

## Most Dangerous Stocks for May 2014

*20 Large/Mid Cap and 20 Small Cap Stocks*

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- **Figure 1 shows 13 new stocks that make our May lists.**
- **FREE Company Valuation Reports for 2 of the new stocks are in the Free Archive on our website.**
- **The Dangerous Stocks (-1.8%) fell more than the S&P 500 (-0.4%) and outperformed as a short portfolio last month.**
- **Figure 4 shows the 20 stocks from April'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: Additions for May**

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
BXP	Boston Properties, Inc.	ABG	Asbury Automotive Group, Inc.
EXR	Extra Space Storage, Inc.	ASGN	On Assignment, Inc.
PDM	Piedmont Office Realty Trust, Inc.	CHFN	Charter Financial Corp
STZ	Constellation Brands, Inc.	CMRE	Costamare Inc.
UNT	Unit Corporation	HOS	Hornbeck Offshore Services, Inc.
		NGS	Natural Gas Services Group, Inc.
		POWR	PowerSecure International, Inc.
		RP	RealPage Inc

Sources: New Constructs, LLC

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

*The 20 Most Dangerous Large/Mid Cap Stocks for May*

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

**Figure 2: 20 Most Dangerous Large/Mid Cap Stocks for May**

Rank	Ticker	Company Name	Misleading Earnings			Expensive Valuation			Market Value (\$mm)
			As of Last Fiscal Year			as of 05/01/14			
			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	DLR	Digital Realty Trust, Inc.	\$99.92	(\$104)	Bottom Quintile	-4%	38.3	95	\$6,877
2	PEB	Pebblebrook Hotel Trust	\$11.69	(\$21)	Bottom Quintile	-8%	16.4	Greater than 100	\$2,211
3	POL	PolyOne Corporation	\$171.90	(\$52)	4th	-10%	11.7	Greater than 100	\$3,568
4	BXP*	Boston Properties, Inc.	\$452.10	(\$60)	4th	-7%	10.6	Greater than 100	\$18,090
5	EXR*	Extra Space Storage, Inc.	\$54.20	(\$14)	4th	-5%	10.4	Greater than 100	\$6,034
6	CRS	Carpenter Technology Corp	\$25.20	(\$11)	Bottom Quintile	0%	9.2	Greater than 100	\$3,353
7	PDM*	Piedmont Office Realty Trust, Inc.	\$5.52	(\$27)	Bottom Quintile	-4%	7.8	Greater than 100	\$2,805
8	UNT*	Unit Corporation	\$161.57	(\$78)	Bottom Quintile	-1%	7.7	Greater than 100	\$3,202
9	HIW	Highwoods Properties, Inc.	\$45.86	(\$5)	4th	-4%	6.2	Greater than 100	\$3,633
10	O	Realty Income Corp	\$89.10	(\$138)	4th	-29%	5.9	64	\$8,970
11	DWA	DreamWorks Animation SKG, Inc.	\$91.51	(\$55)	Bottom Quintile	-5%	5.8	31	\$2,107
12	B	Barnes Group, Inc.	\$175.28	(\$44)	4th	-2%	4.2	Greater than 100	\$2,066
13	STZ*	Constellation Brands, Inc.	\$1,555.30	(\$66)	4th	-23%	4.1	25	\$15,412
14	RLJ	RLJ Lodging Trust	\$71.43	(\$6)	4th	-2%	4.0	Greater than 100	\$3,298
15	WYN	Wyndham Worldwide Corp	\$32.00	(\$114)	4th	-9%	3.8	35	\$9,165
16	USM	United States Cellular Corp	\$29.03	(\$358)	Bottom Quintile	1%	-1.0	Greater than 100	\$3,535
17	TDS	Telephone & Data Systems, Inc.	\$60.53	(\$242)	Bottom Quintile	-3%	-1.3	Greater than 100	\$2,991
18	R	Ryder System, Inc.	\$28.20	(\$105)	Bottom Quintile	-2%	-2.2	Greater than 100	\$4,390
19	DCT	DCT Industrial Trust, Inc.	\$30.79	(\$11)	Bottom Quintile	-2%	-3.9	Greater than 100	\$2,552
20	BMR	Biomed Realty Trust, Inc.	\$40.45	(\$27)	Bottom Quintile	-12%	-7.4	Greater than 100	\$4,009

