

Most Attractive Stocks for September 2014

20 Large/Mid Cap and 20 Small Cap Stocks

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- **Figure 1 shows 10 new stocks that make our September lists.**
- **FREE Company Valuation Reports for 2 of the new stocks are in the Free Archive on our website.**
- **The Most Attractive Stocks portfolio (+3.8%) outperformed the S&P 500 (+3.3%) last month.**
- **Figure 4 shows the 26 stocks that outperformed from August's report.**
- **See Appendix C for data on returns, volatility and portfolio turnover for our Most Attractive Stocks Portfolio.**
- **Most Attractive Stocks have high and rising returns on capital (ROIC) and low market expectations for future profits.**
- **Barron's recently highlighted our stock-picking as amongst the best of all Wall Street firms. See our website for details.**

Figure 1: Additions for September

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
HAS	Hasbro, Inc.	AGM	Federal Agricultural Mortgage Corp
LLTC	Linear Technology Corp	ARL	American Realty Investors, Inc.
NVR	NVR, Inc.	CCUR	Concurrent Computer Corp
XLNX	Xilinx, Inc.	GLRE	Greenlight Capital Re, Ltd.
		OB	OneBeacon Insurance Group, Ltd.
		TMP	Tompkins Financial Corp

Sources: New Constructs, LLC

Please see Appendix B for explanations of additions and deletions to the large and small cap lists.

The 20 Most Attractive Large/Mid Cap Stocks for September

We recommend that investors equal-weight holdings in all 20 Large/Mid Cap Most Attractive Stocks.

Figure 2: 20 Most Attractive Large/Mid Cap Stocks for September

	Ticker	Company Name	High-Quality Earnings			Cheap Valuation			Market Value (\$mm)
			As of Last Fiscal Year			as of 09/02/14			
			Positive Economic EPS	Rising ROIC (% point increase)	High-Ranking ROIC (by Quintile)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	
1	VR	Validus Holdings, Ltd.	\$2.52	2%	2nd	17%	0.5	Less than 1	\$3,549
2	TRV	The Travelers Companies, Inc.	\$3.91	4%	2nd	11%	0.7	Less than 1	\$32,046
3	NLY	Annaly Capital Management, Inc.	\$3.01	13%	Top Quintile	11%	0.2	Less than 1	\$11,172
4	NTAP	NetApp, Inc.	\$1.69	15%	Top Quintile	10%	1.2	8	\$13,600
5	AHL	Aspen Insurance Holdings, Ltd.	\$0.78	1%	3rd	9%	0.7	Less than 1	\$2,798
6	CB	The Chubb Corp	\$5.19	6%	Top Quintile	9%	0.7	Less than 1	\$22,122
7	ALL	The Allstate Corp	\$2.67	1%	2nd	8%	0.8	Less than 1	\$26,797
8	XLNX*	Xilinx, Inc.	\$2.07	11%	Top Quintile	7%	1.1	1	\$11,276
9	F	Ford Motor Company	\$0.20	1%	3rd	7%	1.0	Less than 1	\$68,261
10	PGR	The Progressive Corp	\$1.28	5%	Top Quintile	6%	1.0	Less than 1	\$14,881
11	VMI	Valmont Industries, Inc.	\$6.10	2%	Top Quintile	6%	1.1	4	\$3,647
12	LLTC*	Linear Technology Corp	\$1.88	18%	Top Quintile	5%	1.6	9	\$10,702
13	HAS*	Hasbro Inc.	\$1.99	1%	2nd	5%	1.1	2	\$6,715
14	TRW	TRW Automotive Holdings Corp	\$3.62	1%	Top Quintile	5%	1.2	4	\$10,985
15	DOX	Amdocs, Ltd.	\$1.27	1%	2nd	5%	1.1	1	\$7,540
16	DFS	Discover Financial Services	\$2.43	1%	Top Quintile	5%	1.2	6	\$29,317
17	AXS	Axis Capital Holdings, Ltd.	\$1.31	2%	3rd	4%	0.7	Less than 1	\$5,085
18	RE	Everest Re Group, Ltd.	\$14.70	6%	Top Quintile	3%	0.5	Less than 1	\$7,524
19	CI	Cigna Corporation	\$3.09	2%	2nd	3%	1.2	2	\$24,852
20	NVR*	NVR, Inc.	\$41.61	6%	Top Quintile	3%	1.2	2	\$4,887

