



Proof Is In Performance Thru 3Q14

Most Attractive (Long) & Most Dangerous (Short) Stocks

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We deliver the whole truth by incorporating critical data from the Financial Footnotes and MD&A that other firms miss.

Performance

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- **The Most Attractive and Most Dangerous Stocks reports offer multiple strategies to outperform in good and bad markets.**
- **Our large and small cap long/short strategy beat the Risk-Free Rate by 6% YTD.**
- **Our small cap long/short strategy beat the Risk-Free Rate by 6%.**
- **Our large cap long/short strategy beat the Risk-Free Rate by 6%.**
- **These strategies (and others) beat their benchmarks by much more since inception in January 2005.**
- **Barron's consistently ranks our stock-picking as amongst the best of the major research firms.**

Keys To Our Success:

- We rigorously review the financial footnotes to extract critical data that impacts valuation and true cash earnings of 3000+ stocks.
- Our DCF models leverage insights into true cash earnings to identify where market expectations are too high and too low.

Figure 1: Top 3 Strategies For 2014

Strategy	Portfolio	2014				YTD
		1Q	2Q	3Q	4Q	
Long/Short benchmark	Large and Small Cap Stocks	2.0%	2.0%	1.9%	-	6.0%
	Risk-Free Rate	0.0%	0.0%	0.0%	-	0.0%
	Difference	2.0%	2.0%	1.9%	-	6.0%
Long/Short benchmark	Small Cap Stocks	1.7%	4.2%	0.1%	-	6.0%
	Risk-Free Rate	0.0%	0.0%	0.0%	-	0.0%
	Difference	1.7%	4.2%	0.1%	-	6.0%
Long/Short benchmark	Large Cap Stocks	2.2%	-0.1%	3.5%	-	5.7%
	Risk-Free Rate	0.0%	0.0%	0.0%	-	0.0%
	Difference	2.2%	-0.1%	3.5%	-	5.7%

Source: New Constructs, LLC.

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



Long/Short Strategies: Most Attractive/Most Dangerous Stocks (MA/MD)

Figure 2 shows the 2014YTD performance of the long/short strategies offered by our Most Attractive and Most Dangerous Stocks versus benchmarks.

Figure 2: Returns for Long/Short Strategies For 2014

Strategy	Portfolio	2014				YTD
		1Q	2Q	3Q	4Q	
Long/Short benchmark	Large and Small Cap Stocks	2.0%	2.0%	1.9%	-	6.0%
	Risk-Free Rate	0.0%	0.0%	0.0%	-	0.0%
	Difference	2.0%	2.0%	1.9%	-	6.0%
Long/Short benchmark	Large Cap Stocks	2.2%	-0.1%	3.5%	-	5.7%
	Risk-Free Rate	0.0%	0.0%	0.0%	-	0.0%
	Difference	2.2%	-0.1%	3.5%	-	5.7%
Long/Short benchmark	Small Cap Stocks	1.7%	4.2%	0.1%	-	6.0%
	Risk-Free Rate	0.0%	0.0%	0.0%	-	0.0%
	Difference	1.7%	4.2%	0.1%	-	6.0%

Source: New Constructs, LLC

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

Figure 3 shows the annualized returns of the long/short strategies offered by our Most Attractive and Most Dangerous Stocks versus benchmarks.

