

 Your Money**Winning the stock market game**By [David Trainer](#), New Constructs, LLC

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With the stock market volatility it's hard to separate winning stocks from ones that will give you the portfolio blues. Each month, New Constructs develops a list of 40 stocks, 20 large cap and 20 small cap that we designate as Most Attractive and 40 stocks, 20 large cap and 20 small cap that we designate as Most Dangerous.

The stocks on May's Most Attractive list are so attractive that even in an uncertain market, they are still winners.

In this month's Most Attractive Stocks report, we have included 40 stocks, 20 large-caps and 20 small-caps that should help an investor build a portfolio that will net strong returns.

All of our "most attractive stocks" are scrutinized to help better understand the true earnings of the companies. Pushing aside Wall Street research and company press releases, we look at the official filings the company has submitted to the Securities and Exchange Commission.

To ensure we have gathered all the financial facts needed to understand corporate profitability, we examine income statements, balance sheets, cash flow statements and, most importantly, the notes to the financial statements. Our analysis of these notes produces financial insights that give our models and research an analytical advantage.

Most Attractive Stocks have high-quality profits based on rising returns on invested capital (ROIC) and positive economic earnings. Additionally, these stocks have cheap valuations based on a positive two-year average free-cash flow yield, a relatively low price-to-economic book value ratio and a relatively low-growth appreciation period, which is the number of years the market price implies the company will be able to grow profits).

Before diving into May's list of stocks, I should let you know that the 15 of the stocks on our Most Attractive Stocks list in April rose more than the S&P500 which was up 2.7 percent. The large-cap outperformers were led by Hasbro (NYSE: HAS) which rose a whopping 21.8 percent since our April report and the small-cap outperformers were led by AmeriCredit (NYSE:ACF) with an increase of 34.9 percent.

Here are some of the winners on May's Most Attractive list:



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Sunoco (NYSE:SUN). Sunoco is trading at a ridiculously low level in relation to its existing cash flow. Sunoco is currently trading near its 52-week low, and those low levels are unfounded. The current price implies that Sunoco's profit will drop 80 percent and never grow again – which is unlikely especially given what is going on in the oil markets. Our research shows Sunoco's economic cash flows are rising, not falling. It continues to be one of the most profitable companies in the market based on Return on Invested Capital. And while demand for oil may be softening, it is not plummeting by 80 percent.

Merck (NYSE: MRK) Merck has had a rough year this year. It is currently trading near its 52-low, but the cost-cutting measures the company is employing will keep its profitability steady. Even if they do not develop any new drugs to market, their distribution platform is very valuable. It remains among the US companies with the highest Return on Invested Capital. Merck's current valuation implies the company will never grow earnings again and in fact, will drop by 30 percent.

Heidrick & Struggles Intl Inc. (NASDAQ: HSII) Like Merck, this stock has had a rough year. Its disappointing first quarter earnings caused investors to unnecessarily hammer this stock. This is a perfect example of investors focusing on the wrong data. According to the great Warren Buffet, earnings are irrelevant, and cash is king. If investors followed that mantra, they would see that Heidrick & Struggles' cash flows are very strong. The business has an excellent franchise and they are poised to take advantage of the huge international opportunities as emerging markets continue to develop and start to look for more than just factory workers. The company's current valuation makes it a steal as stock price implies the profits will never grow again, and will drop by 30 percent.

More of our Most Attractive stocks can be found in our monthly report available at [www.newconstructs.com](http://www.newconstructs.com).

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