

Most Attractive Stocks for December 2013

20 Large/Mid Cap and 20 Small Cap Stocks

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- 11 new stocks make our December lists.
- **FREE Company Valuation Reports** for 2 of the new stocks are in the Free Archive on our website.
- **The Most Attractive Stocks portfolio (+3.3%) outperformed the S&P 500 (+1.9%) last month.**
- **Figure 1 shows the 22 stocks that outperformed from November's report.**
- **Most Attractive Stocks have high and rising returns on capital (ROIC) and low market expectations for future profits.**
- **Barron's recently highlighted our stock-picking as amongst the best of all Wall Street firms. See our website for details.**

Figure 1: 28 Stocks with Positive Returns From November's Report

Large Cap		Small Cap	
Ticker	Change From 11/ 04/ 13	Ticker	Change From 11/ 04/ 13
AGO	13.5%	UVE	65.9%
DNB	7.4%	ESCA	16.5%
UTHR	5.8%	GCA	13.5%
CHKP	5.7%	BOLT	11.1%
TMK	4.5%	CFI	7.6%
DTV	4.0%	ASEI	6.3%
LANC	3.2%	NRCIB	5.3%
MRO	2.7%	MRH	4.5%
UPS	2.5%	EIG	4.5%
ZMH	2.4%	RWT	3.2%
AXS	2.1%	JBSS	2.6%
S&P 500	1.9%	S&P 500	1.9%
NYCB	1.5%	SWHC	1.8%
DFS	0.9%	MGI	1.5%
		STRT	0.9%
		PTP	0.4%

Sources: New Constructs, LLC,

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

Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+3.3%) outperformed the S&P 500 (+1.9%) last month. 22 stocks from our November Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 28 stocks had positive returns. See Figure 2 for details. For updates on the performance of all of last month's Most Attractive stocks, see Appendix A. We measure our November performance based on closing prices from November 04, 2013 to December 02, 2013. We published last month's report to subscribers on November 04, 2013 and to the general public, for purchase, on November 11, 2013.

Figure 2: 28 Stocks with Positive Returns From November's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 11/04/13	Ticker	Company Name	Change From 11/04/13
AGO	Assured Guaranty, Ltd.	13.5%	UVE	Universal Insurance Hold., Inc.	65.9%
DNB	The Dun & Bradstreet Corp	7.4%	ESCA	Escalade Inc.	16.5%
UTHR	United Therapeutics Corp	5.8%	GCA	Global Cash Access Hold., Inc.	13.5%
CHKP	Check Point Software Tech.	5.7%	BOLT	Bolt Technology Corp	11.1%
TMK	Torchmark Corporation	4.5%	CFI	Culp Inc.	7.6%
DTV	DirecTV	4.0%	ASEI	American Science & Eng., Inc.	6.3%
LANC	Lancaster Colony Corp	3.2%	NRCIB	National Research Corp.	5.3%
MRO	Marathon Oil Corp	2.7%	MRH	Montpelier Re Holdings, Ltd.	4.5%
UPS	United Parcel Service, Inc.	2.5%	EIG	Employers Holdings, Inc.	4.5%
ZMH	Zimmer Holdings, Inc.	2.4%	RWT	Redwood Trust, Inc.	3.2%
AXS	Axis Capital Holdings, Ltd.	2.1%	JBSS	John B. Sanfilippo & Son, Inc.	2.6%
S&P 500	S&P 500	1.9%	S&P 500	S&P 500	1.9%
NYCB	NY Community Bancorp	1.5%	SWHC	Smith & Wesson Holding Corp	1.8%
DFS	Discover Financial Services	0.9%	MGI	Moneygram International, Inc.	1.5%
			STRT	STRATTEC Security Corp	0.9%
			PTP	Platinum Underwriters Hold.	0.4%

Sources: New Constructs, LLC,

Note: Gain/Dcline performance analysis excludes transaction costs and dividends.

Figure 3 shows the 11 new stocks that make our December Most Attractive Stocks Report.

