



Most Attractive Stocks for January 2017

20 Large/Mid Cap and 20 Small Cap Stocks

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- Figure 1 shows 14 new stocks that make our January lists.
- The Most Attractive Stocks portfolio (+5.5%) outperformed the S&P 500 (+2.2%) last month.
- Figure 4 shows the 27 stocks that outperformed from December'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 January

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
AIZ	Assurant Inc.	AGM	Federal Agricultural Mortgage
FII	Federated Investors Inc.	GOV	Government Properties Income
HAS	Hasbro Inc.	GV	The Goldfield Corp
MFA	MFA Financial Inc.	IIIN	Insteel Industries
MO	Altria Group, Inc.	ORBK	Orbotech, Ltd.
NAVI	Navient Corp	SSNI	Silver Springs Networks
TSM	Taiwan Semiconductor		
WRE	Washington Real Estate		

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 January

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 January

		High-Quality Earnings			Cheap Valuation			
		As of Last Twelve Months			as of 01/02/17			
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)
F	Ford Motor Company	\$0.94	2%	2nd	32%	0.4	Less than 1	\$49,512
AIZ*	Assurant Inc.	\$5.21	10%	2nd	16%	0.5	Less than 1	\$5,318
NAVI*	Navient Corp	\$0.68	2%	2nd	15%	0.6	Less than 1	\$5,050
CIM	Chimera Investment	\$1.87	14%	Top Quintile	14%	0.3	Less than 1	\$3,308
LEA	Lear Corp	\$10.30	3%	Top Quintile	11%	0.6	Less than 1	\$9,376
MFA*	MFA Financial	\$0.57	2%	2nd	11%	0.4	Less than 1	\$2,836
BBY	Best Buy	\$2.43	2%	2nd	10%	0.7	Less than 1	\$14,050
HA	Hawaiian Holdings	\$3.36	3%	Top Quintile	10%	0.9	6	\$3,179
CSCO	Cisco Systems	\$1.42	1%	Top Quintile	7%	0.7	Less than 1	\$153,253
AXP	American Express	\$3.30	1%	2nd	7%	0.8	Less than 1	\$68,617
WRE*	Washington Real Estate	\$1.86	12%	2nd	7%	0.6	1	\$2,396
RNR	RenaissanceRe Holdings	\$11.26	2%	2nd	7%	0.4	Less than 1	\$5,616
IDCC	InterDigital	\$4.61	19%	Top Quintile	7%	0.9	9	\$3,115
TSM*	Taiwan Semiconductor	\$1.34	1%	Top Quintile	6%	0.9	Less than 1	\$150,656
GNTX	Gentex Corporation	\$0.60	3%	Top Quintile	5%	1.0	Less than 1	\$5,745
HAS*	Hasbro Inc.	\$3.03	2%	2nd	5%	1.0	Less than 1	\$9,778
FII*	Federated Investors	\$1.30	4%	Top Quintile	5%	1.1	2	\$2,872
TEN	Tenneco Inc.	\$2.84	2%	2nd	4%	0.9	Less than 1	\$3,481
MO*	Altria Group, Inc.	\$2.65	2%	Top Quintile	4%	1.0	1	\$132,072
KLAC	KLA - Tencor Corp	\$4.87	13%	Top Quintile	4%	0.1	Less than 1	\$12,368

* Addition to the Large/ Mid Cap Most Attractive list in January
Most Attractive Stocks are Sorted by Overall Rating

Sources: New Constructs, LLC

The 20 Most Attractive Small Cap Stocks for January

We recommend that investors equal-weight holdings in all 20 Small Cap Most Attractive Stocks.

Figure 3: 20 Most Attractive Small Cap Stocks for January

		High-Quality Earnings			Cheap Valuation			
		As of Last Twelve Months			as of 01/02/17			
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)
GBL	GAMCO Investors	\$2.72	58%	Top Quintile	32%	0.6	Less than 1	\$921
ESND	Essendant	\$1.35	3%	3rd	17%	0.4	Less than 1	\$783
ORM	Owens Realty Mortgage	\$2.15	4%	2nd	13%	0.3	Less than 1	\$193
RWT	Redwood Trust	\$1.20	9%	2nd	13%	0.4	Less than 1	\$1,172
GOV*	Government Properties	\$2.69	17%	2nd	11%	0.3	7	\$1,335
KLIC	Kulicke & Soffa Industries	\$0.28	3%	3rd	11%	0.8	Less than 1	\$1,147
WNC	Wabash National	\$1.12	4%	Top Quintile	9%	0.6	3	\$987
NRCIB	National Research	\$2.46	5%	Top Quintile	7%	0.6	Less than 1	\$286
RGR	Sturm Ruger & Company	\$3.96	18%	Top Quintile	7%	0.6	Less than 1	\$1,025
IIIN*	Insteel Industries	\$1.13	7%	Top Quintile	6%	1.2	2	\$677
AMSF	Amerisafe Inc.	\$3.17	3%	Top Quintile	5%	0.8	1	\$1,207
WINA	Winmark Corp	\$5.13	2%	Top Quintile	4%	1.0	Less than 1	\$526
BDGE	Bridge Bancorp	\$1.58	2%	2nd	4%	0.8	Less than 1	\$668
AGM*	Federal Agricultural Mortgage	\$4.01	3%	2nd	3%	0.6	Less than 1	\$606
HT	Hersha Hospitality Trust	\$0.72	5%	3rd	14%	0.7	13	\$892
SSNI*	Silver Spring Networks	\$1.12	42%	Top Quintile	10%	1.0	101	\$688
GV*	The Goldfield Corp	\$0.31	12%	Top Quintile	10%	0.6	18	\$122
PGEM	Ply Gem Holdings	\$1.21	5%	2nd	8%	0.9	12	\$1,119
OME	Omega Protein Corp	\$0.85	2%	3rd	7%	0.8	Less than 1	\$565
ORBK*	Orbotech, Ltd.	\$0.81	1%	3rd	6%	1.0	Less than 1	\$1,431

