

Most Dangerous Stocks for April 2014

20 Large/Mid Cap and 20 Small Cap Stocks

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- 28 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 Dangerous Stocks (-1.0%) fell more than the S&P 500 (-0.1%) and outperformed as a short portfolio last month.
- Figure 1 shows the 26 stocks from March'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: 26 Stocks with Negative Returns From March's Report

Large Cap		Small Cap	
Ticker	Change From 03/05/14	Ticker	Change From 03/05/14
O	-6.4%	KELYA	-7.4%
CW	-5.4%	TRR	-5.8%
JNS	-3.7%	PATR	-4.5%
WEN	-3.6%	IPXL	-4.3%
POL	-2.9%	RRGB	-3.5%
LHO	-2.5%	RGS	-3.1%
DNKN	-2.4%	AIMC	-1.9%
TRMB	-2.4%	CHSP	-1.8%
GWR	-1.7%	SMRT	-1.4%
HME	-0.9%	STL	-1.4%
DCT	-0.9%	S&P 500	-0.1%
JBLU	-0.8%		
PDM	-0.7%		
PEB	-0.3%		
ESS	-0.3%		
EA	-0.3%		
S&P 500	-0.1%		

Sources: New Constructs, LLC,

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

Most Dangerous Stocks: Monthly Updates

The Dangerous Stocks (-1.0%) fell more than the S&P 500 (-0.1%) and outperformed as a short portfolio last month. 26 stocks from our March Most Dangerous Large Cap and Small Cap lists outperformed the S&P 500 as shorts, and 26 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 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: 26 Stocks with Negative Returns From March's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 03/05/14	Ticker	Company Name	Change From 03/05/14
O	Realty Income Corp	-6.4%	KELYA	Kelly Services, Inc.	-7.4%
CW	Curtiss-Wright Corporation	-5.4%	TRR	TRC Companies, Inc.	-5.8%
JNS	Janus Capital Group, Inc.	-3.7%	PATR	Patriot Transportation Holding	-4.5%
WEN	The Wendy's Company	-3.6%	IPXL	Impax Laboratories, Inc.	-4.3%
POL	PolyOne Corporation	-2.9%	RRGB	Red Robin Gourmet Burgers	-3.5%
LHO	LaSalle Hotel Properties	-2.5%	RGS	Regis Corporation	-3.1%
DNKN	Dunkin' Brands Group	-2.4%	AIMC	Altra Industrial	-1.9%
TRMB	Trimble Navigation, Ltd.	-2.4%	CHSP	Chesapeake Lodging Trust	-1.8%
GWR	Genesee & Wyoming, Inc.	-1.7%	SMRT	Stein Mart, Inc.	-1.4%
HME	Home Properties, Inc.	-0.9%	STL	Sterling Bancorp	-1.4%
DCT	DCT Industrial Trust, Inc.	-0.9%	S&P 500	S&P 500	-0.1%
JBLU	JetBlue Airways Corp	-0.8%			
PDM	Piedmont Office Realty Trust	-0.7%			
PEB	Pebblebrook Hotel Trust	-0.3%			
ESS	Essex Property Trust, Inc.	-0.3%			
EA	Electronic Arts, Inc.	-0.3%			
S&P 500	S&P 500	-0.1%			

Sources: New Constructs, LLC,

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

Figure 3 shows the 28 new stocks that make our April Most Dangerous Stocks Report.

Figure 3: Additions for April

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
ALEX	Alexander & Baldwin Inc	AF	Astoria Financial Corp
B	Barnes Group, Inc.	BGCP	BGC Partners, Inc.
BMR	Biomed Realty Trust, Inc.	DIOD	Diodes Inc.
CRS	Carpenter Technology Corp	DTSI	DTS Inc.
DDR	DDR Corp	FCZA	First Citizens Banc Corp
DLR	Digital Realty Trust, Inc.	ICON	Iconix Brand Group, Inc.
DWA	DreamWorks Animation SKG, Inc.	IRC	Inland Real Estate Corp
PAG	Penske Automotive Group, Inc.	KFRC	Kforce Inc.
R	Ryder System, Inc.	KVHI	KVH Industries, Inc.
RLJ	RLJ Lodging Trust	OKSB	Southwest Bancorp, Inc.
TDS	Telephone & Data Systems, Inc.	OSBC	Old Second Bancorp, Inc.
USM	United States Cellular Corp	PKY	Parkway Properties, Inc.
WYN	Wyndham Worldwide Corp	QDEL	Quidel Corporation
		SHEN	Shenandoah Telecom Company
		VVI	Viad Corporation

