

Proof Is In Performance Thru 4Q10

Most Attractive (Long) & Most Dangerous (Short) Stocks

Trust

We deliver the whole truth by incorporating critical data from the Financial Footnotes and MD&A that other firms miss.

Performance

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- The Most Attractive and Most Dangerous Stocks reports offer multiple strategies to outperform in good and bad markets.
- Our top 3 strategies in 2010 beat their benchmarks in 2010.
- Our small cap Long strategy beat the Russell 2000 by 14%.
- Our large & small cap Long strategy beat the combo of S&P 500 and Russell 2000 by 11%.
- Our small cap Long/Short strategy beat the risk-free rate by 10%.
- These strategies (and others) beat their benchmarks by much more since inception in January 2005.
- Barron's consistently ranks our stock-picking as amongst the best of the major research firms.

Keys To Our Success:

- We rigorously review the financial footnotes to extract critical data that impacts valuation and true cash earnings.
- Our DCF models leverage insights into true cash earnings to identify where market expectations are too high and too low.

Figure 1: Top 3 Strategies For 2010

Strategy	Portfolio	2010				Year to Date
		1Q	2Q	3Q	4Q	
Long benchmark	Most Attractive (Small Cap)	11%	-7%	19%	12%	39%
	Russell 2000	10%	-15%	14%	16%	25%
	Difference	2%	8%	5%	-4%	14%
Long benchmark	Most Attractive (Lrg & Small Cap)	7%	-6%	16%	11%	30%
	S&P500 & Russell 2000	7%	-14%	14%	13%	18%
	Difference	0%	9%	2%	-2%	11%
Long/Short benchmark	Most Attractive/Dangerous (Small Cap)	-1%	11%	7%	-7%	10%
	Risk-Free Rate	0%	0%	0%	0%	0%
	Difference	-1%	11%	7%	-7%	10%

Source: New Constructs, LLC.

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

Long/Short Strategies: Most Attractive/Most Dangerous Stocks (MA/MD)

Figure 2 shows the 2010 performance of the long/short strategies offered by our Most Attractive and Most Dangerous Stocks versus benchmarks.

Figure 2: Returns for Long/Short Strategies For 2010

Strategy	Portfolio	2010				Year to Date
		1Q	2Q	3Q	4Q	
Long/Short benchmark	Large and Small Cap Stocks	-4%	15%	-1%	-8%	1%
	Risk-Free Rate	0%	0%	0%	0%	0%
	Difference	-4%	15%	-1%	-8%	1%
Long/Short benchmark	Large Cap Stocks	-7%	20%	-8%	-10%	-8%
	Risk-Free Rate	0%	0%	0%	0%	0%
	Difference	-7%	20%	-8%	-10%	-8%
Long/Short benchmark	Small Cap Stocks	-1%	11%	7%	-7%	10%
	Risk-Free Rate	0%	0%	0%	0%	0%
	Difference	-1%	11%	7%	-7%	10%

Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

Figure 3 shows the performance from January 2005 through December 2010 of the long/short strategies offered by our Most Attractive and Most Dangerous Stocks versus benchmarks.

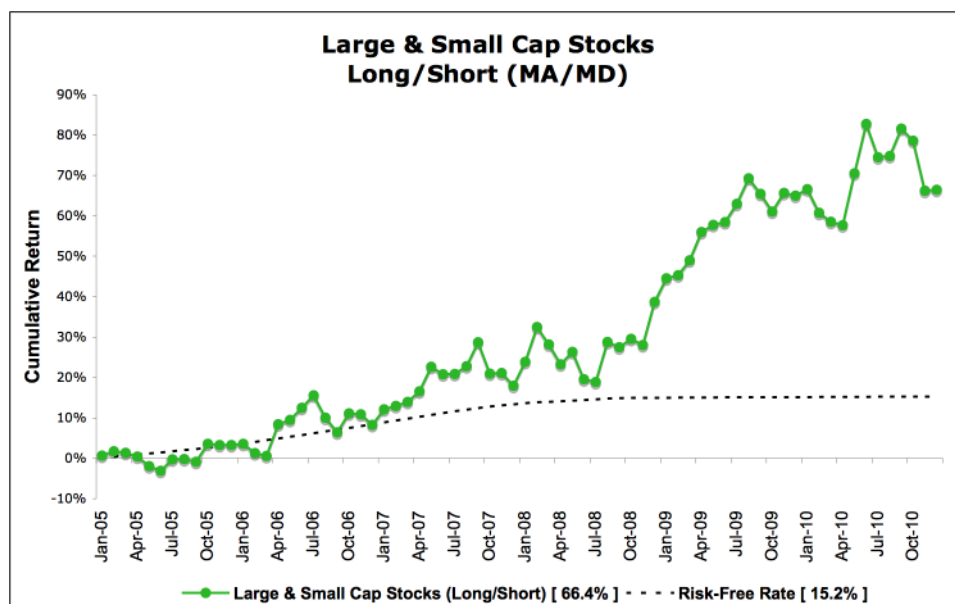
Figure 3: Returns for Long/Short Strategies Since Inception

