



## Most Attractive Stocks for July 2016

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

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- **Figure 1** shows 12 new stocks that make our July lists.
- The **Most Attractive Stocks** portfolio (-3.7%) underperformed the **S&P 500** (-0.8%) last month.
- **Figure 4** shows the 14 stocks that outperformed from June's report.
- See **Appendix C** for data on returns, volatility and portfolio turnover for our **Most Attractive Stocks Portfolio**.
- **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	
Ticker	Company Name
JNPR	Juniper Networks
SYNT	Syntel Inc.
TM	Toyota Motor Corp
TSM	Taiwan Semiconductor Manufacturing
VIAB	Viacom Inc.

Small Cap Additions	
Ticker	Company Name
EXPR	Express Inc.
FFG	FBL Financial Group, Inc.
GNCMA	General Communication
IRBT	iRobot Corp
MED	Medifast Inc.
NRCIB	National Research Corp
PGEM	Ply Gem Holdings

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 07/05/16			
	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	F	Ford Motor Company	\$0.96	7%	2nd	37%	0.4	Less than 1	\$48,385
2	MAC	The Macerich Company	\$3.11	7%	2nd	20%	0.9	17	\$12,870
3	DRE	Duke Realty Corp	\$0.96	9%	2nd	15%	1.1	8	\$9,199
4	TM*	Toyota Motor Corp	\$8.51	2%	Top Quintile	15%	0.5	Less than 1	\$150,638
5	PCAR	Paccar Inc.	\$2.40	7%	Top Quintile	14%	0.9	2	\$17,691
6	EV	Eaton Vance Corp	\$1.99	6%	Top Quintile	12%	1.2	6	\$3,979
7	LEA	Lear Corp	\$7.83	2%	Top Quintile	12%	0.6	Less than 1	\$7,337
8	SPR	Spirit Aerosystems Holdings	\$4.21	1%	Top Quintile	11%	0.5	Less than 1	\$5,580
9	BBY	Best Buy Co.	\$1.72	2%	2nd	10%	0.6	Less than 1	\$9,799
10	VMW	VMware Inc.	\$1.95	6%	Top Quintile	9%	1.1	2	\$24,010
11	UAL	United Continental Holdings	\$7.95	3%	Top Quintile	9%	0.3	Less than 1	\$13,571
12	RHI	Robert Half International	\$2.05	2%	Top Quintile	8%	1.1	2	\$4,850
13	VIAB*	Viacom Inc.	\$4.74	2%	Top Quintile	8%	0.5	Less than 1	\$16,265
14	TGT	Target Corporation	\$2.92	1%	3rd	8%	0.8	Less than 1	\$41,096
15	LUV	Southwest Airlines Company	\$2.67	5%	Top Quintile	7%	0.8	Less than 1	\$25,043
16	TSM*	Taiwan Semiconductor Manufacturing	\$1.27	1%	Top Quintile	7%	1.0	Less than 1	\$136,186
17	JNPR*	Juniper Networks	\$0.86	4%	2nd	7%	0.7	Less than 1	\$8,474
18	CSCO	Cisco Systems	\$1.18	1%	Top Quintile	6%	0.8	Less than 1	\$142,492
19	SYNT*	Syntel Inc.	\$2.29	4%	Top Quintile	6%	0.9	Less than 1	\$3,762
20	EXPD	Expeditors International Of Washington	\$1.85	3%	Top Quintile	6%	1.3	9	\$8,974