Figure 3: Additions for December

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
AIZ	Assurant Inc.	IBKC	IberiaBank Corporation
BEN	Franklin Resources Inc	ICUI	ICU Medical Inc.
ISRG	Intuitive Surgical, Inc.	KFN	KKR Financial Holdings Llc
PRE	PartnerRe Ltd.	LF	Leapfrog Enterprises, Inc.
QCOM	QUALCOMM Inc.	NSP	Insperty Inc.
RNR	RenaissanceRe Holdings, Ltd.		

Sources: New Constructs, LLC

Please see Appendix B for explanations of additions and deletions to the large and small cap lists.

Most Attractive Stocks: Methodology

Stocks make our Most Attractive list because they have:

1. **High-Quality Earnings** based on:

- Returns on Invested Capital that are rising; and
- Economic Earnings/Cash Flows that are positive.

AND

2. **Cheap Valuations** based on:

- Free-Cash Flow Yields¹ that are positive;
- Price-to-Economic Book Value (EBV)² ratios that are relatively low; and
- Growth Appreciation Periods³ (GAP) that are relatively low.

Only stocks that earn an Overall Rating of Very Attractive are allowed on our Most Attractive Stocks lists.

The above characteristics also qualify stocks for a 'Very Attractive' or 'Attractive' Rating, according to our Risk/Reward Rating system. Figure 4 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 1.4 or below to be rated Very Attractive. For the most part, only Very Attractive stocks qualify for our Most Attractive Stocks lists.

Figure 4: New Constructs Risk/Reward Rating for Stocks

Overall Risk/Reward Rating	Quality of Earnings		Valuation		
	Economic vs Reported EPS	Return on Invested Capital (ROIC)	FCF Yield	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 EP	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

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/Current Enterprise Value.

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 Rating System

Our Risk/Reward Rating System 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. 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 EPS	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

Appendix A – Performance of Stocks on November's Report

Figure 5: Performance of All Stocks From November's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 11/04/13	Ticker	Company Name	Change From 11/04/13
AGO	Assured Guaranty, Ltd.	13.5%	UVE	Universal Insurance Hold., Inc.	65.9%
DNB	The Dun & Bradstreet Corp	7.4%	ESCA	Escalade Inc.	16.5%
UTHR	United Therapeutics Corp	5.8%	GCA	Global Cash Access Hold., Inc.	13.5%
CHKP	Check Point Software Tech.	5.7%	BOLT	Bolt Technology Corp	11.1%
TMK	Torchmark Corporation	4.5%	CFI	Culp Inc.	7.6%
DTV	DirecTV	4.0%	ASEI	American Science & Eng., Inc.	6.3%
LANC	Lancaster Colony Corp	3.2%	NRCIB	National Research Corp	5.3%
MRO	Marathon Oil Corp	2.7%	MRH	Montpelier Re Holdings, Ltd.	4.5%
UPS	United Parcel Service, Inc.	2.5%	EIG	Employers Holdings, Inc.	4.5%
ZMH	Zimmer Holdings, Inc.	2.4%	RWT	Redwood Trust, Inc.	3.2%
AXS	Axis Capital Holdings, Ltd.	2.1%	JBSS	John B. Sanfilippo & Son, Inc.	2.6%
SPX	S&P 500	1.9%	SPX	S&P 500	1.9%
NYCB	NY Community Bancorp	1.5%	SWHC	Smith & Wesson Holding Corp	1.8%
DFS	Discover Financial Services	0.9%	MGI	Moneygram International, Inc.	1.5%
CF	CF Industries Holdings, Inc.	-0.3%	STRT	STRATTEC Security Corp	0.9%
FII	Federated Investors, Inc.	-0.7%	PTP	Platinum Underwriters Hold., Ltd.	0.4%
MO	Altria Group, Inc.	-1.3%	ONFC	Oneida Financial Corp	-0.9%
KFN	KKR Financial Holdings Llc	-1.3%	AGM	Federal Agricultural Mrtg. Corp	-1.8%
RAI	Reynolds American, Inc.	-1.9%	PHMD	PhotoMedex Inc.	-5.2%
MXIM	Maxim Integrated Products, Inc.	-3.7%	CRUS	Cirrus Logic, Inc.	-12.2%
NLY	Annaly Capital Mgmt., Inc.	-13.9%	IMH	Impac Mortgage Holdings, Inc.	-27.9%
Large Cap Portfolio Return		1.6%	Small Cap Portfolio Return		4.9%
Combo (Large and Small Cap) Return		3.3%			