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

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 May*

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

**Figure 3: 20 Most Dangerous Small Cap Stocks for May**

Rank	Ticker	Company Name	Misleading Earnings			Expensive Valuation			Market Value (\$mm)
			As of Last Fiscal Year			as of 05/01/14			
			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	FCZA	First Citizens Banc Corp	\$0.63	(\$3)	Bottom Quintile	-17%	551.6	43	\$69
2	CMRE*	Costamare Inc.	\$20.42	(\$36)	4th	-9%	283.2	69	\$1,616
3	CHFNI*	Charter Financial Corp	\$1.28	(\$4)	Bottom Quintile	-47%	182.0	Greater than 100	\$248
4	SHEN	Shenandoah Telecommunications	\$13.28	(\$5)	4th	-5%	30.6	Greater than 100	\$667
5	PATR	Patriot Transportation Holding, Inc.	\$7.58	(\$1)	Bottom Quintile	-1%	9.8	Greater than 100	\$327
6	LAD	Lithia Motors, Inc.	\$25.64	(\$18)	4th	-3%	9.2	Greater than 100	\$1,965
7	POWR*	PowerSecure International, Inc.	\$1.33	(\$1)	Bottom Quintile	-11%	8.9	Greater than 100	\$468
8	ASGN*	On Assignment, Inc.	\$41.86	(\$23)	4th	-1%	7.7	Greater than 100	\$1,895
9	RP*	RealPage Inc	\$15.51	(\$2)	4th	-3%	7.3	Greater than 100	\$1,379
10	HOS*	Hornbeck Offshore Services, Inc.	\$74.38	(\$11)	4th	-8%	6.3	21	\$1,377
11	DIOD	Diodes Inc.	\$2.38	(\$4)	Bottom Quintile	-11%	6.3	Greater than 100	\$1,218
12	OKSB	Southwest Bancorp, Inc.	\$4.85	(\$14)	Bottom Quintile	0%	5.7	Greater than 100	\$331
13	KVHI	KVH Industries, Inc.	\$0.95	(\$1)	Bottom Quintile	-4%	4.9	Greater than 100	\$212
14	KFRC	Kforce Inc.	\$24.49	(\$2)	4th	-2%	4.4	Greater than 100	\$796
15	CHSP	Chesapeake Lodging Trust	\$12.68	(\$15)	4th	-12%	4.4	55	\$1,381
16	NGS*	Natural Gas Services Group, Inc.	\$1.71	(\$2)	4th	-3%	4.1	Greater than 100	\$375
17	ABG*	Asbury Automotive Group, Inc.	\$26.90	(\$7)	4th	-2%	3.8	Greater than 100	\$1,926
18	AF	Astoria Financial Corp	\$6.03	(\$1)	Bottom Quintile	-10%	2.8	Greater than 100	\$1,313
19	BGCP	BGC Partners, Inc.	\$47.06	(\$216)	Bottom Quintile	-17%	-0.6	Greater than 100	\$1,557
20	OSBC	Old Second Bancorp, Inc.	\$81.89	(\$4)	Bottom Quintile	-6%	-0.7	Greater than 100	\$67

\* Addition to the Small Cap Most Dangerous list in May

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

Sources: New Constructs, LLC

***Most Dangerous Stocks: Monthly Updates***

The Dangerous Stocks (-1.8%) fell more than the S&P 500 (-0.4%) and outperformed as a short portfolio last month. 20 stocks from our April Most Dangerous Large Cap and Small Cap lists outperformed the S&P 500 as shorts, and 21 stocks had negative returns. See Figure 4 for details. For updates on the performance of all of last month's Most Dangerous stocks, see Appendix A. We measure our April performance based on closing prices from April 02, 2014 to May 01, 2014. We published last month's report to subscribers on April 02, 2014 and to the general public, for purchase, on April 09, 2014.

