



Proof Is In Performance Thru 2Q16

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

Trust

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

Performance

The value and success of our ratings are noteworthy. See media features and accolades.

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- The Most Attractive and Most Dangerous Stocks reports offer multiple strategies to outperform in good and bad markets.
- Our large cap short strategy beat the short S&P 500 by 4% YTD.
- Our large and small cap short strategy beat the short S&P 500 and Russell 2000 by 1%.
- These strategies (and others) beat their benchmarks by much more since inception in January 2005.
- Barron's [recently featured](#) our forensic accounting expertise and the high quality of research.

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 2016

Strategy	Portfolio	2016				YTD
		1Q	2Q	3Q	4Q	
Short benchmark	Large Cap Stocks	-2.6%	0.7%	-	-	-1.9%
	Short S&P 500	-4.2%	-1.6%	-	-	-5.7%
	Difference	1.6%	2.3%	-	-	3.8%
Short benchmark	Large and Small Cap Stocks	-4.2%	-0.8%	-	-	-4.9%
	Short S&P 500 and Russell 2000	-3.3%	-2.7%	-	-	-5.9%
	Difference	-0.9%	1.9%	-	-	0.9%
Long/Short benchmark	Large Cap Stocks	2.9%	-3.2%	-	-	-0.4%
	Risk-Free Rate	0.1%	0.1%	-	-	0.1%
	Difference	2.8%	-3.3%	-	-	-0.6%

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 2016 YTD 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 2016

Strategy	Portfolio	2016				YTD
		1Q	2Q	3Q	4Q	
Long/Short benchmark	Large and Small Cap Stocks	-0.2%	-3.2%	-	-	-3.3%
	Risk-Free Rate	0.1%	0.1%	-	-	0.1%
	Difference	-0.2%	-3.2%	-	-	-3.5%
Long/Short benchmark	Large Cap Stocks	2.9%	-3.2%	-	-	-0.4%
	Risk-Free Rate	0.1%	0.1%	-	-	0.1%
	Difference	2.8%	-3.3%	-	-	-0.6%
Long/Short benchmark	Small Cap Stocks	-3.5%	-3.2%	-	-	-6.6%
	Risk-Free Rate	0.1%	0.1%	-	-	0.1%
	Difference	-3.6%	-3.2%	-	-	-6.7%

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

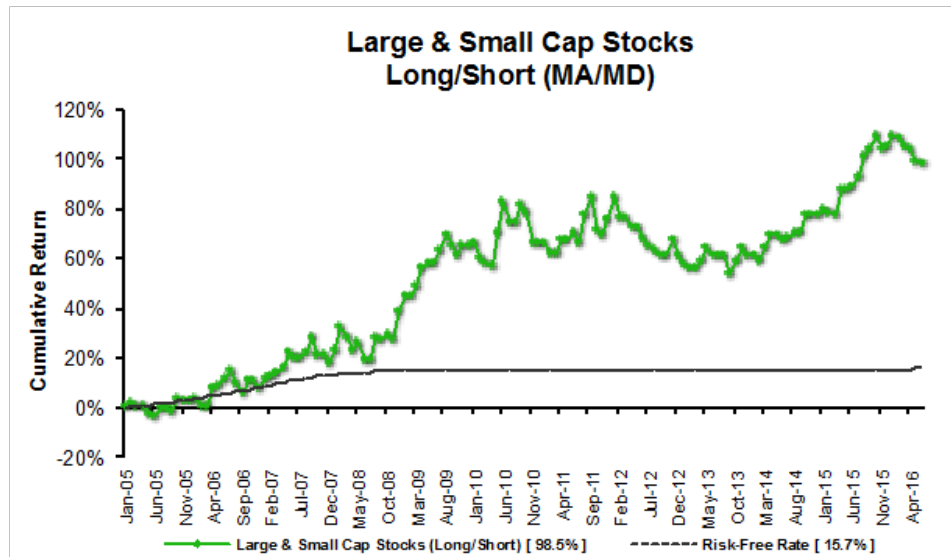
Strategy	Portfolio	Annualized return as of 6/30/2016			
		1 Year	3 Year	5 Year	Since Inception
Long/Short benchmark	Large and Small Cap Stocks	5.1%	7.2%	3.1%	6.1%
	Risk-Free Rate	0.2%	0.1%	0.1%	1.3%
	Difference	4.9%	7.1%	3.0%	4.9%
Long/Short benchmark	Large Cap Stocks	-1.6%	-2.4%	-1.2%	4.0%
	Risk-Free Rate	0.2%	0.1%	0.1%	1.3%
	Difference	-1.7%	-2.4%	-1.2%	2.7%
Long/Short benchmark	Small Cap Stocks	11.4%	16.9%	6.9%	7.6%
	Risk-Free Rate	0.2%	0.1%	0.1%	1.3%
	Difference	11.2%	16.8%	6.8%	6.4%

