

The Best & Worst Energy Sector ETFs

Ratings of Investment Merit

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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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- We recommend investors buy only the Very Attractive and Attractive stocks in the Energy sector, not an Energy ETF.
- We provide predictive ratings for 17 Energy sector ETFs.
- We benchmark the individual ETFs against the entire Energy sector and the S&P 500.
- This research enables investors to analyze funds as they analyze stocks.
- We offer custom and enhanced ETFs based on our top-ranked stock rating system.
- Our ETF analysis is based on aggregation of models for companies held by the fund and weighted according to the fund's allocations to those companies, excluding cash.
- We offer individual ETF reports on 400+ ETFs.



Figure 1: The Investment Merit of the Best & Worst Energy Sector ETFs

| Fund/Benchmark | % of Fund Allocated to Each Rating | | | | | Overall Fund Rating |
|-----------------------|------------------------------------|------------|------------|------------|----------------|---------------------|
| | Very Attractive | Attractive | Neutral | Dangerous | Very Dangerous | |
| QCLN | 18% | 9% | 33% | 27% | 1% | Neutral |
| DIG | 0% | 38% | 26% | 28% | 6% | Dangerous |
| Overall Sector | 1% | 36% | 25% | 31% | 6% | Dangerous |
| XOP | 1% | 4% | 16% | 51% | 21% | Dangerous |
| IEO | 0% | 0% | 40% | 48% | 9% | Dangerous |

* % may not add up to 100% due to the exclusion of cash and holdings not in our coverage universe.

Sources: New Constructs, LLC and company filings

Energy ETF Sector Overview

The Energy sector currently consists of 17 U.S. Equity ETFs with an average expense ratio of 0.31% and over \$15.8 billion in assets.

Figure 2: Top 10 U.S. Equity Energy Sector ETFs by Market Cap

| ETF Symbol | ETF Name | Expense Ratio | Exposure | Index | Market cap |
|------------|--|---------------|-------------|--|-----------------|
| XLE | Energy Select Sector SPDR | 0.20% | Long | Energy Select Sector | \$8,759,718,918 |
| VDE | Vanguard Energy ETF | 0.25% | Long | MSCI US Investable Market Energy 25/50 | \$1,997,462,474 |
| IYE | iShares Dow Jones U.S. Energy Sector Fund | 0.48% | Long | Dow Jones US Oil & Gas | \$1,029,821,000 |
| XOP | SPDR S&P Oil & Gas Explor & Product | 0.35% | Long | S&P Oil & Gas Expl & Prod Select Industry | \$896,427,000 |
| IEZ | iShares Dow Jones U.S. Oil Equipment & Services Index Fund | 0.48% | Long | Dow Jones US Select Oil Equipment & Services | \$617,405,000 |
| IEO | iShares Dow Jones U.S. Oil & Gas Exploration & Production Index Fund | 0.48% | Long | DJ US Select Oil Expl & Prod | \$491,184,000 |
| XES | SPDR S&P Oil & Gas Equip & Service | 0.35% | Long | S&P Oil & Gas Equip & Serv Select Industry | \$487,340,000 |
| ERX | Direxion Daily Energy Bull 3X Shares | 0.95% | Triple Long | Russell 1000 Energy | \$350,316,728 |
| DIG | ProShares Ultra Oil & Gas | 0.95% | Double Long | Dow Jones US Oil & Gas | \$322,557,000 |
| PXJ | PowerShares Dynamic Oil Services | 0.60% | Long | Dynamic Oil & Gas Services Intellidex | \$242,014,500 |

Sources: New Constructs, LLC

For a detailed description of an individual ETF's predictive ratings, purchase an [Individual ETF Report](#) for any of the 400+ ETF's we cover. Sample reports are available [here](#).

Methodology

Our Risk/Reward ratings have a solid track record of outperformance for investors.

[Barron's ranked us #1 for stock-picking.](#)

Custom ETFs: [Contact us](#) for best-of-breed and enhanced ETF products for a particular sector or index.

