Most Dangerous Stocks for September

20 Large/Mid Cap and 20 Small Cap Stocks

Investment Perspective

The report presents unique investment ideas produced by our analysis of SEC Filings for over 3000 companies.

Contributors

Equity Research Team
research@newconstructs.com

Note:
Go to www.newconstructs.com to access our research on individual companies and our Most Attractive and Most Dangerous Stocks reports.

- **10 stocks from last month's report declined in the last month while the S&P 500 rose 2%. See Figure 1 below.**
- **20 new stocks make our September lists. See Figure 3 below.**
- **All of our Most Dangerous Stocks have a 'Very Dangerous' rating, the worst score in our Risk/Reward Rating system.**
- **Very Dangerous Stocks have Misleading Earnings, which means reported earnings are rising while economic earnings and ROIC are declining.**
- **Figures 5 and 6 on pages 6 and 7 show this month's stocks.**
- **Institutional Investor Magazine highlighted our #1 ranking for stock-picking in an October 11th article.**

Figure 1: 10 Decliners From Last Month's Report

Large Cap		Small Cap	
Ticker	Decline from August 6th	Ticker	Decline from August 6th
CELG	-7%	BJRI	-2%
BRE	-3%	MEAS	-1%
DTE	-2%	HIH	-1%
DRE	-1%	TXCO	-1%
ASN	-0.4%	B	-1%

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes dividends.

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Most Dangerous Stocks: Monthly Updates

There are 10 stocks from our August Most Dangerous Large Cap and Small Cap lists that declined while the S&P 500 rose 2%. We measure performance based on closing prices from August 4th, 2006, the last trading day before we published the report to subscribers. See Figure 2 for details.

Figure 2: 10 Decliners From Last Month's Report

Large Cap			Small Cap		
Ticker	Company Name	Decline from August 6th	Ticker	Company Name	Decline from August 6th
CELG	Celgene Corp	-7%	BJRI	BJ Restaurants	-2%
BRE	BRE Properties	-3%	MEAS	Measurement Specialties Inc	-1%
DTE	DTE Energy Co	-2%	HIH	Highland Hospitality	-1%
DRE	Duke Realty	-1%	TXCO	Exploration Co of Delaware Inc	-1%
ASN	Archstone-Smith	-0.4%	B	Barnes Group Inc	-1%

Sources: New Constructs, LLC,
Note: Gain/Decline performance analysis excludes dividends.

Figure 3 shows the 20 new stocks that make our September Most Dangerous Stocks lists.

Figure 3: 20 Additions for September

Large Cap		Small Cap	
Ticker	Company Name	Ticker	Company Name
CWTR	Coldwater Creek Inc	CBK	Christopher & Banks Corp
DDS	Dillard Inc	CDE	Coeur D'alene Mines Cp
ESS	Essex Property Trust	CDR	Cedar Shop Centers
GME	Gamestop Corp	ICGE	Internet Capital Grp Inc
KSU	Kansas City Sthrn Ind	LKQX	LKQ Corp
LM	Legg Mason Inc	MRLN	Marlin Business Services
NTAP	Network Appliance	MSEX	Middlesex Water Co
PENN	Penn Natl Gaming Co	PLCE	Children's Place Retail Stores Inc
PSYS	Psychiatric Solutons Inc	SORC	Source Info Management Co
TE	TECO Energy		
UTIW	UTI Worldwide Inc		

Sources: New Constructs, LLC

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

Most Dangerous Stocks: Methodology

Our Most Dangerous Stocks have Very Dangerous ratings 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. *2-year Average 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' 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. Only Very Dangerous stocks are allowed on our Most Dangerous Stocks lists.

Figure 4: New Constructs Risk/Reward Rating for Stocks

Overall	Quality of Earnings		Valuation		
Risk/Reward Rating	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield 2yr Avg	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	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
Actual Values	-$1.55/$0.65	8%	2.3%	3.1	39yrs

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 $[(FCF_t + FCF_{t-1})/(\text{Current Enterprise Value} + \text{Enterprise Value}_{t-1})]$, where 't' is the latest fiscal year.

[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 Grading Scale

Our Risk/Reward grading scale 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.

