Most Dangerous Stocks for May

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.

- **19 stocks from last month's report underperformed the S&P 500 (+2.7%). 17 stocks had negative returns. See Figure 1 below.**
- **21 new stocks make our May lists. See Figure 3 below.**
- **The Most Dangerous Stocks have Misleading Earnings, which means reported earnings are rising while economic earnings and ROIC are declining.**
- **Figures 6 and 7 show May's 40 Most Dangerous Stocks. Figure 5 shows the performance of April's stocks.**
- **Institutional Investor Magazine highlighted our stock-picking ability as #1 amongst all research firms.**

Figure 1: 19 Under-Performers From Last Month's Report

Large Cap	
Ticker	Decline From 04/01/08
WY	-6.0%
LKQX	-4.9%
DDR	-3.5%
CME	-2.1%
WTR	-0.7%
MFE	-0.7%
KIM	0.1%
S&P 500	**2.7%**

Small Cap	
Ticker	Decline From 04/01/08
SNCI	-13.5%
LGND	-9.7%
IFLO	-7.9%
CWT	-6.2%
PLA	-5.2%
PEET	-4.6%
SMMX	-3.7%
DGIT	-2.4%
FSCI	-1.6%
BNT	-1.4%
FARM	-0.5%
SUPG	1.1%
S&P 500	**2.7%**

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

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Most Dangerous Stocks: Monthly Updates

19 stocks from our April Most Dangerous Large Cap and Small Cap lists underperformed the S&P 500, which rose 2.7%. 17 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 April 1, 2008, the day we published the report to subscribers. See Figure 2 for details.

Figure 2: Under-Performers From April Report

Large Cap		
Ticker	Company Name	Decline From 04/01/08
WY	Weyerhaeuser Co	-6.0%
LKQX	Lkq Cp	-4.9%
DDR	Developers Diversified Reality (	-3.5%
CME	Cme Group Inc	-2.1%
WTR	Aqua America Inc	-0.7%
MFE	Mcafee	-0.7%
KIM	Kimco Realty Corp	0.1%
S&P 500	**S&P 500**	**2.7%**

Small Cap		
Ticker	Company Name	Decline From 04/01/08
SNCI	Sonic Innovations Inc	-13.5%
LGND	Ligand Pharm	-9.7%
IFLO	I-Flow Corp	-7.9%
CWT	Calif Water Serv Group	-6.2%
PLA	Playboy Enterprises	-5.2%
PEET	Peet'S Coffee & Tea Inc	-4.6%
SMMX	Symyx Technologies Inc	-3.7%
DGIT	Dg Fastchannel	-2.4%
FSCI	Fisher Comms Inc	-1.6%
BNT	Bentley Pharmaceuticals Inc	-1.4%
FARM	Farmer Bros Co	-0.5%
SUPG	Supergen Inc	1.1%
S&P 500	**S&P 500**	**2.7%**

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

Figure 3 shows the 21 new stocks that make our May Most Dangerous Stocks lists.

Figure 3: Additions for May Report

Large Cap Additions	
Ticker	Company Name
AEP	American Electric Power
ARG	Airgas Inc
AVB	Avalon Bay Communities Inc
BG	Bunge Ltd
BGC	General Cable Corp
BUCY	Bucyrus Intl Inc Cl A
CEDC	Central European Distribution Corp
CY	Cypress Semiconductor Corp
ESS	Essex Property Trust
MWV	Meadwestvaco Corp
URS	Urs Cp

Small Cap Additions	
Ticker	Company Name
ARL	Amer Realty Investors Inc
BJRI	Bj Restaurants
BMR	Biomed Realty Tr Inc
EPR	Entertainment Properties Trust Sbi
KRG	Kite Realty Group Trust
OTTR	Otter Tail Co
RVI	Retail Ventures
SF	Stifel Financial Corp
TCI	Transcontinental Realty
TGI	Triumph Group Inc

