

Most Attractive Stocks for April 2014

20 Large/Mid Cap and 20 Small Cap Stocks

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- **27 new stocks make our April lists.**
- **FREE Company Valuation Reports for 2 of the new stocks are in the Free Archive on our website.**
- **The Most Attractive Stocks portfolio (+2.3%) outperformed the S&P 500 (-0.1%) last month.**
- **Figure 1 shows the 27 stocks that outperformed from March'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: 27 Stocks that Outperformed From March's Report

Large Cap		Small Cap	
Ticker	Change From 03/05/14	Ticker	Change From 03/05/14
PPC	14.9%	MTX	18.4%
ENR	7.3%	RMBS	13.4%
SNDK	6.1%	MGCD	11.7%
GTE	5.5%	HRG	6.8%
VC	5.0%	SWHC	6.4%
AHL	4.9%	IDCC	5.1%
TUP	4.4%	WDFC	4.2%
QCOM	2.9%	VIVO	3.4%
ALL	2.7%	CRUS	3.1%
VR	1.9%	HLSS	2.6%
KMB	1.5%	STRT	1.9%
MXIM	1.3%	FFG	1.3%
TRV	0.9%	ORIT	0.1%
DNB	0.3%	S&P 500	-0.1%
S&P 500	-0.1%		

Sources: New Constructs, LLC,

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

Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+2.3%) outperformed the S&P 500 (-0.1%) last month. 27 stocks from our March Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 27 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 March performance based on closing prices from March 05, 2014 to March 31, 2014. We published last month's report to subscribers on March 05, 2014 and to the general public, for purchase, on March 12, 2014.

Figure 2: 27 Stocks that Outperformed From March's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 03/05/14	Ticker	Company Name	Change From 03/05/14
PPC	Pilgrim's Pride Corp	14.9%	MTX	Minerals Technologies, Inc.	18.4%
ENR	Energizer Holdings, Inc.	7.3%	RMBS	Rambus Inc.	13.4%
SNDK	SanDisk Corporation	6.1%	MGCD	MGC Diagnostics Corp	11.7%
GTE	Gran Tierra Energy, Inc.	5.5%	HRG	Harbinger Group	6.8%
VC	Visteon Corp	5.0%	SWHC	Smith & Wesson Holding Corp	6.4%
AHL	Aspen Insurance Holdings, Ltd.	4.9%	IDCC	InterDigital Inc.	5.1%
TUP	Tupperware Brands Corp	4.4%	WDFC	WD-40 Company	4.2%
QCOM	Qualcomm Inc.	2.9%	VIVO	Meridian Bioscience, Inc.	3.4%
ALL	The Allstate Corp	2.7%	CRUS	Cirrus Logic, Inc.	3.1%
VR	Validus Holdings, Ltd.	1.9%	HLSS	Home Loan Servicing Solutions	2.6%
KMB	Kimberly-Clark Corp	1.5%	STRT	STRATTEC Security Corp	1.9%
MXIM	Maxim Integrated Products, Inc.	1.3%	FFG	FBL Financial Group, Inc.	1.3%
TRV	The Travelers Companies, Inc.	0.9%	ORIT	Oritani Financial Corp	0.1%
DNB	The Dun & Bradstreet Corp	0.3%	S&P 500	S&P 500	-0.1%
S&P 500	S&P 500	-0.1%			

Sources: New Constructs, LLC,

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

Figure 3 shows the 27 new stocks that make our April Most Attractive Stocks Report.

