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
36.9%	8.6%	28.3%

Portfolio Inception Date: May 17, 2011

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Our Best Ideas Portfolio Hits Record High

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Since the publication of the previous edition of our Best Ideas Newsletter July 15, we have widened the return outperformance over our benchmark by another 70 basis points. Our absolute return performance is now the highest it has even been, garnering a nearly 37% overall return since inception (May 2011)! We are now outpacing the benchmark index (SPY) by over 28 percentage points (a new record) and continue to expect this strong performance to continue. Firms held in our Best Ideas portfolio (see page 8) offer substantial valuation upside, and our stock-selection methodology, the Valuentum Buying Index (see page 21), positions us well to identify the best potential entry and exit points on portfolio constituents, as well as other firms across our coverage universe.

As we had warned previously, investors that place too much emphasis on economic prognostications can be left behind as the market moves higher. Perhaps the

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EDAC Posts 2Q Adjusted EPS of $0.31; Expects Huge Pratt Order in Back Half

By Brian Nelson, CFA

EDAC Tech (EDAC) posted fantastic second-quarter results, with revenue jumping 21% to a record $26.5 million and adjusted net income advancing nearly 78% from the same period a year ago. Adjusted diluted earnings per share came in at $0.31, up 63% from the prior-year quarter. Adjusted net income of $1.739 million in the quarter accounts for the tax-adjusted impact of $450,000 in acquisition-related expenses. Reported net income was $1.442 million, or $0.26 per share. On an adjusted basis, the firm has earned $0.54 per share during the first half of the year and is on pace to beat consensus estimates of $0.93 per share and our previous 2012 bottom-line forecast of $0.98 per share…

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biggest bear coming out of the woods recently was PIMCO's Bill Gross. The bond king (turned equity investor) continues to believe that the US is approaching recession when measured by employment, retail sales, investment and corporate profit. The Economic Cycle Research Institute, which lost its pristine track record of predicting recessions last year, continues to expect recession in the US, while other perma-bears like Marc Faber—author of the Gloom, Boom & Doom Report—remains skeptical about the growth rate of the Chinese economy. And almost every money manager seems concerned about what's going on within the borders of the European Union. So how can the broader domestic market as measured by the SPDR S&P 500 (SPY) reach levels that we haven't seen since early 2008, advancing nearly 4% since mid-July (the time of the previous edition of this newsletter)?

"…of the 447 companies reporting second-quarter earnings through August 10, 70% of these firms reported better-than-expected bottom-line performance. At the same time, the blended earnings growth rate for the second quarter is coming in at the mid-single-digits (5.5%), which is a far cry from earnings contraction that many pundits may lead you to believe."

It's our view that earnings and cash flow drive the valuations of stocks and the broader market as a whole. In fact, a robust discounted cash-flow analysis is the first and most important pillar within our Valuentum Buying Index process. And earnings have been pretty good. According to FactSet, of the 447 companies reporting second-quarter earnings through August 10, 70% of these firms reported better-than-expected bottom-line performance. At the same time, the blended earnings growth rate for the second quarter is coming in at the mid-single-digits (5.5%), which is a far cry from earnings contraction that many pundits may lead you to believe. And while bottom-line expansion hasn't been entirely driven by sales growth (only about 43% of companies that have reported second quarter results exceeded top-line consensus) and third-quarter earnings may face some material headwinds (namely from foreign exchange and higher input prices from the drought in the US), we continue to think the domestic economic backdrop is encouraging (even if it may not be robust).

Let's take a look at an excerpt from the Fed Beige Book, released late July, to illustrate this point:

> Reports from most of the twelve Federal Reserve Districts indicated that overall economic activity continued to expand at a modest to moderate pace in June and early July. The Atlanta, St. Louis, and San Francisco Districts reported modest growth, while Boston, Chicago, Minneapolis, Kansas City, and Dallas described economic activity as advancing moderately. The New York, Philadelphia, and Cleveland Districts noted that activity continued to expand, but at a slower pace since the last report, while Richmond cited mixed activity…
>
> …Retail sales increased slightly in all reporting Districts except Boston and Cleveland, where sales were categorized as flat, and New York, where sales softened…All District housing market reports were largely positive as sales and construction levels increased and home inventories declined. Rental markets continued to strengthen with rising rents being reported in Boston, New York, Atlanta,

Please see *Our Best Ideas Portfolio Hits Record High…*on next page

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> Chicago, and Dallas...Manufacturing activity continued to expand slowly in most Districts, and Cleveland, Atlanta, Chicago, and Kansas City cited slight increases in production levels...Demand for loans, particularly those related to real estate, grew modestly in most Districts...All Districts conveyed that input prices had stabilized in recent months. Price pressures were described as easing in New York, Philadelphia, Atlanta, and San Francisco as energy costs declined.

"...the Commerce Department's second-quarter gross domestic product (GDP) estimate, released late July, was also encouraging. According to the Bureau of Economic Analysis, real domestic GDP rose 1.5% in the second quarter, better than what most economists had predicted (1.3%)."

Further, the Commerce Department's second-quarter gross domestic product (GDP) estimate, released late July, was also encouraging. According to the Bureau of Economic Analysis, real domestic GDP rose 1.5% in the second quarter, better than what most economists had predicted (1.3%). The Commerce Department also revised upward the first-quarter growth rate marginally. Though the second-quarter pace is slightly lower than that of the previous sequential quarter, one will notice in the chart below that comparisons were a bit tougher during the second quarter. Importantly, the graph clearly displays that we are nowhere near the doldrums witnessed in late 2008 and early 2009.

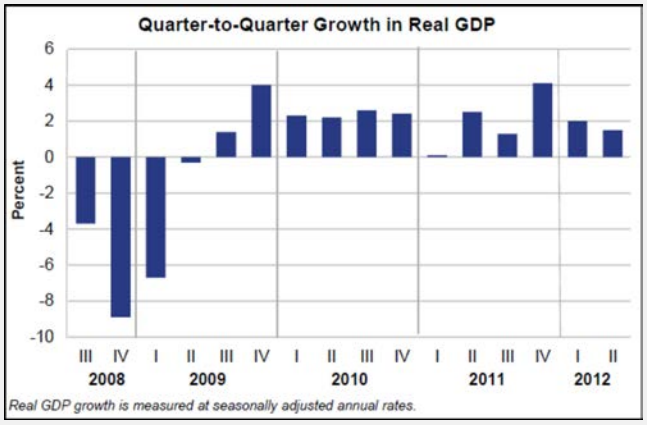

Image Source: http://www.bea.gov/newsreleases/national/gdp/gdphighlights.pdf

"We continue to receive solid data from both the retail and housing markets. Just yesterday, the US Census Bureau announced that estimates for US retail and food services for July jumped 0.8% sequentially (above the 0.3% pace economists had predicted) and an impressive 4.1% higher than that achieved in the same period a year ago."

We continue to receive solid data from both the retail and housing markets. Just yesterday, the US Census Bureau announced that estimates for US retail and food services for July jumped 0.8% sequentially (above the 0.3% pace economists had predicted) and an impressive 4.1% higher than that achieved in the same period a year ago. The tally marked the first sequential gain in four months and the largest since February, and we were surprised to find that purchases climbed in all 13 reported categories from motor vehicles and parts dealers to clothing and clothing accessories stores--the first time this has happened in roughly 7 years! The retail sales numbers were particularly impressive, given that the US unemployment rate is still hovering north of 8% (it was 8.3% in July, according to the Bureau of Labor Statistics). The US consumer remains resilient, and the retail sales data is a positive read-through for portfolio holdings Ford (F) and Apple (AAPL)--and indirectly for payment processing firms such as eBay (EBAY) and Visa (V), which we also hold in our Best Ideas portfolio.

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***Our Best Ideas Portfolio Hits Record High…*continued from previous page**

Late July also saw a plethora of strong reports from the homebuilders, with Pulte (PHM) showing unit backlog growth north of 30% and D.R. Horton (DHI) revealing its backlog grew by 25% from last year's period. The strong performance from these two builders was preceded by solid results from other builders including KB Home (KBH) and Lennar (LEN). We think the domestic residential real estate market is now on solid footing, which we view as a notable positive for the US banking system. We continue to hold the SPDR S&P Bank ETF (KBE) and Financial Select Sector SPDR (XLF) to gain diversified financial exposure that allows us to capitalize on the group's ongoing convergence to intrinsic value while limited risk to any one bank.