* Addition to the Large/Mid Cap Most Attractive list in September

Most Attractive Stocks are Ranked by Free Cash Flow Yield in Descending Order

Sources: New Constructs, LLC

The 20 Most Attractive Small Cap Stocks for September

We recommend that investors equal-weight holdings in all 20 Small Cap Most Attractive Stocks.

Figure 3: 20 Most Attractive Small Cap Stocks for September

	Ticker	Company Name	High-Quality Earnings			Cheap Valuation			Market Value (\$mm)
			As of Last Fiscal Year			as of 09/02/14			
			Positive Economic EPS	Rising ROIC (% point increase)	High-Ranking ROIC (by Quintile)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	
1	ARL*	American Realty Investors, Inc.	\$0.63	8%	2nd	32%	0.4	14	\$80
2	MTEX	Mannatech Inc.	\$1.40	23%	Top Quintile	32%	0.4	5	\$35
3	IQNT	Inteliquent Inc.	\$0.76	12%	Top Quintile	21%	0.9	3	\$414
4	WRLD	World Acceptance Corp	\$7.00	3%	Top Quintile	19%	0.6	Less than 1	\$789
5	CCUR*	Concurrent Computer Corp	\$0.24	4%	3rd	12%	0.6	Less than 1	\$70
6	AGM*	Federal Agricultural Mortgage Corp	\$3.92	3%	Top Quintile	10%	0.5	Less than 1	\$362
7	REGI	Renewable Energy Group	\$4.28	26%	Top Quintile	10%	0.2	Less than 1	\$516
8	USNA	USANA Health Sciences, Inc.	\$4.71	7%	Top Quintile	9%	1.0	Less than 1	\$923
9	ODC	Oil-Dri Corporation Of America	\$0.93	4%	2nd	8%	1.1	8	\$198
10	FF	FutureFuel Corp.	\$0.86	14%	Top Quintile	8%	0.9	1	\$610
11	MOFG	MidWestOne Financial Group, Inc.	\$0.67	1%	3rd	7%	0.6	Less than 1	\$203
12	OFG	OFG Bancorp	\$0.96	5%	2nd	6%	0.6	Less than 1	\$714
13	NRCIB	National Research Corp.	\$1.56	2%	Top Quintile	6%	1.3	3	\$276
14	TAX	Liberty Tax, Inc.	\$1.23	1%	Top Quintile	6%	1.1	Less than 1	\$426
15	EXLS	ExlService Holdings, Inc.	\$0.87	1%	Top Quintile	5%	1.1	3	\$898
16	RWT	Redwood Trust, Inc.	\$1.19	5%	Top Quintile	5%	0.7	Less than 1	\$1,592
17	RLI	RLI Corporation	\$1.61	3%	Top Quintile	4%	1.3	5	\$1,941
18	TMP*	Tompkins Financial Corp	\$0.58	1%	3rd	4%	1.0	2	\$681
19	OB*	OneBeacon Insurance Group, Ltd.	\$0.40	3%	3rd	1%	0.8	Less than 1	\$1,534
20	GLRE*	Greenlight Capital Re, Ltd.	\$4.18	21%	Top Quintile	0%	0.5	4	\$1,298

* Addition to the Small Cap Most Attractive list in September

Most Attractive Stocks are Ranked by Free Cash Flow Yield in Descending Order

Sources: New Constructs, LLC

Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+3.8%) outperformed the S&P 500 (+3.3%) last month. 26 stocks from our August Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 31 stocks had positive returns. See Figure 4 for details. For updates on the performance of all of last month's Most Attractive stocks, see Appendix A. We measure our August performance based on closing prices from August 04, 2014 to September 02, 2014. We published last month's report to subscribers on August 04, 2014 and to the general public, for purchase, on August 11, 2014.