Sources: New Constructs, LLC,

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

Appendix B – Additions and Deletions

Most Attractive Large/Mid Cap Stocks

Deletions:

- UTHR - Stock price increased 5.8% since November report.
- DTV - Stock price increased 4.0% since November report.
- NYCB - Stock price increased 1.5% since November report.
- CF - Displaced by improved rank of other stocks.
- KFN - Displaced by improved rank of other stocks.
- NLY - Displaced by improved rank of other stocks.

Additions:

- ISRG - Stock price decreased 1.8% since November report.
- AIZ - Addition by decrease in rank of other stocks.
- PRE - Addition by decrease in rank of other stocks.
- RNR - Addition by decrease in rank of other stocks.
- BEN - New filing data on 11/12/13.
- QCOM - New filing data on 11/06/13.

Most Attractive Small Cap Stocks

Deletions:

- ESCA - Stock price increased 16.5% since November report.
- BOLT - Stock price increased 11.1% since November report.
- ASEI - Stock price increased 6.3% since November report.
- IMH - Displaced by improved rank of other stocks.
- PHMD - Displaced by improved rank of other stocks.

Additions:

- LF - Stock price decreased 3.0% since November report.
- NSP - Stock price decreased 2.7% since November report.
- KFN - Stock price decreased 1.3% since November report.
- IBKC - Addition by decrease in rank of other stocks.
- ICUI - Addition by decrease in rank of other stocks.

The 20 Most Attractive Large/Mid Cap Stocks for December

We recommend that investors equal-weight holdings in all 20 Large/Mid Cap Most Attractive Stocks.

Figure 6: 20 Most Attractive Large/Mid Cap Stocks for December

			High-Quality Earnings			Cheap Valuation			
			As of Last Fiscal Year			as of 12/02/13			
Ticker	Company Name	Positive Economic EPS	Rising ROIC (% point increase)	High-Ranking ROIC (by Quintile)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)	
1	AGO	Assured Guaranty, Ltd.	\$1.59	10%	Top Quintile	28%	0.5	Less than 1	\$4,353
2	AIZ*	Assurant Inc.	\$2.07	1%	2nd	10%	0.8	Less than 1	\$4,778
3	TMK	Torchmark Corporation	\$2.12	1%	2nd	10%	1.2	3	\$6,887
4	RNR*	RenaissanceRe Holdings, Ltd.	\$9.39	18%	Top Quintile	9%	0.4	Less than 1	\$4,182
5	PRE*	PartnerRe Ltd.	\$12.39	23%	Top Quintile	8%	0.3	Less than 1	\$5,422
6	FII	Federated Investors, Inc.	\$1.14	3%	Top Quintile	8%	1.5	9	\$2,835
7	CHKP	Check Point Software Tech.	\$2.72	31%	Top Quintile	8%	1.1	3	\$12,090
8	MXIM	Maxim Integrated Products, Inc.	\$0.67	2%	2nd	7%	1.2	3	\$7,974
9	MO	Altria Group, Inc.	\$2.00	2%	Top Quintile	6%	0.9	Less than 1	\$73,901
10	QCOM*	QUALCOMM Inc.	\$3.04	11%	Top Quintile	6%	1.2	3	\$124,072
11	RAI	Reynolds American, Inc.	\$1.41	1%	3rd	6%	1.0	4	\$27,055
12	BEN*	Franklin Resources Inc	\$2.77	15%	Top Quintile	6%	1.2	4	\$35,018
13	ZMH	Zimmer Holdings, Inc.	\$3.38	5%	Top Quintile	5%	1.2	7	\$15,566
14	LANC	Lancaster Colony Corp	\$2.59	3%	Top Quintile	5%	1.6	17	\$2,327
15	DNB	The Dun & Bradstreet Corp	\$6.00	2%	Top Quintile	4%	1.1	4	\$4,475
16	ISRG*	Intuitive Surgical, Inc.	\$14.48	9%	Top Quintile	4%	1.4	10	\$14,292
17	AXS	Axis Capital Holdings, Ltd.	\$0.43	7%	3rd	4%	1.0	5	\$5,537
18	MRO	Marathon Oil Corp	\$1.91	4%	2nd	4%	0.7	Less than 1	\$25,399
19	UPS	United Parcel Service, Inc.	\$5.74	8%	Top Quintile	4%	1.1	6	\$94,998
20	DFS	Discover Financial Services	\$1.97	8%	Top Quintile	3%	1.2	9	\$25,220

