OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Portfolio Return	Benchmark Return	Outperformance
26.9%	2.8%	24.2%

Portfolio Inception Date: May 17, 2011

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The Fundamentals Keep Getting Better

By Brian Nelson, CFA

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We continue to think 2012 will be a good year for stock investors – and the past few weeks were nothing short of fantastic. Since the previous edition of our newsletter, the S&P 500 index has advanced over 4%, and our portfolio has outpaced that return during the period by a wide margin. We continue to believe our portfolio is well-positioned for continued out-performance relative to our benchmark (the S&P 500), and we remain on alert to allocate our relatively large cash position to technically-attractive, undervalued equities that register a high score on our Valuentum Buying Index (VBI).

Perhaps the biggest piece of headline news to draw attention to the markets in the past few weeks was the announcement that Facebook would go public. Though we're less-enthused about the prospects of investing in the social-networking giant due mainly to anticipated, speculative demand from the retail investor…

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What a Month of Outperformance!

By Brian Nelson, CFA

We couldn't be more pleased with the performance of our Best Ideas portfolio during the past month. On an absolute basis, our return jumped 9.6 percentage points, while we widened the outperformance gap relative to the S&P 500 Index roughly 5.5 percentage points, to 24.2 percentage points since inception (May 2011). Apple (AAPL) and Buffalo Wild Wings (BWLD) roared higher during the period thanks to excellent quarterly results, respectively, while Ancestry.com (ACOM) continues to recover from its lows put in late last year. Collective Brands (PSS) surged on news that it will likely sell all or part of itself, with as many as 10 potential bidders offering greater than $20 per share for the firm. Visa (V) was another standout with the firm posting solid results and advancing nearly 15% from the previous edition of our newsletter.

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...and a potential buy-at-any-price mentality, the news has certainly piqued the interest of the social-networking nation--even more so, in our opinion, than LinkedIn's (LNKD) initial public offering a number of months ago. Having increased interest in the equity markets isn't necessary a bad thing, but it does mean we'll probably witness a huge (and maybe unprecedented) post-IPO pop when Facebook begins trading in coming months (the investment banks are notorious for mispricing offerings to reward loyal clients). We strongly caution subscribers interested in picking up a few shares of Facebook post-IPO that the risk/reward will probably be tilted against them, and we fully expect a valuation disconnect (read "bubble") relative to its intrinsic value to grow materially over time.

"The US Bureau of Labor Statistics reported earlier this month that total nonfarm payrolls advanced by 243,000 in the month of January, with the unemployment rate falling (yet again) to 8.3%. From the government release, 'job growth was widespread in the private sector, with large employment gains in professional and business services, leisure and hospitality, and manufacturing.'"

Estimated by some to be worth some $100 billion--or about the size of McDonald's (MCD), or looked at another way, the size of Ford (F) and Boeing (BA) combined--Facebook has a lot to do to justify such a high price tag, in our opinion. We doubt most of the 800+ million monthly active Facebook-users care to click (or even notice) the display ads (which generate 85% of the firm's revenue) on their respective pages. In this light, we question the long-term benefits to marketers compared to more targeted ads offered by search-engine Google (GOOG), for example, where users go to search for the product they're looking for, as opposed to posting a status update for friends. After all, display advertising is not a new business model--Yahoo (YHOO) created it years ago--and we wonder just how long consumers will be willing to provide the most personal of information (age, location, gender, interests, etc.) to Facebook free of charge. We doubt most Facebook users know at this time that they are actually the product, not the customer, and we believe eventual enlightenment will alter the economics of Facebook's business model over the long haul. Though the social-networking behemoth is currently very profitable (it had $1 billion in net income in 2011) and there will be a lot of excitement once shares start changing hands in the public markets, we think there are much better long-term risk/reward tech plays out there, like Microsoft (MSFT), Apple, and Intel (INTC), as examples—the latter two held in our Best Ideas portfolio.

The previous edition of our Best Ideas Newsletter highlighted the improved fundamental performance in the domestic banking and housing markets, and we maintain our view that these two beaten-down industries will continue their respective upward trajectories through the course of 2012. Though traders continue to focus on the macroeconomic uncertainty of the Eurozone and the potential impact on the global financial system, the economic situation in the US continues to improve, and no other factor helps the domestic banking and housing situation better than putting people to work. The US Bureau of Labor Statistics reported earlier this month that total nonfarm payrolls advanced by 243,000 in the month of January, with the unemployment rate falling (yet again) to 8.3%. From the government release, "job growth was widespread in the private sector, with large employment gains in professional and business services, leisure and hospitality, and manufacturing." Such a report was a breath of fresh

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air, and we think more jobs ultimately lead to a stronger domestic housing and banking system and subsequently domestic economic acceleration. Specifically, we expect improved customer credit quality and reduced non-performing assets (read "bad" loans) at the largest domestic banks in coming periods, a view reflected in our relatively new (and well diversified) positions in the Financial Select Sector SPDR ETF and SPDR S&P Bank ETF.

"…if we exclude Apple's excellent results, fourth-quarter earnings expansion from S&P 500 companies would fall to the low-single-digits, a comparatively ho-hum pace--but expansion nonetheless."

Prior to the hundreds of reports we've witnessed from S&P 500 companies thus far during earnings season, we had some concerns about the strength of the fourth quarter due to a number of negative pre-announcements in late December/early January. And while, according to Factset, slightly fewer companies (68%) than average (73%) have beat estimates this quarter, overall results, though weaker, haven't been that shabby and probably can best be described as mixed for the period. Earnings growth is on pace to slow to about 5%-6% from double-digit expansion.

Looking at some of the bellwethers, IBM's top-line expansion was a meager 1%, adjusted for currency, while Google failed to impress on the bottom-line due to ad rate weakness, as non-GAAP earnings per share only grew at a comparatively modest 9% pace. The chip sector and corresponding PC ecosystem continues to recover from the flooding in Thailand, though Texas Instruments (TXN) was adamant on its call that the sector is bottoming now. We expect better results out of best-idea Intel during the back half of 2012. And as many investors are aware, Apple's results were nothing short of fantastic, blowing by even the most optimistic forecasts and setting all-time records for the iPhone, iPad, and Mac. We're anxiously awaiting news about the potential release of its iPad 3 in March and are very pleased with the performance of the company in our portfolio. Amazingly, Apple has added roughly $100 billion in market capitalization since the passing of legendary founder Steve Jobs. Importantly though, if we exclude Apple's excellent results, fourth-quarter earnings expansion from S&P 500 companies would fall to the low-single-digits, a comparatively ho-hum pace--but expansion nonetheless.

"…we have no reason to believe that the economic environment in Europe will be better than poor for some time. However, that doesn't mean the equity markets won't do well as concerns about the global financial system (sovereign debt) heal, ultimately driving valuations to better reflect intrinsic value."

Industrial earnings reports, to a large extent, were strong, led by conglomerate General Electric (GE), where industrial backlog grew to $200 billion in its quarter (the largest in history), and Boeing (BA), where commercial aircraft backlog now stands at 3,700 planes ($296 billion), or about 8 times current annual aircraft production. Caterpillar's (CAT) outlook was probably most encouraging, with the firm expecting world economic growth to accelerate during 2012, and the Eurozone to possibly have negative growth but not trigger a worldwide recession—an opinion we share. Honeywell (HON) also expects a challenging environment in Europe during the first half of 2012, and we have no reason to believe that the economic environment in Europe will be better than poor for some time. However, that doesn't mean the equity markets won't do well as concerns about the global financial system (sovereign debt) heal, ultimately driving valuations to better reflect intrinsic value. According to Factset, the S&P 500 forward 12-month price-to-earnings ratio is only 12.6 times at current levels

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versus an average of 14.6 during the past 10 years. With expected S&P 500 earnings at the highest levels in years and discount rates near all-time lows (offsetting perhaps a lower growth outlook compared to that of a decade ago), a strong argument can be made that a reversion to the historical 10-year forward price-to-earnings average may be warranted. In fact, it looks as though the process of reversion has already begun.

"With expected earnings at the highest levels in years and discount rates near all-time lows (offsetting perhaps a lower growth outlook than a decade ago), an argument can be made that a reversion to the historical 10-year forward price-to-earnings average may be warranted."

We also liked some of the data we've witnessed from the US consumer as of late (ex autos, January retail sales were the best in 10 months), despite the well-publicized uncertain political and global economic climate. United Parcel Service's (UPS) fourth-quarter results showed record performance in volume, revenue, and profitability, while Disney (DIS) continues to experience higher spending at its parks and resorts (ticket prices, food and beverage spending). Further, the 20 retailers tracked by Thomson Reuters, for example, showed a combined 4.2% increase in same-store-sales in January (versus expectations of 2%), with Target (TGT), Costco (COST), Limited Brands (LTD) and Kohl's (KSS) posting better-than-expected results. Nordstrom (JWN) and Saks (SKS) also put up very nice growth in the period, with January same-store-sales advancing 5% and 10.5% at those retailers, respectively. The US consumer also continues to spend up for coffee, with Starbucks (SBUX) posting strong global comparable same-store-sales growth in its fiscal first-quarter of 9% (7% increase in traffic; 2% increase in the average ticket price). McDonald's also saw same-store-sales in the US increase over 7% thanks to increased McCafe offerings and price hikes.