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	> 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
O	Realty Income Corp	-6.4%	KELYA	Kelly Services, Inc.	-7.4%
CW	Curtiss-Wright Corporation	-5.4%	TRR	TRC Companies, Inc.	-5.8%
JNS	Janus Capital Group, Inc.	-3.7%	PATR	Patriot Transportation Holding	-4.5%
WEN	The Wendy's Company	-3.6%	IPXL	Impax Laboratories, Inc.	-4.3%
POL	PolyOne Corporation	-2.9%	RRGB	Red Robin Gourmet Burgers	-3.5%
LHO	LaSalle Hotel Properties	-2.5%	RGS	Regis Corporation	-3.1%
DNKN	Dunkin' Brands Group	-2.4%	AIMC	Altra Industrial	-1.9%
TRMB	Trimble Navigation, Ltd.	-2.4%	CHSP	Chesapeake Lodging Trust	-1.8%
GWR	Genesee & Wyoming, Inc.	-1.7%	SMRT	Stein Mart, Inc.	-1.4%
HME	Home Properties, Inc.	-0.9%	STL	Sterling Bancorp	-1.4%
DCT	DCT Industrial Trust, Inc.	-0.9%	SPX	S&P 500	-0.1%
JBLU	JetBlue Airways Corp	-0.8%	GOV	Government Prop. Income Trust	0.1%
PDM	Piedmont Office Realty Trust	-0.7%	LABL	Multi-Color Corporation	0.1%
PEB	Pebblebrook Hotel Trust	-0.3%	ALCO	Alico Inc.	0.5%
ESS	Essex Property Trust, Inc.	-0.3%	TTMI	TTM Technologies, Inc.	0.6%
EA	Electronic Arts, Inc.	-0.3%	LAD	Lithia Motors, Inc.	1.0%
SPX	S&P 500	-0.1%	CMRE	Costamare Inc.	1.5%
MWV	MeadWestvaco Corporation	0.1%	CHFN	Charter Financial Corp	2.0%
HIW	Highwoods Properties, Inc.	0.4%	COBZ	CoBiz Financial, Inc.	3.1%
BXP	Boston Properties, Inc.	1.4%	PENX	Penford Corporation	3.8%
RCL	Royal Caribbean Cruises, Ltd.	7.0%	MEAS	Measurement Specialties, Inc.	9.0%
Large Cap Portfolio Return		-1.3%	Small Cap Portfolio Return		-0.7%
Combo (Large and Small Cap) Return		-1.0%			

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:

- CW - Stock price decreased 5.4% since March report.
- JNS - Stock price decreased 3.7% since March report.
- WEN - Stock price decreased 3.6% since March report.
- LHO - Stock price decreased 2.5% since March report.
- DNKN - Stock price decreased 2.4% since March report.
- TRMB - Stock price decreased 2.4% since March report.
- GWR - Stock price decreased 1.7% since March report.
- HME - Stock price decreased 0.9% since March report.
- JBLU - Stock price decreased 0.8% since March report.
- PDM - Stock price decreased 0.7% since March report.
- BXP - Displaced by decrease in rank of other stocks.
- ESS - Displaced by decrease in rank of other stocks.
- RCL - Displaced by decrease in rank of other stocks.

Additions:

- CRS - Stock price increased 9.8% since March report.
- TDS - Stock price increased 9.4% since March report.
- USM - Stock price increased 6.4% since March report.
- R - Stock price increased 3.7% since March report.
- RLJ - Stock price increased 2.3% since March report.
- ALEX - Stock price increased 1.7% since March report.
- B - Addition by improved rank of other stocks.
- BMR - Addition by improved rank of other stocks.
- DDR - Addition by improved rank of other stocks.
- DLR - Addition by improved rank of other stocks.
- DWA - Addition by improved rank of other stocks.
- PAG - Addition by improved rank of other stocks.
- WYN - Addition by improved rank of other stocks.