"As with the debt-ceiling debate, we expect Washington to continue to its political grandstanding until the proverbial last minute, opting for a pro-economic policy when all is said and done. After all, its very own Congressional Budget Office predicts that economic contraction will occur if the so-called "fiscal cliff" is not thwarted."

The looming US "fiscal cliff"-- a number of tax hikes and spending cuts that are set to begin next year – continues to be a concern for businesses, but we doubt Congress will take actions (or better yet not take actions) to directly (or indirectly) throw the US back into recession. As with the debt-ceiling debate, we expect Washington to continue its political grandstanding until the proverbial last minute, opting for a pro-economic policy when all is said and done. After all, its very own Congressional Budget Office predicts that economic contraction will occur if the so-called "fiscal cliff" is not thwarted. Federal Reserve Chairman Ben Bernanke continues to warn Congress to avoid such a cliff, and we think reason will eventually prevail within the Congressional ranks. Still, we continue to monitor developments closely.

And while Bernanke continues to successfully navigate the US economy through recovery, European Central Bank President Mario Draghi is now actively taking measures to stem the Eurozone debt crisis. Perhaps the most powerful words any ECB President could say, Draghi said at a recent speech in London that the ECB "will do whatever it takes to preserve the Euro; and believe me, it will be enough." Though the timing of when and how the ECB will put these words into satisfactory action remains to be seen, we think this powerful statement puts the ECB's cards on the table and reveals to us that the possibility for a global financial crisis of the magnitude of 2008-09 is practically negligible. Investors should expect economic weakness from the Eurozone due to austerity measures, but any sustained global financial contagion will be averted, in our view, given the motives of Bernanke and Draghi and the strength of the US banking system (which has been stress-tested under the most severe conditions and was found to be sound).

"Though the near term may be choppy, we remain very bullish on the equity markets in general and expect continued outperformance from constituents of our Best Ideas portfolio."

As we've outlined in previous editions of our Best Ideas Newsletter, the outlook for commercial aerospace deliveries has never been stronger—we hold aerospace suppliers Precision Castparts (PCP), Astronics (ATRO), and EDAC Tech (EDAC) in our Best Ideas portfolio. And our long-term thesis on the strong growth trajectory of health-care spending has not changed—we hold the Health Care ETF (XLV) in our portfolio. With the current forward P/E ratio on the S&P 500 at just 12.7 times, according to FactSet (well below the 10-year average of 14.4), the broader market remains cheap. Though the near term may be choppy, we remain very bullish on the equity markets in general and expect continued outperformance from constituents of our Best Ideas portfolio.

Rio's Short-term Weakness Creates an Interesting Opportunity

By RJ Towner

Miner Rio Tinto (RIO) reported better than expected first half results. Revenue fell 13% to $25.3 billion in the first half of 2012. Underlying profit tumbled 34% to $5.2 billion, which was stronger than the Street forecasted. Additionally, the firm increased its first half interim dividend to $0.725 per share, 34% higher than its dividend for the same period last year. Rio Tinto also generated over $7.8 billion in operating cash flow, which is down substantially from the previous year, but still quite strong for a weak global economy.

Revenue fell in every geographic segment as global metal prices remained weak. Revenue in the US fell 20% to $3.6 billion, and revenue in China, Rio's largest geographic region by far, fell 7% year-over-year to $8.5 billion. Sales in Europe, excluding the United Kingdom, tumbled 14% to $3.2 billion. Needless to say, revenue losses could moderate in China and the US, but revenues in Europe should continue to be weak.

Iron ore production increased 4% to 120.3 million tons. However, prices fell 20% year-over-year, causing revenue in the segment to fall 9% to $12.5 billion. Underlying earnings fell 20% to $4.7 billion. The firm expects production of 250 million tonnes from operations in Canada and Australia. The miner invested heavily in iron ore infrastructure during the first half of the year, as the firm expects to account for 25% of additional global iron ore production. Management previously mentioned their optimistic outlook on Chinese and Indian demand.

Mined copper production and refined copper fell by 8% and 33%, respectively, to 252.9 thousand tonnes and 123.4 thousand tonnes. Copper prices were about 14% lower year-over-year. As a result, the segment's revenue fell 22% to $3.2 billion and underlying profit fell 55% to $556 million. The firm expects copper production and refined copper to total 580 thousand tons and 300 thousand tons, respectively. Again, copper demand is tied heavily to China, and the recent slowdown in the region likely curtailed results.

Coal production and demand was reasonably strong, as coal production across all types increased. Uranium production also accelerated 54% to 3.7 million pounds. Revenue in the segment fell only 4% to $2.8 billion, as demand for coal remains strong in Japan, Taiwan and Korea. The firm expects production to accelerate modestly in the second half of the year and is optimistic about long-term growth as a result of strong demand from India and China.

Rio also announced that it wants to divest its aluminum and diamond assets, and it will consider a spin-off if necessary. We like the firm's continued investment in productivity and efficiency, even though we think the short-term picture is very uncertain. Earnings could suffer in the second half of 2012 as global demand and pricing remains weak.

Though the firm scores a 6 on our Valuentum Buying Index, we think shares are incredibly cheap at current levels. The miner is well positioned to take advantage of growing urbanization in the long run, and its current valuation is too cheap to ignore. A dividend yield that could be in excess of 2.8% for the year also provides a nice cushion while the global economy returns to health. As a result, we hold shares in our Best Ideas Newsletter portfolio.

July Retail Same-Store Sales Trends Look Positive

By RJ Towner

With the massive amount of negativity in the media surrounding the US economy, one would assume that consumer spending has come to a grinding halt. However, let's dig into July same-store sales trends and analyze some bright spots in the retail sector.

Macy's, Saks and Nordstrom – Affordable Luxury Stronger Than Expected

The affordable luxury segment held up reasonably well through July. Macy's (M) reported same-store sales growth of 4.1% during the month. Online sales for Macy's also grew 35.1% during July, underscoring the strength of the firm's online offerings and its effectiveness in the ecommerce space. Though we think the company is performing relatively well, the firm registers just a 3 on our Valuentum Buying Index, so we'd wait for shares to pull back before getting interested.

Same-store sales for Saks (SKS) grew 3.5% during July, which was slightly short of expectations, but a solid number nonetheless. The firm pointed to strength pretty much across the board, but did have an Electronic Gift Card event that it said positively impacted same-store by 200 basis points. We're not fans of the retailer at these levels, and we think traction at the high end department store may be slipping.

In between Saks and Macy's lies Nordstrom (JWN). Nordstrom stores have a pricing scale toward the high-end of Macy's and the low-end of Saks, so we think the firm is a great representative of affordable luxury. July same-store sales increased just 0.9%, driving total sales to $1 billion. Yet, that was better than the decline of 2.7% the Street had predicted. Sales were negatively impacted by the Nordstrom Anniversary Sale moving partially into August. Its namesake Nordstrom stores had comparable sales growth of 1.3%; however, the primary growth driver was the 9.7% same-store sales acceleration from its discounting child, Nordstrom Rack. It appears customers are becoming more value conscious, as we'll discuss later, which is positively impacting Nordstrom Rack. Though results were relatively strong, shares of the retailer are trading near our fair value estimate, so we aren't very bullish on the total return prospects at this time. Additionally, while revenue may continue to grow thanks to strong sales at Nordstrom Rack, gross margins could suffer.

Discounters Continue To Shine

In the off-priced brand name space, Ross Stores (ROST) continues to win the wallets of consumers. The firm reported same-store sales growth of 7% for the month of July, well ahead of the consensus expectation of 4.5% growth. Total sales grew 12% to $709 million. We suspect the back-to-school season will be terrific for Ross, as consumers seem to love searching the store for bargains. Regardless, we aren't fans of the valuation at current levels, though we wouldn't be lining up to bet against the firm.

Similarly, Ross' larger competitor TJ Maxx (TJX) reported fantastic July results. Same-store sales rose 7% compared to a 5% estimate, propelling total sales 8% higher to $1.6 billion. Management specifically pointed to increased traffic as the main driver, which we view as further evidence that consumers are actively seeking deals. It also points to the fact that consumers do not want to stop spending, but when they do spend, they want value.

Please see *July Retail Same-Store Sales…*on page 13

The US Housing Market Is Back

By RJ Towner

The housing market in the United States has regained its footing and looks poised to rebound even further. First, Pulte (PHM) reported better-than-expected second-quarter earnings, generated 15% revenue growth, and showed that its backlog grew 31% year-over-year on a unit basis. Then D.R. Horton's (DHI) fiscal third-quarter results revealed its backlog advanced 25% year-over-year. Plus, the firm reversed a tax-asset write-down, indicating the company expects increased profitability down the road. The strong performance from these two builders was preceded by solid results from other builders including KB Home (KBH) and Lennar (LEN). Though conventional wisdom may suggest a weak economic recovery would prevent a domestic housing rebound, we think several factors will continue to propel the housing market forward.