Our read on the health of China during the fourth quarter was also very positive. Not only will Starbucks open 300 new stores in the country during 2012 on the heels of strong growth there, but Coach (COH) also reiterated that sales momentum remains robust in the region, and management highlighted the tremendous opportunity on its conference call:

"…we maintain our view that the US will avoid a double-dip recession and that 2012 will be a good year for stock investors. Our portfolio not only reflects this positive view, but it also has sufficient "dry powder" to add to existing holdings or allocate to new, opportunistic investment ideas--while minimizing risk to an exogenous event in Europe."

"…China is our largest geographic opportunity, given the size of the market and the rate of growth. During the quarter, our sales rose again sharply from prior year, fueled by distribution and significant double-digit same-store sales. Clearly, the Chinese consumer has embraced Coach, as evidenced by the excellent comps we're consistently generating and the extremely high repurchase intent among existing customers."

But perhaps the most telling sign of ongoing strength in China was at Yum! Brands (YUM), where same-store-sales grew at an impressive 21% in the region in its fourth quarter. Even Coca-Cola (KO) saw its branded volume advance 13% in China, and 3M (MMM)--which expects "below-trend" Chinese growth during the first half of 2012—said it anticipates acceleration during the second half in the country. We think such solid performance across the board speaks loudly about the strength of the Chinese economy/consumer and supports the view that the well-publicized concerns about a hard landing in the region are overblown.

All things considered, we maintain our view that the US will avoid a double-dip recession and that 2012 will be a good year for stock investors. Our portfolio not only reflects this positive view, but it also has sufficient "dry powder" to add to existing holdings or allocate to new, opportunistic investment ideas--while minimizing risk to an exogenous event in Europe.

Apple Exemplifies Our Methodology: Is it a Value or Growth Stock? Both...It's a Valuentum Stock

By Valuentum Analysts

"…we continue to believe that Apple represents one of the best undervalued, growth stocks with attractive technicals on the market today (the crème de la crème of Valuentum investing)."

Apple (AAPL) posted excellent first-quarter results by almost every measure. The iPad-maker had its highest quarterly revenue and earnings ever and set all-time records for iPhone, iPad, and Mac sales. The performance also relieved some concerns regarding the leadership transition to new Apple CEO Tim Cook following the passing of legendary innovator Steve Jobs. Our above-market fair value estimate for Apple remains unchanged.

The company blew by consensus expectations pretty much across the board: revenue ($46.33 billion), gross margin (44.7%), and earnings per share ($13.87). Apple sold a whopping 37+ million iPhones during the quarter (up 128%), 15.43 million iPads during the period (up 111%), and 5.2 million Macs during the quarter (up 26%). The firm also sold 15.4 million iPods, which represented the only unit decline at 21%. However, the slide in iPod sales was expected as consumers continue to migrate to other Apple products that can play music.

Looking ahead, the firm still has a long runway of growth with its iPhone and iPad platforms in both the consumer and enterprise spaces. Yet, Apple offered fairly conservative guidance, but even such conservatism still was better than consensus expectations. The iPhone-maker thinks it will hit $32.5 billion in sales in its fiscal second-quarter and earn about $8.50 per share during the period. We think investors will be expecting another huge beat in the quarter, so the likelihood of a missing the "whisper" number is heightened.

That said, we continue to believe that Apple represents one of the best undervalued, growth stocks with attractive technicals on the market today (the crème de la crème of Valuentum investing). After combining cash and marketable securities on its balance sheet, Apple has an impressive $97.6 billion on hand (over $100 per share) – that's bigger than the market capitalizations of the vast majority of firms in the S&P 500! And here's what Apple had to say about potential uses of such cash. From its conference call:

"we're examining all uses of our cash balance, what we might do in the supply chain, what we can do from an acquisition perspective and otherwise. Since I don't have any perspective to share with you today, specifically on dividends or buybacks, other than again, we are actively discussing the cash balance. And in the meantime, we're not letting it burn a hole in our pockets."

We wouldn't be surprised to see Apple in coming periods initiate a dividend, launch a massive share buy-back program or engage in an acquisition that furthers vertical integration to improve overall product gross margins. Though we continue to hold the firm in the portfolio of our Best Ideas Newsletter, we may look to trim our position (a bit) and take some profits in this big winner for us in the coming weeks.

eBay Reports Fantastic Fourth-Quarter Results; Outlook Tempered, as Expected

By Valuentum Analysts

eBay (EBAY) reported strong fourth-quarter results and provided conservative forward guidance. We are maintaining our above-market fair value estimate of the online auction and payment processor.

eBay's revenue for its fourth quarter jumped 35% from the same period a year ago. The firm's PayPal business continued to perform well, ending the quarter with 106.3 million active registered accounts (up 13% from the same period a year ago). Revenue from PayPal jumped an impressive 28% thanks to continued merchant and consumer adoption and increased penetration on eBay. PayPal's net total payment volume (TPV) grew 24%, and the firm noted that its international markets exceeded revenue from the US for the first time, reflecting its global footprint. Its Marketplaces business also performed well, with revenue jumping 16% from the same period last year. Gross merchandising volume, excluding vehicles, improved 10% with sold items increasing 11% globally.

The global ecommerce giant reported non-GAAP net income of $0.60 per share, a 15% increase, thanks to the strong top-line expansion noted above and improved productivity, offset in part by a modestly higher tax rate. Profitability was also solid, though its non-GAAP operating margin fell slightly due to

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Google's 4Q Misses on Ad Pricing Declines

By Valuentum Analysts

Google (GOOG) announced weak fourth-quarter results that showed relatively disappointing earnings growth, declining cost per clicks (money paid to the firm for its ads) and slowing international revenue expansion. Though we'll be re-evaluating our intermediate-term projections on the internet giant, we don't expect to make a change to our fair value estimate at this time.

Google's revenue advanced 25% in the fourth-quarter from the same period a year ago thanks to a 29% increase in 'Google Sites Revenues' and a 15% increase in 'Google Network Revenues.' Paid clicks jumped 34% in the fourth quarter from the same period a year ago, but average cost-per-click declined 8%. Though there was some currency impact and management blamed "format changes", we had been looking for cost-per-click to increase in the quarter based on the strength we saw in holiday shopping. Needless to say, this cost-per-click decline, the first since 2009, was quite disappointing. And overshadowed by the disappointing advertising performance, Google+, its recently launched social-network, more than doubled its users in the past 3 months, to 90 million users, revealing that the momentum continues.

The internet giant's non-GAAP operating income came in at just over $4 billion in the fourth quarter, representing a 19.5% increase from last year's period. Its non-GAAP operating margin fell 2 percentage points to 38% from 40% in the year-ago quarter. Non-GAAP net income was $3.13 billion in the fourth quarter, but represented a less than 10% increase from the prior-year period. Google's non-GAAP earnings per share of $9.50 in the quarter (versus $10.49 consensus estimates) reflect an increase of 8.6% from the fourth quarter of 2010--a disappointing pace to say the least. However, free cash flow continues to be robust, nearly reaching $3 billion during the quarter. The firm's balance sheet also remains rock-solid, with cash on hand now approaching $45 billion.

Though we still like Google, the ad pricing declines signal to us that the competitive environment is heating up—Facebook, etc.—and that Europe was certainly weaker during the last quarter of 2011.

Portfolio Return	Benchmark Return	Outperformance
26.9%	2.8%	24.2%

Portfolio Inception Date: May 17, 2011

What a Month of Outperformance!...**continued from page 1**

During the period, we made a couple of changes to our portfolio. Specifically, we took some profits in Collective Brands (PSS), a nice winner (a 20% gain) in the past couple of months. Specifically, we reduced our position by about one third and sold 220 shares at $18.22 each. Though we still believe the firm has upside above $20 per share based on takeout value, we think the risk/reward is somewhat neutral at current levels. We also took some more profits in Buffalo Wild Wings on the heels of a strong price move following the company's solid fourth-quarter results. Specifically, we sold 25 shares of the restaurant chain at $80.54 each (a 23% gain).

Below we outline the constituents of our portfolio and their respective weightings and returns thus far. Each subsequent issue discusses Valuentum's latest changes to the portfolio, a summary of new names on our watch list (please see page 17), as well as analysis and trends impacting companies on our Best Ideas List. We currently have about 17% of our portfolio in cash (up from 13% last month), a level we continue to be comfortable with as the market nears new monthly highs. Typically, we like to have the most cash when the market is making new highs and fully invested when the market is putting in short-term lows. That said, we continue to actively seek out new additions to the portfolio.

Our investment process is completely transparent and easy to implement in your own portfolio. The goal of our Best Ideas Newsletter is to outperform the S&P 500 Index and to generate positive returns each year regardless of the market environment. Firms added to our Best Ideas portfolio are the cream of the crop based on our stock-selection methodology.

