

THE **AL FRANK** WAY



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AFAM
C A P I T A L

www.afamcapital.com

The Story of AFAM Capital

On a March morning in 1977, Al Frank left his apartment with the first edition of The Prudent Speculator, at the time dubbed The Pinchpenny Speculator. Four pages, double-spaced. Al Frank, a relentless bargain hunter who believed in a diversified portfolio of undervalued stocks, began delivering his message in four pages, double-spaced, and just 100 copies.

His core belief came to life. Readers became subscribers, subscribers became callers, and gradually those callers, family, and friends asked Al to manage their portfolios. Al Frank Asset Management is born.



Ten years later, the firm hired a Computer Science student from the University of Southern California to assist in automating the office. John Buckingham was previously employed as a cold caller by a broker, where he would ride his bike four miles to work and keep his dress shirt and tie in his backpack. After John realized that cold calling was not his calling, the broker referred John to Al Frank and associates, where he made \$8 per hour learning about stock analysis and portfolio management, in addition to accounting and subscriptions.

Over time, Al Frank Asset Management became AFAM Capital. The investment team expanded and proprietary funds were formed. By 1990, John Buckingham had taken over the reins as Chief Portfolio Manager and a writer for The Prudent Speculator. Al Frank passed away in 2002, leaving the firm in the capable hands of John Buckingham, now Editor of The Prudent Speculator and Chief Investment Officer.

AFAM Capital is an investment management firm with a 40 year legacy. We serve individual investors, institutions, and advisors across the country through separately managed account strategies, mutual funds, and our #1 ranked investment newsletter*, The Prudent Speculator. We have locations in both Austin, Texas and Orange County, California.

What's the Word on AFAM Capital?

AFAM Capital is no stranger to good press. Regularly we find ourselves featured in economic articles from various well-known outlets. Below are some excerpts:

"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."

BARRON'S

WSJ

"Just how hard is it to outrun the market over the long haul? Back in 1980, the Hulbert Financial Digest began monitoring investment newsletters, with an initial group of 36. Two-thirds have gone out of business, many following poor performance. Of the 12 survivors, just three have topped the S&P 500's 11.7% annualized return, including dividends. They are The Prudent Speculator, edited by John Buckingham; NoLoad FundX, edited by Janet Brown; and the Value Line Investment Survey, published by investment research firm Value Line."

"John Buckingham, whose value-and-dividend fund has outperformed both the S&P and Warren Buffett over the last 15 years, likes Apple, Allianz, Amgen, AT&T, Boeing, Cisco, Corning, Disney, Fluor, Intel, Royal Caribbean and Target. Buckingham takes a three-to-five-year horizon on his stock picks."

Forbes

Also Featured In:





John Buckingham // Chief Investment Officer

John Buckingham leads a team that scrutinizes hundreds of stocks for money management clients and newsletter subscribers to The Prudent Speculator investment newsletter, of which he is the editor. He is equally resolute in his management of Al Frank’s proprietary mutual funds. John has been a part of AFAM since 1987 and is one of the company’s largest shareholders. He has served as the firm’s Director of Research since 1989 and Chief Portfolio Manager since 1990. John graduated magna cum laude from the University of Southern California in 1987 with a B.S. degree in computer science and a minor in business administration. His opinion is widely sought: John has appeared on numerous television and radio programs, is frequently interviewed by publications and conducts workshops at investment seminars. John is married and enjoys visiting his daughter in London, where she is studying at Cambridge University.



Jason Clark, CFA // Senior Portfolio Manager

Jason Clark has a BS in Finance from the University of West Florida. Prior employers were A.G. Edwards, Edward Jones, and the United States Navy. He has 15 years of industry experience as equity research analyst, fixed income trader and portfolio manager. Jason is a CFA Charterholder. Jason is married with two children and spends his free time coaching high school basketball and attending soccer games.