Figure 3: Annualized Returns for Long/Short Strategies

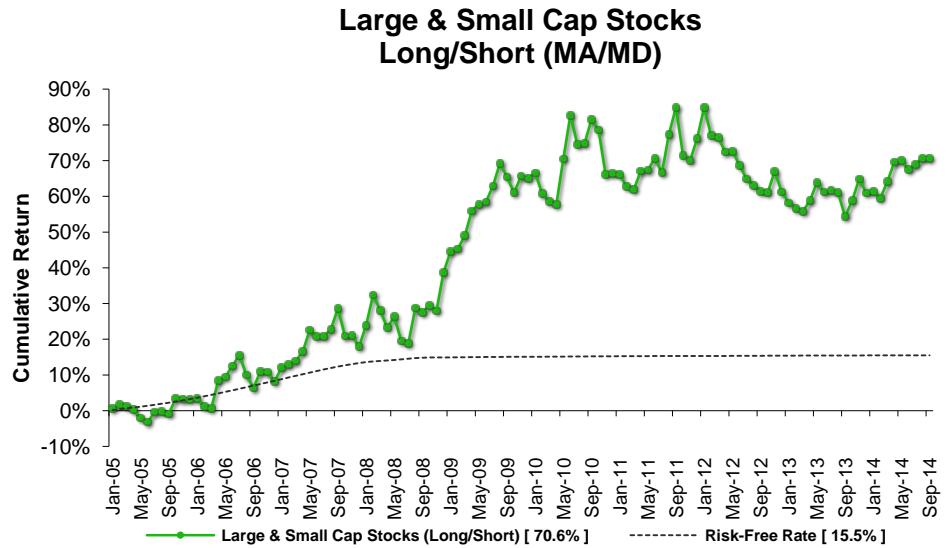
Strategy	Portfolio	Annualized return as of 9/30/2014			
		1 Year	3 Year	5 Year	Since Inception
Long/Short benchmark	Large and Small Cap Stocks	10.6%	-2.6%	0.6%	5.6%
	Risk-Free Rate	0.0%	0.1%	0.1%	1.5%
	Difference	10.6%	-2.7%	0.5%	4.1%
Long/Short benchmark	Large Cap Stocks	11.0%	-3.1%	-0.4%	5.5%
	Risk-Free Rate	0.0%	0.1%	0.1%	1.5%
	Difference	11.0%	-3.1%	-0.5%	4.0%
Long/Short benchmark	Small Cap Stocks	9.8%	-2.5%	1.1%	5.1%
	Risk-Free Rate	0.0%	0.1%	0.1%	1.5%
	Difference	9.7%	-2.6%	1.1%	3.6%

Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. Inception date is January 2005.



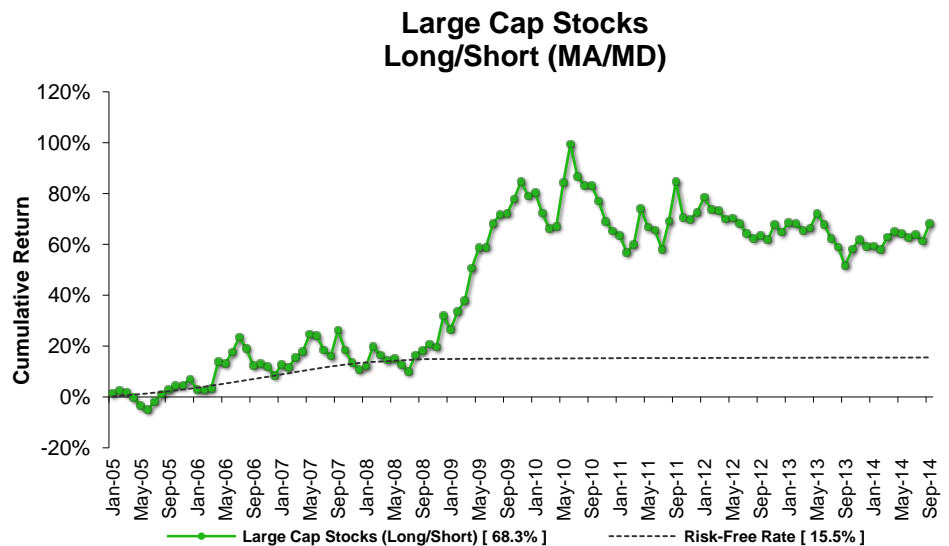
Figure 4: Large and Small Cap Strategy: Most Attractive/Most Dangerous (MA/MD) Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