OUR BEST IDEAS -- as of February 12, 2012 — **Best Ideas Portfolio Inception Date: May 17, 2011**

Portfolio Holdings	Symbol	VBI Score*	First Purchase Date	Cost Basis/Share ($)	Total Shares	Total Cost ($)	Current Value/Share ($)	Current Value ($)	Dividends Received	% of Portfolio	% Return
Bullish											
Apple Corp.	AAPL	3	17-Jun-11	328.99	20	6,586.80	493.42	9,868.40	0.00	7.8%	49.8%
Altria Group	MO	7	28-Jun-11	26.43	378	9,997.54	29.21	11,041.38	309.96	8.7%	13.5%
Ancestry.com	ACOM	6	17-May-11	32.43	446	14,463.40	30.96	13,808.16	0.00	10.9%	-4.5%
Astronics	ATRO	6	6-Jun-11	24.93	141	3,522.13	35.25	4,970.25	0.00	3.9%	41.1%
Buffalo Wild Wings	BWLD	6	13-Jul-11	65.42	77	5,044.34	85.72	6,600.44	0.00	5.2%	30.8%
NEW: We sold 25 shares of BWLD on 2/8/2012 at $80.54.											
Collective Brands	PSS	3	11-Jul-11	15.09	442	6,676.78	18.45	8,154.90	0.00	6.4%	22.1%
NEW: We sold 220 shares of PSS on 2/8/2012 at $18.22.											
eBay	EBAY	6	3-Oct-11	31.04	200	6,207.00	33.03	6,606.00	0.00	5.2%	6.4%
EDAC Tech	EDAC	6	6-Jun-11	4.08	900	3,679.00	10.14	9,126.00	0.00	7.2%	148.1%
Financial Select SPDR Fund	XLF	NA	9-Jan-12	13.46	150	2,026.00	14.56	2,184.00	0.00	1.7%	7.8%
Ford Motor	F	7	12-Sep-11	10.85	450	4,884.50	12.44	5,598.00	22.50	4.4%	15.1%
Intel	INTC	9	12-Sep-11	19.89	100	1,996.00	26.69	2,669.00	42.00	2.1%	35.8%
Precision Castparts	PCP	3	6-Jun-11	152.07	40	6,089.80	168.40	6,736.00	3.90	5.3%	10.7%
SPDR S&P Bank ETF	KBE	NA	9-Jan-12	21.07	100	2,114.00	21.90	2,190.00	0.00	1.7%	3.6%
Republic Services	RSG	6	19-May-11	31.42	403	12,662.85	30.15	12,150.45	209.86	9.6%	-2.4%
Visa	V	7	30-Nov-11	95.78	30	2,880.40	113.90	3,417.00	0.00	2.7%	18.6%
Cash								21,574.53		17.0%	0.0%
Bearish											
LinkedIn	LNKD	3	8-Nov-11	10.40	1 Contract	1,048.25	2.50	250.00	0.00	0.2%	-76.2%
---> Aug 2012, $55 strike											
Best Ideas Portfolio Value						100,000.00		126,944.51			26.9%
SPY			17-May-11	132.69	754	100,000.00	134.36	101,258.57	1,524.61	100.00%	
Benchmark Value								**102,783.18**			**2.8%**
Under/Outperformance											**24.2%**

This portfolio is not a real money portfolio. Data as of February 12, 2012. Cost basis includes commissions. Results include dividends, but not interest received on cash balance.

*See our methodology regarding the Valuentum Buying Index (VBI).

Standard Disclaimer: Our Best Ideas List is for information purposes only and should not be considered a solicitation to buy or sell any security. Valuentum is not responsible for any errors or omissions or for results obtained from the use of our Best Ideas List and accepts no liability for how readers may choose to utilize the content.

Intel Reports Fourth-Quarter Results; Expects Solid Sales Expansion in 2012

By Valuentum Analysts

Intel (INTC) reported better-than-expected fourth-quarter results that relieved some concerns about the PC market following the chipmaker's negative pre-announcement. We are maintaining our above-market fair value estimate for Intel and continue to hold the firm in our Best Ideas Newsletter.

"$54 billion in annual (GAAP) revenue, up 24%, $2.39 in annual (GAAP) EPS up 19%, and $18 billion in dividends…"

Reading the above, 2011 was truly an excellent and record-breaking year for Intel, and we believe 2012 will continue to be a good one for investors. For one, the firm's product and technology pipeline includes opportunities presented by Ultrabook systems, data center and security needs, as well as Intel-powered smartphones and tablets, the latter segment already growing like a weed. We think PC Client Group revenue and Data Center Group revenue will continue to lead revenue growth into next year (both segments achieved growth of 17% during 2011).

Intel expects revenue in the first quarter of 2012 to be about $12.8 billion (+/- $500 million), down 8% from last year thanks to continued disruptions in the disk-drive chain caused by the Thailand flooding. During the period, its gross margin on a non-GAAP basis is expected to come in between 63% to 64%. For the full year 2012, however, the company believes revenue will grow at a high-single-digit pace (above consensus expectations) and thinks its non-GAAP gross margin will be between 64% - 65% (+/- a few percentage points), suggesting to us that it expects accelerated profitability through the course of the year. For comparison, Intel's non-GAAP gross margin was 63.6% for all of fiscal 2011 and 65.5% during the fourth quarter, and we think such forecasts are achievable.

We'll be looking to add to our position in Intel in our portfolio on any material share price weakness.

IBM Posts Solid 4Q Results; Software Continues to Drive Performance

By Valuentum Analysts

IBM (IBM) reported fourth-quarter results that capped off a year of record earnings per share, revenue, profit and free cash flow. We continue to like IBM, but we are waiting for an entry point that captures an appropriate margin of safety before adding it to our Best Ideas portfolio.

The firm's revenue jumped a modest 2% (1% adjusting for currency) as an 8% decline in sales from Systems and Technology--due to the timing of product launches, namely the System z mainframe server--weighed down strong performance in Software, which advanced 9% due to strength in its middleware product suite (WebSpere, Tivoli, etc.). Geographically, sales in the Americas' region increased 3%, while revenues from Europe/Middle East/Africa advanced 1%. Adjusting for currency, revenues fell 1% in the Asia-Pacific region. Revenues in the BRIC—Brazil, Russia, India, and China—increased 11%, adjusting for currency. Though the firmwide top-line growth was modest by any measure, IBM's services backlog advanced nearly $5 billion to $141 billion, which we view as an important positive.

IBM's non-GAAP gross profit margin edged up 1.1 percentage points, driving a 5% increase in non-GAAP operating income, to $5.6 billion. Non-GAAP net income during the fourth quarter came in at $5.6 billion (up 5%), while diluted earnings per share advanced 11%, to $4.71 per share. IBM pulled in roughly $9 billion in free cash flow during the quarter. We continue to be fans of IBM's cash-flow generating prowess.

Looking ahead to 2012, IBM says it expects non-GAAP earnings per share of at least $14.85 per share, a threshold we think is easily achievable. Though performance may be weighed down by a slowing of IT spending and macroeconomic headwinds coming out of Europe, we wouldn't hesitate to add IBM to our portfolio at the right price, the lower end of our fair value range.

Harley-Davidson Swings to Fourth-Quarter Profit; Sees More Motorcycle Sales in 2012

By Valuentum Analysts

Harley-Davidson (HOG) reported strong fourth-quarter revenue that showed a solid uptick in motorcycle sales. We think the motorcycle-maker's results are a positive sign about the US economic environment.

Harley's revenue jumped nearly 12% on the heels of a 10.9% increase in unit motorcycle sales worldwide (unit motorcycle sales jumped almost 12% in the US). On an international basis, dealers experienced a 9.7% increase in unit sales. With global motorcycle sales increasing less than 6% for the entire year, the fourth quarter indicates that we are in the midst of accelerated demand for motorcycles on the basis of increased consumer confidence.

Harley-Davidson's income from continuing operations swung to a gain of $54.6 million ($0.24 per share) versus a loss of over $42 million in the same period a year ago. The firm saw tremendous improvement in its Motorcycles/Related Products and Financial Services divisions, the latter driven by improved credit performance. Fourth-quarter operating margin for its Motorcycles/Related Products division was 3.5%, reversing an operating loss in the same period a year ago. Its Financial Services segment recorded operating income of $56.8 million in the fourth quarter versus $43.5 million in the same period a year ago. For the full year 2011, Harley pulled in roughly $696 million in free cash flow (~$885 cash from operations less ~$189 million in capital expenditures).

Looking ahead to 2012, the momentum is expected to continue for Harley-Davidson. The company expects to ship 240,000 to 245,000 motorcycles to dealers and distributors, a 3% to 5% increase from 2011 levels. For the first quarter of 2012, Harley has plans to ship as many as 63,000 motorcycles. The firm's gross margin is expected to be between 34.75% and 35.75%, above the 31.2% level achieved in the fourth quarter, indicating slightly better pricing and cost controls. We're keeping a close eye on Harley as a potential long candidate in the portfolio of our Best Ideas Newsletter.

eBay Reports Fantastic Fourth-Quarter … continued from page 6

the impact of acquisitions and business mix. However, all three business segment margins (Marketplaces, Payments, and GSI) advanced on a sequential basis from the third quarter. Overall, we were pleased with the bottom-line performance.

Looking ahead, eBay expects net revenues for the first quarter of 2012 in the range of $3.05 - $3.15 billion with non-GAAP earnings per diluted share in the range of $0.50-$0.51, the latter slightly below street consensus. The company expects net revenues for the full year 2012 to jump to $13.7 - $14 billion (18% - 20% growth) with non-GAAP earnings per diluted share in the range of $2.25 - $3 (11% - 13% growth), ranges we think are achievable. Though the strong US dollar will negatively impact the firm's top and bottom line growth by approximately 3 percentage points, the company expects strong operating earnings growth of about 15% for the year on the heels of improving segment margins at PayPal and GSI.

On the basis of this positive outlook, we'll be looking to add to eBay in the coming weeks in the portfolio of our Best Ideas Newsletter.

Microsoft Posts Fiscal 2Q Results; Shares Remain Cheap

By Valuentum Analysts

Microsoft (MSFT) reported solid fiscal second-quarter results on the heels of strong corporate demand and holiday sales. We continue to be pleased with Microsoft's performance and maintain our view that the shares continue to have valuation upside potential (our fair value is $39 per share).