Source: New Constructs, LLC

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



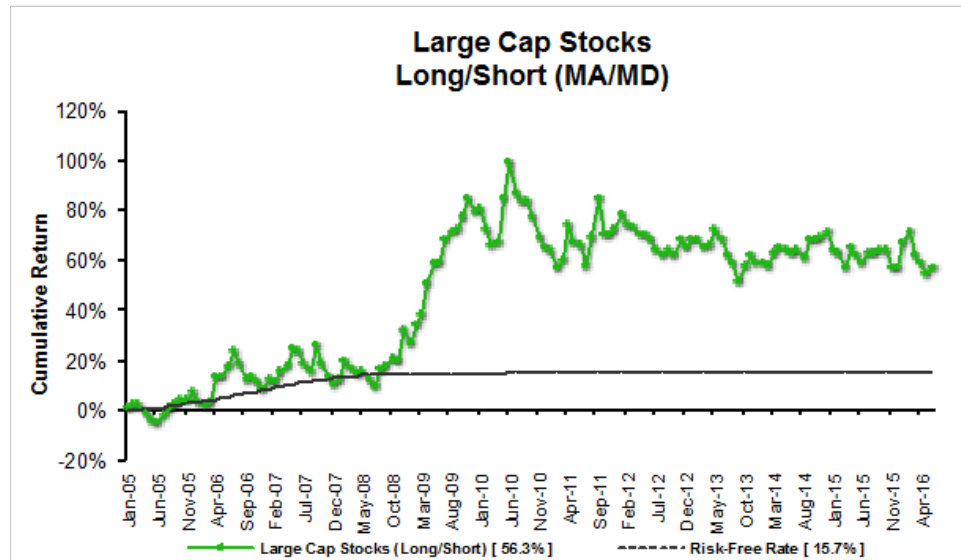
Figure 4: Large and Small Cap Strategy: Most Attractive/Most Dangerous (MA/MD) Stocks: Cumulative Performance



Source: New Constructs, LLC

Note: Gain/Dcline 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

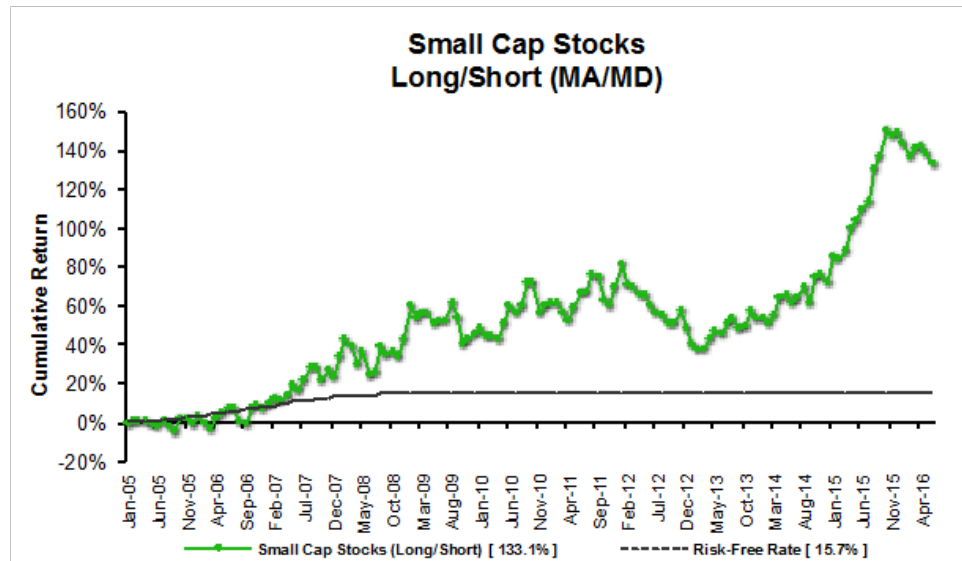


Source: New Constructs, LLC

Note: Gain/Dcline 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/Dcline 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 2016 performance of the long strategies offered by our Most Attractive Stocks versus benchmarks.

