

Most Attractive Stocks for July 2014

20 Large/Mid Cap and 20 Small Cap Stocks

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- **Figure 1 shows 5 new stocks that make our July lists.**
- **FREE Company Valuation Reports for 2 of the new stocks are in the Free Archive on our website.**
- **The Most Attractive Stocks portfolio (+1.5%) underperformed the S&P 500 (+1.7%) last month.**
- **Figure 4 shows the 20 stocks that outperformed from June'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: Additions for July

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
BEN	Franklin, Resources Inc.	NSR	Neustar Inc.
VMI	Valmont Industries, Inc.	ODC	Oil-Dri Corporation Of America
		OB	OneBeacon Insurance Group, Ltd.

Sources: New Constructs, LLC

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

The 20 Most Attractive Large/Mid Cap Stocks for July

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

Figure 2: 20 Most Attractive Large/Mid Cap Stocks for July

			High-Quality Earnings			Cheap Valuation			
			As of Last Fiscal Year			as of 06/30/14			
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.	\$5.36	9%	Top Quintile	35%	0.3	Less than 1	\$4,401
2	VR	Validus Holdings, Ltd.	\$2.52	2%	2nd	17%	0.5	Less than 1	\$3,472
3	NLY	Annaly Capital Management, Inc.	\$3.01	13%	Top Quintile	11%	0.2	Less than 1	\$10,830
4	TRV	The Travelers Companies, Inc.	\$3.91	4%	2nd	11%	0.7	Less than 1	\$32,687
5	AHL	Aspen Insurance Holdings, Ltd.	\$0.78	1%	3rd	9%	0.8	1	\$2,972
6	CB	The Chubb Corp	\$5.19	6%	Top Quintile	9%	0.7	Less than 1	\$22,534
7	ALL	The Allstate Corp	\$2.67	1%	2nd	8%	0.7	Less than 1	\$25,484
8	F	Ford Motor Company	\$0.19	1%	3rd	7%	1.0	Less than 1	\$68,171
9	SYMC	Symantec Corporation	\$0.08	1%	3rd	6%	1.1	9	\$15,840
10	PGR	The Progressive Corp	\$1.28	5%	Top Quintile	6%	1.0	Less than 1	\$15,013
11	PETM	PetSmart Inc.	\$2.81	1%	Top Quintile	6%	1.1	1	\$5,933
12	XLNX	Xilinx Inc.	\$2.07	11%	Top Quintile	6%	1.2	4	\$12,717
13	NUS	Nu Skin Enterprises, Inc.	\$5.17	16%	Top Quintile	6%	1.0	Less than 1	\$4,360
14	TRW	TRW Automotive Holdings Corp.	\$3.53	1%	Top Quintile	6%	1.1	1	\$9,915
15	BEN*	Franklin Resources, Inc.	\$2.77	15%	Top Quintile	5%	1.3	7	\$36,306
16	VMI*	Valmont Industries, Inc.	\$6.09	2%	Top Quintile	5%	1.2	9	\$4,085
17	DOX	Amdocs Ltd.	\$1.27	1%	2nd	5%	1.1	1	\$7,412
18	DFS	Discover Financial Services	\$2.43	1%	Top Quintile	5%	1.2	6	\$28,900
19	AXS	Axis Capital Holdings, Ltd.	\$1.31	2%	3rd	4%	0.7	Less than 1	\$4,772
20	RE	Everest Re Group, Ltd.	\$14.70	6%	Top Quintile	3%	0.5	Less than 1	\$7,400

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

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 July

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

Figure 3: 20 Most Attractive Small Cap Stocks for July

			High-Quality Earnings			Cheap Valuation			
			As of Last Fiscal Year			as of 06/30/14			
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	MTEX	Mannatech, Inc.	\$1.40	23%	Top Quintile	35%	0.4	Less than 1	\$32
2	EMCI	EMC Insurance Group, Inc.	\$0.95	1%	2nd	23%	0.7	Less than 1	\$414
3	IQNT	Inteliquent Inc	\$0.76	12%	Top Quintile	19%	1.0	6	\$450
4	REGI	Renewable Energy Group	\$4.28	26%	Top Quintile	12%	0.2	Less than 1	\$445
5	JBSS	John B. Sanfilippo & Son, Inc.	\$0.67	1%	3rd	10%	1.0	3	\$292
6	CTCM	CCTC Media, Inc.	\$0.39	1%	Top Quintile	9%	0.9	Less than 1	\$1,715
7	UVE	Universal Insurance Holdings, Inc.	\$1.29	15%	Top Quintile	8%	0.7	Less than 1	\$460
8	ODC*	Oil-Dri Corporation Of America	\$0.93	4%	2nd	8%	1.1	9	\$200
9	MOFG	MidWestOne Financial Group, Inc.	\$0.67	1%	3rd	7%	0.7	Less than 1	\$203
10	USNA	USANA Health Sciences, Inc.	\$4.71	7%	Top Quintile	7%	1.2	2	\$1,088
11	NRCIB	National Research Corporation	\$1.56	2%	Top Quintile	6%	1.3	3	\$270
12	RGR	Sturm, Ruger & Company	\$4.91	13%	Top Quintile	5%	0.9	1	\$1,145
13	OFG	OFG Bancorp	\$0.96	5%	2nd	5%	0.8	Less than 1	\$829
14	EXLS	ExlService Holdings, Inc.	\$0.87	1%	Top Quintile	5%	1.2	6	\$962
15	RLI	RLI Corporation	\$1.61	3%	Top Quintile	4%	1.3	6	\$1,968
16	TMP	Tompkins Financial Corp	\$0.58	1%	3rd	4%	1.1	5	\$716
17	NSR*	Neustar Inc.	\$1.59	1%	Top Quintile	3%	0.7	Less than 1	\$1,567
18	STRT	Strattec Security Corp	\$2.75	2%	2nd	3%	0.9	Less than 1	\$224
19	NNI	Nelnet, Inc.	\$3.31	6%	Top Quintile	1%	0.6	Less than 1	\$1,927
20	OB*	OneBeacon Insurance Group, Ltd.	\$0.40	3%	3rd	1%	0.8	Less than 1	\$1,481

