Most Dangerous Stocks for January

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.

- **25 stocks from last month's report underperformed the S&P 500 (+1.2%). 19 stocks had negative returns. See Figure 1 below.**
- **16 new stocks make our January 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: 25 Under-Performers From Last Month's Report

Large Cap	
Ticker	Decline From 12/01/06
S	-11.1%
NDAQ	-8.8%
LKQX	-6.8%
LAUR	-6.0%
EBAY	-5.7%
PMTC	-5.4%
ESS	-4.0%
VRSN	-3.2%
PSYS	-2.9%
RJF	-1.9%
MMC	-0.4%
SGMS	0.1%
DVA	0.6%
IVGN	1.0%
S&P 500	1.2%

Small Cap	
Ticker	Decline From 12/01/06
CDE	-16.8%
CDR	-12.8%
FLDR	-11.1%
SMSC	-7.2%
SMTL	-6.1%
PSB	-4.2%
SWKS	-2.9%
WGII	-2.9%
BDY	0.2%
RNWK	0.3%
CBC	0.7%
S&P 500	1.2%

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

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Most Dangerous Stocks: Monthly Updates

25 stocks from our December Most Dangerous Large Cap and Small Cap lists underperformed the S&P 500, which rose 1.2%. 19 of those stocks had negative returns. We measure performance based on closing prices from December 1st, 2006, the last trading day before we published the report to subscribers. See Figure 2 for details.

Figure 2: 25 Under-Performers From Last Month's Report

Large Cap		
Ticker	Company Name	Decline From 12/01/06
S	Sprint Nextel	-11.1%
NDAQ	Nasdaq Stock Market Inc	-8.8%
LKQX	Lkq Cp	-6.8%
LAUR	Laureate Edu	-6.0%
EBAY	Ebay Inc.	-5.7%
PMTC	Parametric Technology Corp.	-5.4%
ESS	Essex Property Trust	-4.0%
VRSN	Verisign Inc	-3.2%
PSYS	Psychiatric Solutions Inc	-2.9%
RJF	Raymond James	-1.9%
MMC	Marsh & Mclennan	-0.4%
SGMS	Scientific Games Corp	0.1%
DVA	Davita Inc	0.6%
IVGN	Invitrogen Corp	1.0%
S&P 500	S&P 500	1.2%

Small Cap		
Ticker	Company Name	Decline From 12/01/06
CDE	Coeur D'Alene Mines Cp	-16.8%
CDR	Cedar Shop Centers	-12.8%
FLDR	Flanders Corp	-11.1%
SMSC	Standard Microsystems	-7.2%
SMTL	Semitool Inc	-6.1%
PSB	Ps Business Parks Inc	-4.2%
SWKS	Skyworks Solution	-2.9%
WGII	Washington Grp Intl Inc	-2.9%
BDY	Bradley Pharmaceutical	0.2%
RNWK	Realnetworks	0.3%
CBC	Capital Bancorp Ltd	0.7%
S&P 500	S&P 500	1.2%

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

Figure 3 shows the 16 new stocks that make our January Most Dangerous Stocks lists.

Figure 3: 16 Additions for January

Large Cap Additions	
Ticker	Company Name
DDS	Dillard Inc.
DTE	Dte Energy Co.
HCBK	Hudson City Bcp
LM	Legg Mason Inc
MHS	Medco Hlth Soln
SFI	Istar Finl
SRP	Sierra Pac Res Hldg
VSH	Vishay Intertech

Small Cap Additions	
Ticker	Company Name
B	Barnes Group Inc
CHDN	Churchill Downs
CT	Capital Trust Cl A
CTS	Cts Corporation
NCT	Newcastle Investment Cp
NHC	Natl Healthcare Corp
VMI	Valmont Ind Inc
ZQK	Quiksilver 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:

S - Stock price decreased 11.1% since December report.
NDAQ - Stock price decreased 8.8% since December report.
LKQX - Stock price decreased 6.8% since December report.
PMTC - Stock price decreased 5.4% since December report.
ESS - Stock price decreased 4.0% since December report.
PSYS - Stock price decreased 2.9% since December report.
RJF - Stock price decreased 1.9% since December report.
UTIW - Displaced by decrease in rank of other stocks.

Additions:

MHS - Stock price increased 7.7% since December report.
HCBK - Stock price increased 5.8% since December report.
LM - Stock price increased 4.1% since December report.
SFI - Stock price increased 3.1% since December report.
VSH - Stock price increased 3.1% since December report.
DDS - Addition by improved rank of other stocks.
DTE - Addition by improved rank of other stocks.
SRP - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

CDR - Stock price decreased 12.8% since December report.
SMTL - Stock price decreased 6.1% since December report.
PSB - Stock price decreased 4.2% since December report.
WGII - Stock price decreased 2.9% since December report.
SWKS - Stock price decreased 2.9% since December report.
KYPH - Displaced by decrease in rank of other stocks.
SSYS - Displaced by decrease in rank of other stocks.
ANDW - Displaced by decrease in rank of other stocks.

Additions:

CT - Stock price increased 7.4% since December report.
ZQK - Stock price increased 5.3% since December report.
NCT - Stock price increased 4.2% since December report.
CTS - Stock price increased 2.9% since December report.
CHDN - Stock price increased 1.4% since December report.
B - Stock price increased 1.1% since December report.
NHC - Addition by improved rank of other stocks.
VMI - Addition by improved rank of other stocks.

