20 Most Dangerous Stocks for April

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
This document is available to clients in the ***Research*** area of our site *www.newconstructs.com*.

- **14 stocks from March's report declined at least 1% in the last month. See Figure 1 below.**
- **Most of the stocks in this month's report are new because we updated our Most Dangerous Stocks selection methodology.**
- **We have more directly aligned our Most Dangerous Stocks selection methodology with our Risk/Reward Rating System.**
- **All stocks on our Most Dangerous Lists now must have a 'Very Dangerous' rating, which is our worst Overall rating.**
- **Our Risk/Reward Rating system grades 3000+ stocks according to a 5-point scale.**
- **A detailed explanation of our Risk/Reward Rating system is included in this report.**
- **Figures 3 and 4 on pages 5 and 6 show this month's stocks.**
- **Institutional Investor Magazine highlighted our #1 ranking for stock-picking in an October 11th article.**

Figure 1: Big Decliners From Last Month's Report

Large Cap		Small Cap	
Ticker	Decline	Ticker	Decline
ANDW	-15%	CCC	-20%
IRM	-8%	EPIQ	-16%
WTR	-7%	MATR	-15%
CAKE	-4%	KEYW	-5%
XLNX	-3%	DTAS	-3%
NBG	-2%	CLP	-1%
		ARXX	-1%
		POWI	-1%

Sources: New Constructs, LLC

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20 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 2 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 2: 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})/(Current Enterprise Value + 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
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

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

Figure 3: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year, $ in millions			as of 4/7/06			
	Ticker	Company Name	Rising GAAP Earnings	Declining Economic Earnings	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	($171)	Bottom Quintile	-19%	47.7	22	$5,827
2	CRE	Carramerica Realty	$55	($34)	Bottom Quintile	-2%	14.5	67	$2,503
3	ASN	Archstone-Smith	$81	($71)	Bottom Quintile	-4%	7.5	81	$9,883
4	NFP	Natl Financial Partners	$16	($6)	4th	-5%	7.3	Greater than 100	$2,041
5	EBAY	eBay Inc	$304	($79)	3rd	-3%	6.9	Greater than 100	$52,834
6	BRE	BRE Properties	$2	($2)	Bottom Quintile	0%	5.9	Greater than 100	$2,813
7	VRSN	Verisign Inc	$220	($26)	Bottom Quintile	-3%	5.8	Greater than 100	$6,398
8	RA	Reckson Associates RI	$155	($9)	Bottom Quintile	-4%	5.1	60	$3,618
9	MMC	Marsh & McLennan	$228	($311)	Bottom Quintile	2%	4.1	48	$15,790
10	AFFX	Affymetrix	$10	($9)	Bottom Quintile	1%	3.8	94	$2,025
11	KMI	Kinder Morgan	$33	($467)	Bottom Quintile	-16%	3.7	14	$11,245
12	LAUR	Laureate Edu	$12	($3)	4th	-7%	3.7	39	$2,694
13	ADCT	ADC Telecomm Inc	$94	($22)	Bottom Quintile	-9%	3.5	50	$2,936
14	ADP	Automatic Data Processing Inc.	$120	($290)	Bottom Quintile	-12%	3.0	73	$27,282
15	NOV	National Oilwell Var	$177	($79)	4th	-22%	2.9	30	$10,083
16	MHS	Medco Health Solutions	$120	($58)	4th	-6%	2.6	22	$15,869
17	RMBS	RAMBUS INC	$0	($15)	Bottom Quintile	-1%	-6.6	Greater than 100	$4,229
18	IVGN	Invitrogen Corp	$43	($45)	Bottom Quintile	-12%	-13.1	77	$3,611
19	BCO	Brink's Co	$21	($91)	Bottom Quintile	-2%	-187.6	Greater than 100	$2,880
20	BRCM	Broadcom Corp	$193	($25)	Bottom Quintile	-1%	-197.0	Greater than 100	$23,715

Sources: New Constructs, LLC

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

Figure 4: Ranked by Price-to-Economic Book Value in Descending Order

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year, $ in millions			as of 4/7/06			
	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	$5	($12)	Bottom Quintile	-4%	4212.4	Greater than 100	$1,621
2	SWKS	Skyworks Solution	$3	($10)	Bottom Quintile	1%	40.9	Greater than 100	$1,157
3	ARXX	Aeroflex Labs Inc	$5	($6)	Bottom Quintile	-10%	20.9	Greater than 100	$963
4	SMTL	Semitool Inc	$3	($4)	Bottom Quintile	-6%	12.7	Greater than 100	$356
5	FLDR	Flanders Corp	$3	($1)	Bottom Quintile	-1%	12.3	83	$302
6	ANDW	Andrew Corp.	$6	($4)	Bottom Quintile	-2%	11.5	66	$1,873
7	HIH	Highland Hospitality	$4	($4)	Bottom Quintile	-16%	11.1	78	$536
8	EZEM	E-Z-Em Inc Cl A	$0	($1)	Bottom Quintile	2%	9.9	Greater than 100	$234
9	WGII	Washington Group Int'l	$7	($9)	Bottom Quintile	-3%	8.4	45	$1,517
10	AXE	Anixter Intl	$12	($9)	4th	-6%	7.6	36	$1,791
11	IMGC	Intermagnetics Gen Cp	$23	($6)	Bottom Quintile	-14%	7.0	Greater than 100	$993
12	PFCB	P.f. Chang's China Bistro Inc	$12	($1)	4th	-3%	6.4	36	$1,180
13	ZQK	Quiksilver Inc	$26	($35)	4th	-20%	5.0	33	$1,679
14	NWSB	Northwest Savings Bank	$5	($33)	Bottom Quintile	-6%	4.6	50	$1,180
15	LHO	Lasalle Hotel Properties	$10	($7)	Bottom Quintile	-17%	3.9	39	$1,290
16	B	Barnes Group Inc	$27	($4)	4th	-2%	3.8	75	$983
17	DBRN	Dress Barn The	$22	($55)	Bottom Quintile	-25%	-4.1	Greater than 100	$1,482
18	EPIQ	Epiq Systems Inc	$1	($10)	Bottom Quintile	-28%	-5.0	84	$333
19	DPTR	Delta Petroleum Corp	$10	($2)	Bottom Quintile	-23%	-13.2	62	$866
20	NWRE	Neoware	$2	($4)	Bottom Quintile	-6%	-176.6	Greater than 100	$483

Sources: New Constructs, LLC

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