Low Interest Rates

Federal Reserve Bank Chairman Ben Bernanke has kept rates artificially low, thereby forcing investors out of bonds (and into riskier assets), whether intentionally or unintentionally. So where have all of these high-yield, income investors gone? The obvious choice is to junk bonds or to high-yielding dividend-growth stocks, but it also appears that rental properties have become an interesting avenue to fulfill investors' need for income. With incredibly low interest rates for buyers that have clean balance sheets, banks are willing to lend to these wealthy private investors. In turn, high-yield investors that now shun the paltry rates on bonds have access to better yield profiles via rental income -- and the chance at capital appreciation once the housing market recovers. This could help explain why new housing backlogs continue to grow even though overall home ownership sits at just 65.6%, near the lowest level since 1997 -- because the rate only includes owner-occupied homes (not investor-owned homes).

Additionally, traditional buyers with access to credit are also borrowing at extremely cheap rates. A 30-year fixed mortgage, for example, currently sits around 3.6%, so we feel traditional buyers with capital are eager to enter the new-home market, bolstering the backlogs at the builders. Creditworthy buyers may prefer purchasing new homes that need little work and/or updating. With a new home, buyers don't have to worry about "unknown" problems related to a house that's been on the market for years or a foreclosed home that has been neglected by previous owners.

Echo Boomer Household Formation

Perhaps the most powerful tailwind of all will be the Echo Boomer household formation. Eventually, the children of baby boomers will leave their parent's homes, whether by force or by choice. When this day comes, there will be tremendous demand for housing. Depending on the definition, Echo Boomers or Millennials, may be as much as 80 million or even one third of the US population.

This generation is currently struggling with finding post-education employment and is stricken by student loan debt. As a result, the Echo Boomers might not be able to afford to buy new homes. However, they will still need to acquire housing of some sort. In turn, rental prices may rise even higher, resulting in higher yields for investors or more capital appreciation (increased housing prices) as yields normalize. Therefore, in years ahead real-estate investors may continue to be a large source of demand rather than the Echo Boomers themselves. In either case, we think demand will materialize (and pricing improve) for almost all types of units, beginning with entry level.

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Our Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
36.9%	8.6%	28.3%

Portfolio Inception Date: May 17, 2011

Our Best Ideas portfolio had another solid month of relative outperformance as we furthered our gap relative to the S&P by roughly 70 basis points since the previous edition of our Best Ideas Newsletter. The outperformance gap is greater than it has ever been, and our absolute return has hit its highest level. Ancestry.com (ACOM) was our biggest source of alpha during the month, as the online genealogical firm continues to catch a bid as it markets itself to potential buyers. We think the firm is worth well north of $40 per share, representing substantial upside from today's levels. Apple (AAPL) and eBay (EBAY) were also big winners for us during the period.

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 16), as well as analysis and trends impacting companies on our Best Ideas List. We currently have about 26% of our portfolio in cash, a level we're looking to bring down in coming months. Typically, we like to have the most cash when the market is making new highs (like now) and fully invested when the market is putting in short-term lows.

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 August 14, 2012 — **Best Ideas Portfolio Inception Date: May 17, 2011**

Portfolio Holdings	Symbol	Initial VBI*	Current VBI**	First Purchase Date	Cost Basis/Share ($)	Total Shares	Total Cost ($)	Current Value/Share ($)	Current Value ($)	Dividends Received	% of Portfolio	% Return
Bullish												
Apple Corp.	AAPL	10	7	17-Jun-11	328.99	16	5,270.84	631.69	10,107.04	0.00	7.4%	91.8%
Altria Group	MO	8	7	28-Jun-11	26.43	252	6,667.36	35.44	8,930.88	464.94	6.5%	40.9%
NEW: We sold 126 shares of MO at $35.75 per share on 7/26/2012.												
Ancestry.com	ACOM	10	9	17-May-11	32.43	298	9,663.76	32.63	9,723.74	0.00	7.1%	0.6%
NEW: We sold 148 shares of ACOM at $32.46 per share on 7/26/2012.												
Astronics	ATRO	10	7	6-Jun-11	24.93	141	3,522.13	28.23	3,980.43	0.00	2.9%	13.0%
Buffalo Wild Wings	BWLD	7	3	13-Jul-11	65.42	77	5,044.34	72.41	5,575.57	0.00	4.1%	10.5%
eBay	EBAY	10	10	3-Oct-11	31.04	200	6,207.00	45.36	9,072.00	0.00	6.6%	46.2%
EDAC Tech	EDAC	9	9	6-Jun-11	5.23	673	3,536.79	13.76	9,260.48	0.00	6.8%	161.8%
NEW: We sold 337 shares of EDAC at $13.35 per share on 7/26/2012.												
Financial Select SPDR Fund	XLF	NA	NA	9-Jan-11	13.46	150	2,026.00	14.93	2,239.50	17.70	1.6%	11.4%
Ford Motor	F	7	3	12-Sep-11	10.69	650	6,955.50	9.44	6,136.00	45.00	4.5%	-11.1%
Health Care ETF	XLV	9	9	22-May-12	36.60	125	4,582.00	38.69	4,836.25	24.88	3.5%	6.1%
Intel	INTC	6	3	12-Sep-11	19.89	100	1,996.00	26.48	2,648.00	63.00	1.9%	35.8%
Intuitive Surgical	ISRG	5	5	22-May-12	532.13	5	2,667.65	509.86	2,549.30	0.00	1.9%	-4.4%
Precision Castparts	PCP	8	3	6-Jun-11	152.07	40	6,089.80	159.87	6,394.80	6.30	4.7%	5.1%
SPDR S&P Bank ETF	KBE	NA	NA	9-Jan-12	21.07	100	2,114.00	22.22	2,222.00	18.10	1.6%	6.0%
Republic Services	RSG	8	9	19-May-11	31.42	201	6,329.42	28.67	5,762.67	342.74	4.2%	-3.5%
Rio Tinto	RIO	9	6	22-May-12	46.40	75	3,487.00	49.87	3,740.25	0.00	2.7%	7.3%
Visa	V	7	6	30-Nov-11	107.46	60	6,461.30	129.89	7,793.40	13.20	5.7%	20.8%
Cash									35,901.65		26.2%	0.0%
Bearish												
Please see companies with low VBI ratings (1 or 2) on our watch list for ideas.												
Best Ideas Portfolio Value							100,000.00		**136,873.96**			36.9%
SPY				17-May-11	132.69	754	100,000.00	140.79	106,104.45	2,505.84	100.00%	
Benchmark Value									**108,610.29**			**8.6%**
Under/Outperformance												**28.3%**

This portfolio is not a real money portfolio. Data as of August 14, 2012. Cost basis includes commissions. Results include dividends, but not interest received on cash balance.

* VBI score at the time we added the firm to the portfolio.

** 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.

Precision Castparts Reports Strong Fiscal First Quarter Results; Aerospace and Power End Markets Remain Strong

By Valuentum Analysts

Aerospace metal-casting supplier Precision Castparts (PCP) reported strong fiscal first-quarter results. Revenue advanced nearly 18% from the same period a year ago, and the company was able to leverage that growth into record profits, with earnings per share from continuing operations coming in at $2.35 (up from $1.97 per share in last year's quarter). Consolidated segment operating profit jumped by nearly 23%, as segment operating margins expanded roughly 120 basis points, to 26.2%. Free cash flow generation from the company was also strong, totaling $375 million before acquisitions and voluntary pension contributions, or about 20% of sales in the quarter (a very impressive showing). Our fair value estimate remains unchanged.

The company's investment cast products segment advanced 9% from the same period last year, and both segment operating income and segment margins expanded during the quarter. We're viewing this as yet another positive sign regarding the strength of commercial aerospace demand. Precision Castparts noted increased base production rates at the airframe makers, further rate increases on the 787 Dreamliner platform, and solid aftermarket demand. Revenue in the firm's forged products segment and fastener products segments jumped 13% and 42%, respectively, though both segments were bolstered by acquisitive activity. Operating income expanded in both segments but operating margins only advanced in the firm's forged products segment. The firm's fastener products segment experienced margin pressure, but we view such deterioration as more related to mix (from acquisitions) than any concerning trend to extrapolate.

