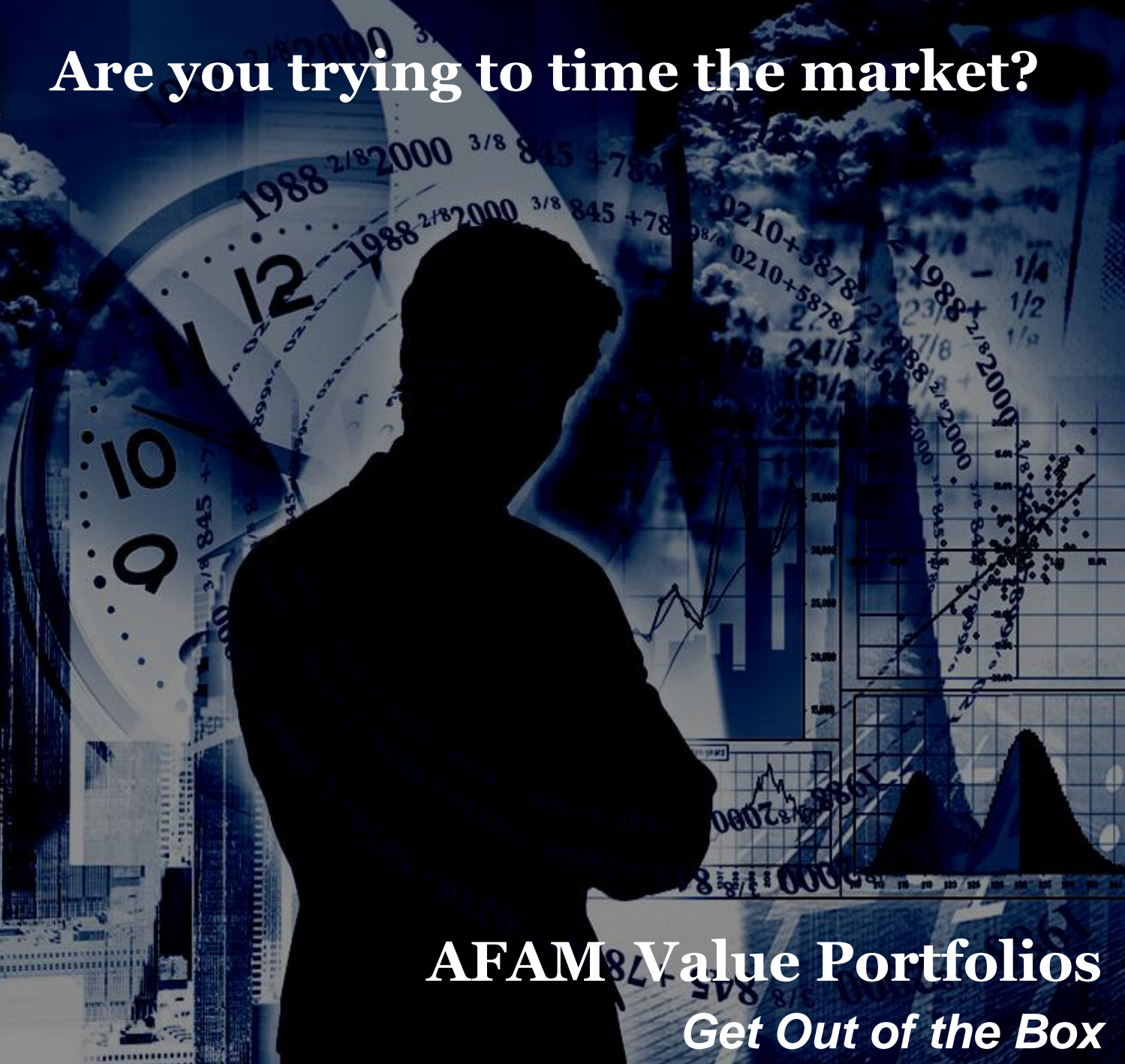




# Are you trying to time the market?



## AFAM Value Portfolios

*Get Out of the Box*



# Diverse All-Cap Value Solutions

## About AFAM's Value Division:

Founded in 1977, Al Frank Asset Management, Inc. is an independent, privately held, registered investment advisor. We exercise diligence and prudence in applying our value-based investment philosophy to work toward the investment goals and objectives of our clients. Our all cap value approach provides the flexibility to seek the most attractive U.S. equity market investments while simultaneously managing risk for long-term investors. We also serve as the Editor of *The Prudent Speculator*, a top-ranked investment newsletter in terms of total return performance (not adjusted for risk) according to *The Hulbert Financial Digest*.