Figure 4: 31 Stocks with Positive Returns From August's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 08/04/14	Ticker	Company Name	Change From 08/04/14
MENT	Mentor Graphics Corp	10.7%	JBSS	John B. Sanfilippo & Son, Inc.	22.6%
NTAP	NetApp Inc.	8.5%	IQNT	Inteliquent Inc.	21.7%
AXS	Axis Capital Holdings, Ltd.	7.8%	UVE	Universal Insurance Holdings	18.1%
PGR	The Progressive Corp	7.4%	ATRI	Atrion Corporation	14.1%
AHL	Aspen Insurance Holdings, Ltd.	7.0%	USNA	USANA Health Sciences, Inc.	8.5%
VR	Validus Holdings, Ltd.	6.6%	KMPR	Kemper Corporation	5.2%
CHKP	Check Point Software Technologies	6.0%	MTEX	Mannatech Inc.	5.0%
CB	The Chubb Corp	5.7%	REGI	Renewable Energy Group	4.2%
PETM	PetSmart Inc.	5.5%	RLI	RLI Corporation	4.0%
NLY	Annaly Capital Management, Inc.	5.2%	ODC	Oil-Dri Corporation	3.5%
TRV	The Travelers Companies, Inc.	5.1%	S&P 500	S&P 500	3.3%
DFS	Discover Financial Services	5.0%	EMCI	EMC Insurance Group, Inc.	2.7%
ALL	The Allstate Corp	4.9%	MOFG	MidWestOne Financial Group	1.8%
DOX	Amdocs, Ltd.	4.8%	OFG	OFG Bancorp	1.4%
RE	Everest Re Group, Ltd.	4.3%	NRCIB	National Research Corp.	0.5%
F	Ford Motor Company	3.4%			
S&P 500	S&P 500	3.3%			
CI	Cigna Corporation	2.6%			

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

Most Attractive Stocks: Methodology

Stocks make our Most Attractive list because they have:

1. **High-Quality Earnings** based on:
 - a. Returns on Invested Capital that are rising; and
 - b. Economic Earnings/Cash Flows that are positive.

AND

2. **Cheap Valuations** based on:
 - a. *Free-Cash Flow Yields*¹ that are positive;
 - b. *Price-to-Economic Book Value (EBV)*² ratios that are relatively low; and
 - c. *Growth Appreciation Periods*³ (GAP) that are relatively low.

Only stocks that earn an Overall Rating of Very Attractive are allowed on our Most Attractive Stocks lists.

The above characteristics also qualify stocks for a 'Very Attractive' or 'Attractive' Rating, according to our Risk/Reward Rating system. Figure 4 shows our Risk/Reward Rating analysis, which we apply to the 3000+ companies that we cover. Stocks get a grade of 1 to 5 for each criterion, 5 being the worst and 1 being the best score. The Overall score is based on the average score of all five criteria. Stocks must get an average score of 1.4 or below to be rated Very Attractive. For the most part, only Very Attractive stocks qualify for our Most Attractive Stocks lists.

Figure 5: New Constructs Risk/Reward Rating for Stocks

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	Price-to-EBV Ratio	Growth Appreciation Period (yrs)
Very Dangerous	Misleading Trend	Bottom Quintile	<-5%	> 3.5 or <-1 > 0	> 50
Dangerous	False Positive	4th Quintile	-5%<-1%	2.4 > 3.5 or <-1	20 > 50
Neutral	Neutral EP	3rd Quintile	-1%<3%	1.6 > 2.4	10 > 20
Attractive	Positive EP	2nd Quintile	3%<10%	1.1 > 1.6	3 > 10
Very Attractive	Rising EP	Top Quintile	>10%	0 > 1.1	0 > 3

Sources: New Constructs, LLC

¹ Free-Cash Flow Yields measure the % of the total value of the firm for which the Free Cash Flows of the firm account. The formula is FCF/Current Enterprise Value.

