20 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 3400 companies.

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

- **Key Highlights: price drops in the past month move 4 stocks off the lists: CCC (-31%), PKTR (-30%), KEYW (-17%) and LG (-8%).**
- **One new large cap and 5 new small cap stocks make the November Most Dangerous Lists.**
- **Details on all additions and deletions to the lists are in Figure 1 and Appendix 1. Figures 2 and 3 show the 20 Large Cap and 20 Small Cap Dangerous stocks.**
- **Our Most Dangerous Stocks have MISLEADING EARNINGS, which means reported profits are positive and rising while actual profits are negative and falling.**
- **Pages 2-4 explain our Most Dangerous Stocks selection methodology.**

Figure 1: Most Dangerous List Changes for November

Market Cap	Drops	Adds	Reason for Turnover
Large Cap	CSCO		Displaced - Price Appreciation of other Stocks
		ADP	Meaningful Price Appreciation: +8%
Small Cap	CCC		Meaningful Price Depreciation: -31%
	PKTR		Meaningful Price Depreciation: -30%
	KEYW		Meaningful Price Depreciation: -17%
	LG		Meaningful Price Depreciation: -8%
	GBP		Acquired by ING Group
		MDCC	Meaningful Price Appreciation: +21%
		NWRE	Meaningful Price Appreciation: +17%
		LOJN	Meaningful Price Appreciation: +10%
		CRAI	Meaningful Price Appreciation: +9%
		ANEN	Meaningful Price Appreciation: +1%

Sources: New Constructs, LLC

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20 Most Dangerous Stocks: Methodology

We determine the Most Dangerous Stocks based on three criteria. The stocks exhibit:

1. **Expensive valuations** because their *Price-to-Economic Book Value* (EBV) ratios are greater than 2 or less than zero, and they have *Growth Appreciation Periods* (GAP) greater than 15 years.
2. **Poor economic performance** because they generated negative economic earnings in the last fiscal year, and their Economic Profit Margins have been negative on average during the past 3 years.
3. **Misleading accounting performance** because they reported positive GAAP Earnings and GAAP Earnings Growth while their economic profits declined in their latest fiscal year.

We do not predict the future value of stocks.

Identifying Expensive Valuations. The most dangerous stocks have valuations that imply that the company's future financial performance will meaningfully exceed anything the company has done in the past 3 years. Rather than predicting a warranted or future value for a company or stock, we measure **the market's** prediction for the financial performance of companies as reflected in stock prices. Our measures of valuation are intentionally objective. Our goal is to position investors to make informed decisions about whether or not they agree with the market's prediction for the future financial performance of companies.

Our valuation analysis focuses on assessing the feasibility of future financial performance requirements embedded in stock price.

In our opinion, a more rigorous way to assess the valuation of stocks is to look at two metrics: the ratio of *Price-to-Economic Book Value* (EBV)[1] per share and the market-implied *Growth Appreciation Period* (GAP). The ratio of Price-to-EBV highlights the degree of difference between the company's current level of cash flow and the level of future cash flow that the market expects. Economic Book Value essentially measures the perpetuity value of the company's current annual after-tax cash flow (NOPAT). The larger the Price-to-EBV ratio (whether or not it is positive or negative), the greater is the improvement in cash flow required to justify the stock price. The market-implied GAP measures the number of years the company must grow its economic profits in order to justify its stock price. The longer the GAP the longer a company must maintain a competitive advantage and earn returns above its cost of capital on new investments.

New Constructs rectifies accounting distortions in GAAP financial statements.

Identifying Poor Economic Performance. The most dangerous stocks also have reported profits that tell a different story than the economics of their businesses. There are many ways that GAAP profits can differ from Economic Profits. Scandals at Enron, Worldcom, Adelphia, and others provide evidence of just how far companies can stretch accounting rules in order to appear more profitable than they truly are. New Constructs

[1] Economic Book Value (EBV) measure 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.

rectifies accounting distortions in order to provide investors with a cleaner and truer analysis of a company's profitability. Our process involves digging vigorously into SEC filings, especially the Notes to the Financial Statements in order to gather, model, and deliver the economic results of a company's performance.

