Most Dangerous Stocks for November

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.

- **20 stocks from last month's report underperformed the S&P 500 (+2.48%). 16 stocks had negative returns. See Figure 1 below.**
- **22 new stocks make our November 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: 20 Under-Performers From Last Month's Report

Large Cap		Small Cap	
Ticker	Decline From 10/02/06	Ticker	Decline From 10/02/06
MHS	-14.4%	SYX	-34.2%
IVGN	-9.6%	FORM	-9.2%
HRS	-6.7%	ZILA	-7.9%
DVA	-5.7%	BJRI	-7.2%
PSYS	-5.0%	HEC	-3.6%
BRCD	-1.4%	MSEX	-3.1%
BCO	-1.1%	DBRN	-1.0%
CWTR	-0.1%	KYPH	-0.3%
HE	0.1%	CBC	0.7%
ADP	2.0%	RNWK	1.9%
S&P 500	2.5%	S&P 500	2.5%

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

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Most Dangerous Stocks: Monthly Updates

20 stocks from our October Most Dangerous Large Cap and Small Cap lists underperformed the S&P 500, which rose 2.5%. 16 of those stocks had negative returns. We measure performance based on closing prices from October 2nd, 2006, the last trading day before we published the report to subscribers. See Figure 2 for details.

Figure 2: 20 Under-Performers From Last Month's Report

Large Cap			Small Cap		
Ticker	Company Name	Decline From 10/02/06	Ticker	Company Name	Decline From 10/02/06
MHS	Medco Hlth Soln	-14.4%	SYX	Systemax Inc	-34.2%
IVGN	Invitrogen Corp	-9.6%	FORM	Formfactor Inc	-9.2%
HRS	Harris Corp	-6.7%	ZILA	Zila Inc	-7.9%
DVA	Davita Inc	-5.7%	BJRI	Bj Restaurants	-7.2%
PSYS	Psychiatric Solutions Inc	-5.0%	HEC	Harken Energy Cp	-3.6%
BRCD	Brocade Comms	-1.4%	MSEX	Middlesex Water Co	-3.1%
BCO	Brink'S Co	-1.1%	DBRN	Dress Barn The	-1.0%
CWTR	Coldwater Creek Inc	-0.1%	KYPH	Kyphon Inc	-0.3%
HE	Hawaiian Elec	0.1%	CBC	Capital Bancorp Ltd	0.7%
ADP	Automatic Data Processing Inc.	2.0%	RNWK	Realnetworks	1.9%
S&P 500	S&P 500	2.5%	S&P 500	S&P 500	2.5%

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

Figure 3 shows the 22 new stocks that make our November Most Dangerous Stocks lists.

Figure 3: 22 Additions for November

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
UTIW	Uti Worldwide Inc	SWKS	Skyworks Solution
NTAP	Network Appliance	LKQX	Lkq Cp
SGMS	Scientific Games Corp	FLDR	Flanders Corp
ESS	Essex Property Trust	WGII	Washington Grp Intl Inc
NFG	Natl Fuel Gas Co	SLNK	Spectralink Corp
EBAY	Ebay Inc.	CHDN	Churchill Downs
MMC	Marsh & Mclennan	ZQK	Quiksilver Inc
RJF	Raymond James	VMI	Valmont Ind Inc
LAUR	Laureate Edu	SFNT	Safenet Inc
LM	Legg Mason Inc	MBHI	Midwest Banc Holdings Inc
S	Sprint Corp	POWL	Powell Ind 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:

MHS - Stock price decreased 14.4% since October report.
HRS - Stock price decreased 6.7% since October report.
BRCD - Stock price decreased 1.4% since October report.
ADP - Displaced by decrease in rank of other stocks.
CETV - Displaced by decrease in rank of other stocks.
CWTR - Displaced by decrease in rank of other stocks.
GME - Displaced by decrease in rank of other stocks.
HE - Displaced by decrease in rank of other stocks.
MGM - Displaced by decrease in rank of other stocks.
TDS - Displaced by decrease in rank of other stocks.
USM - Displaced by decrease in rank of other stocks.

Additions:

EBAY - Stock price increased 17.9% since October report.
ESS - Stock price increased 5.1% since October report.
LAUR - Stock price increased 6.6% since October report.
LM - Addition by improved rank of other stocks.
MMC - Stock price increased 10.3% since October report.
NFG - Stock price increased 4.6% since October report.
NTAP - Addition by improved rank of other stocks.
RJF - Stock price increased 7.4% since October report.
S - Stock price increased 13.5% since October report.
SGMS - Addition by improved rank of other stocks.
UTIW - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

SYX - Stock price decreased 34.2% since October report.
FORM - Stock price decreased 9.2% since October report.
ZILA - Stock price decreased 7.9% since October report.
BJRI - Stock price decreased 7.2% since October report.
HEC - Stock price decreased 3.6% since October report.
MSEX - Stock price decreased 3.1% since October report.
DBRN - Stock price decreased 1.0% since October report.
CDE - Displaced by decrease in rank of other stocks.
NFP - Displaced by decrease in rank of other stocks.
PLCE - Displaced by decrease in rank of other stocks.
RGS - Displaced by decrease in rank of other stocks.

Additions:

CHDN - Stock price increased 1.5% since October report.
FLDR - Stock price increased 19.1% since October report.
LKQX - Stock price increased 5.8% since October report.
MBHI - Addition by improved rank of other stocks.
POWL - Stock price increased 10.6% since October report.
SFNT - Stock price increased 21.8% since October report.
SLNK - Stock price increased 3.7% since October report.
SWKS - Stock price increased 31.4% since October report.
VMI - Stock price increased 6.5% since October report.
WGII - Addition by improved rank of other stocks.
ZQK - Stock price increased 11.2% since October report.