Figure 3: Additions for April

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
ACE	Ace Ltd.	AFOP	Alliance Fiber Optic Products, Inc.
AGCO	AGCO Corporation	AGM	Federal Agricultural Mortgage Corp
ACGL	Arch Capital Group, Ltd.	CTCM	CTC Media, Inc.
AXS	Axis Capital Holdings, Ltd.	EMCI	EMC Insurance Group, Inc.
CB	The Chubb Corp	IQNT	Inteliquent Inc
CI	Cigna Corporation	MED	Medifast Inc.
DFS	Discover Financial Services	MTEX	Mannatech Inc.
DOX	Amdocs Ltd.	NRCIB	National Research Corp
NVR	NVR Inc.	OFG	OFG Bancorp
PETM	PetSmart Inc.	OTTR	Otter Tail Corp
RE	Everest Re Group, Ltd.	REGI	Renewable Energy Group
		RGR	Sturm, Ruger & Company
		RWT	Redwood Trust, Inc.
		SAFM	Sanderson Farms, Inc.
		SPRT	Support.com Inc.
		UVE	Universal Insurance Holdings, 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:
 - a. Returns on Invested Capital that are rising; and
 - b. Economic Earnings/Cash Flows that are positive.

AND

2. **Cheap Valuations** based on:
 - a. *Free-Cash Flow Yields*¹ that are positive;
 - b. *Price-to-Economic Book Value (EBV)*² ratios that are relatively low; and
 - c. *Growth Appreciation Periods*³ (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 March’s Report

Figure 5: Performance of All Stocks From March’s Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 03/05/14	Ticker	Company Name	Change From 03/05/14
PPC	Pilgrim’s Pride Corp	14.9%	MTX	Minerals Technologies, Inc.	18.4%
ENR	Energizer Holdings, Inc.	7.3%	RMBS	Rambus Inc.	13.4%
SNDK	SanDisk Corporation	6.1%	MGCD	MGC Diagnostics Corp	11.7%
GTE	Gran Tierra Energy, Inc.	5.5%	HRG	Harbinger Group	6.8%
VC	Visteon Corp	5.0%	SWHC	Smith & Wesson Holding Corp	6.4%
AHL	Aspen Insurance Holdings, Ltd.	4.9%	IDCC	InterDigital Inc.	5.1%
TUP	Tupperware Brands Corp	4.4%	WDFC	WD-40 Company	4.2%
QCOM	QUALCOMM Inc.	2.9%	VIVO	Meridian Bioscience, Inc.	3.4%
ALL	The Allstate Corp	2.7%	CRUS	Cirrus Logic, Inc.	3.1%
VR	Validus Holdings, Ltd.	1.9%	HLSS	Home Loan Servicing Solutions	2.6%
KMB	Kimberly-Clark Corp	1.5%	STRT	STRATTEC Security Corp	1.9%
MXIM	Maxim Integrated Products, Inc.	1.3%	FFG	FBL Financial Group, Inc.	1.3%
TRV	The Travelers Companies, Inc.	0.9%	ORIT	Oritani Financial Corp	0.1%
DNB	The Dun & Bradstreet Corp	0.3%	SPX	S&P 500	-0.1%
F	Ford Motor Company	-0.2%	JBSS	John B. Sanfilippo & Son, Inc.	-1.5%
DAL	Delta Air Lines, Inc.	-0.2%	CCMP	Cabot Microelectronics Corp	-1.5%
LLY	Eli Lilly & Company	-1.0%	CFI	Culp Inc.	-1.5%
TRW	TRW Automotive Holdings Corp	-1.9%	PCH	Potlatch Corporation	-2.6%
BA	The Boeing Company	-2.6%	BOLT	Bolt Technology Corp	-3.7%
AGO	Assured Guaranty, Ltd.	-3.1%	CCUR	Concurrent Computer Corp	-4.8%
			WRLD	World Acceptance Corp	-22.7%
Large Cap Portfolio Return		2.5%	Small Cap Portfolio Return		2.0%
Combo (Large and Small Cap) Return		2.3%			

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:

- PPC - Stock price increased 14.9% since March report.
- SNDK - Stock price increased 6.1% since March report.
- GTE - Stock price increased 5.5% since March report.
- TUP - Stock price increased 4.4% since March report.
- QCOM - Stock price increased 2.9% since March report.
- KMB - Stock price increased 1.5% since March report.
- MXIM - Stock price increased 1.3% since March report.
- AGO - Displaced by improved rank of other stocks.
- DAL - Displaced by improved rank of other stocks.
- LLY - Displaced by improved rank of other stocks.
- BA - Displaced by improved rank of other stocks.

