

Most Attractive Stocks for January 2014

20 Large/Mid Cap and 20 Small Cap Stocks

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- 12 new stocks make our January lists.
- **FREE Company Valuation Reports** for 2 of the new stocks are in the Free Archive on our website.
- **The Most Attractive Stocks portfolio (+0.9%) underperformed the S&P 500 (+1.9%) last month.**
- **Figure 1 shows the 17 stocks that outperformed from December'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: 21 Stocks with Positive Returns From December's Report

Large Cap		Small Cap	
Ticker	Change From 12/ 04/ 13	Ticker	Change From 12/ 04/ 13
FII	9.7%	KFN	34.6%
BEN	5.0%	SWHC	14.7%
DFS	4.3%	UVE	5.7%
DNB	3.9%	NSP	4.8%
ZMH	3.5%	STRT	4.6%
CHKP	3.1%	RWT	3.9%
AIZ	2.7%	CFI	3.1%
MXIM	2.6%	GCA	2.4%
TMK	2.0%	S&P 500	1.9%
S&P 500	1.9%		
PRE	0.6%		
MO	0.1%		
ISRG	0.1%		
UPS	0.0%		

Sources: New Constructs, LLC,

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

Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+0.9%) underperformed the S&P 500 (+1.9%) last month. 17 stocks from our December Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 21 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 December performance based on closing prices from December 04, 2013 to January 06, 2014. We published last month's report to subscribers on December 04, 2013 and to the general public, for purchase, on December 12, 2013.

Figure 2: 21 Stocks with Positive Returns From December's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 12/04/13	Ticker	Company Name	Change From 12/04/13
FII	Federated Investors, Inc.	9.7%	KFN	KKR Financial Holdings LLC	34.6%
BEN	Franklin Resources Inc	5.0%	SWHC	Smith & Wesson Hold. Corp	14.7%
DFS	Discover Financial Services	4.3%	UVE	Universal Insurance Hold., Inc.	5.7%
DNB	The Dun & Bradstreet Corp	3.9%	NSP	Insperty Inc.	4.8%
ZMH	Zimmer Holdings, Inc.	3.5%	STRT	STRATTEC Security Corp	4.6%
CHKP	Check Point Software Tech.	3.1%	RWT	Redwood Trust, Inc.	3.9%
AIZ	Assurant Inc.	2.7%	CFI	Culp Inc.	3.1%
MXIM	Maxim Integrated Products	2.6%	GCA	Global Cash Access Hold., Inc.	2.4%
TMK	Torchmark Corporation	2.0%	S&P 500	S&P 500	1.9%
S&P 500	S&P 500	1.9%			
PRE	PartnerRe Ltd.	0.6%			
MO	Altria Group, Inc.	0.1%			
ISRG	Intuitive Surgical, Inc.	0.1%			
UPS	United Parcel Service, Inc.	0.0%			

Sources: New Constructs, LLC,

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

Figure 3 shows the 12 new stocks that make our January Most Attractive Stocks Report.

Figure 3: Additions for January

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
AMGN	Amgen Inc.	HCI	HCI Group Inc
CF	CF Industries Holdings, Inc.	MGLN	Magellan Health Services, Inc.
DOX	Amdocs Ltd.	NTWK	NetSol Technologies, Inc.
DTV	DirectTV	OUTR	Outerwall Inc
EMC	EMC Corporation	PROV	Provident Financial Holdings, Inc.
WRB	W.R. Berkley Corp	SAFM	Sanderson Farms, Inc.