The 20 Most Dangerous Stocks for January – 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 01/08/07			
	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	DVA	Davita Inc	$6.39	($166)	Bottom Quintile	-19%	32.9	15	$5,490
2	DDS*	Dillard Inc.	$3.82	($1)	Bottom Quintile	14%	22.1	91	$2,708
3	NTAP	Network Appliance	$40.70	($40)	4th	-1%	17.0	Greater than 100	$14,928
4	SGMS	Scientific Games Corp	$14.30	($27)	4th	-2%	9.3	52	$2,634
5	VRSN	Verisign Inc	$220.24	($23)	Bottom Quintile	-3%	5.7	Greater than 100	$6,285
6	EBAY	Ebay Inc.	$303.82	($80)	3rd	-3%	4.9	Greater than 100	$40,443
7	MMC	Marsh & Mclennan	$228.00	($318)	Bottom Quintile	2%	4.3	61	$16,700
8	LM*	Legg Mason Inc	$735.74	($345)	4th	-19%	3.4	Greater than 100	$11,901
9	LAUR	Laureate Edu	$12.17	($3)	4th	-7%	3.1	22	$2,405
10	HCBK*	Hudson City Bcp	$36.79	($289)	4th	-24%	2.6	25	$7,938
11	CVG	Convergys Corp.	$11.10	($10)	4th	-2%	2.6	Greater than 100	$3,437
12	MHS*	Medco Hlth Soln	$120.40	($59)	4th	-6%	2.6	50	$15,480
13	VSH*	Vishay Intertech	$17.58	($25)	Bottom Quintile	2%	2.2	54	$2,357
14	KSU	Kansas City Sthrn Ind.	$75.70	($128)	Bottom Quintile	-32%	-2.7	35	$2,154
15	SFI*	Istar Finl	$36.49	($54)	Bottom Quintile	-5%	-4.2	13	$5,428
16	DTE*	Dte Energy Co.	$106.00	($85)	Bottom Quintile	-2%	-9.2	45	$8,307
17	SRP*	Sierra Pac Res Hldg	$53.67	($42)	Bottom Quintile	-3%	-10.3	39	$3,065
18	CELG	Celgene Corp	$10.90	($25)	Bottom Quintile	-2%	-11.7	Greater than 100	$19,225
19	IVGN	Invitrogen Corp	$43.22	($43)	Bottom Quintile	-13%	-14.3	Greater than 100	$2,964
20	BCO	Brink'S Co	$20.90	($90)	Bottom Quintile	-2%	-60.3	Greater than 100	$3,612

* New on the Large Cap Most Dangerous list since 12/01/06

Sources: New Constructs, LLC

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The 20 Most Dangerous Stocks for January – 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 01/08/07			
	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	INMD	Integramed America Inc	$0.54	($0)	Bottom Quintile	-3%	844.8	Greater than 100	$92
2	BDY	Bradley Pharmaceutical	$0.01	($0)	Bottom Quintile	-27%	21.1	Greater than 100	$336
3	CBC	Capital Bancorp Ltd	$9.21	($19)	Bottom Quintile	-9%	14.4	28	$666
4	LAYN	Layne Christensen Co	$4.93	($7)	Bottom Quintile	-18%	13.3	73	$453
5	CDE	Coeur D'Alene Mines Cp	$27.41	($3)	Bottom Quintile	-9%	7.6	Greater than 100	$1,086
6	FLDR	Flanders Corp	$2.74	($1)	Bottom Quintile	-1%	6.4	Greater than 100	$232
7	NHC*	Natl Healthcare Corp	$4.66	($6)	4th	-21%	6.1	91	$655
8	CHDN*	Churchill Downs	$67.54	($1)	Bottom Quintile	3%	4.6	Greater than 100	$515
9	VMI*	Valmont Ind Inc	$12.20	($17)	4th	-3%	4.3	97	$1,284
10	CTS*	Cts Corporation	$2.28	($0)	Bottom Quintile	-1%	4.1	Greater than 100	$558
11	ZQK*	Quiksilver Inc	$25.75	($37)	4th	-20%	4.0	21	$1,817
12	B*	Barnes Group Inc	$27.12	($2)	4th	-2%	3.8	Greater than 100	$985
13	NCT*	Newcastle Investment Cp	$17.95	($38)	Bottom Quintile	-21%	-0.5	33	$1,371
14	SUNH	Sun Healthcare Grp	$43.39	($36)	Bottom Quintile	-21%	-0.8	Greater than 100	$206
15	RNWK	Realnetworks	$335.34	($137)	Bottom Quintile	-8%	-1.7	Greater than 100	$1,885
16	CT*	Capital Trust Cl A	$22.14	($18)	Bottom Quintile	-37%	-2.0	99	$729
17	EPIQ	Epiq Systems Inc	$1.22	($10)	Bottom Quintile	-29%	-5.1	94	$304
18	SMSC	Standard Microsystems	$10.43	($26)	Bottom Quintile	-18%	-5.1	Greater than 100	$598
19	SFNT	Safenet Inc	$0.85	($12)	Bottom Quintile	-38%	-5.5	Greater than 100	$593
20	POWL	Powell Ind Inc	$0.58	($6)	Bottom Quintile	-6%	-17.0	Greater than 100	$330

* New on the Small Cap Most Dangerous list since 12/01/06

Sources: New Constructs, LLC

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