The firm's revenue advanced 5% from the prior-year period thanks primarily to expansion in its Server/Tools and Entertainment/Devices segments, which advanced 11% and 14.5%, respectively. The Business Division, its largest segment, increased 3% from the prior-year period, and the firm noted that it has sold nearly 200 million licenses of Office 2010 (in the 18 months since launch). Revenue in the firm's Windows division fell 6%, and management attributed this to the soft PC market (due to the well-documented flooding in Thailand) and continuing economic uncertainty in key parts of the world. Sales in Microsoft's Online Services segment advanced 10% from the prior-year period, as Bing's organic US market share grew to 15.1% (roughly 27% including Yahoo properties) .

Though operating income, pre-tax income and net income all fell for the period, diluted earnings per share nudged up slightly thanks to share buybacks. The company continues to bleed red in its Online Services division, though the loss narrowed in the segment versus the prior-year period, and only its Server/Tools segment and Business Division showed operating-income improvement on a year-over-year basis. Microsoft's consolidated operating margin fell to 38.3%, from 40.9% in the prior-year period.

Looking ahead, we think the software giant has finally turned the corner, and we maintain a high level of conviction that the firm's share price will converge to our above-market fair value. Despite the dip in PC shipments, we're pretty excited about Microsoft's new devices, from Windows 7 Ultrabooks to new Windows phones and, of course, Windows 8, which will be able to run on tablets.

Our excitement for these products is also matched with increased enthusiasm that Microsoft is doing a better job at controlling costs. In its quarterly press release, the firm revised its operating expense guidance downward for its fiscal full year. And with the company ending the quarter with $51 billion in cash (over $6 per share in cash), its valuation and future prospects for significant dividend increases remain best-in-breed.

Investment Considerations	
DCF Valuation	UNDERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	26.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality	ValueCreation™			
ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium				
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation	Forward P/E	PEG	Price / FV
Adobe Systems	11.8	1.5	82.2%
F5 Networks	25.2	2.2	120.9%
Oracle	12.8	1.7	82.1%
Salesforce.com	89.1	5.8	102.3%
Peer Median	19.0	2.0	92.2%
Microsoft	**9.3**	**2.0**	**64.7%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary	----- Actual -----		Projected
Fiscal Year End:	Jun-10	Jun-11	Jun-12
Revenue	62,484	69,943	74,839
Revenue, YoY%	6.9%	11.9%	7.0%
Operating Income	24,098	27,161	29,112
Operating Margin %	38.6%	38.8%	38.9%
Net Income	18,760	23,150	22,879
Net Income Margin %	30.0%	33.1%	30.6%
Diluted EPS	2.10	2.69	2.72
Diluted EPS, YoY %	29.8%	28.2%	0.8%
Free Cash Flow (CFO-capex)	22,096	24,639	22,832
Free Cash Flow Margin %	35.4%	35.2%	30.5%

In Millions of USD (except for per share items)

LinkedIn Posts 4Q Results; Steer Clear of the Firm

By Valuentum Analysts

LinkedIn (LNKD) reported fourth-quarter results that, to a large extent, are a non-event as it relates to the firm's valuation. The company is reflecting substantial revenue and earnings growth long into the future, and while its current trajectory remains strong, it will only hold its lofty price if it can continue to deliver on such expectations quarter after quarter. We maintain the firm will not be able to deliver on the long-term expectations that are embedded in its stock price, but it may take some time for the market to realize our view.

Revenue for its fourth-quarter roughly doubled from the same period a year ago, while net income came in at just under $7 million ($0.06 per share) during the period. By comparison, LinkedIn's market capitalization is nearly $8.3 billion, a huge disparity. Revenue from hiring solutions advanced 136% during the period, while sales from marketing solutions and premium subscriptions increased 77% and 87%, respectively. Non-GAAP net income was $13.3 million ($0.12 per share), compared to $5.2 million in the fourth quarter of last year. Adjusted EBITDA in the fourth quarter was $34.4 million (21% of revenue) and compares to $16.3 million (20% of revenue) during the fourth quarter of the year-ago period.

Looking ahead, the firm provided its outlook for the first quarter and full-year of 2012. The company expects revenue in the first quarter of 2012 to be between $170 million and $175 million and EBITDA for the period to come in between $25 million to $27 million. On a full-year 2012 basis, the company thinks revenue will hit $860 million on the high end of its guidance range and report EBITDA as high as $165 million (the firm has a forward EV/EBITDA multiple of over 40 times!). Even though we think the firm will be able to hit its guidance ranges for revenue and EBITDA this year, we firmly believe the company remains overvalued at present levels and encourage investors to steer clear of the firm's shares. On any hint that LinkedIn will not live up to expectations, we think the shares will drop like a rock.

Astronics Delivers in Fourth Quarter

By Valuentum Analysts

Astronics (ATRO) reported strong fourth-quarter results and offered an outlook for 2012 that pleased most investors. We continue to believe the company belongs in the portfolio of our Best Ideas Newsletter.

We were impressed with Astronics' performance pretty much across the board. Fourth-quarter revenue jumped 18% led by a 24.5% increase in aerospace sales, while gross profit surged nearly 40% on the heels of 4.4 percentage points of gross-margin expansion. Astronics continues to reap the benefits of higher demand for both aircraft cabin electronics products and aircraft lighting products. The company's operating margin was roughly flat in the period, but after excluding a goodwill impairment loss related to its Test Systems segment, the company's operating margin increased to 16.4% in the period from 12.4% in the same quarter a year ago. We think the firm's operating margin has even more upside potential, as operating profit on aerospace sales was well over 20% in the fourth quarter, for example. Adjusted operating income grew a whopping 56% to over $10 million, while net income in the fourth quarter came in at $0.40 per share compared with $0.35 per share in the prior-year quarter. However, excluding non-recurring items, the bottom-line per share number was $0.52, beating expectations by nearly $0.11.

Looking ahead to 2012, we continue to expect a strong year from Astronics thanks to robust commercial aircraft demand supported by the large backlogs at the airframe makers. Bookings in Astronics' fourth quarter surged nearly 34%, to $54 million (slightly lower than sales in the period), while total backlog was roughly $106 million at the end of the year, up from roughly $100 million at the end of 2010. Astronics expects revenue to grow as much as 10% at the high end of its guidance range for 2012, and we think such a forecast is achievable. We also expect robust bottom-line expansion this year as the company benefits from increased throughput, higher operating leverage, and anniversaries the impairment loss registered in the most recently-reported quarter.

Caterpillar Posts Strong Fourth-Quarter Results; Sees Global Economic Acceleration in 2012

By Valuentum Analysts

Caterpillar (CAT) reported strong fourth-quarter results and rounded out a very strong and record-breaking 2011. We're comfortable with our $110 fair value estimate of Caterpillar, and we don't expect to make any changes to it at this time.

Caterpillar's fourth-quarter sales achieved an all-time quarterly record, increasing 35% from the same period in 2010. Machinery and Power System sales jumped 36% thanks primarily to demand for new equipment, while Financial Products revenues advanced a modest 3%. The company noted that the improvement in sales volume in the quarter occurred across the world in all geographic regions and in nearly all segments. Excluding its recent acquisition of Bucyrus, revenue jumped an impressive 24%. Caterpillar's fourth-quarter profit came in at $2.32 per share, almost 60% higher than the $1.47 achieved in the same period a year ago. Excluding Bucyrus, profit jumped 53%, to $2.25 per share.

Looking ahead to 2012, Caterpillar expects revenues to be in the range of $68 billion to $72 billion, with profit expected to be about $9.25 at the middle of the sales range—both sales and profit were ahead of what consensus was looking for. This outlook includes full-year results from its two major acquisitions—Bucyrus and MWM—and is based on its order backlog of nearly $30 billion at the end of the year, an all-time record. Caterpillar expects mining to continue to be strong globally and sales of new machines for construction in developed countries to improve as customers continue to rebuild fleets during the year. We note that the average age of machines in dealer rental fleets was historically high at the end of 2011.

The company also remains optimistic that orders from Europe will expand and that high oil prices will stimulate improvement in engine sales for electric power generation. Caterpillar also noted that overall dealer machine inventory was near historical levels relative to selling rates, with expectations that in 2012 dealers will add to inventories. Also embedded in the firm's sales and profit outlook are improved price realization to the tune of 1% to 1.5%, reduced incentive compensation expense, and higher overhead and manufacturing costs that will scale with the higher revenue.

We provide Caterpillar's economic outlook and risks for 2012 that it included in its press release below:

2012 Economic Outlook

"In general, prospects for economic growth have improved over the past quarter, and we expect the world economy to grow about 3.3 percent in 2012, a small improvement from about 2.8 percent in 2011. In response to economic concerns, some central banks began easing policies late in 2011. Underpinning our growth expectations for 2012, we expect this easing to continue and contribute to the improvement in growth."

Economic Risks

"In our opinion, the risk of a worldwide recession has diminished significantly over the past quarter, but we remain concerned that central banks, particularly in developed economies, will react to the first signs of better growth by tightening economic policies. Even modest premature tightening could significantly slow economic growth."

Texas Instruments Calls Bottom in Chip Demand Despite Poor Fourth-Quarter Results; We Prefer Intel

By Valuentum Analysts

Texas Instruments (TXN) reported messy fourth-quarter results that were littered with one-time charges, making year-over-year comparisons difficult. We'll be taking a close look at our forecasts for Texas Instruments, but we do not expect to make a change to our fair value estimate at this time.