Figure 7: Returns for Long Strategies For 2016

Strategy	Portfolio	2016				YTD
		1Q	2Q	3Q	4Q	
Long benchmark	Large and Small Cap Stocks	2.8%	-2.5%	-	-	0.2%
	S&P 500 and Russell 2000	2.6%	2.6%	-	-	5.3%
	Difference	0.2%	-5.1%	-	-	-5.1%
Long benchmark	Large Cap Stocks	4.7%	-4.3%	-	-	0.2%
	S&P 500	3.8%	1.5%	-	-	5.4%
	Difference	0.8%	-5.8%	-	-	-5.2%
Long benchmark	Small Cap Stocks	0.8%	-0.8%	-	-	0.0%
	Russell 2000	1.3%	3.7%	-	-	5.1%
	Difference	-0.6%	-4.5%	-	-	-5.1%

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

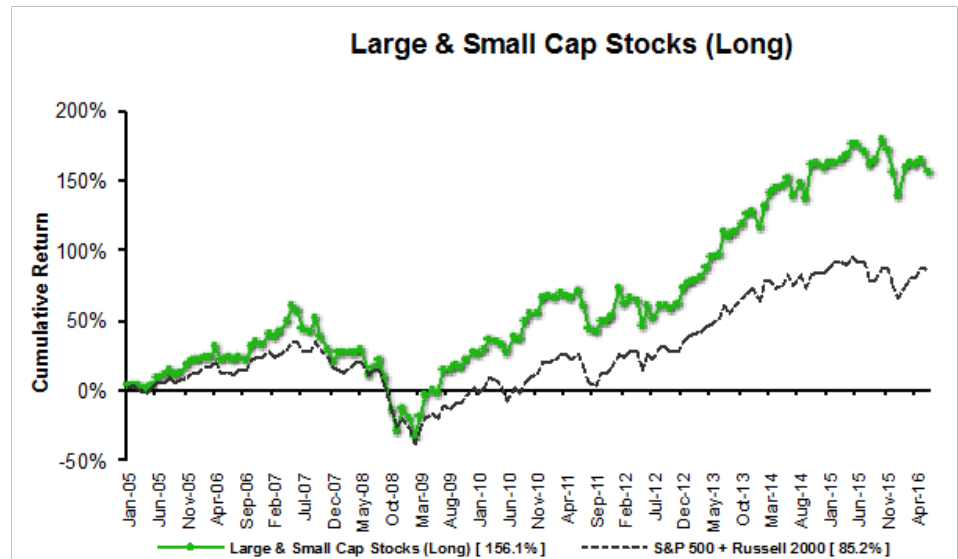
Strategy	Portfolio	Annualized return as of 6/30/2016			
		1 Year	3 Year	5 Year	Since Inception
Long benchmark	Large and Small Cap Stocks	-6.9%	9.0%	8.3%	8.5%
	S&P 500 and Russell 2000	-3.5%	7.2%	8.0%	5.5%
	Difference	-3.5%	1.9%	0.3%	3.0%
Long benchmark	Large Cap Stocks	-11.7%	4.8%	6.6%	7.4%
	S&P 500	1.0%	9.1%	9.4%	5.1%
	Difference	-12.7%	-4.3%	-2.8%	2.3%
Long benchmark	Small Cap Stocks	-2.2%	13.0%	9.7%	9.1%
	Russell 2000	-7.9%	5.1%	6.5%	5.7%
	Difference	5.7%	7.9%	3.2%	3.4%

Source: New Constructs, LLC

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



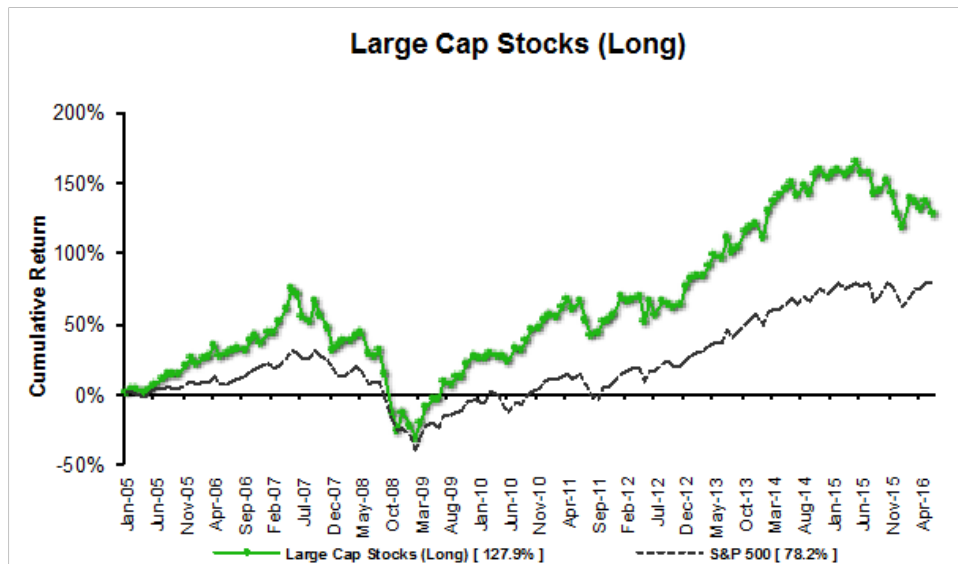
Figure 9: Large and Small Cap Strategy: Most Attractive Stocks: Cumulative Performance



