OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

September 15, 2012
Volume 2 Issue 9

Valuentum Securities Inc.
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Portfolio Return	Benchmark Return	Outperformance
40.7%	13.5%	27.2%

Portfolio Inception Date: May 17, 2011

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We Remain Laser Focused Despite a 40%+ Return Thus Far

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Our portfolio (see page 8) has performed wonderfully since the previous edition of our Best Ideas Newsletter. The absolute return is now over 40% for the first time ever (30%+ annualized), and our relative outperformance continues to hover just under 30 percentage points. We are well-positioned for continued outperformance, and we expect a strong finish to 2012 from portfolio constituents.

The past several weeks have been jam-packed with news, from PIMCO's Bill Gross calling the "cult of equity" dead and billionaire start-up genius Peter Thiel dumping his a large pre-IPO stake in Facebook (FB) to CEO Mark Zuckerburg finally making his first public appearance since the "Faceplant" offering. Apple released its highly-anticipated iPhone 5 and Bernanke announced monetary policy expansion with unlimited-duration quantitative easing. There was also the downgrade of the US government debt by credit-rating firm Egan-Jones and Moody's threatening to do…

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Unlimited QE Sends Commodities Soaring

By RJ Towner

The Federal Reserve announced additional rounds of quantitative easing with a major departure from QE1, QE2, and operation twist—this one comes with unlimited duration. Federal Reserve Chairman Ben Bernanke essentially gave the Fed freedom to continue to purchase mortgage backed securities and increase the money supply for as long as necessary, while keeping interest rates low until at least 2015. We agree with Bernanke's move, as one of the major lessons learned from the Great Depression was that raising rates too early (or engaging in any contractionary monetary policy) could immediately choke off growth and put an end to any fragile recovery. Bernanke is well-schooled in Depression economics, so the move is consistent with what we were expecting from the Fed chief.

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the same unless budget negotiations lead to a downward trend in the government's debt/GDP ratio. And then there's House Speaker John Boehner saying he's not sure that Congress and President Obama will reach a deal to avoid the fiscal cliff. That's no shortage of news—and yet with all of this, the stock market, as measured by the S&P 500 SPDR Index (SPY), has reached levels not seen since late 2007 (before the fall of Lehman, Bear and AIG) – five-year highs!

"We continue to encourage investors to keep a level head, and we reiterate that those that place too much emphasis on economic prognostications can be left behind as the market pushes ahead (as it has for the past several months)."

Could you imagine if you had listened to bond-king Bill Gross (please note he is not the equity king), Marc Faber (author of the Gloom, Boom & Doom report) or the Economic Cycle Research Institute (ECRI), which called for a recession in September 2011 – some 30% in the S&P 500 ago (yes, 30%!). Aside from being incorrect, bearish economic prognosticators fully admit that their expectations have little to do with what may happen to the equity markets in the future (as Bernanke's unlimited QE has shown). Still, such admissions do not stop many intelligent investors from rushing to the exits at the first out-cry of a recession possibility. We continue to encourage investors to keep a level head, and we reiterate that those that place too much emphasis on economic prognostications can be left behind as the market pushes ahead (as it has for the past several months). We think long-term equity prices are driven by expectations of the discounted (risk-adjusted) future free cash flows and earnings of companies through all aspects of the economic cycle (both upturns and downturns). It's also very important to note that, despite the constant media fear-mongering by perma-bears, the equity markets have now fully-recovered from the Great Recession. What a ride it has been.

"Reports from the twelve Federal Reserve Districts suggest economic activity continued to expand gradually in July and early August across most regions and sectors."

– Fed Beige Book, released August 29

So what should investors think of the health of the economy? Well, certainly the domestic economic recovery is fragile, and we are witnessing weakness from the likes of bellwethers such as FedEx (FDX) and Intel (INTC), which hasn't been very comforting. Certainly, less favorable exchange rates, slowing growth in China, a recession in many parts of the Eurozone, and meager earnings expansion during the third quarter are not topics to dismiss recklessly. But a look at the Fed Beige Book, released August 29, suggest conditions aren't as bad as many pundits may lead you to believe:

> Reports from the twelve Federal Reserve Districts suggest economic activity continued to expand gradually in July and early August across most regions and sectors. Six Districts indicated the local economy continued to expand at a modest pace and another three cited moderate growth; among the latter, Chicago noted that the pace of growth had slowed from the prior period. The Philadelphia and Richmond Districts reported slow growth in most sectors…
>
> …most Districts indicated that retail activity, including auto sales, had increased since the last Beige Book report, although Cleveland, Chicago, St. Louis, Dallas, and San Francisco noted the retail improvements were small. Atlanta said that retail growth had slowed, while Philadelphia indicated growth in retail sales was