This report offers recommendations on Energy sector ETFs and benchmarks for (1) investors considering buying Energy sector ETFs and for (2) comparing individual ETFs to the Energy sector and the S&P 500. Our analysis is based on aggregating results from our models on each of the companies included in every ETF and the overall sector (192 companies) based on data as of July 12, 2011¹. We aggregate results for the ETFs in the same way the ETFs are designed. Our goal is to empower investors to analyze ETFs in the same way they analyze individual stocks.

To make an informed ETF investment decision, investors must consider the ETF's investment merit. An ETF's investment merit is determined by the quality of the ETF's holdings. We apply our stock rating system to each ETF's holdings to determine its investment merit.

Given the [success](#) of our rating system for individual stocks, we believe its application to groups of stocks (i.e. ETFs and funds) helps investors make more informed ETF and mutual fund buying decisions. Barron's featured our uniquely predictive ETF research in "[The Danger Within](#)".

Recommendations Summary

If you require exposure to the Energy sector:

We recommend investors buy only the Very Attractive and Attractive-rated stocks in the Energy sector as opposed to a Energy ETF. The Energy sector allocates 63% of its value to holdings in Neutral-or-worse-rated stocks. Please contact us if you would like access to an ETF of only the Very Attractive and Attractive-rated stocks for the Energy sector or any other ETF².

If you require exposure to any other sector:

We recommend investors review our [Sector ETF Roadmap](#) report or our [9 other sector ETF reports](#), beginning with our Information Technology and Consumer Staples sector reports, which are the only sectors to earn an Attractive Overall Risk/Reward Rating.

If you require exposure to an Energy ETF or an index ETF:

We recommend investors buy one of the following S&P 500 ETFs instead of an Energy ETF: SPY, IVV or VOO. See [Figure 11](#), which shows the Risk/Reward rating for the S&P 500 Index.

If you are looking for exposure to the best stocks in the market:

We recommend you buy our [Most Attractive Stocks](#).

¹ For an explanation of the merits of using market-weighted averages in aggregation analysis instead of aggregate values, see Jeremy Siegel's WSJ article "[The S&P Gets Its Earnings Wrong](#)."

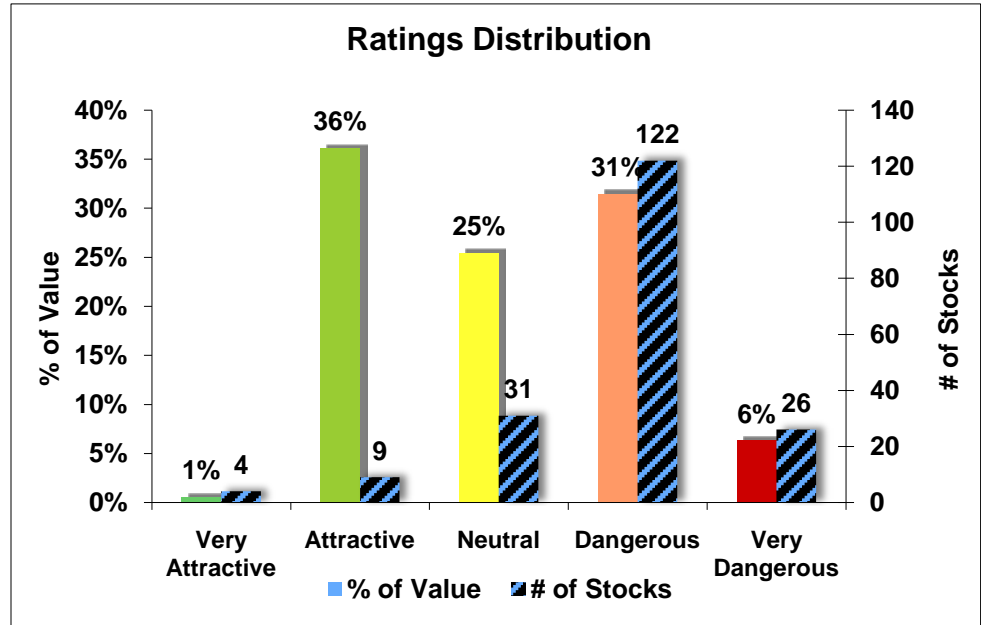
² We offer custom aggregation reports with our ratings for any ETF, mutual fund, or portfolio. We help improve your portfolio's ratings by overweight stocks with Attractive ratings and underweighting stocks with Dangerous ratings. [Contact us](#) for more information.