Chris Quigley // Quantitative Research Analyst

Chris earned his B.A. degree in Economics from the University of Southern California in 2011. As a member of the research team Chris Quigley conducts fundamental research and analysis. He is responsible for generating new investment ideas and maintains company, industry and macroeconomic models. Additionally, he is a regular contributor to the firm’s market commentary and newsletter. Chris joined AFAM Capital in August of 2011. Chris is married and enjoys biking, traveling, and playing with his dog.

We utilize a go-anywhere approach focused on uncovering bargain priced U.S. stocks and ADRs, seeking individual and security diversification.

Specifically, we seek long-term growth of capital through out-of-favor stocks that are trading for low fundamental multiples. We believe that growth is a component of value, and we strive to find inexpensive stocks in industries with above average growth prospects. This approach to selection and diversification gives us confidence that the true value of our investments should come to fruition in the fullness of time, so patience comes easily.

WHY VALUE?

	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%

Blending a Quantitative Foundation with a Qualitative Review

A Universe of Undervalued Stocks



We quantitatively review more than 3,000 individual U.S.-traded domestic and international securities on a daily basis. Our quantitative framework helps us identify potentially undervalued companies.

Scoring Algorithm

Our quantitative framework and scoring algorithm incorporates a range of metrics historically indicative of future potential outperformance.

A sample of metrics the scoring algorithm considers:

- Tangible Book Value
- Enterprise Value
- Income/Earnings
- Free Cash Flow
- Revenue
- Dividends



The scoring algorithm aggregates individual metrics into a composite stock scoring system that ranks individual stock valuations in the context of valuations among peers and the broader universe. By using a peer-relative (generally sub-industry) scale, we ensure like-for-like relative valuation context. The universe-relative scale seeks to capture sector-relative over-and under-valuation trends over time.

Establish Purchase Limits & Target Prices



Using our quantitative and qualitative process, we develop three to five year Target Prices for all current holdings, as well as each stock demonstrating sufficient risk-reward potential to be considered for potential addition to our

portfolios. These Target Prices guide all investment decisions. After a security is purchased, the focus becomes the determination of ongoing risk assumed for an expected level of return for each investment. Where greater opportunities become available, we pursue them. Where standalone risk becomes too great—either from strong performance or fundamental deterioration—we scale back or shed positions

Potential Opportunity Review



The initial scoring and screening process helps us identify potentially undervalued names, which we then sort through the highest scorers to identify truly unique stocks with greatest potential reward. We require that the expected reward be sufficient to cover risk assumed in pursuit of the opportunity. With a short-list of securities in hand, we shift our focus to deeper quantitative and higher-level qualitative reviews of those securities.

A sample of Deeper Quantitative data reviewed:

- Cash & Near Cash
- Total Debt and Debt Maturities
- Geographic Revenue and Earnings Breakdown
- Profit Margins
- Interest Coverage

A sample of Higher-level Qualitative data reviewed:

- Brand Strength and Product Depth
- Management Tenure
- Intellectual Property
- Reporting Quality
- Business Risk

Portfolio Construction

We construct our portfolios to focus on broad diversification, considering the merits of how each position has historically interacted with the other portfolio holdings. We employ controls for purposeful sector and industry over/underweights relative to the benchmark, while internal and external quantitative platforms assist in monitoring portfolio composition and performance.