Most Dangerous Small Cap Stocks

Deletions:

- KELYA - Stock price decreased 7.4% since March report.
- TRR - Stock price decreased 5.8% since March report.
- IPXL - Stock price decreased 4.3% since March report.
- RRGB - Stock price decreased 3.5% since March report.
- RGS - Stock price decreased 3.1% since March report.
- AIMC - Stock price decreased 1.9% since March report.
- STL - Stock price decreased 1.4% since March report.
- CHFN - Displaced by decrease in rank of other stocks.
- CMRE - Displaced by decrease in rank of other stocks.
- COBZ - Displaced by decrease in rank of other stocks.
- GOV - Displaced by decrease in rank of other stocks.
- LABL - Displaced by decrease in rank of other stocks.
- MEAS - Displaced by decrease in rank of other stocks.
- PENX - Displaced by decrease in rank of other stocks.
- TTMI - Displaced by decrease in rank of other stocks.

Additions:

- SHEN - Stock price increased 13.2% since March report.
- DIOD - Stock price increased 5.2% since March report.
- AF - Addition by improved rank of other stocks.
- BGCP - Addition by improved rank of other stocks.
- ICON - Addition by improved rank of other stocks.
- IRC - Addition by improved rank of other stocks.
- KFRC - Addition by improved rank of other stocks.
- OSBC - Addition by improved rank of other stocks.
- PKY - Addition by improved rank of other stocks.
- QDEL - Addition by improved rank of other stocks.
- DTSI - New filing data on 03/20/14.
- FCZA - New filing data on 03/14/14.
- KVHI - New filing data on 03/17/14.
- OKSB - New filing data on 03/07/14.
- VVI - New filing data on 03/07/14.

The 20 Most Dangerous Large/Mid Cap Stocks for April

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 April

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 03/31/14			
			Ticker	Company Name	Rising GAAP Earnings (\$mm)	Declining Economic Cash Flows (\$mm)	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield	
1	DLR*	Digital Realty Trust, Inc.	\$99.92	(\$106)	Bottom Quintile	-4%	45.8	Greater than 100	\$6,818
2	PEB	Pebblebrook Hotel Trust	\$11.69	(\$21)	Bottom Quintile	-8%	15.5	Greater than 100	\$2,158
3	POL	PolyOne Corporation	\$171.90	(\$52)	4th	-10%	11.0	Greater than 100	\$3,474
4	CRS*	Carpenter Technology Corp	\$25.20	(\$12)	Bottom Quintile	0%	9.7	Greater than 100	\$3,504
5	EA	Electronic Arts, Inc.	\$22.00	(\$17)	Bottom Quintile	0%	6.4	Greater than 100	\$8,981
6	DWA*	DreamWorks Animation SKG, Inc.	\$91.51	(\$55)	Bottom Quintile	-5%	6.2	36	\$2,245
7	HIW	Highwoods Properties, Inc.	\$45.86	(\$5)	4th	-4%	5.8	Greater than 100	\$3,454
8	O	Realty Income Corp	\$89.10	(\$140)	4th	-30%	5.5	59	\$8,482
9	B*	Barnes Group, Inc.	\$175.28	(\$44)	4th	-2%	4.2	Greater than 100	\$2,087
10	RLJ*	RLJ Lodging Trust	\$71.43	(\$6)	4th	-2%	3.9	Greater than 100	\$3,287
11	WYN*	Wyndham Worldwide Corp	\$32.00	(\$115)	4th	-9%	3.9	37	\$9,384
12	USM*	United States Cellular Corp	\$29.03	(\$358)	Bottom Quintile	1%	-0.9	Greater than 100	\$3,454
13	TDS*	Telephone & Data Systems, Inc.	\$60.53	(\$242)	Bottom Quintile	-3%	-1.3	Greater than 100	\$2,851
14	DDR*	DDR Corp	\$16.88	(\$35)	Bottom Quintile	-11%	-1.7	Greater than 100	\$5,919
15	R*	Ryder System, Inc.	\$28.20	(\$105)	Bottom Quintile	-2%	-2.2	Greater than 100	\$4,268
16	DCT	DCT Industrial Trust, Inc.	\$30.79	(\$11)	Bottom Quintile	-2%	-3.9	Greater than 100	\$2,555
17	BMR*	Biomed Realty Trust, Inc.	\$40.45	(\$27)	Bottom Quintile	-12%	-7.2	Greater than 100	\$3,946
18	PAG*	Penske Automotive Group, Inc.	\$58.66	(\$69)	4th	-5%	-7.7	81	\$3,859
19	ALEX*	Alexander & Baldwin Inc	\$16.40	(\$11)	Bottom Quintile	-24%	-15.4	Greater than 100	\$2,072
20	MWV	MeadWestvaco Corporation	\$634.00	(\$160)	Bottom Quintile	-5%	-16.3	Greater than 100	\$6,571

