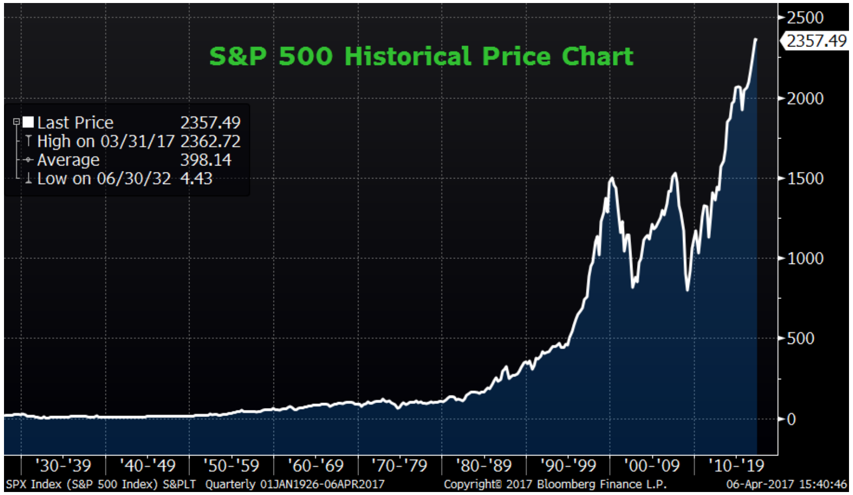
The Secret to Success

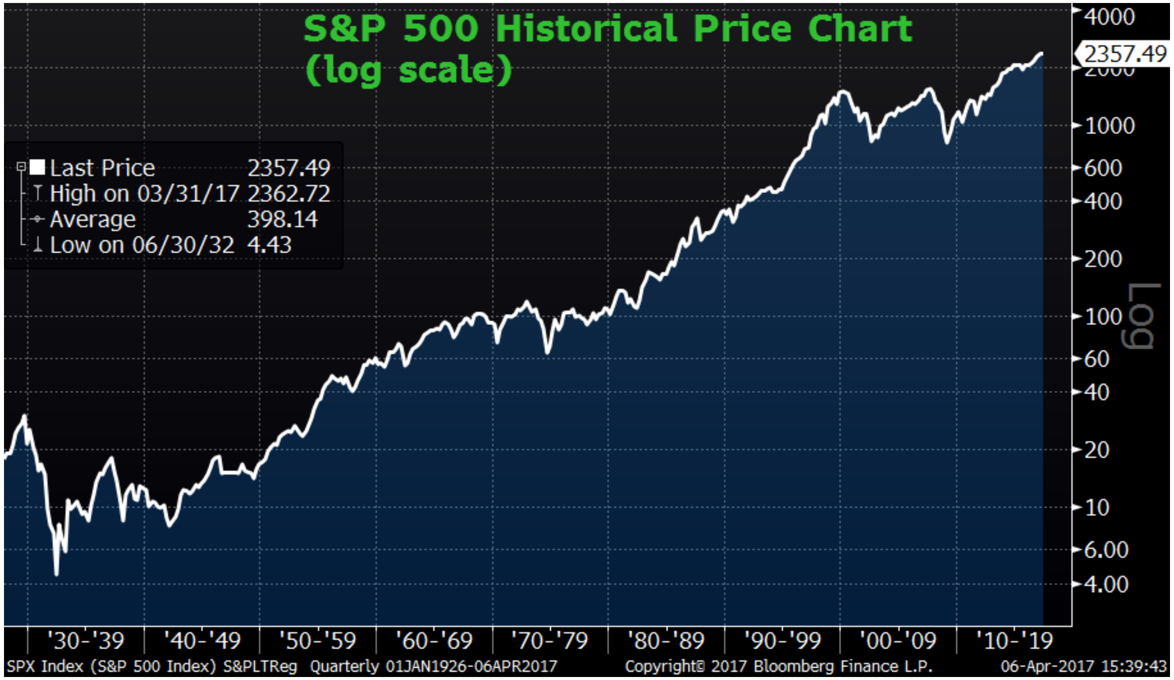
"If you do not change direction, you may end up where you are heading"

—Lao Tzu

THE SECRET TO SUCCESS IN STOCKS
Ups & Downs, But Long-Term Trend Is Up

The Bursting of the Tech Bubble in 2000-2002 and the Financial Crisis/Great Recession in 2007-2009 are about the only visible blips on the long-term (back to 1927) chart of the S&P 500 index, but if one utilizes a log-scale for the Y-axis, the swings of the equity markets over the past 90 years are more easily evident. Of course, the long-term trend has been very favorable AND these charts show only price appreciation of the S&P 500, ignoring the historically lucrative impact of dividends and their reinvestment.





THE SECRET TO SUCCESS IN STOCKS
Lots of Frightening Events

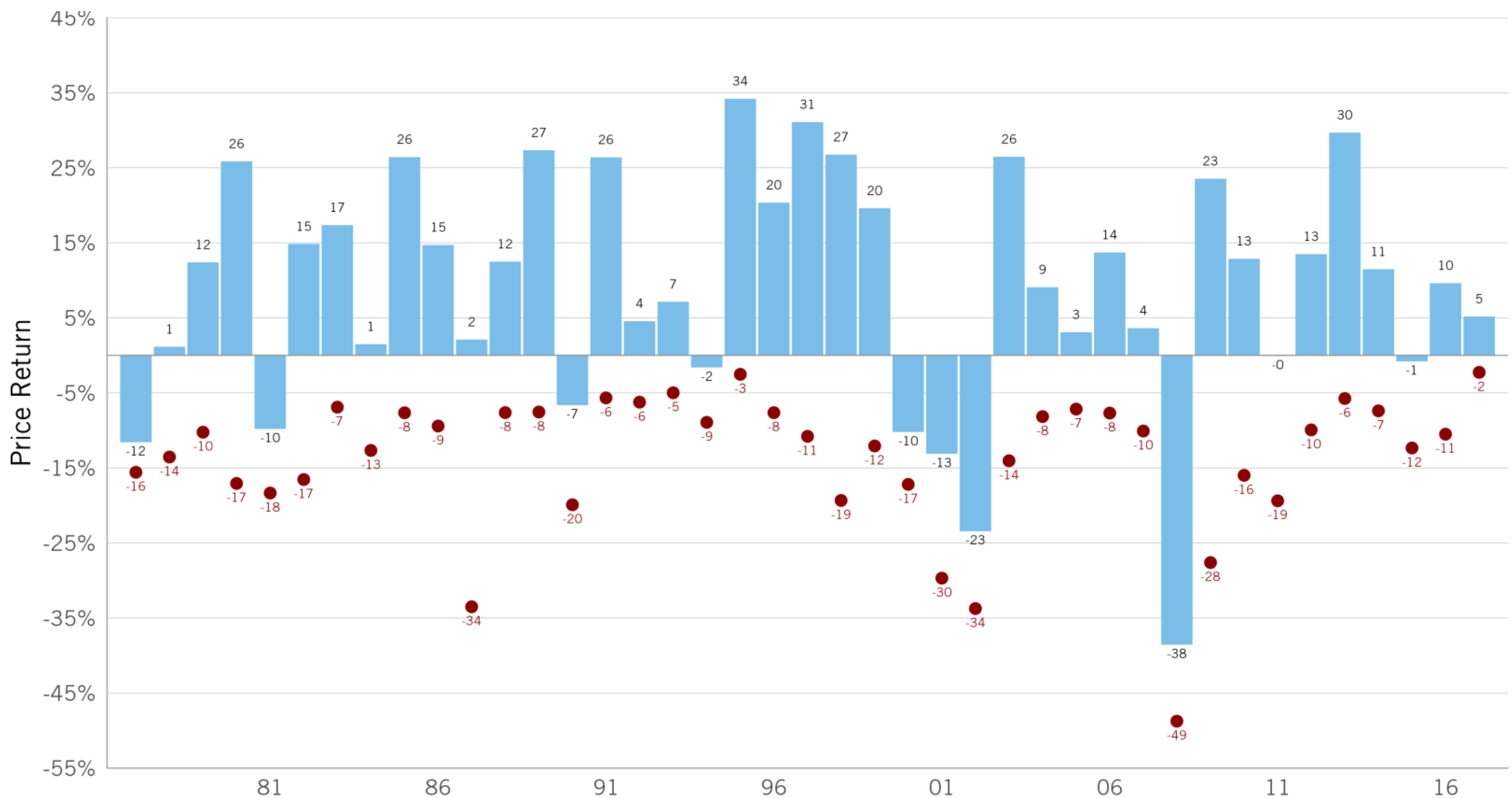
Event	Reaction Dates		S&P Start Value	S&P End Value	Event Gain/Loss	12 Months Later	36 Months Later	60 Months Later	Event End thru Present
Pearl Harbor	12/6/1941	12/10/1941	9.32	8.68	-7%	8%	51%	76%	26966%
Truman Upset Victory	11/2/1948	11/10/1948	16.70	15.00	-10%	8%	52%	62%	15349%
Korean War	6/23/1950	7/13/1950	19.14	16.69	-13%	32%	45%	153%	13480%
Eisenhower Heart Attack	9/23/1955	9/26/1955	45.63	42.61	-7%	8%	17%	25%	5298%
Sputnik	10/3/1957	10/22/1957	43.14	38.98	-10%	31%	37%	41%	5732%
Cuban Missile Crisis	8/23/1962	10/23/1962	59.70	53.49	-10%	36%	72%	78%	4131%
JFK Assassination	11/21/1963	11/22/1963	71.62	69.61	-3%	24%	14%	53%	3163%
Kent State Shootings	5/4/1970	5/14/1970	79.00	75.44	-5%	35%	40%	22%	3107%
Arab Oil Embargo	10/18/1973	12/5/1973	110.01	92.16	-16%	-28%	12%	6%	2355%
Nixon Resigns	8/9/1974	8/29/1974	80.86	69.99	-13%	24%	38%	56%	3332%
U.S.S.R. in Afghanistan	12/24/1979	1/3/1980	107.66	105.22	-2%	30%	31%	56%	2062%
Hunt Silver Crisis	2/13/1980	3/27/1980	118.44	98.22	-17%	37%	55%	83%	2196%
Falkland Islands War	4/1/1982	5/7/1982	113.79	119.47	5%	39%	51%	147%	1894%
U.S. Invades Grenada	10/24/1983	11/7/1983	165.99	161.91	-2%	4%	52%	69%	1318%
U.S. Bombs Libya	4/15/1986	4/21/1986	237.73	244.74	3%	20%	27%	57%	873%
Crash of '87	10/2/1987	10/19/1987	328.07	224.84	-31%	23%	39%	85%	850%
Gulf War Ultimatum	12/24/1990	1/16/1991	329.90	316.17	-4%	32%	50%	92%	618%
Gorbachev Coup	8/16/1991	8/19/1991	385.58	376.47	-2%	11%	23%	77%	498%
ERM U.K. Currency Crisis	9/14/1992	10/16/1992	425.27	411.73	-3%	14%	42%	132%	468%
World Trade Center Bombing	2/26/1993	2/27/1993	443.38	443.38	0%	5%	46%	137%	428%
Russia Mexico Orange County	10/11/1994	12/20/1994	465.79	457.10	-2%	33%	107%	210%	413%
Oklahoma City Bombing	4/19/1995	4/20/1995	504.92	505.29	0%	28%	122%	184%	360%
Asian Stock Market Crisis	10/7/1997	10/27/1997	983.12	876.99	-11%	21%	57%	2%	158%
Russian LTCM Crisis	8/18/1998	10/8/1998	1,101.20	959.44	-13%	39%	11%	8%	134%
USS Cole Yemen Bombings	10/11/2000	10/18/2000	1,364.59	1,342.13	-2%	-20%	-23%	-12%	69%
September 11 Attacks	9/10/2001	9/21/2001	1,092.54	965.80	-12%	-12%	17%	36%	131%
Iraq War	3/19/2003	5/1/2003	874.02	916.30	5%	21%	42%	54%	154%
Madrid Terrorist Attacks	3/10/2004	3/24/2004	1,123.89	1,091.33	-3%	7%	32%	-26%	109%
London Train Bombing	7/6/2005	7/7/2005	1,194.94	1,197.87	0%	6%	5%	-11%	93%
2008 Market Crash	9/15/2008	3/9/2009	1,192.70	676.53	-43%	69%	103%	178%	212%
Price Changes Only - Does Not Include Dividends				**Averages:**	**-8%**	**19%**	**42%**	**71%**	**3198%**

As of 4.6.17. Source: Al Frank using Bloomberg and Ned Davis Research Events & Reaction Dates

History is filled with plenty of disconcerting events, but those who have stayed the course, sticking with their long-term investment plans, have nearly always been rewarded in the fullness of time.

THE SECRET TO SUCCESS IN STOCKS
A Big Selloff Happens Almost Every Year

While the S&P 500 has enjoyed excellent long-term returns and endured a relatively small number of negative full years since the founding of *The Prudent Speculator* in 1977, there have been corrections of 10% or more in 24 of the 38 years.



From 12.31.76 through 04.05.17. Price returns do not include dividends. Intra-year drops refer to the largest drops between high and low close prices during a calendar year. 2016 return is year to date. SOURCE: Al Frank using data from Bloomberg

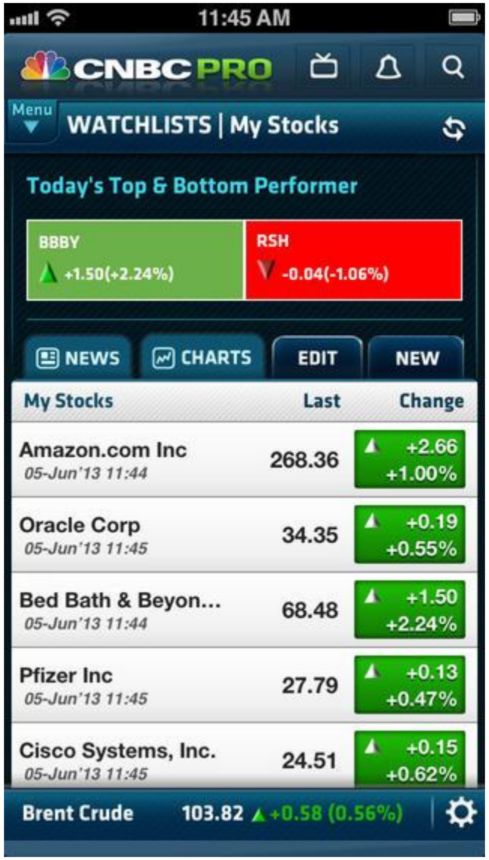
THE SECRET TO SUCCESS IN STOCKS
Keep Calm and Carry On

Memories tend to fade over time, but since the end of the nasty Financial Crisis Bear Market in March 2009, there have been more than a few frightening events, yet stocks have still managed to move higher.

Event	Date	S&P End Value	3 Months Later	6 Months Later	12 Months Later	36 Months Later	60 Months Later	Event thru Present
Flash Crash	5/6/2010	1,128.15	-1%	9%	19%	43%	84%	109%
Japan Tsunami	3/11/2011	1,304.28	-3%	-12%	5%	43%	55%	81%
S&P Downgrade	8/6/2011	1,199.38	4%	12%	16%	60%	82%	97%
Hurricane Sandy	10/22/2012	1,433.82	4%	9%	22%	43%		64%
Fiscal Cliff	1/1/2013	1,426.19	10%	13%	30%	43%		65%
Taper Tantrum	5/22/2013	1,655.35	0%	9%	14%	24%		42%
Russia and Ukraine	2/20/2014	1,839.78	2%	8%	15%	28%		28%
Ebola Scare	9/4/2014	1,997.65	4%	5%	-4%			18%
Charlie Hebdo	1/7/2015	2,025.90	2%	3%	-4%			16%
Greek Default	6/30/2015	2,063.11	-7%	0%	2%			14%
China Devalues Yuan	8/10/2015	2,104.18	-1%	-12%	3%			12%
Paris Bataclan	12/13/2015	2,012.37	0%	3%	13%			17%
U.S. Interest Rate Hike	12/16/2015	2,073.07	-2%	0%	9%			14%
China GDP Slowing	1/19/2016	1,881.33	12%	15%	20%			25%
Brexit	6/23/2016	2,113.32	2%	7%				12%
Trump Victory	11/8/2016	2,139.56	7%					10%
Price Changes Only								
Does Not Include Dividends		**Averages:**	**2%**	**5%**	**11%**	**41%**	**74%**	**39%**
Source: Al Frank using Bloomberg. As of 4.6.17								

THE SECRET TO SUCCESS IN STOCKS
24/7 Access to Portfolio Info is a Problem

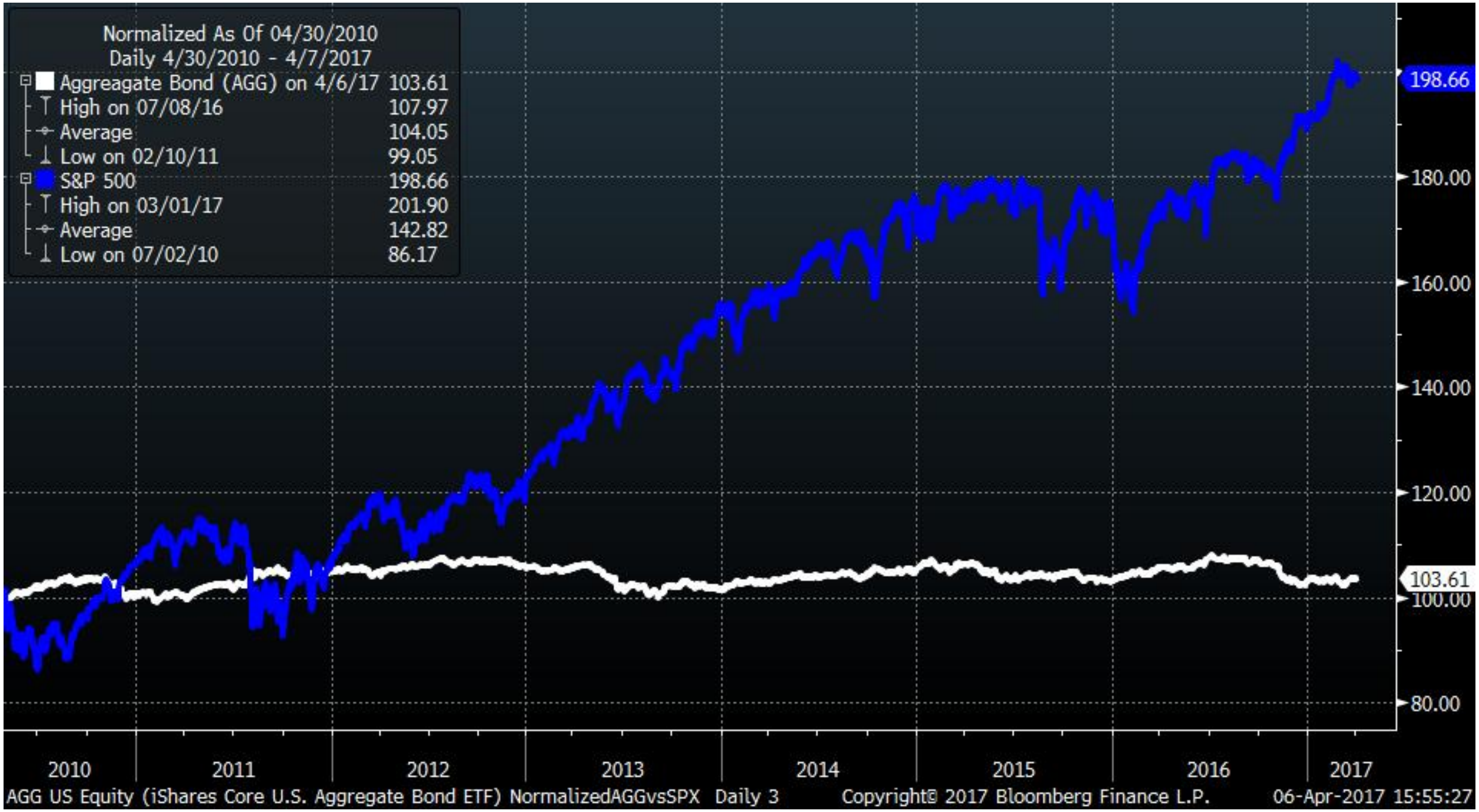
Myopic loss aversion is the combination of a greater sensitivity to losses than to gains and a tendency to evaluate outcomes frequently...The investors who got the most frequent feedback (and thus the most information) took the least risk and earned the least money.



THE SECRET TO SUCCESS IN STOCKS
Financial Media is Not Always Helpful

THE SECRET TO SUCCESS IN STOCKS
The Greek Debt Crisis – Bonds vs. Stocks

Greece has been just one of many headwinds, but those who opted for the "safety" of fixed income since the first Athens bailout package in May 2010, have missed out on handsome equity market returns.



THE SECRET TO SUCCESS IN STOCKS
February 2016 Financial Press Covers

THE WALL STREET JOURNAL.

