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 integrated research database and platform.

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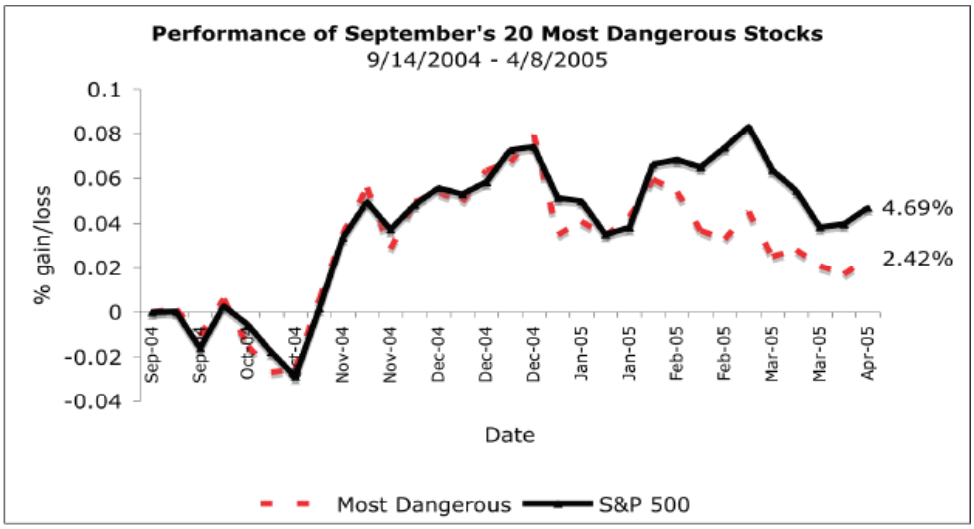
Note
This document is available to clients in the ***Research*** area of our site *www.newconstructs.com*.

- **Our Most Dangerous Stocks lists change considerably in April after our analysis of over 2500 new 10Ks.**
- **As shown in Figure 1 below, our Most Dangerous stocks are under-performing the market over the past seven months.**
- **Our April Most Dangerous Stocks are based on the freshest financial data available to the market for the entire Russell 3000.**
- **Dangerous Stocks have Misleading Earnings, declining ROICs, and very EXPENSIVE Valuations.**
- **Please contact us for a copy of the report.**
- **The full report includes a list of and all the details behind our 20 Most Dangerous Large/Mid Cap and Small Cap stocks.**

Figure 1: Most Dangerous Stocks Performance – Past 7 Months



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Price/Performance charts for the companies discussed in this report are available from: Soleil Securities Corp 1230 Ave of Americas NY, NY 10020; 212-632-5300.

Sources: New Constructs, LLC

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 five 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 5 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 -/+ Under/Over-Funded Pensions.

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 five 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 April – Large and Mid Cap

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

		Expensive Valuation		Poor Economics		Misleading Earnings			
		as of 04/07/05		Last Fiscal Year		Last Fiscal Year			
Ticker	**Company Name**	**Price-to-EBV**	**Market-Implied GAP (years)**	**Economic Profit Margin (5yr avg)**	**Economic Earnings Per Share**	**Positive EPS**	**Positive EPS Growth**	**Negative Economic Earnings Trend ($mm)**	**Market Value ($mm)**
BYD*	Boyd Gaming	312.7	49	-1%	($0.92)	$1.42	130%	($82)	$4,308
FSH*	Fisher Scientific International	193.0	54	0%	($3.26)	$1.80	40%	($300)	$5,006
UDR*	United Dominion Realty Trust	12.1	84	-3%	($0.45)	$0.56	160%	($37)	$2,717
USM*	United States Cellular	9.5	38	-4%	($3.06)	$1.26	79%	($49)	$4,023
EDMC	Education Management Corp	8.3	22	-1%	($0.23)	$1.03	33%	($15)	$2,067
TIN*	Temple-Inland	6.8	37	-2%	($1.37)	$1.47	66%	($56)	$4,107
MAR	Marriott International Inc	5.8	58	-1%	($0.67)	$2.48	21%	($115)	$15,302
ROP*	Roper Industries	5.4	44	0%	($1.50)	$2.48	75%	($25)	$2,443
CVS*	CVS	4.7	38	-1%	($0.60)	$2.18	7%	($177)	$20,783
ARI*	Arden Realty	3.6	74	-2%	($0.73)	$1.12	22%	($5)	$2,229
REG	Regency Realty	3.0	87	-1%	($0.35)	$2.08	0%	($13)	$2,954
PNR*	Pentair	2.9	52	-1%	($0.46)	$1.68	19%	($36)	$3,976
SDS*	SunGard Data Systems	2.8	26	-1%	($0.09)	$1.54	21%	($18)	$9,938
MNI*	McClatchy	2.3	31	-1%	($0.54)	$3.33	3%	($4)	$3,465
RJF	Raymond James Financial	2.0	Greater than 100	0%	($0.29)	$1.71	46%	($4)	$2,233
AIV	Apartment Investment and Management	-3.1	59	-4%	($2.79)	$1.88	167%	($97)	$3,461
SE*	7-Eleven	-4.4	80	-2%	($1.06)	$0.75	48%	($48)	$2,774
CTX	Centex	-7.5	19	-1%	($2.04)	$6.40	45%	($85)	$7,270
JNPR*	Juniper Networks	-19.2	Greater than 100	-26%	($1.39)	$0.25	157%	($524)	$10,848
WFMI	Whole Foods Market	-24.5	Greater than 100	-2%	($1.15)	$2.02	28%	($35)	$6,363
SPX	S&P 500	1.8	24 yrs	5%	($0.08)	$2.15	179%	$562	