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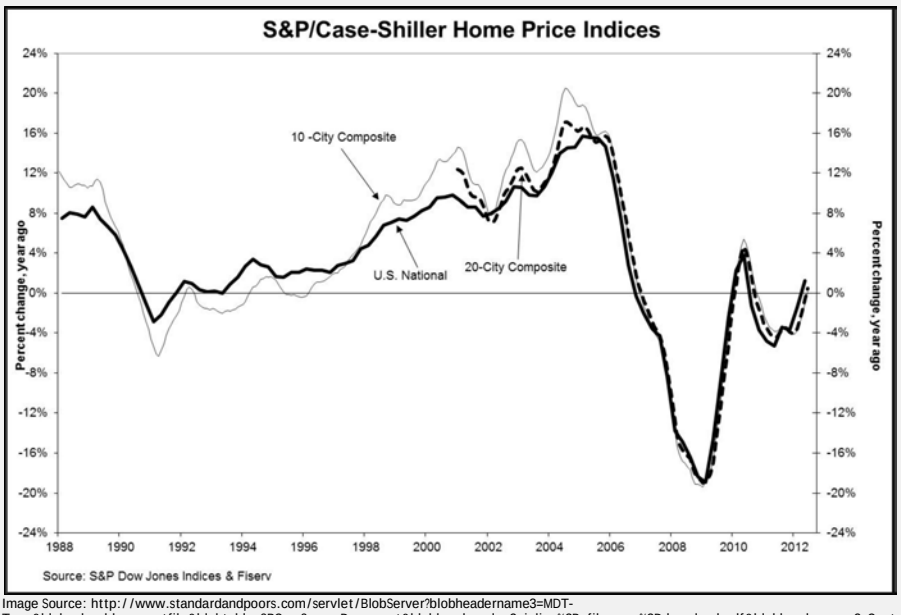
somewhat faster than in the previous report. Boston, New York, Richmond, Atlanta, Minneapolis, and San Francisco recorded strong performance in tourism…

…real estate markets were generally said to be improving. On the residential side, all 12 Districts cited increases in home sales, home prices, or housing construction. Reports on commercial real estate markets were also generally positive, although San Francisco noted stable demand, Boston indicated conditions were not much changed since the last report, and Richmond, Chicago, and St. Louis said commercial real estate conditions were mixed. District reports indicated that energy and mining activity was generally high and increasing.

"Though negative equity remains a concern (roughly 30% of US homeowners with a mortgage are estimated to be underwater), the housing market is certainly showing signs of life. Not only are all the builders seeing strong increases in housing backlogs, but we're finally seeing home value appreciation."

Further, the data that we've been receiving from the domestic housing markets has been very encouraging as of late. Though negative equity remains a concern (roughly 30% of US homeowners with a mortgage are estimated to be underwater), the housing market is certainly showing signs of life. Not only are all the builders seeing strong increases in housing backlogs, but we're finally seeing home value appreciation. The June reading on the Case-Shiller index, released August 28, marked the first time since the summer of 2010 that all three headline composites – the national, the 10-city, and the 20-city—were higher at the end of the second quarter. The national composite advanced 1.2% in the second quarter of 2012 versus the same period a year ago and up 6.9% sequentially. We're growing more confident with each data point that the housing recovery is underway (and that the bottom is finally in).



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Please see ***We Remain Laser Focused …*on next page**

***We Remain Laser Focused …*continued from previous page**

And after a somewhat weaker July, where the SAAR came in at 13.8-14.0 million units, auto sales rebounded aggressively during August. TrueCar.com estimates the August SAAR at 14.2 million units, while Edmunds anticipates the SAAR to come in around 14.5 million units for the month. AutoData estimates the SAAR came in at 14.52 million units. Yet, the most bullish of all, forecasting firm LMC Automotive thinks sales hit their highest levels in 4.5 years during the month and pegs total light-vehicle sales for 2013 above 15 million. Best Ideas Newsletter holding Ford (F) saw total August sales surge 13% year-over-year, selling 197,249 units, higher than expected.

"…we are heavily exposed in our Best Ideas portfolio to the coming boom in commercial aerospace deliveries via the supply chain, as order backlogs at both Boeing (BA) and Airbus (EADSY.PK) represent roughly 7-8 years' worth of production. Very few industries have both this visibility and expected growth."

There are several other bright spots in the economy. For one, we are heavily exposed in our Best Ideas portfolio to the coming boom in commercial aerospace deliveries via the supply chain, as order backlogs at both Boeing (BA) and Airbus (EADSY.PK) represent roughly 7-8 years' worth of production. Very few industries have both this visibility and expected growth. EDAC Tech (EDAC) remains our top pick in the space, as we think shares are worth north of $20 each (offering substantial upside). We also continue to hold small-cap favorite Astronics (ATRO) and mid/large cap idea, Precision Castparts (PCP).

E-commerce sales also continue to perform well, with data from the US Census Bureau, released August 16, showing the second quarter measure increased over 15% from the same period a year ago – a nice pace. We think this bodes particularly well for the payment processors we hold in our portfolio, namely Visa (V) and eBay (EBAY). In fact, ChannelAdvisor recently noted that eBay saw same-store-sales for July jump nearly 28%, the highest growth number the firm has seen since they started tracking data. Accelerating same-store-sales trends at eBay are clearly evident by the blue line below.

"E-commerce sales also continue to perform well, with data from the US Census Bureau, released August 16, showing the second quarter measure increased over 15% from the same period a year ago – a nice pace."