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 December's Report

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

Large Cap			Small Cap		
Ticker	Company Name	Change From 12/04/13	Ticker	Company Name	Change From 12/04/13
FII	Federated Investors, Inc.	9.7%	KFN	KKR Financial Holdings LLC	34.6%
BEN	Franklin Resources Inc	5.0%	SWHC	Smith & Wesson Holding Corp	14.7%
DFS	Discover Financial Services	4.3%	UVE	Universal Insurance Hold., Inc.	5.7%
DNB	The Dun & Bradstreet Corp	3.9%	NSP	Insperty Inc.	4.8%
ZMH	Zimmer Holdings, Inc.	3.5%	STRT	STRATTEC Security Corp	4.6%
CHKP	Check Point Software Tech	3.1%	RWT	Redwood Trust, Inc.	3.9%
AIZ	Assurant Inc.	2.7%	CFI	Culp Inc.	3.1%
MXIM	Maxim Integrated Products	2.6%	GCA	Global Cash Access Hold., Inc.	2.4%
TMK	Torchmark Corporation	2.0%	SPX	S&P 500	1.9%
SPX	S&P 500	1.9%	NRCIB	National Research Corp	-0.1%
PRE	PartnerRe Ltd.	0.6%	IBKC	IberiaBank Corporation	-0.1%
MO	Altria Group, Inc.	0.1%	MRH	Montpelier Re Holdings, Ltd.	-0.7%
ISRG	Intuitive Surgical, Inc.	0.1%	ONFC	Oneida Financial Corp	-1.3%
UPS	United Parcel Service, Inc.	0.0%	PTP	Platinum Underwriters Hold., Ltd.	-3.0%
QCOM	QUALCOMM Inc.	-0.7%	MGI	Moneygram International, Inc.	-3.4%
LANC	Lancaster Colony Corp	-0.7%	ICUI	ICU Medical Inc.	-3.6%
RNR	RenaissanceRe Holdings, Ltd.	-2.7%	CRUS	Cirrus Logic, Inc.	-4.0%
AXS	Axis Capital Holdings, Ltd.	-3.2%	AGM	Federal Agricultural Mrtg. Corp	-5.5%
RAI	Reynolds American, Inc.	-3.8%	LF	Leapfrog Enterprises, Inc.	-9.2%
MRO	Marathon Oil Corp	-6.3%	EIG	Employers Holdings, Inc.	-9.4%
AGO	Assured Guaranty, Ltd.	-6.4%	JBSS	John B. Sanfilippo & Son, Inc.	-10.1%
Large Cap Portfolio Return		0.7%	Small Cap Portfolio Return		1.2%
Combo (Large and Small Cap) Return		0.9%			

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:

- FII - Stock price increased 9.7% since December report.
- BEN - Stock price increased 5.0% since December report.
- DFS - Stock price increased 4.3% since December report.
- ISRG - Displaced by improved rank of other stocks.
- MRO - Displaced by improved rank of other stocks.
- QCOM - Displaced by improved rank of other stocks.

Additions:

- CF - Stock price decreased 3.4% since December report.
- WRB - Stock price decreased 0.9% since December report.
- AMGN - Addition by decrease in rank of other stocks.
- DTV - Addition by decrease in rank of other stocks.
- EMC - Addition by decrease in rank of other stocks.
- DOX - New filing data on 12/09/13.

Most Attractive Small Cap Stocks**Deletions:**

- NSP - Stock price increased 4.8% since December report.
- STRT - Stock price increased 4.6% since December report.
- RWT - Stock price increased 3.9% since December report.
- GCA - Stock price increased 2.4% since December report.
- LF - Displaced by improved rank of other stocks.
- KFN - Displaced by improved rank of other stocks.

Additions:

- MGLN - Stock price decreased 2.9% since December report.
- HCI - Addition by decrease in rank of other stocks.
- NTWK - Addition by decrease in rank of other stocks.
- OUTR - Addition by decrease in rank of other stocks.
- PROV - Addition by decrease in rank of other stocks.
- SAFM - New filing data on 12/17/13.