The metrics we use to measure the economic performance of companies are Economic Profit Margin and Economic Earnings. The Economic Profit Margin for a company equals its Return on Invested Capital (ROIC) minus its Weighted-Average Cost of Capital (WACC). The Economic Earnings of a company equal its Economic Profit Margin multiplied by its Invested Capital. We believe our measures of economic performance are substantially more accurate than accounting metrics because we make adjustments for all the issues listed in Figure 1.

Cash is king. When reported earnings and economic cash flow diverge, the market follows cash.

Identifying Misleading Accounting Performance. When accounting results do not jibe with economic results, the market follows economic results, which provide a much better reflection of cash flow. Dangerous stocks report positive GAAP Earnings and Earnings Growth while their economic profits are negative and declining.

Conclusion

Companies that have expensive valuations, poor economics and misleading earnings present investors more risk of downside than upside price performance. We believe these stocks present investors with stocks that offer dangerous risk/reward.

We consider companies whose Price-to-EBV ratios and market-implied GAPs exceed the thresholds stated above to have **expensive valuations**.

We consider companies with negative economic earnings and a negative economic profit margin on average over the past 3 years to have **poor economics**.

We consider companies whose GAAP Earnings and GAAP Earnings trends contradict their economic performance to have **misleading earnings**.

The 20 Most Dangerous Stocks for November – Large and Mid Cap

Figure 2: Ranked by Price-to-EBV Ratio in Descending order

			Expensive Valuation		Poor Economics		Misleading Earnings			
			as of 11/10/05		Last Fiscal Year		Last Fiscal Year			
	Ticker	Company Name	Price-to-EBV	Market-Implied GAP (years)	Economic Profit Margin (3yr avg)	Economic Earnings Per Share	Positive EPS	Positive EPS Growth	Negative Economic Earnings Trend ($mm)	Market Value ($mm)
1	NBG	National Bank of Greece SA	407.2	Greater than 100	-6%	($0.17)	$0.16	106%	($315)	$12,399
2	BYD	Boyd Gaming	234.2	65	-1%	($1.01)	$1.42	130%	($88)	$3,571
3	KWK	Quicksilver Resources	33.9	66	-1%	($0.24)	$0.41	72%	($15)	$2,749
4	USM	United States Cellular	13.8	72	-5%	($3.23)	$1.26	79%	($66)	$4,497
5	UDR	United Dominion Realty Trust	13.0	Greater than 100	-3%	($0.47)	$0.56	160%	($36)	$2,786
6	ROP	Roper Industries	8.0	45	-2%	($0.83)	$1.24	75%	($26)	$2,844
7	CAKE	Cheesecake Factory	6.2	Greater than 100	-1%	($0.08)	$0.84	13%	($2)	$2,761
8	ARI	Arden Realty	5.1	Greater than 100	-3%	($0.83)	$1.12	22%	($6)	$2,893
9	MAR	Marriott International Inc	5.0	43	-1%	($0.67)	$2.48	21%	($115)	$13,875
10	CVS	CVS	4.5	24	-1%	($0.33)	$1.09	7%	($211)	$21,676
11	FCEA	Forest City	4.4	Greater than 100	-1%	($0.19)	$0.84	98%	($13)	$3,760
12	WTR	Aqua America	4.2	20	-2%	($0.54)	$0.85	7%	($1)	$3,172
13	AVB	AvalonBay Communities	4.2	Greater than 100	-2%	($0.86)	$4.85	30%	($4)	$6,223
14	XLNX	Xilinx	3.4	Greater than 100	-2%	($0.07)	$0.87	2%	($52)	$8,469
15	AGE	A.G. Edwards	3.3	55	-3%	($1.94)	$2.37	20%	($93)	$3,440
16	WEC	Wisconsin Energy	3.1	16	-2%	($2.06)	$2.57	25%	($2)	$4,417
17	REG	Regency Realty	3.1	73	-1%	($0.26)	$2.08	0%	($11)	$3,363
18	ADP*	Automatic Data Processing	3.0	71	-5%	($2.26)	$1.79	14%	($285)	$27,113
19	HPQ	Hewlett-Packard	3.0	44	-4%	($0.35)	$1.14	38%	($61)	$85,368
20	ADS	Alliance Data Systems	2.9	38	-3%	($0.57)	$1.22	45%	($15)	$2,918
	SPX	S&P 500	1.5	20	5%	$0.12	$2.48	26%	$372	

* Denotes stocks that have not appeared on the Most Dangerous list within the last 3 months.