Recommendations Detail

Click [here](#) for more info on risk/reward rating system and our approach to equity research.

If you want to be in a sector ETF, the Information Technology and Consumer Staples sectors are the best places to shop due to their Attractive Overall Risk/Reward ratings. Figure 3 shows how the Energy sector's stocks and the market value attributed to them stack up under the microscope of our risk/reward rating system.

Figure 3: Energy Sector – Allocation & Holdings by Risk/Reward Rating



Sources: New Constructs, LLC and company filings

The Energy sector has 38% of its value invested in Dangerous-or-worse-rated stocks and 37% invested in Attractive-or-better-rated stocks. Although the Energy sector earns a Dangerous Overall Risk/Reward Rating, its Attractive-or-better-rated weightings create the opportunity for Attractive-rated ETFs even though none of the ETFs highlighted in this report allocate enough value to Attractive-or-better-rated stocks. One has to wonder how the issuers creating these ETFs allocated such a small percentage of value to Attractive-or-better-rated companies given that 37% of the value of the sector earns an Attractive-or-better rating.

When analyzing the Energy sector ETFs, we chose the 17 U.S. Equity Energy sector ETFs where we cover at least 85% of the value of the ETF.

Figure 4: Holdings Count of Energy Sector ETFs

| TICKER | ETF Description | Management Style | # of Holdings* |
|--------|--|------------------|----------------|
| PSCE | PowerShares S&P SmallCap Energy Portfolio | Passive | 21 |
| PXE | PowerShares Dynamic Energy E&P | Passive | 28 |
| PXJ | PowerShares Dynamic Oil Services | Passive | 29 |
| RYE | Rydex S&P Equal Weight Energy ETF | Passive | 40 |
| XLE | Energy Select Sector SPDR | Passive | 40 |
| IEZ | iShares Dow Jones U.S. Oil Equipment & Services Index Fund | Passive | 44 |
| QCLN | First Trust NASDAQ Clean Edge Green Energy Index Fund | Passive | 46 |
| XES | SPDR S&P Oil & Gas Equip & Service | Passive | 47 |
| FXN | First Trust Energy AlphaDEX Fund | Passive | 54 |
| PXI | PowerShares Dynamic Energy | Passive | 57 |
| IEO | iShares Dow Jones U.S. Oil & Gas Exploration & Production Index Fund | Passive | 58 |
| ERX | Direxion Daily Energy Bull 3X Shares | Passive | 68 |
| XOP | SPDR S&P Oil & Gas Explor & Product | Passive | 69 |
| DIG | ProShares Ultra Oil & Gas | Passive | 89 |
| IYE | iShares Dow Jones U.S. Energy Sector Fund | Passive | 89 |
| FEG | Focus Morningstar Energy Index ETF | Passive | 95 |
| VDE | Vanguard Energy ETF | Passive | 150 |

* # of Holdings excludes cash

Sources: New Constructs, LLC

Figure 4 clearly shows that not all Energy ETFs are made the same. Different ETFs have meaningfully different numbers of holdings and, therefore, different allocations to holdings. Given the differences in holdings and allocations, these ETFs will likely perform quite differently.

[Contact us](#) for details on our ratings for any stocks in any equity ETF.

We analyzed the investment merit of each ETF based on how it allocates value to each stock it holds. Figure 5 shows how the 17 Energy sector ETFs stack up versus each other, the overall sector and the S&P 500 based on their Overall Risk/Reward Ratings and the allocation of their holdings by rating.

