Most Dangerous Stocks for August

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.

- **27 stocks from last month's report underperformed the S&P 500 (-4.8%). 35 stocks had negative returns. See Figure 1 below.**
- **8 new stocks make our August 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 6 and 7 show August's 40 Most Dangerous stocks. Figure 5 shows the performance of July's stocks.**
- **Institutional Investor Magazine highlighted our stock-picking ability as #1 amongst all research firms.**

Figure 1: 27 Under-Performers From Last Month's Report

Large Cap	
Ticker	Decline From 07/03/07
SFI	-23.2%
CPWR	-22.5%
CWTR	-15.9%
TSCO	-9.4%
SVU	-9.2%
FIS	-9.1%
PAG	-7.7%
BLK	-6.2%
LAMR	-5.7%
PAA	-5.0%
S&P 500	**-4.8%**
MU	-4.6%
SCI	-3.5%
FLS	-3.5%
MIL	-3.1%
T	-3.1%
HRS	-2.1%

Small Cap	
Ticker	Decline From 07/03/07
BONT	-38.4%
POP	-36.3%
ALCO	-24.6%
AAI	-15.7%
SONO	-14.4%
CRZO	-13.9%
TKLC	-12.8%
AMIE	-11.8%
SCLN	-11.0%
RGS	-9.2%
MDRX	-9.1%
SMDI	-8.3%
FNLY	-8.0%
RDK	-7.8%
LACO	-6.7%
LWSN	-6.1%
BRKS	-5.1%
S&P 500	**-4.8%**
BJRI	-1.5%
NFP	-0.7%

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

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Most Dangerous Stocks: Monthly Updates

27 stocks from our July Most Dangerous Large Cap and Small Cap lists underperformed the S&P 500, which fell 4.8%. 35 of those stocks had negative returns. See Appendix A for updates on the performance of all of last month's Most Dangerous stocks. We measure performance based on closing prices from July 3rd, 2007, the day we published the report to subscribers. See Figure 2 for details.

Figure 2: Under-Performers From July Report

Large Cap		
Ticker	Company Name	Decline From 07/03/07
SFI	Istar Finl	-23.2%
CPWR	Compuware Corp.	-22.5%
CWTR	Coldwater Creek Inc	-15.9%
TSCO	Tractor Supply Co	-9.4%
SVU	Supervalu Inc.	-9.2%
FIS	Fidelity Natl In	-9.1%
PAG	Penske Auto Grp	-7.7%
BLK	Blackrock Inc	-6.2%
LAMR	Lamar Adverts A	-5.7%
PAA	Plains All Amer Pipeline Lp	-5.0%
S&P 500	**S&P 500**	**-4.8%**
MU	Micron Technology	-4.6%
SCI	Service Corp Intl	-3.5%
FLS	Flowserve Corp	-3.5%
MIL	Millipore Corp.	-3.1%
T	At&T	-3.1%
HRS	Harris Corp	-2.1%

Small Cap		
Ticker	Company Name	Decline From 07/03/07
BONT	Bon-Ton Stores Inc	-38.4%
POP	Pope & Talbot Inc	-36.3%
ALCO	Alico Inc	-24.6%
AAI	Airtran Holdings Inc	-15.7%
SONO	Sonosite Inc	-14.4%
CRZO	Carrizo Oil & Gas Inc	-13.9%
TKLC	Tekelec	-12.8%
AMIE	Ambassadors Intl Inc	-11.8%
SCLN	Sciclone Pharmaceutical	-11.0%
RGS	Regis Corp	-9.2%
MDRX	Allscripts Healthcare Solutions Inc	-9.1%
SMDI	Sirenza Microdevices Inc	-8.3%
FNLY	Finlay Enterprise Inc	-8.0%
RDK	Ruddick Corp	-7.8%
LACO	Lakes Entertainment	-6.7%
LWSN	Lawson Software Inc	-6.1%
BRKS	Brooks Automation	-5.1%
S&P 500	**S&P 500**	**-4.8%**
BJRI	Bj Restaurants	-1.5%
NFP	Natl Fincl Partners Cp	-0.7%

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

Figure 3 shows the 8 new stocks that make our August Most Dangerous Stocks lists.