At face value, the performance was subpar. Texas Instruments' revenue fell 3%, operating profit dropped 70%, while earnings per share tumbled 68%. Analog revenue, which includes high volume analog & logic, power management, etc., advanced 12% in the quarter, while the remaining segments (Embedded Processing, Wireless—OMAP application processors) experienced sharp revenue declines. Operating profit fell across all major revenue categories, with the steepest fall coming from its Embedded Processing unit, which includes digital signal processors and microcontroller catalog products.

Management blamed the operating profit shortfall on acquisition-related charges, lower gross profit and restructuring charges, but we remain skeptical that something more fundamentally-concerning may be at hand. Other underlying financial metrics also performed poorly in the quarter. Orders fell 9% from the year ago period and 7% sequentially, while inventory swelled $268 million on a year-over-year basis, to $1.79 billion at the end of the quarter. Management indicated that the increase in inventory was caused by initiatives to support higher customer service levels and excess associated with the acquisition of National Semiconductor.

Looking ahead to the first quarter of 2012, Texas Instruments expects revenue to come in between $3.02 billion and $3.28 billion (versus consensus of $3.47 billion), and earnings per share to come in the range of $0.16 to $0.24. The outlook is also muddied by restructuring charges. We were less than impressed with Texas Instruments first-quarter outlook and point to Intel (INTC) as a better valuation play within the space. We'd grow more constructive on Texas Instruments' shares as the cyclical bottoming process in analog ensues and upon the firm's share price breaching the lower end of our fair value range.

Key excerpt from Texas Instruments' management on the conference call regarding the bottoming of demand in the chip space:

"As you can see, the fourth quarter revenue of $3.42 billion was significantly stronger than the reduced outlook we had provided during the mid-quarter update. Higher-than-expected revenue came in all of our major product lines. We believe this strength as well our outlook is consistent with the historical bottoming pattern in the industry. The slowdown that began in the third quarter continued in the fourth during with customers and distributors significantly reducing inventory."

"In December, with low levels of customer inventory and short product lead time, we experienced significant strength compared to what our backlog indicated at the start of the month. Our belief based on historical trends is that the semiconductor market bottomed in fourth quarter '11 or else will bottom in first quarter '12. Our important market indicators were consistent with this belief. New orders declined 7% sequentially, book-to-bill was 0.84 and distribution inventory dropped to historically low levels. So despite low levels of backlog and visibility, we are forecasting that our first quarter revenue will decline only about 2% compared with the seasonal average decline of about 4% excluding baseband."

Xerox's Fourth-Quarter Disappoints But Cash Flow Generation Remains Solid

By Valuentum Analysts

Xerox (XRX) reported fourth-quarter results that showed strong earnings growth but flat revenue performance. We continue to believe the shares look undervalued.

Revenue growth from the company's services businesses advanced 6% in the quarter, but such growth was offset by a 5% decline in revenue from its technology businesses. Strength in the firm's services businesses was driven by an increase in both business process outsourcing and document outsourcing, while its technology business saw weakness in the sale of document systems and supplies. Management blamed the poor economic environment in Europe for its subpar revenue performance.

We continue to like Xerox's services portfolio and believe that it has a competitive advantage in providing its clients cost-efficient ways to more productively run their enterprises. However, the increased services signings continue to pressure gross margins due to the large upfront costs to initiate such contracts. The firm's fourth-quarter gross margin fell to 32.2% from 33.6%, a decline of 140 basis points. The company's operating margin also fell 40 basis points, to 10%, as lower research & development and overhead costs failed to mitigate the gross-margin weakness. On an adjusted basis, the firm earned $0.33 per share, up 14% from the same period a year ago and matching consensus expectations. Xerox continues to be a cash cow, hauling in over $1.6 billion in free cash flow during 2011.

Looking ahead, Xerox expects first-quarter 2012 adjusted earnings per share in the range of $0.21 to $0.24 (consensus was at $0.24), while full-year 2012 adjusted earnings per share are expected to grow about 9% on the high end of its guided range of $1.12 to $1.18 (consensus was at $1.16), including restructuring. The firm's cash-flow outlook was particularly impressive, with the firm anticipating nearly $2.3 billion in cash flow from operations in 2012; this compares to $1.96 billion in cash flow from operations in 2011.

Overall, we're still cautious on Xerox. For one, we'd like to see more sustainable revenue expansion, and we're not yet sure how results will shape up after the annual lapping of its defined-benefit pension plans freeze and its multi-thousand worker layoff. Plus, Xerox's massive debt load will continue to inhibit restructuring efforts and strategic initiatives. That said, we'd be looking to add the firm to the portfolio of our Best Ideas Newsletter on any substantial weakness in the shares and the announcement of more devoted efforts by management to reduce its debt load.

3M Issues 4Q Results; Reaffirms 2012 Guidance

By Valuentum Analysts

3M (MMM) reported modest fourth-quarter earnings expansion and offered an outlook for 2012 that was consistent with our expectations. We're sticking with our $88 per share fair value estimate at this time.

Total sales advanced 5.7% on the heels of organic local-currency sales growth of 3.3% (1.3 percentage points coming from volume and the balance of the organic expansion from pricing). The company noted that revenue expansion was strongest in its Industrial and Transportation segment (abrasives, aerospace, industrial adhesives and tapes, etc.), which increased 14.3% during the period. Safety, Security, and Protection Services (SSPS), Consumer and Office (stationery products, office supplies, etc.), and Health Care (infection prevention, skin and wound care, etc.) experienced advances in revenue during the period, but revenue from its Electro and Communications and Display and Graphics

3M Issues Fourth-Quarter Results... continued on next page

3M Issues Fourth-Quarter Results… continued from previous page

(optical films, etc.) segments fell, the latter off 8.8%. The Display and Graphics segment continues to be impacted by slower consumer electronics activity and lower LCD TV attachment rates. However, we believe weakness in its consumer electronics segment is more firm-specific to 3M, as other consumer electronics firms (namely, Apple—AAPL) continue to experience significant growth. 3M saw strength in all of its geographic regions, though it did admit deteriorating conditions in Europe and had this to say about China and Europe on its conference call:

"China was also a factor in the fourth quarter as the Chinese government successfully slowed activity to stem inflation. Our China team anticipates continued below-trend growth in the first half of 2012, with stronger growth returning in the second half. Europe rose 4%, with strength in Middle East, Africa, and Central East Europe more than offsetting weakness in Western Europe…Overall, we agree with a consensus view that China growth will become more robust as 2012 goes on."

3M's earnings per share came in at $1.35 (consensus was at $1.31 per share), a 5.5% increase from the same period a year ago. The firm's operating margin pretty much held the line at 19.2% during the period, down from 19.4% in the same period a year ago. 3M faced a slightly higher tax rate in the quarter, but share buybacks helped to drive the per-share bottom-line expansion. During 2011, 3M pulled in almost $5.3 billion in cash flow from operations and shelled out roughly $1.4 billion in capital expenditures, putting free cash flow at just over $3.9 billion, over 13% of sales. Needless to say, 3M is a veritable cash cow.

Looking ahead, the company affirmed its 2012 full-year guidance, with earnings expected to be in the range of $6.25 to $6.50 per share, the midpoint above consensus expectations, and organic sales volume growth of 2% to 5%. 3M expects operating margins to come in between 21% and 22.5%, below the firm's fourth-quarter performance. The firm expects this performance to be back-end loaded, as sales and profit growth will present a challenge during the first half of the year thanks to European and consumer electronics weakness.

All things considered, though we like the cash-generating prowess of 3M, we think the shares are fairly valued at today's levels, and we remain on the sidelines.

Ford Hits Profit Snag in 4Q; 2012 Pre-Tax Operating Profit to Hold Flat

By Valuentum Analysts

Ford (F) posted fourth-quarter results that showed excellent top-line performance but weak underlying profitability that disappointed most investors. We continue to believe that Ford has substantial valuation upside and believe the firm to be a long-term holding in the portfolio of our Best Ideas Newsletter. We're not playing the "quarterly earnings game" with the automaker's shares and may add to our position in our Best Ideas Newsletter upon significant market weakness.

Total revenue of $34.6 billion in the fourth quarter came in better than consensus expectations and represented a 2.1% increase from the same period a year ago. Fourth-quarter pre-tax operating profit came in at $1.1 billion, or $0.20 per share, down from $0.30 in last year's quarter and below consensus expectations of $0.25 per share. Given the operating leverage inherent in the automaker's business model, large beats or misses in quarterly results shouldn't be unexpected.

Automotive pre-tax operating profit was $586 million in the fourth quarter (down $155 million from the same period a year ago), while Ford Credit reported a pre-tax operating profit of $506 million during the period (down $34 million from the same period a year ago).

Ford Hits Profit Snag… continued on next page

Ford Hits Profit Snag… continued from previous page

Pre-tax operating profit in North America was strong (advancing considerably from the same period a year ago), but performance in Europe and Asia Pacific (Africa) fell into the red for the period. However, we expect better performance from outside the US through the course of 2012 and into 2013 as commodity costs ease, consumer confidence improves, and the impact from the flooding in Thailand subsides.

