Most Dangerous Stocks for October

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.

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

- **17 companies declined since our last report. 18 companies beat the S&P 500 (+1.55%). See Table 1 below.**
- **24 new stocks make our October 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, 2005, article.**

Figure 1: 17 Decliners From Last Month's Report

Large Cap	
Ticker	Decline From 09/04/06
MHS	-4.5%
EBAY	-2.4%
ESS	-2.1%
LAUR	-1.8%
TE	-0.8%
DVA	-0.7%
KSU	-0.2%
DTE	1.2%
S&P 500	**1.5%**

Small Cap	
Ticker	Decline From 09/04/06
TXCO	-19.8%
FLDR	-16.4%
CDE	-16.0%
SORC	-14.2%
MRLN	-8.2%
LAYN	-6.7%
MSEX	-5.2%
VMI	-4.4%
SHEN	-3.1%
WGII	-0.6%
S&P 500	**1.5%**

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

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Most Dangerous Stocks: Monthly Updates

There are 17 stocks from our September Most Dangerous Large Cap and Small Cap lists that declined while the S&P 500 rose 1.5%. We measure performance based on closing prices from September 4th, 2006, the last trading day before we published the report to subscribers. See Figure 2 for details.

Figure 2: 17 Decliners From Last Month's Report

Large Cap			Small Cap		
Ticker	Company Name	Decline From 09/04/06	Ticker	Company Name	Decline From 09/04/06
MHS	Medco Hlth Soln	-4.5%	TXCO	Exploration Co Of Delaware Inc	-19.8%
EBAY	Ebay Inc.	-2.4%	FLDR	Flanders Corp	-16.4%
ESS	Essex Property Trust	-2.1%	CDE	Coeur D'Alene Mines Cp	-16.0%
LAUR	Laureate Edu	-1.8%	SORC	Source Info Management Co	-14.2%
TE	Teco Energy	-0.8%	MRLN	Marlin Business Svcs Cp	-8.2%
DVA	Davita Inc	-0.7%	LAYN	Layne Christensen Co	-6.7%
KSU	Kansas City Sthrn Ind.	-0.2%	MSEX	Middlesex Water Co	-5.2%
DTE	Dte Energy Co.	1.2%	VMI	Valmont Ind Inc	-4.4%
S&P 500	**S&P 500**	**1.5%**	SHEN	Shenandoah Telecommun Co	-3.1%
			WGII	Washington Grp Intl Inc	-0.6%
			S&P 500	**S&P 500**	**1.5%**

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

Figure 3 shows the 24 new stocks that make our October Most Dangerous Stocks lists.

Figure 3: 24 Additions for October

Large Cap Additions	
Ticker	Company Name
ADP	Automatic Data Processing Inc.
BCO	Brink'S Co
BRCD	Brocade Comms
CELG	Celgene Corp
CETV	Central European Media Enterprises Ltd
HE	Hawaiian Elec
HRS	Harris Corp
IVGN	Invitrogen Corp
NDAQ	Nasdaq Stock Market Inc
TDS	Tel & Data Sys
USM	U.S. Cellular Cp

Small Cap Additions	
Ticker	Company Name
CBC	Capital Bancorp Ltd
DBRN	Dress Barn The
FORM	Formfactor Inc
HEC	Harken Energy Cp
KYPH	Kyphon Inc
NFP	Natl Fincl Partners Cp
RGS	Regis Corp
RNWK	Realnetworks
SMSC	Standard Microsystems
SMTL	Semitool Inc
SUNH	Sun Healthcare Grp
SYX	Systemax Inc
ZILA	Zila 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:

DDS - Displaced by worsened rank of other stocks.
DTE - Displaced by worsened rank of other stocks.
EBAY - Stock price decreased 1.8% since September report.
ESS - Displaced by worsened rank of other stocks.
LAUR - Displaced by worsened rank of other stocks.
LM - Stock price decreased 2.4% since September report.
MMC - Displaced by worsened rank of other stocks.
NTAP - Displaced by worsened rank of other stocks.
PENN - Displaced by worsened rank of other stocks.
SGMS - Displaced by worsened rank of other stocks.
UTIW - Displaced by worsened rank of other stocks.