WSJ. MAGAZINE
IN TOMORROW'S PAPER
WOMEN'S STYLE

The Lure Of the House Next Door
MANSION | M1

DOW JONES | News Corp

FRIDAY, FEBRUARY 12, 2016 - VOL. CCLXVII NO. 35

WSJ.com

★★★★ $3.00

DJIA 15660.18 ▼ 254.56 1.6% NASDAQ 4266.84 ▼ 0.4% STOXX 600 303.58 ▼ 3.7% 10-YR. TREAS. (new) yield 1.642% OIL $26.21 ▼ $1.24 GOLD $1,247.90 ▲ $53.20 EURO $1.1325 YEN 112.43

What's News

Business & Finance

The rout in financial markets deepened, led by bank stocks, amid concerns that global central banks' efforts to boost growth will worsen conditions for lenders. The Dow slid 254.56 to 15660.18, a two-year low. Government-bond yields slumped and the yen and gold surged. Tokyo shares were down over 5% at midday Friday. A1, A9-10, C1

◆ A growing number of economists and CEOs see mounting risk of the U.S. tipping into a recession. A10

◆ Energy companies face more job and cost cuts as oil prices slide. The U.S. benchmark fell to $26.21. B1

◆ Oil and gas firms are maxing out revolving credit lines, raising new worries about banks' exposure. C1

◆ Icahn and Paulson dropped their fight with AIG in exchange for two board seats at the insurer. C1

◆ Facebook is more aggressively policing material it views as supporting terrorism, amid government pressure. B1

◆ Morgan Stanley will pay $3.2 billion to settle charges that it misled investors about mortgage bonds. C3

◆ Boeing shares fell sharply as fresh concerns emerged about the company's accounting method for its jetliners. B1

◆ PepsiCo said profit surged 31%, but CEO Nooyi warned that overseas turmoil could upend the U.S. economy. B3

World-Wide

◆ World powers agreed to reach a cease-fire in Syria in one week, allowing aid in but

Banks Drop as Global Rout Deepens

By Tommy Stubbington And Margot Patrick

Bank stocks led an intensifying rout in financial markets, amid concerns that global central banks struggling to boost growth will worsen an already tough environment for lenders.

The Dow Jones Industrial Average closed down 254 points on Thursday and U.S. oil prices fell near $26 a barrel, in a broad flight from risk that sent haven assets climbing. Gold gained 4.5% to its highest level in a year. Bond prices rose, sending the yield on the 10-year U.S. Treasury note, which tends to decline when investors get nervous, to its lowest level since May 2013.

Selling continued in Asia Friday, with Japan's benchmark stock index down more than 5% at midday to its lowest level in more than a year. Stocks in Hong Kong and Australia also fell.

The recent pressure reflects concerns that investors have wrestled with for months, including falling commodity prices, a slowdown in China and heavy debt loads in emerging markets. What is new is that investors are now worrying that banks are being caught in the middle as central banks in Europe and Japan turn to negative interest rates to spur growth.

Those policies, which charge lenders for reserves they keep on deposit with central banks, are crimping lenders' profits and amplifying fears of a wide economic slowdown. At the heart of the concerns is an alarming conundrum: While hobbled banks may not be able to tolerate rates this low, limping economies may not be able to tolerate them any higher.

Markets in Turmoil
- Haven seekers scoop up government debt ______ A8
- Economists, CEOs say risk of recession is rising __ A10
- Blue chips decline to a two-year low ______ C1

The "doom loop" that sent eurozone banks and countries into a spiral of mutual deterioration four years ago could now be encircling central banks and lenders.

"The markets see this club of central bankers barreling down this path, which is really experimental for a number of reasons and doesn't seem well thought out in terms of the impact it could have," said Scott Mather, chief investment officer U.S. core strategies at Pimco.

Please see RATES page A8

Dueling Indicators: Economy vs. Markets

Market-based recession indicators such as stock prices and junk-bond spreads are raising alarms, but so-called macroeconomic indicators such as inflation-adjusted incomes, energy prices and loan delinquency rates paint a more reassuring picture.

Probability of recession Market-based Macroeconomic based

100%, 80, 60, 40, 20, 0

Recessions

1980, '90, 2000, '10

The 2016 market tumult intensified Thursday, with gains in havens and declines in riskier assets.

How many yen one dollar buys: 110 yen, 115, 120, 125, 130; Thursday 112.43; Scale inverted to show a strengthening yen; Jan., Feb.

U.S. 10-year bond yield: 2.50%, 2.25, 2.00, 1.75, 1.50; 1.642%; Jan., Feb.

Nymex crude oil: $40 a barrel, 35, 30, 25, 20; $26.21; Jan., Feb.

Dow industrials: 17500, 17000, 16500, 16000, 15500; 15660.18 ▼1.60%; Jan., Feb.

Risk Grows Of Selloff Sparking Recession

By Greg Ip

ANALYSIS

Is the U.S. headed for recession? The markets suggest so.

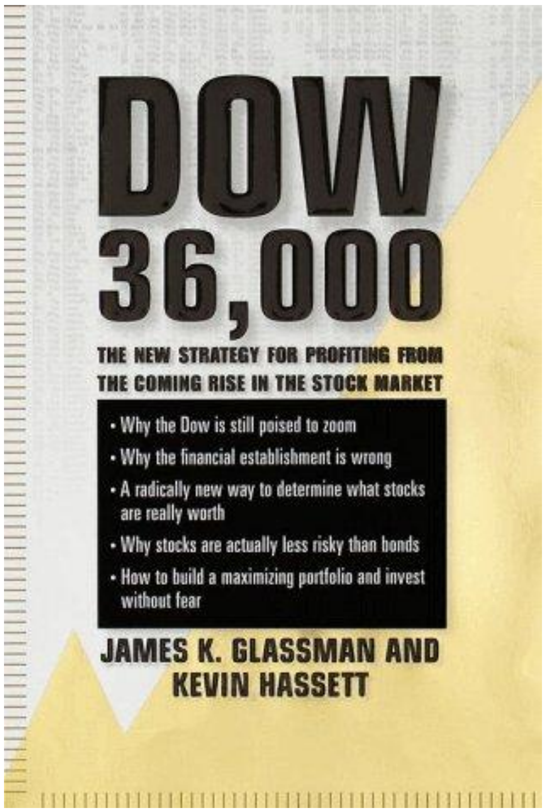
With Thursday's selloff, the Dow Jones Industrial Average is now down 14.5% from its all-time high last May. Yields on risky bonds continue to climb, while investors have sought safety in U.S. Treasurys, sending those yields lower. And oil has hit a nearly 12½-year low.

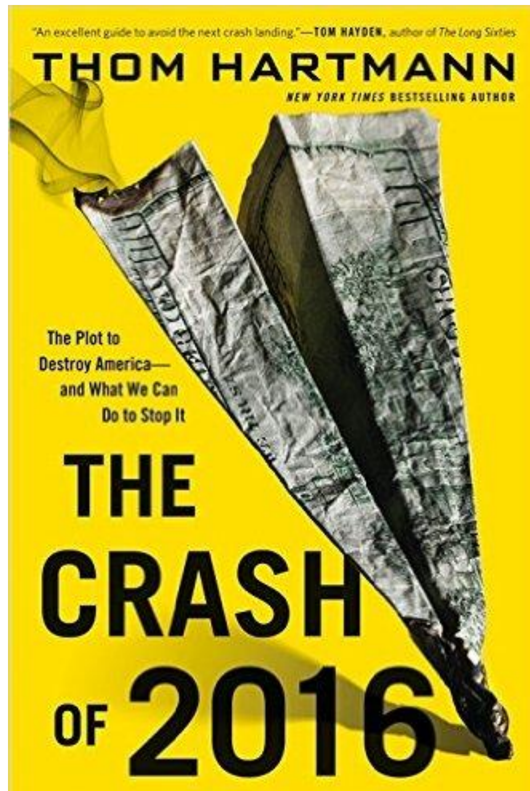
Yet the economic data show no recession. Job growth in January was healthy, and employers are having trouble filling vacancies.

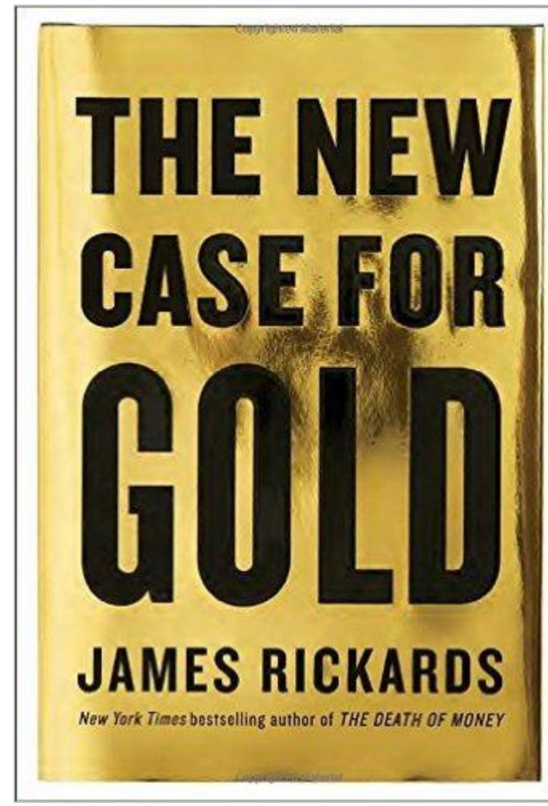
This dichotomy is neatly captured by two indexes compiled by Cornerstone Macro. One, using financial indicators such as the stock market and corporate bond yields, puts the probability the U.S. is now in recession at 50%. The other, which adds in macroeconomic data such as loan delinquencies and inflation-adjusted income, puts the probability at just 28%.

Of course markets often

THE SECRET TO SUCCESS IN STOCKS
Plenty of "Help" for Investors

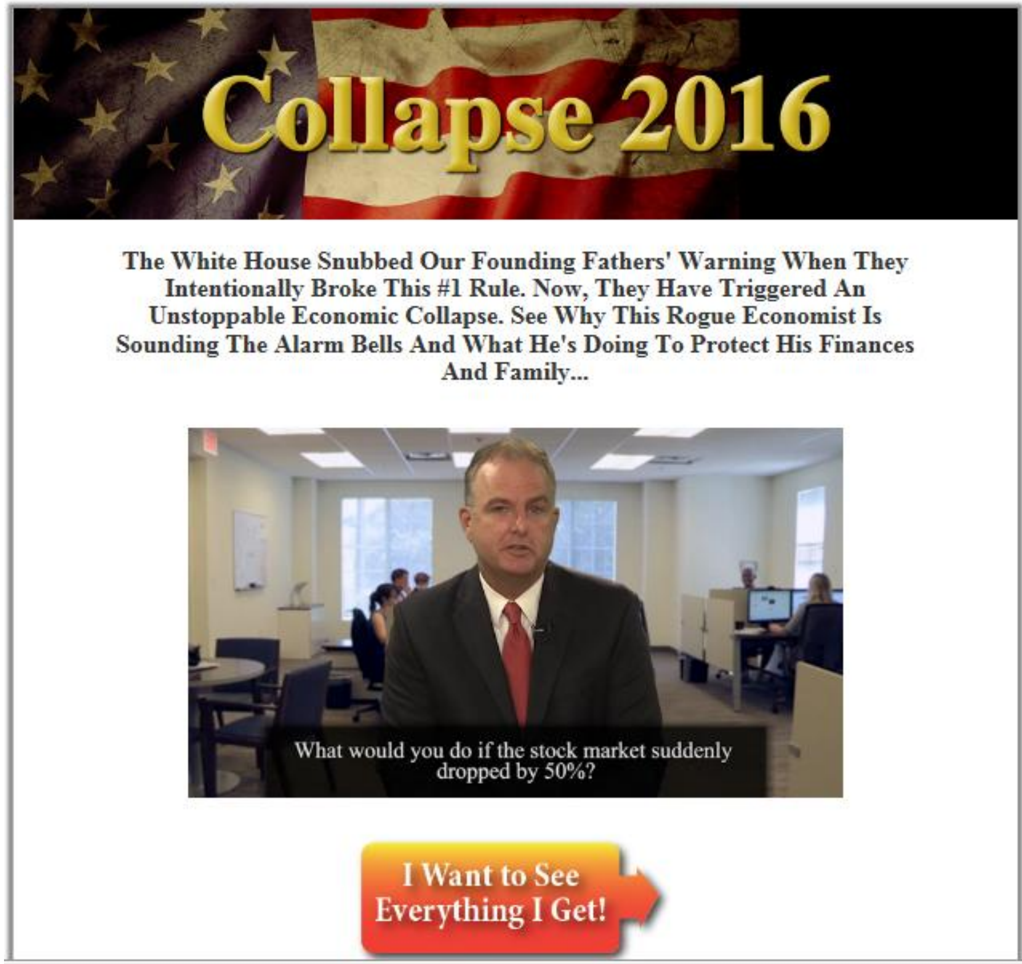






THE SECRET TO SUCCESS IN STOCKS
Abundant Online Advice: Click Here

AFAM CAPITAL



THE Sovereign Investor DAILY

HOME | ABOUT US | MEET THE EDITORS | PREMIUM CONTENT | FREE REPORTS | VIDEOS | PAST ARTICLES | BOOKS

DOW 50,000!

BY J.L. YASTINE   August 22, 2016

A massive stock market rally is at our doorstep, according to several noted economists and distinguished investors.

Larry Edelson, a *Money and Markets* editor, predicts: "The Dow Jones Industrial will lead the way higher and catapult to 31,000 over the next two years."

Ron Baron, CEO of Baron Capital, thinks: "It's going to be 30,000."

Jeffrey A. Hirsch, editor-in-chief of the *Stock Trader's Almanac*, believes it will go even higher: "The Dow Jones Industrial Average will surge to 38,820 in a 'super boom' beginning in 2017."

However, Paul Mampilly's "Dow 50,000" predication is really catching eyes, and one should pay heed — considering his past predictions have been spot-on.

Mampilly was thrust into the limelight when the hedge fund he managed was named by *Barron's* as one of the "World's Best." But he became legendary when he won the prestigious Templeton Foundation investment competition by making a 76% return ... during the 2008 and 2009 economic crisis (without shorting stocks or making risky investments).

Right now, Mampilly says: "Stocks are on the cusp of an historic surge. They could easily hit 50,000. It will be a bull market run that will dwarf the tech boom of the '90s. I've never been more certain of anything in my career."

Editor's Note: Congress just fast-tracked a radical new technology bill (called the DIGIT Act) that could send the American economy surging.

Mampilly says "Dow 50,000" is all but set in stone. It doesn't matter who wins the presidential election or what happens in the global economy. None of that matters.

THE SECRET TO SUCCESS IN STOCKS
All the Bases: Down 50% or Dow 50,000

THE Sovereign Investor DAILY

Stocks Will Collapse by 50% See Proof

Author:

— Paul Mampilly

Paul Mampilly joined The Sovereign Society in 2016, and serves as Senior Editor specializing in helping Main Street Americans find wealth in growth investing, technology, small-cap stocks and special opportunities.

LinkedIn: Microsoft's Second Chance

PAUL MAMPILLY | August 18, 2016

Five years ago, Microsoft was a laughingstock. Apple products were selling like hotcakes, and Bing was ... well, Bing. But the LinkedIn acquisition marked the beginning of a new era.

Read more

CATEGORIES

Select Category

$5 Bill Reveals Collapse...

Shocking Video Watch Now

THE SECRET TO SUCCESS IN STOCKS
Gold vs. S&P 500: Price Appreciation

While the precious yellow certainly performed well for a couple of years following the Financial Crisis, it has been an awful investment the last five years, 2016's nice rebound notwithstanding, especially as the metal produces no income, while the S&P 500 throws off solid dividends.

THE SECRET TO SUCCESS IN STOCKS
Few Actually Earn the Market Return

AFAM CAPITAL

“For the 12 months ended December 30, 2016, the S&P 500 index produced an impressive annual return of 11.96%, while the average equity mutual fund investor earned only 7.26%, a gap of 4.70 percentage points. This underperformance is most attributable to January (1.74%) and the ‘Trump rally’ in November (1.13%) and December (1.34%).” – DALBAR 4.4.17

2016 Quantitative Analysis of Investor Behavior (QAIB)

	Investor Returns		Index Returns		Differences	
	Equity Funds	Fixed Income Funds	S&P 500	Barclays Aggregate	Stocks	Bonds
30 Year	3.66%	0.59%	10.35%	6.73%	-6.69%	-6.14%
20 Year	4.67%	0.51%	8.19%	5.34%	-3.52%	-4.83%
10 Year	4.23%	0.39%	7.31%	4.51%	-3.08%	-4.12%
5 Year	6.92%	0.10%	12.57%	3.25%	-5.65%	-3.15%
3 Year	8.85%	-1.76%	15.13%	1.44%	-6.28%	-3.20%
1 Year	-2.28%	-3.11%	1.38%	0.55%	-3.66%	-3.66%

Annualized Rates of Return. Source: DALBAR. As of December 2015

“‘Investors had to push against media negativism from January to the end of the year. They were largely sellers in the second half of the year, either from fear or an attempt to find the top of the market. That top did not come in 2016 and investors paid for it.’ said Cory Clark, Director at DALBAR, Inc.” – DALBAR 4.4.17

THE SECRET TO SUCCESS IN STOCKS
The Cost of Market Timing - Morningstar

Not nearly as bad as DALBAR's data, but Morningstar shows that the 10 largest equity funds also have seen lousy investor market timing.

Ticker	Name	Tot Asset (M)	Trailing Returns (03/31/2017)	3-Year	5-Year	10-Year	15-Year
AGTHX	AMER FND GRW FD OF AM-A	157,059	Investor Return %	9.18	13.01	5.27	6.73
			Total Return %	10.19	13.70	7.62	7.95
AEPGX	AMER FNDS EUROPAC GROW-A	130,948	Investor Return %	1.19	6.17	1.34	7.04
			Total Return %	1.83	6.27	3.24	7.17
FCNTX	FIDELITY CONTRAFUND	107,415	Investor Return %	7.38	12.54	7.12	8.58
			Total Return %	9.72	12.48	8.77	9.57
AWSHX	AMER FND WASH MUT INV-A	90,595	Investor Return %	8.02	12.14	4.21	5.28
			Total Return %	8.84	12.60	6.85	6.90
CWGIX	AF CAP WLRD GR & INC-A	86,342	Investor Return %	3.99	8.94	2.60	5.96
			Total Return %	4.62	9.25	4.89	8.48
AIVSX	AMER FND INV CO OF AM-A	85,140	Investor Return %	8.35	12.27	4.40	5.57
			Total Return %	9.37	13.02	6.86	7.17
ANCFX	AMER FND FNDMNTL INVST-A	84,961	Investor Return %	9.66	12.71	6.12	7.28
			Total Return %	10.43	13.28	7.58	8.58
DODGX	DODGE & COX STOCK FUND	65,511	Investor Return %	9.08	15.31	3.99	7.10
			Total Return %	9.44	15.24	6.26	8.19
ANWPX	AMER FNDS NEW PERSPECT-A	64,532	Investor Return %	5.80	9.83	4.51	7.08
			Total Return %	6.56	10.31	6.55	8.26
DODFX	DODGE & COX INTL STOCK FUND	57,071	Investor Return %	-1.12	4.94	0.64	2.20
			Total Return %	0.72	7.32	2.52	8.09
Averages			Investor Return %	6.15	10.79	4.02	6.28
			Total Return %	7.17	11.35	6.11	8.04
			Investor Gap %	**-1.02**	**-0.56**	**-2.09**	**-1.75**

Source: Al Frank using data from Bloomberg & Morningstar. As of 3.31.17

THE SECRET TO SUCCESS IN STOCKS
The Only Problem With Market Timing...

Flows in 2012 Show Poor Timing

	2012 Flows ($ Billion)	Subsequent Return 2013 (%)
U.S. Equity	-93,677	35.04
Sector Equity	3,264	18.90
International Equity	13,604	13.19
Allocation	20,399	15.40
Taxable Bond	269,760	0.15
Municipal Bond	50,313	-3.40
Alternative	14,781	-4.85
Commodities	1,365	-9.10

Source: Morningstar.

THE SECRET TO SUCCESS IN STOCKS
We Constantly Provide Perspective

*"**It pays to have nerves of steel.** That's the most important lesson to emerge from the Prudent Speculator's position as one of this country's most successful investment newsletters of the past four decades." – Mark Hulbert*

John Buckingham

PRUDENT SPECULATIONS

Bill Gross Is Right About One Thing, You Should Own More Stocks Than Bonds

Talk about sensationalism in the media! "Bond King Calls Stock Returns a Ponzi Scheme," screamed a headline on CNBC Television as Bill Gross was asked to elaborate on his August 2012 *Investment Outlook* posted to his employer's Web site.

In his latest missive, PIMCO's ubiquitous fixed-income wizard proclaimed, "The cult of equity is dying," while suggesting that the 6.6% per-annum real (after inflation) stock market return (dubbed the 'Siegel Constant' after Wharton Professor Jeremy Siegel), over the last 100 years was some sort of anomaly, given that real GDP growth averaged only an annualized 3.5% during the same time span.

