



Most Attractive Stocks for February 2023

20 Large/Mid Cap and 20 Small Cap Stocks

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- **Figure 1** shows 10 new stocks that make our February lists.
- **The Most Attractive Stocks portfolio (+11.4%) outperformed the S&P 500 (+7.1%) last month.**
- **Figure 4** shows the 30 stocks that outperformed from January’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.
- This [paper](#) compares our analytics on a mega cap company to other major providers. The Appendix details exactly how we stack up.
- Our Robo-Analyst technology, [featured by Harvard Business School](#), enables analysis of financial footnotes at unprecedented scale.
- Our research utilizes more reliable & [proprietary](#) fundamental data, proven in [The Journal of Financial Economics](#) and [studies](#) from the public & private sectors.

Figure 1: Additions for February

Large Cap Additions		Small Cap Additions	
Ticker	Company Name	Ticker	Company Name
BFH	Bread Financial Holdings	EGLE	Eagle Bulk Shipping,
BLDR	Builders FirstSource	KFRC	Kforce Inc.
LEN	Lennar Corporation	PGC	Peapack-Gladstone Financial
SBLK	Star Bulk Carriers Corp	RGP	Resources Connection
SLM	SLM Corporation	UBFO	United Security Bancshares

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 February

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 February

Ticker	Company Name	Sector	High-Quality Earnings			Cheap Valuation			Market Value (\$mm)
			As of Last Twelve Months			as of 01/31/23			
			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)	
BFH*	Bread Financial Holdings	Industrials	\$8.15	7%	2nd	629%	0.2	Less than 1	\$2,045
CNO	CNO Financial Group	Financials	\$1.35	2%	2nd	54%	0.6	Less than 1	\$2,947
SBLK*	Star Bulk Carriers Corp	Industrials	\$6.48	10%	Top Quintile	26%	0.2	Less than 1	\$2,316
SYF	Synchrony Financial	Financials	\$3.53	6%	Top Quintile	23%	0.5	Less than 1	\$16,548
CF	CF Industries Holdings	Basic Materials	\$18.18	31%	Top Quintile	20%	0.3	Less than 1	\$16,617
SLM*	SLM Corporation	Financials	\$2.03	4%	Top Quintile	20%	0.4	Less than 1	\$4,396
BPOP	Popular Inc.	Financials	\$6.54	4%	Top Quintile	20%	0.4	Less than 1	\$4,990
MTG	MGIC Investment Corp	Financials	\$1.33	4%	Top Quintile	18%	0.5	Less than 1	\$4,194
WIRE	Encore Wire Corp	Industrials	\$29.70	2%	Top Quintile	17%	0.3	Less than 1	\$2,961
KLIC	Kulicke & Soffa Industries	Technology	\$5.17	1%	Top Quintile	17%	0.6	Less than 1	\$2,914
BLDR*	Builders FirstSource	Consumer Cyclical	\$12.92	10%	Top Quintile	16%	0.4	1	\$11,730
THO	Thor Industries	Consumer Cyclical	\$13.06	2%	Top Quintile	14%	0.4	Less than 1	\$5,102
MLI	Mueller Industries	Industrials	\$8.95	11%	Top Quintile	14%	0.5	Less than 1	\$3,727
FBP	First Bancorp	Financials	\$0.36	2%	2nd	14%	0.9	Less than 1	\$2,505
E	Eni S.P.A.	Energy	\$6.71	11%	Top Quintile	13%	0.2	Less than 1	\$53,887
TMHC	Taylor Morrison Home Corp	Consumer Cyclical	\$5.76	5%	Top Quintile	13%	0.3	Less than 1	\$3,879
LEN*	Lennar Corporation	Consumer Cyclical	\$9.27	2%	Top Quintile	12%	0.5	Less than 1	\$29,665
DFS	Discover Financial Services	Financials	\$12.33	9%	Top Quintile	12%	0.6	Less than 1	\$31,894
WSM	Williams-Sonoma	Consumer Cyclical	\$14.47	6%	Top Quintile	12%	0.7	Less than 1	\$8,983
TTE	TotalEnergies	Energy	\$7.53	6%	2nd	11%	0.3	Less than 1	\$156,637