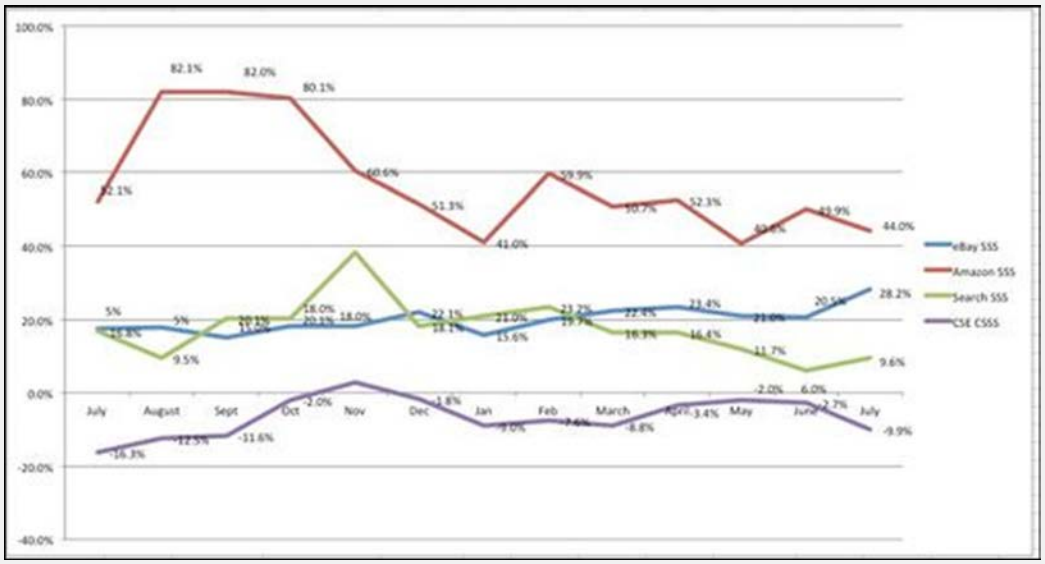

Image source: http://ebaystrategies.blogs.com/ebay_strategies/2012/08/july-2012-channeladvisor-same-store-sales-sss-for-ebay-amazon-search-and-cse.html

And finally, Bernanke's announcement of unlimited monetary accommodation will certainly aid in the domestic recovery in that it won't choke it off…

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PayPal Expands Its Network; eBay Remains One of Our Favorite Holdings

By RJ Towner

Payment processer PayPal, a unit of Best Ideas Newsletter portfolio-holding eBay (EBAY), inked a deal with Discover (DFS) to gain access to its network of merchants. PayPal can now issue cards to its 50 million users in order to perform point of sale transactions at Discover's 7 million+ merchant network. In return, Discover will receive a small fee from PayPal on transaction processing.

It goes without saying that this deal is a step in the right direction for PayPal; however, it is a somewhat shocking admission that perhaps cards will remain the preferred payment solution rather than mobile devices. However, this deal could also be viewed as Discover partnering with PayPal in order to establish a partnership in the mobile payment space.

Recently, McDonald's (MCD) announced it is testing PayPal payments in France to reduce order and wait times, but we're uncertain about the degree of acceptance. We think PayPal still has a long way to go; it has 50 million accounts compared to the billions of Mastercard's (MA) and Visa cards (V) in circulation. Still, we like PayPal's potential opportunities.

Ultimately, the PayPal-Discover deal could be an acknowledgement that a hybrid mobile and card model may be the correct method for the industry. Considering that not all cell phone users will make the transition to mobile transactions, there will still be a tremendous amount of users unable to access mobile payment networks. Though we think mobile payment adoption will be relatively fast, it will still take some time. For one, it took a long time for credit card networks to gain widespread acceptance—in fact, some places still only take cash. Credit and debit card payments aren't going away anytime soon, and that's why we're still comfortable holding Visa in our Best Ideas Newsletter portfolio. The payment processing space is an industry with tremendous growth potential and significantly high returns on invested capital, and we think eBay and Visa are the two best ways to capitalize on these strong industry fundamentals.

All things considered, PayPal's online transaction processing business is growing at a nice clip, and the platform offers users a safe, convenient online transaction system. eBay's fixed-price Marketplace also has been recently competing more effectively with Amazon (AMZN), making the fundamentals of the entire company quite attractive, in our view.

Investment Considerations	
DCF Valuation	UNDERVALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	AGGRESSIVE
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Support, 10-week MA	43.00

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
Expedia	17.2	1.3	81.9%
Amazon.com	310.1	2.5	104.4%
Liberty Interactive	15.2	1.8	106.4%
Priceline.com	19.3	1.6	80.2%
Peer Median	18.2	1.7	93.2%
eBay	19.7	1.5	75.6%

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

Financial Summary	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	9,156	11,652	14,215
Revenue, YoY%	4.9%	27.3%	22.0%
Operating Income	2,075	2,373	3,650
Operating Margin %	22.7%	20.4%	25.7%
Net Income	1,801	3,229	3,130
Net Income Margin %	19.7%	27.7%	22.0%
Diluted EPS	1.36	2.46	2.38
Diluted EPS, YoY %	-25.9%	81.3%	-3.1%
Free Cash Flow (CFO-capex)	2,022	2,310	2,973
Free Cash Flow Margin %	22.1%	19.8%	20.9%

In Millions of USD (except for per share items)

August Auto Sales Rebound in a Big Way

By RJ Towner

After a somewhat weaker July, where the SAAR came in at 13.8-14.0 million units, auto sales rebounded aggressively during August. TrueCar.com estimates the August SAAR at 14.2 million units, while Edmunds anticipates the SAAR to come in around 14.5 million units for the month. AutoData estimates the SAAR came in at 14.52 million units. Several sources report that incentive spending is trending down when compared to last year, suggesting profitability in the US will be robust.

Best Ideas Newsletter holding Ford (F) saw total sales surge 13% year-over-year, selling 197,249 units (retail sales increased 19%). The 13% increase was higher than expected, and we were most pleasantly surprised to see F-Series sales jump 19% year-over-year, after the model only increased marginally last month. The new Escape has been a blockbuster success, with sales surging 37% to a touch over 28 thousand units—an August record. The Escape's strength, combined with strong gains from the Fusion, Focus and Taurus, should continue to boost Ford's operating margin. Lincoln's headline sales increased just 1.4%, but its adjusted sales--after excluding the now discontinued Town Car--increased an impressive 18.4%. Though some Town Car sales are likely being replaced by other models, we think Lincoln is slowly gaining traction with younger consumers and shedding its "old" image. We're big fans of Ford at its current valuation.