THE PRUDENT SPECULATOR

weekly

Market Commentary

DIVIDENDS ARE STILL VALUABLE

Valuable Properties

VALUABLE PROPERTIES

"When shopping for stocks, choose them the way you would buy groceries, not the way you would buy perfume."

—Benjamin Graham

VALUABLE PROPERTIES
Value Makes Sense – Most Like A Bargain

VALUABLE PROPERTIES
Historical Evidence Favors Value & Divs

LONG-TERM RETURNS

	Annualized Return	Standard Deviation
Value Stocks	13.5%	26.1%
Growth Stocks	9.2%	21.5%
Dividend Paying Stocks	10.5%	18.2%
Non-Dividend Paying Stocks	8.6%	29.8%
Long-Term Corporate Bonds	6.0%	7.6%
Long-Term Gov't Bonds	5.5%	8.5%
Intermediate Gov't Bonds	5.1%	4.4%
Treasury Bills	3.4%	0.9%
Inflation	3.0%	1.8%

From 06.30.27 through 12.31.16. Growth stocks = 50% small growth and 50% large growth returns rebalanced monthly. Value stocks = 50% small value and 50% large value returns rebalanced monthly. Dividend payers = 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. Non-dividend payers = stocks that do not pay a dividend. Long term corporate bonds represented by the Ibbotson Associates SBBI US LT Corp Total Return index. Long term government bonds represented by the Ibbotson Associates SBBI US LT Govt Total Return index. Intermediate term government bonds represented by the Ibbotson Associates SBBI US IT Govt Total Return index. Treasury bills represented by the Ibbotson Associates SBBI US 30 Day TBill Total Return index. Inflation represented by the Ibbotson Associates SBBI US Inflation index. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French and Ibbotson Associates

VALUABLE PROPERTIES
The Miracle of Compounding

Berkshire Hathaway CEO Warren Buffet has put his six-bedroom house in Laguna Beach's Emerald Bay on the market for $11 million – *OCRegister.com*

Warren Buffett has put his six-bedroom house in Laguna Beach's Emerald Bay on the market for $11 million. (Composite by Marilyn Kalfus; Inset: Register file photo; House photo by Todd Tankersley)

The *Orange County Register* reported last week that the Oracle of Omaha bought the house to the left in 1971 for $150,000. Should Mr. Buffett fetch his $11 million asking price, $150K growing to $11,000,000 in 46 years would work out to, drum roll please, 9.8% per annum, not quite as good as the 10.3% total return on the S&P 500 over the same period!

VALUABLE PROPERTIES

“Do you know the only thing that gives me pleasure? It's to see my dividends coming in.”

—John D. Rockefeller

VALUABLE PROPERTIES
Dividends Have Grown Over Time

AFAM CAPITAL

While dividends are never guaranteed, the historical evidence suggests that Corporate America has a long history of raising quarterly payouts, whereas the coupons on most debt instruments are fixed. Yes, stock prices are volatile, but they generally have also increased over time.

COUNT OF S&P 500 DIVIDEND ACTIONS	INCREASES	INITIATIONS	DECREASES	CESSATIONS
2017 YTD	114	1	2	0
2016	344	7	19	2
2015	344	7	16	3
2014	375	8	8	0
2013	366	15	12	0
2012	333	15	11	1
2011	320	22	5	0
2010	243	13	4	1
2009	151	6	68	10
2008	236	5	40	22
2007	287	11	8	4
2006	299	6	7	3
2005	306	10	9	2
2004	272	10	3	2

Source: Standard & Poor's. As of March 2017

S&P 500 DIVIDENDS	PER SHARE
2018 (Estimated)	$52.35
2017 (Estimated)	$48.69
2016	$46.73
2015	$43.49
2014	$39.44
2013	$34.99
2012	$31.25
2011	$26.43
2010	$22.73
2009	$22.41
2008	$28.39
2007	$27.73
2006	$24.88
2005	$22.22
2004	$19.44

Source: Standard & Poor's & Bloomberg. As of 4.6.17

AFAM CAPITAL

VALUABLE PROPERTIES
Solid EPS Growth Estimated

With market history showing that stock prices generally have followed earnings, it is nice to see EPS for the S&P 500 again heading north, even as we realize that analysts are often overly optimistic in their projections. Of course, the numbers of companies exceeding expectations last quarter was a bit below average.

S&P 500 Earnings Per Share

Quarter Ended	Bottom Up Operating EPS 3 Month	Bottom Up Operating EPS 12 Month
ESTIMATES		
12/31/2018	$39.08	$146.47
9/30/2018	$37.65	$142.49
6/30/2018	$35.96	$138.58
3/31/2018	$33.78	$134.42
12/31/2017	$35.10	$129.78
9/30/2017	$33.74	$122.58
6/30/2017	$31.80	$117.53
3/31/2017	$29.14	$111.43
12/31/2016	$27.90	$106.26
ACTUAL		
9/30/2016	$28.69	$101.42
6/30/2016	$25.70	$98.17
3/31/2016	$23.97	$98.61
12/31/2015	$23.06	$100.45
9/30/2015	$25.44	$104.14
6/30/2015	$26.14	$108.30
3/31/2015	$25.81	$111.50
12/31/2014	$26.75	$113.01
9/30/2014	$29.60	$114.51
6/30/2014	$29.34	$111.83
3/31/2014	$27.32	$108.85
12/31/2013	$28.25	$107.30

Source: Standard & Poor's. As of 3.31.17

S&P 500 Quarterly Earnings Comparisons

	BEAT	MISSED	MET		BEAT	MISSED	MET
Q4 2016	67.3%	22.0%	10.8%	Q2 2014	65.7%	21.2%	13.0%
Q3 2016	70.5%	21.1%	8.4%	Q1 2014	67.1%	22.6%	10.2%
Q2 2016	70.2%	20.9%	8.9%	Q4 2013	63.9%	25.3%	10.8%
Q1 2016	72.3%	20.6%	7.0%	Q3 2013	66.1%	23.2%	10.6%
Q4 2015	68.8%	21.6%	9.7%	Q2 2013	65.4%	26.8%	7.8%
Q3 2015	67.9%	23.0%	9.0%	Q1 2013	65.9%	25.9%	8.2%
Q2 2015	69.8%	22.0%	8.3%	Q4 2012	64.8%	24.8%	10.4%
Q1 2015	67.7%	22.9%	9.4%	Q3 2012	63.3%	23.7%	13.0%
Q4 2014	68.6%	21.0%	10.4%	Q2 2012	64.5%	24.6%	10.8%
Q3 2014	73.7%	17.2%	9.0%	AVERAGE	67.6%	22.7%	9.8%

Source: Standard & Poor's

DIVIDENDS ARE STILL VALUABLE

MYTH DEBUNKING

"Uncertainty actually is the friend of the buyer of long-term values.

—Warren Buffett

Rising rates won’t kill the market

MYTH DEBUNKING
Δ in 10-Year Treasury & Value/Growth

Concurrent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.05%	536	12.0%	9.7%	11.2%	9.8%
More than 4.05%	537	15.0%	8.8%	13.2%	10.1%
3-Month Drop	516	14.1%	10.8%	11.9%	11.8%
3-Month Rise	553	12.7%	7.6%	12.3%	8.1%
6-Month Drop	516	13.7%	10.1%	11.6%	10.8%
6-Month Rise	547	13.0%	8.2%	12.6%	8.9%
12-Month Drop	523	12.4%	9.4%	10.3%	9.8%
12-Month Rise	528	14.1%	8.6%	13.7%	9.6%

From 06.30.27 through 12.31.16. Concurrent annualized 12-month returns. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Subsequent Stock Performance & Change in 10-Year Treasury Rate

	Count	Value	Growth	Small	Large
Less than 4.05%	538	12.3%	9.8%	11.4%	10.2%
More than 4.05%	537	14.1%	8.2%	12.5%	9.3%
3-Month Drop	509	15.7%	12.6%	15.6%	11.8%
3-Month Rise	551	11.0%	5.7%	8.7%	7.7%
6-Month Drop	510	15.0%	11.8%	15.2%	11.2%
6-Month Rise	547	11.5%	6.2%	8.8%	8.1%
12-Month Drop	523	12.8%	10.1%	13.4%	9.9%
12-Month Rise	528	13.4%	7.3%	10.2%	9.0%

From 06.30.27 through 12.31.16. Subsequent 12-month return. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Providing some more comfort for those concerned about rates, concurrent and subsequent returns following periods when the 10-Year Treasury increased have been nicely positive, on average, with Value performing very well compared to Growth on an absolute and relative basis.

AFAM CAPITAL

MYTH DEBUNKING
Δ in 10-Year Treasury & Divs/No Divs

Concurrent Dividend-Paying Perf. & Change in 10-Year Treasury Rate

	Count	No Divs	Low 30	Mid 40	High 30	All Dividend
Less than 4.05%	536	8.5%	8.1%	10.4%	10.3%	9.8%
More than 4.05%	537	8.7%	10.1%	10.6%	12.3%	11.1%
3-Month Drop	516	8.7%	9.8%	14.1%	16.0%	13.5%
3-Month Rise	553	8.4%	8.3%	7.1%	6.9%	7.5%
6-Month Drop	516	8.6%	8.9%	13.0%	14.6%	12.4%
6-Month Rise	547	8.4%	9.0%	7.9%	8.1%	8.4%
12-Month Drop	523	7.1%	8.4%	11.8%	12.7%	11.2%
12-Month Rise	528	9.8%	9.4%	8.7%	9.5%	9.3%

From 06.30.27 through 12.31.16. Concurrent annualized 12-month returns. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

Subsequent Dividend-Paying Perf. & Change in 10-Year Treasury Rate

	Count	No Divs	Low 30	Mid 40	High 30	All Divs
Less than 4.05%	538	8.7%	8.7%	10.4%	10.6%	10.1%
More than 4.05%	537	8.1%	9.1%	10.1%	11.5%	10.4%
3-Month Drop	509	11.3%	11.2%	13.2%	13.6%	12.9%
3-Month Rise	551	5.6%	6.7%	7.5%	8.7%	7.8%
6-Month Drop	510	10.5%	10.5%	12.5%	13.0%	12.2%
6-Month Rise	547	6.2%	7.2%	8.0%	9.2%	8.3%
12-Month Drop	523	8.9%	9.2%	10.4%	10.8%	10.3%
12-Month Rise	528	7.2%	8.0%	9.6%	11.0%	9.7%

From 06.30.27 through 12.31.16. Subsequent 12-month return. SOURCE: Al Frank using data from Professor Robert J. Shiller and Professors Eugene F. Fama and Kenneth R. French

While we realize that a rise in the 10-Year U.S. Treasury should make stocks less attractive, nearly 90 years of market data show that Dividend-Payers have performed admirably, on average, over the 12 months both concurrent with and subsequent to increases in the yield on the benchmark government bond.

MYTH DEBUNKING
Fed Liftoff & Value

Value Stocks historically have outperformed Growth Stocks, but the annualized differences are even more pronounced on average for the two-, three- and five-years following the first rate hike.

	Initial Effective	24 Months After Liftoff			36 Months After Liftoff			60 Months After Liftoff		
Start Date	**Fed Funds Rate**	**S&P**	**Value**	**Growth**	**S&P**	**Value**	**Growth**	**S&P**	**Value**	**Growth**
Dec 1954	**1.28%**	18.4%	15.6%	13.5%	7.7%	2.5%	3.8%	15.0%	17.0%	15.7%
Aug 1958	**1.53%**	12.9%	15.5%	18.3%	16.3%	18.8%	18.5%	12.3%	15.9%	10.5%
Aug 1961	**2.00%**	6.6%	11.7%	-0.5%	9.8%	14.5%	1.8%	5.9%	12.5%	3.7%
Nov 1964	**3.52%**	0.8%	8.5%	6.6%	7.0%	18.4%	19.3%	5.5%	15.0%	14.0%
Aug 1967	**3.90%**	4.2%	10.8%	7.2%	-1.3%	1.7%	-5.3%	6.9%	8.3%	6.7%
Apr 1971	**4.15%**	4.5%	-2.0%	-6.4%	-1.6%	-1.7%	-10.7%	3.2%	8.2%	-2.5%
Mar 1972	**3.83%**	-3.4%	-3.0%	-19.2%	-4.6%	-1.9%	-16.0%	2.1%	10.4%	-4.4%
Mar 1974	**9.35%**	9.3%	23.3%	9.1%	6.0%	20.3%	6.9%	6.4%	19.9%	10.8%
Feb 1977	**4.68%**	3.4%	15.1%	11.8%	10.0%	20.7%	19.1%	8.0%	17.5%	13.7%
Aug 1980	**9.61%**	4.3%	14.8%	0.1%	16.1%	28.8%	16.0%	14.5%	24.6%	10.3%
Jan 1982	**13.22%**	22.6%	37.9%	18.1%	20.1%	30.5%	15.1%	23.3%	28.9%	16.8%
May 1983	**8.77%**	13.1%	19.7%	0.0%	20.2%	23.5%	11.2%	14.5%	16.3%	5.2%
Apr 1987	**6.37%**	7.3%	11.1%	1.2%	8.3%	7.1%	3.2%	11.2%	11.0%	8.3%
Apr 1988	**6.87%**	16.5%	11.8%	12.2%	16.9%	10.7%	14.3%	14.7%	16.1%	11.9%
Feb 1994	**3.25%**	20.2%	15.4%	16.6%	22.2%	17.4%	15.5%	24.1%	16.0%	15.8%
Jun 1999	**4.76%**	-4.4%	16.2%	1.1%	-9.2%	8.8%	-8.1%	-2.2%	11.1%	0.3%
Jun 2004	**1.03%**	7.5%	17.8%	4.8%	11.7%	18.9%	8.8%	-2.2%	-1.0%	-1.7%
Averages:	**5.18%**	**8.5%**	**14.1%**	**5.5%**	**9.2%**	**14.1%**	**6.7%**	**9.6%**	**14.6%**	**7.9%**

MYTH DEBUNKING
Fed Liftoff & Dividend Payers

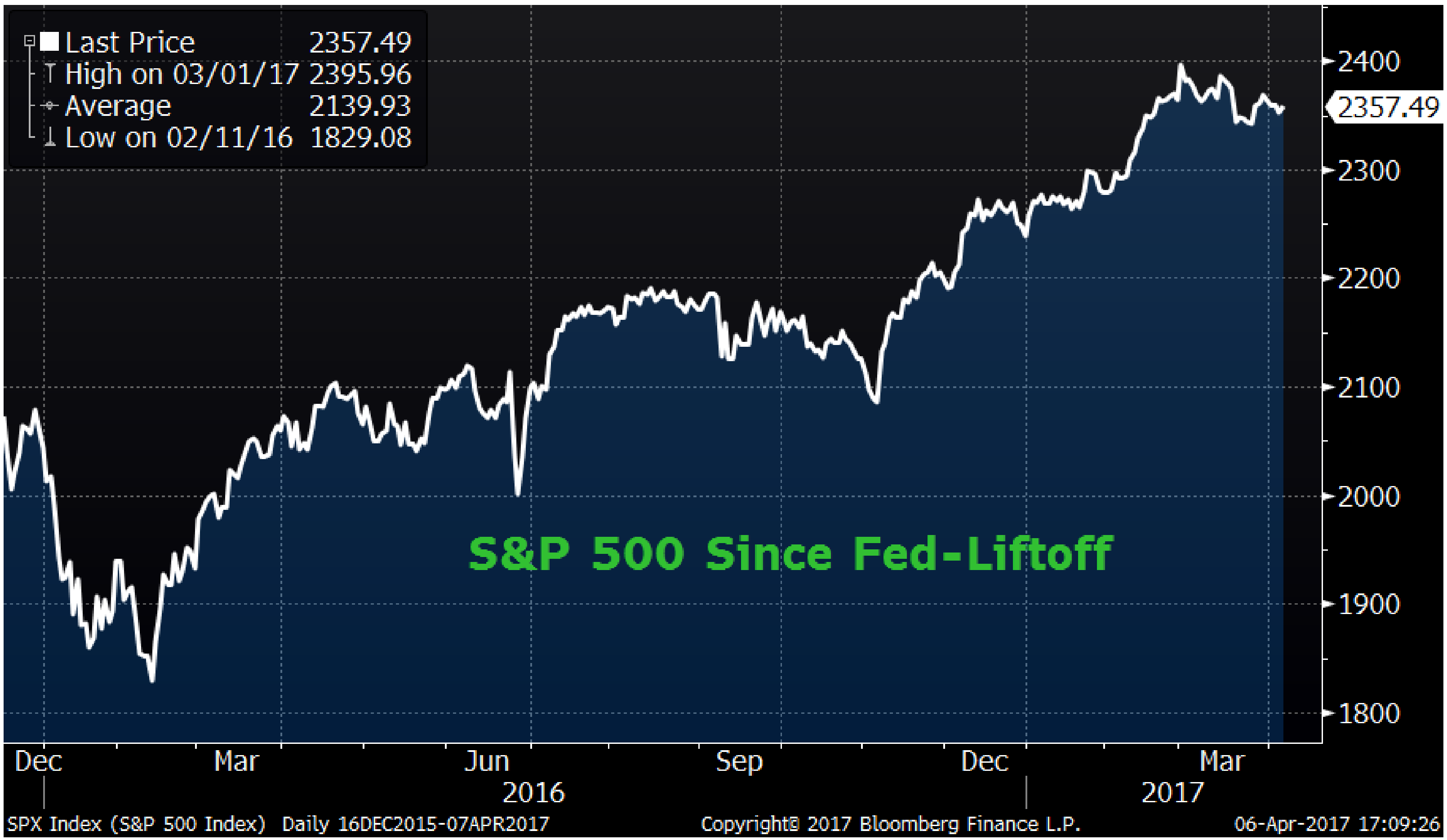
AFAM CAPITAL

While many are of the mind that dividend-paying stocks perform poorly following the initiation of a Federal Reserve tightening cycle, the historical annualized evidence, on average, would suggest otherwise.

	Initial Effective	24 Months After Rate Hike			36 Months After Rate Hike			60 Months After Rate Hike		
Start Date	**Fed Funds Rate**	**S&P**	**Divs**	**No Divs**	**S&P**	**Divs**	**No Divs**	**S&P**	**Divs**	**No Divs**
Dec 1954	**1.28%**	18.4%	16.9%	9.2%	7.7%	6.2%	-1.1%	15.0%	15.2%	12.4%
Aug 1958	**1.53%**	12.9%	14.2%	13.2%	16.3%	17.5%	12.8%	12.3%	13.5%	4.8%
Aug 1961	**2.00%**	6.6%	7.8%	-6.1%	9.8%	10.6%	-5.0%	5.9%	6.3%	3.9%
Nov 1964	**3.52%**	0.8%	0.7%	17.7%	7.0%	7.3%	35.2%	5.5%	5.7%	21.0%
Aug 1967	**3.90%**	4.2%	4.2%	6.0%	-1.3%	-1.4%	-14.1%	6.9%	6.6%	-2.0%
Apr 1971	**4.15%**	4.5%	2.4%	-19.1%	-1.6%	-2.4%	-18.0%	3.2%	4.0%	-6.0%
Mar 1972	**3.83%**	-3.4%	-3.9%	-25.0%	-4.6%	-4.3%	-21.4%	2.1%	3.9%	-6.3%
Mar 1974	**9.35%**	9.3%	11.7%	13.8%	6.0%	9.5%	8.6%	6.4%	9.6%	17.9%
Feb 1977	**4.68%**	3.4%	5.9%	24.7%	10.0%	12.6%	39.2%	8.0%	10.2%	23.4%
Aug 1980	**9.61%**	4.3%	5.3%	-6.3%	16.1%	17.5%	15.1%	14.5%	15.4%	5.5%
Jan 1982	**13.22%**	22.6%	23.0%	16.5%	20.1%	20.5%	9.8%	23.3%	23.4%	11.1%
May 1983	**8.77%**	13.1%	12.3%	-10.1%	20.2%	20.1%	2.4%	14.5%	13.9%	-1.0%
Apr 1987	**6.37%**	7.3%	7.6%	-0.4%	8.3%	8.0%	0.2%	11.2%	11.4%	5.5%
Apr 1988	**6.87%**	16.5%	15.3%	8.9%	16.9%	16.0%	10.8%	14.7%	14.8%	11.5%
Feb 1994	**3.25%**	20.2%	19.6%	18.3%	22.2%	21.7%	15.8%	24.1%	22.4%	20.5%
Jun 1999	**4.76%**	-4.4%	3.5%	-6.7%	-9.2%	-0.8%	-16.4%	-2.2%	3.0%	-4.6%
Jun 2004	**1.03%**	7.5%	8.9%	7.7%	11.7%	12.3%	12.1%	-2.2%	-2.0%	-0.5%
Averages:	**5.18%**	**8.5%**	**9.1%**	**3.7%**	**9.2%**	**10.1%**	**5.1%**	**9.6%**	**10.4%**	**6.9%**