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

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 April

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

Figure 7: 20 Most Dangerous Small Cap Stocks for April

			Misleading Earnings			Expensive Valuation			
			As of Last Fiscal Year			as of 03/31/14			
			Ticker	Company Name	Rising GAAP Earnings (\$mm)	Declining Economic Cash Flows (\$mm)	Low-Ranking ROIC (by Quintile)	Low or Negative Free Cash Flow Yield	
1	FCZA*	First Citizens Banc Corp	\$0.63	(\$3)	Bottom Quintile	-17%	154.7	45	\$71
2	QDEL*	Quidel Corporation	\$2.41	(\$5)	Bottom Quintile	-4%	80.1	Greater than 100	\$931
3	SHEN*	Shenandoah Telecom Company	\$13.28	(\$5)	4th	-4%	68.8	Greater than 100	\$776
4	PATR	Patriot Transportation Holding, Inc.	\$7.58	(\$1)	Bottom Quintile	0%	10.5	Greater than 100	\$345
5	LAD	Lithia Motors, Inc.	\$25.64	(\$18)	4th	-3%	7.1	Greater than 100	\$1,722
6	DIOD*	Diodes Inc.	\$2.38	(\$4)	Bottom Quintile	-11%	6.2	Greater than 100	\$1,220
7	OKSB*	Southwest Bancorp, Inc.	\$4.85	(\$14)	Bottom Quintile	0%	6.0	Greater than 100	\$349
8	DTSI*	DTS Inc.	\$31.65	(\$6)	Bottom Quintile	3%	4.9	Greater than 100	\$343
9	SMRT	Stein Mart, Inc.	\$4.95	(\$0)	4th	-2%	4.9	Greater than 100	\$624
10	KVHI*	KVH Industries, Inc.	\$0.95	(\$1)	Bottom Quintile	-5%	4.8	Greater than 100	\$210
11	ICON*	Iconix Brand Group, Inc.	\$18.64	(\$23)	4th	-4%	4.7	Greater than 100	\$1,906
12	CHSP	Chesapeake Lodging Trust	\$12.68	(\$15)	4th	-13%	4.0	43	\$1,287
13	ALCO	Alico Inc.	\$1.16	(\$8)	Bottom Quintile	-1%	3.9	Greater than 100	\$277
14	KFRC*	Kforce Inc.	\$24.49	(\$2)	4th	-2%	3.9	Greater than 100	\$723
15	VVI*	Viad Corporation	\$15.33	(\$1)	Bottom Quintile	-2%	3.6	Greater than 100	\$489
16	AF*	Astoria Financial Corp	\$6.03	(\$1)	Bottom Quintile	-9%	2.9	Greater than 100	\$1,372
17	BGCP*	BGC Partners, Inc.	\$47.06	(\$216)	Bottom Quintile	-18%	-0.5	Greater than 100	\$1,429
18	OSBC*	Old Second Bancorp, Inc.	\$81.89	(\$4)	Bottom Quintile	-6%	-0.7	Greater than 100	\$64
19	PKY*	Parkway Properties, Inc.	\$21.56	(\$9)	Bottom Quintile	-25%	-1.5	Greater than 100	\$1,885
20	IRC*	Inland Real Estate Corp	\$92.89	(\$19)	Bottom Quintile	-12%	-2.1	Greater than 100	\$1,052

* Addition to the Small Cap Most Dangerous list in April

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