* Addition to the Large/Mid Cap Most Attractive list in February

Most Attractive Stocks are Sorted by Risk/Reward rating

Sources: New Constructs, LLC

The 20 Most Attractive Small Cap Stocks for February

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

Figure 3: 20 Most Attractive Small Cap Stocks for February

Ticker	Company Name	Sector	High-Quality Earnings			Cheap Valuation			Market Value (\$mm)
			As of Last Twelve Months			as of 01/31/23			
			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)	
CASS	Cass Information Systems	Industrials	\$2.28	72%	Top Quintile	100%	0.9	Less than 1	\$663
HSII	Heidrick & Struggles International	Industrials	\$3.11	5%	Top Quintile	46%	0.4	Less than 1	\$611
VHI	Valhi Inc.	Basic Materials	\$5.29	5%	2nd	31%	0.2	Less than 1	\$730
IMMR	Immersion Corp	Technology	\$0.39	10%	Top Quintile	27%	0.7	Less than 1	\$237
JAKK	Jakks Pacific, Inc.	Consumer Cyclical	\$2.41	5%	3rd	26%	0.2	Less than 1	\$203
EGLE*	Eagle Bulk Shipping,	Industrials	\$16.15	9%	Top Quintile	26%	0.2	Less than 1	\$784
FF	Futurefuel Corp	Energy	\$0.39	14%	Top Quintile	25%	0.7	Less than 1	\$406
GOGL	Golden Ocean Group Limited	Industrials	\$1.73	5%	Top Quintile	21%	0.3	Less than 1	\$1,924
BBSI	Barrett Business Services	Industrials	\$2.75	4%	2nd	20%	1.1	2	\$692
WABC	Westamerica Bancorporation	Financials	\$1.96	2%	2nd	18%	1.0	Less than 1	\$1,495
FUNC	First United Corp	Financials	\$4.45	9%	Top Quintile	18%	0.2	Less than 1	\$129
GSL	Global Ship Lease	Industrials	\$8.65	9%	Top Quintile	18%	0.1	Less than 1	\$673
RGP*	Resources Connection	Industrials	\$1.48	6%	Top Quintile	16%	0.5	Less than 1	\$581
AXR	AMREP Corporation	Industrials	\$1.53	4%	2nd	15%	0.2	Less than 1	\$72
KFRC*	Kforce Inc.	Industrials	\$2.90	4%	Top Quintile	15%	1.0	8	\$1,165
MCFT	Mastercraft Boat Holdings	Consumer Cyclical	\$3.88	8%	Top Quintile	14%	0.5	Less than 1	\$512
PGC*	Peapack-Gladstone Financial	Financials	\$0.74	4%	3rd	14%	0.9	Less than 1	\$665
ATLC	Atlanticus Holdings Corp	Financials	\$5.12	1%	Top Quintile	14%	0.4	Less than 1	\$469
EAF	GrafTech International	Industrials	\$1.63	1%	Top Quintile	13%	0.3	Less than 1	\$1,678
UBFO*	United Security Bancshares	Financials	\$0.21	3%	3rd	12%	0.7	Less than 1	\$135

* Addition to the Small Cap Most Attractive list in February

Most Attractive Stocks are Sorted by Risk/Reward rating

Sources: New Constructs, LLC



Most Attractive Stocks: Monthly Updates

The Most Attractive Stocks portfolio (+11.4%) outperformed the S&P 500 (+7.1%) last month. 30 stocks from our January Most Attractive Large Cap and Small Cap lists outperformed the S&P 500, and 38 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. The performance is based on closing prices from January 5, 2023 to January 31, 2023.

See our quarterly [Model Portfolio Performance reports](#) for updates on performance since inception and other longer periods of time.