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. *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' 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	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. 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	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 04/01/08	Ticker	Company Name	Change From 04/01/08
WY	Weyerhaeuser Co	-6.0%	SNCI	Sonic Innovations Inc	-13.5%
LKQX	Lkq Cp	-4.9%	LGND	Ligand Pharm	-9.7%
DDR	Developers Diversified Reality (	-3.5%	IFLO	I-Flow Corp	-7.9%
CME	Cme Group Inc	-2.1%	CWT	Calif Water Serv Group	-6.2%
WTR	Aqua America Inc	-0.7%	PLA	Playboy Enterprises	-5.2%
MFE	Mcafee	-0.7%	PEET	Peet'S Coffee & Tea Inc	-4.6%
KIM	Kimco Realty Corp	0.1%	SMMX	Symyx Technologies Inc	-3.7%
SPX	**S&P 500**	**2.7%**	DGIT	Dg Fastchannel	-2.4%
HCN	Health Care Reit	2.9%	FSCI	Fisher Comms Inc	-1.6%
GGP	General Growth Properties	3.6%	BNT	Bentley Pharmaceuticals Inc	-1.4%
VNO	Vornado Inc	5.7%	FARM	Farmer Bros Co	-0.5%
SVU	Supervalu Inc	6.4%	SUPG	Supergen Inc	1.1%
ARE	Alexandria Real Est Inc	7.1%	**SPX**	**S&P 500**	**2.7%**
PRGO	Perrigo Co	8.1%	EXR	Extra Space Storage Inc	4.5%
RRC	Range Resources Corp	8.2%	CDR	Cedar Shop Centers	8.3%
DRE	Duke Realty Corp	8.3%	OTEX	Open Text Corp	11.5%
PWR	Quanta Services Inc	8.3%	PHII	Phi	12.3%
DYN	Dynegy Delaware Inc	11.2%	MDRX	Allscripts Healthcare Solutions I	13.9%
CRM	Salesforce.Com Inc	13.3%	SYMM	Symmetricom	16.7%
TRMB	Trimble Navigation Ltd	18.8%	NETL	Netlogic Microsystems Inc	28.6%
FCL	Foundation Coal Hldgs Inc	24.8%	IMMR	Immersion Cp	44.8%

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:

WY - Stock price decreased 6.0% since April report.
CME - Stock price decreased 2.1% since April report.
WTR - Stock price decreased 0.7% since April report.
MFE - Stock price decreased 0.7% since April report.
CRM - Displaced by decrease in rank of other stocks.
FCL - Displaced by decrease in rank of other stocks.
GGP - Displaced by decrease in rank of other stocks.
HCN - Displaced by decrease in rank of other stocks.
TRMB - Displaced by decrease in rank of other stocks.
VNO - Displaced by decrease in rank of other stocks.
SVU - New filing data on 04-23-2008.

Additions:

BUCY - Stock price increased 31.8% since April report.
BG - Stock price increased 31.4% since April report.
URS - Stock price increased 22.0% since April report.
CEDC - Stock price increased 11.8% since April report.
BGC - Stock price increased 10.6% since April report.

CY - Stock price increased 10.2% since April report.
AEP - Stock price increased 4.7% since April report.
ARG - Stock price increased 3.7% since April report.
AVB - Stock price increased 1.8% since April report.
ESS - Addition by improved rank of other stocks.
MWV - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

SNCI - Stock price decreased 13.5% since April report.
IFLO - Stock price decreased 7.9% since April report.
PLA - Stock price decreased 5.2% since April report.
PEET - Stock price decreased 4.6% since April report.
DGIT - Stock price decreased 2.4% since April report.
BNT - Stock price decreased 1.4% since April report.
MDRX - Displaced by decrease in rank of other stocks.
NETL - Displaced by decrease in rank of other stocks.
PHII - Displaced by decrease in rank of other stocks.
SYMM - Displaced by decrease in rank of other stocks.

Additions:

TGI - Stock price increased 21.2% since April report.
ARL - Stock price increased 11.6% since April report.
BMR - Stock price increased 7.3% since April report.
OTTR - Stock price increased 7.2% since April report.
EPR - Stock price increased 6.2% since April report.
SF - Stock price increased 5.2% since April report.
BJRI - Addition by improved rank of other stocks.
KRG - Addition by improved rank of other stocks.
TCI - Addition by improved rank of other stocks.
RVI - New filing data on 04/25/08.

