

# the Prudent Speculator

Established in March 1977 • 85 Argonaut, Suite 220 • Aliso Viejo, California 92656 • 800.258.7786

**D**iversification, 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.

Featured here are members of the Buckingham Portfolio we currently find most attractively valued. The entire portfolio is available at [prudent-speculator.com](http://prudent-speculator.com). 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. ■

## BUCKINGHAM PORTFOLIO BUYS

Symb	Company	Price	Target Price	Price Multiples			EV/EBITDA <sup>2</sup>	Debt/TE <sup>3</sup>	Div Yld	Mkt Cap	Industry Group
				EPS	S	TBV <sup>1</sup>					
ADM	Archer-Daniels-Midland	26.84	48.17	12.4	0.2	1.0	9.8	37%	2.6%	17,678	Food Bev & Tobacco
AET	Aetna	43.69	80.60	8.5	0.4	3.8	4.3	104%	1.6%	14,614	Health Care Equip/Srvcs
APA	Apache	82.72	167.14	8.1	1.9	1.1	3.5	23%	0.8%	32,361	Energy
ATVI	Activision Blizzard	10.89	18.07	12.4	2.7	4.3	6.9	0%	1.7%	12,094	Software & Services
BHE	Benchmark Electronics	14.82	25.39	14.1	0.3	0.8	5.3	1%	0.0%	832	Technology Hardware
BHI	Baker Hughes	41.97	75.76	11.0	0.9	1.8	5.6	37%	1.4%	18,452	Energy
CE	Celanese	37.99	71.31	10.3	0.9	5.7	9.7	272%	0.8%	6,061	Materials
CSCO	Cisco Systems	17.15	28.02	10.3	2.0	2.8	4.6	50%	3.3%	90,698	Technology Hardware
DO	Diamond Offshore Drilling	69.24	94.28	14.0	3.2	2.1	7.4	33%	5.1%	9,626	Energy
ETN	Eaton	47.22	69.09	11.2	1.0	nmf	8.8	nmf	3.2%	15,941	Capital Goods
EXC	Exelon	35.78	50.06	11.7	1.4	1.6	7.3	63%	5.9%	30,541	Utilities
FCX	Freeport-McMoRan	38.88	65.93	12.2	2.1	2.2	5.9	21%	3.2%	36,907	Materials
GD	General Dynamics	68.08	97.28	9.5	0.7	nmf	5.9	nmf	3.0%	24,037	Capital Goods
HAS	Hasbro	35.99	50.30	13.5	1.1	8.0	7.7	240%	4.0%	4,687	Consumer Dur & App
IM	Ingram Micro	15.20	32.30	8.0	0.1	0.7	3.6	9%	0.0%	2,282	Technology Hardware
INTC	Intel	21.63	33.29	9.0	2.0	3.2	4.4	21%	4.2%	107,631	Semis & Cap Equipment
MAN	Manpower	37.94	67.17	12.4	0.1	2.5	6.3	22%	2.3%	3,010	Commercial Services
MSFT	Microsoft	28.54	41.27	11.1	3.3	4.7	6.7	21%	3.2%	240,206	Software & Services
NEM	Newmont Mining	54.58	82.05	14.5	2.7	2.1	7.1	28%	2.6%	27,173	Materials
NSC	Norfolk Southern	61.35	97.33	11.2	1.7	2.0	6.6	76%	3.3%	19,389	Transportation
NTT	Nippon Telegraph	22.82	42.27	9.6	0.9	0.9	3.3	64%	3.6%	60,391	Telecom Services
PETS	PetMed Express	10.90	16.34	13.8	0.9	2.8	6.1	0%	5.5%	218	Retailing
PRU	Prudential Financial	57.05	97.89	9.6	nmf	0.7	nmf	nmf	2.5%	26,585	Insurance
SPLS	Staples	11.52	23.10	8.5	0.3	3.1	4.4	64%	3.8%	7,858	Retailing
TMO	Thermo Fisher Scientific	61.06	100.73	12.9	1.8	nmf	11.6	nmf	0.9%	22,321	Pharma/Biotech/Life Sci
TNP	Tsakos Energy Navigation Ltd	4.35	8.20	nmf	0.6	0.3	14.6	137%	13.8%	245	Energy
TPC	Tutor Perini	10.14	24.72	7.9	0.1	nmf	5.0	nmf	0.0%	482	Capital Goods
URS	URS	33.48	67.91	8.4	0.3	nmf	6.6	nmf	2.4%	2,573	Capital Goods
WM	Waste Management	32.74	45.34	15.3	1.1	nmf	7.5	nmf	4.3%	15,188	Commercial Services
WWE	World Wrestling Ent	8.09	12.77	18.4	1.3	2.2	10.3	0%	5.9%	605	Media