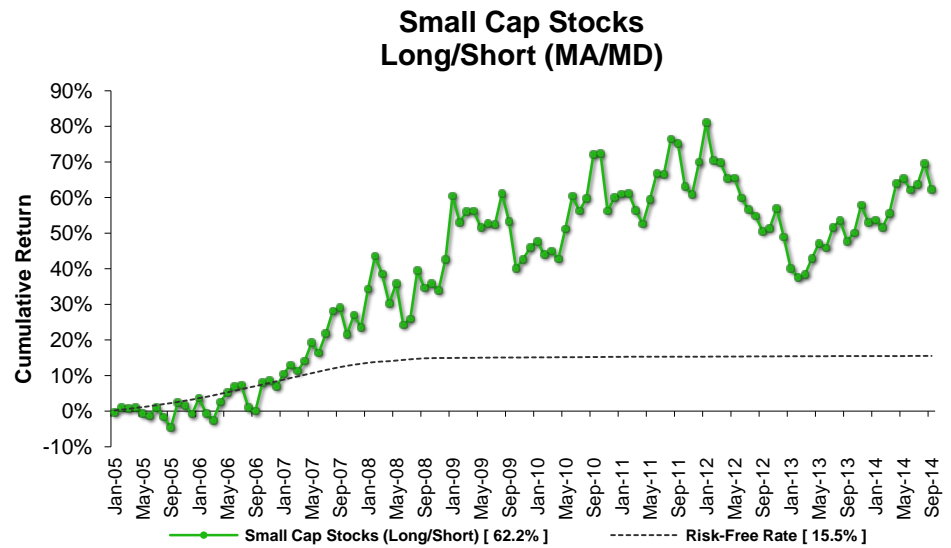
Figure 5: Large Cap Strategy: Most Attractive/Most Dangerous (MA/MD) Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Figure 6: Small Cap Strategy: Most Attractive/Most Dangerous (MA/MD) Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. The Risk-Free Rate is based on the 3-Month T-Bill.

Long Strategies: Most Attractive Stocks (MA)

Figure 7 shows the 2014 performance of the long strategies offered by our Most Attractive Stocks versus benchmarks.

Figure 7: Returns for Long Strategies For 2014

Strategy	Portfolio	2014				YTD
		1Q	2Q	3Q	4Q	
Long <i>benchmark</i>	Large and Small Cap Stocks	5.3%	4.8%	-5.6%	-	4.1%
	S&P 500 and Russell 2000	3.0%	2.5%	-5.0%	-	0.3%
	Difference	2.3%	2.2%	-0.6%	-	3.8%
Long <i>benchmark</i>	Large Cap Stocks	7.2%	5.0%	-2.7%	-	9.5%
	S&P 500	2.9%	4.4%	-1.4%	-	5.9%
	Difference	4.3%	0.6%	-1.3%	-	3.6%
Long <i>benchmark</i>	Small Cap Stocks	3.5%	4.5%	-8.5%	-	-1.1%
	Russell 2000	3.1%	0.6%	-8.6%	-	-5.3%
	Difference	0.4%	3.9%	0.1%	-	4.2%

Source: New Constructs, LLC

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

Figure 8 shows the annualized returns of the long strategies offered by our Most Attractive Stocks versus benchmarks.

Figure 8: Annualized Returns for Long Strategies

Strategy	Portfolio	Annualized return as of 9/30/2014			
		1 Year	3 Year	5 Year	Since Inception
Long <i>benchmark</i>	Large and Small Cap Stocks	11.4%	18.8%	15.1%	9.3%
	S&P 500 and Russell 2000	8.0%	19.1%	13.7%	5.8%
	Difference	3.4%	-0.3%	1.4%	3.5%
Long <i>benchmark</i>	Large Cap Stocks	18.3%	18.9%	16.5%	9.5%
	S&P 500	14.9%	19.4%	13.7%	5.3%
	Difference	3.4%	-0.5%	2.9%	4.2%
Long <i>benchmark</i>	Small Cap Stocks	4.8%	18.4%	13.3%	8.5%
	Russell 2000	1.3%	18.5%	13.6%	6.2%
	Difference	3.5%	-0.1%	-0.3%	2.3%