Precision Castparts noted that its aerospace and power end markets remain solid, and based on some of the trends we've been witnessing, we agree. The company is looking forward to increased narrowbody and widebody aircraft deliveries in coming years (inclusive of higher 787 build rates). Plus, the high availability and low cost of natural gas is proving to be a tailwind for industrial gas turbine aftermarket sales. The firm also noted a robust pipeline from its oil and gas customers as it delivers on a couple large orders (Saudi Aramco and ADNOC) through the back half of this fiscal year and into next.

All things considered, we thought Precision Castparts' quarter was solid. The firm will face some near-term headwinds as a couple forging presses will need unexpected repairs in coming weeks, but its exposure to the robust aerospace end market has never been stronger. We continue to hold the company in the portfolio of our Best Ideas Newsletter.

Ford Posts Record Quarter in North America But European Results Remain Weak

By RJ Towner

Ford (F) reported another mixed quarter. For the second quarter, the firm saw adjusted earnings fall 39% to $0.30 per share, $0.01 greater than the consensus estimate. Revenue fell 6.1% to $33.3 billion, about $1.1 billion more than consensus expected. Woes in Europe and Asia continue to hamper the firm's profitability, but we remain confident CEO Alan Mulally will be able to navigate difficult conditions abroad and improve the firm's global cost structure. Our valuation remains unchanged.

The firm's second quarter results confirm the fantastic turnaround we've been witnessing in its North American operations. Revenue grew only about 0.1% to $19.7 billion. However, the segment posted record pre-tax profitability of over $2 billion, representing growth of 5% year-over-year. Operating margins in North America increased 40 basis points to a record 10.2%. Ford ONE has increased operating efficiencies and the leaner, meaner Ford seems on track to reach its long-term operating margin goal of 8-10%.

Market share, however, declined to 15.4% during the first half of 2012 from 16.5% for the first half of 2011. We think the main drivers of this market share loss are increased competition, stronger-than-anticipated recoveries from the Japanese manufacturers, and a lack of new product launches in the first half. We anticipate new products will drive some market share gains. Though we'd like market share to be higher, we'd rather Ford focus on profitable growth rather than taking share at the expense of earnings. The firm raised its full year outlook for SAAR to 14.5-15.0 million units.

Ford Credit has posted a $900 million profit so far in 2012, and management expects the segment to achieve its $1.5 billion profit target. Revenue has fallen slightly year-over-year to $1.9 billion, but we've previously noted that profitability will accelerate when the firm starts to lap more lease terminations, specifically in 2014 and beyond.

Europe was weak, and the region is on track to sell only about 14 million cars this year. Revenue in the region fell 21% to $7.1 billion, and the firm posted a pretax loss of $404 million. The company also forecasts losses in Europe of over $1 billion during 2012. Management was forthright in not only blaming the economy, but also taking blame for the region's cost structure. Overseas expansion of the Ford ONE platform should help lower hurdles for breakeven, and the introduction of new products should help boost market share gains. Mulally acknowledged more intense competition from Korean manufacturers as a negative for the industry, but he also seems optimistic that the firm will be able to reduce capacity. Ford's much healthier balance sheet should allow it to absorb losses while it works out a profitable business model in the region.

Asia Pacific and Africa grew revenues 9.5% year-over-year to $2.3 billion, but posted a loss due to investments and higher costs in the region. Management expects profitability to improve in the second half of the year thanks to higher pricing, new products and a favorable product mix. Ford still has a relatively small product mix in China, and we expect growth to accelerate in the region as Ford covers a greater portion of the market. Mulally noted that Ford will now cover 65% of the Chinese market (was 30%).

Ford's results have been disappointing to us this year. Though we think the firm is undervalued at current levels, the automaker faces a tough road ahead. Competition continues to intensify in the US where consumers have reacquired a taste for new vehicles, and the company is in poor shape in Europe. However, the firm has just scratched the surface of growth in Asia and will be releasing some exciting new products in the back half of 2012 in North America. With the annual dividend yield approaching 2.25%, an improving balance sheet and a focus on reducing its cost structure, we think Ford is one of the most attractive long-term investments in our coverage universe. Yet, we see plenty of challenges ahead, and barring an economic miracle in Europe, convergence to our fair value will take some time.

Private Equity Consortium Said To Be In Talks to Take Ancestry.com Private in Deal Priced in the Mid-to-High $30s

By Valuentum Analysts

According to the NYTimes DealBook, Best Idea Ancestry.com (ACOM) is in discussions with TPG Capital and Providence Equity Partners and Primera in a deal to go private at a price in the mid-to-high $30s. Though we believe Ancestry.com is worth far more than this proposed offer, we were very pleased with the news as the company represents one of the largest holdings in the portfolio of our Best Ideas Newsletter. NYTimes DealBook added, however, that there is no certainty that a transaction will take place. We continue to monitor the situation.

Transaction Update: On July, 26, 2012, we sold one third of our position in Ancestry.com (ACOM). Though we think the company remains substantially undervalued at current levels, we took profits to re-balance our position in the company and to reduce risk should a deal not go through. Specifically, we sold 148 shares at $32.46 per share, a modest profit from our cost basis, but up 50%+ since we notified that we increased our exposure to the online genealogy firm in September of last year.

Strong Growth Continues At Intuitive Surgical

By Valuentum Analysts

Surgical device maker Intuitive Surgical (ISRG) reported incredibly strong second quarter results. Earnings surged 29% to $3.75 per share, easily exceeding the consensus estimate by $0.19. Revenue increased 26% to $537 million, which was slightly higher than the Street's expectations. Gross margins were 72%, flat year-over-year, but still healthy, in our view. Though the shares are fairly valued at current levels, we think the company has fantastic growth potential.

During the second quarter, the firm's instruments and accessories business performed exceptionally well, with revenue advancing 30% to $224 million. Intuitive Surgical noted that *da Vinci* surgical procedures continue to rise in popularity, due to its minimally invasive characteristics and value in aiding surgeons. Procedures grew 26% year-over-year, and we think continued adoption of da Vinci and aging demographics should favorably impact this segment for years to come. Though prostate operations are declining as a result of "changes in disease management" (new prostate cancer drugs), strong growth continues for other procedures.

Systems sales also performed nicely, growing 23% during the second quarter to $229 million. The company sold 150 da Vinci Surgical systems in the period, up from 129 during the same quarter last year. International growth continues to lag the US, growing 16% to $101 million. However, we think this just means there is more potential for international growth in the future.

The firm generated tremendous cash flow during the second quarter (operating cash flow totaled $217 million, leaving the company with $2.6 billion in cash on its balance sheet). Without much cash needed for incremental investments, the company has a healthy amount of cash authorized to repurchase shares. Only $15 million in stock was repurchased during the second quarter, but we expect management to repurchase shares if the stock gets cheaper.

Intuitive Surgical increased its revenue guidance to 20-23% from 19-21%. The firm didn't increase its operating margin guidance of 39-40%, but that could prove to be conservative. Though we think shares of the *da Vinci* maker are fairly valued at current levels, we may look to opportunistically add a few shares to our position in our Best Ideas Newsletter portfolio.

*EDAC Posts 2Q Adjusted EPS of $0.31…*continued from page 1

…(which was raised from $0.95 per share after the firm's strong first-quarter showing). We are raising our 2012 adjusted earnings-per-share forecast to $1.05 and our 2013 earnings per share forecast to $1.35 (was $1.30). We maintain EDAC Tech is one of the most, if not the most, undervalued firm in the aerospace supply chain.

Management is notoriously conservative with giving future guidance (as it did again on its conference call), which may be stemming some new buying interest despite the fantastic quarter. As an example, management guided the Street to high-single-digit revenue expansion in its first quarter this year and then posted 19% organic top-line growth for the period. We think such large outsize top-line performance will be the case for the third and fourth quarters and remain confident EDAC Tech will be well north of $100 million in sales for 2012.

We were not only impressed with the firm's top-line expansion but margin performance was nothing less than excellent. The company's adjusted operating margin jumped to 11.1%, roughly 320 basis points better than the 7.9% mark posted in the year-ago period. We continue to expect further margin expansion through the course of the year, despite some headwinds related to the integration of its recently-purchased Cheshire manufacturing facility.