Source: New Constructs, LLC

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

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

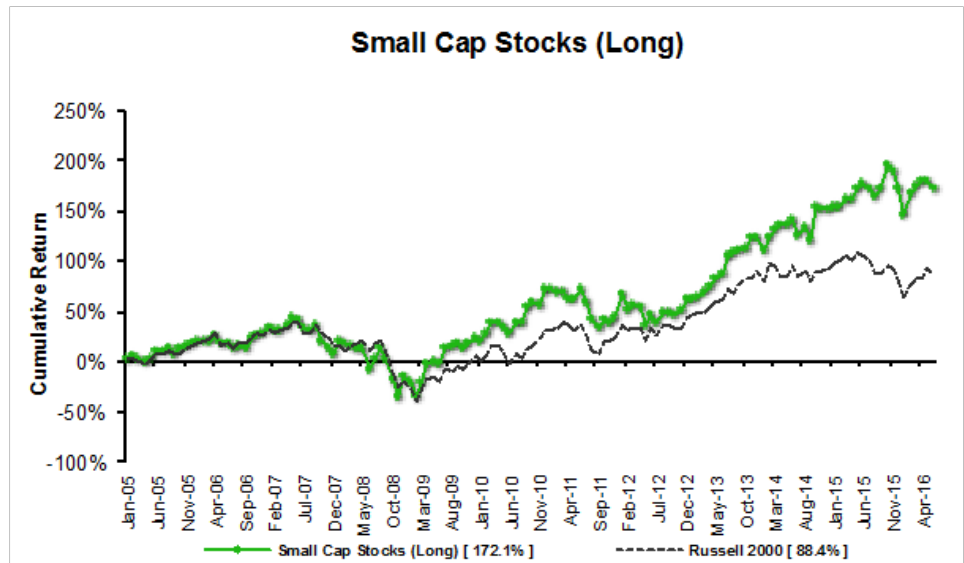


Source: New Constructs, LLC

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



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



Source: New Constructs, LLC

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

**Short Strategies: Most Dangerous Stocks (MD)**

Figure 12 shows the 2016 performance of the short strategies offered by our Most Dangerous Stocks versus benchmarks.

Figure 12: Returns for Short Strategies For 2016

Strategy	Portfolio	2016				YTD
		1Q	2Q	3Q	4Q	
Short benchmark	Large and Small Cap Stocks	-4.2%	-0.8%	-	-	-4.9%
	Short S&P 500 and Russell 2000	-3.3%	-2.7%	-	-	-5.9%
	Difference	-0.9%	1.9%	-	-	0.9%
Short benchmark	Large Cap Stocks	-2.6%	0.7%	-	-	-1.9%
	Short S&P 500	-4.2%	-1.6%	-	-	-5.7%
	Difference	1.6%	2.3%	-	-	3.8%
Short benchmark	Small Cap Stocks	-5.8%	-2.4%	-	-	-8.1%
	Short Russell 2000	-2.4%	-3.9%	-	-	-6.2%
	Difference	-3.4%	1.4%	-	-	-1.9%