* Addition to the Small Cap Most Attractive list in January

Most Attractive Stocks are Sorted by Overall Rating

Sources: New Constructs, LLC



Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+5.5%) outperformed the S&P 500 (+2.2%) last month. 27 stocks from our December Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 34 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 December performance based on closing prices from December 01, 2016 to January 02, 2017. We published last month's report to subscribers on December 01, 2016.

Figure 4: 34 Stocks with Positive Returns From December's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 12/01/16	Ticker	Company Name	Change From 12/01/16
IDCC	InterDigital	17.8%	FRAN	Francesca's Holdings	19.3%
AWH	Allied World Assurance	15.0%	UVV	Universal Corporation	16.2%
ERIC	Ericsson ADR	13.9%	WNC	Wabash National	15.1%
HA	Hawaiian Holdings	13.1%	HBCP	Home Bancorp	14.8%
XLNX	Xilinx Inc.	13.1%	WINA	Winmark Corporation	11.8%
NVR	NVR Inc.	5.5%	NRCIB	National Research	10.4%
MAC	The Macerich Company	5.1%	BDGE	Bridge Bancorp	10.3%
RNR	RenaissanceRe Holdings	4.3%	PGEM	Ply Gem Holdings	6.9%
GNTX	Gentex Corporation	3.6%	ESND	Essendant Inc.	5.9%
KLAC	KLA - Tencor Corp	3.6%	OME	Omega Protein	5.7%
TEN	Tenneco Inc.	3.2%	NCIT	NCI, Inc.	5.7%
CSCO	Cisco Systems	2.6%	KLIC	Kulicke and Soffa Industries	5.4%
CIM	Chimera Investment	2.4%	ORM	Owens Realty Mortgage	5.3%
S&P 500	S&P 500	2.2%	HT	Hersha Hospitality Trust	4.1%
AXP	American Express	2.1%	S&P 500	S&P 500	2.2%
CTB	Cooper Tire & Rubber	1.4%	RWT	Redwood Trust Inc.	1.7%
LEA	Lear Corporation	0.5%	NCT	Newcastle Investment Corp	0.7%
BXMT	Blackstone Mortgage	0.4%	GBL	GAMCO Investors	0.5%

Sources: New Constructs, LLC

Note: Gain/Decline 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*¹ that are positive;
- Price-to-Economic Book Value* (EBV)² ratios that are relatively low; and
- Growth Appreciation Periods*³ (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 5 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

¹ 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.

² 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.

³ 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.

Overall Risk/Reward Ranking	The Overall Risk/Reward Ranking provides a final rating based on the equal-weighted average rating of each criterion.
Very Dangerous	FCF Yield is not included in the average.
Dangerous	FCF Yield is not included in the average.
Neutral	All criteria are equal-weighted in the average calculation.
Attractive	All criteria are equal-weighted in the average calculation.
Very Attractive	All criteria are equal-weighted in the average calculation.

Economic vs Reported EPS	Rates stocks based on how their Economic Earnings compare to their Reported Earnings. Values based on Latest Fiscal Year.
Very Dangerous	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Dangerous	Same as above except Reported Earnings are not rising or Reported Earnings are not positive
Neutral	Negative Economic and Reported Earnings
Attractive	Economic Earnings are positive
Very Attractive	Economic Earnings are positive and rising

Return on Invested Capital (ROIC)	Rates stocks based on their ROIC. Values based on Latest Fiscal Year.
Bottom Quintile	Very Dangerous = the bottom 20% of Russell 1000 companies
4th Quintile	Dangerous = the bottom 40% of Russell 1000 companies
3rd Quintile	Neutral = the middle 20% of Russell 1000 companies
2nd Quintile	Attractive = the top 40% of Russell 1000 companies
Top Quintile	Very Attractive = the top 20% of Russell 1000 companies