**Figure 4: 21 Stocks with Negative Returns From April's Report**

Large Cap			Small Cap		
Ticker	Company Name	Change From 04/02/14	Ticker	Company Name	Change From 04/02/14
ALEX	Alexander & Baldwin Inc	-10.4%	QDEL	Quidel Corporation	-21.9%
DWA	DreamWorks Animation SKG	-8.9%	SMRT	Stein Mart, Inc.	-14.6%
CRS	Carpenter Technology Corp	-5.1%	SHEN	Shenandoah Telecommunications	-13.9%
WYN	Wyndham Worldwide Corp	-4.2%	ALCO	Alico Inc.	-9.2%
B	Barnes Group, Inc.	-3.0%	DTSI	DTS Inc.	-8.7%
POL	PolyOne Corporation	-2.1%	PATR	Patriot Transportation Holding, Inc.	-8.4%
EA	Electronic Arts, Inc.	-1.3%	OKSB	Southwest Bancorp, Inc.	-7.5%
<b>S&amp;P 500</b>	<b>S&amp;P 500</b>	<b>-0.4%</b>	AF	Astoria Financial Corp	-6.3%
PEB	Pebblebrook Hotel Trust	-0.1%	FCZA	First Citizens Banc Corp	-4.0%
			VVI	Viad Corporation	-3.8%
			DIOD	Diodes Inc.	-2.7%
			KVHI	KVH Industries, Inc.	-2.2%
			IRC	Inland Real Estate Corp	-1.7%
			<b>S&amp;P 500</b>	<b>S&amp;P 500</b>	<b>-0.4%</b>

Sources: New Constructs, LLC,

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

**Most Dangerous Stocks: Methodology**

Stocks make our Most Dangerous list because they have:

1. **Poor-Quality Earnings** based on:
  - a. Misleading earnings: rising and positive GAAP earnings while economic earnings are negative and falling; and
  - b. Low Returns on Invested Capital (ROIC).

AND

2. **Expensive Valuations** based on:
  - a. *Free-Cash Flow Yields*<sup>1</sup> that are very low or negative;
  - b. *Price-to-Economic Book Value* (EBV)<sup>2</sup> ratios that are relatively high; and
  - c. *Growth Appreciation Periods*<sup>3</sup> (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 5: 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

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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.

<b>Overall Risk/Reward Ranking</b>	<b>The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.</b>
<b>Very Dangerous</b>	FCF Yield is not included in the average.
<b>Dangerous</b>	FCF Yield is not included in the average.
<b>Neutral</b>	All criteria are equal-weighted in the average calculation.
<b>Attractive</b>	All criteria are equal-weighted in the average calculation.
<b>Very Attractive</b>	All criteria are equal-weighted in the average calculation.

<b>Economic vs Reported EPS</b>	<b>Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.</b>
<b>Very Dangerous</b>	Negative and declining Economic Earnings despite positive and rising Reported Earnings
<b>Dangerous</b>	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
<b>Neutral</b>	Negative Economic and Reported Earnings
<b>Attractive</b>	Economic Earnings are positive
<b>Very Attractive</b>	Economic Earnings are positive and rising

<b>Return on Invested Capital (ROIC)</b>	<b>Rates stocks based on their ROIC. Values based on Latest Fiscal Year.</b>
<b>Bottom Quintile</b>	Very Dangerous = the bottom 20% of Russell 1000 companies
<b>4th Quintile</b>	Dangerous = the bottom 40% of Russell 1000 companies
<b>3rd Quintile</b>	Neutral = the middle 20% of Russell 1000 companies
<b>2nd Quintile</b>	Attractive = the top 40% of Russell 1000 companies
<b>Top Quintile</b>	Very Attractive = the top 20% of Russell 1000 companies

<b>FCF Yield</b>	<b>Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.</b>
<b>&lt;-5%</b>	Very Dangerous = less than or equal to -5%
<b>-5%&lt;-1%</b>	Dangerous = more than -5% but less than or equal to -1%
<b>-1%&lt;3%</b>	Neutral = more than -1% but less than or equal to +3%
<b>3%&lt;10%</b>	Attractive = more than +3% but less than or equal to +10%
<b>&gt;10%</b>	Very Attractive = more than +10%

<b>Price-to-EBV Ratio</b>	<b>Rates stocks based on their Price-to-Economic Book Value Ratio. Values based on Latest Closing Stock price and Latest Fiscal Year.</b>
>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

<b>Growth Appreciation Period (yrs)</b>	<b>Rates stocks based on their Market-Implied Growth Appreciation Period. Values based on Latest Closing Stock price and Default Forecast Scenario.</b>
>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 April’s Report**