Sell Discipline

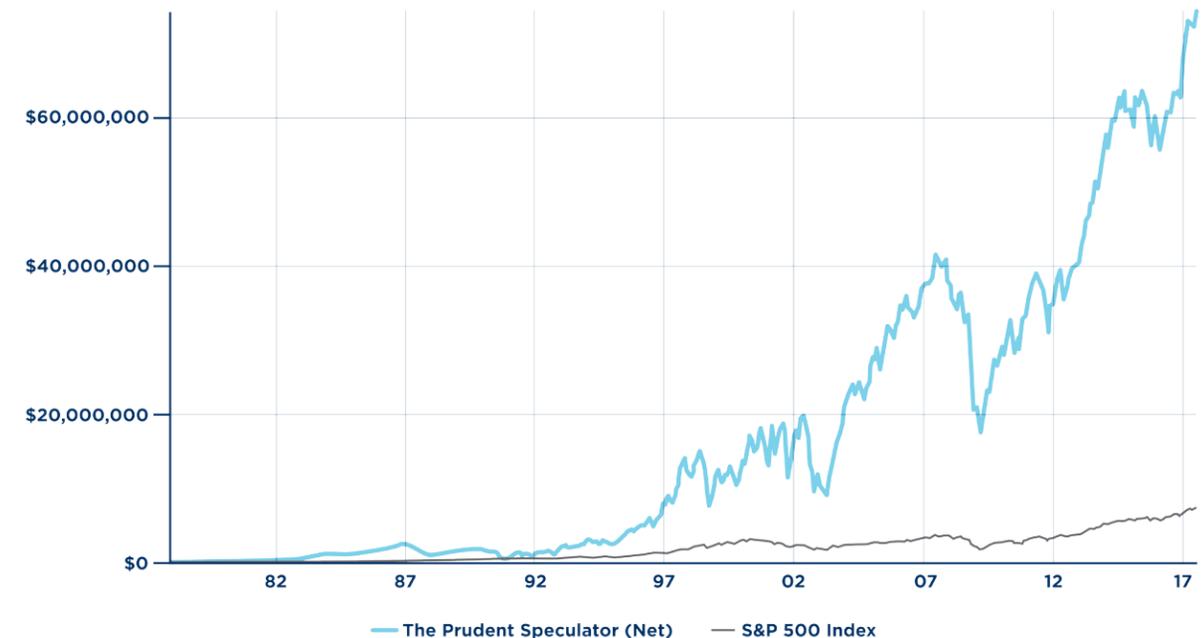
When a stock reaches or nears its Target Price, or a desirable replacement with more attractive risk/reward potential exists, the investment team gathers all relevant data and information, as well as investment team member opinions and insight to determine if we should consider parting ways with some or all of our shares, or if the position merits an increase in its Target Price. Factors we consider include valuation, position size, gain or loss on the position, relative strength, recent stock performance, business trends and industry trends. Final discussions are had amongst the Investment Committee members and a vote is taken on what will be done with the position.

The AI Frank Way

The Prudent Speculator strategy is AI Frank's original portfolio and the flagship investment strategy for AFAM Capital and The Prudent Speculator newsletter.

The portfolio was established in 1977 and still serves as the primary portfolio for The Prudent Speculator newsletter. In 2017, the portfolio celebrated a 40-year track record and an outstanding long-term performance record¹.

AFAM Capital also has 5 other value strategies: Select Value, Select Focused Value, Select Dividend, Select SMid Dividend, and Select Focused Dividend. Please see the next page for more detailed information about the six value strategies available.



¹Since inception, The Prudent Speculator portfolio has returned 17.81% net of fees, while the S&P 500 returned 11.29%. From 03.10.1977 through 06.30.2017

MANAGED ACCOUNT STRATEGIES



Prudent Speculator Strategy

Broadly (70 to 90 stocks) diversified, multi-cap value strategy with no requirement that each holding pay a dividend. Served as the real-money model portfolio for The Prudent Speculator newsletter for 40 years. Selections are drawn from the holdings in Select Value and Select Dividend.



Select Value

The strategy holds both dividend and non-dividend paying stocks and seeks broad diversification via exposure to a significant number of major market sectors and industry groups through roughly 70 to 90 positions. We employ a go-anywhere style focused on uncovering bargain-priced stocks independent of market capitalization. Stock selection is driven by bottom-up fundamental analysis in the context of macroeconomic and industry data.



Select Focused Value

The strategy is an actively managed multi-cap equity strategy that seeks long-term capital appreciation via a more concentrated, roughly 30 to 40 stock approach. Portfolios primarily include stocks that are undervalued and/or out-of-favor for their long-term appreciation potential. Diversification is sought via exposure to major market sectors and industry groups.



Select Dividend

The strategy is an actively managed multi-cap equity strategy that seeks long-term capital appreciation. Portfolios primarily include dividend-paying stocks that are undervalued and/or out-of-favor for their long-term appreciation potential. Broad diversification is sought via exposure to a significant number of major market sectors and industry groups through roughly 50 to 70 positions.



