

Most Dangerous Stocks for January 2014

20 Large/Mid Cap and 20 Small Cap Stocks

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- 11 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 Dangerous Stocks (+2.3%) rose more than the S&P 500 (+1.9%) and underperformed as a short portfolio last month.**
- **Figure 1 shows the 17 stocks from December's report that outperformed as shorts.**
- **Most Dangerous Stocks have misleading earnings, which means reported earnings are rising while true economic earnings are declining.**
- **Barron's recently highlighted our stock-picking as amongst the best of all Wall Street firms. See our website for details.**

Figure 1: 17 Stocks that Outperformed as Shorts From December's Report

Large Cap		Small Cap	
Ticker	Change From 12/04/13	Ticker	Change From 12/04/13
SHLD	-12.1%	RATE	-8.4%
BIN	-6.4%	TRR	-6.3%
LKQ	-2.6%	SMRT	-2.9%
ECL	-1.1%	LABL	-1.9%
SWK	0.1%	CTHR	-1.6%
PLD	0.3%	GLOW	-1.5%
SKT	0.5%	RNWK	-0.5%
EA	0.9%	OBAS	0.4%
WTS	1.6%	S&P 500	1.9%
S&P 500	1.9%		

Sources: New Constructs, LLC,

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

Most Dangerous Stocks: Monthly Updates

The Dangerous Stocks (+2.3%) rose more than the S&P 500 (+1.9%) and underperformed as a short portfolio last month. 17 stocks from our December Most Dangerous Large Cap and Small Cap lists outperformed the S&P 500 as shorts, and 11 stocks had negative returns. See Figure 2 for details. For updates on the performance of all of last month's Most Dangerous 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: 17 Stocks that Outperformed as Shorts From December's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 12/04/13	Ticker	Company Name	Change From 12/04/13
SHLD	Sears Holdings Corp	-12.1%	RATE	Bankrate Inc	-8.4%
BIN	Progressive Waste Solutions	-6.4%	TRR	TRC Companies, Inc.	-6.3%
LKQ	LKQ Corporation	-2.6%	SMRT	Stein Mart, Inc.	-2.9%
ECL	Ecolab Inc.	-1.1%	LABL	Multi-Color Corporation	-1.9%
SWK	Stanley Black & Decker, Inc.	0.1%	CTHR	Charles & Colvard, Ltd.	-1.6%
PLD	Prologis Inc.	0.3%	GLOW	Glowpoint Inc.	-1.5%
SKT	Tanger Factory Outlet Centers	0.5%	RNWK	RealNetworks Inc.	-0.5%
EA	Electronic Arts, Inc.	0.9%	OBAS	Optibase Ltd.	0.4%
WTS	Watts Water Technologies, Inc.	1.6%	S&P 500	S&P 500	1.9%
S&P 500	S&P 500	1.9%			

Sources: New Constructs, LLC,

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

Figure 3 shows the 11 new stocks that make our January Most Dangerous Stocks Report.

Figure 3: Additions for January

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
AMAT	Applied Materials, Inc.	ABM	ABM Industries, Inc.
ATO	Atmos Energy Corp	ALCO	Alico Inc.
CRS	Carpenter Technology Corp	HZO	Marinemax Inc.
KAR	KAR Auction Services, Inc.	OXM	Oxford Industries, Inc.
RS	Reliance Steel & Aluminum Co.	RUSHA	Rush Enterprises, Inc.
XRAY	DENTSPLY International, Inc.		

Sources: New Constructs, LLC

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

Most Dangerous Stocks: Methodology

Stocks make our Most Dangerous list because they have:

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

- Misleading earnings: rising and positive GAAP earnings while economic earnings are negative and falling; and
- Low Returns on Invested Capital (ROIC).

AND

2. **Expensive Valuations** based on:

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

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

The above characteristics also qualify stocks for a 'Very Dangerous' or 'Dangerous' 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 4.25 or above to be rated Very Dangerous. For the most part, only Very Dangerous stocks qualify for our Most Dangerous 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
SHLD	Sears Holdings Corp	-12.1%	RATE	Bankrate Inc	-8.4%
BIN	Progressive Waste Solutions	-6.4%	TRR	TRC Companies, Inc.	-6.3%
LKQ	LKQ Corporation	-2.6%	SMRT	Stein Mart, Inc.	-2.9%
ECL	Ecolab Inc.	-1.1%	LABL	Multi-Color Corporation	-1.9%
SWK	Stanley Black & Decker, Inc.	0.1%	CTHR	Charles & Colvard, Ltd.	-1.6%
PLD	Prologis Inc.	0.3%	GLOW	Glowpoint Inc.	-1.5%
SKT	Tanger Factory Outlet Centers	0.5%	RNWK	RealNetworks Inc.	-0.5%
EA	Electronic Arts, Inc.	0.9%	OBAS	Optibase Ltd.	0.4%
WTS	Watts Water Technologies, Inc.	1.6%	SPX	S&P 500	1.9%
SPX	S&P 500	1.9%	TCBK	TriCo Bancshares	2.5%
BDC	Belden Inc.	1.9%	GOV	Government Prop. Income Trust	2.6%
HSP	Hospira Inc.	1.9%	LNDC	Landec Corporation	2.7%
KEX	Kirby Corporation	1.9%	ATSG	Air Transport Services Group	3.5%
SIVB	SVB Financial Group	3.8%	NES	Nuverra Environmental Solutions	3.5%
HBHC	Hancock Holding Company	3.8%	XXIA	Ixia	3.6%
ESRX	Express Scripts, Inc.	4.0%	MOVE	Move Inc.	3.7%
SCHW	The Charles Schwab Corp	4.8%	GSBC	Great Southern Bancorp, Inc.	4.4%
JDSU	JDS Uniphase Corp	5.2%	WPP	Wausau Paper Corp	6.1%
SINA	SINA Corporation	5.5%	SPNC	The Spectranetics Corp	9.1%
CAB	Cabela's Inc.	6.0%	TG	Tredegar Corporation	10.3%
CSOD	Cornerstone OnDemand	14.2%	KEYW	KEYW Holding Corp	28.9%
Large Cap Portfolio Return		1.7%	Small Cap Portfolio Return		2.9%
Combo (Large and Small Cap) Return		2.3%			

Sources: New Constructs, LLC,

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

Appendix B – Additions and Deletions

Most Dangerous Large/Mid Cap Stocks

Deletions:

- ECL - Stock price decreased 1.1% since December report.
- BDC - Displaced by decrease in rank of other stocks.
- CSOD - Displaced by decrease in rank of other stocks.
- SINA - Displaced by decrease in rank of other stocks.
- SIVB - Displaced by decrease in rank of other stocks.
- SWK - Displaced by decrease in rank of other stocks.

Additions:

- KAR - Stock price increased 8.0% since December report.
- RS - Stock price increased 1.6% since December report.
- XRAY - Stock price increased 1.3% since December report.
- CRS - Stock price increased 1.1% since December report.
- ATO - Stock price increased 0.6% since December report.
- AMAT - New filing data on 12/04/13.

Most Dangerous Small Cap Stocks

Deletions:

- TRR - Stock price decreased 6.3% since December report.
- LABL - Stock price decreased 1.9% since December report.
- LNDC - Displaced by decrease in rank of other stocks.
- MOVE - Displaced by decrease in rank of other stocks.
- SPNC - Displaced by decrease in rank of other stocks.

Additions:

- OXM - Stock price increased 11.2% since December report.
- RUSHA - Addition by improved rank of other stocks.
- ABM - New filing data on 12/18/13.
- ALCO - New filing data on 12/09/13.
- HZO - New filing data on 12/06/13.

The 20 Most Dangerous Large/Mid Cap Stocks for January

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

Figure 6: 20 Most Dangerous Large/Mid Cap Stocks for January

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 01/06/14			
			Rising GAAP Earnings (\$mm)	Declining Economic Cash Flows (\$mm)	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	
1	CAB	Cabela's Inc.	\$30.89	\$8	4th	-27%	37.8	Greater than 100	\$4,686
2	SKT	Tanger Factory Outlet Centers, Inc.	\$8.49	(\$1)	4th	1%	15.3	Greater than 100	\$3,076
3	JDSU	JDS Uniphase Corp	\$112.60	(\$385)	Bottom Quintile	2%	11.6	Greater than 100	\$3,001
4	CRS*	Carpenter Technology Corp	\$25.20	(\$12)	Bottom Quintile	0%	8.4	Greater than 100	\$3,256
5	ESRX	Express Scripts, Inc.	\$37.10	(\$937)	4th	-44%	6.0	Greater than 100	\$56,310
6	LKQ	LKQ Corporation	\$50.96	\$5	3rd	-2%	5.6	Greater than 100	\$9,518
7	EA	Electronic Arts, Inc.	\$22.00	(\$17)	Bottom Quintile	0%	4.9	Greater than 100	\$6,965
8	SCHW	The Charles Schwab Corp	\$19.00	(\$62)	4th	-2%	4.6	Greater than 100	\$33,275
9	KEX	Kirby Corporation	\$26.41	\$5	3rd	-7%	4.4	Greater than 100	\$5,428
10	BIN	Progressive Waste Solutions, Ltd.	\$290.49	(\$77)	Bottom Quintile	-5%	4.1	69	\$2,789
11	HSP	Hospira Inc.	\$53.60	(\$214)	4th	4%	3.1	Greater than 100	\$6,798
12	XRAY*	DENTSPLY International, Inc.	\$69.69	(\$49)	4th	6%	3.0	99	\$6,833
13	RS*	Reliance Steel & Aluminum Co	\$59.70	(\$129)	4th	2%	3.0	Greater than 100	\$5,771
14	WTS	Watts Water Technologies, Inc.	\$2.00	(\$1)	4th	4%	2.9	Greater than 100	\$2,096
15	AMAT*	Applied Materials, Inc.	\$147.00	(\$442)	4th	3%	2.9	31	\$20,820
16	ATO*	Atmos Energy Corp	\$26.50	(\$47)	Bottom Quintile	-3%	2.6	15	\$4,017
17	HBHC	Hancock Holding Company	\$74.29	(\$27)	4th	4%	1.7	Greater than 100	\$2,934
18	SHLD	Sears Holdings Corp	\$2,210.00	\$22	Bottom Quintile	9%	-0.4	Greater than 100	\$4,767
19	PLD	Prologis Inc.	\$107.16	(\$673)	Bottom Quintile	-2%	-1.7	Greater than 100	\$18,652
20	KAR*	KAR Auction Services, Inc.	\$19.80	(\$9)	4th	2%	-38.1	Greater than 100	\$4,102