Strategy	Portfolio	2005	2006	2007	2008	2009	2010	Cumulative	Annualized
Long/Short benchmark	Large and Small Cap Stocks	3%	5%	9%	18%	19%	1%	66%	9%
	Risk-Free Rate	3%	5%	5%	1%	0%	0%	15%	2%
	Difference	0%	0%	4%	16%	19%	1%	51%	6%
Long/Short benchmark	Large Cap Stocks	7%	1%	2%	19%	36%	-8%	65%	9%
	Risk-Free Rate	3%	5%	5%	1%	0%	0%	15%	2%
	Difference	4%	-4%	-3%	18%	36%	-8%	50%	6%
Long/Short benchmark	Small Cap Stocks	-1%	8%	16%	15%	2%	10%	60%	8%
	Risk-Free Rate	3%	5%	5%	1%	0%	0%	15%	2%
	Difference	-4%	3%	11%	14%	2%	10%	45%	6%

Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

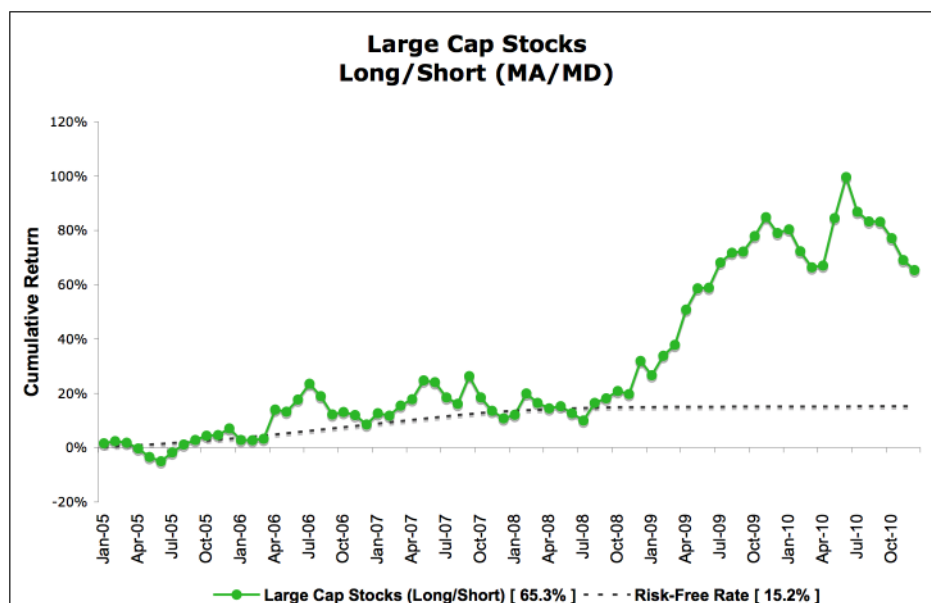
Figure 4: Large and Small Cap Strategy: Most Attractive/Most Dangerous (MA/MD) Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