Figure 5: Investment Merit Based on Holdings and Allocations

| Fund/Benchmark | % of Fund Allocated to Each Rating | | | | | Overall Fund Rating |
|-----------------------|------------------------------------|------------|------------|------------|----------------|---------------------|
| | Very Attractive | Attractive | Neutral | Dangerous | Very Dangerous | |
| S&P 500 | 24% | 19% | 33% | 19% | 5% | Neutral |
| QCLN | 18% | 9% | 33% | 27% | 1% | Neutral |
| DIG | 0% | 38% | 26% | 28% | 6% | Dangerous |
| IYE | 0% | 38% | 26% | 28% | 6% | Dangerous |
| Overall Sector | 1% | 36% | 25% | 31% | 6% | Dangerous |
| VDE | 0% | 35% | 25% | 32% | 6% | Dangerous |
| ERX | 0% | 38% | 27% | 28% | 5% | Dangerous |
| PXI | 3% | 9% | 35% | 46% | 6% | Dangerous |
| FEG | 0% | 33% | 29% | 30% | 7% | Dangerous |
| XLE | 1% | 31% | 27% | 33% | 6% | Dangerous |
| PSCE | 0% | 14% | 14% | 65% | 8% | Dangerous |
| PXE | 2% | 13% | 44% | 27% | 11% | Dangerous |
| FXN | 3% | 9% | 39% | 36% | 12% | Dangerous |
| PXJ | 5% | 3% | 23% | 55% | 12% | Dangerous |
| IEZ | 2% | 1% | 27% | 57% | 12% | Dangerous |
| RYE | 2% | 5% | 28% | 51% | 9% | Dangerous |
| XES | 2% | 4% | 26% | 59% | 8% | Dangerous |
| XOP | 1% | 4% | 16% | 51% | 21% | Dangerous |
| IEO | 0% | 0% | 40% | 48% | 9% | Dangerous |

* % may not add up to 100% due to the exclusion of cash and holdings not in our coverage universe.

Sources: New Constructs, LLC; and company filings

Attractive ETFs:

We find no Attractive-or-better-rated Energy ETFs.

Neutral ETFs:

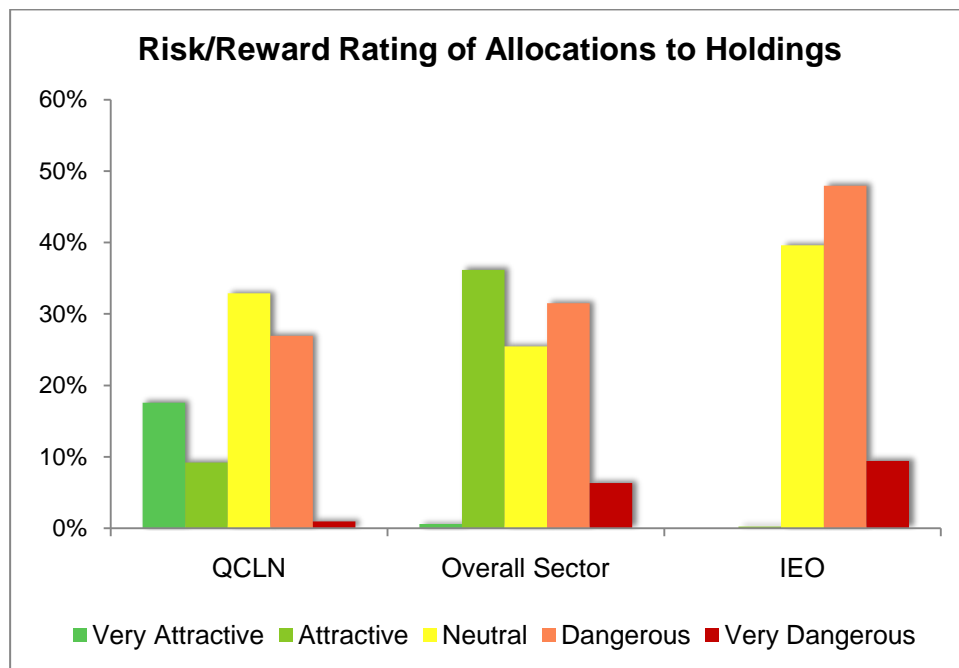
QCLN allocates its value in a way that earns it a Neutral Overall Risk/Reward Rating. We recommend investors buy the Very Attractive and Attractive stocks in this sector before buying any of the U.S. Equity Energy ETFs except those we recommend. [Contact us](#) for the full list of 13 Energy companies that earn an Attractive-or-better Overall Risk/Reward Rating.