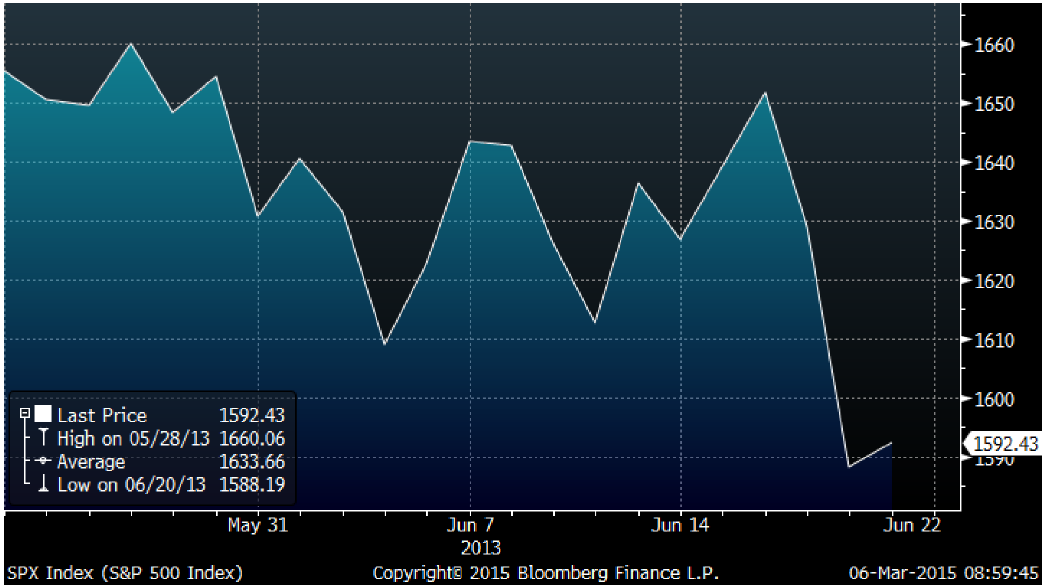
MYTH DEBUNKING
Volatility AND Higher Prices Since Liftoff

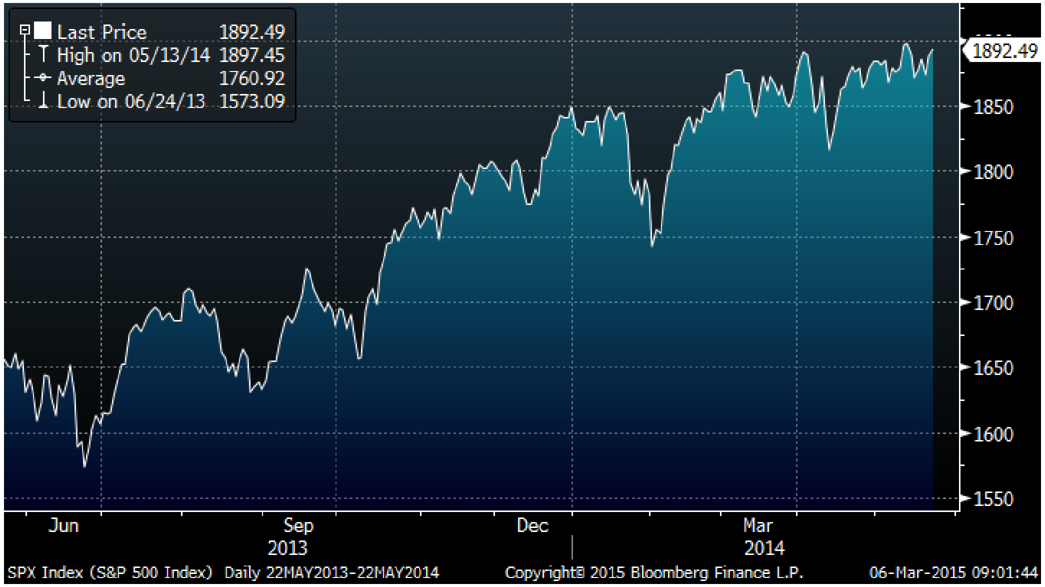
The FOMC raising its target for the federal funds rate to 0.25% to 0.50% on December 16, 2015, is just one of many factors driving the gyrations in the equity markets in the 16 months since.



MYTH DEBUNKING
Taper Tantrum

On May 22, 2013, Ben Bernanke hinted that the Federal Reserve would soon begin to taper it's $85 billion per month in purchases of bonds and mortgage backed securities. One month later, the S&P 500 had dropped 3.8%.





Yet, one year later, the S&P 500 had recouped those losses and then some, rising 13.6% from May 22, 2013 to May 22, 2014, even though Janet Yellen's Fed actually started to taper by $10 billion per month in January 2014.

The Fed is not likely to become unaccommodative

MYTH DEBUNKING
Subdued Economic Growth Expected

The Fed left its longer-run projection for GDP growth at 1.8% and its longer-run estimate for the Fed Funds rate at 3.0%.

Advance release of table 1 of the Summary of Economic Projections to be released with the FOMC minutes

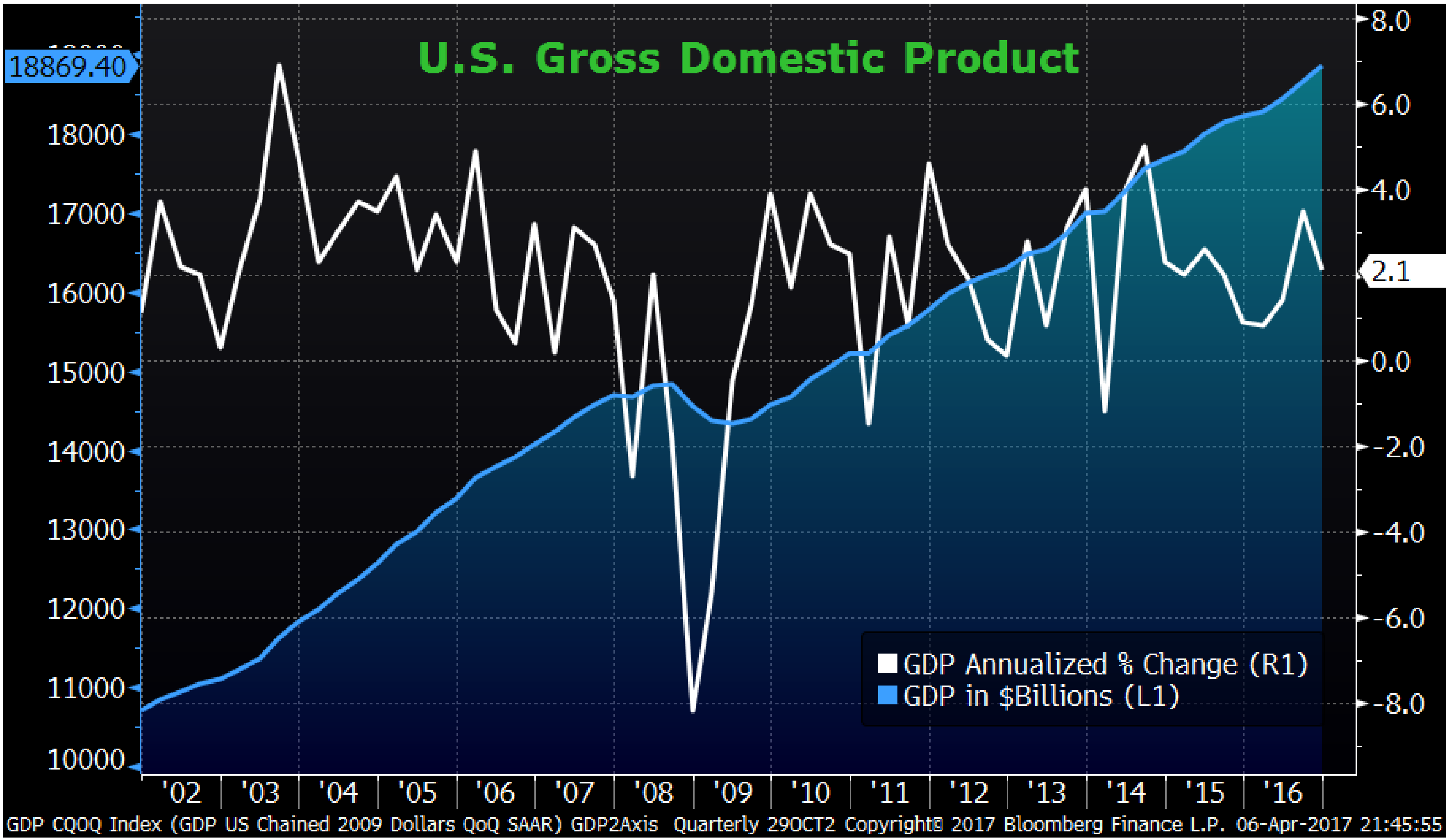
Percent

Variable	Median[1]				Central tendency[2]				Range[3]			
	2017	2018	2019	Longer run	2017	2018	2019	Longer run	2017	2018	2019	Longer run
Change in real GDP	2.1	2.1	1.9	1.8	2.0 - 2.2	1.8 - 2.3	1.8 - 2.0	1.8 - 2.0	1.7 - 2.3	1.7 - 2.4	1.5 - 2.2	1.6 - 2.2
December projection	2.1	2.0	1.9	1.8	1.9 - 2.3	1.8 - 2.2	1.8 - 2.0	1.8 - 2.0	1.7 - 2.4	1.7 - 2.3	1.5 - 2.2	1.6 - 2.2
Unemployment rate	4.5	4.5	4.5	4.7	4.5 - 4.6	4.3 - 4.6	4.3 - 4.7	4.7 - 5.0	4.4 - 4.7	4.2 - 4.7	4.1 - 4.8	4.5 - 5.0
December projection	4.5	4.5	4.5	4.8	4.5 - 4.6	4.3 - 4.7	4.3 - 4.8	4.7 - 5.0	4.4 - 4.7	4.2 - 4.7	4.1 - 4.8	4.5 - 5.0
PCE inflation	1.9	2.0	2.0	2.0	1.8 - 2.0	1.9 - 2.0	2.0 - 2.1	2.0	1.7 - 2.1	1.8 - 2.1	1.8 - 2.2	2.0
December projection	1.9	2.0	2.0	2.0	1.7 - 2.0	1.9 - 2.0	2.0 - 2.1	2.0	1.7 - 2.0	1.8 - 2.2	1.8 - 2.2	2.0
Core PCE inflation[4]	1.9	2.0	2.0		1.8 - 1.9	1.9 - 2.0	2.0 - 2.1		1.7 - 2.0	1.8 - 2.1	1.8 - 2.2	
December projection	1.8	2.0	2.0		1.8 - 1.9	1.9 - 2.0	2.0		1.7 - 2.0	1.8 - 2.2	1.8 - 2.2	
Memo: Projected appropriate policy path												
Federal funds rate	1.4	2.1	3.0	3.0	1.4 - 1.6	2.1 - 2.9	2.6 - 3.3	2.8 - 3.0	0.9 - 2.1	0.9 - 3.4	0.9 - 3.9	2.5 - 3.8
December projection	1.4	2.1	2.9	3.0	1.1 - 1.6	1.9 - 2.6	2.4 - 3.3	2.8 - 3.0	0.9 - 2.1	0.9 - 3.4	0.9 - 3.9	2.5 - 3.8

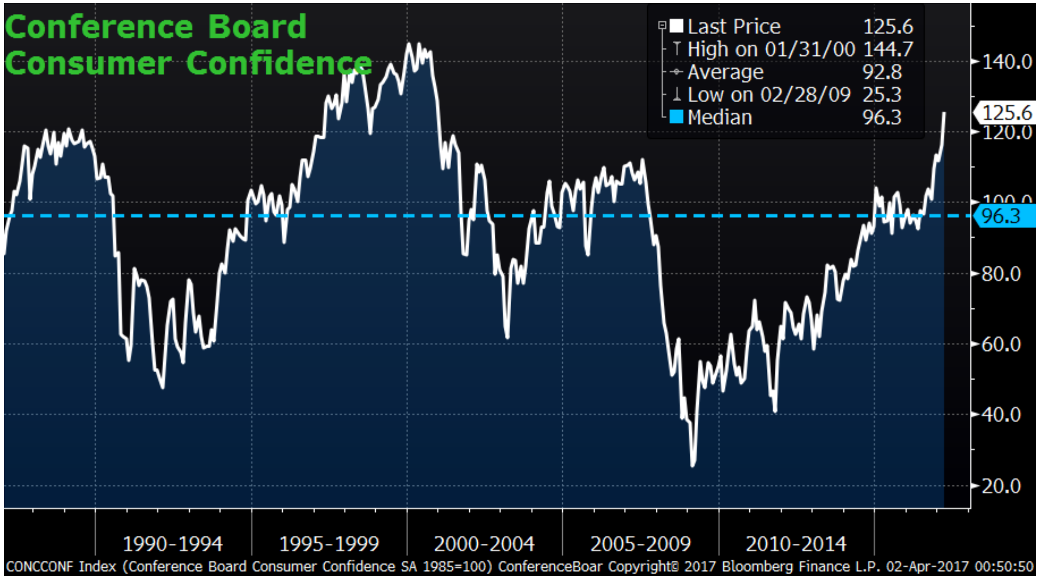
Source: Federal Reserve, March 15, 2017

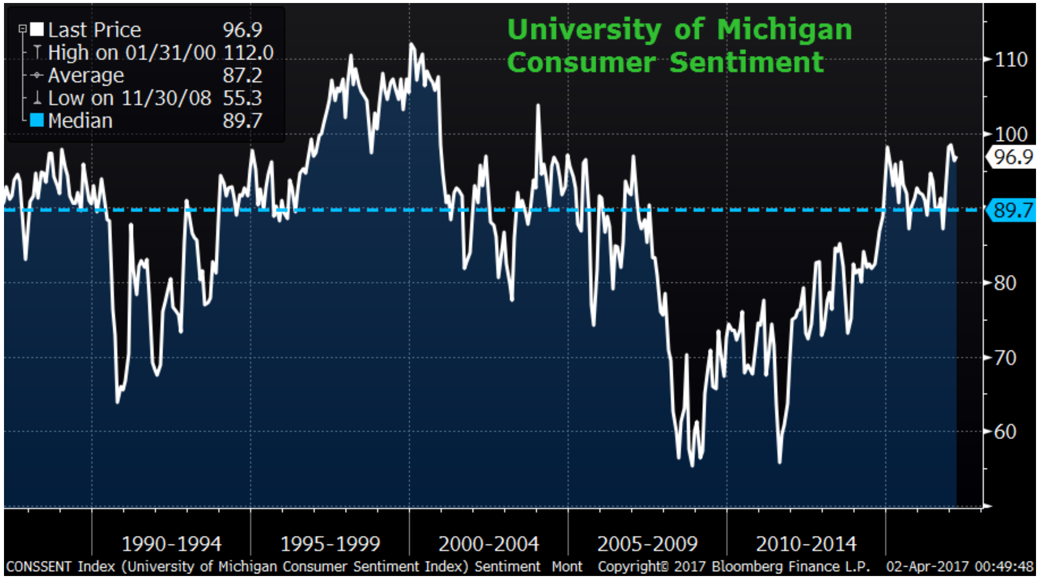
MYTH DEBUNKING
U.S. Economy Muddling Along

Though recent data points have been more favorable, lackluster Q4 2016 GDP growth of 2.1% was hardly anything to write home about.



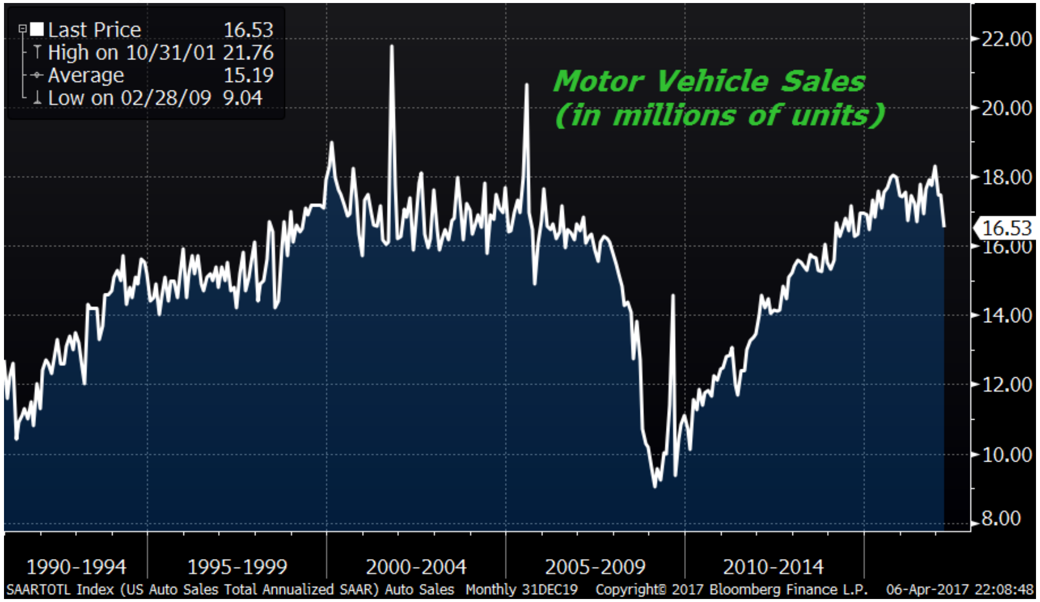
MYTH DEBUNKING
Consumers are Feeling Upbeat

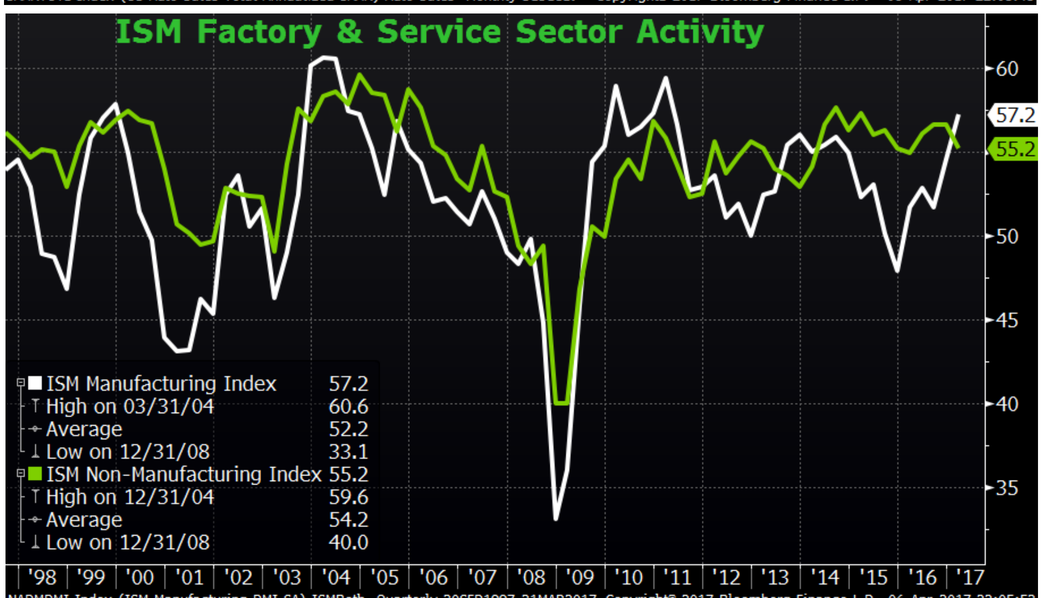




The Conference Board's latest read on Consumer Confidence came in at 125.6 for March, blowing away expectations and hitting the highest level since December 2000, while the University of Michigan's gauge of Consumer Sentiment inched up to a score of 96.9 in March, with the measure well above the historical average dating back to the 1980s and near highs not seen for more than a decade.