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

Most Dangerous Stocks are Ranked by Price-to-Economic Book Value in Descending Order

Sources: New Constructs, LLC

The 20 Most Dangerous Small Cap Stocks for January

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

Figure 7: 20 Most Dangerous Small Cap Stocks for January

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 01/06/14			
			Rising GAAP Earnings (\$mm)	Declining Economic Cash Flows (\$mm)	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield	High or Negative Price-to-Economic Book Value	Long Market-Implied GAP (years)	
1	TG	Tredegar Corporation	\$3.40	(\$1)	Bottom Quintile	-1%	25.8	Greater than 100	\$891
2	CTHR	Charles & Colvard, Ltd.	\$2.81	(\$0)	Bottom Quintile	1%	7.9	Greater than 100	\$99
3	SMRT	Stein Mart, Inc.	\$4.95	(\$0)	4th	-2%	4.6	Greater than 100	\$617
4	OXM*	Oxford Industries, Inc.	\$1.94	(\$2)	4th	-2%	4.3	Greater than 100	\$1,331
5	XXIA	Ixia	\$21.69	(\$6)	3rd	-27%	4.2	Greater than 100	\$961
6	TCBK	TriCo Bancshares	\$0.40	(\$4)	4th	0%	4.2	Greater than 100	\$445
7	RATE	Bankrate Inc	\$42.75	(\$26)	Bottom Quintile	1%	4.0	41	\$1,689
8	ALCO*	Alico Inc.	\$1.16	(\$8)	Bottom Quintile	-1%	4.0	Greater than 100	\$283
9	GSBC	Great Southern Bancorp, Inc.	\$21.84	(\$5)	Bottom Quintile	-6%	3.4	Greater than 100	\$404
10	GOV	Government Prop. Income Trust	\$3.96	(\$1)	Bottom Quintile	-7%	2.9	Greater than 100	\$1,380
11	ABM*	ABM Industries, Inc.	\$10.32	(\$4)	4th	-6%	2.3	87	\$1,573
12	OBAS	Optibase Ltd.	\$1.82	(\$1)	Bottom Quintile	3%	-0.3	66	\$21
13	NES	Nuverra Environmental Solutions	\$25.53	(\$11)	Bottom Quintile	-100%	-0.5	Greater than 100	\$414
14	RNWK	RealNetworks Inc.	\$71.94	(\$10)	Bottom Quintile	-2%	-1.9	Greater than 100	\$272
15	WPP	Wausau Paper Corp	\$22.37	(\$4)	Bottom Quintile	-6%	-2.1	Greater than 100	\$618
16	GLOW	Glowpoint Inc.	\$0.68	(\$0)	Bottom Quintile	-26%	-2.4	Greater than 100	\$46
17	HZO*	Marinemax Inc.	\$13.93	(\$5)	Bottom Quintile	-2%	-3.8	Greater than 100	\$391
18	RUSHA*	Rush Enterprises, Inc.	\$7.24	(\$3)	Bottom Quintile	-7%	-4.6	Greater than 100	\$1,080
19	ATSG	Air Transport Services Group, Inc.	\$17.68	(\$2)	Bottom Quintile	-4%	-5.0	Greater than 100	\$502
20	KEYW	KEYW Holding Corp	\$0.48	(\$3)	Bottom Quintile	-26%	-5.5	Greater than 100	\$576

* Addition to the Small Cap Most Dangerous list in January

Most Dangerous Stocks are Ranked by Price-to-Economic Book Value in Descending Order

Sources: New Constructs, LLC

New Constructs® – Profile

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2. Standard for all companies.
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