General Motors (GM) saw sales grow 10% year-over-year during August to 240,520 units. Retail sales outpaced this mark, growing 11% thanks to strength across all brands. The Chevy Equinox, which is comparable to a Ford Escape, similarly set an August record with unit sales increasing 22%. This light SUV/crossover category--marked by decent size and better fuel economy than larger models--seems to be the new sweet spot in the US market, as Acadia and SRX sales increased 11% and 26%, respectively. GM's valuation isn't quite as compelling as Ford's, in our view, but we still think shares are cheap. As with its competitor, overcapacity in Europe will weigh on profitability in the near term. Shares score just a 3 on the Valuentum Buying Index (our stock-selection methodology).

US sales at Toyota (TM) surged 46% to 188,520 as the carmaker continues to lap weak summer months following supply-chain disruptions. Though sales gains didn't exceed expectations, the firm experienced strength from the Camry, Corolla and Prius, which drove a 47% increase in passenger car sales. Light truck sales grew 48%, driven by strong Tacoma (pick-up) sales, though the F-Series still dwarfs its competitors. Shares are trading at a discount to our fair value range, and they score a 7 on the Valuentum Buying Index, so we're intrigued somewhat by shares at this level. The firm isn't as highly leveraged to Europe as Ford or GM, but profitability has been dampened by the strong Yen. Yet, given the enormous level of global macroeconomic uncertainty, we think our current Ford position in our Best Ideas portfolio gives us ample exposure to the auto sector.

Volkswagen (VLKAY) sales surged 63% year-over-year, to 41,011 vehicles, which was the company's best August since 1973. With its focus on the US market, the firm has made significant strides toward becoming a major player. Audi is quickly becoming the Michael Kors (KORS) of US cars, stealing share from the established players like BMW (BMW) and Mercedes. Fiat's Chrysler posted a 14% increase in August to 148,472 units, continuing a 29-month streak of year-over-year growth. Though we don't like the brand's position as much as we like Ford's, we think the brand could steal some share from GM due to its superior marketing and fresh styling.

Weaker Consumer Confidence Doesn't Impact August Retail Sales

By RJ Towner

We've heard it all the past several weeks—slumping consumer confidence combined with timing delays were going to hammer retail sales growth during the back-to-school season. On the contrary, August revealed some of the strongest data in months. We dig into the winners, and we dig into the losers—but there weren't many of the latter.

The strongest performer of the bunch was luxury retailer Nordstrom (JWN), which posted aggregate same store sales growth of 21%, thanks to 24% expansion at Nordstrom and 7.1% growth at Nordstrom Rack. The headline growth number sounds incredible, but it was positively impacted by 8 days of the Nordstrom Anniversary Sale moving into August. Still, the firm posted an 8.4% June and July comp, which is strong for a company connected so closely with aspirational spending. Still, shares trade just above the midpoint of our fair value range, so we aren't enthralled about the firm's return prospects from these levels. However, we do love its decision to double Nordstrom Rack stores by 2016.

Another aspirational retailer, Limited Brands (LTD), owner of Victoria's Secret, Henri Bendel (but oddly no longer the owner of The Limited) and Bath and Body Works, saw same store sales rise 8% year-over-year during August. Same store sales at Victoria's Secret increased 9% year-over-year, and we continue to be impressed with the brand's ability to raise prices and drive product innovation. Though the US market for the underwear maker is mostly saturated at this point, the brand has a solid reputation and continues to exceed consumer and investor expectations. Nevertheless, scoring a 3 on our Valuentum Buying Index (our stock-selection methodology) doesn't get us too excited about Limited's investment prospects at this time.

Unlike Nordstrom, which has continued to post strong comps nearly every month, Macy's (M) hasn't had robust sales growth through the course of 2012. However, August was an exception, with total sales growing 5.7% year-over-year, to $1.8 billion, on a strong 5.1% same store sales advance. CEO Terry Lundgren made no mention of overly promotional activity during the back-to-school season (which we like), but he did point to continued excitement surrounding new merchandise. This harkens back to the strategy Lundgren implemented a few years ago, giving regional purchasing managers discretion on product mix, which has improved inventory turns and unique regional assortments. It also doesn't hurt that competitor J.C. Penney (JCP) is in the midst of a major transformation. Though the retailer scores just a 3 on our Valuentum Buying Index, we think Macy's shares could have further valuation upside ($66 per share is the high end of our fair value range).

Kohl's (KSS), a name we've been skeptical about during the past few months, reported surprisingly strong results for August, with total sales growing 5.3% and same store sales growing 3.4%. Kohl's CEO Kevin Mansell noted cleaner inventory and better merchandise as primary growth drivers, a view we agree with. Unfortunately, the retailer lags others in time to market and caters to a consumer that has continued to struggle through 2011 and 2012. Still, we can't help but think J.C. Penney's lack of discounting and Sears' (SHLD) practically non-existent apparel strategy has made the heavily-promotional retailer look relatively more attractive for bargain hunters. Though we don't think Kohl's shares are particularly expensive at current levels—even trading at a discount to the midpoint of our fair value range—we are still weary of the firm's long-term prospects.