The 20 Most Dangerous Stocks for November – 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 11/05/06			
	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	NDAQ	Nasdaq Stock Market Inc	$56.92	($0)	4th	-14%	48.5	31	$2,888
2	DVA	Davita Inc	$6.39	($166)	Bottom Quintile	-19%	31.9	14	$5,456
3	PSYS	Psychiatric Solutions Inc	$11.02	($27)	Bottom Quintile	-17%	27.5	Greater than 100	$2,855
4	UTIW*	Uti Worldwide Inc	$20.90	($17)	3rd	-2%	20.9	Greater than 100	$7,002
5	NTAP*	Network Appliance	$40.70	($40)	4th	-2%	12.7	Greater than 100	$13,358
6	SGMS*	Scientific Games Corp	$14.30	($27)	4th	-2%	8.3	34	$2,420
7	ESS*	Essex Property Trust	$0.02	($2)	4th	1%	7.8	Greater than 100	$2,935
8	NFG*	Natl Fuel Gas Co	$22.90	($158)	Bottom Quintile	7%	5.9	Greater than 100	$3,185
9	EBAY*	Ebay Inc.	$303.82	($80)	3rd	-3%	5.5	Greater than 100	$44,106
10	VRSN	Verisign Inc	$220.24	($23)	Bottom Quintile	-4%	4.8	Greater than 100	$5,505
11	MMC*	Marsh & Mclennan	$228.00	($318)	Bottom Quintile	2%	4.2	47	$16,393
12	RJF*	Raymond James	$23.47	($30)	3rd	-6%	3.6	Greater than 100	$3,418
13	LAUR*	Laureate Edu	$12.17	($3)	4th	-7%	3.4	26	$2,539
14	LM*	Legg Mason Inc	$735.74	($345)	4th	-20%	3.1	20	$10,879
15	S*	Sprint Corp	$2,806.00	($3,312)	Bottom Quintile	-55%	2.7	19	$38,932
16	TE	Teco Energy	$826.50	($6)	Bottom Quintile	-4%	-1.5	Greater than 100	$3,328
17	KSU	Kansas City Sthrn Ind.	$75.70	($128)	Bottom Quintile	-33%	-2.7	59	$2,079
18	CELG	Celgene Corp	$10.90	($25)	Bottom Quintile	-2%	-12.0	Greater than 100	$17,329
19	IVGN	Invitrogen Corp	$43.22	($43)	Bottom Quintile	-13%	-14.3	46	$2,967
20	BCO	Brink'S Co	$20.90	($89)	Bottom Quintile	-2%	-147.4	Greater than 100	$2,956

* New on the Large Cap Most Dangerous list since 10/02/06

Sources: New Constructs, LLC

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The 20 Most Dangerous Stocks for November – 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 11/05/06			
	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	SWKS*	Skyworks Solution	$3.20	($8)	Bottom Quintile	1%	25.1	Greater than 100	$1,047
2	KYPH	Kyphon Inc	$8.12	($2)	Bottom Quintile	-1%	23.1	Greater than 100	$1,539
3	BDY	Bradley Pharmaceutical	$0.01	($0)	Bottom Quintile	-30%	15.3	Greater than 100	$273
4	LKQX*	Lkq Cp	$10.31	($1)	3rd	-7%	14.8	Greater than 100	$1,963
5	CBC	Capital Bancorp Ltd	$9.21	($19)	Bottom Quintile	-9%	14.5	Greater than 100	$667
6	SMTL	Semitool Inc	$2.70	($4)	Bottom Quintile	-6%	11.7	Greater than 100	$337
7	LAYN	Layne Christensen Co	$4.93	($7)	Bottom Quintile	-19%	10.2	42	$401
8	FLDR*	Flanders Corp	$2.74	($1)	Bottom Quintile	-1%	8.8	44	$266
9	WGII*	Washington Grp Intl Inc	$7.23	($9)	Bottom Quintile	-3%	8.1	42	$1,489
10	SLNK*	Spectralink Corp	$1.07	($8)	4th	-13%	6.0	56	$177
11	CHDN*	Churchill Downs	$67.54	($1)	Bottom Quintile	2%	5.1	Greater than 100	$556
12	ZQK*	Quiksilver Inc	$25.75	($32)	4th	-21%	4.7	30	$1,611
13	CDR	Cedar Shop Centers	$0.33	($9)	Bottom Quintile	-31%	4.5	22	$399
14	VMI*	Valmont Ind Inc	$12.20	($17)	4th	-3%	4.5	68	$1,324
15	SUNH	Sun Healthcare Grp	$43.39	($46)	Bottom Quintile	-22%	-0.7	30	$179
16	RNWK	Realnetworks	$335.34	($137)	Bottom Quintile	-8%	-1.7	Greater than 100	$1,849
17	SMSC	Standard Microsystems	$10.43	($40)	Bottom Quintile	-18%	-2.6	Greater than 100	$632
18	SFNT*	Safenet Inc	$0.85	($12)	Bottom Quintile	-39%	-5.2	74	$551
19	MBHI*	Midwest Banc Holdings Inc	$3.57	($19)	Bottom Quintile	-10%	-13.6	Greater than 100	$451
20	POWL*	Powell Ind Inc	$0.58	($6)	Bottom Quintile	-7%	-16.2	Greater than 100	$259

* New on the Small Cap Most Dangerous list since 10/02/06

Sources: New Constructs, LLC

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