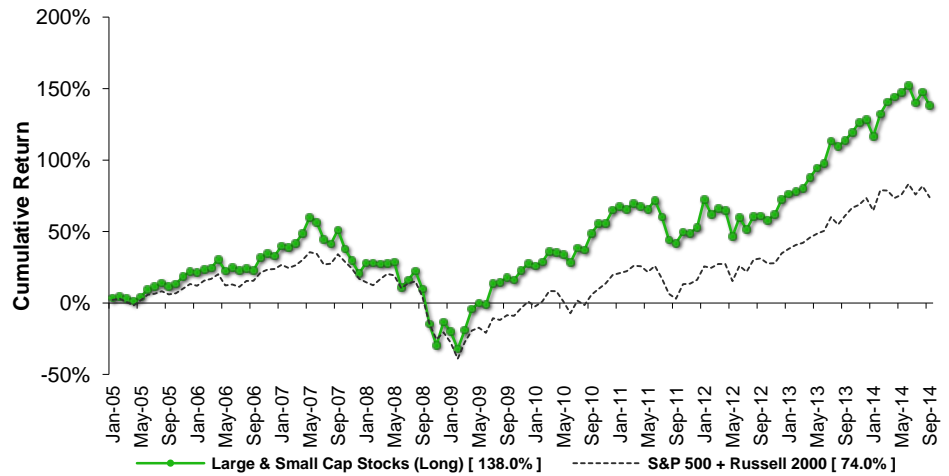
Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. Inception date is January 2005.



Figure 9: Large and Small Cap Strategy: Most Attractive Stocks: Cumulative Performance

Large & Small Cap Stocks (Long)

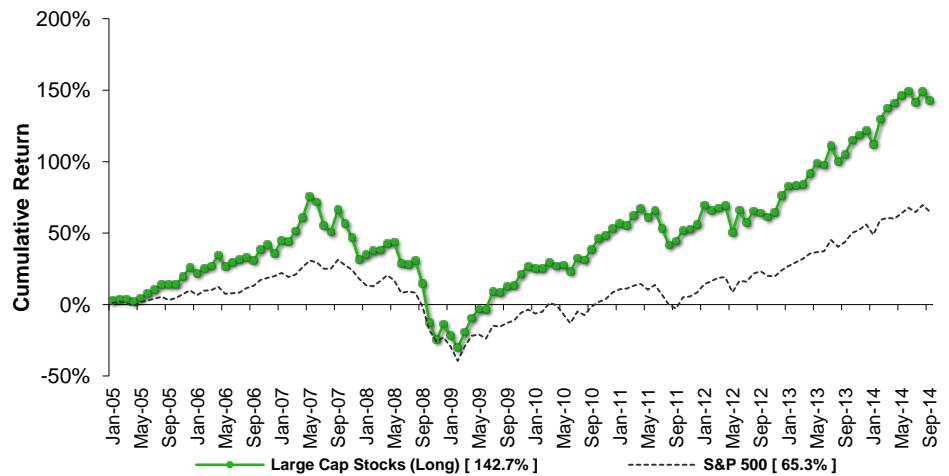


Source: New Constructs, LLC

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

Figure 10: Large Cap Strategy: Most Attractive Stocks: Cumulative Performance

Large Cap Stocks (Long)

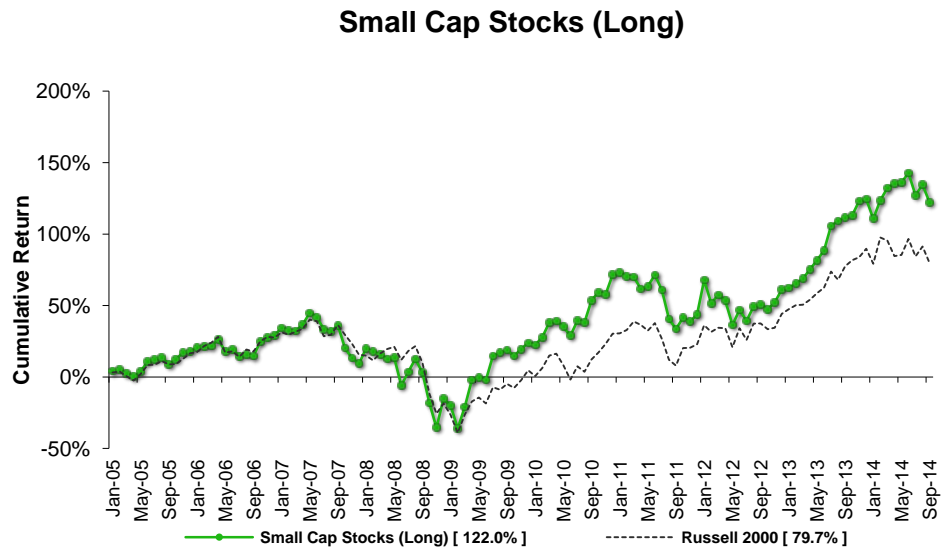


Source: New Constructs, LLC

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



Figure 11: Small Cap Strategy: Most Attractive Stocks: Cumulative Performance



Source: New Constructs, LLC

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

Short Strategies: Most Dangerous Stocks (MD)

Figure 12 shows the 2014 performance of the short strategies offered by our Most Dangerous Stocks versus benchmarks.