Automotive operating-related cash flow was $700 million in the fourth quarter, and Ford ended 2011 with automotive gross cash of $22.9 billion versus automotive debt of $13.1 billion. The automaker ended 2011 with $32.4 billion in total automotive liquidity, offering investors significant option value to wait patiently for pent-up automotive demand to be realized across the globe. As it relates to industry volume, Ford expects US full-year units to be in the range of 13.5 million to 14.5 million (up from the 13 million units sold during 2011) and European full-year units to be in the range of 14 million to 15 million (slightly lower than the 15.3 million units sold in 2011). Both ranges we think are conservative and achievable.

Though we believe Ford will have continued product momentum and gain market share in the US, Asia-Pacific (Africa), and Europe, the company believes pre-tax operating profit will be equal to 2011, a disappointment to us. Nonetheless, we maintain our view that shares of Ford are significantly undervalued and look to better performance through the course of 2012 and into 2013.

Precision Castparts Issues Fiscal Third-Quarter Results

By Valuentum Analysts

Metal-bender Precision Castparts (PCP) reported strong fiscal third-quarter results but failed to live up to consensus expectations on the top and bottom line. We continue to believe that Precision Castparts has valuation upside from these levels, but we are more inclined to continue to take profits in the jet-engine castings maker in the portfolio of our Best Ideas Newsletter. Our fair value estimate is unchanged.

Revenue jumped 14% in Precision's fiscal third-quarter thanks to strength across all of its product lines. Sales of its metal castings jumped 8%, as aerospace demand continued at a nice pace. We'll be looking for even stronger performance from its Investment Cast Products segment once production for the Boeing 787 ramps up considerably, likely in Precision's fiscal third quarter of 2013. Higher aftermarket demand for industrial gas turbines also drove top-line expansion. Revenue in the company's Forged Products segment increased 9% during the period, and as with its Investment Cast segment, we expect a pick up in coming quarters as the 787 component production ramps up. Precision's Fastener Products segment's revenue jumped 35%, though most of the expansion came from recent acquisitions (Primus). We expect revenue growth acceleration in the firm's Fastener Products segment once the supply chain works though excess inventory and build rates on the Dreamliner increase.

The company improved consolidated segment operating income in the quarter by 19%, as consolidated operating margins swelled to 25.3% versus 24.3% in the same period a year ago. Precision Castparts' earnings per share hit $2.12 in the period, a new record for the company and up from $1.80 in the year-ago period. However, even these strong results weren't enough for consensus, which was at $2.21 per share. Despite the miss, we continue to believe that Precision Castparts will be a prime beneficiary of the robust upswing in commercial aerospace demand that will last through the middle of this decade. That said, we plan to prudently reduce our aerospace exposure in the portfolio of our Best Ideas Newsletter as we have benefited greatly from our bullish call on the industry.

Ideas for Your Radar

By Valuentum Analysts

Our Valuentum Buying Index (VBI), which places a considerable emphasis on a firm's valuation, is the primary driver behind names included in our best ideas portfolio. However, the size of our coverage universe lends itself to a plethora of new ideas beyond the ones we seek to capitalize on. Below, we provide a unique screen that sorts companies we feel are undervalued on both a DCF and relative value basis (the first two pillars of our VBI; the third is a technical assessment). We update this screen monthly and deliver it to you in our newsletter (for your added convenience, we also post it on our site). You'll see we hold a number of these firms in our portfolio (EBAY, ACOM, INTC, RSG), and we continue to monitor the remainder for the most opportune time to add them. The names on this list are the cream of the crop for the value investor and can supplement your "shopping list" of new ideas.

Name	Symbol	DCF Valuation	Relative Value	Price / Fair Value
Valero Energy	VLO	UNDERVALUED	ATTRACTIVE	0.54
Ancestry.com	ACOM	UNDERVALUED	ATTRACTIVE	0.57
Nabors Industries	NBR	UNDERVALUED	ATTRACTIVE	0.58
Dell	DELL	UNDERVALUED	ATTRACTIVE	0.59
Intel	INTC	UNDERVALUED	ATTRACTIVE	0.61
Alpha Natural	ANR	UNDERVALUED	ATTRACTIVE	0.62
General Cable	BGC	UNDERVALUED	ATTRACTIVE	0.63
Avon Products	AVP	UNDERVALUED	ATTRACTIVE	0.64
Newmont Mining	NEM	UNDERVALUED	ATTRACTIVE	0.65
Precision Drilling	PDS	UNDERVALUED	ATTRACTIVE	0.65
Jabil Circuit	JBL	UNDERVALUED	ATTRACTIVE	0.65
AnnTaylor	ANN	UNDERVALUED	ATTRACTIVE	0.66
Sohu.com	SOHU	UNDERVALUED	ATTRACTIVE	0.66
Kindred Healthcare	KND	UNDERVALUED	ATTRACTIVE	0.67
eBay	EBAY	UNDERVALUED	ATTRACTIVE	0.67
Republic Services	RSG	UNDERVALUED	ATTRACTIVE	0.69
Xerox	XRX	UNDERVALUED	ATTRACTIVE	0.69
Wyndham	WYN	UNDERVALUED	ATTRACTIVE	0.71
Western Union	WU	UNDERVALUED	ATTRACTIVE	0.72
Cracker Barrel	CBRL	UNDERVALUED	ATTRACTIVE	0.73
Pfizer	PFE	UNDERVALUED	ATTRACTIVE	0.73
Helmerich & Payne	HP	UNDERVALUED	ATTRACTIVE	0.73
NeuStar	NSR	UNDERVALUED	ATTRACTIVE	0.73
Apache	APA	UNDERVALUED	ATTRACTIVE	0.73
Kohl's	KSS	UNDERVALUED	ATTRACTIVE	0.73
R.R. Donnelley	RRD	UNDERVALUED	ATTRACTIVE	0.74
Medtronic	MDT	UNDERVALUED	ATTRACTIVE	0.74
Hasbro	HAS	UNDERVALUED	ATTRACTIVE	0.75
St. Jude	STJ	UNDERVALUED	ATTRACTIVE	0.76
Synaptics	SYNA	UNDERVALUED	ATTRACTIVE	0.77

Ideas... continued on next page

Ideas… continued from previous page

The initial table below showcases firms that fit the bill of the Valuentum investor, with each posting a 9 or a 10 on our index. These are names that we may swap into our portfolio on the long side should their upside potential become greater than our current holdings.

We also show firms that register a 1 or 2 on our VBI. These names represent put-option candidates. We provide the respective lists below, and each firm's report can be found on our website at the following link:

http://www.valuentum.com/articles/20120111

Name	Symbol	Industry	VBI
Helmerich & Payne	HP	Energy Equipment	10
Kindred Healthcare	KND	Medical Instruments	10
NeuStar	NSR	Wireless Telecom Services	10
Intel	INTC	Broad Line Semiconductors	9
Xerox	XRX	Commercial Services	9
Synaptics	SYNA	Computers & Peripherals	9
Dell	DELL	Computers & Peripherals - hardware	9
General Cable	BGC	Electrical Equipment - industrial	9
Jabil Circuit	JBL	Electronic Component Suppliers	9
Nabors Industries	NBR	Energy Equipment	9
Precision Drilling	PDS	Energy Equipment	9
Western Union	WU	Financial Tech Services	9
Wyndham	WYN	Hotels	9
Apache	APA	Independent Oil & Gas	9
Alpha Natural	ANR	Industrial Minerals	9
Hasbro	HAS	Leisure	9
Medtronic	MDT	Medical Devices	9
Pfizer	PFE	Pharmaceuticals	9
Cracker Barrel	CBRL	Restaurants	9

Fastenal	FAST	Distributors	2
Copart	CPRT	Specialty Retail - auto	2
Badger Meter	BMI	Electrical Equipment	1
Stamps.com	STMP	Internet & Catalog Retail	1
Cepheid	CPHD	Medical Devices	1
Aruba Networks	ARUN	Networking Equipment	1
Monro Muffler Brake	MNRO	Specialty Retail - auto	1

Valuentum Retail Equity Research | Visit us at www.valuentum.com | (10=best) | Data as of 3-Feb-2012

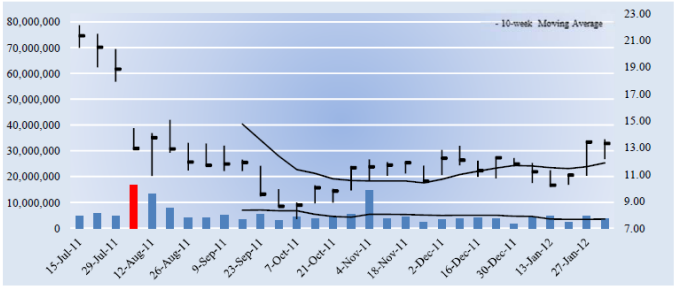
Kindred Healthcare KND UNDERVALUED 5.2%

Buying Index™ 10 Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$13.31	$20.00	$14.00 - $26.00	SMALL-CAP BLEND	Health Care	Medical Instruments

Kindred Healthcare appears undervalued on the basis of both our DCF process and relative value assessment versus peers.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$518
Avg Weekly Vol (30 wks)	5,201
30-week Range (USD)	7.67 - 22.1
Valuentum Sector	Health Care
5-week Return	12.5%
13-week Return	15.7%
30-week Return	-39.6%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	1.98
P/E on Est. Normal Diluted EPS	6.7
Est. Normal EBITDA	350
Forward EV/EBITDA	2.6
EV/Est. Normal EBITDA	2.2
Forward Revenue Growth (5-yr)	13.3%
Forward EPS Growth (5-yr)	8.8%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	6.3%
Return on Assets	2.8%
ROIC, with goodwill	8.6%
ROIC, without goodwill	9.4%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	366
Net Debt	266
Total Debt/EBITDA	1.7
Net Debt/EBITDA	1.2
EBITDA/Interest	30.5
Current Ratio	1.3
Quick Ratio	1.2

NMF = Not Meaningful

Investment Highlights

• Kindred Healthcare's scores fairly well on our business quality matrix. The firm has put up solid economic returns for shareholders during the past few years with relatively low volatility in its operating results. Return on invested capital (excluding goodwill) has averaged 9.4% during the past three years.