Importantly, we think CEO Pagano "has learned his lesson (from the conference call)" and is only pursuing business that will drive higher company-wide margins as throughput advances. Plus, by acquiring EBTEC Corp, a former outsourcing partner, the company by definition will capture higher margins on its revenue stream. We continue to expect margin convergence to the levels achieved by other more pristine operators such as Precision Castparts (click ticker for report: PCP) during the course of the coming commercial upswing. Aircraft deliveries at the commercial airframe makers, Boeing (BA) and Airbus (EADSY.PK), continue to expand thanks to rate increases and new product rollouts – the 787 Dreamliner. Due to the size of Boeing's and Airbus' backlogs, delivery expansion will not slow for some time, despite order trends moderating a bit.

EDAC Tech's backlog came in at $304.3 million at the end of the second quarter, which was a slight downtick sequentially, but still up from $168 million at the end of last year's quarter. Importantly, CEO Pagano mentioned on the call that Pratt & Whitney, a division of United Tech (UTX), is looking at EDAC to be a preferred domestic supply chain partner for its geared turbofan for an LTA (long-term agreement) between "$50 million to several hundred million" dollars. Pagano cites a high degree of confidence that such a deal will be struck within the next couple quarters. A deal of this magnitude will surely add to the company's burgeoning backlog, which has experienced the greatest growth of any commercial aerospace supplier during the past several years.

All things considered, EDAC Tech is trading at about 10 times our estimate of 2013 earnings on tremendous revenue and profit expansion. We continue to expect the shares to nearly double from today's levels. They have already tripled from when we first highlighted the company as one of our best ideas.

*July Retail Same-Store Sales Trends Look Positive...*continued from page 6

Gap and Kohl's Also Solid…

Gap (GPS) and Kohl's (KSS) are not similar in merchandise or apparel, but both reported much stronger than expected July results. At Gap, same-store sales surged 10% at a company-wide level, driven by 13% same-store sales growth at namesake Gap stores, 8% growth at Banana Republic, 12% growth at Old Navy, and 4% growth at international locations. Gap has struggled for the past several years, but appears to be on-track with better product offerings. Ultimately, we're not fans of the shares at current prices, but would be interested if they fell below the low end of our fair value range.

Kohl's has also struggled mightily recently, but same-store sales in July grew 1.7% compared to the Street's flat expectation. Still, same-store sales, year-to-date, are down 1.3%, and we continue to question the firm's long-term viability. We're skeptical about the firm's ability to keep up with its fast fashion competitors and are eager to see how the back-to-school season plays out.

…But Abercrombie Tumbled

We've never been fans of the highly cyclical and volatile teen retailer industry, and Abercrombie & Fitch's (ANF) second quarter simply reinforced that view. Same-store sales plummeted 10%, driven by a 5% decline in the US and a 26% fall internationally. The firm also slashed its full-year earnings per share guidance to $2.50 to $2.75, down substantially from its previous $3.50 to $3.75 prediction. Shares look cheap on a discounted cash flow basis, and Abercrombie suffered from similar problems a few years ago. We suspect the firm will be highly promotional in the back half of 2012, leading to declining margins, though sales may hold up relatively well. Still, we are not eager to commit capital to a company in such a highly competitive and changing industry.

*The US Housing Market Is Back...*continued from page 7

Additionally, some of the traditional selling pressure in the housing market caused by Baby Boomers retiring may be alleviated by underfunded retirements and the need to work longer -- meaning there may be fewer Baby Boomers populating the coast of Florida (and more opting to remain in Cleveland and Detroit, for example). Societal trends, including medical advancements, could also make remaining in cold weather climates less restrictive in the years ahead. We think parents may choose to remain close to children and grandchildren rather than move to seclusion in the SunBelt. This could support the housing markets of some of the hardest hit regions of the country, though retirement destinations may still feel a pinch for some time to come.

Unless another financial catastrophe on the scale of the recent credit crisis arises, given these factors, residential real estate is starting to look like it has finally found a "bottom." Plus, certain evolving trends point to sustainable increases in both demand and price. Though we think constituents in the homebuilder space look fairly valued at this time (on the basis of our DCF process), we would not hesitate to open a position in a builder at the right price (below the lower end of its fair value range) on improving technical/momentum indicators at that time.

Buffalo Wild Wings Reports Strong Revenue Growth But Weak Profitability Gains

By RJ Towner

Best idea Buffalo Wild Wings reported second quarter results recently. Revenue was in-line with the Street's expectations, growing 29.7% to $238.7 million. Earnings growth was not nearly as strong, growing 6.9% to $0.62 per share (shy of expectations). Net income growth was a little stronger, increasing 9.3% to $11.7 million. Though results were slightly disappointing, our fair value estimate remains unchanged.

Buffalo Wild Wings continues to post strong same-store sales expansion, with company-owned same-store sales growing 5.3% and franchise-owned same-store sales growing 5.5% during the period. Still, profitability languished as a result of higher chicken wing costs. Unfortunately for the firm, due to a nationwide draught, corn prices continue to climb, meaning chicken wing cost pressures likely won't moderate this year. Last year's chicken wing prices were also at their lowest since 2003, so the company will continue to face tough earnings comparisons.

Nevertheless, the firm still generated over $24 million in operating cash flow during the second quarter and has generated nearly $10 million in free cash flow year-to-date. CEO Sally Smith also stated that the firm intends to open 70 new company-owned and franchise-owned restaurants during the remainder of 2012. The firm also plans to purchase 9 franchise-owned restaurants in the third quarter of 2012. Buffalo Wild Wings has an agreement to open 22 new restaurants across 6 countries in the Middle East over the next several years, though we're not sure how well the wings-and-beer concept will perform overseas.

Though the firm doesn't provide much in the form of revenue guidance, it did suggest it can grow earnings 15-20% for 2012. Buffalo Wild Wings has some great catalysts during the remainder of the year, including the Olympics during the third quarter, which could help drive incremental traffic growth during a traditionally slow period. The NFL season should also continue to drive growth in the fourth quarter, as we do not expect the league's popularity to suffer at all. If anything, exciting new players like Andrew Luck and Robert Griffin III, coupled with the return of Peyton Manning, should drive more interest in the league. Prohibitively high ticket prices could make going to Buffalo Wild Wings a relatively more attractive option.

Though the shares have dropped following its earnings report, the firm still is trading within our fair value range at current levels. If shares fall below the lower end of our fair value range ($62 per share), we may look to add to our position in the portfolio of our Best Ideas Newsletter.

Apple's "Miss" Creates Intriguing Opportunity

By RJ Towner

Global technology powerhouse Apple (AAPL) reported its fiscal year 2012 third quarter earnings. Earnings grew "only" 19.6% to $9.32 per share, about $1.04 short of expectations. Revenue was also slightly less than expected, growing 22.6% to $35 billion, short of the consensus estimate of $37.5 billion. Gross margins increased by 110 basis points year-over-year, to 42.8%. However, the company still greatly exceeded its own guidance of $34 billion in revenue and $8.68 per share in earnings—albeit the firm is almost legendary for its guidance "sandbagging." Like other companies with international exposure, the stronger dollar negatively impacted revenue, and the firm expects a negative impact of approximately $400 million in its fourth quarter. Management guided to fiscal year 2012 fourth quarter revenue of $34 billion, gross margins of 38.5% and earnings per share of $7.65. Though the sell-side may have burdened Apple with unrealistic expectations, we think shares are undervalued.

Due to its limited product lines, Apple provides detailed product sales information that is extremely helpful. On the other hand, this has led to analysts forecasting iPhone, iPad and Mac sales, creating an entire new set of expectations for the company to meet. As a result, unit numbers have become almost as important for some analysts as the traditional measures like earnings and revenue.

*Apple's "Miss" Creates Intriguing Opportunity...*continued on next page

***Apple's "Miss" Creates Intriguing Opportunity…*continued from previous page**

"Disappointing" iPhone numbers seem to be the big concern. iPhone unit sales increased 28% year-over-year to 26 million, but fell 26% sequentially. Though management noted weakness in Europe, it also indicated that sales in the US and China were negatively impacted by macroeconomic headwinds. However, CEO Tim Cook attributed most of the $2.2 billion sequential decline to falling iPhone sales in China largely due to seasonal factors. CFO Peter Oppenheimer also pointed to resource-based economies as regions of weakness going forward. Further, he acknowledged "new product rumors" as negatively impacting iPhone sales.