The 20 Most Dangerous Stocks for May – 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 05/05/08			
	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	DDR	Developers Diversified Reality (	$27.02	($227)	4th	-4%	69.1	Greater than 100	$5,240
2	DRE	Duke Realty Corp	$72.60	($89)	4th	-6%	58.4	Greater than 100	$3,618
3	PRGO	Perrigo Co	$2.40	($14)	Bottom Quintile	0%	24.6	Greater than 100	$3,902
4	LKQX	Lkq Cp	$21.51	($47)	4th	-23%	20.5	Greater than 100	$2,440
5	MWV*	Meadwestvaco Corp	$192.00	($21)	Bottom Quintile	1%	15.7	Greater than 100	$4,731
6	RRC	Range Resources Corp	$71.87	($44)	4th	-9%	7.2	Greater than 100	$10,008
7	AVB*	Avalon Bay Communities Inc	$91.61	($127)	4th	-4%	6.4	56	$8,185
8	BUCY*	Bucyrus Intl Inc Cl A	$65.79	($27)	3rd	-14%	5.8	Greater than 100	$4,727
9	URS*	Urs Cp	$19.23	($195)	Bottom Quintile	-44%	5.1	65	$2,314
10	ESS*	Essex Property Trust	$48.86	($24)	4th	-3%	4.8	50	$2,910
11	KIM	Kimco Realty Corp	$6.55	($164)	4th	-8%	4.4	Greater than 100	$10,436
12	CEDC*	Central European Distribution C	$21.65	($14)	3rd	-5%	4.3	Greater than 100	$2,592
13	BGC*	General Cable Corp	$73.30	($112)	3rd	-14%	3.6	68	$3,516
14	PWR	Quanta Services Inc	$118.49	($105)	Bottom Quintile	-22%	3.3	Greater than 100	$3,601
15	ARG*	Airgas Inc	$30.87	($16)	4th	-6%	3.0	55	$3,831
16	AEP*	American Electric Power	$87.00	($240)	Bottom Quintile	-2%	2.8	87	$17,810
17	BG*	Bunge Ltd	$221.00	($30)	4th	-11%	2.7	Greater than 100	$13,992
18	DYN	Dynegy Delaware Inc	$606.00	($341)	Bottom Quintile	-25%	-2.4	Greater than 100	$6,728
19	ARE	Alexandria Real Est Inc	$21.58	($57)	Bottom Quintile	-16%	-3.4	Greater than 100	$3,125
20	CY*	Cypress Semiconductor Corp	$354.82	($13)	Bottom Quintile	-9%	-37.7	Greater than 100	$4,178

* New on the Large Cap Most Dangerous list since 04/01/08

Sources: New Constructs, LLC

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The 20 Most Dangerous Stocks for May – 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 05/05/08			
	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	OTEX	Open Text Corp	$16.68	($11)	Bottom Quintile	-13%	14.2	Greater than 100	$1,852
2	BJRI*	Bj Restaurants	$1.86	($1)	Bottom Quintile	-16%	5.7	Greater than 100	$373
3	CWT	Calif Water Serv Group	$5.58	($10)	Bottom Quintile	-6%	5.3	Greater than 100	$762
4	FSCI	Fisher Comms Inc	$15.04	($10)	Bottom Quintile	-11%	4.4	Greater than 100	$277
5	EPR*	Entertainment Properties Trust	$10.82	($52)	4th	-8%	4.2	Greater than 100	$1,449
6	SF*	Stifel Financial Corp	$16.74	($11)	4th	-21%	3.9	Greater than 100	$716
7	OTTR*	Otter Tail Co	$2.85	($3)	Bottom Quintile	-3%	3.6	Greater than 100	$1,144
8	TGI*	Triumph Group Inc	$12.56	($3)	4th	-6%	3.6	Greater than 100	$1,184
9	FARM	Farmer Bros Co	$2.06	($10)	Bottom Quintile	-14%	3.4	Greater than 100	$334
10	ARL*	Amer Realty Investors Inc	$13.50	($7)	4th	-11%	-0.2	Greater than 100	$116
11	TCI*	Transcontinental Realty	$6.89	($18)	Bottom Quintile	-14%	-0.2	56	$142
12	RVI*	Retail Ventures	$202.36	($91)	Bottom Quintile	-2%	-0.3	Greater than 100	$249
13	LGND	Ligand Pharm	$313.43	($36)	Bottom Quintile	-3%	-0.8	Greater than 100	$367
14	SMMX	Symyx Technologies Inc	$10.50	($42)	Bottom Quintile	-21%	-0.8	Greater than 100	$244
15	KRG*	Kite Realty Group Trust	$3.34	($3)	Bottom Quintile	-8%	-1.5	Greater than 100	$406
16	SUPG	Supergen Inc	$29.57	($9)	Bottom Quintile	-9%	-1.6	Greater than 100	$154
17	CDR	Cedar Shop Centers	$6.63	($44)	Bottom Quintile	-17%	-1.8	Greater than 100	$575
18	IMMR	Immersion Cp	$127.44	($14)	Bottom Quintile	-12%	-1.9	Greater than 100	$280
19	BMR*	Biomed Realty Tr Inc	$20.63	($20)	Bottom Quintile	-23%	-3.1	Greater than 100	$1,777
20	EXR	Extra Space Storage Inc	$19.71	($23)	Bottom Quintile	-10%	-3.2	Greater than 100	$1,137

* New on the Small Cap Most Dangerous list since 04/01/08

Sources: New Constructs, LLC

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