### Investment Style:

All Cap Value

### Objective:

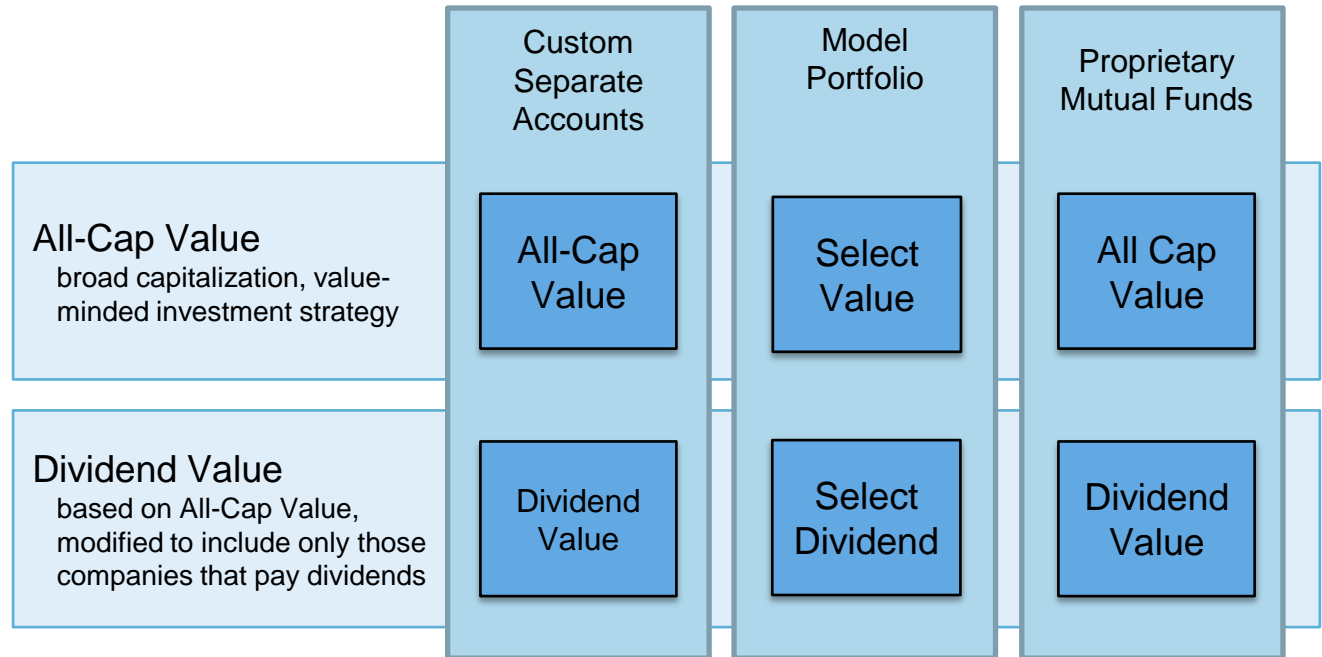
Long-term Growth of Capital

### Benchmark

Russell 3000

### Leadership

Jeff Montgomery, CEO  
John Buckingham, CIO





# Selected Advantages

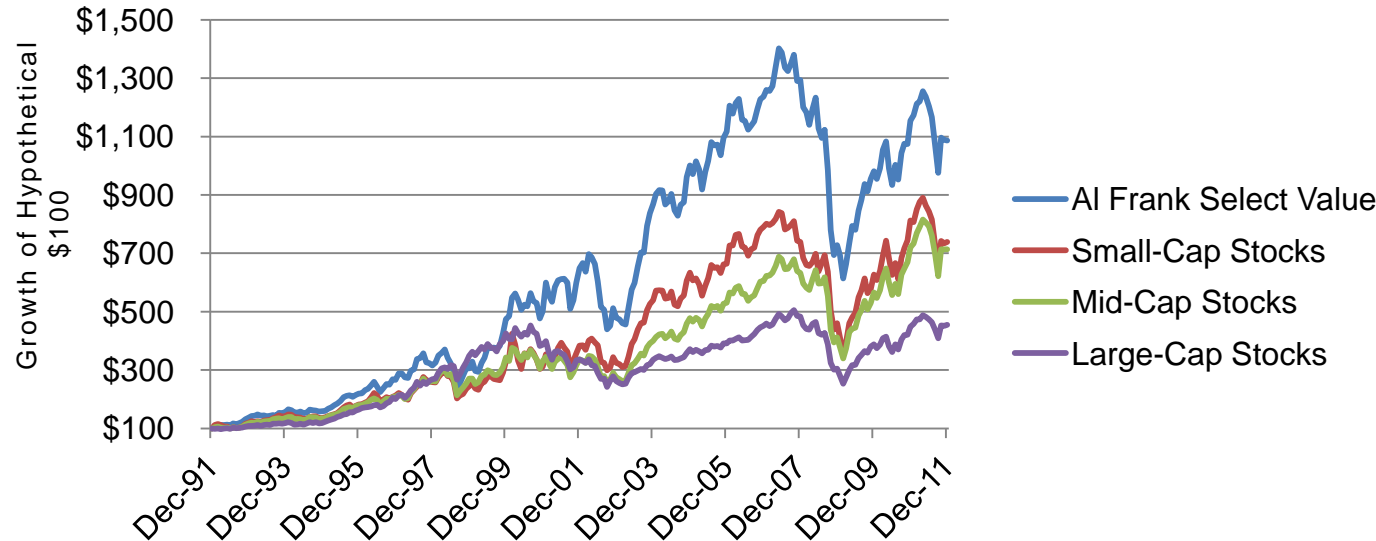
## Selected Advantages Value vs. Growth:

“Some might also call it common sense investing. If you can buy something on sale, generally speaking, you’re better off than if you overpay for it.”

-John Buckingham

## All Cap Orientation vs. the Confines of a Style Box:

Flexibility in our market capitalization emphasis allows adaptation as markets evolve.



Indexed to 100 on 12.31.91. Select Value Composite performance; Fama-French Portfolios formed on size, broken up into bottom 30 percent, middle 40 percent, and top 30 percent. SOURCE: AI Frank via Professors Eugene F. Fama and Kenneth R. French

	Nov. 1988- April 1994	May 1994- March 1999	April 1999- April 2006	May 2006- Dec. 2011
Large-Cap Stocks	13.1%	26.7%	1.2%	2.3%
Mid-Cap Stocks	14.2%	15.1%	11.2%	4.4%
Small-Cap Stocks	11.2%	11.6%	17.1%	0.4%

Annualized returns calculated using Fama-French Portfolios formed on size, broken up into bottom 30 percent, middle 40 percent, and top 30 percent. SOURCE: AI Frank via Professors Eugene F. Fama and Kenneth R. French



# Al Frank Asset Management: Value Division - Details

## A Top Tier Boutique Asset Manager

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### All-Cap Value

- Go anywhere for best intrinsic value
- Can be used as core or satellite manager
- Two proprietary mutual funds and multiple SMA strategies
- Model portfolio product: Al Frank Select

### Investment Team & Approach

- 46 year-old Chief Investment Officer with 25+ years at AFAM
- Consistent approach of buying large baskets of relatively undervalued securities for their long-term appreciation potential
- 2 CFA charterholders on staff

### Editorial Heritage

- Educational tools easy to leverage in your practice
- A top ranked investment newsletter, *The Prudent Speculator*, in terms of total return (not adjusted for risk) according to the *Hulbert Financial Digest*
- Insightful monthly publication: Market Monitor
- Transparency