Though some may not give much credence to this excuse, we've heard of plenty of consumers waiting for the new iPhone before upgrading. Consumers have caught on that Apple is more than due for an iPhone upgrade as the 4S was an incremental upgrade rather than a refresh. Though subscriber activations may be down at Verizon (VZ) and AT&T (T), Sprint (S) users continue to flock to the iPhone as every month marks more and more subscribers eligible for plan renewals and upgrades, in our view. iPhone 5 will be a major catalyst for the company when it is released.

iPad sales were relatively stronger on a year-over-year basis, accelerating 84% to 17 million units. This represented a sequential unit increase of 44%. Though we question whether or not the third iteration of the device will prompt many upgrades in the US, it's crucial to remember that sales of the iPad in China began just a short time ago. Still, numbers suggest that average revenue per unit (ARPU) is falling for the iPad since it isn't subsidized by the major phone carriers like the iPhone. Additionally, iPad growth is aided by education and enterprise customers, likely resulting in bulk sales at slightly lower prices. Even though the iPad may be a larger growth driver in the firm's fiscal fourth quarter, the shift in the revenue mix may cause margins to suffer. Yet, iPad purchases might lead to increased revenue for the iTunes store, compensating for the lower hardware margin.

Like the iPhone, Mac sales seem to be plagued by consumers waiting for the next product release. Mac desktop sales have somewhat languished, as unit sales of the traditional computer fell 13% year-over-year and revenues fell 19%. Portable unit sales increased 8% year-over-year, but revenue grew just 3%. Although the entire traditional computing space has been under pressure, Apple expects its installed enterprise customer base to provide a cushion beneath sales. Mac units in Asia-Pacific fell 4% year-over-year, and virtually every geographic region (except Japan) saw units grow 2-3%. We think the back-to-school season, as well as strong growth of the new MacBook Pro should help the segment recover.

The iPod might be headed toward extinction, but it still provided the company with over $1 billion in sales in the third quarter. iTunes also remains strong, with revenue growing 31% year-over-year to just over $2 billion. It often gets overlooked with so many other high profile businesses, but iTunes is steadily growing along with its hardware counterparts.

Overall, we thought the quarter was fantastic. Not many international companies are growing the top and bottom lines in excess of 20%, especially not companies with sales exceeding $30 billion quarterly. It's easy to get lost in the euphoria of ever-increasing expectations, but we like to look at the big picture. Apple has some exciting product launches in 2012 and still generated over $10.2 billion in operating cash flow during its third quarter. The firm also declared its quarterly dividend of $2.65 per share.

Looking at the company by the numbers rather than on the basis of the earnings "miss" reveals a firm that is still incredibly cheap and has more cash in its coffers than it knows what do to with ($117 billion). Though we're waiting for its technical assessment to improve before adding to our position in our Best Ideas portfolio, we think shares of Apple are very attractive at current levels. We think the company is worth $813 per share.

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, EDAC, ACOM, RIO), 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 Valuation	Price/Fair Value
Tenneco	TEN	UNDERVALUED	ATTRACTIVE	0.51
Commercial Vehicle Group	CVGI	UNDERVALUED	ATTRACTIVE	0.52
KEMET Corp	KEM	UNDERVALUED	ATTRACTIVE	0.53
Abercrombie & Fitch	ANF	UNDERVALUED	ATTRACTIVE	0.55
Jabil Circuit	JBL	UNDERVALUED	ATTRACTIVE	0.56
Huntsman	HUN	UNDERVALUED	ATTRACTIVE	0.57
EDAC Tech	EDAC	UNDERVALUED	ATTRACTIVE	0.58
Ancestry.com	ACOM	UNDERVALUED	ATTRACTIVE	0.58
FTI Consulting	FCN	UNDERVALUED	ATTRACTIVE	0.58
Endo Pharma	ENDP	UNDERVALUED	ATTRACTIVE	0.59
Superior Energy	SPN	UNDERVALUED	ATTRACTIVE	0.59
Dover Downs	DDE	UNDERVALUED	ATTRACTIVE	0.59
Revlon	REV	UNDERVALUED	ATTRACTIVE	0.59
Rio Tinto	RIO	UNDERVALUED	ATTRACTIVE	0.59
Foster Wheeler	FWLT	UNDERVALUED	ATTRACTIVE	0.60
General Cable	BGC	UNDERVALUED	ATTRACTIVE	0.60
Broadcom	BRCM	UNDERVALUED	ATTRACTIVE	0.60
Mylan	MYL	UNDERVALUED	ATTRACTIVE	0.60
Newmont Mining	NEM	UNDERVALUED	ATTRACTIVE	0.60
Hess	HES	UNDERVALUED	ATTRACTIVE	0.61
Newfield Exploration	NFX	UNDERVALUED	ATTRACTIVE	0.62
Intl Paper	IP	UNDERVALUED	ATTRACTIVE	0.62
Tempur Pedic	TPX	UNDERVALUED	ATTRACTIVE	0.63
Cisco	CSCO	UNDERVALUED	ATTRACTIVE	0.63
Hewlett-Packard	HPQ	UNDERVALUED	ATTRACTIVE	0.63
Microsoft	MSFT	UNDERVALUED	ATTRACTIVE	0.63
Insperity	NSP	UNDERVALUED	ATTRACTIVE	0.64
Teva Pharma	TEVA	UNDERVALUED	ATTRACTIVE	0.64
Safeway	SWY	UNDERVALUED	ATTRACTIVE	0.65
Google	GOOG	UNDERVALUED	ATTRACTIVE	0.65
Synaptics	SYNA	UNDERVALUED	ATTRACTIVE	0.65
Weatherford Intl	WFT	UNDERVALUED	ATTRACTIVE	0.66
Nabors Industries	NBR	UNDERVALUED	ATTRACTIVE	0.66
Big 5	BGFV	UNDERVALUED	ATTRACTIVE	0.67
Caterpillar	CAT	UNDERVALUED	ATTRACTIVE	0.67
Chicago Bridge & Iron	CBI	UNDERVALUED	ATTRACTIVE	0.67
Genpact	G	UNDERVALUED	ATTRACTIVE	0.67
Xyratex	XRTX	UNDERVALUED	ATTRACTIVE	0.68
Jarden	JAH	UNDERVALUED	ATTRACTIVE	0.69
Total	TOT	UNDERVALUED	ATTRACTIVE	0.70
Anixter	AXE	UNDERVALUED	ATTRACTIVE	0.70
Tyson Foods	TSN	UNDERVALUED	ATTRACTIVE	0.70
Omega Healthcare	OHI	UNDERVALUED	ATTRACTIVE	0.71
AAR Corp	AIR	UNDERVALUED	ATTRACTIVE	0.71
United Technologies	UTX	UNDERVALUED	ATTRACTIVE	0.72
Western Union	WU	UNDERVALUED	ATTRACTIVE	0.73
Pfizer	PFE	UNDERVALUED	ATTRACTIVE	0.73
Crane Co	CR	UNDERVALUED	ATTRACTIVE	0.73
St. Jude	STJ	UNDERVALUED	ATTRACTIVE	0.73
eBay	EBAY	UNDERVALUED	ATTRACTIVE	0.73
Medtronic	MDT	UNDERVALUED	ATTRACTIVE	0.73

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 (if not already held) 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
eBay	EBAY	Internet & Catalog Retail	10
AAR Corp	AIR	A&D Suppliers	9
EDAC Tech	EDAC	A&D Suppliers	9
Huntsman	HUN	Chemicals - broad	9
Xyratex	XRTX	Computers & Peripherals	9
Synaptics	SYNA	Computers & Peripherals	9
Nabors Industries	NBR	Energy Equipment	9
Superior Energy	SPN	Energy Equipment	9
Republic Services	RSG	Environmental Services	9
Jarden	JAH	Household Durables	9
Johnson & Johnson	JNJ	Household Products	9
Helen of Troy	HELE	Household Products	9
Ancestry.com	ACOM	Internet Software & Svcs	9
Total	TOT	Major Oil & Gas	9
Zimmer	ZMH	Medical Devices	9
Pfizer	PFE	Pharmaceuticals	9
Mylan	MYL	Pharmaceuticals	9
Omega Healthcare	OHI	REIT - Healthcare	9