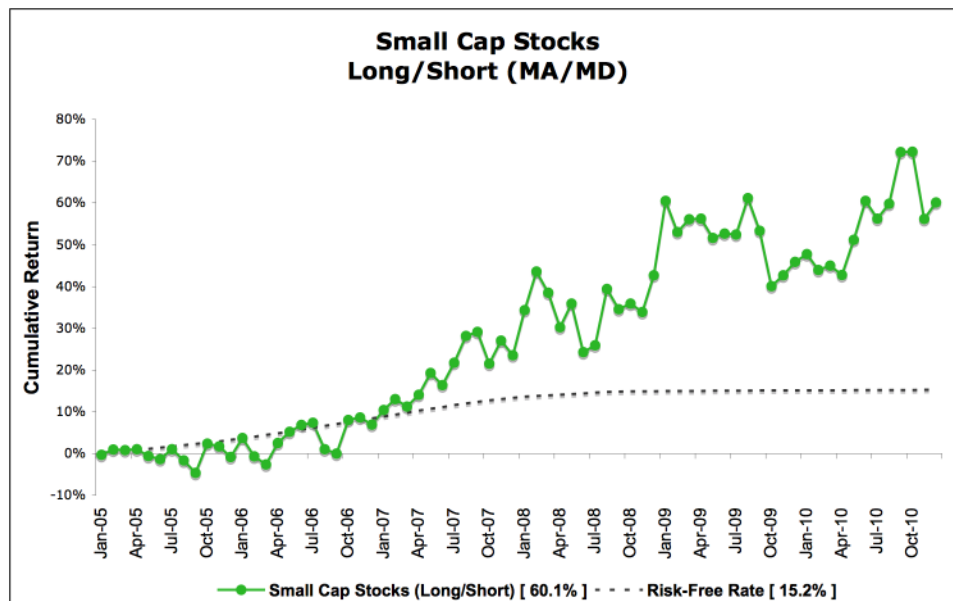
Figure 5: Large Cap Strategy: Most Attractive/Most Dangerous (MA/MD) Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

**Figure 6: Small Cap Strategy: Most Attractive/Most Dangerous (MA/MD)
Stocks: Cumulative Performance**



Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Long Strategies: Most Attractive Stocks (MA)

Figure 7 shows the 2010 performance of the long strategies offered by our Most Attractive Stocks versus benchmarks.

Figure 7: Returns for Long Strategies For 2010

Strategy	Portfolio	2010				Year to Date
		1Q	2Q	3Q	4Q	
Long benchmark	Large and Small Cap Stocks	7%	-6%	16%	11%	30%
	S&P 500 and Russell 2000	7%	-14%	14%	13%	18%
	Difference	0%	9%	2%	-2%	11%
Long benchmark	Large Cap Stocks	2%	-5%	13%	10%	21%
	S&P 500	5%	-14%	13%	10%	12%
	Difference	-3%	9%	-1%	0%	8%
Long benchmark	Small Cap Stocks	11%	-7%	19%	12%	39%
	Russell 2000	10%	-15%	14%	16%	25%
	Difference	2%	8%	5%	-4%	14%

Source: New Constructs, LLC

Note: Gain/Difference performance analysis excludes transaction costs, dividends and rebates.

Figure 8 shows the performance from January 2005 through December 2010 of the long strategies offered by our Most Attractive Stocks versus benchmarks.

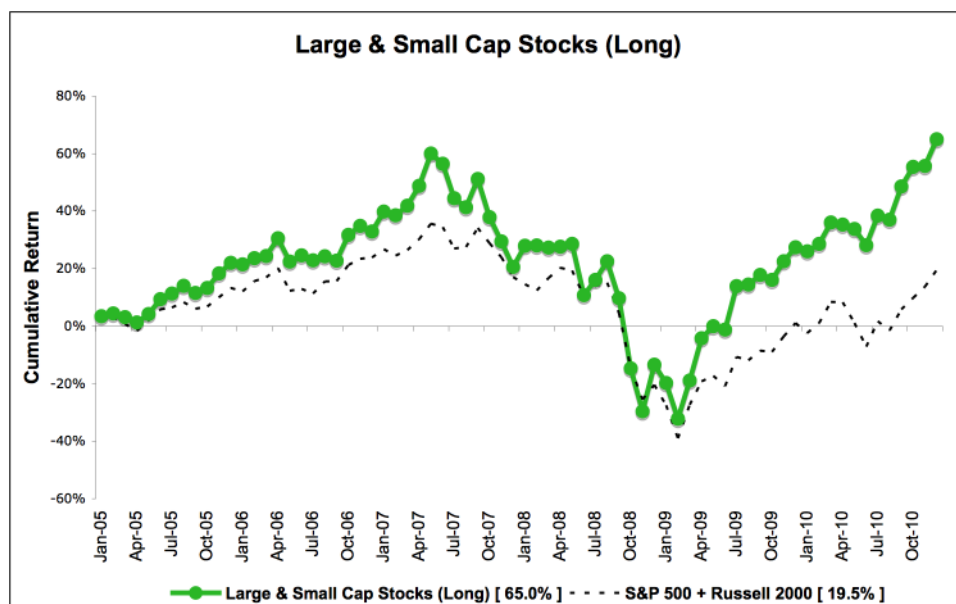
Figure 8: Returns for Long Strategies Since Inception