Please see *Weaker Consumer Confidence Doesn't Impact August Retail Sales...*on page 13

Our Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
40.7%	13.5%	27.2%

Portfolio Inception Date: May 17, 2011

Our Best Ideas portfolio had another solid month as we crossed the 40% return threshold for the first time ever (30%+ annualized performance). Plus, our relative outperformance remains strong as we are outpacing the S&P 500 by over 27 percentage points since inception (May 2011). Apple (AAPL) was the biggest source of alpha for us during the period, as the company won a landmark case against Samsung and announced the long-awaited iPhone 5, with much fanfare. Buffalo Wild Wings (BWLD) also recovered nicely during the period, and eBay (EBAY) crossed $50 per share before pulling back modestly. Fed Chief Bernanke's announcement of unlimited QE also buoyed Rio Tinto (RIO) from the date of the previous edition of our Best Ideas Newsletter.

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. Still, we think patience and executing successfully on our systematic process—the Valuentum Buying Index—trumps any sudden urge to put cash on the sidelines haphazardly to work.

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 September 15, 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 ($)	Current Value ($)	% of Portfolio	% Return
Bullish											
Apple Corp.	AAPL	10	7	17-Jun-11	328.99	16	5,270.84	691.28	11,060.48	7.9%	110.6%
Altria Group	MO	8	6	28-Jun-11	26.43	252	6,667.36	32.94	8,300.88	5.9%	33.1%
Ancestry.com	ACOM	10	7	17-May-11	32.43	298	9,663.76	30.95	9,223.10	6.6%	-4.6%
Astronics	ATRO	10	7	6-Jun-11	24.93	141	3,522.13	30.02	4,232.82	3.0%	20.2%
Buffalo Wild Wings	BWLD	7	3	13-Jul-11	65.42	77	5,044.34	83.55	6,433.35	4.6%	27.5%
eBay	EBAY	10	7	3-Oct-11	31.04	200	6,207.00	49.97	9,994.00	7.1%	61.0%
EDAC Tech	EDAC	9	9	6-Jun-11	5.23	673	3,536.79	14.15	9,522.95	6.8%	169.3%
Financial Select SPDR Fund	XLF	NA	NA	9-Jan-11	13.46	150	2,026.00	16.28	2,442.00	1.7%	21.4%
Ford Motor	F	7	3	12-Sep-11	10.69	650	6,955.50	10.53	6,844.50	4.9%	-0.9%
Health Care ETF	XLV	9	9	22-May-12	36.60	125	4,582.00	39.67	4,958.75	3.5%	8.8%
Intel	INTC	6	9	12-Sep-11	19.89	100	1,996.00	23.37	2,337.00	1.7%	21.4%
Intuitive Surgical	ISRG	5	3	22-May-12	532.13	5	2,667.65	501.65	2,508.25	1.8%	-6.0%
Precision Castparts	PCP	8	3	6-Jun-11	152.07	40	6,089.80	161.39	6,455.60	4.6%	6.1%
SPDR S&P Bank ETF	KBE	NA	NA	9-Jan-12	21.07	100	2,114.00	24.63	2,463.00	1.8%	17.4%
Republic Services	RSG	8	9	19-May-11	31.42	201	6,329.42	28.61	5,750.61	4.1%	-3.7%
Rio Tinto	RIO	9	6	22-May-12	46.40	75	3,487.00	53.18	3,988.50	2.8%	15.9%
Visa	V	7	6	30-Nov-11	107.46	60	6,461.30	134.25	8,055.00	5.7%	25.1%
Cash									36,081.38	25.7%	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		**140,652.17**		**40.7%**
S&P 500 Index (SPY)				17-May-11	132.69	754	100,000.00	147.24	110,965.41	97.79%	
Cash									2,505.84	2.21%	
Benchmark Portfolio Value									**113,471.25**		**13.5%**
Relative Outperformance											**27.2%**

This portfolio is not a real money portfolio. Data as of September 15, 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.

GM Halts Volt Production; Another Reason Why We Prefer Ford

By Valuentum Analysts

Automaker General Motors (GM) halted production of its Hybrid Chevy Volt for at least four weeks. Since the Volt was supposed to be an innovative product, this announcement certainly comes as a shock. We estimate that GM has spent tens of millions of dollars marketing the vehicle (who hasn't seen the commercial where drivers brag about not going to gas stations?), which appears to have resulted in just 10,000 units sold versus a company projection of 45,000.

What went wrong with the Volt? We think it was a bevy of factors. For one, even with a $7,500 tax credit, the sticker price for the plain-Jane model is nearly $32,000—it's not prohibitively high, but a consumer can purchase several fine automobiles from GM, Ford (F), Chrysler and Toyota (TM) for a lot less. The MSRP on a Ford Focus or a Ford Fiesta is less than half of that and still provides drivers with good fuel economy.

Another contributor to the weakness with the Volt is the electronic car model itself. In the Sun Belt—Florida, Texas, Arizona, etc.—a 40 mile driving radius simply isn't enough due to suburban sprawl (the average one way commute time is growing). Therefore, drivers have to opt for gas consumption with their electric models, which register 35 mpg with city driving and 40 mpg with high way driving. While both figures are significant improvements over SUVs or even cars just five years ago, the mpg numbers are roughly in-line with non-hybrid, combustion engines of cars that cost less than half the price of the Volt. The vehicle might sound attractive to a city driver, but urban drivers might live in a high-rise with no access to a power outlet in a public garage (or they may not have a garage at all). As a result, electric cars don't really fit either demographic (as GM has found out).