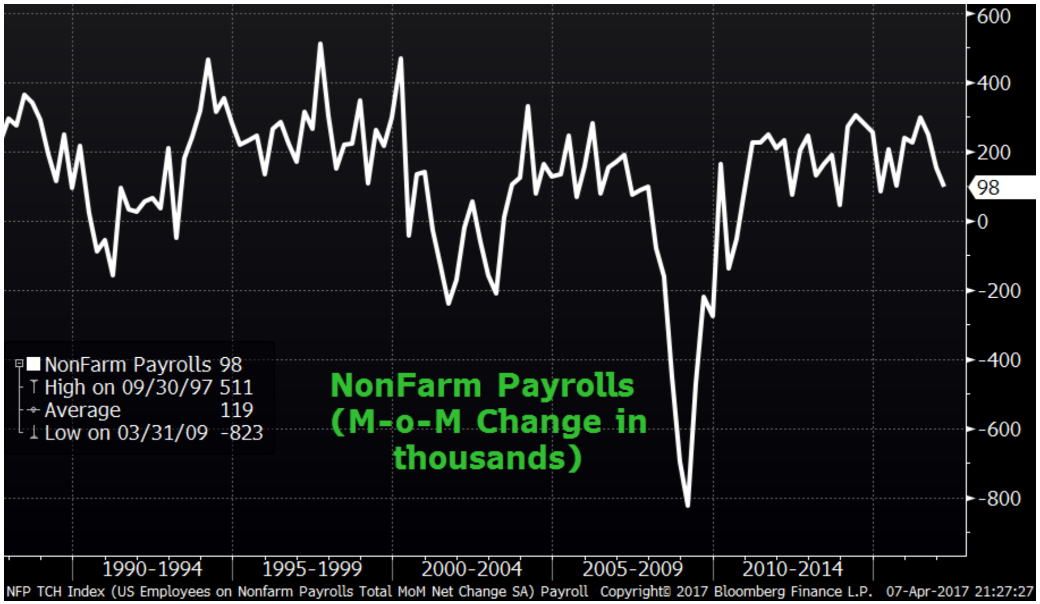
MYTH DEBUNKING
Mixed Economic Numbers

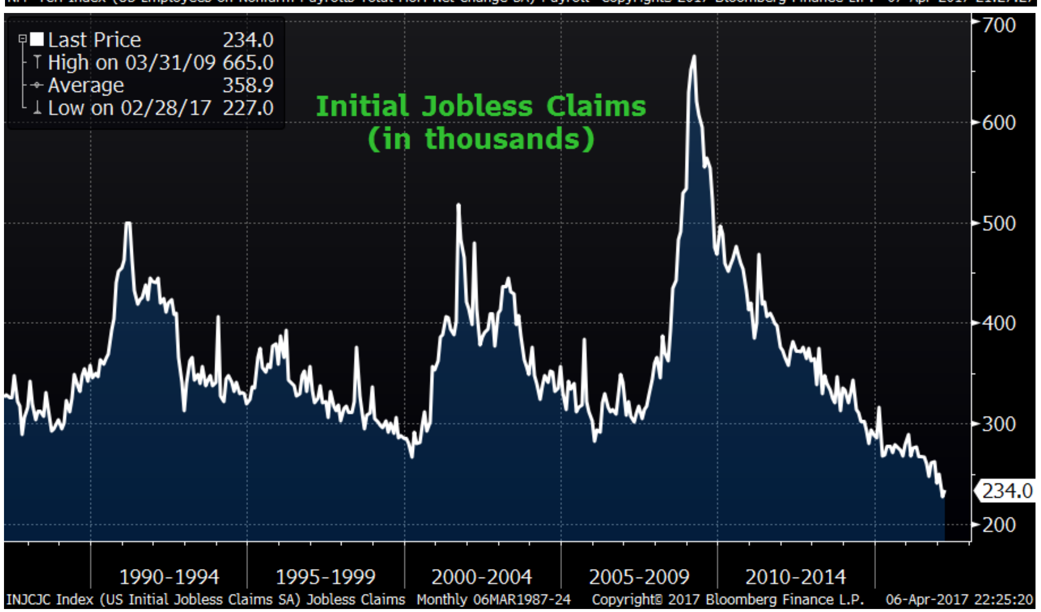




Though still well above the historical average, automobile sales came in below expectations for March, dropping to a seasonally adjusted annual rate of 16.53 million units, while the latest ISM reading on the health of the service sector pulled back to a weaker-than-expected 55.2. Of course, that tally was above the historical average, and the ISM Manufacturing Index measure of 57.2 was quite robust.

MYTH DEBUNKING
Solid Labor Situation





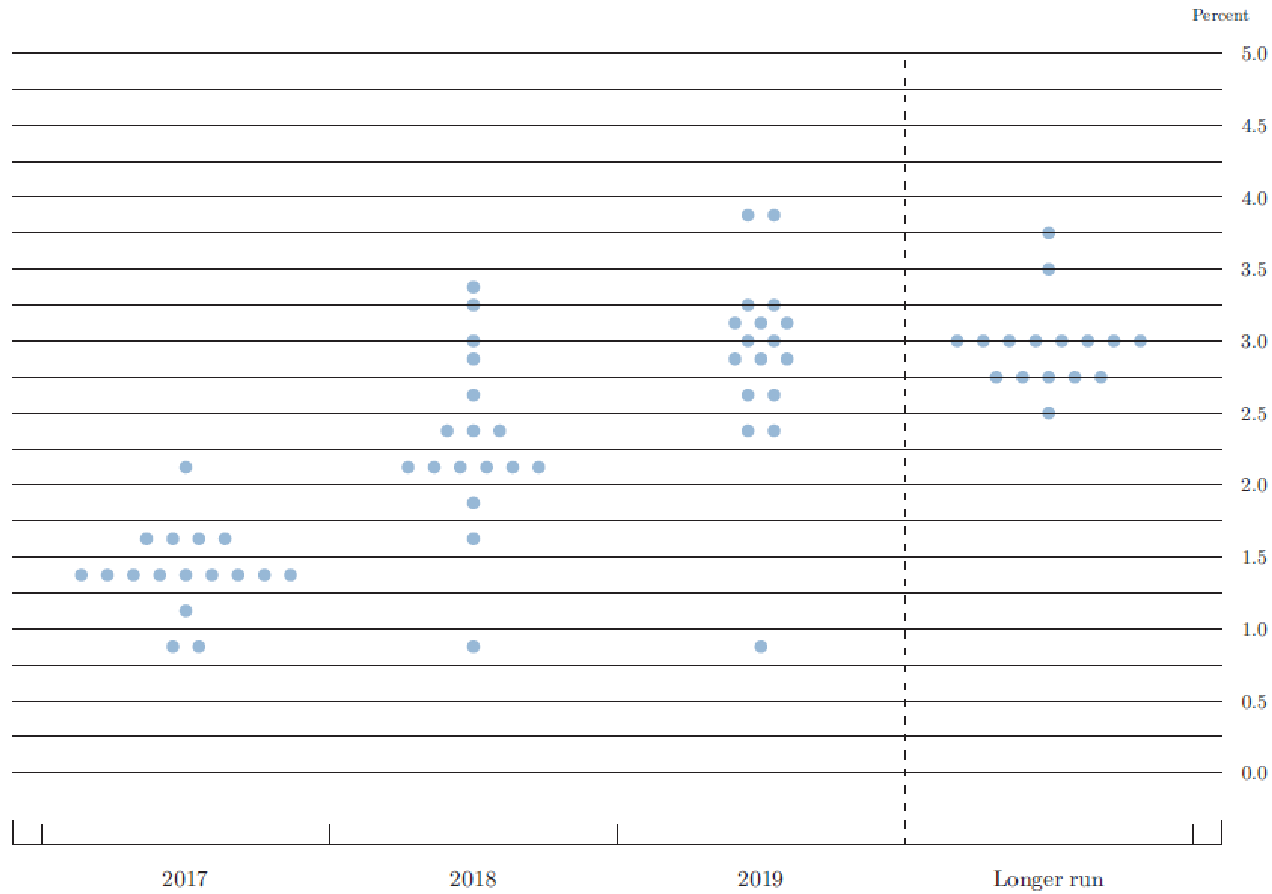
While only 98,000 new jobs were created in March, well below expectations, the unemployment rate dipped to 4.5%, the lowest level since May 2007, the labor force participation rate held steady at 63% and average hourly earnings rose 2.7%. Also, the latest tally of weekly first-time filings for unemployment benefits dropped sharply to 234,000, near the lowest figure on record in our monthly data series.

MYTH DEBUNKING
FOMC Fed Funds Rate Targets: Mar 2017

Number of participants with projected midpoint of target range or target level

Midpoint of target range or target level (Percent)	2017	2018	2019	Longer run
0.125				
0.250				
0.375				
0.500				
0.625				
0.750				
0.875	2	1	1	
1.000				
1.125	1			
1.250				
1.375	9			
1.500				
1.625	4	1		
1.750				
1.875		1		
2.000				
2.125	1	6		
2.250				
2.375		3	2	
2.500				1
2.625		1	2	
2.750				5
2.875		1	3	
3.000		1	2	8
3.125			3	
3.250		1	2	
3.375		1		
3.500				1
3.625				
3.750				1
3.875			2	

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Source: Federal Reserve, March 15, 2017

MYTH DEBUNKING
Futures: Rate Hikes Expected in 2017

The latest FOMC projections show that 9 of the 17 Participants are projecting a year-end Fed Funds Rate target of 1.375% (the mid-point of a 1.25% to 1.5% range) as the economy is expected to improve somewhat (hard to say that a better business climate is a negative for stocks), but the Fed Funds futures markets are presently suggesting a 34.8% chance of that level prevailing as of the December 13, 2017 Fed Meeting, with the odds currently at 49.4% for a lower rate.

99) Export Data — World Interest Rate Probability

United States — Instrument: Futures: Fed Funds — FED Effective Rate 0.91

1) Overview — 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove Rates

Dates: Meeting / Calculation — Calculated 04/07/2017 — Based on rate 0.75-1.0

Meeting	Prob Of Hike	Prob of Cut	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5
05/03/2017	13.3%	0.0%	86.7%	13.3%	0.0%	0.0%	0.0%	0.0%	0.0%
06/14/2017	63.2%	0.0%	36.8%	55.6%	7.7%	0.0%	0.0%	0.0%	0.0%
07/26/2017	66.6%	0.0%	33.4%	53.9%	12.0%	0.7%	0.0%	0.0%	0.0%
09/20/2017	82.0%	0.0%	18.0%	44.5%	31.3%	5.9%	0.3%	0.0%	0.0%
11/01/2017	82.7%	0.0%	17.3%	43.4%	31.8%	7.0%	0.6%	0.0%	0.0%
12/13/2017	87.2%	0.0%	12.8%	36.6%	34.8%	13.4%	2.2%	0.2%	0.0%
01/31/2018	87.7%	0.0%	12.3%	35.7%	34.9%	14.2%	2.7%	0.2%	0.0%

Source: Bloomberg

MYTH DEBUNKING

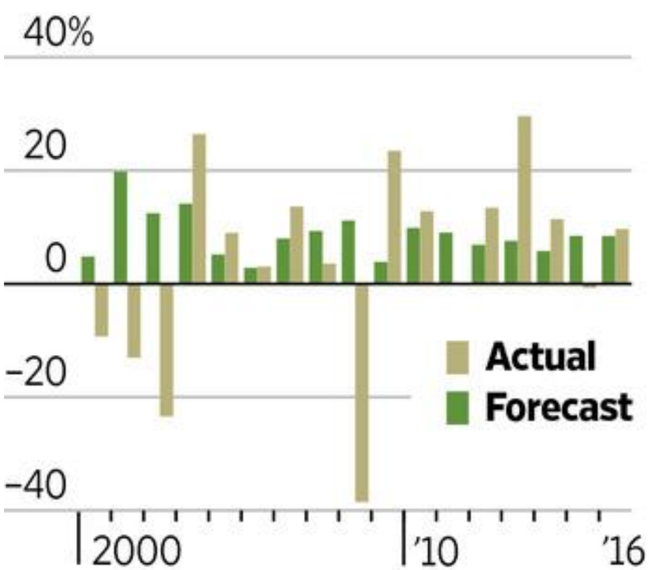
Folks are not too optimistic

MYTH DEBUNKING
Wall Street “Experts” Not Overly Upbeat

Forecasting Is Easy...Being Right Is Harder

The average Wall Street strategist forecast often bears little relationship to where stock prices go.

Annual S&P 500 gain forecast by average strategist against what actually happened*



S&P 500 forecast for end of 2017

J.P. Morgan	**2400**
Societe Generale	**2400**
Deutsche Bank†	**2350**
Citigroup	**2325**
Bank of America Merrill Lynch	**2300**
Credit Suisse	**2300**
Goldman Sachs	**2300**
Morgan Stanley	**2300**
UBS	**2300**
BNP Paribas	**2250**
Dec. 7 close	**2241.35**

*Based on average of strategists' forecasts at start of January for end of December
†Could be 2400 if corporate taxes are cut Sources: Bloomberg; Thomson Reuters; WSJ calculations; the companies

THE WALL STREET JOURNAL.

As *The Wall Street Journal* reported not too long ago, the consensus year-end 2017 price target for the S&P 500 from a survey of 15 market strategists stands at 2356, only 5.2% higher than the 2016 closing value of 2239.83, marking the lowest level of year-end optimism since 2003.

AFAM CAPITAL

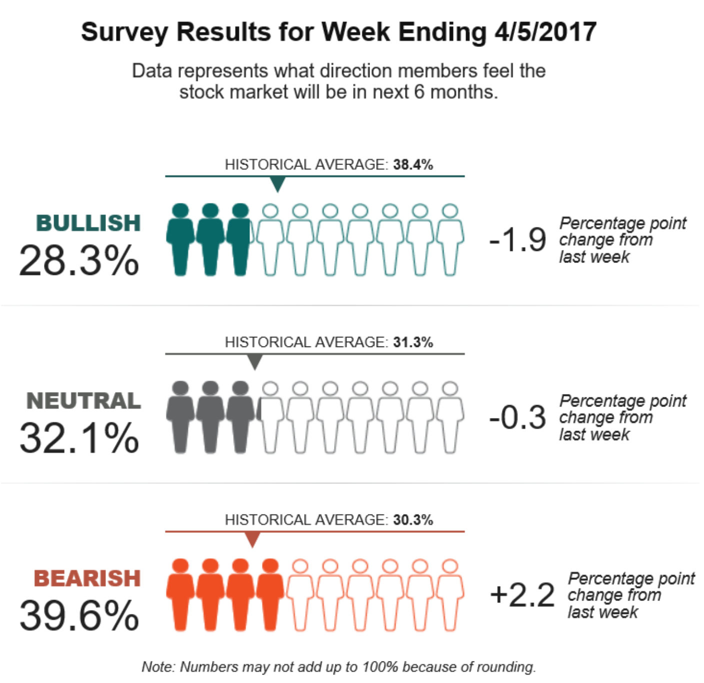
MYTH DEBUNKING
Main Street is Actually Pessimistic

The data suggest it is better to stay invested no matter the direction in sentiment, but the sizable jump in the number of pessimists and the pullback in the number of optimists in the latest (as of April 5, 2017) AAII Investor Sentiment Survey has pushed the Bull-Bear Spread to a reading of -11.3 in the bottom 20% (most Bearish) of all tallies.

AAII Bull-Bear Spread

Low Reading of the Range	High Reading of the Range	Count	R3K Next 1-Month Arithmetic Average TR	R3K Next 1-Month Geometric Average TR	R3K Next 3-Month Arithmetic Average TR	R3K Next 3-Month Geometric Average TR	R3K Next 6-Month Arithmetic Average TR	R3K Next 6-Month Geometric Average TR
Below & Above Median Bull Bear Spread = 8.5								
-54.0	8.5	759	1.0%	0.9%	2.8%	2.4%	5.9%	5.1%
8.5	62.9	758	0.4%	0.4%	1.8%	1.6%	4.3%	3.8%
Ten Equal Groupings of 1517 Data Points								
-54.0	-14.8	152	1.3%	1.0%	3.8%	3.3%	7.8%	6.5%
-14.6	-7.0	152	1.0%	0.8%	3.2%	2.8%	5.9%	5.2%
-7.0	-1.0	152	1.6%	1.5%	3.1%	2.6%	6.3%	5.6%
-0.7	3.9	152	0.9%	0.8%	2.0%	1.7%	4.8%	4.3%
3.9	8.6	152	0.5%	0.4%	2.1%	1.8%	4.4%	3.7%
8.6	13.0	152	0.4%	0.3%	1.7%	1.5%	4.4%	4.0%
13.0	17.7	152	0.7%	0.7%	2.1%	1.8%	5.6%	5.1%
17.7	23.0	151	0.8%	0.7%	2.3%	2.0%	5.6%	5.1%
23.0	31.0	151	0.1%	0.0%	2.0%	1.8%	4.0%	3.4%
31.0	62.9	151	0.1%	0.1%	1.1%	0.8%	2.1%	1.6%

Source: Al Frank using data from American Association of Individual Investors and Blomberg. Returns are NOT annualized.



MYTH DEBUNKING
Interest in Stocks Hardly Euphoric

Combined Estimated Long-Term Fund Flows and ETF Net Issuance

Millions of dollars

Week Ended	3/29/2017	3/22/2017	3/15/2017	3/8/2017	3/1/2017
Total Equity	1,659	-1,752	10,992	9,112	9,116
Domestic	339	-6,849	9,014	4,284	5,766
World	1,320	5,097	1,978	4,828	3,350
Hybrid	-1,066	-778	-242	-376	-912
Total Bond	7,626	13,190	2,834	6,921	9,707
Taxable	6,985	12,511	3,037	6,868	9,432
Municipal	641	679	-203	53	274
Commodity	100	-151	237	-663	192
Total	8,319	10,508	13,821	14,994	18,103

Source: Investment Company Institute

While sentiment gauges like the CNNMoney Fear & Greed Index often gyrate wildly (the measure was flashing an Extreme Greed warning a month ago and a Fear signal a week ago), the latest reading was in Fear territory, despite near-record highs on the major market indexes. Meanwhile, the latest weekly data from ICI showed minimal dollars flowing into U.S. stock mutual funds and ETFs.

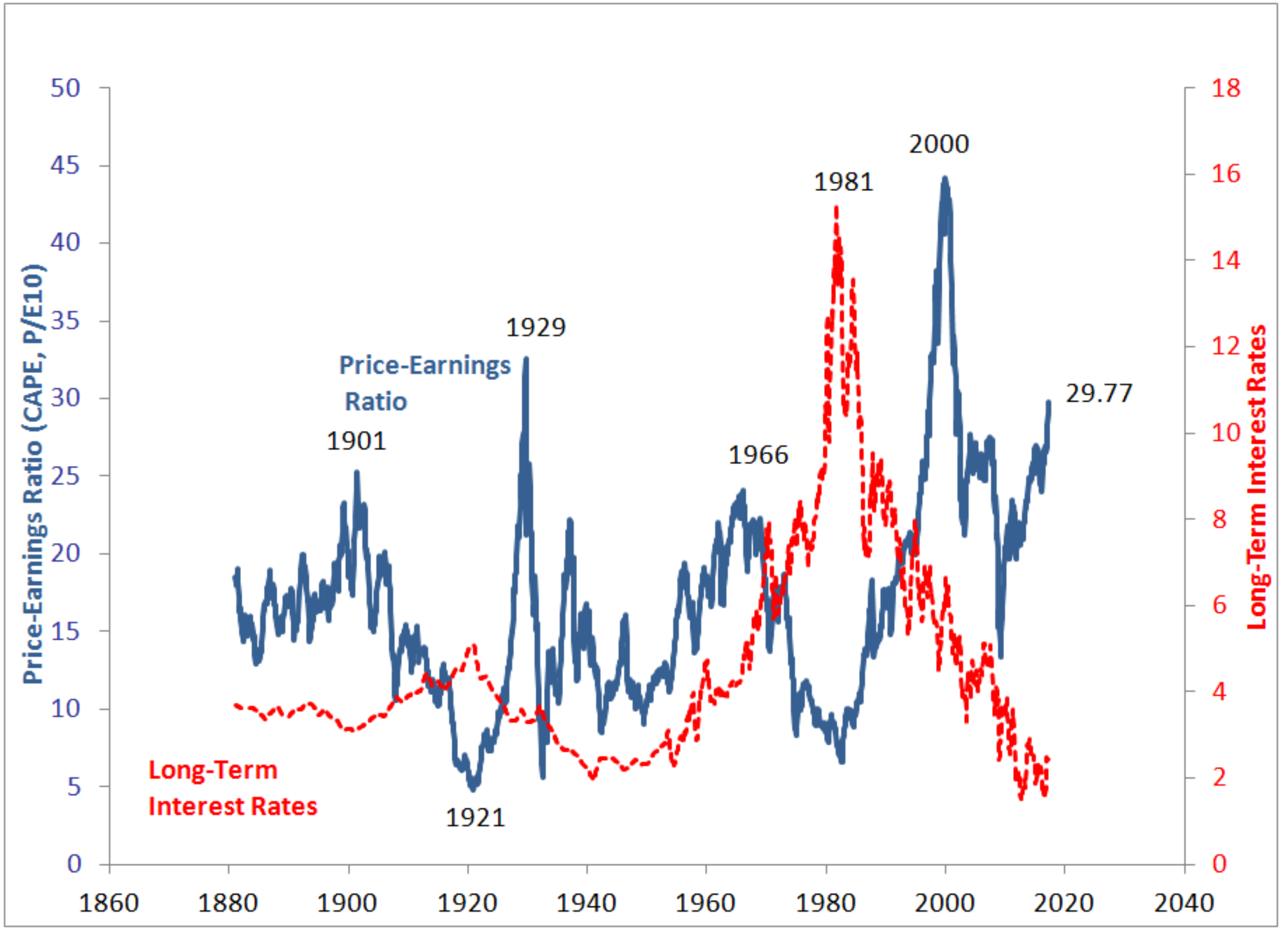
MYTH DEBUNKING
Apple Stock Price Vs. Bond Price

Investors gobbled up an Apple 10-Year bond yielding 2.4% in May 2013 when the stock yielded 2.8%. At least they minimized their volatility!

Stocks are not too expensive

MYTH DEBUNKING
Shiller P/E (CAPE)

Shiller Cyclically Adjusted 10-Year P/E (CAPE)



http://www.econ.yale.edu/~shiller/data.htm

While the elevated Cyclically Adjusted 10-Year P/E (CAPE) compiled by Yale University Professor Robert Shiller has yet to prove problematic, we respect that equity market valuations are not cheap from an earnings multiple perspective…though we can't simply ignore extraordinarily low interest rates.