# Investment Team: Value Division



**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.



**Mark Mowrey, CFA - Senior Vice President, Portfolio Manager**

A member of the firm's Research and Portfolio Management Team since 2004, Mark Mowrey is currently Senior Vice President, Investment Strategy at AFAM | Innealta Capital. Mark is a member of the firm's Management Committee. Focused primarily on more quantitative approaches to investment management, Mark addresses research topics ranging from the past and expected future performance of individual securities based on unique combinations of fundamental characteristics, to the evolving macroeconomic environment's impact on the firm's various investment strategies. Mark graduated from the Wharton School of the University of Pennsylvania in 1994. Prior to joining the firm, Mark served as the Director of Research at Red Herring Communications, a technology and finance-related magazine publisher. Mark's background includes work as a public equity research analyst, a financier in private equities, a consultant and entrepreneur. Mark is a CFA Charterholder.



**Jason Clark, CFA - Vice President, Portfolio Management**

A member of AFAM's Investment Committee, Jason Clark has been a part of the firm's Research and Portfolio Management in 2007. Jason is currently Assistant Vice President, Portfolio Management. Within research, Jason is primarily focused on fundamental analysis of individual stocks and industries. Within Portfolio Management, Jason is responsible for active account management, providing education about the firm's investment strategies and portfolio management process and working with the firm's current and prospective Private Wealth clients. He also contributes to the firm's newsletter and Market Commentaries. After serving in the United States Navy, Jason graduated summa cum laude with a B.A. degree in finance from the University of West Florida. His background includes experience as a fixed income specialist and corporate bond trader for Edward Jones and equity research associate with A.G. Edwards. Jason is a CFA Charterholder and a member of the CFA Society of Orange County.



# Why Value?

It's a matter of Investing 101:

SHAREHOLDERS OWN SOME FRACTION OF FUTURE CASH FLOW

We should like to:

PAY AS LITTLE AS POSSIBLE FOR that future cash flow, whether it's in the form of DIVIDENDS or REINVESTED EARNINGS.

## REASONING:

First...paying as little as possible for those cash flows **maximizes our yield** on those cash flows.

Second...that we paid as little as possible for those cash flows **minimizes the consequence** of misestimating where those cash flows might be a few years down the road.



# Why Value?

## FURTHER...

In buying low, we're looking for two primary forces (among others...) to potentially lift return:

1: Suppose the existing relatively low price multiple of various income-oriented fundamental metrics (price to: revenue, earnings...) does not change, **growth in the underlying fundamental series** can lift the stock;

AND/OR given an existing relatively pessimistic view on a particular financial health metric (debt-to-equity, interest coverage...), **modest gains to financial health** also may lift the shares.

2: Tied to the above, given already relatively low price multiples or relatively pessimistic views on financial health, the forces that generally drive **reversion to the mean** mostly point up.



# Why Value?

## RATHER...PAYING UP FOR GROWTH:

Requires the fulfillment of an already aggressive prophesy. Unless continued, long-term exceptional growth can be justified, exuberant multiples leave room only to justify the expansion of the underlying fundamental series.

Too, the forces that generally drive reversion to the mean mostly point down.