Additions:

ADP - Addition by improved rank of other stocks.
BCO - Addition by improved rank of other stocks.
BRCD - Stock price increased 22.8% since September report.
CELG - Addition by improved rank of other stocks.
CETV - Stock price increased 10.7% since September report.
HE - Addition by improved rank of other stocks.
HRS - New filing data on 09/07/06.
IVGN - Stock price increased 1.0% since September report.
NDAQ - Stock price increased 3.5% since September report.
TDS - Stock price increased 1.3% since September report.
USM - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

CBK - Displaced by worsened rank of other stocks.
CHDN - Displaced by worsened rank of other stocks.
EMBT - Displaced by worsened rank of other stocks.
FLDR - Stock price decreased 16.4% since September report.
ICGE - Displaced by worsened rank of other stocks.
LKQX - Displaced by worsened rank of other stocks.
MRLN - Stock price decreased 8.2% since September report.
SHEN - Stock price decreased 3.1% since September report.
SLNK - Displaced by worsened rank of other stocks.
SORC - Stock price decreased 14.2% since September report.
TXCO - Stock price decreased 19.8% since September report.
VMI - Stock price decreased 4.4% since September report.
WGII - Stock price decreased 0.6% since September report.

Additions:

CBC	- Stock price increased 4.5% since September report.
DBRN	- Stock price increased 23.2% since September report.
FORM	- Addition by improved rank of other stocks.
HEC	- Addition by improved rank of other stocks.
KYPH	- Addition by improved rank of other stocks.
NFP	- Stock price increased 8.0% since September report.
RGS	- New filing data on 09/11/06.
RNWK	- Addition by improved rank of other stocks.
SMSC	- Stock price increased 2.4% since September report.
SMTL	- Addition by improved rank of other stocks.
SUNH	- Stock price increased 1.4% since September report.
SYX	- Stock price increased 32.2% since September report.
ZILA	- Addition by improved rank of other stocks.

The 20 Most Dangerous Stocks for October – 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			as of 10/02/06			
	Ticker	Company Name	Rising GAAP Earnings ($mm)	Declining Economic Cash Flows	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield (2yr Avg)	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	DVA	Davita Inc	$6.39	($166)	Bottom Quintile	-19%	45.6	16	$5,789
2	CWTR	Coldwater Creek Inc	$12.44	($10)	4th	-5%	34.0	Greater than 100	$2,629
3	PSYS	Psychiatric Solutions Inc	$11.02	($27)	Bottom Quintile	-16%	32.1	Greater than 100	$3,006
4	BRCD*	Brocade Comms	$75.14	($3)	Bottom Quintile	1%	27.0	Greater than 100	$2,081
5	USM*	U.S. Cellular Cp	$25.23	($18)	Bottom Quintile	-6%	20.5	93	$5,172
6	NDAQ*	Nasdaq Stock Market Inc	$56.92	($0)	4th	-16%	14.7	20	$2,361
7	CETV*	Central European Media Enterp	$23.96	($23)	4th	-27%	6.0	41	$2,377
8	VRSN	Verisign Inc	$220.24	($23)	Bottom Quintile	-4%	4.6	Greater than 100	$5,312
9	HRS*	Harris Corp	$35.70	($18)	3rd	-6%	3.5	69	$5,752
10	TDS*	Tel & Data Sys	$155.69	($30)	Bottom Quintile	-4%	3.4	Greater than 100	$4,958
11	MHS	Medco Hlth Soln	$120.40	($59)	4th	-6%	2.9	55	$17,214
12	ADP*	Automatic Data Processing Inc.	$498.60	($6)	Bottom Quintile	-7%	2.8	41	$27,039
13	HE*	Hawaiian Elec	$17.04	($247)	Bottom Quintile	-31%	-1.4	39	$2,199
14	TE	Teco Energy	$826.50	($6)	Bottom Quintile	-4%	-1.5	Greater than 100	$3,233
15	KSU	Kansas City Sthrn Ind.	$75.70	($128)	Bottom Quintile	-33%	-2.6	56	$2,007
16	MGM	Mgm Mirage	$30.92	($527)	Bottom Quintile	-19%	-7.6	20	$11,594
17	CELG*	Celgene Corp	$10.90	($25)	Bottom Quintile	-2%	-12.8	Greater than 100	$14,286
18	IVGN*	Invitrogen Corp	$43.22	($43)	Bottom Quintile	-13%	-13.5	60	$3,283
19	BCO*	Brink'S Co	$20.90	($89)	Bottom Quintile	-2%	-136.0	Greater than 100	$2,987
20	GME	Gamestop Cp	$39.86	($56)	4th	-30%	-1853.5	74	$2,671