Figure 12: Returns for Short Strategies For 2014

Strategy	Portfolio	2014				YTD
		1Q	2Q	3Q	4Q	
Short <i>benchmark</i>	Large and Small Cap Stocks	-4.1%	-2.7%	7.5%	-	0.3%
	<i>Short S&P 500 and Russell 2000</i>	-3.9%	-2.7%	4.8%	-	-2.0%
	Difference	-0.2%	0.1%	2.6%	-	2.3%
Short <i>benchmark</i>	Large Cap Stocks	-5.5%	-5.0%	5.9%	-	-5.0%
	<i>Short S&P 500</i>	-3.5%	-4.3%	1.3%	-	-6.5%
	Difference	-2.0%	-0.6%	4.6%	-	1.6%
Short <i>benchmark</i>	Small Cap Stocks	-2.6%	-0.4%	8.8%	-	5.6%
	<i>Short Russell 2000</i>	-4.3%	-1.2%	8.4%	-	2.5%
	Difference	1.7%	0.8%	0.4%	-	3.1%

Source: New Constructs, LLC

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

Figure 13 shows the annualized returns of the short strategies offered by our Most Dangerous Stocks versus benchmarks.

Figure 13: Annualized Returns for Short Strategies

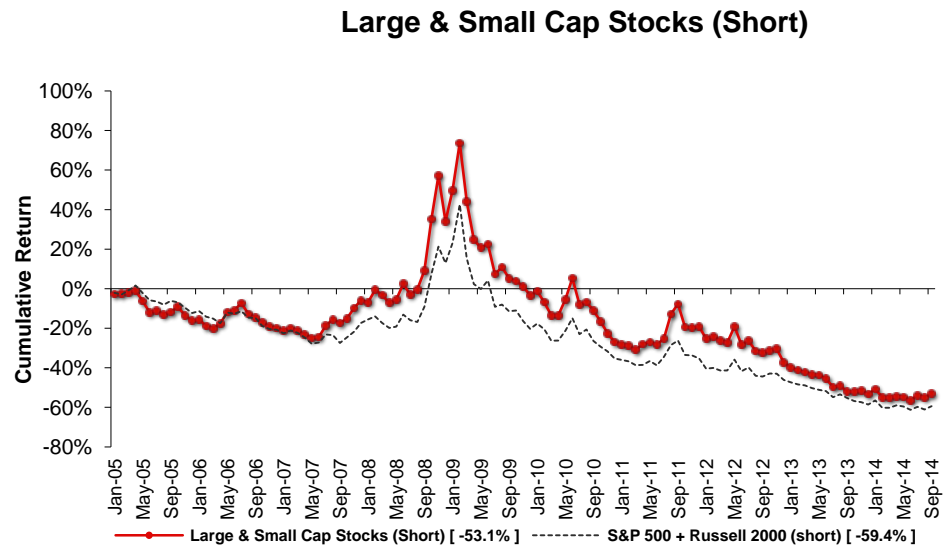
Strategy	Portfolio	Annualized return as of 9/30/2014			
		1 Year	3 Year	5 Year	Since Inception
Short <i>benchmark</i>	Large and Small Cap Stocks	-2.2%	-20.2%	-14.9%	-7.5%
	<i>Short S&P 500 and Russell 2000</i>	-9.2%	-18.0%	-14.4%	-8.8%
	Difference	7.0%	-2.2%	-0.5%	1.4%
Short <i>benchmark</i>	Large Cap Stocks	-7.6%	-20.5%	-16.7%	-6.9%
	<i>Short S&P 500</i>	-14.1%	-17.6%	-13.7%	-7.6%
	Difference	6.5%	-2.9%	-2.9%	0.6%
Short <i>benchmark</i>	Small Cap Stocks	3.2%	-20.1%	-13.4%	-8.7%
	<i>Short Russell 2000</i>	-4.3%	-18.7%	-15.3%	-10.3%
	Difference	7.5%	-1.4%	1.9%	1.6%

Source: New Constructs, LLC

Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. Inception date is January 2005.