Strategy	Portfolio	2005	2006	2007	2008	2009	2010	Cumulative	Annualized
Long benchmark	Large and Small Cap Stocks	22%	9%	-9%	-28%	47%	30%	65%	9%
	S&P 500 and Russell 2000	13%	9%	-6%	-32%	27%	18%	20%	3%
	Difference	9%	-1%	-4%	4%	20%	11%	45%	6%
Long benchmark	Large Cap Stocks	26%	8%	-3%	-34%	47%	21%	53%	7%
	S&P 500	10%	9%	-2%	-35%	25%	12%	8%	1%
	Difference	16%	-1%	-2%	0%	22%	8%	45%	6%
Long benchmark	Small Cap Stocks	18%	10%	-15%	-22%	46%	39%	71%	9%
	Russell 2000	17%	9%	-9%	-29%	28%	25%	30%	5%
	Difference	1%	0%	-6%	7%	18%	14%	41%	5%

Source: New Constructs, LLC

Note: Gain/Difference performance analysis excludes transaction costs, dividends and rebates.

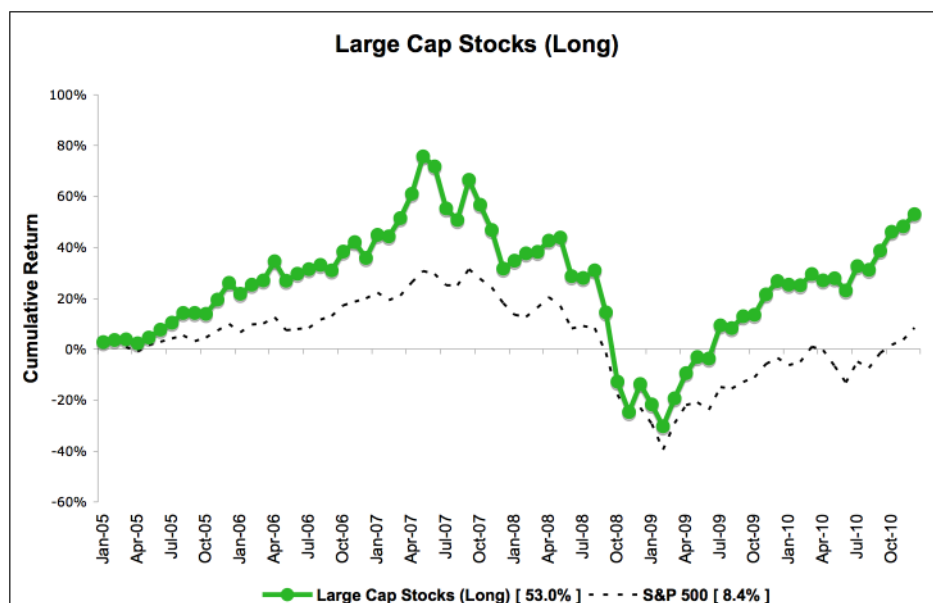
Figure 9: Large and Small Cap Strategy: Most Attractive Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