Dangerous ETFs:

We recommend investors avoid DIG, IYE, VDE, ERX, PXI, FEG, XLE, PSCE, PXE, FXN, PXJ, IEZ, RYE, XES, XOP, and IEO because of their Dangerous Overall Risk/Reward Ratings.

Figure 6 contrasts the difference in investment merit between QCLN, IEO, and the overall sector.

Figure 6: Neutral and Dangerous Energy Sector ETFs



Sources: New Constructs, LLC; and company filings

Figure 7 provides a comparison of basic stats for the 2 highest rated ETFs covered in this report.

Figure 7: ETF Stat Comparison

| Ticker | QCLN | DIG |
|-------------------------------|---|---------------------------|
| Name | First Trust NASDAQ Clean Edge Green Energy Index Fund | ProShares Ultra Oil & Gas |
| Last Closing Quote | 14.31 | 54.44 |
| Expense Ratio | 0.60% | 0.95% |
| Market Cap | \$32,913,029 | \$322,557,000 |
| Avg. Daily Volume | 5,962 | 1,242,924 |
| Inception Date | 2/8/07 | 1/30/07 |
| Issuer | First Trust | ProShares |
| Geography | U.S. | U.S. |
| Avg. # of Components | 46 | 89 |
| Asset Class | Equity | Equity |
| Sector | Energy | Energy |
| Investment Metric Rank | 41% | 21% |
| Management Style | Passive | Passive |
| Underlying Index | NASDAQ Clean Edge Green Energy | Dow Jones US Oil & Gas |
| Exposure | Long | Double Long |
| Premium (Discount) | 0.00% | 0.02% |

Sources: New Constructs, LLC

Sector Benchmark

Ratings Comparison

QCLN has a better Overall Risk/Reward Rating than the overall sector. QCLN has a ROIC of 18.6% versus the overall sector’s ROIC of 8.5%. QCLN’s higher ROIC makes it a more attractive investment than the overall sector.

Figure 8: QCLN – Risk/Reward Rating

| Overall Risk/Reward Rating | Quality of Earnings | | Valuation | | |
|----------------------------|--------------------------|-----------------|-----------|----------------|--------------|
| | Econ v Reported Earnings | ROIC | FCF Yield | Price-to-EBV | GAP (yrs) |
| Very Dangerous | Misleading Trend | Bottom Quintile | <-5% | >3.5 or -1<0 | More than 50 |
| Dangerous | False Positive | 4th Quintile | -5%<-1% | 2.4<3.5 or <-1 | 20<50 |
| Neutral | Neutral EE | 3rd Quintile | -1%<3% | 1.6<2.4 | 10<20 |
| Attractive | Positive EE | 2nd Quintile | 3%<10% | 1.1<1.6 | 3<10 |
| Very Attractive | Rising EE | Top Quintile | >10% | 0<1.1 | Less than 3 |
| Market-Weighted Avg | n/a | 18.6% | -1.7% | 2.5 | 32 |