Figure 3: Additions for August Report

Large Cap Additions	
Ticker	Company Name
BEC	Beckman Coulter
LBTYA	Liberty Global Inc Cl A
SY	Sybase
VNO	Vornado Realty

Small Cap Additions	
Ticker	Company Name
CWTR	Coldwater Creek Inc
IGTE	Igate Corp
NHC	Natl Healthcare Corp
SWHC	Smith & Wesson Holding Cp

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

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 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.

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	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	**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 = 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	**Rates 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	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 Last Month's List

Figure 5: Performance of All Stocks From Last Month's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 07/03/07	Ticker	Company Name	Change From 07/03/07
SFI	Istar Finl	-23.2%	BONT	Bon-Ton Stores Inc	-38.4%
CPWR	Compuware Corp.	-22.5%	POP	Pope & Talbot Inc	-36.3%
CWTR	Coldwater Creek Inc	-15.9%	ALCO	Alico Inc	-24.6%
TSCO	Tractor Supply Co	-9.4%	AAI	Airtran Holdings Inc	-15.7%
SVU	Supervalu Inc.	-9.2%	SONO	Sonosite Inc	-14.4%
FIS	Fidelity Natl In	-9.1%	CRZO	Carrizo Oil & Gas Inc	-13.9%
PAG	Penske Auto Grp	-7.7%	TKLC	Tekelec	-12.8%
BLK	Blackrock Inc	-6.2%	AMIE	Ambassadors Intl Inc	-11.8%
LAMR	Lamar Adverts A	-5.7%	SCLN	Sciclone Pharmaceutical	-11.0%
PAA	Plains All Amer Pipeline Lp	-5.0%	RGS	Regis Corp	-9.2%
SPX	**S&P 500**	-4.8%	MDRX	Allscripts Healthcare Solutions I	-9.1%
MU	Micron Technology	-4.6%	SMDI	Sirenza Microdevices Inc	-8.3%
SCI	Service Corp Intl	-3.5%	FNLY	Finlay Enterprise Inc	-8.0%
FLS	Flowserve Corp	-3.5%	RDK	Ruddick Corp	-7.8%
MIL	Millipore Corp.	-3.1%	LACO	Lakes Entertainment	-6.7%
T	At&T	-3.1%	LWSN	Lawson Software Inc	-6.1%
HRS	Harris Corp	-2.1%	BRKS	Brooks Automation	-5.1%
PETM	Petsmart	0.3%	**SPX**	**S&P 500**	-4.8%
FLEX	Flextronics Intl Inc	1.8%	BJRI	Bj Restaurants	-1.5%
IRM	Iron Mountain	6.4%	NFP	Natl Fincl Partners Cp	-0.7%
BRCM	Broadcom Corporation	11.7%	KEM	Kemet Corp	1.8%

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

Appendix B – Additions/Deletions from Lists

Most Dangerous Large and Mid Cap Stocks

Deletions:

CPWR - Stock price decreased 22.5% since July report.
CWTR - Stock price decreased 15.9% since July report.
TSCO - Stock price decreased 9.4% since July report.
PAG - Stock price decreased 7.7% since July report.

Additions:

BEC - Stock price increased 8.1% since July report.
LBTYA - Addition by improved rank of other stocks.
SY - Addition by improved rank of other stocks.
VNO - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

BONT - Stock price decreased 38.4% since July report.
CRZO - Stock price decreased 13.9% since July report.
AMIE - Stock price decreased 11.8% since July report.

LWSN - New filing data on 07-30-2007.

Additions:

CWTR - Addition by improved rank of other stocks.
IGTE - Addition by improved rank of other stocks.
NHC - Addition by improved rank of other stocks.
SWHC - New filing data on 07/16/07.