Additions:

- NVR - Stock price decreased 4.4% since March report.
- ACE - Addition by decrease in rank of other stocks.
- ACGL - Addition by decrease in rank of other stocks.
- AGCO - Addition by decrease in rank of other stocks.
- AXS - Addition by decrease in rank of other stocks.
- CB - Addition by decrease in rank of other stocks.
- CI - Addition by decrease in rank of other stocks.
- DFS - Addition by decrease in rank of other stocks.
- DOX - Addition by decrease in rank of other stocks.
- RE - Addition by decrease in rank of other stocks.
- PETM - New filing data on 03/27/14.

Most Attractive Small Cap Stocks**Deletions:**

- RMBS - Stock price increased 13.4% since March report.
- MGCD - Stock price increased 11.7% since March report.
- HRG - Stock price increased 6.8% since March report.
- WDFC - Stock price increased 4.2% since March report.
- VIVO - Stock price increased 3.4% since March report.
- HLSS - Stock price increased 2.6% since March report.
- STRT - Stock price increased 1.9% since March report.
- FFG - Stock price increased 1.3% since March report.
- BOLT - Displaced by improved rank of other stocks.
- CCMP - Displaced by improved rank of other stocks.
- CCUR - Displaced by improved rank of other stocks.
- CFI - Displaced by improved rank of other stocks.
- ORIT - Displaced by improved rank of other stocks.
- PCH - Displaced by improved rank of other stocks.
- WRLD - Displaced by improved rank of other stocks.
- MTX - Displaced by improved rank of other stocks.

Additions:

- UVE - Stock price decreased 10.2% since March report.
- RGR - Stock price decreased 8.6% since March report.
- RWT - Stock price decreased 4.3% since March report.
- NRCIB - Addition by decrease in rank of other stocks.
- OFG - Addition by decrease in rank of other stocks.
- OTTR - Addition by decrease in rank of other stocks.
- REGI - Addition by decrease in rank of other stocks.
- SAFM - Addition by decrease in rank of other stocks.
- AFOP - New filing data on 03/14/14.
- AGM - New filing data on 03/13/14.
- CTCM - New filing data on 03/06/14.
- EMCI - New filing data on 03/12/14.
- IQNT - New filing data on 03/11/14.
- MED - New filing data on 03/17/14.
- MTEX - New filing data on 03/18/14.
- SPRT - New filing data on 03/07/14.

The 20 Most Attractive Large/Mid Cap Stocks for April

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 April

Rank	Ticker	Company Name	High-Quality Earnings			Cheap Valuation			Market Value (\$mm)
			As of Last Fiscal Year			as of 03/31/14			
			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)	
1	VR	Validus Holdings, Ltd.	\$2.52	2%	2nd	17%	0.5	Less than 1	\$3,521
2	VC	Visteon Corp	\$1.81	4%	2nd	13%	1.3	9	\$4,280
3	TRV	The Travelers Companies, Inc.	\$3.91	4%	2nd	12%	0.6	Less than 1	\$29,983
4	AHL	Aspen Insurance Holdings, Ltd.	\$0.78	1%	3rd	10%	0.7	Less than 1	\$2,586
5	ENR	Energizer Holdings, Inc.	\$3.36	1%	3rd	10%	1.1	3	\$6,311
6	DNB	The Dun & Bradstreet Corp	\$6.66	1%	Top Quintile	9%	0.9	Less than 1	\$3,735
7	CB*	The Chubb Corp	\$5.19	6%	Top Quintile	9%	0.7	Less than 1	\$21,932
8	ALL	The Allstate Corp	\$2.67	1%	2nd	8%	0.7	Less than 1	\$25,297
9	F	Ford Motor Company	\$0.19	1%	3rd	7%	0.9	Less than 1	\$61,524
10	AGCO*	AGCO Corporation	\$1.47	2%	2nd	7%	0.8	Less than 1	\$5,168
11	TRW	TRW Automotive Holdings Corp	\$3.53	1%	Top Quintile	6%	1.0	Less than 1	\$9,330
12	PETM*	PetSmart Inc.	\$2.81	1%	Top Quintile	6%	1.2	4	\$6,798
13	DFS*	Discover Financial Services	\$2.43	1%	Top Quintile	5%	1.1	4	\$27,401
14	DOX*	Amdocs Ltd.	\$1.27	1%	2nd	5%	1.0	1	\$7,416
15	AXS*	Axis Capital Holdings, Ltd.	\$1.31	2%	3rd	4%	0.7	Less than 1	\$5,138
16	CI*	Cigna Corporation	\$3.08	2%	2nd	3%	1.1	Less than 1	\$22,906
17	RE*	Everest Re Group, Ltd.	\$14.70	6%	Top Quintile	3%	0.4	Less than 1	\$7,251
18	NVR*	NVR Inc.	\$41.58	7%	Top Quintile	3%	1.3	2	\$5,130
19	ACE*	Ace Ltd.	\$3.56	3%	2nd	1%	0.8	Less than 1	\$33,349
20	ACGL*	Arch Capital Group, Ltd.	\$2.58	1%	2nd	1%	0.8	Less than 1	\$7,699