\* 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 07/05/16			
			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)	
1	SOHU	Sohu.com	\$0.96	18%	2nd	119%	0.7	4	\$1,435
2	RSO	Resource Capital Corp	\$0.10	3%	4th	60%	0.4	Less than 1	\$387
3	FUNC	First United Corp	\$1.03	6%	3rd	35%	0.3	Less than 1	\$62
4	AXL	American Axle & Manufacturing	\$0.19	1%	3rd	23%	0.7	Less than 1	\$1,095
5	ESND	Essendant, Inc.	\$1.36	2%	3rd	23%	0.6	Less than 1	\$1,121
6	CTB	Cooper Tire & Rubber	\$0.60	5%	3rd	22%	0.8	Less than 1	\$1,640
7	GBX	Greenbrier Companies, Inc.	\$6.73	8%	Top Quintile	22%	0.3	Less than 1	\$809
8	NCIT	NCI Inc.	\$0.25	1%	4th	19%	0.8	Less than 1	\$189
9	RWT	Redwood Trust, Inc.	\$0.30	6%	3rd	17%	0.7	Less than 1	\$1,048
10	GSBC	Great Southern Bancorp, Inc.	\$1.00	1%	2nd	17%	0.8	Less than 1	\$491
11	ACRE	Ares Commercial Real Estate	\$0.28	3%	3rd	10%	0.6	Less than 1	\$348
12	TACT	Transact Technologies,	\$0.56	23%	Top Quintile	10%	0.6	1	\$61
13	GNCMA*	General Communication	\$0.78	2%	4th	10%	0.7	2	\$608
14	PGEM*	Ply Gem Holdings	\$1.21	7%	Top Quintile	10%	0.9	9	\$974
15	FFG*	FBL Financial Group	\$0.97	1%	3rd	9%	1.0	Less than 1	\$1,459
16	NRCIB*	National Research Corp	\$2.18	3%	Top Quintile	8%	0.6	Less than 1	\$236
17	MED*	Medifast Inc.	\$1.47	12%	Top Quintile	8%	1.1	1	\$397
18	IRBT*	iRobot Corp	\$0.93	3%	Top Quintile	8%	1.4	7	\$947
19	ORIT	Oritani Financial Corp	\$0.58	3%	2nd	8%	1.1	5	\$897
20	EXPR*	Express Inc.	\$0.59	1%	3rd	6%	0.7	Less than 1	\$1,116

\* 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 (-3.7%) underperformed the S&P 500 (-0.8%) last month. 14 stocks from our June Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 11 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 02, 2016 to July 05, 2016. We published last month's report to subscribers on June 02, 2016.

**Figure 4: 14 Stocks that Outperformed From June's Report**

Large Cap			Small Cap		
Ticker	Company Name	Change From 06/02/16	Ticker	Company Name	Change From 06/02/16
MAC	The Macerich Company	12.1%	PLCE	Children's Place Inc.	11.3%
DRE	Duke Realty Corp	11.3%	TACT	Transact Technologies, Inc.	9.1%
EQR	Equity Residential	4.9%	NCIT	NCI Inc.	6.2%
CAG	ConAgra Foods	3.4%	ACRE	Ares Commercial Real Estate	1.6%
TGT	Target Corporation	2.1%	GBX	Greenbrier Companies	1.1%
EXPD	Expeditors International	1.7%	PROV	Provident Financial Holdings	-0.2%
CALM	Cal-Maine Foods, Inc.	-0.1%	CPLA	Capella Education Company	-0.6%
<b>S&amp;P 500</b>	<b>S&amp;P 500</b>	<b>-0.8%</b>	<b>S&amp;P 500</b>	<b>S&amp;P 500</b>	<b>-0.8%</b>

Sources: New Constructs, LLC

Note: Gain/Dcline 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 Yields*<sup>1</sup> that are positive;
- Price-to-Economic Book Value (EBV)*<sup>2</sup> ratios that are relatively low; and
- Growth Appreciation Periods*<sup>3</sup> (GAP) that are relatively low.

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.

**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%



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 06/02/16	Ticker	Company Name	Change From 06/02/16
MAC	The Macerich Company	12.1%	PLCE	Children's Place Inc.	11.3%
DRE	Duke Realty Corp	11.3%	TACT	Transact Technologies, Inc.	9.1%
EQR	Equity Residential	4.9%	NCIT	NCI Inc.	6.2%
CAG	ConAgra Foods	3.4%	ACRE	Ares Commercial Real Estate	1.6%
TGT	Target Corporation	2.1%	GBX	Greenbrier Companies	1.1%
EXPD	Expeditors International	1.7%	PROV	Provident Financial Holdings	-0.2%
CALM	Cal-Maine Foods	-0.1%	CPLA	Capella Education Company	-0.6%
SPX	<b>S&amp;P 500</b>	<b>-0.8%</b>	SPX	<b>S&amp;P 500</b>	<b>-0.8%</b>
CSCO	Cisco Systems, Inc.	-2.6%	LEE	Lee Enterprises, Inc.	-3.1%
EV	Eaton Vance Corp	-4.1%	ESND	Essendant, Inc.	-3.2%
F	Ford Motor Company	-6.1%	ORIT	Oritani Financial Corp	-3.8%
BBY	Best Buy Co	-6.5%	RSO	Resource Capital Corp	-4.1%
LUV	Southwest Airlines Company	-7.0%	FUNC	First United Corp	-5.0%
VMW	VMware Inc.	-8.8%	AGM	Federal Agricultural Mortgage	-6.1%
CCL	Carnival Corporation	-9.5%	RWT	Redwood Trust, Inc.	-6.2%
SPR	Spirit Aerosystems Holdings	-10.0%	CTB	Cooper Tire & Rubber	-6.5%
PCAR	Paccar Inc.	-10.3%	AMNB	American National Bankshares	-6.7%
UAL	United Continental Holdings	-10.8%	SOHU	Sohu.com	-9.3%
RHI	Robert Half International	-11.9%	GSBC	Great Southern Bancorp	-10.7%
LEA	Lear Corp	-15.3%	WNC	Wabash National Corp	-12.3%
EWBC	East West Bancorp	-18.1%	AXL	American Axle & Manufacturing	-14.1%
<b>Large Cap Portfolio Return</b>		<b>-4.3%</b>	<b>Small Cap Portfolio Return</b>		<b>-3.1%</b>
<b>Combo (Large and Small Cap) Return</b>		<b>-3.7%</b>			