* Addition to the Small Cap Most Attractive list in July

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

Sources: New Constructs, LLC

Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+1.5%) underperformed the S&P 500 (+1.7%) last month. 20 stocks from our June Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 24 stocks had positive returns. See Figure 4 for details. For updates on the performance of all of last month's Most Attractive stocks, see Appendix A. We measure our June performance based on closing prices from June 04, 2014 to June 30, 2014. We published last month's report to subscribers on June 04, 2014 and to the general public, for purchase, on June 11, 2014.

Figure 4: 24 Stocks with Positive Returns From June's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 06/04/14	Ticker	Company Name	Change From 06/04/14
SYNT	Syntel Inc.	9.2%	REGI	Renewable Energy Group	13.9%
SYMC	Symantec Corporation	5.9%	USNA	USANA Health Sciences, Inc.	7.7%
TRW	TRW Automotive Holdings Corp	4.6%	CTCM	CTC Media, Inc.	6.2%
CHKP	Check Point Software Technologies	4.0%	TMP	Tompkins Financial Corp	6.1%
DFS	Discover Financial Services	3.6%	UVE	Universal Insurance Holdings	5.6%
PETM	PetSmart Inc.	3.1%	EXLS	ExlService Holdings, Inc.	4.2%
XLNX	Xilinx Inc.	3.0%	JBSS	John B. Sanfilippo & Son, Inc.	4.2%
F	Ford Motor Company	2.7%	KMPR	Kemper Corporation	4.2%
PGR	The Progressive Corp	1.8%	MOFG	MidWestOne Financial Group	3.3%
S&P 500	S&P 500	1.7%	RLI	RLI Corporation	2.6%
VR	Validus Holdings, Ltd.	1.6%	NNI	Nelnet, Inc.	2.6%
ALL	The Allstate Corp	0.2%	S&P 500	S&P 500	1.7%
			OFG	OFG Bancorp	0.8%
			EMCI	EMC Insurance Group, Inc.	0.6%

Sources: New Constructs, LLC,

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

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 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

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 June's Report

Figure 6: Performance of All Stocks From June's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 06/04/14	Ticker	Company Name	Change From 06/04/14
SYNT	Syntel Inc.	9.2%	REGI	Renewable Energy Group	13.9%
SYMC	Symantec Corporation	5.9%	USNA	USANA Health Sciences, Inc.	7.7%
TRW	TRW Automotive Holdings Corp	4.6%	CTCM	CTC Media, Inc.	6.2%
CHKP	Check Point Software Technologies	4.0%	TMP	Tompkins Financial Corp	6.1%
DFS	Discover Financial Services	3.6%	UVE	Universal Insurance Holdings	5.6%
PETM	PetSmart Inc.	3.1%	EXLS	ExlService Holdings, Inc.	4.2%
XLNX	Xilinx Inc.	3.0%	JBSS	John B. Sanfilippo & Son, Inc.	4.2%
F	Ford Motor Company	2.7%	KMPR	Kemper Corporation	4.2%
PGR	The Progressive Corp	1.8%	MOFG	MidWestOne Financial Group	3.3%
SPX	S&P 500	1.7%	RLI	RLI Corporation	2.6%
VR	Validus Holdings, Ltd.	1.6%	NNI	Nelnet Inc.	2.6%
ALL	The Allstate Corp	0.2%	SPX	S&P 500	1.7%
NUS	Nu Skin Enterprises, Inc.	-0.3%	OFG	OFG Bancorp	0.8%
NLY	Annaly Capital Management, Inc.	-0.6%	EMCI	EMC Insurance Group, Inc.	0.6%
TRV	The Travelers Companies, Inc.	-0.6%	STRT	Strattec Security Corp	-0.9%
RE	Everest Re Group, Ltd.	-0.8%	CFI	Culp Inc.	-1.7%
CB	The Chubb Corp	-1.5%	GTY	Getty Realty Corp	-1.7%
AHL	Aspen Insurance Holdings, Ltd.	-1.8%	NRCIB	National Research Corporation	-1.7%
AGO	Assured Guaranty, Ltd.	-2.3%	RGR	Sturm Ruger & Company	-2.1%
AXS	Axis Capital Holdings, Ltd.	-4.7%	MTEX	Mannatech Inc.	-6.7%
DOX	Amdocs Ltd.	-4.8%	IQNT	Inteliquent Inc	-9.9%
Large Cap Portfolio Return		1.1%	Small Cap Portfolio Return		1.9%
Combo (Large and Small Cap) Return		1.5%			

Sources: New Constructs, LLC,

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

Appendix B – Additions and Deletions

Most Attractive Large/Mid Cap Stocks

Deletions:

- SYNT - Stock price increased 9.2% since June report.
- CHKP - Stock price increased 4.0% since June report.

Additions:

- VMI - Stock price decreased 3.3% since June report.
- BEN - Addition by decrease in rank of other stocks.

Most Attractive Small Cap Stocks

Deletions:

- KMPR - Stock price increased 4.2% since June report.
- GTY - Displaced by improved rank of other stocks.
- CFI - New filing data on .

Additions:

- NSR - Stock price decreased 2.9% since June report.
- ODC - Stock price decreased 1.7% since June report.
- OB - Addition by decrease in rank of other stocks.

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