Sources: New Constructs, LLC and company filings

Figure 9: Energy Sector – Risk/Reward Rating

| Overall Risk/Reward Rating | Quality of Earnings | | Valuation | | |
|----------------------------|--------------------------|-----------------|-----------|----------------|--------------|
| | Econ v Reported Earnings | ROIC | FCF Yield | Price-to-EBV | GAP (yrs) |
| Very Dangerous | Misleading Trend | Bottom Quintile | <-5% | >3.5 or -1<0 | More than 50 |
| Dangerous | False Positive | 4th Quintile | -5%<-1% | 2.4<3.5 or <-1 | 20<50 |
| Neutral | Neutral EE | 3rd Quintile | -1%<3% | 1.6<2.4 | 10<20 |
| Attractive | Positive EE | 2nd Quintile | 3%<10% | 1.1<1.6 | 3<10 |
| Very Attractive | Rising EE | Top Quintile | >10% | 0<1.1 | Less than 3 |
| Market-Weighted Avg | n/a | 8.5% | -3.4% | 3.2 | 29 |

Sources: New Constructs, LLC and company filings

Allocation Comparison

QCLN more effectively allocates capital than the overall Energy sector. Per [Figure 5](#) above, QCLN allocates 18% of its value to Very Attractive-rated stocks while the sector allocates less than 1%. QCLN also allocates 28% of its value toward Dangerous-or-worse-rated stocks compared to the sector’s Dangerous-or-worse weightings of 37%.

For explanation and details behind our risk/reward rating system, see one of our Individual ETF Reports, which are available for free [here](#).

Market Benchmark

Ratings comparison

QCLN underperforms the S&P 500 in valuation ratings. QCLN has a Price-to-EBV of 2.5, earning it a Dangerous rating, and a GAP of 32 years compared to the S&P 500's Price-to-EBV of 2.0 and GAP of 22 years.

QCLN and the S&P 500 have similar quality of earnings ratings.

Figure 10: QCLN – Risk/Reward Rating

| Overall Risk/Reward Rating | Quality of Earnings | | Valuation | | |
|----------------------------|--------------------------|-----------------|-----------|----------------|--------------|
| | Econ v Reported Earnings | ROIC | FCF Yield | Price-to-EBV | GAP (yrs) |
| Very Dangerous | Misleading Trend | Bottom Quintile | <-5% | >3.5 or -1<0 | More than 50 |
| Dangerous | False Positive | 4th Quintile | -5%<-1% | 2.4<3.5 or <-1 | 20<50 |
| Neutral | Neutral EE | 3rd Quintile | -1%<3% | 1.6<2.4 | 10<20 |
| Attractive | Positive EE | 2nd Quintile | 3%<10% | 1.1<1.6 | 3<10 |
| Very Attractive | Rising EE | Top Quintile | >10% | 0<1.1 | Less than 3 |
| Market-Weighted Avg | n/a | 18.6% | -1.7% | 2.5 | 32 |

Sources: New Constructs, LLC and company filings

Figure 11: S&P 500 – Risk/Reward Rating

| Overall Risk/Reward Rating | Quality of Earnings | | Valuation | | |
|----------------------------|--------------------------|-----------------|-----------|----------------|--------------|
| | Econ v Reported Earnings | ROIC | FCF Yield | Price-to-EBV | GAP (yrs) |
| Very Dangerous | Misleading Trend | Bottom Quintile | <-5% | >3.5 or -1<0 | More than 50 |
| Dangerous | False Positive | 4th Quintile | -5%<-1% | 2.4<3.5 or <-1 | 20<50 |
| Neutral | Neutral EE | 3rd Quintile | -1%<3% | 1.6<2.4 | 10<20 |
| Attractive | Positive EE | 2nd Quintile | 3%<10% | 1.1<1.6 | 3<10 |
| Very Attractive | Rising EE | Top Quintile | >10% | 0<1.1 | Less than 3 |
| Market-Weighted Avg | n/a | 18.4% | 2.1% | 2.0 | 22 |

Sources: New Constructs, LLC and company filings

Allocation Comparison

The S&P 500 allocates capital more effectively than QCLN. Per [Figure 5](#) above, QCLN allocates 27% of its value to Attractive-or-better-rated stocks while the S&P 500 allocates 43%. QCLN also allocates 28% of its value toward Dangerous-or-worse-rated stocks compared to the S&P 500's Dangerous-or-worse weightings of 24%.

Energy Sector Overview

Figure 12 lists the top 25 companies in the Energy sector by market capitalization representing about 79% of the overall sector.