Sources: New Constructs, LLC

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





## **Appendix B – Additions and Deletions**

### **Most Attractive Large/Mid Cap Stocks**

#### **Deletions:**

- EQR - Stock price increased 4.9% since June report.
- CAG - Stock price increased 3.4% since June report.
- CALM - Displaced by improved rank of other stocks.
- CCL - Displaced by improved rank of other stocks.
- EWBC - Displaced by improved rank of other stocks.

#### **Additions:**

- VIAB - Stock price decreased 8.9% since June report.
- JNPR - Stock price decreased 5.9% since June report.
- SYNT - Stock price decreased 4.0% since June report.
- TSM - Addition by decrease in rank of other stocks.
- TM - New filing data on 06/24/16.

### **Most Attractive Small Cap Stocks**

#### **Deletions:**

- PLCE - Stock price increased 11.3% since June report.
- AGM - Displaced by improved rank of other stocks.
- AMNB - Displaced by improved rank of other stocks.
- CPLA - Displaced by improved rank of other stocks.
- LEE - Displaced by improved rank of other stocks.
- PROV - Displaced by improved rank of other stocks.
- WNC - Displaced by improved rank of other stocks.

#### **Additions:**

- NRCIB - Stock price decreased 12.5% since June report.
- IRBT - Stock price decreased 10.4% since June report.
- FFG - Stock price decreased 6.9% since June report.
- PGEM - Stock price decreased 4.1% since June report.
- EXPR - Stock price decreased 3.9% since June report.
- GNCMA - Addition by decrease in rank of other stocks.
- MED - Addition by decrease in rank of other stocks.

## Appendix C – Portfolio Metrics

Figure 7: Performance and Risk Metrics

Portfolio	Portfolio Returns			Volatility (Annualized)			Sharpe Ratio			Beta		
	1 year annualized	3 year annualized	Since Inception	1 year annualized	3 year annualized	Since Inception	1 Year	3 Year	Since Inception	1 Year Average	3 Year Average	Average Since Inception
Most Attractive Large	-8%	6%	8%	15%	13%	19%	-0.5	0.5	0.4	1.1	1.0	1.0
Most Attractive Small	0%	14%	9%	19%	16%	25%	0.0	0.8	0.4	0.95	0.93	0.94
Most Attractive Small and Large	-4%	10%	9%	16%	14%	21%	-0.2	0.7	0.4	1.00	0.96	0.96
S&P 500	1%	9%	5%	14%	11%	16%	0.1	0.8	0.3			
Russell 2000	-6%	6%	6%	18%	16%	21%	-0.3	0.4	0.3			

Source: New Constructs, LLC

**Figure 8: Portfolio Turnover**

Portfolio	Monthly Turnover		
	1 Year Average	3 Year Average	Average Since Inception
<b>Most Attractive Large</b>	39%	36%	29%
<b>Most Attractive Small</b>	50%	42%	32%
<b>Most Attractive Small and Large</b>	44%	39%	30%

Source: New Constructs, LLC



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In-depth risk/reward analysis underpins our ratings. Our rating methodology grades every stock, ETF, and mutual fund according to what we believe are the 5 most important criteria for assessing the quality of an equity. Each grade reflects the balance of potential risk and reward of buying that equity. Our analysis results in the 5 ratings described below. Very Attractive and Attractive correspond to a "Buy" rating, Very Dangerous and Dangerous correspond to a "Sell" rating, while Neutral corresponds to a "Hold" rating.

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Why should fund investors rely on backward-looking price trends?

ANSWER: They should not.

Don't judge a fund by its cover. Take a look inside at its holdings and understand the quality of earnings and valuation of the stocks it holds. We enable you to choose the best fund based on its stock-picking merits so you do not have to rely solely on backward-looking technical metrics.

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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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