² Economic Book Value (EBV) measures the no-growth value of the business based on its annual after-tax cash flow. The Formula for EBV is: (NOPAT / WACC) + Excess Cash + Non-operating assets – Debt (incl. Operating Leases) - Value of Outstanding Stock Options – Minority Interests.

³ Growth Appreciation Period measures the number of years, implied by the market-price, that a company will grow its economic earnings. This measure assigns a numerical value to the width of the moat around a firm's business.

Explanation of Risk/Reward Rating System

Our Risk/Reward Rating System assigns a rating to every stock under our coverage according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

Overall Risk/Reward Ranking	The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.
Very Dangerous	FCF Yield is not included in the average.
Dangerous	FCF Yield is not included in the average.
Neutral	All criteria are equal-weighted in the average calculation.
Attractive	All criteria are equal-weighted in the average calculation.
Very Attractive	All criteria are equal-weighted in the average calculation.

Economic vs Reported EPS	Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.
Very Dangerous	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Dangerous	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
Neutral	Negative Economic and Reported Earnings
Attractive	Economic Earnings are positive
Very Attractive	Economic Earnings are positive and rising

Return on Invested Capital (ROIC)	Rates stocks based on their ROIC. Values based on Latest Fiscal Year.
Bottom Quintile	Very Dangerous = the bottom 20% of Russell 1000 companies
4th Quintile	Dangerous = the bottom 40% of Russell 1000 companies
3rd Quintile	Neutral = the middle 20% of Russell 1000 companies
2nd Quintile	Attractive = the top 40% of Russell 1000 companies
Top Quintile	Very Attractive = the top 20% of Russell 1000 companies

FCF Yield	Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.
<-5%	Very Dangerous = less than or equal to -5%
-5%<-1%	Dangerous = more than -5% but less than or equal to -1%
-1%<3%	Neutral = more than -1% but less than or equal to +3%
3%<10%	Attractive = more than +3% but less than or equal to +10%
>10%	Very Attractive = more than +10%

Price-to-EBV Ratio	Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.
>3.5 or -1>0	Very Dangerous = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Dangerous = greater than or equal to 2.4 but less than 3.5 and less than or equal to -1
1.6>2.4	Neutral = greater than or equal to 1.6 but less than 2.4
1.1>1.6	Attractive = greater than or equal to 1.1 but less than 1.6
0>1.1	Very Attractive = greater than or equal to 0 but less than 1.1

Growth Appreciation Period (yrs)	Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.
>50	Very Dangerous = greater than or equal to 50 years
20>50	Dangerous = at least 20 years but less than 50
10>20	Neutral = at least 10 years but less than 20
3>10	Attractive = at least 3 years but less than 10
0>3	Very Attractive = at least 0 years but less than 3