* New on the Large Cap Most Dangerous list since 09/04/06

Sources: New Constructs, LLC

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

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

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 10/02/06			
	Ticker	Company Name	Rising GAAP Earnings ($mm)	Declining Economic Cash Flows	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield (2yr Avg)	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	Market Value ($mm)
1	FORM*	Formfactor Inc	$5.00	($12)	Bottom Quintile	-4%	1195.0	Greater than 100	$1,612
2	SYX*	Systemax Inc	$1.25	($1)	Bottom Quintile	-3%	36.2	60	$542
3	BJRI	Bj Restaurants	$2.09	($3)	Bottom Quintile	-4%	35.9	Greater than 100	$490
4	PLCE	Children'S Place Retail Stores	$22.30	($11)	4th	-8%	30.9	Greater than 100	$1,773
5	KYPH*	Kyphon Inc	$8.12	($2)	Bottom Quintile	-1%	23.3	Greater than 100	$1,543
6	CBC*	Capital Bancorp Ltd	$9.21	($19)	Bottom Quintile	-9%	14.2	Greater than 100	$662
7	BDY	Bradley Pharmaceutical	$0.01	($0)	Bottom Quintile	-31%	12.8	Greater than 100	$254
8	LAYN	Layne Christensen Co	$4.93	($7)	Bottom Quintile	-20%	9.5	38	$387
9	SMTL*	Semitool Inc	$2.70	($4)	Bottom Quintile	-7%	9.1	Greater than 100	$283
10	CDE	Coeur D'Alene Mines Cp	$27.41	($3)	Bottom Quintile	-9%	7.9	60	$1,134
11	RGS*	Regis Corp	$44.95	($7)	4th	-8%	6.1	65	$1,622
12	CDR	Cedar Shop Centers	$0.33	($9)	Bottom Quintile	-32%	4.4	21	$384
13	MSEX	Middlesex Water Co	$0.03	($1)	Bottom Quintile	-5%	4.2	25	$219
14	NFP*	Natl Fincl Partners Cp	$16.04	($1)	4th	-5%	3.9	84	$1,413
15	HEC*	Harken Energy Cp	$60.80	($16)	Bottom Quintile	-28%	-0.5	31	$123
16	SUNH*	Sun Healthcare Grp	$43.39	($46)	Bottom Quintile	-22%	-0.7	29	$171
17	ZILA*	Zila Inc	$5.44	($5)	Bottom Quintile	-6%	-1.1	Greater than 100	$104
18	RNWK*	Realnetworks	$335.34	($137)	Bottom Quintile	-8%	-1.7	Greater than 100	$1,815
19	SMSC*	Standard Microsystems	$10.43	($40)	Bottom Quintile	-19%	-2.5	Greater than 100	$594
20	DBRN*	Dress Barn The	$22.42	($52)	Bottom Quintile	-27%	-4.1	67	$1,280

* New on the Small Cap Most Dangerous list since 09/04/06

Sources: New Constructs, LLC

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