Though we certainly appreciate the Volt's fuel economy, we wouldn't be surprised to see continued innovation with respect to the combustion engine, leading to increased fuel-efficiency gains. Today, fuel economy on some small cars is on par with hybrids like the Toyota Prius. We wouldn't be surprised to see the innovators in the US automotive industry--namely Ford and Toyota--make tremendous fuel efficiency gains with new or existing models, rendering electric/gas hybrids somewhat obsolete.

We're much bigger fans of Ford and Toyota than GM, but we continue to think Ford is the best investment opportunity of any auto OEM. Clearly Toyota has a superior cost structure, but we think that fact is already reflected in its valuation (read: we think there is more upside with its peers). Not only is Ford pushing the limits with fuel economy on small combustion cars, but we think the firm is dedicated to catching up to GM in China. Ford CEO Alan Mulally announced the company will bring luxury Lincoln vehicles to China by 2014. It may seem counter-intuitive, but we'd rather have Ford jumping into the market while everyone is struggling, rather than trying to play catch-up when the market is booming.

Without question, both Ford and GM are cheap at current levels. However, the Volt mishap is a prime example of why we think Ford is a better company that understands what the consumer wants, especially in North America. Ford scores just a 3 on the Valuentum Buying Index (our stock-selection methodology). However, we think there is substantial technical support for the company's shares around the $9 per share level, which indicates to us that downside may be limited. Given the tremendous valuation upside and technical support, we hold Ford's shares in the portfolio of our Best Ideas Newsletter.

Best Buy on Its Way to Becoming a Value Stock

By RJ Towner

Big box electronics retailer Best Buy (BBY) reported weaker-than-expected results for its fiscal year 2013 second quarter. Revenue shrank 3% year-over-year to $10.5 billion, which was slightly worse than the Street expected. Earnings fell nearly 50% year-over-year to $0.20 per share, which was significantly worse than expected, driven by gross-margin compression of 110 basis points, to 24.3%. Management announced Hubert Jolly will take over as CEO, but because the back half of the year is so uncertain, the firm was unable to give investors earnings guidance.

Though results came in below expectations, we think they weren't as terrible as some may have assumed. In addition to maintaining market share year-over-year, US same-store sales fell 1.6%, significantly better than last year's 3.7% decline. The company continues to close stores, leading to a domestic big-box square-footage decline of 4% year-over-year and a 1% increase in sales per square feet. According to the firm, increases in tablets, e-readers, smartphones and appliances were not enough to offset declines from computers, gaming, televisions and digital imaging.

The smartphone, possibly the most disruptive product ever created, has somewhat eliminated the need for basic cameras, simple computers and MP3 players. Although we're encouraged by Best Buy's adoption of smartphones, we think the product could be a long-term impediment to the retailer's survival. Contrary to popular opinion, Amazon's (AMZN) superior pricing and lack of sales tax is only partially responsible for Best Buy's recent decline. What may not be common knowledge is that the electronics industry is in the midst of a lull as it relates to new gadget innovation. Aside from smartphones, which also displace GPS devices, there haven't been many must-have gadget launches in the past few years (excluding Apple products, which we discuss in the subsequent paragraph). TV's have become commoditized at this point, while most media has gone digital. Plus, no new gaming consoles have hit the market in several years. Simply put, another contributing factor to the decline is that there may be no reason for consumers to rush into Best Buy at this time.

For the past several years, virtually all innovation in the electronics industry has come from Apple. The iPod, iPhone, iPad and even iTunes have been game-changers. As great as these products are, there's little reason for consumers to go into Best Buy to test out an iPad when it can be done at an Apple store. Or more likely, many consumers are already familiar with the variety of products Apple offers due to previous iterations. The one underestimated possibility is that competition heats up in the tablet space. If the Surface (MSFT) and Samsung Galaxy can pick up steam, there would then be incentive for consumers to come into Best Buy stores to try them out. Of course, that is still only a possibility, and we're not betting on it. We hold Apple in the portfolio of our Best Ideas Newsletter.

Best Buy's International segment faces the same challenges, but its 8.2% decline is more attributable to macroeconomic weakness abroad, in our view. The company's balance sheet remains relatively strong, as it doesn't have much debt. Though the firm eliminated its revenue and earnings guidance, it announced that it is on track to produce $1.25 billion to $1.75 billion in free cash flow during its 2013 fiscal year. Best Buy sports a fantastic Valuentum Dividend Cushion score, so we think the dividend is relatively safe at current levels, especially since the firm suspended its buyback program.

Not long ago, we cautioned that buying into the stock because of a possible private equity bid probably wasn't a wise choice, and now the prospects of a bid seem to be reduced. Still, we think Best Buy is undervalued at current levels, but its score of 3 on our Valuentum Buying Index suggests there may be more downside before conditions improve. Even though the valuation is compelling, we think the risk/reward profile isn't attractive enough for us to become interested in the stock. We'd wait for the stock to fall even further to increase our margin of safety, and our Valuentum Buying Index, which helps us avoid value traps, requires a material positive improvement in technical and momentum indicators before giving the company a thumbs-up.

Intel's Guidance Cut Comes As No Surprise

By Valuentum Analysts

Chip giant Intel (INTC) updated its third quarter outlook. The firm expects revenue of $12.9-$13.5 billion compared to its previous guidance of $13.8-$14.8 billion and below the consensus estimate of $14.2 billion. Gross margin expectations were reduced to 62% (+/- 1%), from its previous guidance midpoint of 63%. On the positive side, R&D spending will come in at the low-end of the firm's guidance range of $12.1-$12.7 billion.