MYTH DEBUNKING
We Hope Now is Like March 2000

Value strategies had a great five years following the bursting of the Tech Bubble in March 2000, despite rich multiples on the major indexes.

RAV Index | 97) Settings | Page 1/88 Comparative Returns

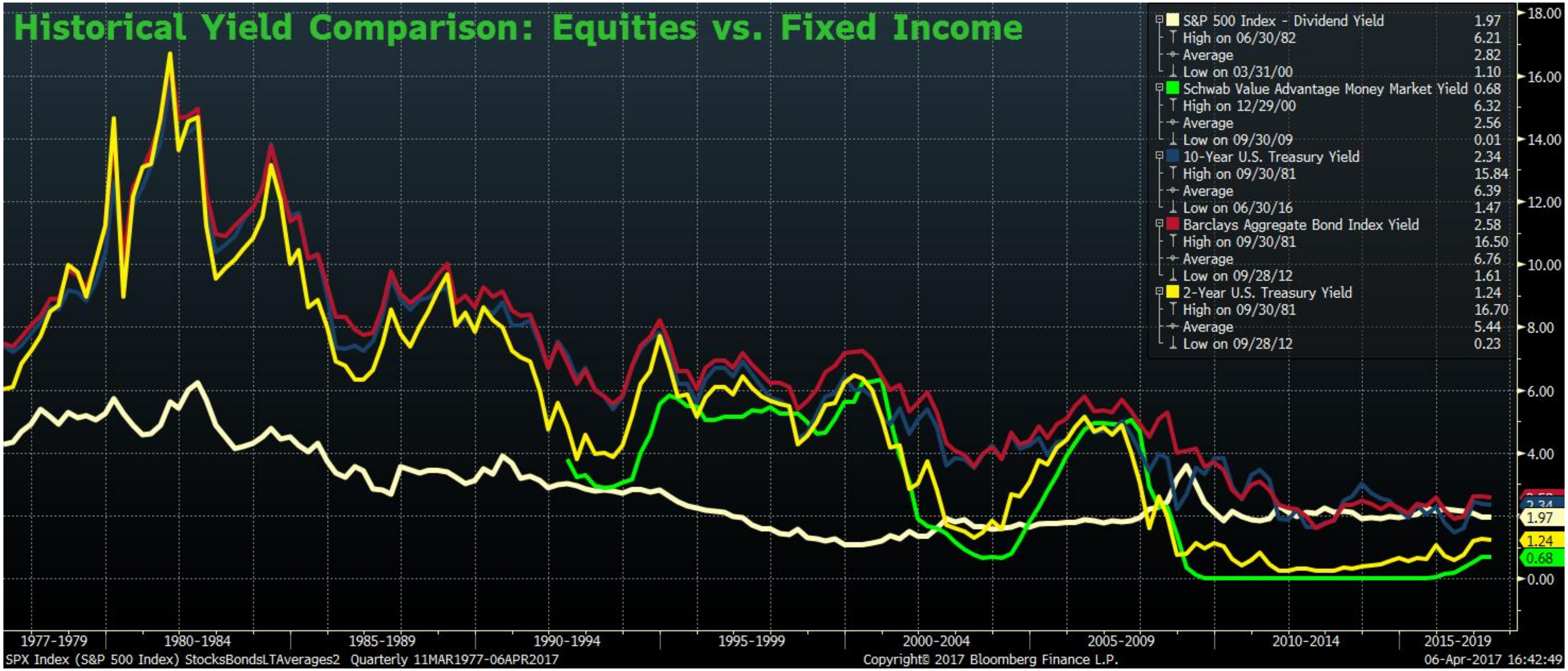
Range 03/31/2000 - 03/31/2005 | Period Daily | No. of Period 1826 Day(s)

	Security	Currency	Price Change	Total Return	Difference	Annual Eq
1)	RAV Index	USD	19.03%	33.58%	-40.47%	5.96%
2)	RAG Index	USD	-46.14%	-43.88%	-117.93%	-10.91%
3)	VALUX US Equity	USD	60.67%	74.05%		11.71%

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2017 Bloomberg Finance L.P.
SN 203572 EST GMT-5:00 H706-5295-1 05-Mar-2017 03:36:50

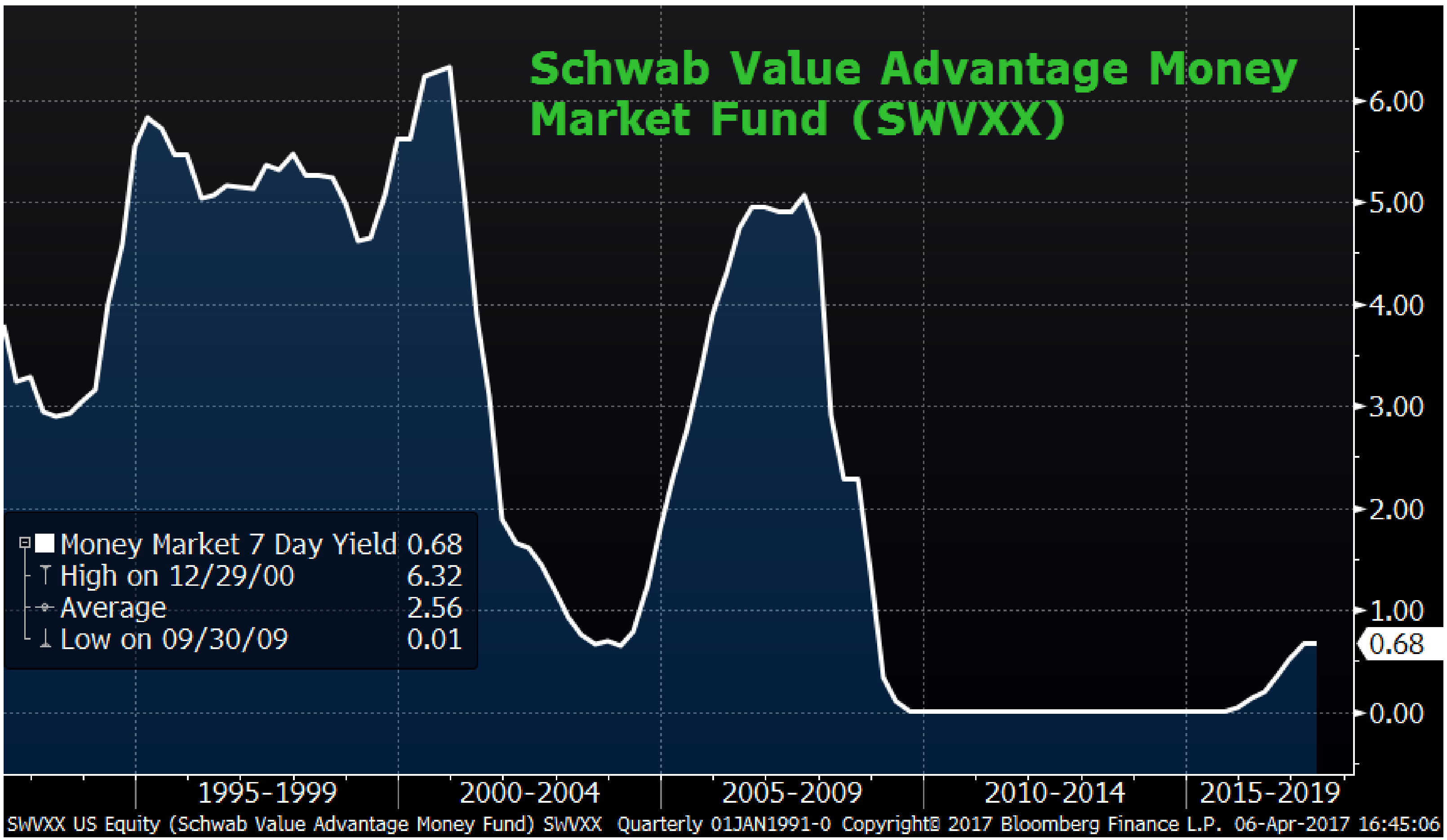
MYTH DEBUNKING
Income Options – Equities Very Attractive

Though stocks offered better comparisons not that long ago, the payout on the S&P 500 (1.97%) is still rich when compared to current yields on fixed income instruments, and when viewed against the historical averages since we began publishing *The Prudent Speculator* in 1977 for U.S. Treasuries, Money Market Funds and the Aggregate Bond Index.



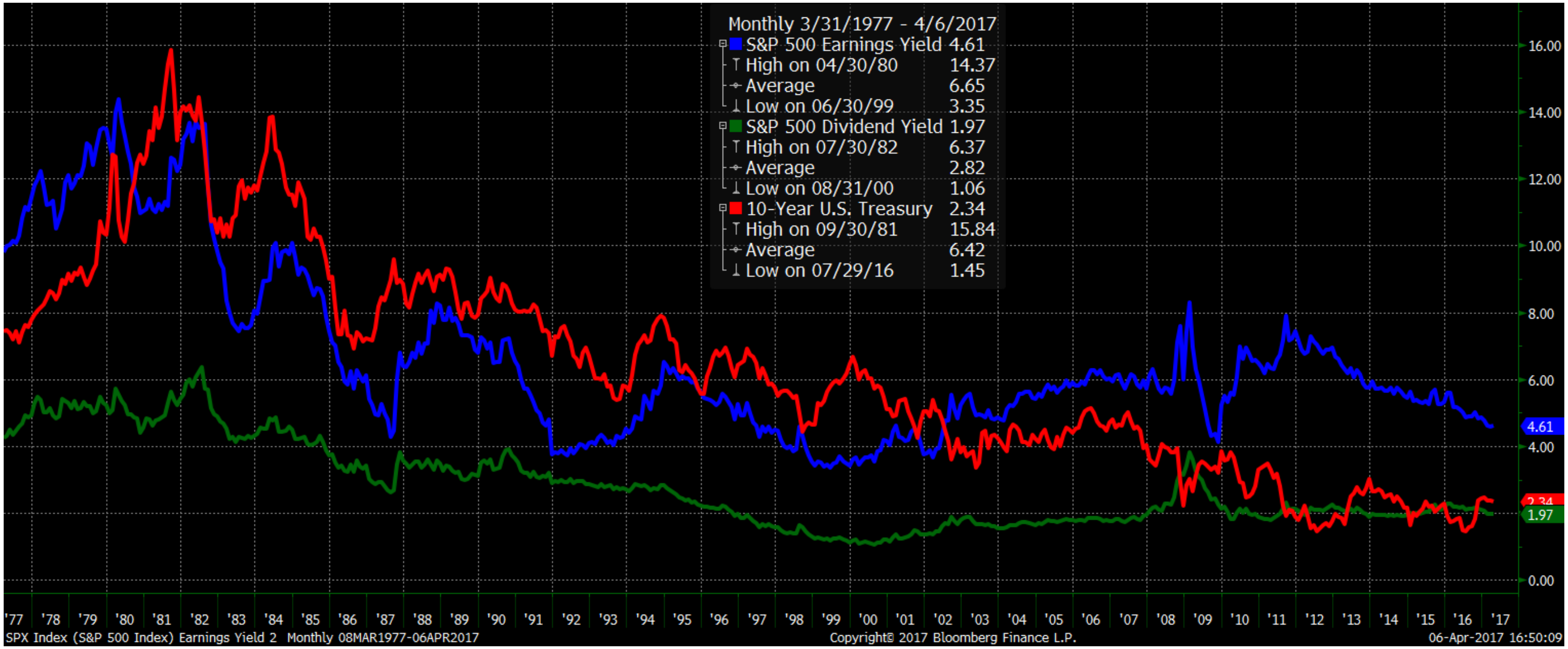
MYTH DEBUNKING
"Risk-Free" Yields Over Time

Money Market yields were in the 6% range in 2000 and in the 5% range in 2007 at prior equity market peaks, compared to 0.68% today. At 68 basis points, money doubles in a little more than 102 years!



MYTH DEBUNKING
Fed Model: Attractive Earnings Yield

The so-called Fed Model suggests that the yield on 10-Year Treasuries should be similar to the S&P 500 Earnings Yield, which is the inverse of the P/E ratio. If the 10-Year is greater than the S&P Earnings Yield, a market is overvalued and if the reverse is true, as it is today, a market is undervalued. Though some argue that the Fed Model is no longer an effective tool, we like today's relatively generous earnings yield of 4.6%.



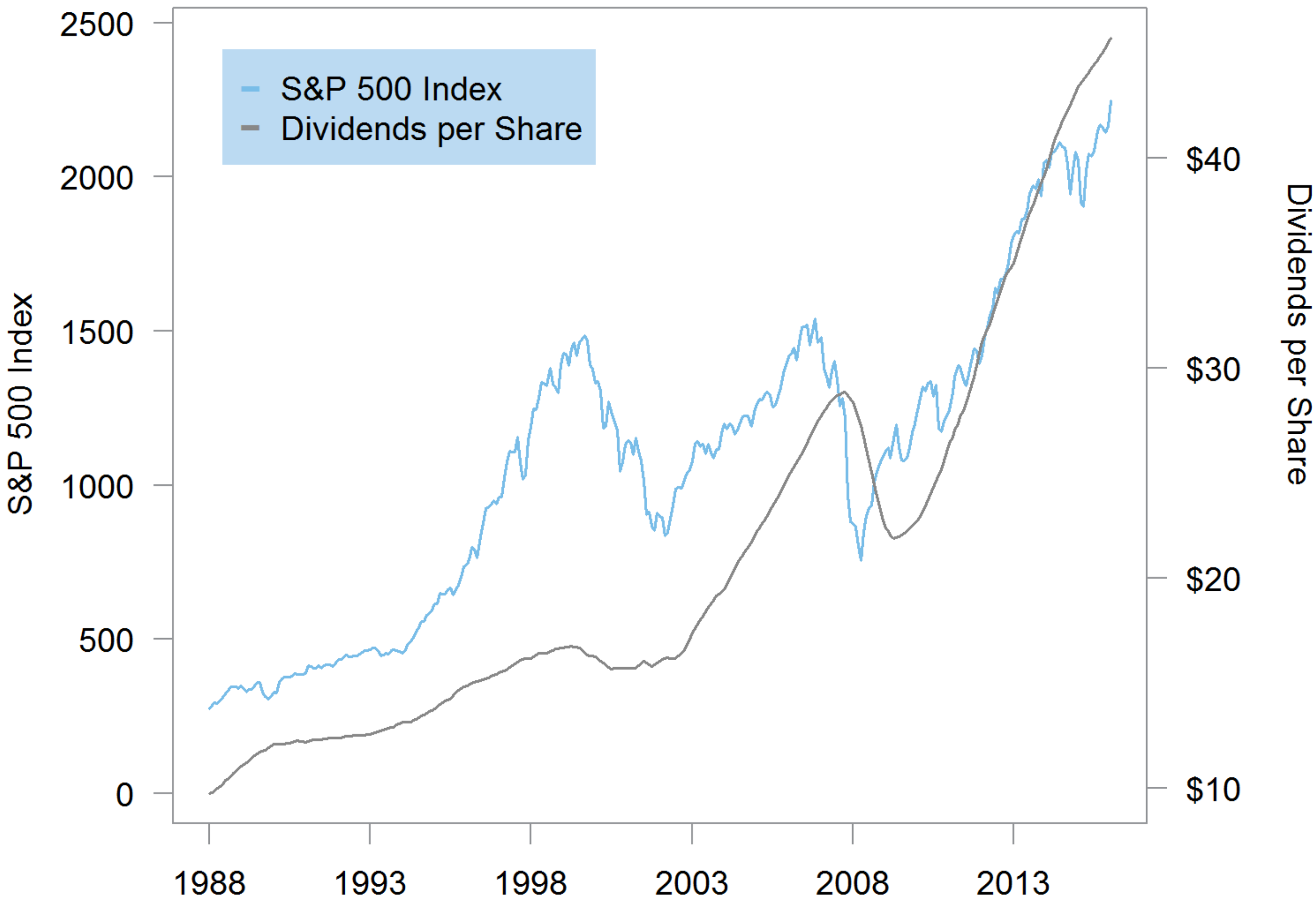
MYTH DEBUNKING
Equity Strategies & Benchmark Metrics

Valuation Comparisons

	Dividend Yield	Price to Sales	Price to TTM Earnings	Price to NTM Earnings	Price to Book Value
Select Value	2.2%	1.1	17.5	14.4	1.8
Select Dividend	2.8%	1.2	17.6	14.6	2.1
Select 30 Dividend	3.3%	0.8	14.8	12.5	1.9
SMid Dividend	2.5%	0.7	17.1	14.1	1.6
TPS Portfolio	2.6%	1.1	17.7	14.4	1.8
Russell 3000 Index	1.9%	1.9	23.1	18.2	3.0
Russell 3000 Value Index	2.4%	1.7	21.2	16.7	2.0
Russell 3000 Growth Index	1.4%	2.2	25.2	20.0	5.8
Russell 2000 Index	1.5%	1.2	46.0	25.0	2.3
Russell 2000 Value Index	2.0%	1.1	35.5	20.8	1.6
Russell 2000 Growth Index	1.0%	1.5	66.9	31.8	4.1
Russell 1000 Index	2.0%	2.0	22.2	17.8	3.0
Russell 1000 Value Index	2.4%	1.8	20.5	16.5	2.0
Russell 1000 Growth Index	1.5%	2.3	24.0	19.4	5.9
S&P 500 Index (SPY)	2.0%	2.1	21.7	17.6	3.1
S&P 500 Value Index (SPYV)	2.4%	1.5	19.2	15.6	2.1
S&P 500 Growth Index (SPYG)	1.7%	3.1	24.3	19.6	5.3
S&P 500 Pure Value Index (RPV)	2.2%	0.6	13.9	12.8	1.4
Nasdaq Composite (ONEQ)	1.1%	2.6	31.9	21.1	3.9

As of 4.7.17. Using sector-based ETFs (SPY, SPYV, SPYG, RPV and ONEQ) as proxies for S&P 500, S&P 500 Value, S&P 500 Growth, S&P 500 Pure Value and Nasdaq Composite Indexes. Al Frank using data from Bloomberg.

MYTH DEBUNKING
Dividends Today Vs. 2000 & 2007 Peaks



Yields:

Current: 2.0%
2007 Peak: 1.7%
2000 Peak: 1.1%

S&P Level:

2.0% Yield: 2300
1.7% Yield: 2750
1.1% Yield: 4250

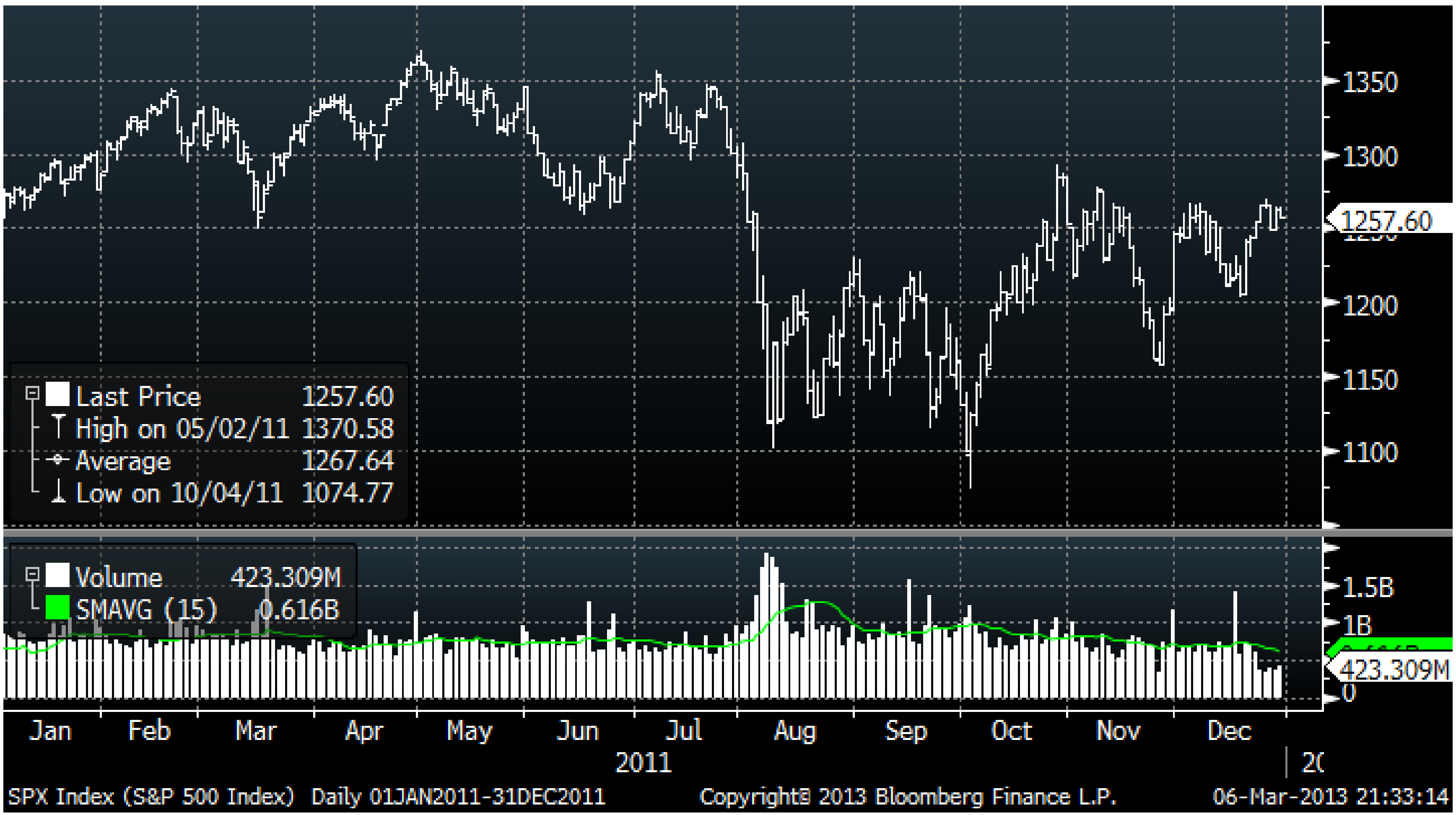
From 12.31.88 through 12.31.16. TTM periods. SOURCE: Al Frank using data from Professor Robert Shiller

MYTH DEBUNKING

The Bull Market is not too old

MYTH DEBUNKING
Bull Market Began 10.04.11, Not 03.09.09

S&P 500: With a Bear Market defined as a 20% decline, a 21.6% peak-to-trough drop on an intraday basis took place in 2011...