As of 10.31.12. N/A=Not available. nmf=Not meaningful. <sup>1</sup>Tangible book value. <sup>2</sup>Enterprise value to earnings before interest, taxes, depreciation and amortization. <sup>3</sup>Tangible equity. SOURCE: AI Frank using data from Bloomberg

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# Principles of Investing with *the* Prudent Speculator

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## 1 Understand our value investment philosophy

While picking great stocks is important, we think a more influential contributor to long-term gains is our strict strategy of building broadly diversified portfolios of what we believe are undervalued stocks and holding them for their long-term appreciation.

For more detailed information regarding the Al Frank philosophy of value investing, please visit [alfrank.com](http://alfrank.com) and [theprudent-speculator.com](http://theprudent-speculator.com).

## 2 Diversify! Diversify! Diversify!

*The Prudent Speculator* follows an approach to investing that focuses on broadly diversified investments in undervalued stocks for their long-term appreciation potential. Does that mean we build portfolios of 20 stocks...30...? More like 50 and up. We like stocks. And we like a lot of 'em. We don't rely nearly as much on "how many" as we do "in which", but we tend to invest in far more names than most. This expansive diversification, we find, potentially serves us well in two ways: we can further minimize the risk of individual stock ownership, while maximizing the likelihood of finding the truly big winners among the undervalued masses.

A complete list of our past recommendations is available at [theprudent-speculator.com](http://theprudent-speculator.com).

## 3 Be patient. Invest for the long term

Our philosophy is geared towards long-term investing. With each recommendation, readers should know that we are seeking significant capital appreciation and any gains, while never guaranteed, generally take time to accumulate. Too, returns tend not to be of the 'straight up from here' sort...takes a special dose of patience to ride the ups and downs of the typical value stock.

## 4 Don't be deterred by adverse market swings

Reinforcing Rule #3, subscribers should remember that our recommendations sometimes experience great losses early on. Through thick and thin, however, we stand by the companies we choose because we have seen over time that our winners have typically won far more than our losers have lost, with early returns rarely indicative of long-term performance.

## 5 Understand how we value stocks

We discriminate among potential investments by relative valuation metrics and our assessment of stock-specific risk. We buy only those stocks we find undervalued along several lines relative to their own trading history, those of their peers, a particular universe or the market in general. The prices at which we'll buy and sell stocks incorporate a range of fundamental risks (e.g. credit, customer and competitive dynamic) that we believe the companies may face over our normal 3-to-5-year investing time horizon.

## 6 Sell Discipline

We purchase undervalued stocks that offer significant upside potential relative to their downside risk. We then hold each company until it meets or exceeds its target price; until our research finds a candidate with more attractive risk/reward attributes; until the stock's evolved risk/reward profile fails to justify continued ownership or until the stock develops trading characteristics (e.g. sustained or increasingly weak liquidity) not suitable for continued ownership.

## 7 Read our Market Commentary

Subscribers should follow our weekly e-mail update in order to follow our take on noteworthy market activity, sale updates and special events and appearances.

## 8 Visit [theprudent-speculator.com](http://theprudent-speculator.com) often

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