Intel cited macroeconomic headwinds, reductions in supply chain inventory, lower enterprise spending and weaker emerging markets demand as the main drivers behind the guidance cut. Yet, the data center business continues to meet expectations, suggesting that weakness is mainly isolated to its PC operations. We're not surprised by the outlook revision, as recently we've seen mediocre data from computer OEMs (as enterprises navigate the shift towards mobile computing). This also suggests the OEMs aren't expecting much out of Windows 8 (MSFT), as they aren't loading up on inventory.

Regardless, this news doesn't negatively impact our long-term intrinsic valuation of the company, which we expect to continue to dominate traditional computing and make incremental gains in the mobile market. We continue to believe that shares are undervalued and boast a very healthy dividend yield.

FedEx Reduces Guidance on Weak Growth

By Valuentum Analysts

Global logistics giant FedEx (FDX) cut its earnings guidance for its fiscal year 2013 first quarter citing weakening global demand. The firm lowered its bottom-line guidance range for the quarter to $1.37-$1.43 per share from its previous range of $1.45-$1.60 per share (below the consensus estimate of $1.56). Revenue will also likely be lower than expected when the company reports its results for the period, as management noted that revenue from its FedEx Express segment is not performing as strongly as earlier anticipated. We're sticking with our fair value estimate, despite the downward quarterly revision.

Though slowing growth in Asia and weakness in Europe will take their toll on the top line, we were slightly surprised at the magnitude of the earnings revision, especially since the firm announced cost savings programs during its fiscal fourth quarter. We think some of the weakness we've seen in China is probably having a negative impact on the firm's pricing. Demand is down across the board, as we've seen weak results in the country from retailers like Ralph Lauren (RL) and Nike (NKE). Additionally, we think fuel cost increases have outpaced expectations, which is another contributor to lower profitability (largely offsetting savings from more fuel-efficient aircraft).

Regardless, we think FedEx's shares are fairly valued at current levels. The company registers a 6 on the Valuentum Buying Index (our stock-selection methodology), and we just aren't very excited about the firm as long as global economic growth remains constrained. We'd look for shares to fall to the mid-$60's before becoming interested in the name for our Best Ideas Portfolio.

*We Remain Laser Focused ...*continued from page 1

prematurely. Lessons learned from the Great Depression reveal such policy is the right course of action. An inflationary response to this expansionary endeavor may indeed be positive if it causes in this order: higher housing prices (which is happening); greater consumer confidence due to reduced negative equity in underwater mortgages; increased spending on high-priced (inflated) goods as a result of greater confidence; higher sales growth and profits for better-managed firms as a result of more consumer spending, higher equity prices due to greater profit expansion at companies; and finally, greater wealth for Americans as a result of stronger housing and stock markets. Bernanke is well aware of this virtuous cycle.

As we had indicated the last time the credit rating agencies threatened a downgrade, rating revisions of the US debt offer no new information to the markets and have limited implications (absent some technical considerations regarding investment shops that can only hold certain top-rated issues). For one, investors are well aware of the credit quality of the US (meaning a downgrade won't change their opinion one way or the other), and as it relates to the possibility of a greater likelihood of default, the US government can simply print additional currency. Under this event, an inflationary response from a larger money supply may indeed be positive, as we noted above.

Further, we believe the coming 'fiscal cliff' will be resolved in a pro-economic way that will not jeopardize the domestic economic recovery, despite current Congressional rhetoric that runs to the contrary at this time. After all, Congress' very own Budget Office predicts that economic contraction will occur if the so-called "fiscal cliff" is not thwarted. All things considered, there are many uncertainties out there, but we remain laser focused on generating continued outperformance in the portfolio of our Best Ideas Newsletter.

*Unlimited QE Sends Commodities Soaring...*continued from page 1

The announcement of additional easing has already had a profound impact on financial markets. Easing, coupled with a $150 billion infrastructure plan announced in China, has sent coal stocks soaring. Alpha Natural Resources (ANR), Cloud Peak (CLD), James River Coal (JRCC), Peabody (BTU), and Arch Coal (ACI) have advanced considerably in recent trading sessions.

And while the coal industry remains relatively cheap, we're not big fans of the structural characteristics of the space, given how prone it is to oversupply, regulation, and natural gas substitution. We think we'll see a lot of coal miners benefit if pricing in the less heavily regulated Chinese market becomes stronger, but we'd rather bet on the success of a global mining giant like Rio Tinto (RIO) in the portfolio of our Best Ideas Newsletter than a pure play in the coal sector. Liquidity remains a legitimate risk at James River, as well as at Alpha Natural. Both have substantial upside if coal prices soar, but that remains a large unknown, in our view. Growing natural gas reserves (and weak pricing) remain key impediments.

Gold miners like Goldcorp (GG), Eldorado (EGO), and Barrick Gold (ABX) have experienced nice moves on the back of the Fed's announcement, too, but we don't see much upside in this space. Gold doesn't have healthy demand fundamentals and is almost entirely a play on speculative buying at current price levels. The gold market, in our view, fits almost perfectly with the framework of the greater fool theory - gold pays no dividends, engages in no productive activity, or manufacturers any goods or services. Holders of gold are simply hoping that there will be someone else (a greater fool) out there that will become more concerned about global inflation (or the global economy) than they are so they can sell their gold positions to them at a higher price. We're not interested in holding the bag if/when the market tumbles.

US Steel (X), Alcoa (AA), and ArcelorMittal (MT) have also rallied, but again, we don't think the structural characteristics of this industry have become any more compelling. All three firms would need significant macroeconomic tailwinds to start generating more cash, but we simply haven't seen those signs in their numbers—yet. For one, AK Steel (AKS) recently warned about its third quarter earnings coming in lower than expected due to weak pricing resulting from poor demand. Though we hold Rio Tinto in our Best Ideas portfolio (based on its elevated Valuentum Buying Index rating and compelling valuation), we're not rushing to add any more commodity-producing firms at this time.