MYTH DEBUNKING
Market of Stocks — 2011 Bear Market

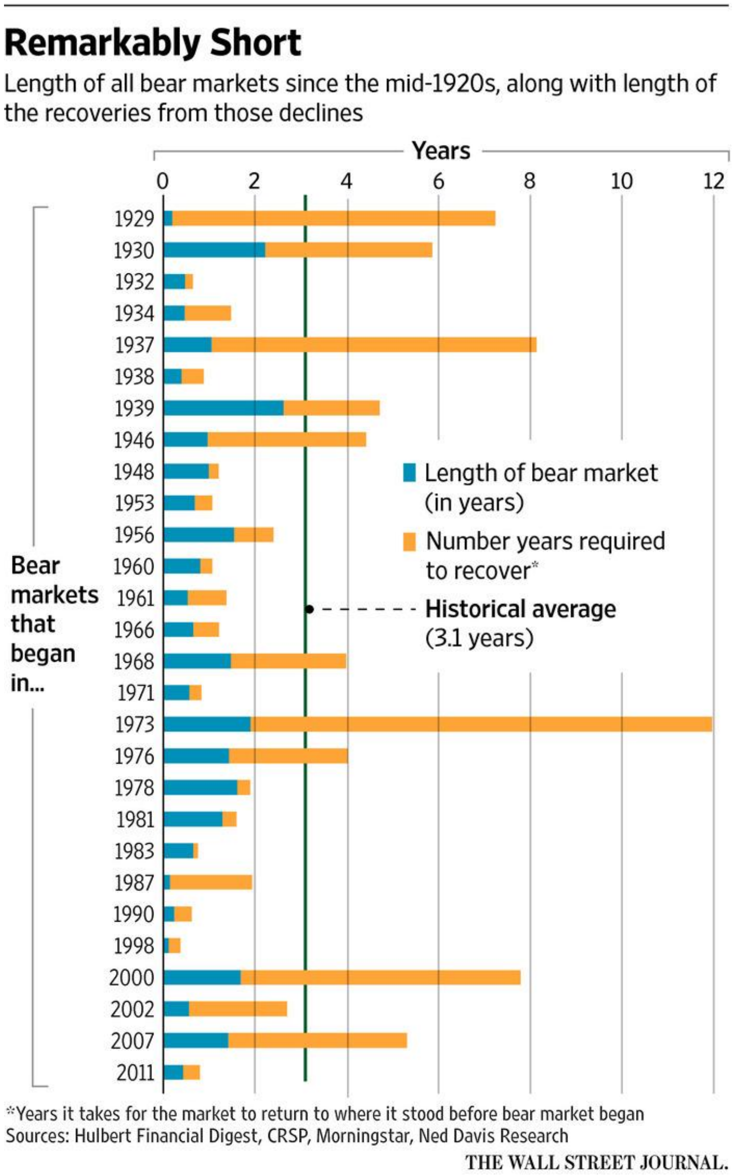
2011 Bear Market

Start	End	Perf	Instrument
2/28/2011	9/22/2011	-23.8%	Berkshire Hathaway
4/29/2011	10/3/2011	-22.2%	Buckingham Portfolio
4/29/2011	10/3/2011	-16.8%	Dow Jones Industrial Average
7/7/2011	10/3/2011	-19.5%	iShares Core US Growth ETF
4/29/2011	10/3/2011	-22.9%	iShares Core US Value ETF
5/2/2011	10/4/2011	-28.5%	MSCI ACWI Excluding U.S.
4/29/2011	10/3/2011	-18.7%	NASDAQ Composite Index
7/7/2011	10/3/2011	-18.5%	Russell 1000 Growth Index
4/29/2011	10/3/2011	-20.3%	Russell 1000 Index
4/29/2011	10/3/2011	-22.3%	Russell 1000 Value Index
4/29/2011	10/3/2011	-29.7%	Russell 2000 Growth Index
4/29/2011	10/3/2011	-29.6%	Russell 2000 Index
4/29/2011	10/3/2011	-29.5%	Russell 2000 Value Index
7/7/2011	10/3/2011	-19.4%	Russell 3000 Growth Index
4/29/2011	10/3/2011	-21.1%	Russell 3000 Index
4/29/2011	10/3/2011	-22.9%	Russell 3000 Value Index

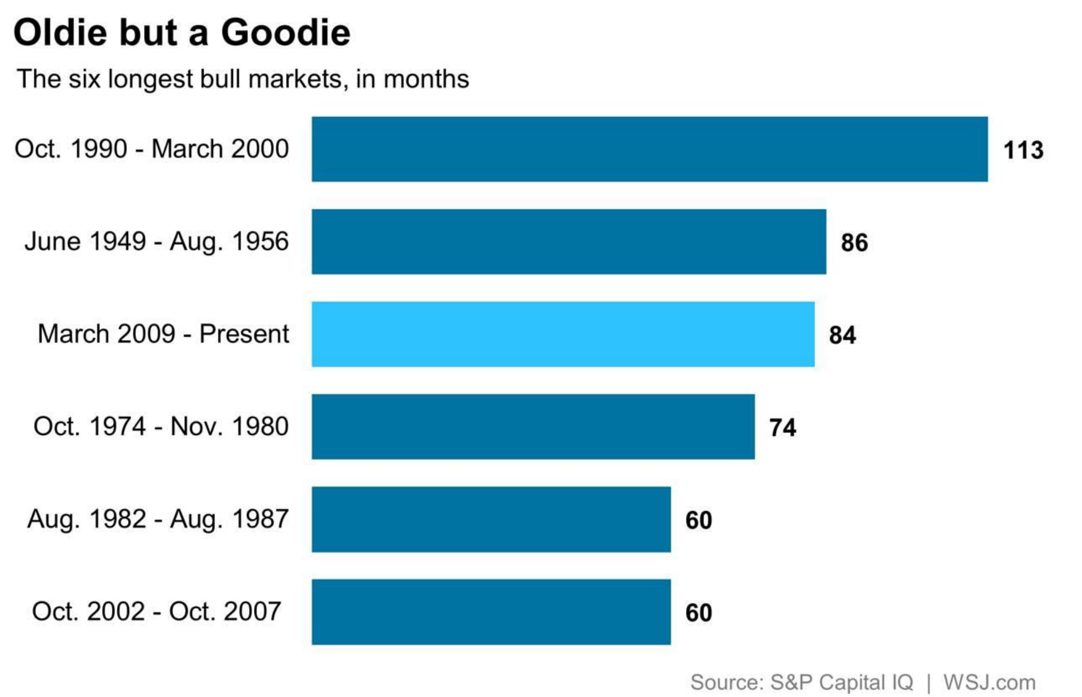
2011 Bear Market

Start	End	Perf	Instrument
7/7/2011	10/3/2011	-18.6%	S&P 500 Consumer Discretionary
4/29/2011	10/3/2011	-28.4%	S&P 500 Energy
2/18/2011	10/3/2011	-34.3%	S&P 500 Financials
7/7/2011	10/3/2011	-16.8%	S&P 500 Growth Index
5/18/2011	8/10/2011	-17.6%	S&P 500 Health Care
4/29/2011	10/3/2011	-19.4%	S&P 500 Index
4/29/2011	10/3/2011	-26.8%	S&P 500 Industrials
2/17/2011	8/19/2011	-18.5%	S&P 500 Information Technology
4/5/2011	10/3/2011	-29.4%	S&P 500 Materials
7/7/2011	10/3/2011	-22.4%	S&P 500 Pure Growth Index
4/29/2011	10/3/2011	-25.2%	S&P 500 Pure Value Index
5/31/2011	8/8/2011	-15.5%	S&P 500 Telecommunication
5/17/2011	8/8/2011	-11.5%	S&P 500 Utilities
4/29/2011	10/3/2011	-22.9%	S&P 500 Value Index
8/4/2009	12/27/2011	-37.6%	Shanghai Stock Exchange
4/29/2011	10/3/2011	-20.9%	Wilshire 5000

MYTH DEBUNKING
Yes, Virginia, 2011 Had A Bear Market



Three cheers for Mark Hulbert, whose *Wall Street Journal* column of 3.8.16 was one of the few we've seen that acknowledges the 2011 Bear Market (see chart on the left), even as a March 11 *WSJ* column ignored the big 2011 setback (see chart below).



MYTH DEBUNKING
Market of Stocks – 2014-2016 Swoon

2014-2016 Swoon

Start	End	Perf	Instrument
12/18/2014	1/25/2016	-18.4%	Berkshire Hathaway
8/29/2014	2/11/2016	-21.2%	Buckingham Portfolio
5/19/2015	2/11/2016	-14.5%	Dow Jones Industrial Average
7/20/2015	2/11/2016	-15.3%	iShares Core US Growth ETF
6/23/2015	2/11/2016	-18.2%	iShares Core US Value ETF
7/3/2014	2/11/2016	-27.8%	MSCI ACWI Excluding U.S.
7/20/2015	2/11/2016	-18.2%	NASDAQ Composite Index
7/20/2015	2/11/2016	-14.5%	Russell 1000 Growth Index
5/21/2015	2/11/2016	-15.4%	Russell 1000 Index
12/29/2014	2/11/2016	-17.6%	Russell 1000 Value Index
6/23/2015	2/11/2016	-29.1%	Russell 2000 Growth Index
6/23/2015	2/11/2016	-26.4%	Russell 2000 Index
6/23/2015	2/11/2016	-23.6%	Russell 2000 Value Index
7/20/2015	2/11/2016	-15.6%	Russell 3000 Growth Index
6/23/2015	2/11/2016	-16.2%	Russell 3000 Index
12/29/2014	2/11/2016	-18.0%	Russell 3000 Value Index

2014-2016 Swoon

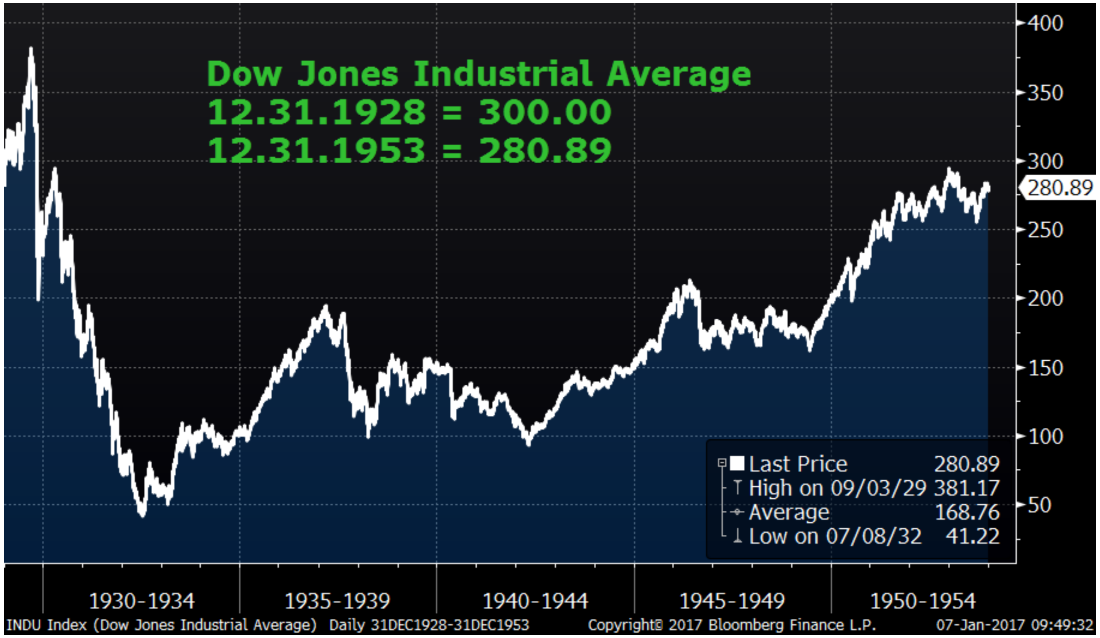
Start	End	Perf	Instrument
11/25/2015	2/11/2016	-16.1%	S&P 500 Consumer Discretionary
6/23/2014	1/20/2016	-47.3%	S&P 500 Energy
7/22/2015	2/11/2016	-23.1%	S&P 500 Financials
11/3/2015	2/11/2016	-13.6%	S&P 500 Growth Index
7/20/2015	2/11/2016	-17.9%	S&P 500 Health Care
5/21/2015	2/11/2016	-14.2%	S&P 500 Index
2/20/2015	1/20/2016	-15.9%	S&P 500 Industrials
12/4/2015	2/9/2016	-15.2%	S&P 500 Information Technology
2/24/2015	1/25/2016	-28.1%	S&P 500 Materials
3/20/2015	2/8/2016	-19.7%	S&P 500 Pure Growth Index
2/17/2015	2/11/2016	-24.0%	S&P 500 Pure Value Index
4/23/2013	8/25/2015	-17.4%	S&P 500 Telecommunication
1/29/2015	9/4/2015	-17.9%	S&P 500 Utilities
5/21/2015	2/11/2016	-16.5%	S&P 500 Value Index
6/12/2015	1/28/2016	-48.6%	Shanghai Stock Exchange
6/23/2015	2/11/2016	-17.1%	Wilshire 5000

MYTH DEBUNKING

Dow ~~20000~~ 21000 is not the end

MYTH DEBUNKING
Dow Went Nowhere: 1929 to 1954

Illustrating that index values tell only part of the story, the Dow Jones Industrial Average actually lost ground over a 25-year time span from the beginning of 1929 to the beginning of 1954, yet the total return on stocks ranged from 4.02% to 8.32% per annum, with the S&P 500's annualized return coming in at a respectable 6.07%. The reason for the difference between the price-return-only Dow measure and the actual returns investors might have earned is dividends and their reinvestment.

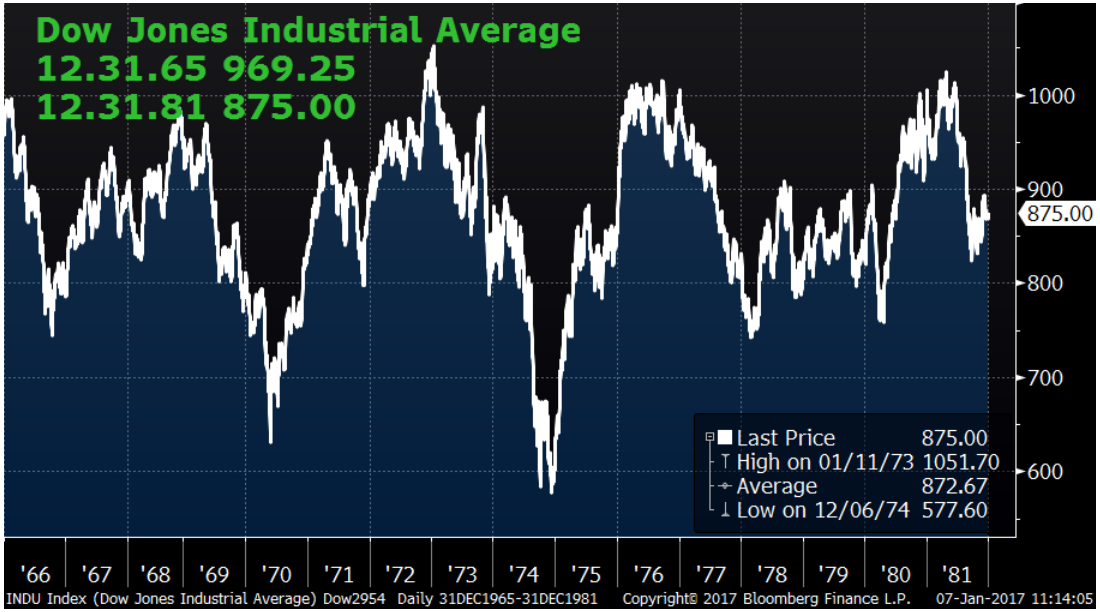


Annualized Total Returns	
25 Years	
12.31.28 - 12.31.53	
FF Value	8.32%
FF Growth	5.64%
FF Divs	6.03%
FF No Divs	4.02%
S&P 500	6.07%

Source: Data compiled by Professors Fama & French and https://dqydj.com/sp-500-return-calculator/

MYTH DEBUNKING
Dow Went Nowhere: 1966 to 1982

Incredibly, the Dow Jones Industrial Average actually lost ground over a 16-year time span from the beginning of 1966 to the beginning of 1982, yet the total return on Value stocks was a superb 13.39% per annum. Obviously, stock picking mattered as the S&P 500's annualized return was *only* 5.97%, though Non-Dividend Payers outperformed Dividend Payers by more than one% per year. Despite losing nearly 10% of its price, the Dow's total return during the period was 3.94% per annum.



Annualized Total Returns	
16 Years	
12.31.65 - 12.31.81	
FF Value	13.39%
FF Growth	7.35%
FF Divs	7.29%
FF No Divs	8.44%
S&P 500	5.97%

Source: Data compiled by Professors Fama & French and https://dqydj.com/sp-500-return-calculator/

MYTH DEBUNKING

Margin debt levels are not too high

MYTH DEBUNKING
Examples of Why Folks Use Margin?

They may be engaged in investment strategies that hedge and pare risk by applying leverage to uncorrelated assets.

Margin debt might be the cheapest type of debt they have access to, and therefore they may use it to pay off other more expensive debts.

They might be waiting for money to arrive at a broker, and need temporary liquidity to fund purchases.

They might be optimistic about the equity market and wish to buy more stocks.

AFAM CAPITAL

MYTH DEBUNKING
What is Held in Margin Accounts?

Illustrating how Exchange Traded Funds have altered the investment landscape, $449 billion is invested in the top 13 non-U.S. equity ETFs.