* Addition to the Large/Mid Cap Most Attractive list in December

Most Attractive Stocks are Ranked by Free Cash Flow Yield in Descending Order

Sources: New Constructs, LLC

The 20 Most Attractive Small Cap Stocks for December

We recommend that investors equal-weight holdings in all 20 Small Cap Most Attractive Stocks.

Figure 7: 20 Most Attractive Small Cap Stocks for December

			High-Quality Earnings			Cheap Valuation			
			As of Last Fiscal Year			as of 12/02/13			
Ticker	Company Name	Positive Economic EPS	Rising ROIC (% point increase)	High-Ranking ROIC (by Quintile)	Positive Free Cash Flow Yield	Low Price-to-Economic Book Value	Short Market-Implied GAP (years)	Market Value (\$mm)	
1	GCA	Global Cash Access Holdings, Inc.	\$0.34	11%	Top Quintile	18%	1.7	24	\$617
2	JBSS	John B. Sanfilippo & Son, Inc.	\$0.67	1%	3rd	10%	0.9	Less than 1	\$279
3	MRH	Montpelier Re Holdings, Ltd.	\$2.06	22%	2nd	9%	0.5	7	\$1,431
4	MGI	Moneygram International, Inc.	\$1.10	1%	Top Quintile	8%	2.3	7	\$1,211
5	KFN*	KKR Financial Holdings Llc	\$1.09	2%	Top Quintile	7%	0.5	Less than 1	\$1,964
6	ONFC	Oneida Financial Corp	\$0.23	2%	4th	7%	0.7	Less than 1	\$90
7	SWHC	Smith & Wesson Holding Corp	\$1.07	19%	Top Quintile	7%	0.7	Less than 1	\$716
8	NRCIB	National Research Corp	\$1.48	4%	Top Quintile	7%	1.2	1	\$233
9	NSP*	Insperity Inc.	\$1.08	4%	Top Quintile	7%	1.5	17	\$879
10	LF*	Leapfrog Enterprises, Inc.	\$0.49	15%	Top Quintile	5%	1.0	22	\$580
11	ICUI*	ICU Medical Inc.	\$1.97	5%	Top Quintile	5%	1.4	13	\$976
12	PTP	Platinum Underwriters Holdings, Ltd.	\$6.41	32%	Top Quintile	5%	0.4	Less than 1	\$1,738
13	EIG	Employers Holdings, Inc.	\$2.13	12%	Top Quintile	5%	0.9	Less than 1	\$997
14	AGM	Federal Agricultural Mortgage Corp	\$1.90	7%	2nd	4%	1.0	2	\$372
15	CRUS	Cirrus Logic, Inc.	\$0.98	9%	Top Quintile	4%	0.9	4	\$1,261
16	RWT	Redwood Trust, Inc.	\$0.56	9%	2nd	4%	1.0	9	\$1,522
17	STRT	STRATTEC Security Corp	\$2.75	2%	2nd	4%	0.6	Less than 1	\$153
18	CFI	Culp Inc.	\$0.61	3%	2nd	4%	1.0	2	\$247
19	UVE	Universal Insurance Holdings, Inc.	\$0.54	7%	Top Quintile	3%	1.1	Less than 1	\$457
20	IBKC*	IberiaBank Corporation	\$0.60	1%	3rd	3%	1.0	2	\$1,858

* Addition to the Small Cap Most Attractive list in December

Most Attractive Stocks are Ranked by Free Cash Flow Yield in Descending Order

Sources: New Constructs, LLC

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1. Based on the complete set of financial information available.
2. Standard for all companies.
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