Figure 12: Top 25 Energy Sector Companies by Market Cap.

| Ticker | Company Name | Industry | P/E Ratio | % of Sector |
|--------------|---------------------------------|------------------------------------|-----------|-------------|
| XOM | Exxon Mobil Corp | Integrated Oil & Gas | 13.2 | 23% |
| CVX | Chevron Corporation | Integrated Oil & Gas | 11.0 | 12% |
| SLB | Schlumberger Ltd. | Oil & Gas Equipment & Services | 25.7 | 7% |
| COP | ConocoPhillips | Integrated Oil & Gas | 9.8 | 6% |
| OXY | Occidental Petroleum Corp | Integrated Oil & Gas | 18.3 | 5% |
| HAL | Halliburton Company | Oil & Gas Equipment & Services | 25.9 | 3% |
| APA | Apache Corporation | Oil & Gas Exploration & Production | 14.5 | 3% |
| APC | Anadarko Petroleum Corp | Oil & Gas Exploration & Production | 50.0 | 2% |
| DVN | Devon Energy Corp | Oil & Gas Exploration & Production | 7.5 | 2% |
| NOV | National-Oilwell Varco, Inc. | Oil & Gas Equipment & Services | 19.2 | 2% |
| BHI | Baker Hughes, Inc. | Oil & Gas Equipment & Services | 35.2 | 2% |
| EOG | EOG Resources, Inc. | Oil & Gas Exploration & Production | 156.7 | 1% |
| HES | Hess Corporation | Integrated Oil & Gas | 11.0 | 1% |
| MRO | Marathon Oil Corp | Integrated Oil & Gas | 8.7 | 1% |
| CHK | Chesapeake Energy Corp | Oil & Gas Exploration & Production | 12.6 | 1% |
| RIG | Transocean Ltd. | Oil & Gas Drilling | 20.0 | 1% |
| SE | Spectra Energy Corp | Oil & Gas Storage & Transportation | 16.7 | 1% |
| WMB | Williams Companies, Inc. | Oil & Gas Storage & Transportation | -15.1 | 1% |
| NBL | Noble Energy, Inc. | Oil & Gas Exploration & Production | 21.8 | 1% |
| BTU | Peabody Energy Corp | Coal & Consumable Fuels | 20.4 | 1% |
| SDRL | Seadrill Ltd. | Oil & Gas Drilling | 14.5 | 1% |
| SWN | Southwestern Energy Company | Oil & Gas Exploration & Production | 25.0 | 1% |
| VLO | Valero Energy Corp | Oil & Gas Refining & Marketing | 44.2 | 1% |
| EP | El Paso Corp | Oil & Gas Storage & Transportation | 20.6 | 1% |
| WFT | Weatherford International, Ltd. | Oil & Gas Equipment & Services | -125.9 | 1% |
| Total | | | | 79% |

Sources: New Constructs, LLC and company filings

Appendix: Risk/Reward Rating System

Our Risk/Reward Rating System assigns a rating to every stock we cover according to what we believe are the 5 most important criteria for assessing the risk versus reward of stocks. See table that follows for details.

| | |
|------------------------------------|--|
| Overall Risk/Reward Ranking | The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion. |
| Very Dangerous | FCF Yield is not included in the average. |
| Dangerous | 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 Earnings | Rates 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) | Rates stocks based on their ROIC. Values based on Latest Fiscal Year. |
| Bottom Quintile | Very Dangerous = the bottom 20% of Russell 1000 companies |
| 4th Quintile | Dangerous = the bottom 40% of Russell 1000 companies |
| 3rd Quintile | Neutral = the middle 20% of Russell 1000 companies |
| 2nd Quintile | Attractive = the top 40% of Russell 1000 companies |
| Top Quintile | Very Attractive = the top 20% of Russell 1000 companies |

| | |
|-------------------|---|
| FCF Yield | Rates stocks based on their 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 | Rates 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) | Rates 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 |

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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.

Additional Information

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