Figure 4: 38 Stocks with Positive Returns Since January's Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 01/05/23	Ticker	Company Name	Change From 01/05/23
STLD	Steel Dynamics, Inc.	22.1%	EAF	GrafTech International	28.7%
THO	Thor Industries, Inc.	21.8%	SBLK	Star Bulk Carriers Corp	23.1%
WIRE	Encore Wire Corp	19.4%	GOGL	Golden Ocean Group Limited	21.1%
OLN	Olin Corporation	18.9%	ATLC	Atlantius Holdings Corp	18.8%
DFS	Discover Financial	17.3%	VHI	Valhi Inc.	18.3%
WSM	Williams-Sonoma	15.5%	AXR	AMREP Corporation	15.1%
SYF	Synchrony Financial	14.9%	GSL	Global Ship Lease, Inc.	15.1%
KLIC	Kulicke & Soffa Industries	14.4%	HSII	Heidrick & Struggles International	14.8%
MLI	Mueller Industries, Inc.	11.5%	CMRE	Costamare Inc.	13.5%
TMHC	Taylor Morrison Home	11.4%	HCC	Warrior Met Coal	13.5%
CNO	CNO Financial Group Inc	9.8%	REX	Rex American Resources Corp	10.1%
MTG	MGIC Investment Corp	9.5%	FF	Futurefuel Corp	10.0%
MSM	MSC Industrial Direct	7.4%	BBSI	Barrett Business Services	9.8%
MGY	Magnolia Oil Gas Corp	7.2%	JAKK	Jakks Pacific, Inc.	9.7%
E	Eni S.P.A.	7.1%	MCFT	Mastercraft Boat Holdings	8.9%
S&P 500	S&P 500	7.1%	S&P 500	S&P 500	7.1%
FBP	First Bancorp	5.6%	CASS	Cass Information Systems	4.5%
OVV	Ovintiv Inc.	4.3%	FUNC	First United Corp	2.3%
BPOP	Popular Inc.	3.4%	BFH	Bread Financial Holdings	1.7%
TTE	TotalEnergies	1.5%			
CF	CF Industries Holdings	1.1%			

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:

- a. Returns on Invested Capital that are rising; and
- b. Economic Earnings/Cash Flows that are positive.

AND

2. **Cheap Valuations** based on:

- a. *Free-Cash Flow Yields*¹ that are positive;
- b. *Price-to-Economic Book Value* (EBV)² ratios that are relatively low; and
- c. *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

Risk/Reward Rating ⑦	Quality of Earnings		Valuation		
	Econ vs Reported EPS ⑧	ROIC ⑧	FCF Yield ⑧	Price to EBV ⑧	GAP ⑧
Very Unattractive	Misleading Trend	Bottom Quintile	< -5%	> 3.5 or -1 < 0	> 50
Unattractive	False Positive	4th Quintile	-5% < -1%	2.4 < 3.5 or < -1	20 < 50
Neutral	Neutral EE	3rd Quintile	-1% < 3%	1.6 < 2.4	10 < 20
Attractive	Positive EE	2nd Quintile	3% < 10%	1.1 < 1.6	3 < 10
Very Attractive	Rising EE	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.



Appendix A – Performance of Stocks in January’s Report

Figure 6: Performance of All Stocks Since January’s Report

Large Cap			Small Cap		
Ticker	Company Name	Change From 01/05/23	Ticker	Company Name	Change From 01/05/23
STLD	Steel Dynamics	22.1%	EAF	GrafTech International	28.7%
THO	Thor Industries	21.8%	SBLK	Star Bulk Carriers Corp	23.1%
WIRE	Encore Wire Corp	19.4%	GOGL	Golden Ocean Group Limited	21.1%
OLN	Olin Corporation	18.9%	ATLC	Atlanticus Holdings Corp	18.8%
DFS	Discover Financial Services	17.3%	VHI	Valhi Inc.	18.3%
WSM	Williams-Sonoma	15.5%	AXR	AMREP Corporation	15.1%
SYF	Synchrony Financial	14.9%	GSL	Global Ship Lease, Inc.	15.1%
KLIC	Kulicke & Soffa Industries	14.4%	HSII	Heidrick & Struggles International	14.8%
MLI	Mueller Industries, Inc.	11.5%	CMRE	Costamare Inc.	13.5%
TMHC	Taylor Morrison Home Corp	11.4%	HCC	Warrior Met Coal Inc.	13.5%
CNO	CNO Financial Group Inc	9.8%	REX	Rex American Resources Corp	10.1%
MTG	MGIC Investment Corp	9.5%	FF	Futurefuel Corp	10.0%
MSM	MSC Industrial Direct	7.4%	BBSI	Barrett Business Services	9.8%
MGY	Magnolia Oil Gas Corp	7.2%	JAKK	Jakks Pacific, Inc.	9.7%
E	Eni S.P.A.	7.1%	MCFT	Mastercraft Boat Holdings	8.9%
SPX	S&P 500	7.1%	SPX	S&P 500	7.1%
FBP	First Bancorp	5.6%	CASS	Cass Information Systems	4.5%
OVV	Ovintiv Inc.	4.3%	FUNC	First United Corp	2.3%
BPOP	Popular Inc.	3.4%	BFH	Bread Financial Holdings Inc	1.7%
TTE	TotalEnergies	1.5%	WABC	Westamerica Bancorporation	-2.6%
CF	CF Industries Holdings	1.1%	IMMR	Immersion Corp	-4.3%
Large Cap Portfolio Return		11.2%	Small Cap Portfolio Return		11.6%
Combo (Large and Small Cap) Return		11.4%			