The 20 Most Attractive Large/Mid Cap Stocks for January

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 January

			High-Quality Earnings			Cheap Valuation				
			As of Last Fiscal Year			as of 01/06/14				
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%	0.4	Less than 1	\$4,200	
2	CF*	CF Industries Holdings, Inc.	\$22.14	1%	Top Quintile	13%	0.6	Less than 1	\$13,124	
3	AIZ	Assurant Inc.	\$2.07	1%	2nd	10%	0.8	Less than 1	\$4,812	
4	TMK	Torchmark Corporation	\$2.12	1%	2nd	9%	1.2	4	\$6,989	
5	RNR	RenaissanceRe Holdings, Ltd.	\$9.39	18%	Top Quintile	9%	0.4	Less than 1	\$4,049	
6	PRE	PartnerRe Ltd.	\$12.39	23%	Top Quintile	8%	0.3	Less than 1	\$5,342	
7	CHKP	Check Point Software Tech.	\$2.72	31%	Top Quintile	7%	1.2	4	\$12,460	
8	MO	Altria Group, Inc.	\$2.00	2%	Top Quintile	6%	1.0	Less than 1	\$74,561	
9	MXIM	Maxim Integrated Products, Inc.	\$0.67	2%	2nd	6%	1.3	5	\$8,183	
10	RAI	Reynolds American, Inc.	\$1.42	1%	3rd	6%	1.0	3	\$26,326	
11	DOX*	Amdocs Ltd.	\$1.27	1%	2nd	6%	0.9	Less than 1	\$6,465	
12	ZMH	Zimmer Holdings, Inc.	\$3.38	5%	Top Quintile	5%	1.2	9	\$15,942	
13	LANC	Lancaster Colony Corp	\$2.59	3%	Top Quintile	5%	1.6	18	\$2,339	
14	DNB	The Dun & Bradstreet Corp	\$6.01	2%	Top Quintile	4%	1.2	5	\$4,598	
15	AXS	Axis Capital Holdings, Ltd.	\$0.43	7%	3rd	4%	1.0	3	\$5,317	
16	UPS	United Parcel Service, Inc.	\$5.74	8%	Top Quintile	4%	1.1	6	\$94,460	
17	DTV*	DirecTV	\$4.10	1%	Top Quintile	3%	1.0	Less than 1	\$36,445	
18	AMGN*	Amgen Inc.	\$4.76	2%	Top Quintile	3%	1.0	Less than 1	\$85,578	
19	EMC*	EMC Corporation	\$0.75	1%	Top Quintile	3%	1.2	7	\$51,158	
20	WRB*	W.R. Berkley Corp	\$1.53	2%	2nd	3%	0.8	Less than 1	\$5,740	

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

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 January

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

Figure 7: 20 Most Attractive Small Cap Stocks for January

			High-Quality Earnings			Cheap Valuation			
			As of Last Fiscal Year			as of 01/06/14			
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	JBSS	John B. Sanfilippo & Son, Inc.	\$0.67	1%	3rd	11%	0.8	Less than 1	\$252
2	MRH	Montpelier Re Holdings, Ltd.	\$2.06	22%	2nd	10%	0.5	7	\$1,394
3	MGI	Moneygram International, Inc.	\$1.10	1%	Top Quintile	8%	2.1	5	\$1,144
4	ONFC	Oneida Financial Corp	\$0.23	2%	4th	7%	0.7	Less than 1	\$88
5	NRCIB	National Research Corp	\$1.48	4%	Top Quintile	7%	1.2	1	\$236
6	SWHC	Smith & Wesson Holding Corp	\$1.07	19%	Top Quintile	7%	0.7	Less than 1	\$745
7	SAFM*	Sanderson Farms, Inc.	\$3.67	10%	Top Quintile	7%	0.9	19	\$1,668
8	EIG	Employers Holdings, Inc.	\$2.13	12%	Top Quintile	5%	0.8	Less than 1	\$901
9	ICUI	ICU Medical Inc.	\$1.97	5%	Top Quintile	5%	1.3	11	\$934
10	PTP	Platinum Underwriters Holdings, Ltd.	\$6.41	32%	Top Quintile	5%	0.4	Less than 1	\$1,658
11	AGM	Federal Agricultural Mortgage Corp	\$1.90	7%	2nd	5%	1.0	1	\$351
12	CRUS	Cirrus Logic, Inc.	\$0.98	9%	Top Quintile	4%	0.9	3	\$1,238
13	CFI	Culp Inc.	\$0.61	3%	2nd	4%	1.0	3	\$250
14	IBKC	IberiaBank Corporation	\$0.60	1%	3rd	3%	1.0	2	\$1,822
15	PROV*	Provident Financial Holdings, Inc.	\$0.84	10%	2nd	3%	0.5	3	\$153
16	UVE	Universal Insurance Holdings, Inc.	\$0.54	7%	Top Quintile	3%	1.2	1	\$483
17	MGLN*	Magellan Health Services, Inc.	\$2.55	1%	2nd	-1%	0.9	Less than 1	\$1,592
18	OUTR*	Outerwall Inc	\$3.01	1%	Top Quintile	-2%	1.1	Less than 1	\$1,927
19	HCI*	HCI Group Inc	\$3.06	16%	Top Quintile	-4%	1.1	1	\$578
20	NTWK*	NetSol Technologies, Inc.	\$0.43	3%	2nd	-5%	0.4	Less than 1	\$52

* Addition to the Small Cap Most Attractive list in January

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.
3. A more accurate representation of the true underlying cash flows of the business.

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