**Figure 6: Performance of All Stocks from April’s Report**

Large Cap			Small Cap		
Ticker	Company Name	Change From 04/02/14	Ticker	Company Name	Change From 04/02/14
ALEX	Alexander & Baldwin Inc	-10.4%	QDEL	Quidel Corporation	-21.9%
DWA	DreamWorks Animation SKG	-8.9%	SMRT	Stein Mart, Inc.	-14.6%
CRS	Carpenter Technology Corp	-5.1%	SHEN	Shenandoah Telecommunications	-13.9%
WYN	Wyndham Worldwide Corp	-4.2%	ALCO	Alico Inc.	-9.2%
B	Barnes Group, Inc.	-3.0%	DTSI	DTS Inc.	-8.7%
POL	PolyOne Corporation	-2.1%	PATR	Patriot Transportation Holding, Inc.	-8.4%
EA	Electronic Arts, Inc.	-1.3%	OKSB	Southwest Bancorp, Inc.	-7.5%
SPX	<b>S&amp;P 500</b>	<b>-0.4%</b>	AF	Astoria Financial Corp	-6.3%
PEB	Pebblebrook Hotel Trust	-0.1%	FCZA	First Citizens Banc Corp	-4.0%
RLJ	RLJ Lodging Trust	0.5%	VVI	Viad Corporation	-3.8%
R	Ryder System, Inc.	0.6%	DIOD	Diodes Inc.	-2.7%
USM	United States Cellular Corp	0.9%	KVHI	KVH Industries, Inc.	-2.2%
MWV	MeadWestvaco Corporation	1.0%	IRC	Inland Real Estate Corp	-1.7%
DCT	DCT Industrial Trust, Inc.	1.0%	SPX	<b>S&amp;P 500</b>	<b>-0.4%</b>
DLR	Digital Realty Trust, Inc.	2.5%	BGCP	BGC Partners, Inc.	1.7%
BMR	Biomed Realty Trust, Inc.	2.7%	OSBC	Old Second Bancorp, Inc.	2.1%
TDS	Telephone & Data Systems	2.9%	PKY	Parkway Properties, Inc.	2.8%
DDR	DDR Corp	3.2%	CHSP	Chesapeake Lodging Trust	4.5%
PAG	Penske Automotive Group	5.7%	ICON	Iconix Brand Group, Inc.	5.6%
HIW	Highwoods Properties, Inc.	6.0%	KFRC	Kforce Inc.	8.2%
O	Realty Income Corp	6.1%	LAD	Lithia Motors, Inc.	8.7%
<b>Large Cap Portfolio Return</b>		<b>-0.1%</b>	<b>Small Cap Portfolio Return</b>		<b>-3.5%</b>
<b>Combo (Large and Small Cap) Return</b>			<b>-1.8%</b>		

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:**

- ALEX - Stock price decreased 10.4% since April report.
- EA - Stock price decreased 1.3% since April report.
- DDR - Displaced by decrease in rank of other stocks.
- MWV - Displaced by decrease in rank of other stocks.
- PAG - Displaced by decrease in rank of other stocks.

**Additions:**

- PDM - Stock price increased 7.1% since April report.
- EXR - Stock price increased 6.5% since April report.
- BXP - Stock price increased 2.4% since April report.
- UNT - Addition by improved rank of other stocks.
- STZ - New filing data on 04/29/14.



**Most Dangerous Small Cap Stocks****Deletions:**

- QDEL - Stock price decreased 21.9% since April report.
- ALCO - Stock price decreased 9.2% since April report.
- DTSI - Stock price decreased 8.7% since April report.
- VVI - Stock price decreased 3.8% since April report.
- IRC - Stock price decreased 1.7% since April report.
- ICON - Displaced by decrease in rank of other stocks.
- PKY - Displaced by decrease in rank of other stocks.
- SMRT - New filing data on 04/15/14.

**Additions:**

- ABG - Stock price increased 8.6% since April report.
- CHFNI - Stock price increased 0.7% since April report.
- ASGN - Addition by improved rank of other stocks.
- CMRE - Addition by improved rank of other stocks.
- HOS - Addition by improved rank of other stocks.
- NGS - Addition by improved rank of other stocks.
- POWR - Addition by improved rank of other stocks.
- RP - Addition by improved rank of other stocks.

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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.

### **Additional Information**

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