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Your **Money**

# Take a vacation from worrying about your portfolio

**By David Trainer, New Constructs, LLC**
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Many families are packing their bags headed for vacation destinations this month. And while the carefree days of a summer vacation are upon us, the stock market has many investors worried about what will become of their portfolios. But there are stocks that will have your portfolio humming along without a care and some of those can be found in New Constructs' Most Attractive Stocks report.

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).

Here is a sampling of the Most Attractive Stocks for July (The full report can be purchased at www.newconstucts.com)

**Altria Group (NYSE: MO)** is trading at a ridiculously low level in relation to its existing cash flow. The current price implies that Altria Group's profits will drop by 70 percent and never grow again. In contrast, New Construct's research shows that their economic cash flows are rising, not falling. Altria Group is one of the most profitable companies in the market based on Return On Invested Capital and is trading at an unwarranted discount to its cash flows.

Yes, **Sunoco (NYSE: SUN)** is an oil company and many are predicting the bubble will soon burst on oils current run-up, but Sunoco is already trading at as if the oil bubble has burst. Indeed, it's valuation implies a bigger drop in oil price and demand than any of the experts. The current price implies profit will drop by

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80 percent and never grow again. Where Wall Street has priced Sunoco as if its economic cash flow is falling, New Constructs' research shows that it is rising. Oil companies, in general, are having a good run in the stock market. Sunoco's valuation does not reflect the fact that it is among the most profitable companies in the market right now based on Return On Invested Capital. We believe that demand for oil may is softening and will likely continue to soften, but not by 70 percent as Wall Street has this stock priced.

We like to call **Advance America, Cash Advance Centers (NYSE: AEA)** a small cap special. This year has been tough for Advance America Advance Center. The Supreme Court recently ordered them to pay restitution to consumers on excess fees they charged. This news, while certainly bad, is a perfect example of investors overreacting to bad news. While this was perhaps a blow to their public perception, the company has very strong and growing cash flows. And AEA still has a very good business model and is positioned to weather economic headwinds as well as any business in the market today. Its current valuation makes it a steal as its stock price implies the profits will not only fail to grow again, but will drop by 30 percent.

*David Trainer is President of New Constructs, an independent equity research firm based in Nashville, Tenn. Called one of the best stock picker's on the planet by Erin Burnett (host of CNBC's Squawk on the Street), Trainer began his stock-picking career at Credit Suisse First Boston as an analyst. In addition, Trainer has worked for Epoch Partners (now Goldman Sachs) and the now defunct Arthur Andersen before co-founding New Constructs in 2003.*

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