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

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

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

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 08/01/07			
	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	IRM	Iron Mountain	$17.76	($72)	4th	-5%	45.7	24	$5,601
2	MIL	Millipore Corp.	$16.82	($67)	Bottom Quintile	-18%	14.0	33	$3,944
3	BLK	Blackrock Inc	$88.69	($1,229)	Bottom Quintile	-57%	8.9	8	$12,537
4	SVU	Supervalu Inc.	$245.83	($423)	Bottom Quintile	-50%	8.0	10	$7,932
5	FLS	Flowserve Corp	$103.20	($24)	Bottom Quintile	2%	7.7	60	$3,984
6	MU	Micron Technology	$220.00	($238)	Bottom Quintile	-11%	5.7	Greater than 100	$8,373
7	BRCM	Broadcom Corporation	$11.95	($22)	Bottom Quintile	1%	5.5	Greater than 100	$18,025
8	HRS	Harris Corp	$35.70	($18)	3rd	-5%	4.7	Greater than 100	$7,316
9	PETM	Petsmart	$2.58	($19)	4th	-1%	4.7	40	$4,413
10	FIS	Fidelity Natl In	$128.77	($150)	4th	-35%	4.6	20	$9,242
11	PAA	Plains All Amer Pipeline Lp	$44.50	($222)	4th	-30%	3.8	55	$4,886
12	VNO*	Vornado Realty	$9.53	($137)	4th	-4%	3.6	14	$15,346
13	FLEX	Flextronics Intl Inc	$367.48	($19)	Bottom Quintile	-2%	3.4	Greater than 100	$6,698
14	BEC*	Beckman Coulter	$36.30	($40)	4th	-1%	3.1	41	$4,424
15	T	AT&T	$2,570.00	($7,580)	Bottom Quintile	-52%	2.7	10	$156,173
16	SY*	Sybase	$9.48	($14)	4th	-6%	2.4	46	$2,173
17	SFI	Istar Finl	$86.91	($133)	Bottom Quintile	-13%	-1.5	13	$4,066
18	SCI	Service Corp Intl	$184.45	($149)	Bottom Quintile	-4%	-1.7	31	$3,599
19	LBTYA*	Liberty Global Inc Cl A	$786.30	($78)	Bottom Quintile	-2%	-1.9	Greater than 100	$18,327
20	LAMR	Lamar Adverts A	$2.12	($18)	Bottom Quintile	-1%	-3.9	Greater than 100	$6,066

* New on the Large Cap Most Dangerous list since 07/03/07

Sources: New Constructs, LLC

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

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

Figure 7: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 08/01/07			
	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	SWHC*	Smith & Wesson Holding Cp	$4.26	($2)	4th	-12%	13.9	59	$765
2	ALCO	Alico Inc	$0.38	($3)	Bottom Quintile	-4%	13.0	82	$355
3	CWTR*	Coldwater Creek Inc	$13.80	($3)	4th	-7%	9.1	Greater than 100	$1,796
4	SMDI	Sirenza Microdevices Inc	$6.20	($7)	4th	-18%	7.2	Greater than 100	$485
5	NHC*	Natl Healthcare Corp	$8.11	($7)	4th	-18%	6.8	37	$641
6	TKLC	Tekelec	$119.80	($0)	Bottom Quintile	-2%	6.7	Greater than 100	$859
7	RGS	Regis Corp	$44.95	($7)	4th	-8%	5.9	66	$1,602
8	IGTE*	Igate Corp	$1.74	($1)	Bottom Quintile	1%	5.4	Greater than 100	$420
9	NFP	Natl Fincl Partners Cp	$1.40	($10)	4th	-7%	5.3	Greater than 100	$1,802
10	BJRI	Bj Restaurants	$1.49	($0)	Bottom Quintile	-11%	5.2	23	$459
11	SONO	Sonosite Inc	$1.80	($0)	Bottom Quintile	-4%	5.0	86	$460
12	KEM	Kemet Corp	$6.52	($3)	Bottom Quintile	-4%	3.8	Greater than 100	$622
13	RDK	Ruddick Corp	$3.74	($15)	4th	-6%	3.8	45	$1,350
14	BRKS	Brooks Automation	$37.54	($44)	Bottom Quintile	-25%	3.1	Greater than 100	$1,255
15	POP	Pope & Talbot Inc	$95.33	($4)	Bottom Quintile	-22%	-0.1	22	$41
16	LACO	Lakes Entertainment	$32.82	($9)	Bottom Quintile	-38%	-0.6	Greater than 100	$262
17	AAI	Airtran Holdings Inc	$7.44	($28)	Bottom Quintile	-13%	-0.7	24	$877
18	FNLY	Finlay Enterprise Inc	$60.14	($10)	Bottom Quintile	-5%	-0.9	Greater than 100	$44
19	SCLN	Sciclone Pharmaceutical	$8.44	($0)	Bottom Quintile	-18%	-1.0	Greater than 100	$101
20	MDRX	Allscripts Healthcare Solutions	$2.19	($29)	Bottom Quintile	-16%	-974.5	Greater than 100	$1,167

* New on the Small Cap Most Dangerous list since 07/03/07

Sources: New Constructs, LLC

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