FCF Yield	Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.
<-5%	Very Dangerous = less than or equal to -5%
-5%<-1%	Dangerous = more than -5% but less than or equal to -1%
-1%<3%	Neutral = more than -1% but less than or equal to +3%
3%<10%	Attractive = more than +3% but less than or equal to +10%
>10%	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 December's Report

Figure 6: Performance of All Stocks From December's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 12/01/16	Ticker	Company Name	Change From 12/01/16
IDCC	InterDigital	17.8%	FRAN	Francesca's Holdings	19.3%
AWH	Allied World Assurance	15.0%	UVV	Universal Corporation	16.2%
ERIC	Ericsson ADR	13.9%	WNC	Wabash National	15.1%
HA	Hawaiian Holdings	13.1%	HBCP	Home Bancorp	14.8%
XLNX	Xilinx Inc.	13.1%	WINA	Winmark Corporation	11.8%
NVR	NVR Inc.	5.5%	NRCIB	National Research	10.4%
MAC	The Macerich Company	5.1%	BDGE	Bridge Bancorp	10.3%
RNR	RenaissanceRe Holdings	4.3%	PGEM	Ply Gem Holdings	6.9%
GNTX	Gentex Corporation	3.6%	ESND	Essendant Inc.	5.9%
KLAC	KLA - Tencor Corp	3.6%	OME	Omega Protein	5.7%
TEN	Tenneco Inc.	3.2%	NCIT	NCI, Inc.	5.7%
CSCO	Cisco Systems	2.6%	KLIC	Kulicke and Soffa Industries	5.4%
CIM	Chimera Investment	2.4%	ORM	Owens Realty Mortgage	5.3%
SPX	S&P 500	2.2%	HT	Hersha Hospitality Trust	4.1%
AXP	American Express	2.1%	SPX	S&P 500	2.2%
CTB	Cooper Tire & Rubber	1.4%	RWT	Redwood Trust Inc.	1.7%
LEA	Lear Corporation	0.5%	NCT	Newcastle Investment Corp	0.7%
BXMT	Blackstone Mortgage Trust	0.4%	GBL	GAMCO Investors	0.5%
F	Ford Motor Company	-2.4%	RGR	Sturm Ruger & Company	-1.1%
BBY	Best Buy	-6.1%	AMSF	Amerisafe Inc.	-3.3%
SKX	Skechers U.S.A.	-6.9%	FIG	Fortress Investment Group	-6.5%
Large Cap Portfolio Return		4.6%	Small Cap Portfolio Return		6.4%
Combo (Large and Small Cap) Return		5.5%			

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:

- CTB - Displaced by improved rank of other stocks.
- SKX - Displaced by improved rank of other stocks.
- NVR - Displaced by improved rank of other stocks.
- MAC - Displaced by improved rank of other stocks.
- ERIC - Displaced by improved rank of other stocks.
- BXMT - Displaced by improved rank of other stocks.
- XLNX - Displaced by improved rank of other stocks.
- AWH - Displaced by improved rank of other stocks.

Additions:

- AIZ - Addition by decrease in rank of other stocks.
- FII - Addition by decrease in rank of other stocks.
- HAS - Addition by decrease in rank of other stocks.
- MFA - Addition by decrease in rank of other stocks.
- MO - Addition by decrease in rank of other stocks.
- NAVI - Addition by decrease in rank of other stocks.
- TSM - Addition by decrease in rank of other stocks.
- WRE - Addition by decrease in rank of other stocks.

Most Attractive Small Cap Stocks

Deletions:

- FIG - Displaced by improved rank of other stocks.
- NCT - Displaced by improved rank of other stocks.
- UVV - Displaced by improved rank of other stocks.
- FRAN - Displaced by improved rank of other stocks.
- NCIT - Displaced by improved rank of other stocks.
- HBCP - Displaced by improved rank of other stocks.

Additions:

- AGM - Addition by decrease in rank of other stocks.
- GOV - Addition by decrease in rank of other stocks.
- GV - Addition by decrease in rank of other stocks.
- IIIN - Addition by decrease in rank of other stocks.
- ORBK - Addition by decrease in rank of other stocks.
- SSNI - 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	6%	6%	8%	20%	14%	19%	0.3	0.4	0.4	1.1	1.0	1.0
Most Attractive Small	2%	10%	10%	22%	18%	25%	0.1	0.6	0.4	0.87	0.91	0.93
Most Attractive Small and Large	4%	8%	9%	20%	15%	21%	0.2	0.5	0.4	0.96	0.96	0.96
S&P 500	5%	7%	5%	12%	11%	15%	0.4	0.6	0.3			
Russell 2000	11%	5%	7%	23%	18%	21%	0.5	0.3	0.3			

Source: New Constructs, LLC

Figure 8: Portfolio Turnover

Portfolio	Monthly Turnover		
	1 Year Average	3 Year Average	Average Since Inception
Most Attractive Large	40%	37%	29%
Most Attractive Small	48%	43%	32%
Most Attractive Small and Large	44%	40%	31%

Source: New Constructs, LLC



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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.

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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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