Most Dangerous Stocks for June 2012

20 Large/Mid Cap and 20 Small Cap Stocks

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- **7 new stocks make our June lists.**
- **FREE Company Valuation Reports for 2 of the new stocks are in the Free Archive on our website.**
- **The Dangerous Stocks (-8.3%) fell more than the S&P 500 (-6.6%) and outperformed as a short portfolio last month.**
- **Figure 1 shows the 20 stocks from May's report that outperformed as shorts.**
- **Most Dangerous Stocks have misleading earnings, which means reported earnings are rising while true economic earnings are declining.**
- **Barron's recently highlighted our stock-picking as amongst the best of all Wall Street firms. See our website for details.**

Figure 1: 35 Stocks with Negative Returns From May's Report

Large Cap	
Ticker	Change From 05/02/12
MGM	-20.1%
C	-18.9%
EXXI	-17.9%
NUAN	-16.1%
AIG	-16.1%
VRX	-13.8%
VSAT	-12.2%
BAC	-9.9%
BMR	-9.8%
S&P 500	**-6.6%**
DLR	-6.5%
COG	-6.4%
EQY	-5.9%
TGI	-5.6%
ESS	-4.8%
ASH	-4.5%
ACC	-2.7%
O	-2.4%
IDA	-2.3%
EQIX	-0.0%

Small Cap	
Ticker	Change From 05/02/12
SIGA	-29.1%
TIVO	-22.0%
PCO	-20.5%
CRZO	-20.0%
POWR	-16.5%
MOSY	-13.3%
TRAK	-10.8%
ASTE	-10.6%
KALU	-8.5%
PEB	-8.2%
DRH	-8.0%
S&P 500	**-6.6%**
SUSQ	-6.0%
CSFL	-5.6%
SHO	-3.8%
WCBO	-3.5%
PRK	-3.0%

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

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Most Dangerous Stocks: Monthly Updates

The Dangerous Stocks (-8.3%) fell more than the S&P 500 (-6.6%) and outperformed as a short portfolio last month. 20 stocks from our May Most Dangerous Large Cap and Small Cap lists outperformed the S&P 500 as shorts, and 35 stocks had negative returns. See Figure 2 for details. For updates on the performance of all of last month's Most Dangerous stocks, see Appendix A. We measure our May performance based on closing prices from May 02, 2012 to May 31, 2012. We published last month's report to subscribers on May 02, 2012 and to the general public on May 07, 2012.

Figure 2: 35 Stocks with Negative Returns From May's Report

Large Cap		
Ticker	Company Name	Change From 05/02/12
MGM	Mgm Resorts International	-20.1%
C	Citigroup Inc.	-18.9%
EXXI	Energy Xxi (Bermuda), Ltd.	-17.9%
NUAN	Nuance Communications, Inc.	-16.1%
AIG	American Intl Group, Inc.	-16.1%
VRX	Valeant Pharm. Intl, Inc.	-13.8%
VSAT	Viasat Inc.	-12.2%
BAC	Bank Of America Corp	-9.9%
BMR	Biomed Realty Trust, Inc.	-9.8%
S&P 500	**S&P 500**	**-6.6%**
DLR	Digital Realty Trust, Inc.	-6.5%
COG	Cabot Oil & Gas Corp	-6.4%
EQY	Equity One, Inc.	-5.9%
TGI	Triumph Group, Inc.	-5.6%
ESS	Essex Property Trust, Inc.	-4.8%
ASH	Ashland Inc.	-4.5%
ACC	American Campus Comm.	-2.7%
O	Realty Income Corp	-2.4%
IDA	Idacorp Inc.	-2.3%
EQIX	Equinix Inc.	-0.0%