* 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 April – Small Cap

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

		Expensive Valuation		Poor Economics		Misleading Earnings (Latest Fiscal Year)			
		as of 04/07/05		Last Fiscal Year		Last Fiscal Year			
Ticker	**Company Name**	**Price-to-EBV**	**Market-Implied GAP (years)**	**Economic Profit Margin (5yr avg)**	**Economic Earnings Per Share (Last Fiscal Year)**	**Positive EPS**	**Positive EPS Growth**	**Negative Economic Earnings Trend ($mm)**	**Market Value ($mm)**
SCUR*	Secure Computing	158.0	Greater than 100	-68%	($0.14)	$0.34	40%	($2)	$342
CWTR	Coldwater Creek	95.9	91	-2%	($0.09)	$0.23	32%	($0)	$1,008
XXIA*	Ixia	90.7	Greater than 100	-51%	($0.11)	$0.29	108%	($1)	$1,071
SYKE*	Sykes Enterprises	41.0	Greater than 100	-6%	($0.53)	$0.27	18%	($3)	$296
AMHC	American Healthways	21.9	33	-3%	($0.01)	$0.75	34%	($2)	$1,191
AML*	Amli Residential Properties Trust	19.2	41	-1%	($1.40)	$2.08	109%	($19)	$680
CNT*	Centerpoint Properties Trust	18.7	78	-3%	($0.87)	$1.84	17%	($38)	$1,985
CKH*	Seacor Holdings	15.9	99	-3%	($3.59)	$1.07	72%	($10)	$1,199
BONT	Bon-Ton Stores	14.0	Greater than 100	-3%	($1.14)	$1.33	113%	($5)	$267
GBP*	Gables Residential Trust	13.3	Greater than 100	-1%	($0.98)	$2.47	58%	($14)	$983
FWHT*	FindWhat.com	11.8	38	-413%	($0.76)	$0.60	12%	($25)	$269
POWI*	Power Integrations Inc	11.6	Greater than 100	-12%	($0.30)	$0.63	11%	($2)	$662
CCC*	Calgon Carbon	9.9	Greater than 100	-4%	($0.33)	$0.15	30%	($1)	$348
EPIQ*	EPIQ Systems	8.5	Greater than 100	0%	($0.54)	$0.49	2%	($10)	$258
PKTR*	Packeteer	7.7	Greater than 100	-20%	($0.14)	$0.42	31%	($3)	$471
ARXX	Aeroflex	7.2	Greater than 100	-18%	($0.54)	$0.17	65%	($15)	$627
HLEX*	HealthExtras	7.0	54	-17%	($0.07)	$0.45	50%	($6)	$566
DRS	DRS Technologies	6.9	29	-1%	($1.07)	$1.80	14%	($15)	$1,093
CAI	CACI International	6.6	42	0%	($0.47)	$2.13	40%	($10)	$1,671
MOBI	Mobius Management Systems	6.4	28	-26%	($0.11)	$0.24	7%	($3)	$118
SPX	S&P 500	1.8	24 yrs	5%	($0.08)	$2.15	179%	$562	

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

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