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

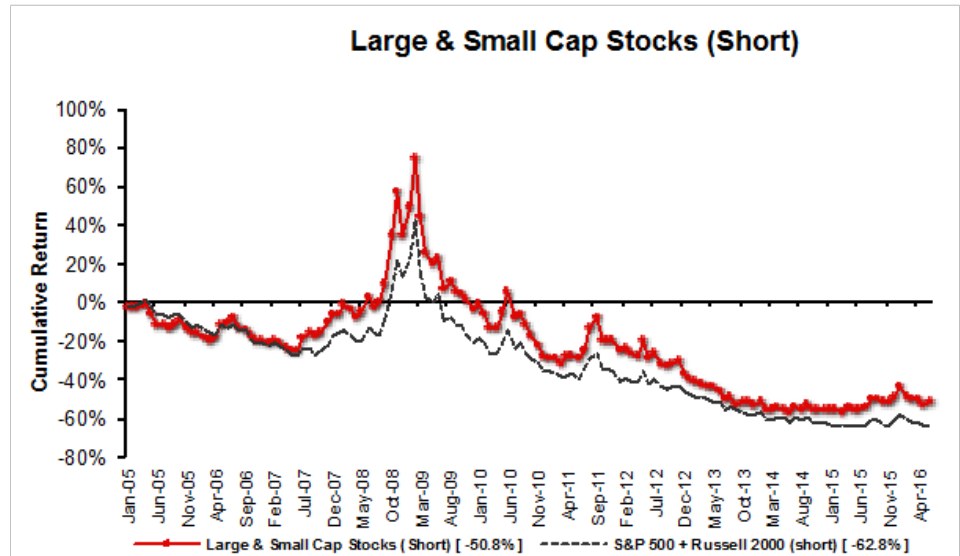
Strategy	Portfolio	Annualized return as of 6/30/2016			
		1 Year	3 Year	5 Year	Since Inception
Short benchmark	Large and Small Cap Stocks	10.3%	-3.4%	-7.3%	-6.0%
	Short S&P 500 and Russell 2000	1.5%	-8.3%	-9.5%	-8.2%
	Difference	8.8%	4.9%	2.2%	2.3%
Short benchmark	Large Cap Stocks	9.3%	-8.4%	-9.3%	-6.2%
	Short S&P 500	-2.6%	-9.5%	-10.0%	-7.2%
	Difference	12.0%	1.1%	0.7%	1.0%
Short benchmark	Small Cap Stocks	11.0%	1.6%	-5.4%	-6.4%
	Short Russell 2000	5.6%	-7.2%	-9.2%	-9.4%
	Difference	5.3%	8.8%	3.7%	3.0%

Source: New Constructs, LLC

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



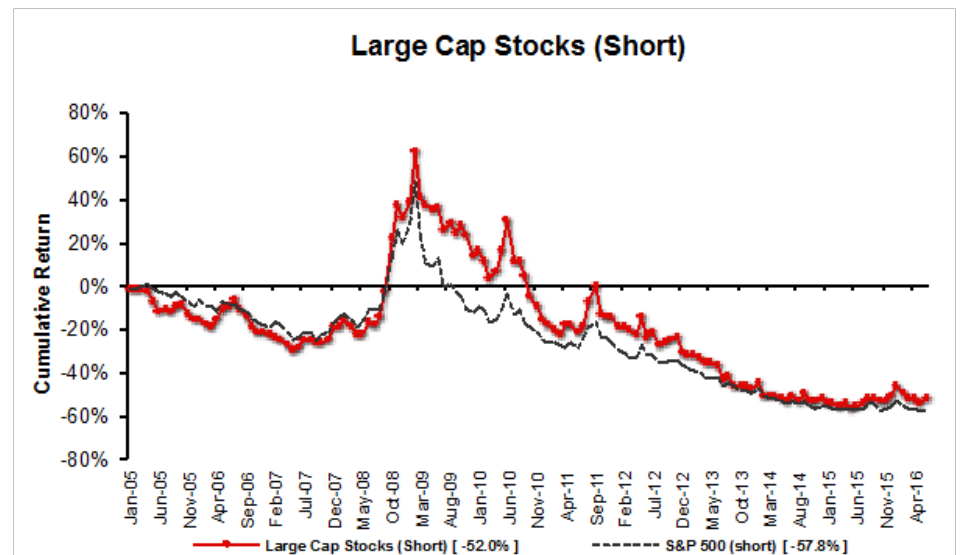
Figure 14: Large and Small Cap Strategy: Most Dangerous Stocks: Cumulative Performance