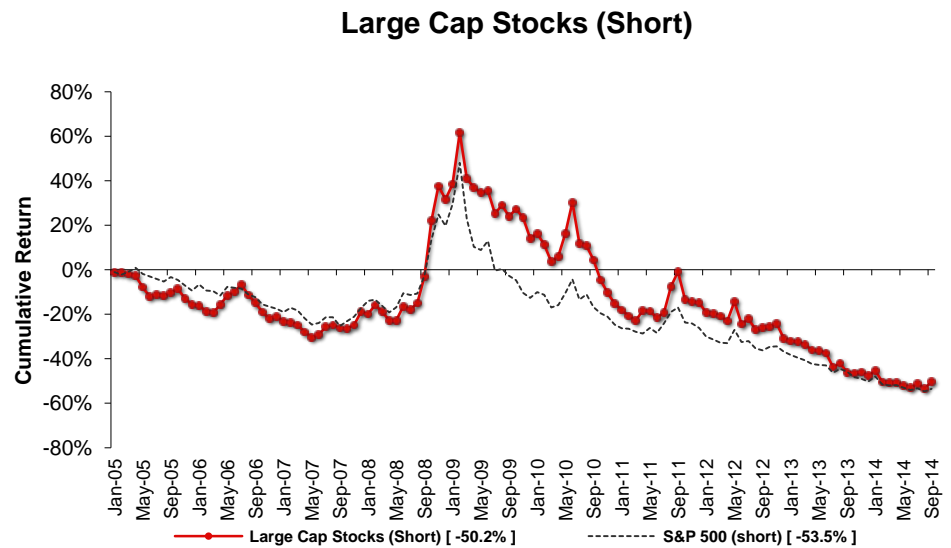
Figure 14: Large and Small Cap Strategy: Most Dangerous Stocks: Cumulative Performance