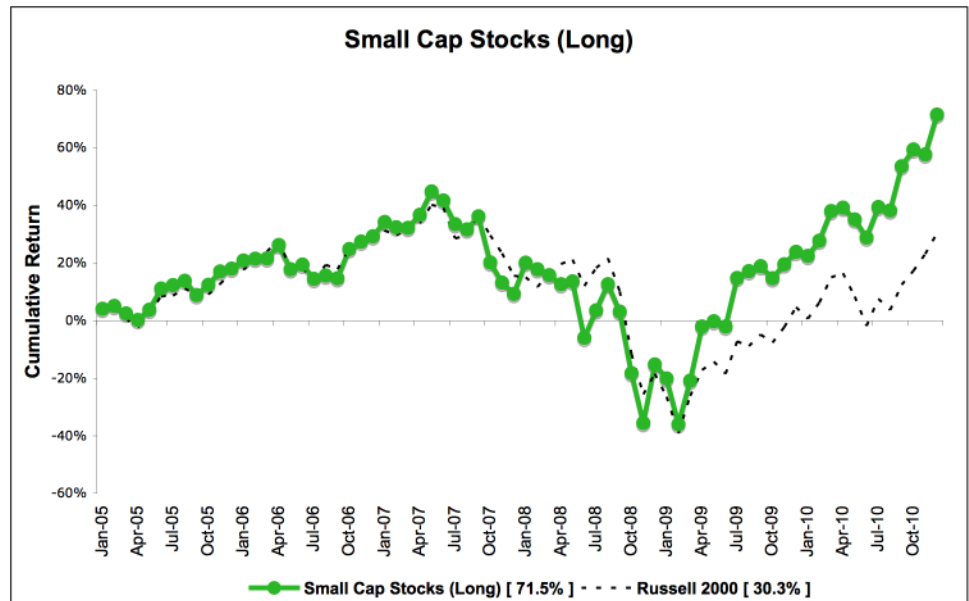
Figure 10: Large Cap Strategy: Most Attractive Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Figure 11: Small Cap Strategy: Most Attractive Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Short Strategies: Most Dangerous Stocks (MD)

Figure 12 shows the 2010 performance of the short strategies offered by our Most Dangerous Stocks versus benchmarks.

Figure 12: Returns for Short Strategies For 2010

Strategy	Portfolio	2010				Year to Date
		1Q	2Q	3Q	4Q	
Short benchmark	Large and Small Cap Stocks	-10%	22%	-16%	-18%	-25%
	Short S&P 500 and Russell 2000	-7%	15%	-14%	-12%	-19%
	Difference	-3%	6%	-2%	-6%	-6%
Short benchmark	Large Cap Stocks	-9%	26%	-20%	-19%	-26%
	Short S&P 500	-5%	15%	-13%	-9%	-14%
	Difference	-4%	10%	-7%	-9%	-12%
Short benchmark	Small Cap Stocks	-12%	18%	-11%	-17%	-24%
	Short Russell 2000	-10%	16%	-14%	-14%	-24%
	Difference	-2%	2%	3%	-3%	0%

Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

Figure 13 shows the performance from January 2005 through December 2010 of the short strategies offered by our Most Dangerous Stocks versus benchmarks.

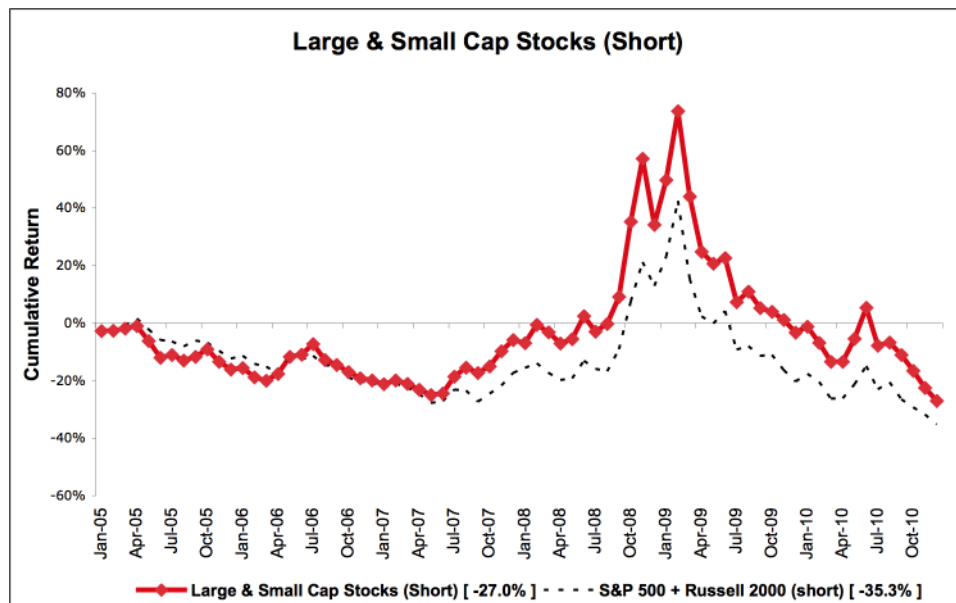
Figure 13: Returns for Short Strategies Since Inception