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

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

CTSH removed on 4/16/14 due to an updated model.

Sources: New Constructs, LLC

The 20 Most Attractive Small Cap Stocks for April

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

Figure 7: 20 Most Attractive Small Cap Stocks for April

Rank	Ticker	Company Name	High-Quality Earnings			Cheap Valuation			Market Value (\$mm)
			As of Last Fiscal Year			as of 03/31/14			
			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)	
1	SPRT*	Support.com Inc.	\$0.06	21%	Top Quintile	78%	0.9	Greater than 100	\$136
2	MTEX*	Mannatech Inc.	\$1.40	23%	Top Quintile	23%	0.5	Greater than 100	\$46
3	EMCI*	EMC Insurance Group, Inc.	\$0.95	1%	2nd	19%	0.8	Less than 1	\$474
4	IQNT*	Inteliquent Inc	\$0.76	12%	Top Quintile	19%	1.0	7	\$469
5	REGI*	Renewable Energy Group	\$4.28	26%	Top Quintile	11%	0.2	Less than 1	\$465
6	JBSS	John B. Sanfilippo & Son, Inc.	\$0.67	1%	3rd	11%	0.8	Less than 1	\$254
7	CTCM*	CTC Media, Inc.	\$0.39	1%	Top Quintile	11%	0.8	Less than 1	\$1,434
8	AGM*	Federal Agricultural Mortgage Corp	\$3.92	3%	Top Quintile	10%	0.5	Less than 1	\$362
9	MED*	Medifast Inc.	\$1.36	11%	Top Quintile	9%	1.2	8	\$382
10	UVE*	Universal Insurance Holdings, Inc.	\$1.29	15%	Top Quintile	9%	0.6	Less than 1	\$440
11	OTTR*	Otter Tail Corp	\$0.89	4%	3rd	7%	1.0	6	\$1,119
12	SWHC	Smith & Wesson Holding Corp	\$1.07	19%	Top Quintile	6%	0.8	1	\$803
13	SAFM*	Sanderson Farms, Inc.	\$3.67	10%	Top Quintile	6%	0.9	22	\$1,811
14	IDCC	InterDigital Inc.	\$0.77	1%	Top Quintile	6%	1.2	6	\$1,339
15	OFG*	OFG Bancorp	\$0.96	5%	2nd	6%	0.7	Less than 1	\$785
16	RGR*	Sturm, Ruger & Company	\$4.91	13%	Top Quintile	5%	0.9	Less than 1	\$1,157
17	NRCIB*	National Research Corp	\$1.56	2%	Top Quintile	5%	1.4	3	\$303
18	AFOP*	Alliance Fiber Optic Products, Inc.	\$0.86	41%	Top Quintile	5%	1.0	Less than 1	\$267
19	RWT*	Redwood Trust, Inc.	\$1.19	5%	Top Quintile	5%	0.7	Less than 1	\$1,674
20	CRUS	Cirrus Logic, Inc.	\$0.98	9%	Top Quintile	4%	0.9	11	\$1,238

* Addition to the Small Cap Most Attractive list in April

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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