Appendix A – Performance of Stocks on August’s Report

Figure 6: Performance of All Stocks From August’s Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 08/04/14	Ticker	Company Name	Change From 08/04/14
MEN T	Mentor Graphics Corp	10.7%	JBSS	John B. Sanfilippo & Son, Inc.	22.6%
NTAP	NetApp Inc.	8.5%	IQNT	Inteliquent Inc.	21.7%
AXS	Axis Capital Holdings, Ltd.	7.8%	UVE	Universal Insurance Holding	18.1%
PGR	The Progressive Corp	7.4%	ATRI	Atrion Corporation	14.1%
AHL	Aspen Insurance Holdings, Ltd.	7.0%	USNA	USANA Health Sciences, Inc.	8.5%
VR	Validus Holdings, Ltd.	6.6%	KMPR	Kemper Corporation	5.2%
CHKP	Check Point Software Technologies	6.0%	MTEX	Mannatech Inc.	5.0%
CB	The Chubb Corp	5.7%	REGI	Renewable Energy Group	4.2%
PETM	PetSmart Inc.	5.5%	RLI	RLI Corporation	4.0%
NLY	Annaly Capital Management, Inc.	5.2%	ODC	Oil-Dri Corporation	3.5%
TRV	The Travelers Companies, Inc.	5.1%	SPX	S&P 500	3.3%
DFS	Discover Financial Services	5.0%	EMCI	EMC Insurance Group, Inc.	2.7%
ALL	The Allstate Corp	4.9%	MOFG	MidWestOne Financial Group	1.8%
DOX	Amdocs, Ltd.	4.8%	OFG	OFG Bancorp	1.4%
RE	Everest Re Group, Ltd.	4.3%	NRCIB	National Research Corp.	0.5%
F	Ford Motor Company	3.4%	RWT	Redwood Trust, Inc.	-0.3%
SPX	S&P 500	3.3%	TAX	Liberty Tax, Inc.	-0.7%
CI	Cigna Corporation	2.6%	EXLS	ExlService Holdings, Inc.	-2.1%
TRW	TRW Automotive Holdings Corp	-3.4%	WRLD	World Acceptance Corp	-2.9%
VMI	Valmont Industries, Inc.	-3.9%	CTCM	CTC Media, Inc.	-9.5%
NUS	Nu Skin Enterprises, Inc.	-27.2%	FF	FutureFuel Corp	-13.0%
Large Cap Portfolio Return		3.3%	Small Cap Portfolio Return		4.2%
Combo (Large and Small Cap) Return		3.8%			

Sources: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

Appendix B – Additions and Deletions

Most Attractive Large/Mid Cap Stocks

Deletions:

- MENT - Stock price increased 10.7% since August report.
- CHKP - Stock price increased 6.0% since August report.
- NUS - Displaced by improved rank of other stocks.
- PETM - For Sale

Additions:

- HAS - Addition by decrease in rank of other stocks.
- NVR - Addition by decrease in rank of other stocks.
- XLNX - Addition by decrease in rank of other stocks.
- LLTC - New filing data on 08/20/14.

Most Attractive Small Cap Stocks

Deletions:

- UVE - Stock price increased 18.1% since August report.
- ATRI - Stock price increased 14.1% since August report.
- KMPR - Stock price increased 5.2% since August report.
- EMCI - Stock price increased 2.7% since August report.
- CTCM - Displaced by improved rank of other stocks.
- JBSS - New filing data on 08/27/14.

Additions:

- ARL - Stock price decreased 8.8% since August report.
- AGM - Addition by decrease in rank of other stocks.
- GLRE - Addition by decrease in rank of other stocks.
- OB - Addition by decrease in rank of other stocks.
- TMP - Addition by decrease in rank of other stocks.
- CCUR - New filing data on 08/27/14.

Appendix C – Portfolio Metrics

Figure 7: Performance and Risk Metrics

Portfolio	Portfolio Returns			Volatility (Annualized)			Sharpe Ratio			Beta		
	1 year annualized	3 year annualized	Since Inception	1 year annualized	3 year annualized	Since Inception	1 Year	3 Year	Since Inception	1 Year Average	3 Year Average	Average Since Inception
Most Attractive Large	14%	16%	10%	13%	16%	21%	1.1	1.0	0.5	1.0	0.9	1.0
Most Attractive Small	10%	12%	9%	13%	20%	26%	0.8	0.6	0.3	0.94	0.95	0.94
Most Attractive Small and Large	12%	14%	10%	12%	17%	22%	1.0	0.8	0.4	0.95	0.94	0.96
S&P 500	13%	15%	5%	11%	13%	16%	1.2	1.2	0.3			
Russell 2000	6%	13%	7%	18%	20%	22%	0.3	0.7	0.3			

Source: New Constructs, LLC

Figure 8: Portfolio Turnover

Portfolio	Monthly Turnover		
	1 Year Average	3 Year Average	Average Since Inception
Most Attractive Large	38%	30%	27%
Most Attractive Small	38%	31%	29%
Most Attractive Small and Large	38%	31%	28%

Source: New Constructs, LLC

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1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

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