Source: New Constructs, LLC

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

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

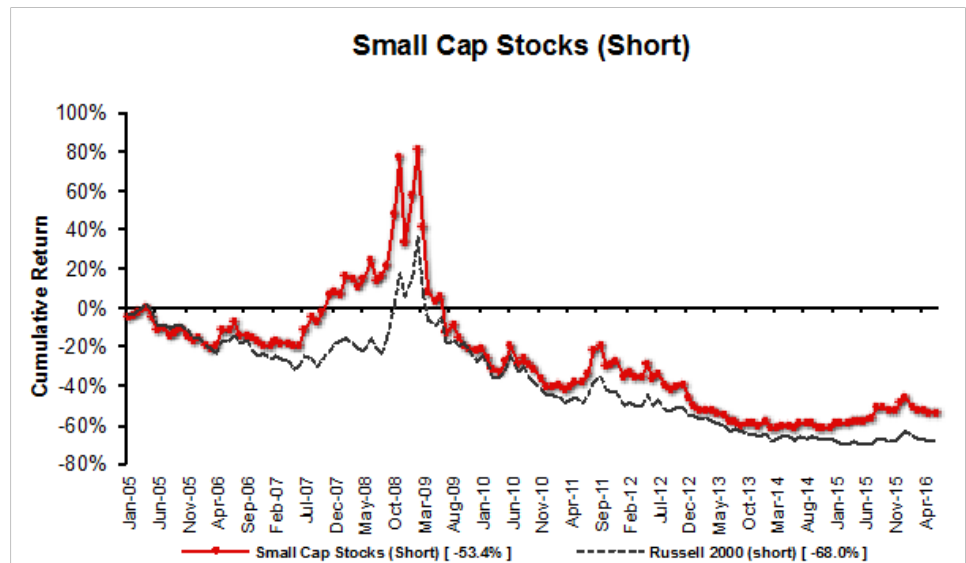


Source: New Constructs, LLC

Note: Gain/Deline 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

	Volatility				Sharpe Ratio				Beta				Monthly Turnover			
Strategy	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%	7%	9%	11%	0.7	0.9	0.3	0.6	1.0	1.1	1.1	1.1	46%	42%	35%	31%
Long Large	15%	13%	15%	19%	-0.8	0.3	0.4	0.4	1.1	1.0	1.0	1.0	40%	37%	33%	29%
Long Small	18%	16%	19%	25%	-0.1	0.8	0.5	0.4	0.93	0.92	0.93	0.93	50%	43%	36%	32%
Long Large and Small	16%	14%	16%	21%	-0.5	0.6	0.5	0.4	0.99	0.96	0.94	0.96	45%	40%	34%	30%
Short Large	18%	16%	18%	20%	0.5	-0.5	-0.5	-0.3	1.1	1.2	1.2	1.2	41%	41%	34%	30%
Short Small	19%	16%	20%	25%	0.6	0.1	-0.3	-0.3	1.03	1.14	1.15	1.13	50%	45%	36%	32%
Short Large and Small	18%	15%	18%	21%	0.6	-0.2	-0.4	-0.3	1.08	1.16	1.18	1.14	48%	44%	36%	31%
S&P 500	13%	11%	12%	16%	0.1	0.8	0.7	0.3								
Russell 2000	17%	16%	18%	21%	-0.5	0.3	0.3	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”](#) 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 GAAP¹ 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”](#) investment philosophy.

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

¹ GAAP stands for Generally Accepted Accounting Principles, the rules that govern how companies report financial performance and present financial statements.



New Constructs® – Profile

How New Constructs Creates Value for Clients

We find it. You benefit. Cutting-edge technology enables us to scale our [forensic accounting expertise](#) across 3000+ stocks. We shine a light in the dark corners of SEC filings so our clients can make safer, more informed decisions.

Our [stock rating methodology](#) instantly informs you of the quality of the business and the fairness of the stock's valuation. We do the diligence on earnings quality and valuation so you don't have to.

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.

QUESTION: Why shouldn't fund research be as good as stock research?

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.

The drivers of our [forward-looking fund ratings](#) are Portfolio Management (i.e. the aggregated ratings of its holdings) and Total Annual Costs. The Total Annual Costs Rating ([details here](#)) captures the all-in cost of being in a fund over a 3-year holding period, the average period for all fund investors.

Our Philosophy About Research

Accounting data is not designed for equity investors, but for debt investors. [Accounting data must be translated into economic earnings](#) to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. [Economic earnings](#) are what matter because they are:

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.

***Additional Information***

Incorporated in July 2002, [New Constructs](#) is an independent publisher of investment research that provides clients with consulting and research services. We specialize in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. We translate accounting data from 10Ks into economic financial statements, i.e. [NOPAT](#), [Invested Capital](#), and [WACC](#), to create [economic earnings models](#), which are necessary to understand the true profitability and valuation of companies. Visit the [Free Archive](#) to download samples of our research. New Constructs is a [BBB accredited](#) business and a member of the [Investorside Research Association](#).



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