Small Cap		
Ticker	Company Name	Change From 05/02/12
SIGA	Siga Technologies, Inc.	-29.1%
TIVO	Tivo Inc.	-22.0%
PCO	Pendrell Corporation	-20.5%
CRZO	Carrizo Oil & Gas, Inc.	-20.0%
POWR	Powersecure International, Inc.	-16.5%
MOSY	Mosys Inc.	-13.3%
TRAK	Dealertrack Holdings, Inc.	-10.8%
ASTE	Astec Industries, Inc.	-10.6%
KALU	Kaiser Aluminum Corp	-8.5%
PEB	Pebblebrook Hotel Trust	-8.2%
DRH	Diamondrock Hosp. Comp.	-8.0%
S&P 500	**S&P 500**	**-6.6%**
SUSQ	Susquehanna Bancshares, Inc.	-6.0%
CSFL	Centerstate Banks, Inc.	-5.6%
SHO	Sunstone Hotel Investors, Inc.	-3.8%
WCBO	West Coast Bancorp	-3.5%
PRK	Park National Corp	-3.0%

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

Figure 3 shows the 7 new stocks that make our June Most Dangerous Stocks Report.

Figure 3: Additions for June

Large Cap Additions	
Ticker	**Company Name**
BRE	Bre Properties, Inc.
BXP	Boston Properties, Inc.
RGLD	Royal Gold, Inc.
TEG	Integrys Energy Group, Inc.

Small Cap Additions	
Ticker	**Company Name**
CT	Capital Trust, Inc.
EGHT	8x8 Inc.
WTFC	Wintrust Financial Corp

Sources: New Constructs, LLC

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

Most Dangerous Stocks: Methodology

Stocks make our Most Dangerous list because they have:

1. **Poor-Quality Earnings** based on:
   a. Misleading earnings: rising and positive GAAP earnings while economic earnings are negative and falling; and
   b. Low Returns on Invested Capital (ROIC).

AND

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

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

The above characteristics also qualify stocks for a 'Very Dangerous' or 'Dangerous' 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 4.25 or above to be rated Very Dangerous. For the most part, only Very Dangerous stocks qualify for our Most Dangerous Stocks lists.

Figure 4: 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 May's Report

Figure 5: Performance of All Stocks From May's Report

Large Cap		
Ticker	Company Name	Change From 05/02/12
MGM	Mgm Resorts International	-20.1%
C	Citigroup Inc.	-18.9%
EXXI	Energy Xxi (Bermuda), Ltd.	-17.9%
NUAN	Nuance Communications, Inc.	-16.1%
AIG	American Intl Group, Inc.	-16.1%
VRX	Valeant Pharm. Intl, Inc.	-13.8%
VSAT	Viasat Inc.	-12.2%
BAC	Bank Of America Corp	-9.9%
BMR	Biomed Realty Trust, Inc.	-9.8%
SPX	**S&P 500**	**-6.6%**
DLR	Digital Realty Trust, Inc.	-6.5%
COG	Cabot Oil & Gas Corp	-6.4%
EQY	Equity One, Inc.	-5.9%
TGI	Triumph Group, Inc.	-5.6%
ESS	Essex Property Trust, Inc.	-4.8%
ASH	Ashland Inc.	-4.5%
ACC	American Campus Comm.	-2.7%
O	Realty Income Corp	-2.4%
IDA	Idacorp Inc.	-2.3%
EQIX	Equinix Inc.	-0.0%
ARBA	Ariba Inc.	15.7%
Large Cap Portfolio Return		**-8.0%**
Combo (Large and Small Cap) Return		**-8.3%**

Small Cap		
Ticker	Company Name	Change From 05/02/12
SIGA	Siga Technologies, Inc.	-29.1%
TIVO	Tivo Inc.	-22.0%
PCO	Pendrell Corporation	-20.5%
CRZO	Carrizo Oil & Gas, Inc.	-20.0%
POWR	Powersecure International, Inc.	-16.5%
MOSY	Mosys Inc.	-13.3%
TRAK	Dealertrack Holdings, Inc.	-10.8%
ASTE	Astec Industries, Inc.	-10.6%
KALU	Kaiser Aluminum Corp	-8.5%
PEB	Pebblebrook Hotel Trust	-8.2%
DRH	Diamondrock Hosp. Comp.	-8.0%
SPX	**S&P 500**	**-6.6%**
SUSQ	Susquehanna Bancshares, Inc.	-6.0%
CSFL	Centerstate Banks, Inc.	-5.6%
SHO	Sunstone Hotel Investors, Inc.	-3.8%
WCBO	West Coast Bancorp	-3.5%
PRK	Park National Corp	-3.0%
TRNO	Terreno Realty Corp	1.1%
EVBS	Eastern Virginia Bank, Inc.	3.5%
GEO	The Geo Group, Inc.	5.1%
HBOS	Heritage Financial Group, Inc.	9.2%
Small Cap Portfolio Return		**-8.5%**