Source: New Constructs, LLC

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

Figure 15: Large Cap Strategy: Most Dangerous Stocks: Cumulative Performance

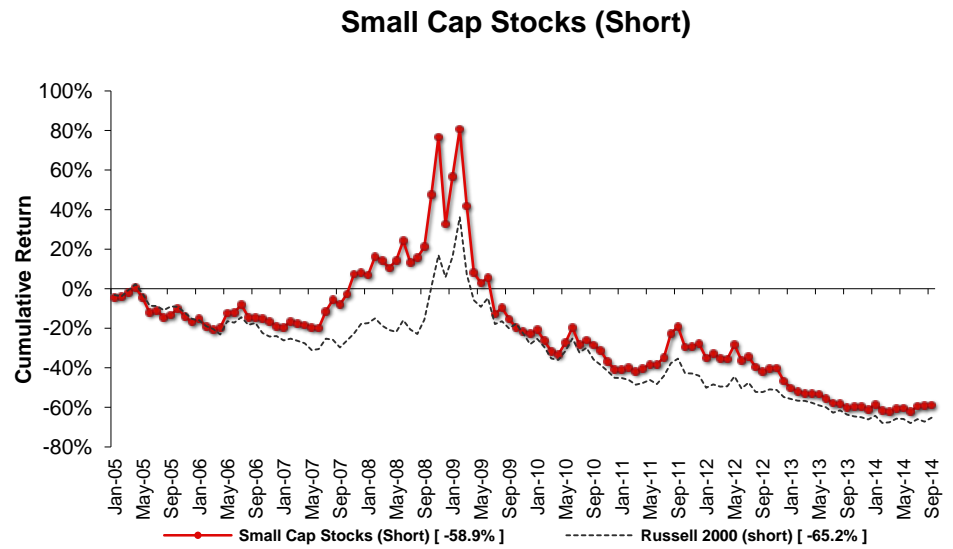


Source: New Constructs, LLC

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



Figure 16: Small Cap Strategy: Most Dangerous Stocks: Cumulative Performance



Source: New Constructs, LLC

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



Appendix 1 – Risk Metrics

Strategy	Volatility				Sharpe Ratio				Beta				Monthly Turnover			
	1 year	3 year	5 year	Since Inception	1 Year	3 Year	5 Year	Since Inception	1 Year	3 Year	5 Year	Since Inception	1 Year	3 Year	5 Year	Since Inception
Long/Short	7%	9%	11%	11%	1.5	-0.3	0.1	0.5	1.1	1.1	1.0	1.1	37%	30%	27%	28%
Long Large	12%	15%	15%	20%	1.5	1.2	1.1	0.5	1.0	0.9	0.9	1.0	35%	30%	28%	27%
Long Small	15%	19%	19%	26%	0.3	1.0	0.7	0.3	0.94	0.95	0.87	0.94	35%	31%	29%	29%
Long Large and Small	13%	16%	16%	22%	0.9	1.2	1.0	0.4	0.96	0.94	0.88	0.96	35%	31%	28%	28%
Short Large	15%	17%	20%	21%	-0.5	-1.2	-0.8	-0.3	1.2	1.2	1.2	1.2	38%	30%	27%	27%
Short Small	15%	19%	21%	26%	0.2	-1.1	-0.7	-0.3	1.24	1.21	1.11	1.14	38%	29%	26%	28%
Short Large and Small	14%	17%	20%	22%	-0.2	-1.2	-0.8	-0.3	1.23	1.22	1.18	1.15	38%	29%	26%	28%
S&P 500	11%	12%	13%	16%	1.3	1.6	1.0	0.3								
Russell 2000	18%	19%	19%	22%	0.1	1.0	0.7	0.3								



Appendix 2 – Assumptions Behind Simulated Performance Analysis

The basic assumptions behind our simulated performance analysis are:

1. Positions are equally dollar-weighted in all portfolios and strategies: going long with the Most Attractive and shorting the Most Dangerous.
2. Holdings are updated on the publish date of the monthly reports.
3. Closing prices are used to open positions on the day each report was published. If a report is published on a non-trading day, then the closing price of the next trading day is used.
4. Positions are closed at the same time new positions are opened.
5. If a stock stops trading before the subsequent monthly report is published, we assume that the position was exited at the last available price.
6. Performance analysis excludes transaction costs, dividends, and the rebates associated with the short portfolios.

The Most Attractive and Most Dangerous portfolios are matched to the following benchmarks:

1. Long/Short (Most Attractive as Long and Most Dangerous as Short): Benchmark is the 3-Month T-Bill, the Risk-Free Rate.
2. Large Cap Stocks: Long benchmark is the S&P 500. Short benchmark is based on shorting the S&P 500.
3. Small Cap Stocks: Long benchmark is the Russell 2000. Short benchmark is based on shorting the Russell 2000.
4. Combo Large and Small Cap Stocks: Long benchmark is the average of the S&P 500 and Russell 2000. Short benchmark is based on the average of shorting the S&P 500 and shorting the Russell 2000.



Appendix 3 – Keys to Our Success

Key to Our Success: Better Data and Better Models

Our proprietary earnings and valuation models leverage large amounts of data from the Notes to the Financial Statements to produce better measures of profitability and valuation. Our report “[Why the Notes Matter](#)”¹ provides insights into why our analysis of the Notes to the Financial Statements is critical to understanding the financial performance of companies.

Investment Philosophy: Cash is King

Our investment philosophy relies on leveraging a better understanding of (1) cash earnings, in place of reported GAAP² accounting earnings, and (2) the market’s expectations for future cash flows for every company we cover.

Having a better model for assessing these core value drivers enables us to exercise greater discipline and enjoy greater success when implementing our “[Cash Is King](#)”³ investment philosophy.

We believe the performance of our Most Attractive and Most Dangerous Stocks portfolios underscores the merits of our [investment philosophy](#).

Most Attractive and Most Dangerous Stocks Methodologies

For details on how we identify the Most Attractive and the Most Dangerous Stocks, download free copies of our [Most Attractive Stocks](#) and [Most Dangerous Stocks](#) reports. All “MAMD” reports are available for free download 90 days after their publishing date.

¹ You may download this report for free at:
<http://www.newconstructs.com/nc/research/report/investment-perspectives-reports.htm>.

² GAAP stands for Generally Accepted Accounting Principles, the rules that govern how companies report financial performance and present financial statements.

³ You may download this report for free at:
<http://www.newconstructs.com/nc/research/report/investment-perspectives-reports.htm>.



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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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