Select SMid Dividend

The strategy is an actively managed equity strategy that seeks long-term capital appreciation via investment in companies with market capitalization generally below \$10 billion (micro-, small- and mid-cap stocks). Portfolios primarily include dividend-paying stocks that are undervalued and/or out-of-favor for their long-term appreciation potential, while leeway for market appreciation is allowed as stocks move into the large-capitalization category. Broad diversification is sought via exposure to a significant number of major market sectors and industry groups through roughly 70 to 90 positions.



Select Focused Dividend

The strategy is an actively managed multi-cap equity strategy that seeks long-term capital appreciation and secondarily dividend income via a more concentrated, roughly 30 to 40 stock approach. Portfolios primarily include dividend-paying stocks that are undervalued and/or out-of-favor for their long-term appreciation potential. Diversification is sought via exposure to major market sectors and industry groups.

GETTING STARTED DISCLOSURES

We don't believe we're just managing your money, but your hopes, your dreams, and your future. You should expect AFAM Capital to know that it is a humbling responsibility and behave like we're managing more than numbers.

To take the next step, give us a call at **(512) 354-7041** or e-mail info@afamcapital.com

AFAM Capital, Inc. is a Registered Investment Advisor. Al Frank Asset Management is a division 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:
www.alfrankfunds.com/resources/

Innealta summary prospectuses can be found at:
www.innealtafunds.com/innealtaresources/fund-documents

Frequently Asked Questions

Who is actually managing the portfolio?

Our value portfolios are managed by John Buckingham, Chief Investment Officer and Jason Clark, Senior Portfolio Manager. The Portfolio Managers are supported by the Research Team and proprietary framework.

Where do I custody my account?

Most of our clients use Fidelity and Charles Schwab to custody their assets.

Is this a fund, or do I own actual stocks?

You will own individual stocks through a separately managed account registered in your name. This is not a mutual fund.

Are you a fiduciary?

As a registered investment advisor, we are a fiduciary to our advisory clients. This means that we have a fundamental obligation to act and provide investment advice only in your best interest.

Can I use an IRA or Roth IRA?

Yes. IRAs (Roth, Traditional, Rollover, Inherited), Trusts, Joint, Individual, etc. are all welcome.

Is my money tied up for any period of time?

While this is a long-term-oriented investment approach, we invest in liquid securities that trade on the major stock exchanges, so cash can be raised should a need arise. There is no lock-up period.

Why can't I just do this myself?

We believe that we manage more than just your money at AFAM Capital. We understand that it is a privilege and responsibility to help you reach your long-term financial goals by keeping you on the path.

Investors that have their funds invested in accordance with the portfolios may experience losses. Investments in foreign investments may incur greater risks than domestic investments. Past performance is no guarantee of future results. AFAM only transacts business in states where it is properly registered or exempted from registration. Registration of an investment adviser does not imply any certain level of skill or training. Al Frank adheres to the same investment principles and philosophies in managing individual client accounts, its proprietary mutual funds and in the information that appears in its investment advisory newsletter, which is long-term growth of capital by owning a diversified portfolio of securities that are undervalued and holding them for their long-term potential appreciation. Diversification does not assure a profit or protect against a loss in a declining market.

The newsletter average performance of *The Prudent Speculator* (TPS) has been the #1 ranked, not adjusted for risk, investment newsletter since inception, according to Mark Hulbert and *The Hulbert Financial Digest* as of 08.31.2017. Since inception ranking: 1 out of 9 newsletter averages. A newsletter's average *Hulbert Financial Digest* Ranking is based on the average of its several portfolios, in the event it recommends more than one, and includes portfolios that the newsletters have discontinued. Ranking is not indicative of future performance and may not be representative of any one client's experience. Please visit <http://hulbertratings.com> for additional information. 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.

*Not adjusted for risk. Return figure includes dividend reinvestment, but not taxes or fees.