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

Appendix B – Additions and Deletions

Most Dangerous Large/Mid Cap Stocks

Deletions:

IDA - Stock price decreased 2.3% since May report.
TGI - New filing data on 05/29/12.
VSAT - New filing data on 05/25/12.
ARBA - Removed due to announced acquisition.

Additions:

RGLD - Stock price increased 10.8% since May report.
BRE - Addition by improved rank of other stocks.
BXP - Addition by improved rank of other stocks.
TEG - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

DRH - Stock price decreased 8.0% since May report.
PRK - Stock price decreased 3.0% since May report.
EVBS - Displaced by decrease in rank of other stocks.

Additions:

CT - Stock price increased 0.9% since May report.
WTFC - Addition by improved rank of other stocks.
EGHT - New filing data on 05/24/12.

The 20 Most Dangerous Large/Mid Cap Stocks for June

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

Figure 6: 20 Most Dangerous Large/Mid Cap Stocks for June

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 05/31/12			
	Ticker	Company Name	Rising GAAP Earnings ($mm)	Declining Economic Cash Flows ($mm)	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	BRE*	Bre Properties, Inc.	$24.89	($34)	Bottom Quintile	-1%	504.6	Greater than 100	$3,729
2	C	Citigroup Inc.	$352.00	($1,023)	Bottom Quintile	0%	193.0	Greater than 100	$77,639
3	DLR	Digital Realty Trust, Inc.	$72.53	($10)	4th	-3%	24.8	Greater than 100	$7,584
4	BXP*	Boston Properties, Inc.	$113.61	($106)	4th	3%	22.4	Greater than 100	$14,831
5	NUAN	Nuance Communications, Inc.	$57.34	($6)	Bottom Quintile	-4%	17.4	Greater than 100	$6,223
6	EQIX	Equinix Inc.	$45.65	($5)	4th	-5%	11.9	Greater than 100	$7,610
7	COG	Cabot Oil & Gas Corp	$19.02	($26)	Bottom Quintile	-1%	11.0	Greater than 100	$6,828
8	EXXI	Energy Xxi (Bermuda), Ltd.	$4.71	($23)	4th	-29%	6.5	Greater than 100	$2,382
9	O	Realty Income Corp	$26.25	($7)	4th	-8%	5.3	Greater than 100	$5,113
10	TEG*	Integrys Energy Group, Inc.	$6.50	($16)	Bottom Quintile	1%	3.6	48	$4,235
11	RGLD*	Royal Gold, Inc.	$49.90	($5)	Bottom Quintile	-4%	3.0	35	$3,747
12	MGM	Mgm Resorts International	$4,552.03	($26)	Bottom Quintile	-32%	-0.5	Greater than 100	$5,294
13	BAC	Bank Of America Corp	$3,683.00	($9,630)	Bottom Quintile	-13%	-0.6	Greater than 100	$78,883
14	ASH	Ashland Inc.	$82.00	($198)	Bottom Quintile	-21%	-1.4	Greater than 100	$4,993
15	EQY	Equity One, Inc.	$7.18	($74)	Bottom Quintile	-13%	-3.1	Greater than 100	$2,279
16	BMR	Biomed Realty Trust, Inc.	$4.14	($33)	Bottom Quintile	-8%	-6.7	Greater than 100	$2,784
17	ESS	Essex Property Trust, Inc.	$6.60	($2)	Bottom Quintile	-2%	-7.5	Greater than 100	$5,237
18	VRX	Valeant Pharm. Intl, Inc.	$367.75	($330)	Bottom Quintile	-11%	-9.0	67	$14,918
19	AIG	American Intl Group, Inc.	$15,403.00	($6,579)	Bottom Quintile	-29%	-34.3	Greater than 100	$55,351
20	ACC	American Campus Comm.	$40.42	($0)	Bottom Quintile	-6%	-4681.0	Greater than 100	$3,273