Overall Risk/Reward Ranking	**The Overall Risk/Reward Ranking provides a final ranking based on the equal-weighted average ranking of each criterion.**
Very Dangerous	2yr Average FCF Yield is not included in the average.
Dangerous	2yr Average 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	**Ranks 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)	**Ranks stocks based on their ROIC. Values based on Latest Fiscal Year.**
Bottom Quintile	Very Dangerous = in the bottom 20% of all companies
4th Quintile	Dangerous = in the bottom 40% of all companies
3rd Quintile	Neutral = in the middle 20% of all companies
2nd Quintile	Attractive = in the top 40% of all companies
Top Quintile	Very Attractive = in the top 20% of all companies
FCF Yield 2yr Avg	**Ranks stocks based on their 2-year average 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	**Ranks 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)	**Ranks 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 – Additions/Deletions from Lists

Most Dangerous Large and Mid Cap Stocks

Deletions:

CELG – Stock price decreased 7% since August report.
BRE – Stock price decreased 3% since August report.
DRE – Displaced by increase in rank of other stocks.
RGC – Displaced by increase in rank of other stocks.
ASN – Displaced by increase in rank of other stocks.
WMB – Displaced by increase in rank of other stocks.
SRP – Displaced by increase in rank of other stocks.
VSH – Displaced by increase in rank of other stocks.
SWY – Displaced by increase in rank of other stocks.
IVGN – Displaced by increase in rank of other stocks.
BRCM – Displaced by increase in rank of other stocks.

Additions:

CWTR – Stock price increased 42% since August report.
NTAP – Stock price increased 14% since August report.
DDS – Stock price increased 6% since August report.
LM – Stock price increased 4% since August report.
KSU – Stock price increased 2% since August report.
ESS – Stock price increased 2% since August report.
PSYS – Stock price increased 1% since August report.
TE – Stock price increased 1% since August report.
UTIW – Addition by improved rank versus other stocks.
GME – Addition by improved rank versus other stocks.
PENN – Addition by improved rank versus other stocks.

Most Dangerous Small Cap Stocks

Deletions:

MEAS – Stock price decreased 1% since August report.
HIH – Stock price decreased 1% since August report.
B – Displaced by increase in rank of other stocks.

CTS – Displaced by increase in rank of other stocks.
KSU – Displaced by increase in rank of other stocks.
CBC – Displaced by increase in rank of other stocks.
KYPH – Displaced by increase in rank of other stocks.
NHC – Displaced by increase in rank of other stocks.
CPKI – Displaced by increase in rank of other stocks.

Additions:

MSEX – Stock price increased 11% since August report.
MRLN – Stock price increased 11% since August report.
ICGE – Stock price increased 10% since August report.
CDE – Stock price increased 3% since August report.
CDR – Stock price increased 1% since August report.
PLCE – Addition by improved rank versus other stocks.
SORC – Addition by improved rank versus other stocks.
LKQX – Addition by improved rank versus other stocks.
CBK – Addition by improved rank versus other stocks.