Name	Symbol	Industry	VBI
Fifth Third	FITB	Banks & Money Centers	1
Northern Trust	NTRS	Banks & Money Centers	1
ViaSat	VSAT	Communications Equipment	1
Teradata	TDC	Computer Hardware	1
Fastenal	FAST	Distributors	1
K12	LRN	Education Services	1
Hyatt	H	Hotels	1
Southwestern Energy	SWN	Independent Oil & Gas	1
Ultra Petroleum	UPL	Independent Oil & Gas	1
Facebook	FB	Internet Software & Svcs	1
Cepheid	CPHD	Medical Devices	1
STAAR Surgical	STAA	Medical Equipment	1
Fred's Inc	FRED	Multiline Retail - discount	1
Ulta Salon	ULTA	Personal Services	1
Hibbett	HIBB	Retail - Sporting Goods	1
Alexander & Baldwin	ALEX	Shipping	1
Commvault Systems Inc	CVLT	Software	1
Tractor Supply Co	TSCO	Specialty Retailers	1
Mercury General	MCY	Insurance - Property & Casualty	1
Hershey Foods	HSY	Food Products - Large	2
Sherwin-Williams	SHW	Specialty Retailers	2
Wisconsin Energy	WEC	Utilities	2
Infinity	IPCC	Insurance - Property & Casualty	2
Sun Life	SLF	Insurance - Life	2

Valuentum Retail Equity Research | Visit us at www.valuentum.com | (10=best) | Data as of 6-Jul-2012

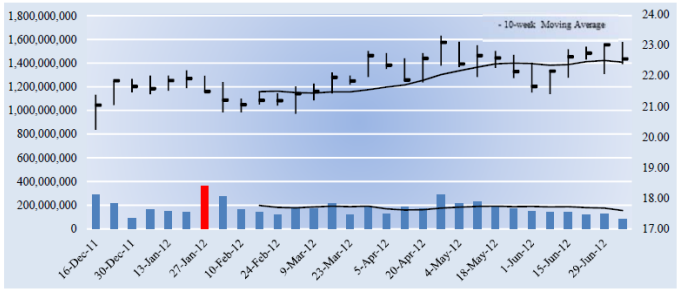
Pfizer PFE UNDERVALUED 2%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$22.54	$31.00	$23.00 - $39.00	LARGE-CAP VALUE	Health Care	Pharmaceuticals

Pfizer 's strong cash flow generation and attractive valuation represent a compelling combination. We'd take a closer look at picking up the firm's shares.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$177,390
Avg Weekly Vol (30 wks)	177,005
30-week Range (USD)	20.23 - 23.3
Valuentum Sector	Health Care
5-week Return	4.6%
13-week Return	2.1%
30-week Return	10.6%
Dividend Yield %	3.9%
Dividends per Share	0.88
Forward Dividend Payout Ratio	39.2%
Est. Normal Diluted EPS	2.26
P/E on Est. Normal Diluted EPS	10.0
Est. Normal EBITDA	30,700
Forward EV/EBITDA	6.4
EV/Est. Normal EBITDA	6.2
Forward Revenue Growth (5-yr)	-2.4%
Forward EPS Growth (5-yr)	14.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	10.4%
Return on Assets	4.7%
ROIC, with goodwill	12.9%
ROIC, without goodwill	19.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	38,949
Net Debt	12,191
Total Debt/EBITDA	1.9
Net Debt/EBITDA	0.6
EBITDA/Interest	12.0
Current Ratio	2.1
Quick Ratio	1.8

NMF = Not Meaningful

Investment Highlights

- Pfizer 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 32.6% from 20.9% during the next two years.

- Pfizer '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.

- Pfizer has a good combination of strong free cash flow generation and manageable financial leverage. We expect the firm's free cash flow margin to average about 37.1% in coming years. Total debt-to-EBITDA was 1.9 last year, while debt-to-book capitalization stood at 32.2%.

- Pfizer 's relative stock price performance, undervaluation, and dividend yield of 3.9% may make it attractive to a variety of investors. Having more types of investors interested in its shares increases the potential for future stock price appreciation, in our opinion.

- The firm sports a very nice dividend yield of 3.9%. We expect the firm to pay out about 39% of next year's earnings to shareholders as dividends.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	DECLINING
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	22.00

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
Abbott Laboratories	12.7	1.5	84.1%
Eli Lilly	12.9	1.4	85.3%
Merck	10.8	2.3	109.2%
Bristol-Myers Squibb	17.6	3.5	115.4%
Peer Median	12.8	1.9	97.3%
Pfizer	**10.1**	**1.4**	**72.7%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	67,809	67,425	61,357
Revenue, YoY%	35.6%	-0.6%	-9.0%
Operating Income	17,099	18,175	27,569
Operating Margin %	25.2%	27.0%	44.9%
Net Income	8,266	8,697	17,999
Net Income Margin %	12.2%	12.9%	29.3%
Diluted EPS	1.02	1.11	2.24
Diluted EPS, YoY %	-16.3%	7.9%	102.9%
Free Cash Flow (CFO-capex)	9,950	16,729	23,344
Free Cash Flow Margin %	14.7%	24.8%	38.0%

In Millions of USD (except for per share items)

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Valuentum Retail Equity Research | Visit us at www.valuentum.com | (10=best) | Data as of 27-Jul-2012

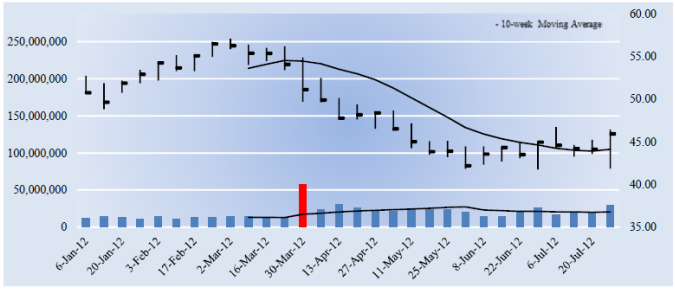
Total TOT UNDERVALUED 8.9%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$45.92	$66.00	$50.00 - $83.00	LARGE-CAP VALUE	Energy	Major Oil & Gas

Total 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 buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	GOOD
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	MEDIUM
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	44.00

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.

Company Vitals

Market Cap (USD)	$103,639
Avg Weekly Vol (30 wks)	19,681
30-week Range (USD)	41.75 - 57.06
Valuentum Sector	Energy
5-week Return	8.4%
13-week Return	-4.2%
30-week Return	-11.9%
Dividend Yield %	5.1%
Dividends per Share	2.35
Forward Dividend Payout Ratio	34.7%
Est. Normal Diluted EPS	7.10
P/E on Est. Normal Diluted EPS	6.5
Est. Normal EBITDA	42,183
Forward EV/EBITDA	3.2
EV/Est. Normal EBITDA	3.0
Forward Revenue Growth (5-yr)	1.0%
Forward EPS Growth (5-yr)	1.1%

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

Investment Highlights

• Total 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 12.2% during the past three years.

• Total'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.

• Total's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 1.6% during the past three years, lower than the mid-single-digit range we'd expect for cash cows. However, the firm's cash flow should be sufficient to handle its low financial leverage.

• The firm's shares have underperformed the market benchmark during the past quarter. Although Total's valuation appears attractive, the company is currently exhibiting characteristics of a potential value trap, and we'd still be cautious at these levels. There may be a better entry point yet.

• The firm sports a very nice dividend yield of 5.1%. We expect the firm to pay out about 35% of next year's earnings to shareholders as dividends.

Relative Valuation

	Forward P/E	PEG	Price / FV
ConocoPhillips	9.9	NMF	88.7%
Chevron	8.5	NMF	88.8%
BP	7.6	NMF	96.6%
Exxon Mobil	11.4	3.7	118.2%
Peer Median	9.2	3.7	92.7%
Total	**6.8**	**2.8**	**69.6%**

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

Returns Summary

	3-year Historical Average
Return on Equity	18.4%
Return on Assets	7.6%
ROIC, with goodwill	12.0%
ROIC, without goodwill	12.2%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	41,842
Net Debt	22,727
Total Debt/EBITDA	1.0
Net Debt/EBITDA	0.5
EBITDA/Interest	45.3
Current Ratio	1.4
Quick Ratio	0.7

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	188,455	216,206	194,585
Revenue, YoY%	17.1%	14.7%	-10.0%
Operating Income	24,977	30,763	29,363
Operating Margin %	13.3%	14.2%	15.1%
Net Income	14,181	15,936	15,380
Net Income Margin %	7.5%	7.4%	7.9%
Diluted EPS	6.32	7.06	6.78
Diluted EPS, YoY %	16.6%	11.8%	-4.0%
Free Cash Flow (CFO-capex)	6,280	2,059	6,630
Free Cash Flow Margin %	3.3%	1.0%	3.4%

In Millions of USD (except for per share items)

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

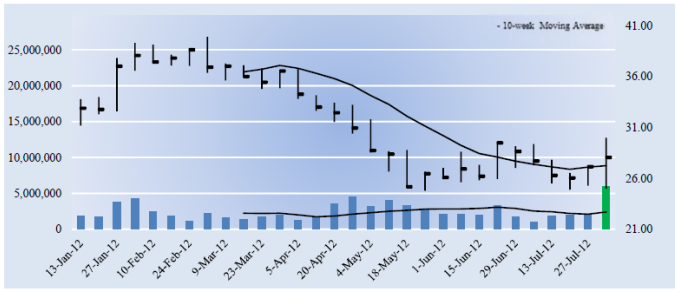
Synaptics SYNA UNDERVALUED 21.3%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$28.03	$43.00	$34.00 - $52.00	SMALL-CAP VALUE	Information Technology	Computers & Peripherals

Synaptics' strong cash flow generation and attractive valuation represent a compelling combination. We'd take a closer look at picking up the firm's shares.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy buying, or accumulation (green bar).