• Kindred Healthcare's valuation is compelling at this time. The firm is trading at a nice discount to our estimate of its fair value, even after considering an appropriate margin of safety. The firm's forward earnings multiple and PEG ratio also look attractive versus peers.

• Kindred Healthcare's cash flow generation and financial leverage are at decent levels, in our opinion. The firm's free cash flow margin and debt-to-EBITDA metrics are about what we'd expect from an average firm in our coverage universe.

• The company's stock price has outperformed the benchmark during the last quarter, and its valuation still looks interesting at these levels. Investors could be accumulating shares, as the stock continues to trade at bargain-basement levels.

• The firm experienced a revenue CAGR of about 1.1% during the past 3 years. We expect its revenue growth to be better than its peer median during the next five years.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	GOOD
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	MEDIUM
Growth	HIGH
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	12.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueRisk™ \ ValueCreation™	Very Poor	Poor	Good	Excellent
Low				
Medium			■	
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
Baxter Intl	13.2	1.4	100.1%
Becton, Dickinson	14.4	2.6	109.5%
Stryker	15.0	2.1	94.3%
Thermo Fisher Scientific	13.5	1.4	97.1%
Peer Median	14.0	1.8	98.6%
Kindred Healthcare	**6.9**	**1.1**	**66.6%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-09	Dec-10	Dec-11
Revenue	4,270	4,360	5,668
Revenue, YoY%	2.9%	2.1%	30.0%
Operating Income	94	84	131
Operating Margin %	2.2%	1.9%	2.3%
Net Income	63	56	76
Net Income Margin %	1.5%	1.3%	1.3%
Diluted EPS	1.63	1.44	1.94
Diluted EPS, YoY %	7.4%	-11.3%	34.5%
Free Cash Flow (CFO-capex)	111	33	-4
Free Cash Flow Margin %	2.6%	0.8%	-0.1%

In Millions of USD (except for per share items)

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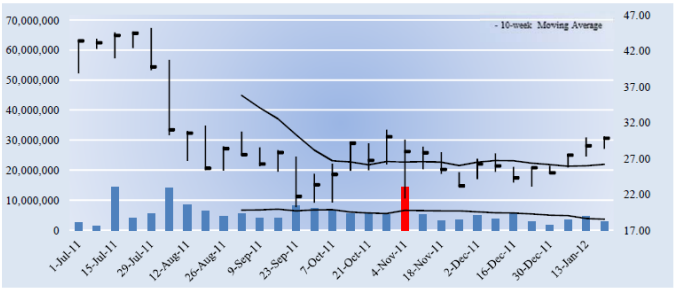
General Cable BGC UNDERVALUED 7.4%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$29.80	$47.00	$32.00 - $62.00	SMALL-CAP VALUE	Industrials	Electrical Equipment - industrial

General Cable appears undervalued on the basis of both our DCF process and relative value assessment versus peers.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$1,582
Avg Weekly Vol (30 wks)	5,602
30-week Range (USD)	20.21 - 45.2
Valuentum Sector	Industrials
5-week Return	22.1%
13-week Return	10.7%
30-week Return	-23.8%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	3.10
P/E on Est. Normal Diluted EPS	9.6
Est. Normal EBITDA	478
Forward EV/EBITDA	5.3
EV/Est. Normal EBITDA	4.4
Forward Revenue Growth (5-yr)	7.0%
Forward EPS Growth (5-yr)	22.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	17.2%
Return on Assets	3.6%
ROIC, with goodwill	9.8%
ROIC, without goodwill	10.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	986
Net Debt	527
Total Debt/EBITDA	3.0
Net Debt/EBITDA	1.6
EBITDA/Interest	4.3
Current Ratio	2.0
Quick Ratio	1.1

NMF = Not Meaningful

Investment Highlights

• Although General Cable has put up decent economic profits during the past few years, these returns have not come without volatility. Such business performance indicates heightened risk with respect to the firm's ability to continue to put up strong results.

• General Cable's valuation is compelling at this time. The firm is trading at a nice discount to our estimate of its fair value, even after considering an appropriate margin of safety. The firm's forward earnings multiple and PEG ratio also look attractive versus peers.

• General Cable's cash flow generation and financial leverage are at decent levels, in our opinion. The firm's free cash flow margin and debt-to-EBITDA metrics are about what we'd expect from an average firm in our coverage universe.

• The firm's share price performance has been roughly in line with that of the market during the past quarter. We'd expect the firm's stock price to converge to our fair value estimate within the next three years, if our forecasts prove accurate.

• The firm experienced a revenue CAGR of about 1.8% during the past 3 years. We expect its revenue growth to be better than its peer median during the next five years.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	GOOD
ValueRisk™	HIGH
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	26.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium				
High			■	
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
Ametek	16.8	2.0	123.4%
Eaton	12.3	1.6	93.0%
Littelfuse	12.2	10.0	101.7%
Rockwell Automation	15.0	2.9	108.0%
Peer Median	13.6	2.5	104.8%
General Cable	**13.1**	**1.0**	**63.4%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-09	Dec-10	Dec-11
Revenue	4,385	4,865	5,935
Revenue, YoY%	-29.6%	10.9%	22.0%
Operating Income	258	222	270
Operating Margin %	5.9%	4.6%	4.5%
Net Income	109	70	122
Net Income Margin %	2.5%	1.4%	2.1%
Diluted EPS	2.06	1.31	2.28
Diluted EPS, YoY %	-49.4%	-36.4%	74.4%
Free Cash Flow (CFO-capex)	403	-18	-95
Free Cash Flow Margin %	9.2%	-0.4%	-1.6%

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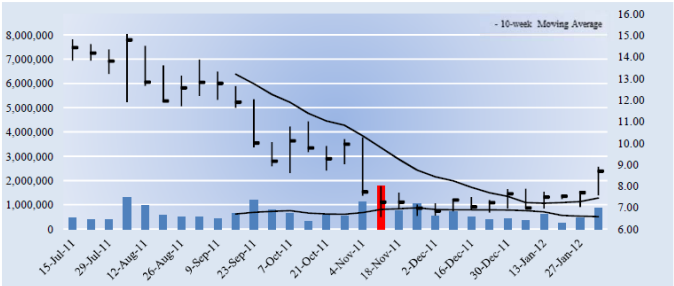
Rosetta Stone RST UNDERVALUED 3.6%

Buying Index™ 7 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$8.69	$12.00	$9.00 - $15.00	MICRO-CAP VALUE	Information Technology	Software - graphics

Rosetta Stone's shares look cheap based on our discounted cash flow process.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$184
Avg Weekly Vol (30 wks)	666
30-week Range (USD)	6.55 - 15.05
Valuentum Sector	Information Technology
5-week Return	12.0%
13-week Return	12.4%
30-week Return	-40.1%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	-0.13
P/E on Est. Normal Diluted EPS	NMF
Est. Normal EBITDA	3
Forward EV/EBITDA	-2.5
EV/Est. Normal EBITDA	18.4
Forward Revenue Growth (5-yr)	1.8%
Forward EPS Growth (5-yr)	4.0%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	13.2%
Return on Assets	7.9%
ROIC, with goodwill	42.4%
ROIC, without goodwill	99.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-122
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	270.4
Current Ratio	2.2
Quick Ratio	1.9

NMF = Not Meaningful

Investment Highlights

• Rosetta Stone earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. Return on invested capital (excluding goodwill) has averaged 99.2% during the past three years.

• Although we think the firm's DCF valuation indicates a potential attractive investment opportunity, we'd be more comfortable investing in the firm if it was more attractively priced on a relative basis versus peers as well.

• Rosetta Stone has an excellent combination of strong free cash flow generation and low financial leverage. We expect the firm's free cash flow margin to average about -0.2% in coming years, and the firm had no debt as of last quarter.

• The company's stock price has outperformed the benchmark during the last quarter, and its valuation still looks interesting at these levels. Investors could be accumulating shares, as the stock continues to trade at bargain-basement levels.