Strategy	Portfolio	2005	2006	2007	2008	2009	2010	Cumulative	Annualized
Short benchmark	Large and Small Cap Stocks	-16%	-4%	18%	43%	-28%	-25%	-27%	-5%
	Short S&P 500 and Russell 2000	-12%	-10%	4%	37%	-29%	-19%	-35%	-7%
	Difference	-4%	5%	13%	6%	2%	-6%	8%	2%
Short benchmark	Large Cap Stocks	-16%	-6%	3%	62%	-13%	-26%	-15%	-3%
	Short S&P 500	-9%	-9%	0%	45%	-27%	-14%	-25%	-5%
	Difference	-6%	3%	2%	18%	14%	-12%	9%	2%
Short benchmark	Small Cap Stocks	-17%	-3%	34%	23%	-42%	-24%	-41%	-8%
	Short Russell 2000	-15%	-10%	8%	29%	-32%	-24%	-45%	-9%
	Difference	-2%	8%	26%	-6%	-10%	0%	4%	1%

Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

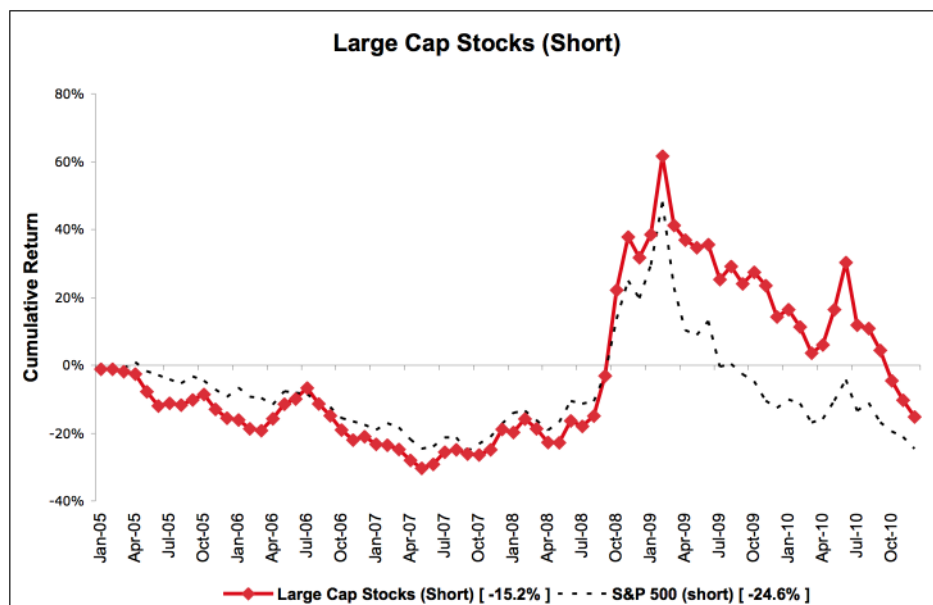
Figure 14: Large and Small Cap Strategy: Most Dangerous Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

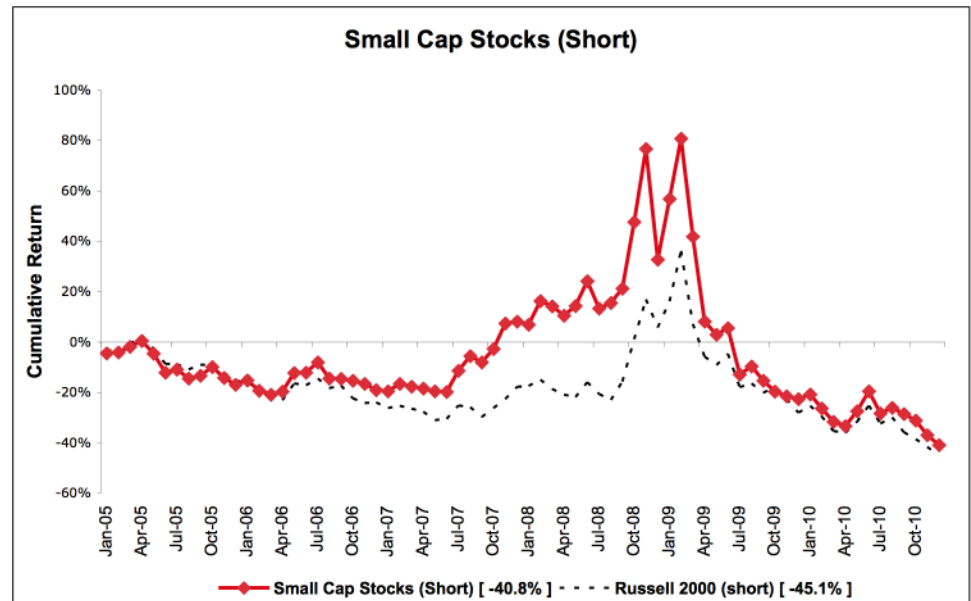
Figure 15: Large Cap Strategy: Most Dangerous Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Figure 16: Small Cap Strategy: Most Dangerous Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Appendix 1