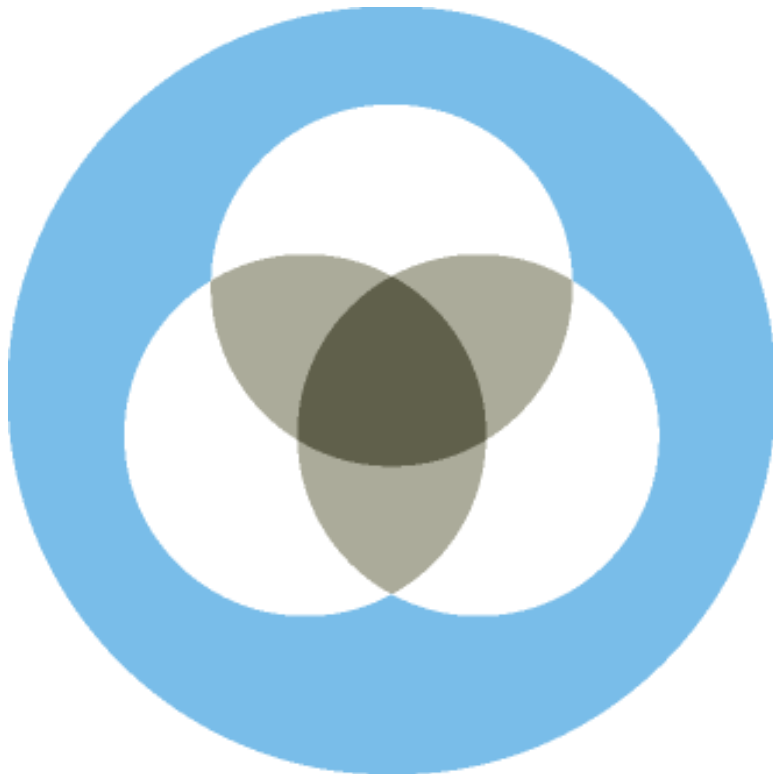
Seems to us just as easy to fail to meet “priced to perfection” projections, as it is to surpass “price to fail” projections.



# Investment Process: Initial Quantitative Screen

Work begins with a comprehensive, quantitative review of all U.S.-traded equities. The focus of the work is **NEW IDEA GENERATION**.

Our proprietary algorithm filters this universe along two threads:  
**VALUATION** and **RISK**, each as important as the other.



**THIS MATH PROVIDES:**

**CONTENT**

ever-evolving lists of stocks over a range of relative valuation buckets

*and*

**CONTEXT**

the relationship between current, past and expected future relative valuations



# Investment Process: Initial Quantitative Screen

## A SAMPLE OF METRICS WE REVIEW:

### GROWTH IN AND PRICE RATIOS OF:

Book Value	Income/Earnings
Enterprise Value	Revenue
Dividends	

### FINANCIAL FLEXIBILITY MEASURES

Cash & Near Cash	Interest Coverage
Total Debt	Capital Expenditures
Debt Maturities	Profits Margins

Most metrics are consolidated into a stock scoring system that allows us track individual-stock and aggregate market valuation in the present and over time, providing a signaling framework for the next step in the process.

Metrics are scaled versus business peer groups as well as other defining characteristics, such as capitalization or sector, where appropriate, to develop a relative view of individual stock valuation.

Absolute metrics also are tracked over time, to express time-dependent relativity, both at the individual stock and aggregate level. The former guides security-level investment, while the latter directs overall valuation sentiment and, where appropriate, the level of equity investment in a portfolio.



# Investment Process: Potential Opportunity Review

Once the screening algorithm has identified potentially undervalued names, the team sets out to whittle that list down to the truly unique...the ones with the greatest potential reward...

*...so long as that **REWARD** is sufficient to cover the **RISK** one must assume in pursuit of the opportunity.*

To clarify risks and potential reward,  
focus shifts to higher-level **QUALITATIVE**  
aspects...

Brand Strength  
Competitive Positioning  
Intellectual Property Defensibility  
Management Tenure  
Product Breadth And Depth  
Reporting Quality



...and to greater  
**QUANTITATIVE** detail

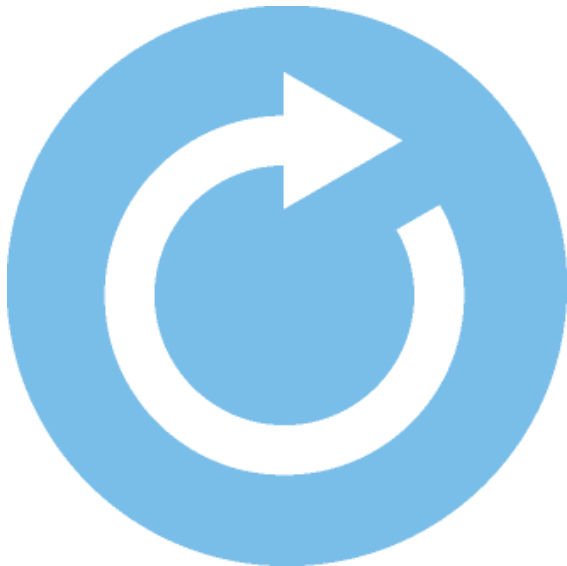




# Investment Process: Ongoing Review and Sell Discipline

The process thereafter closely follows the evolution of the company, its markets, its competitors and the economy.