* Addition to the Large/Mid Cap Most Dangerous list in June

Most Dangerous Stocks are Ranked by Price-to-Economic Book Value in Descending Order

Sources: New Constructs, LLC

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The 20 Most Dangerous Small Cap Stocks for June

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

Figure 7: 20 Most Dangerous Small Cap Stocks for June

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 05/31/12			
	Ticker	Company Name	Rising GAAP Earnings ($mm)	Declining Economic Cash Flows ($mm)	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	SUSQ	Susquehanna Bancshares, Inc	$38.63	($36)	Bottom Quintile	-14%	31.3	Greater than 100	$1,511
2	HBOS	Heritage Financial Group, Inc.	$2.42	($3)	Bottom Quintile	-5%	10.5	Greater than 100	$106
3	WCBO	West Coast Bancorp	$28.48	($4)	Bottom Quintile	-6%	10.0	Greater than 100	$363
4	POWR	Powersecure International, Inc.	$20.59	($2)	Bottom Quintile	-28%	8.7	Greater than 100	$78
5	PEB	Pebblebrook Hotel Trust	$10.69	($34)	Bottom Quintile	-51%	7.2	Greater than 100	$1,118
6	GEO	The Geo Group, Inc.	$15.16	($33)	Bottom Quintile	-16%	6.2	42	$1,331
7	KALU	Kaiser Aluminum Corp	$11.00	($31)	Bottom Quintile	-15%	4.6	41	$924
8	TRAK	Dealertrack Holdings, Inc.	$92.97	($3)	Bottom Quintile	-17%	4.4	Greater than 100	$1,145
9	EGHT*	8x8 Inc.	$62.73	($3)	4th	-34%	3.6	52	$286
10	ASTE	Astec Industries, Inc.	$7.49	($13)	Bottom Quintile	-10%	3.0	Greater than 100	$623
11	WTFC*	Wintrust Financial Corp	$41.12	($7)	Bottom Quintile	-5%	2.4	Greater than 100	$1,234
12	CT*	Capital Trust, Inc.	$443.49	($57)	Bottom Quintile	-565%	0.0	Greater than 100	$73
13	MOSY	Mosys Inc.	$34.32	($2)	Bottom Quintile	-31%	-0.3	Greater than 100	$116
14	SIGA	Siga Technologies, Inc.	$41.79	($6)	Bottom Quintile	-64%	-0.6	Greater than 100	$119
15	TIVO	Tivo Inc.	$186.67	($26)	Bottom Quintile	-47%	-0.9	Greater than 100	$1,043
16	SHO	Sunstone Hotel Investors, Inc.	$35.21	($90)	Bottom Quintile	-24%	-1.0	Greater than 100	$1,187
17	CSFL	Centerstate Banks, Inc.	$13.45	($15)	Bottom Quintile	-12%	-1.4	Greater than 100	$218
18	PCO	Pendrell Corporation	$321.54	($27)	Bottom Quintile	-120%	-1.5	Greater than 100	$303
19	TRNO	Terreno Realty Corp	$1.66	($4)	Bottom Quintile	-26%	-1.7	Greater than 100	$190
20	CRZO	Carrizo Oil & Gas, Inc.	$26.68	($1)	Bottom Quintile	-12%	-2.0	56	$875

* Addition to the Small Cap Most Dangerous list in June

Most Dangerous Stocks are Ranked by Price-to-Economic Book Value in Descending Order

Sources: New Constructs, LLC

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2. Standard for all companies.
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