Company Vitals

Market Cap (USD)	$994
Avg Weekly Vol (30 wks)	2,479
30-week Range (USD)	24.78 - 39.89
Valuentum Sector	Information Technology
5-week Return	-2.1%
13-week Return	-1.6%
30-week Return	-12.2%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.70
P/E on Est. Normal Diluted EPS	10.4
Est. Normal EBITDA	125
Forward EV/EBITDA	7.5
EV/Est. Normal EBITDA	6.0
Forward Revenue Growth (5-yr)	8.0%
Forward EPS Growth (5-yr)	11.0%

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

Returns Summary

	3-year Historical Average
Return on Equity	24.5%
Return on Assets	14.7%
ROIC, with goodwill	153.3%
ROIC, without goodwill	158.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	2
Net Debt	-245
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	4.0
Quick Ratio	3.7

NMF = Not Meaningful

Investment Highlights

• Synaptics' business quality (an evaluation of our ValueCreation™ and ValueRisk™ ratings) ranks among the best of the firms in our coverage universe. The firm has been generating economic value for shareholders with relatively stable operating results for the past few years, a combination we view very positively.

• The firm's shares are trading at an attractive level at this time. Given the company's track record of solid business performance, we'd take a closer look at picking up some of the firm's shares.

• Synaptics 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 13% in coming years. Total debt-to-EBITDA was 0 last year, while debt-to-book capitalization stood at 0.7%.

• 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's technicals look very attractive. If current prices hold, the firm's moving averages could create a golden cross, a very bullish technical pattern.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	VERY BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Support, 10-week MA	27.00

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
EMC Corp	15.2	1.8	92.4%
NetApp	15.6	2.2	77.0%
SanDisk	23.3	NMF	91.9%
Western Digital	4.4	NMF	80.4%
Peer Median	15.4	2.0	86.2%
Synaptics	**13.0**	**1.4**	**65.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jun-10	Jun-11	Jun-12
Revenue	515	599	634
Revenue, YoY%	8.8%	16.2%	6.0%
Operating Income	62	73	89
Operating Margin %	12.1%	12.1%	14.0%
Net Income	53	64	77
Net Income Margin %	10.3%	10.7%	12.1%
Diluted EPS	1.50	1.80	2.16
Diluted EPS, YoY %	-2.1%	20.3%	20.1%
Free Cash Flow (CFO-capex)	105	78	82
Free Cash Flow Margin %	20.4%	13.1%	12.9%

In Millions of USD (except for per share items)

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Our Methodology – The Valuentum Buying Index (VBI)

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, income, 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 (10=best). 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.

A Rigorous, Discounted Cash Flow Valuation Assessment

Our methodology starts with in-depth financial statement analysis, where we derive our ValueCreation, ValueRisk, and ValueTrend ratings, which together provide a quantitative assessment of the strength of a firm's competitive advantages. After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation drivers) and a cost of debt (considering the firm's capital structure and synthetic credit spread over the risk-free rate), culminating in our estimate of a company's weighted average cost of capital (WACC). We don't use a market price-derived beta, as we embrace market volatility, which provides investors with opportunities to buy attractive stocks at bargain-basement levels.

We assess each company within our complete three-stage free cash flow to the firm (enterprise cash flow) valuation model, which generates an estimate of a company's equity value per share based on its discounted future free cash flows and the company's net balance sheet impact, including other adjustments to equity value (namely pension and OPEB adjustments). Our ValueRisk rating, which considers the underlying uncertainty of the capacity of the firm to continue to generate value for shareholders, sets the margin of safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

A Forward-Looking Relative Value Assessment

Our discounted cash-flow process allows us to arrive at an absolute view of the firm's intrinsic value. However, we also understand the critical importance of assessing firms on a relative value basis,

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

Our Methodology – The Valuentum Buying Index continued from previous page

versus both their industry and peers. Many institutional money-managers--those that drive stock prices—pay attention to a company's price-to-earnings (PE) ratio and price-earning-to-growth (PEG) ratio in determining whether entities are undervalued. With this in mind, we have included a forward-looking relative value assessment in our process to further augment our rigorous discounted cash-flow process. If a company is undervalued on both a price-to-earnings ratio and a price-earnings-to-growth (PEG) ratio versus industry peers, we would consider the firm to be attractive from a relative value standpoint.

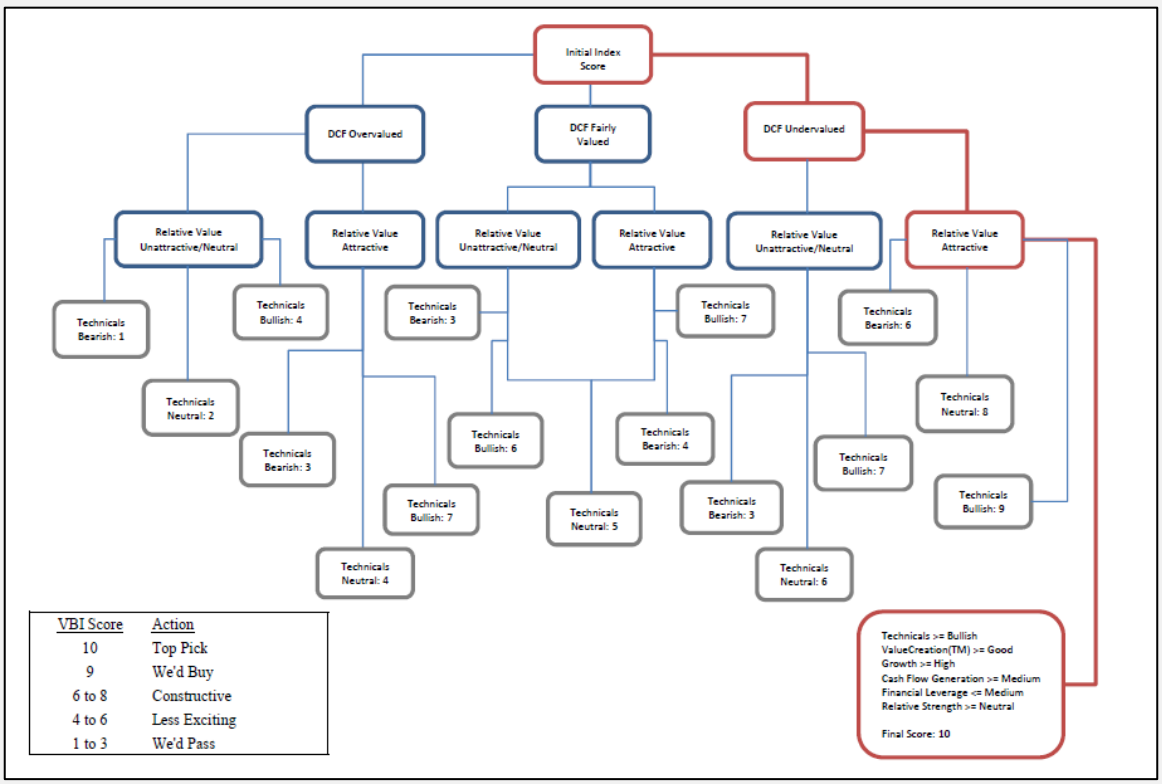
Avoiding Value Traps and Opportunity Cost

Once we have estimated a firm's intrinsic value on the basis of our discounted cash-flow process, determined if it is undervalued according to its firm-specific margin of safety bands, and assessed its relative value versus industry peers, we then evaluate the company's technical and momentum indicators to pin-point the best entry and exit points on the stock. An evaluation of its moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to our technical and momentum assessment of a company's stock.

Putting It All Together - the Valuentum Buying Index

Let's follow the red line on the flow chart below to see 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 Pass"). 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.



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

Valuentum Best Ideas Newsletter: Volume 2, Issue 8

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