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:

- STLD - Stock price increased 22.1% since January report.
- OLN - Stock price increased 18.9% since January report.
- MSM - Stock price increased 7.4% since January report.
- MGY - Stock price increased 7.2% since January report.
- OVV - Stock price increased 4.3% since January report.

Additions:

- BFH - Market cap increased to Large/Mid Cap threshold.
- BLDR - Addition by decrease in rank of other stocks.
- SBLK - Addition by decrease in rank of other stocks.
- SLM - Addition by decrease in rank of other stocks.
- LEN - New filing data on 01/26/23.

Most Attractive Small Cap Stocks

Deletions:

- SBLK - Stock price increased 23.1% since January report.
- CMRE - Stock price increased 13.5% since January report.
- HCC - Stock price increased 13.5% since January report.
- REX - Stock price increased 10.1% since January report.
- BFH - Market cap increased above Small Cap threshold.

Additions:

- EGLE - Addition by decrease in rank of other stocks.
- KFRC - Addition by decrease in rank of other stocks.
- PGC - Addition by decrease in rank of other stocks.
- RGP - Addition by decrease in rank of other stocks.
- UBFO - Addition by decrease in rank of other stocks.



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.

Risk/Reward Rating	The Risk/Reward Rating provides a final rating based on the equal-weighted average rating of each criterion.
Very Unattractive	FCF Yield is not included in the average.
Unattractive	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 Unattractive	Negative and declining Economic Earnings despite positive and rising Reported Earnings
Unattractive	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 Unattractive = < 4.8%
4th Quintile	Unattractive = 4.8% < 7.5%
3rd Quintile	Neutral = 7.5% < 10.5%
2nd Quintile	Attractive = 10.5% < 14.5%
Top Quintile	Very Attractive = > 14.5%

FCF Yield	Rates stocks based on their Free Cash Flow Yield. Values based on Latest Closing Stock price and Latest Fiscal Year.
<-5%	Very Unattractive = less than or equal to -5%
-5%<-1%	Unattractive = 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 Unattractive = greater than or equal to 3.5 or less than 0 but greater than -1
2.4>3.5 or <-1	Unattractive = 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 Unattractive = greater than or equal to 50 years
20>50	Unattractive = 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 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	-15%	4%	8%	24%	29%	21%	-0.6	0.1	0.4	1.3	1.1	1.0
Most Attractive Small	-23%	2%	9%	23%	34%	25%	-1.0	0.1	0.4	1.13	0.99	0.94
Most Attractive Small and Large	-20%	3%	9%	23%	31%	22%	-0.9	0.1	0.4	1.21	1.06	0.98
S&P 500	-19%	6%	7%	15%	20%	16%	-1.3	0.3	0.4			
Russell 2000	-20%	2%	6%	16%	28%	21%	-1.3	0.1	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	35%	40%	34%
Most Attractive Small	38%	39%	35%
Most Attractive Small and Large	39%	40%	34%

Source: New Constructs, LLC



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Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1st para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2nd para.

Superior Models

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details. Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5th para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2nd para.

Superior Stock Ratings

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3rd para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3rd para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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