Top 30 U.S. Exchange Traded Funds

Name	Bloomberg Ticker	Assets (millions)	Name	Bloomberg Ticker	Assets (millions)
SPDR S&P500 ETF Trust	SPY US	$234,037	Vanguard Total Bond Market ETF	BND US	$33,083
iShares Core S&P 500 ETF	IVV US	$102,369	iShares iBoxx $ Investment Grade	LQD US	$30,386
Vanguard Total Stock Market ETF	VTI US	$76,196	Vanguard Value ETF	VTV US	$30,166
iShares MSCI EAFE ETF	EFA US	$67,163	iShares MSCI Emerging Markets	EEM US	$29,915
Vanguard S&P 500 ETF	VOO US	$63,736	iShares Core S&P Small-Cap ETF	IJR US	$28,918
Vanguard FTSE Emerging Markets	VWO US	$50,991	iShares Core MSCI Emerging Markets	IEMG US	$27,235
Vanguard FTSE Developed Market	VEA US	$47,554	Vanguard Growth ETF	VUG US	$25,572
PowerShares QQQ Trust	QQQ US	$46,784	Vanguard Dividend Appreciation	VIG US	$23,521
iShares Core U.S. Aggregate Bond	AGG US	$43,653	iShares TIPS Bond ETF	TIP US	$23,064
iShares Core S&P Mid-Cap ETF	IJH US	$38,829	Financial Select Sector SPDR F	XLF US	$22,944
iShares Russell 2000 ETF	IWM US	$36,599	Vanguard Short-Term Bond ETF	BSV US	$21,566
iShares Russell 1000 Value ETF	IWD US	$36,477	iShares Core MSCI EAFE ETF	IEFA US	$21,547
iShares Russell 1000 Growth ET	IWF US	$34,165	iShares Core S&P 500 UCITS ETF	CSPX LN	$20,981
Vanguard REIT ETF	VNQ US	$34,120	SPDR S&P MidCap 400 ETF Trust	MDY US	$19,375
SPDR Gold Shares	GLD US	$33,682	iShares iBoxx $ High Yield Cor	HYG US	$18,900

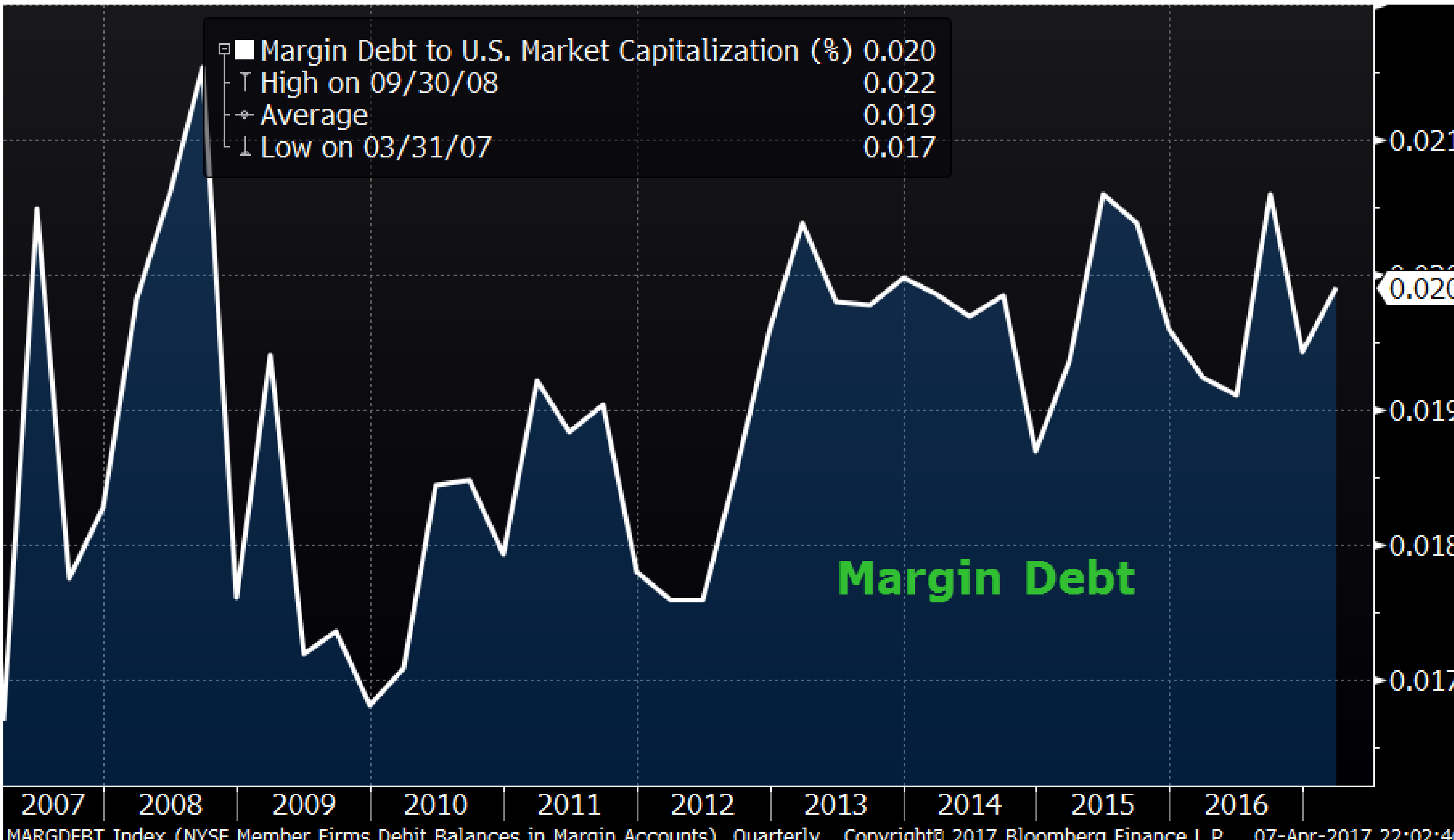
U.S Equity Total = $1,323.5 Billion

Non U.S. Equity Total = $448.7 Billion

Source: Bloomberg. As of 4.7.17

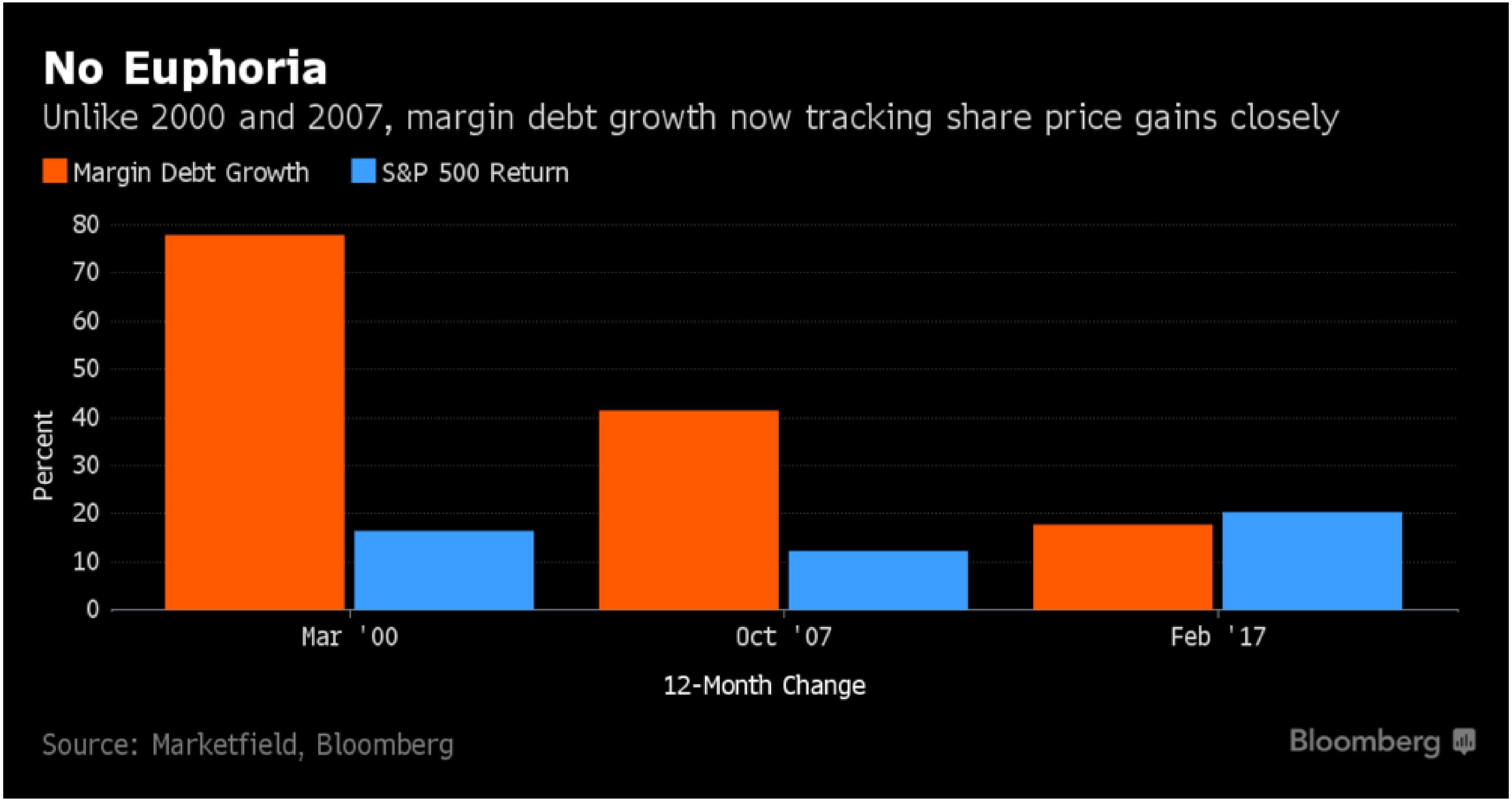
MYTH DEBUNKING
Margin Debt Near Average Vs. Market Cap

Seems that most discussions of margin ignore the denominator in the equation, be it equity in margin accounts or overall market capitalization.



MYTH DEBUNKING
Margin Growth Not Like in 2000 or 2007

Yes, margin debt is at all-time highs, but it has not been growing at anywhere near the percentages witnessed at prior market highs.



Undervalued Dividend Payers

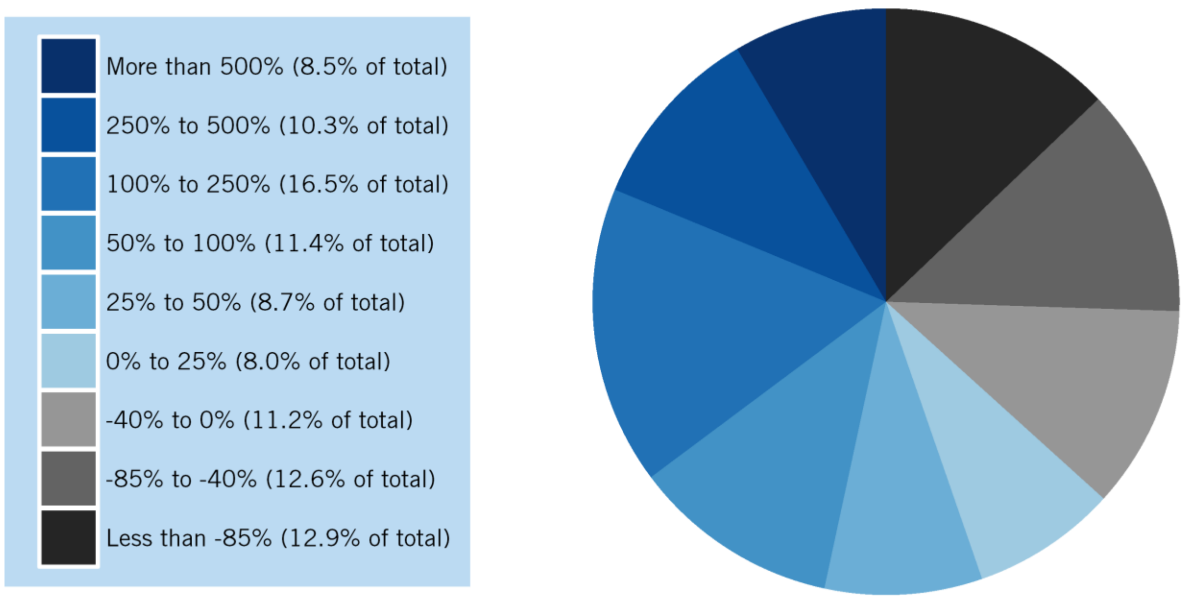
UNDERVALUED DIVIDEND PAYERS

"The stock market is filled with individuals who know the price of everything, but the value of nothing."

– Phillip Fisher

UNDERVALUED DIVIDEND PAYERS
TPS Recommended Stock Distribution

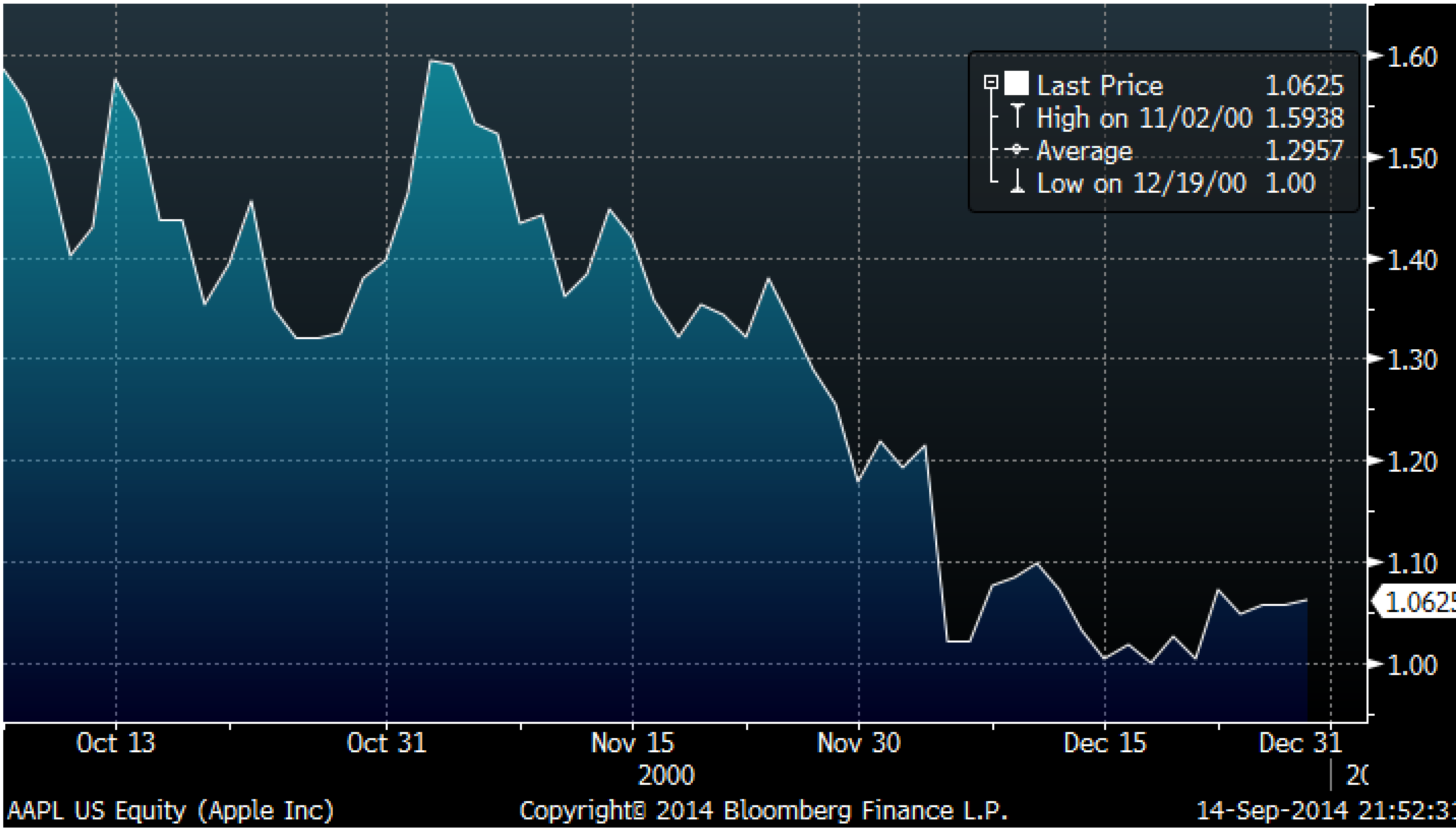
Obviously, we would prefer that all of our picks pan out, but a 63% success (profitable) rate has produced a stellar 17%+ average annualized total return for each of 1,860+ recommendations dating back to 1977.



As of 03.31.17. Unannualized total returns between open and close dates. For currently open stocks the latest closing price was used to calculate returns. Gain and loss figures do not include regular dividends or the impact of reinvested dividends.
SOURCE: Al Frank

UNDERVALUED DIVIDEND PAYERS
Patience, Patience, Patience

After our initial recommendation of Apple at a split-adjusted $1.60 on 10.06.00, the stock had skidded 34% just three months later.



UNDERVALUED DIVIDEND PAYERS
The Longer the Hold, the Lower the Risk

PATIENCE IS VIRTUOUS

VALUE STOCKS

	Count >2.5%	Count <=2.5%	Percent >2.5%
1 Month	665	409	61.9%
3 Months	705	367	65.8%
6 Months	729	340	68.2%
1 Year	755	308	71.0%
2 Year	838	213	79.7%
3 Year	879	160	84.6%
5 Year	876	139	86.3%
7 Year	926	65	93.4%
10 Year	914	41	95.7%
15 Year	886	9	99.0%
20 Year	835	0	100.0%

DIVIDEND PAYERS

	Count >2.5%	Count <=2.5%	Percent >2.5%
1 Month	656	418	61.1%
3 Months	698	374	65.1%
6 Months	736	333	68.8%
1 Year	759	304	71.4%
2 Year	849	202	80.8%
3 Year	843	196	81.1%
5 Year	871	144	85.8%
7 Year	902	89	91.0%
10 Year	894	61	93.6%
15 Year	867	28	96.9%
20 Year	835	0	100.0%

From 07.31.27 through 12.31.16. Value stocks represented by 50% small value and 50% large value returns rebalanced monthly. Dividend payers represented by 30% top of dividend payers, 40% of middle dividend payers, and 30% bottom of dividend payers rebalanced monthly. SOURCE: Al Frank using data from Professors Eugene F. Fama and Kenneth R. French

March 2017

the Prudent Speculator

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

Diversification, we find, serves us in two ways: by minimizing individual stock risk, while maximizing the likelihood of finding the big winners among the undervalued masses. The list, thus, is meant to serve as a portfolio foundation for new investors and as a pick-list for folks already maintaining well-diversified holdings.

While we like 100 or so stocks, we feature below 30 favorites trading for discounts to our determination of long-term fair value and/or offering favorable risk/reward profiles. And for those looking for only a handful of stocks to buy, each member of our Investment Team highlights four of their top selections in the pages that follow.

THE 27th FORBES CRUISE FOR INVESTORS 2017

				Target	Price Multiples			EV/	FCF	Debt/	Div	Mkt
Sector	Ticker	Company	Price	Price	EPS	Sales	TBV[1]	EBITDA[2]	Yield[3]	TE[4]	Yield	Cap
Information Technology	AAPL	Apple	139.52	155.38	16.7	3.4	5.9	8.2	7.1	59%	1.6%	731,997
Health Care	AMGN	Amgen	177.38	222.41	15.2	5.7	27.0	10.7	7.2	623%	2.6%	130,632
Financials	AZSEY	Allianz SE	17.74	23.92	10.4	nmf	1.4	nmf	nmf	nmf	3.5%	81,049
Industrials	BA	Boeing	182.02	188.82	25.0	1.2	nmf	14.5	6.9	nmf	3.1%	112,337
Financials	BBT	BB&T Corp	47.93	54.02	16.6	nmf	2.4	nmf	nmf	nmf	2.5%	38,746

DIVIDENDS ARE STILL VALUABLE
Special AAII Subscription Offer

In honor of our 40th anniversary (TPS was founded in 1977!), we are offering a special coupon code for AAII members as well as their family & friends.

Use coupon code **AAIISD** to get **19.77%** off a one year or two year subscription. Feel free to share the promotion special with your family and friends!

DISCLOSURES

All performance data is as indicated on the chart. The information provided comes from independent sources believed reliable, but accuracy is not guaranteed and has not been independently verified. The security information, portfolio management and tactical decision process are opinions of Al Frank Asset Management, a division of AFAM Capital, Inc. and the performance results of such recommendations are subject to risks and uncertainties.

The value of an investment and the return on invested capital will fluctuate over time and, when sold or redeemed, may be worth less than its original cost. This material is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a solicitation or an offer, or a recommendation, to buy a security. Investors should consult with an investment advisor to determine the appropriate investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

For comparison purposes, the strategies are measured against the Russell 3000 Index, a broad market index of the U.S. equity universe. You cannot invest directly in an index.

Past performance is not a guarantee of future results. Diversification does not protect against loss in declining markets.

AFAM Capital, Inc. is a Registered Investment Advisor. Al Frank Asset Management and Innealta Capital are divisions of AFAM Capital. AFAM is editor of The Prudent Speculator newsletter and is the investment advisor to individually managed client accounts and certain mutual funds distributed through Northern Lights Distributors, LLC. Summary prospectuses can be reviewed at http://www.alfrankfunds.com/resources/ and https://www.geminifund.com/RegulatoryDocumentCenter/PublicDocuments/Current.aspx?FundFamily=Innealta+Capital+Funds&Fund=Country+Rotation&DocType=Summary+Prospectus

Investing involves risk and principal loss is possible.

For more information, please visit afamcapital.com. Registration as an investment advisor does not imply any certain level of skill or training.

218-AFAM-4/7/2017

12117 FM 2244, Bldg. 3-#170 | Austin, Texas78738 | p: 512.354.7041 | f: 512.402.1014

DISCLOSURES

The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The S&P 500, or the Standard & Poor's 500, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

The Barclays Capital U.S. Aggregate Bond Index is the most common index used to track the performance of investment grade bonds in the U.S.

The Russell 3000 Value Index measures the performance of the broad value segment of U.S. equity value universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.

The S&P SmallCap 600 Index, more commonly known as the S&P 600, is a stock market index from Standard & Poor's. It covers roughly the small-cap range of US stocks, using a capitalization-weighted index.

The Nasdaq Composite is a market-value weighted index of all common stocks listed on Nasdaq.

The Wilshire 5000 is A market capitalization-weighted index composed of more than 6,700 publicly-traded companies that meet the following criteria: 1. The companies are headquartered in the United States 2. The stocks are actively traded on an American stock exchange 3. The stocks have pricing information that is widely available to the public.

The Russell 3000 Growth Index measures the performance of the broad growth segment of the U.S. equity universe.

The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks, primarily industrials including stocks that trade on the New York Stock Exchange.

The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index.