Sources: New Constructs, LLC

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The 20 Most Dangerous Stocks for November – Small Cap

Figure 3: Ranked by Price-to-EBV Ratio in Descending order

			Expensive Valuation		Poor Economics		Misleading Earnings			
			as of 11/10/05		Last Fiscal Year		Last Fiscal Year			
	Ticker	Company Name	Price-to-EBV	Market-Implied GAP (years)	Economic Profit Margin (3yr avg)	Economic Earnings Per Share	Positive EPS	Positive EPS Growth	Negative Economic Earnings Trend ($mm)	Market Value ($mm)
1	EPIQ	EPIQ Systems	40.1	36	-2%	($0.60)	$0.49	2%	($10)	$356
2	NWRE*	Neoware Systems	36.0	Greater than 100	-5%	($0.42)	$0.46	36%	($4)	$316
3	VRNT	Verint Systems	34.7	Greater than 100	-7%	($0.89)	$0.81	33%	($10)	$828
4	AML	Amli Residential Properties Trust	24.7	Greater than 100	-3%	($1.51)	$2.08	109%	($25)	$913
5	CKH	Seacor Holdings	17.8	Greater than 100	-4%	($3.74)	$1.07	72%	($10)	$1,321
6	XXIA	Ixia	16.8	Greater than 100	-15%	($0.15)	$0.29	108%	($2)	$706
7	ARXX	Aeroflex	13.3	Greater than 100	-8%	($0.61)	$0.22	29%	($5)	$802
8	POWI	Power Integrations Inc	12.7	Greater than 100	-13%	($0.33)	$0.63	11%	($2)	$647
9	RBC	Regal-Beloit	11.0	Greater than 100	-3%	($1.61)	$1.22	22%	($21)	$862
10	LOJN*	LoJack	8.7	Greater than 100	-2%	($0.01)	$0.64	26%	($2)	$368
11	SIVBE	SVB Financial Group	8.6	Greater than 100	-4%	($1.01)	$1.74	442%	($5)	$1,720
12	CHFN	Charter Financial	8.3	Greater than 100	-6%	($0.62)	$0.42	166%	($7)	$695
13	MANH	Manhattan Associates	8.0	Greater than 100	-5%	($0.37)	$0.71	1%	($4)	$686
14	WMGI	Wright Medical Group	7.9	48	-2%	($0.35)	$0.68	35%	($9)	$632
15	MDCC*	Molecular Devices	7.7	Greater than 100	-8%	($2.85)	$1.04	104%	($6)	$412
16	CRAI	Charles River Associates	7.7	43	-1%	($0.25)	$1.55	34%	($4)	$459
17	ANEN*	Anaren	7.4	53	-10%	($0.70)	$0.37	2%	($6)	$269
18	FLDR	Flanders	7.0	62	-3%	($0.21)	$0.36	22%	($1)	$276
19	ASF	Administaff	-90.9	Greater than 100	-4%	($0.12)	$0.72	52%	($6)	$1,124
20	SYKE	Sykes Enterprises	-76.4	Greater than 100	-7%	($0.71)	$0.27	18%	($3)	$572
	SPX	S&P 500	1.5	20	5%	$0.12	$2.48	26%	$372	

* Denotes stocks that have not appeared on the Most Dangerous list within the last 3 months.

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Appendix 1 – Additions/Deletions from Lists

Most Dangerous Large and Mid Cap Stocks

Deletions:

CSCO – Displaced from list due to Price Appreciation of other stocks.

Additions:

ADP – Stock Price Increased 8% since October publication.

Most Dangerous Small Cap Stocks

Deletions:

CCC – Stock Price Dropped 31% since October publication.

PKTR – Stock Price Dropped 30% since October publication.

KEYW – Stock Price Dropped 17% since October publication.

LG – Stock Price Dropped 8% since October publication.

GBP – Company Acquired by ING Group October 10, 2005.

Additions:

MDCC – Stock Price Increased 21% since October publication.

NWRE – Stock Price Increased 17% since October publication.

LOJN – Stock Price Increased 10% since October publication.

CRAI – Stock Price Increased 9% since October publication.

ANEN – Stock Price Increased 1% since October publication.

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