Assumptions Behind Simulated Performance Analysis

The basic assumptions behind our simulated performance analysis are:

1. Positions are equally dollar-weighted in all portfolios and strategies: going long with the Most Attractive and shorting the Most Dangerous.
2. Holdings are updated on the publish date of the monthly reports.
3. Closing prices are used to open positions on the day each report was published. If a report is published on a non-trading day, then the closing price of the next trading day is used.
4. Positions are closed at the same time new positions are opened.
5. If a stock stops trading before the subsequent monthly report is published, we assume that the position was exited at the last available price.
6. Performance analysis excludes transaction costs, dividends, and the rebates associated with the short portfolios.

The Most Attractive and Most Dangerous portfolios are matched to the following benchmarks:

1. Long/Short (Most Attractive as Long and Most Dangerous as Short): Benchmark is the 3-Month T-Bill, the Risk-Free Rate.
2. Large Cap Stocks: Long benchmark is the S&P 500. Short benchmark is based on shorting the S&P 500.
3. Small Cap Stocks: Long benchmark is the Russell 2000. Short benchmark is based on shorting the Russell 2000.
4. Combo Large and Small Cap Stocks: Long benchmark is the average of the S&P 500 and Russell 2000. Short benchmark is based on the average of shorting the S&P 500 and shorting the Russell 2000.

Appendix 2

Key To Our Success: Better Data and Better Models

Our proprietary earnings and valuation models leverage large amounts of data from the Notes to the Financial Statements to produce better measures of profitability and valuation. Our report “[Why the Notes Matter](#)”¹ provides insights into why our analysis of the Notes to the Financial Statements is critical to understanding the financial performance of companies.

Investment Philosophy: Cash Is King

Our investment philosophy relies on leveraging a better understanding of (1) cash earnings, in place of reported GAAP² accounting earnings, and (2) the market’s expectations for future cash flows for every company we cover.

Having a better model for assessing these core value drivers enables us to exercise greater discipline and enjoy greater success when implementing our “[Cash Is King](#)”³ investment philosophy.

We believe the performance of our Most Attractive and Most Dangerous Stocks portfolios underscores the merits of our [investment philosophy](#).

Most Attractive and Most Dangerous Stocks Methodologies

For details on how we identify the Most Attractive and the Most Dangerous Stocks, download free copies of our [Most Attractive Stocks](#) and [Most Dangerous Stocks](#) reports. All “MAMD” reports are available for free download 90 days after their publishing date.

¹ You may download this report for free at:
<http://www.newconstructs.com/nc/research/report/investment-perspectives-reports.htm>.

² GAAP stands for Generally Accepted Accounting Principles, the rules that govern how companies report financial performance and present financial statements.

³ You may download this report for free at:
<http://www.newconstructs.com/nc/research/report/investment-perspectives-reports.htm>.

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Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. [Accounting data must be translated into economic earnings](#) to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. [Economic earnings](#) are what matter because they are:

1. Based on the complete set of financial information available.
2. Standard for all companies.
3. A more accurate representation of the true underlying cash flows of the business.

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Incorporated in July 2002, [New Constructs](#) is an independent publisher of investment research that provides clients with consulting, advisory and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. [NOPAT](#), [Invested Capital](#), and [WACC](#), to create [economic earnings models](#), which are necessary to understand the true profitability and valuation of companies. Visit the [Free Archive](#) to download samples of our research. New Constructs is a [BBB accredited](#) business and a member of the [Investorside Research Association](#).

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