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.



## LOGIC DRIVING SELL DISCIPLINE

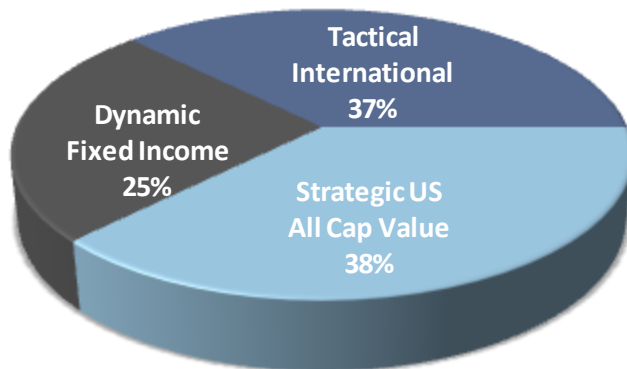
- 1 Value scoring shifts to overvalued
- 2 Our research finds a candidate with more attractive risk/reward attributes
- 3 The stock's evolved risk/reward profile fails to justify continued ownership
- 4 The stock maintains trading characteristics (e.g. sustained or increasingly weak liquidity) not suitable for continued ownership



# AFAM Select – Part of a Combined Solution: The Dynamic Portfolio Series

Approach	Weight	Asset Class	Benchmark
AFAM – Strategic US All Cap Value	37.50%	All Cap Core	Russell 3000
Innealta – Tactical ETF Portfolios:			
Tactical International	37.50%	Tactical ETF Core – Country Rotation	60% MSCI ACWI ex USA / 40% Barclays US Aggregate
Fixed Income	25.00%	Intermediate Bond	Barclays US Aggregate
<b>Total Portfolio Value</b>	<b>100.00%</b>		

## Dynamic Moderate



- DPS offer an attractive solution to managing risk.
- It is a marriage of many elements:
  - Strategic and Tactical
  - Active and Passive
  - Equity and Fixed Income
  - Domestic and International
  - Fundamental and Quantitative
  - Top Down and Bottom Up



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Al Frank Asset Management, Inc. (AFAM) is an Investment Advisor, registered with the Securities & Exchange Commission and notice filed in the State of California and various other states, edits The Prudent Speculator and the weekly Market Commentary and is advisor to two proprietary mutual funds. Innealta Capital is a division of AFAM.

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A newsletter's Hulbert Financial Digest's Ranking is based on an average of its several portfolios in the event it recommends more than one (and includes portfolios that the letters have discontinued). Hulbert currently monitors over 160 investment newsletters. For more information about The Hulbert Financial Digest, go to [hulbertdigest.com](http://hulbertdigest.com).



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ETFs are subject to risks similar to those of stocks, such as market risk, and investors that have their funds invest in accordance with the portfolios may experience losses. Additionally, fixed income (bond) ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates. Investments in foreign investments may incur greater risks than domestic investments.

The Russell Top 200 Index is an unmanaged index generally representative of the largest 200 stocks in the Russell 1000 Index as ranked by total market capitalization.

The Russell Mid-Cap Index is an unmanaged index generally representative of the smallest 800 stocks in the Russell 1000 Index as ranked by total market capitalization.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

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

The Standard & Poor's 500 Stock Index is generally representative of the U.S. Stock Market, without regard to company size.

The Barclays Capital Aggregate Bond Index covers the U.S.-dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The MSCI EAFE Index measures international equity performance and is comprised of 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australasia and the Far East.