• The firm experienced a net income CAGR of about 72.8% during the past 3 years. We expect its net income growth to be better than its peer median during the next five years.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	7.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium				■
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
Activision	13.1	1.7	102.3%
Electronic Arts	22.4	NMF	101.3%
The9 Ltd	-4.1	NMF	85.7%
Take-Two	-25.1	1.6	77.1%
Peer Median	4.5	1.6	93.5%
Rosetta Stone	**-8.4**	**3.5**	**72.4%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-09	Dec-10	Dec-11
Revenue	252	259	261
Revenue, YoY%	20.5%	2.6%	1.0%
Operating Income	21	12	-31
Operating Margin %	8.1%	4.8%	-11.9%
Net Income	13	13	-23
Net Income Margin %	5.3%	5.1%	-8.7%
Diluted EPS	0.67	0.63	-1.04
Diluted EPS, YoY %	-18.3%	-6.6%	-266.1%
Free Cash Flow (CFO-capex)	33	23	-21
Free Cash Flow Margin %	13.0%	9.1%	-7.9%

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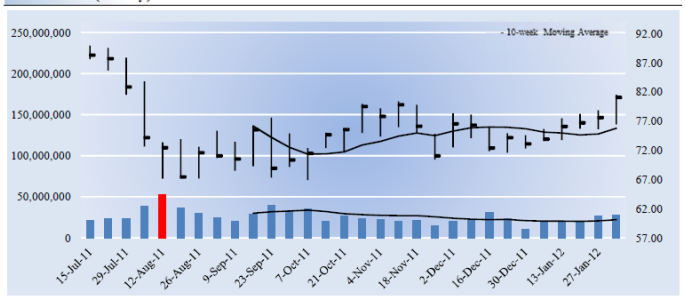
United Technologies UTX UNDERVALUED 2.4%

Buying Index™ 7 | Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$81.05	$110.00	$83.00 - $138.00	LARGE-CAP BLEND	Industrials	Conglomerates

United Technologies's shares look cheap based on our discounted cash flow process.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy selling, or distribution (red bar).

Company Vitals

Market Cap (USD)	$73,512
Avg Weekly Vol (30 wks)	25,904
30-week Range (USD)	66.87 - 89.92
Valuentum Sector	Industrials
5-week Return	8.2%
13-week Return	3.8%
30-week Return	-9.3%
Dividend Yield %	2.4%
Dividends per Share	1.92
Forward Dividend Payout Ratio	34.1%
Est. Normal Diluted EPS	7.62
P/E on Est. Normal Diluted EPS	10.6
Est. Normal EBITDA	11,970
Forward EV/EBITDA	8.2
EV/Est. Normal EBITDA	6.5
Forward Revenue Growth (5-yr)	9.6%
Forward EPS Growth (5-yr)	11.1%

NMF = Not Meaningful; Est. = Estimated; FY = Fiscal Year

Returns Summary

	3-year Historical Average
Return on Equity	23.6%
Return on Assets	8.2%
ROIC, with goodwill	11.8%
ROIC, without goodwill	26.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	10,260
Net Debt	4,300
Total Debt/EBITDA	1.2
Net Debt/EBITDA	0.5
EBITDA/Interest	17.9
Current Ratio	1.4
Quick Ratio	0.8

NMF = Not Meaningful

Investment Highlights

• United Technologies earns a ValueCreation™ rating of EXCELLENT, the highest possible mark on our scale. The firm has been generating economic value for shareholders for the past few years, a track record we view very positively. We expect the firm's return on invested capital (excluding goodwill) to expand to 53.6% from 37.6% during the next two years.

• Although we think the firm's DCF valuation indicates a potential attractive investment opportunity, we'd be more comfortable investing in the firm if it was more attractively priced on a relative basis versus peers as well.

• United Technologies has an excellent combination of strong free cash flow generation and low financial leverage. We expect the firm's free cash flow margin to average about 8.8% in coming years. Total debt-to-EBITDA was 1.2 last year, while debt-to-book capitalization stood at 31.9%.

• The firm's share price performance has been roughly in line with that of the market during the past quarter. We'd expect the firm's stock price to converge to our fair value estimate within the next three years, if our forecasts prove accurate.

• The firm sports a very nice dividend yield of 2.4%. We expect the firm to pay out about 34% of next year's earnings to shareholders as dividends.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	HIGH
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	76.00

DCF = Discounted Cash Flow; MFI, U/D = Please see glossary. MA = Moving Average

Business Quality

ValueCreation™

ValueRisk™	Very Poor	Poor	Good	Excellent
Low				
Medium				■
High				
Very High				

Firms that generate economic profits with little operating variability score near the top right of the matrix.

Relative Valuation

	Forward P/E	PEG	Price / FV
Danaher	15.8	2.2	103.7%
Honeywell	13.5	1.4	98.0%
3M	13.8	2.5	92.3%
Tyco Intl	13.8	2.6	99.7%
Peer Median	13.8	2.4	98.8%
United Technologies	**14.4**	**1.3**	**73.7%**

Price / FV = Current Stock Price divided by Estimated Fair Value

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	54,326	58,190	64,009
Revenue, YoY%	2.7%	7.1%	10.0%
Operating Income	7,142	7,515	8,043
Operating Margin %	13.1%	12.9%	12.6%
Net Income	4,373	4,979	5,022
Net Income Margin %	8.0%	8.6%	7.8%
Diluted EPS	4.74	5.49	5.64
Diluted EPS, YoY %	15.0%	15.8%	2.7%
Free Cash Flow (CFO-capex)	5,041	5,607	5,570
Free Cash Flow Margin %	9.3%	9.6%	8.7%

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Our Methodology – The Valuentum Buying Index

By Valuentum Analysts

But how, you will ask, does one decide what [stocks are] "attractive"? Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth,"...We view that as fuzzy thinking...Growth is always a component of value [and] the very term "value investing" is redundant.

-- Warren Buffett, Berkshire Hathaway annual report, 1993

At Valuentum, we take Buffett's thoughts one step further. We think the best opportunities arise from a complete understanding of all investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value through momentum investing. We think companies that are attractive from a number of investment perspectives--whether it be growth, value, momentum, etc.--have the greatest probability of capital appreciation and relative outperformance. The more investors that are interested in the stock for reasons based on their respective investment mandates, the more likely it will move higher.

As such, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a score between 1 and 10 for each company. The VBI places considerable emphasis on a firm's DCF valuation, its relative valuation versus peers (both forward PE and PEG ratios), as well as its technicals in order to help investors pick the best entry and exit points on the most interesting stocks. We believe our methodology helps identify the most attractive stocks at the best time to buy, helping to avoid value traps and lagging performance due to the opportunity cost of holding a stock with great potential but at an inopportune time.

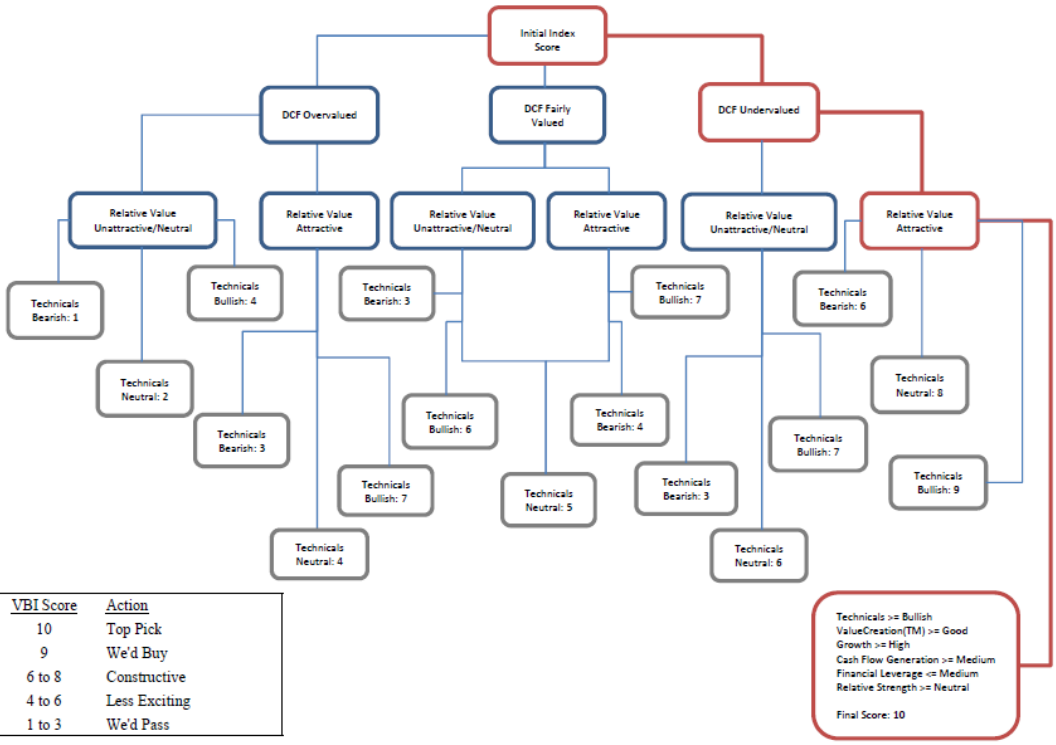
Let's discuss how a firm can score a 10, the best mark on our index (a "Top Pick"). First, the company would need to be 'undervalued' on a DCF basis and 'attractive' on a relative 'value basis. The stock would also have to be exhibiting 'bullish' technicals. The firm would need a ValueCreation rating of 'good' or 'excellent', exhibit 'high' or 'aggressive' growth prospects, and generate at least a 'medium' or 'neutral' assessment for cash flow generation, financial leverage, and relative price strength.

This is a tall order for any company, but we're looking to deliver the very best of ideas to our clients and subscribers. Firms that don't make the cut for a 10 are ranked accordingly, with the least attractive stocks garnering a score of 1 ("We'd sell"). Most of our coverage universe falls between 3 and 7, but at any given time there could be large number of companies garnering either high or low scores, especially at market lows or tops, respectively.

Please view the flow chart on the next page regarding our Valuentum Buying Index.

Our Methodology – The Valuentum Buying Index **continued on next page**

Our Methodology – The Valuentum Buying Index



VBI Score	Action
10	Top Pick
9	We'd Buy
6 to 8	Constructive
4 to 6	Less Exciting
1 to 3	We'd Pass

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