The 20 Most Dangerous Stocks for September – Large and Mid-Cap Stocks

Figure 5: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year, $ in millions			as of 9/4/06			
	Ticker	Company Name	Rising GAAP Earnings	Declining Economic Earnings	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield (2yr Avg)	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	GME*	Gamestop Corp	$40	($56)	4	-31%	74.3	45	$2,506
2	DVA	Davita	$6	($166)	Bottom Quintile	-19%	47.8	16	$5,828
3	CWTR*	Coldwater Creek Inc	$12	($10)	4	-5%	31.7	More than 100	$2,546
4	PSYS*	Psychiatric Solutons Inc	$11	($27)	Bottom Quintile	-17%	28.2	More than 100	$2,881
5	DDS*	Dillard Inc	$4	($1)	Bottom Quintile	15%	18.7	63	$2,592
6	UTIW*	UTI Worldwide Inc	$21	($17)	3	-3%	17.9	More than 100	$6,479
7	NTAP*	Network Appliance	$41	($29.5)	3	-2%	10.4	More than 100	$12,757
8	SGMS	Scientific Games Corp	$14	($27)	4	-2%	9.7	36	$2,632
9	ESS*	Essex Property Trust	$0	($2)	4	1%	7.5	99	$2,851
10	EBAY	eBay Inc	$304	($80)	3	-3%	4.6	More than 100	$38,332
11	VRSN	Verisign	$220	($23)	Bottom Quintile	-4%	4.5	More than 100	$5,217
12	MMC	Marsh & McLennan	$228	($318)	Bottom Quintile	2%	3.6	28	$14,149
13	LAUR	Laureate Education	$12	($3)	4	-7%	3.2	23	$2,426
14	LM*	Legg Mason Inc	$736	($345)	4	-19%	3.1	20	$10,972
15	MHS	Medco Health Solutions	$120	($59)	4	-6%	3.1	62	$18,032
16	TE*	TECO Energy	$827	($6)	Bottom Quintile	-4%	-1.5	More than 100	$3,260
17	KSU*	Kansas City Sthrn Ind	$76	($128)	Bottom Quintile	-33%	-2.6	56	$2,010
18	PENN*	Penn Natl Gaming Co	$49	($146)	Bottom Quintile	-24%	-6.7	16	$2,688
19	MGM	MGM Mirage	$31	($527)	Bottom Quintile	-20%	-7.6	16	$10,036
20	DTE	DTE Energy Co	$106	($85)	Bottom Quintile	-2%	-8.5	38	$7,245

* New on the Large Cap Most Dangerous list versus our August 2006 report.

Sources: New Constructs, LLC

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The 20 Most Dangerous Stocks for September – Small-Cap Stocks

Figure 6: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year, $ in millions			as of 9/4/06			
	Ticker	Company Name	Rising GAAP Earnings	Declining Economic Cash Flows	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield (2yr Avg)	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	BJRI	BJ Restaurants	$2	($3)	Bottom Quintile	-5%	21.1	66	$411
2	PLCE*	Children's Place Retail Stores Inc	$22	($7)	4	-8%	17.3	25	$1,581
3	LKQX*	LKQ Corp	$10	($1)	3	-7%	12.4	96	$1,822
4	BDY	Bradley Pharmaceutical	$0	($0)	Bottom Quintile	-32%	11.1	65	$240
5	LAYN	Layne Christensen Co	$5	($7)	Bottom Quintile	-19%	11.0	47	$415
6	CDE*	Coeur D'alene Mines Cp	$27	($3)	Bottom Quintile	-8%	9.6	81	$1,351
7	FLDR	Flanders Corp	$3	($1)	Bottom Quintile	-1%	8.8	44	$267
8	WGII	Washington Group Int'l	$7	($9)	Bottom Quintile	-3%	8.7	50	$1,542
9	SORC*	Source Info Management Co	$1	($33)	Bottom Quintile	-40%	7.1	More than 100	$538
10	EMBT	Embarcadero Tech Inc	$2	($0)	Bottom Quintile	1%	6.1	More than 100	$166
11	CBK*	Christopher & Banks Corp	$3	($0)	4	-2%	5.3	59	$874
12	SLNK	Spectralink Corp	$1	($8)	4	-13%	5.2	30	$163
13	TXCO	Exploration Co of Delaware Inc	$11	($18)	Bottom Quintile	-2%	4.7	62	$332
14	CHDN	Churchill Downs	$68	($1)	Bottom Quintile	3%	4.6	81	$514
15	MSEX*	Middlesex Water Co	$0	($1)	Bottom Quintile	-5%	4.5	34	$231
16	VMI	Valmont Ind Inc	$12	($17)	4	-3%	4.3	63	$1,299
17	SHEN	Shenandoah Telecommun Co	$0	($2)	4	-6%	4.2	27	$336
18	CDR*	Cedar Shop Centers	$0	($9)	Bottom Quintile	-32%	4.2	26	$365
19	ICGE*	Internet Capital Grp Inc	$208	($30)	Bottom Quintile	1%	-0.5	53	$338
20	MRLN*	Marlin Business Services	$3	($5)	Bottom Quintile	-10%	-1.4	39	$260

* New on the Small Cap Most Dangerous list versus our August 2006 report.

Sources: New Constructs, LLC

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