***Weaker Consumer Confidence Doesn't Impact August Retail Sales...*continued from page 7**

Competition from off-priced brand competitors TJ Maxx (TJX) and Ross Stores (ROST) pose the largest threat to Kohl's, in our view. TJ Maxx saw revenue growth of 10%, leading to sales of $1.9 billion during August on 8% consolidated same-store sales growth (9% at Marmaxx). Waves of consumers continue to select brand names at low prices, and the firm indicated that fiscal third-quarter earnings should be at the high-end of its previously-issued guidance range. Recently, consumers have become increasingly more attracted to strong brand names, so we're not at all surprised by TJ Maxx's positive momentum.

Ross, TJ's smaller competitor, reported 13% top-line growth during August thanks to 8% same store sales growth. Ross provides virtually the same type of experience as TJ Maxx and Marshall's, though we've noticed pricing on some of its items is marginally better. With both retailers offering consumers brand names at comparable prices to Kohl's and JC Penney, we think both retailers will continue to thrive. Still, we're not fans of either company's valuation at current prices. We'd only like to pick them up at a very steep discount to intrinsic value on improving technical and momentum indicators.

The Gap (GPS), which we think is back, reported fantastic August results. Same store sales grew 9% at Gap North America, 8% at Banana Republic North America, 12% at Old Navy and 2% internationally, leading to consolidated growth of 9%. The retailer now understands the importance of quick inventory turns in a fashion world that changes rapidly due to disruptive forces like Instagram (FB), Twitter and Tumblr. Buckle (BKE) also reported strong 4.5% same-store sales growth, though we don't like its business nearly as much as we like Gap's. We're not fans of either at current levels.

Ancestry.com Asks for Higher Offers

By Valuentum Analysts

Best Ideas Newsletter portfolio holding Ancestry.com (ACOM) is rumored to have rejected initial buyout offers from private equity firms, citing a rosy future that should warrant a higher premium. According to the source in the Bloomberg article, Ancestry.com rejected an offer of $35 per share, which is significantly lower than our fair value estimate of $45. We still like the company based on fundamentals and valuation and expect higher offers from interested parties.

That said, we do not think buying any company's shares exclusively in anticipation of a buyout offer makes sense. Deals are rumored to happen all the time, so the ratio of rumored deals to actual deals is quite high. When we established our position in shoe retailer Collective Brands (PSS), for example, the odds of a buyout were a potential catalyst, but we thought shares had valuation upside--so we weren't reliant on a deal getting done. Subsequently, shares rallied throughout early 2012 and we earned a 38% return on our initial investment. Investing in a company only based on a buyout rumor is partially why we aren't interested in Best Buy (BBY). Sure, a deal for Best Buy could get done tomorrow for $25 per share, but if a deal is taken off the table, the stock could easily fall from $18 to $12.

Though Ancestry.com's shares have rallied lately, we still think the company has fundamental valuation upside from current levels. Further, shares score a 7 on our Valuentum Buying Index (our stock-selection methodology), suggesting we're still fairly constructive on the company's near-term prospects. Therefore, a buyout may be a catalyst, but we're comfortable owning the company even if a deal doesn't materialize.

Apple Wins Landmark Victory

By RJ Towner

In a landmark case, American technology behemoth and Best Ideas Newsletter holding Apple (AAPL) won an enormous settlement against Korean electronics giant Samsung. Samsung will have to pay Apple $1.05 billion in damages related to patent infringements, and Apple could successfully prevent some Samsung devices from being sold in the United States. Any change to our fair value estimate for Apple as a result of this ruling will not be material, however.

Though we can't speak with absolute certainty that the verdict will be upheld, if the decision stands, Apple is obviously the big winner. Though Apple really doesn't need $1 billion, it never hurts a firm to add more cash to its coffers (based on the number of shares outstanding, $1 billion amounts to roughly one dollar per share in incremental fair value). More importantly, it legally reinforces what many have already thought: other smartphone makers have simply copied iOS because it's the best mobile operating system available. Consumers love the simple, intuitive process, so naturally other companies have sought to mimic Apple's success. This legal victory, combined with eliminating some Google (GOOG) applications from iOS 6, demonstrate the firm's commitment to fighting Google's push into the smartphone market. Steve Jobs, who repeatedly had argued that competitors were stealing Apple's technology, would be proud.

Further, the legal victory could do damage to Google's Android by knocking out one of its key partners. Considering Samsung, as well as Apple, account for virtually all smart-phone profitability, this is quite the blow. We thought the Samsung Galaxy was one of the few phones that may be able to challenge the iPhone's dominance over the long haul, and one of the only Android phones that is highly desired by consumers. Though Google won't have any legal obligations to Apple as the modifications to Android were made by Samsung, we think Android's future becomes slightly less certain. We're also not very positive on the view that other Android partners like HTC and Motorola will fill the void. Still, we like Google for other reasons (namely its valuation and search/advertising dominance).

Shares of Research in Motion (RIMM) and Nokia (NOK) have rallied in sympathy, but we are not interested in either--even if their respective patent portfolios are now more valuable (as a result of the decision). Both hardware manufacturers make products that differ greatly from Android—RIM with its Blackberry software and Nokia with Symbian and Windows (MSFT). However, we see no immediate indication that either will steal market share from Android. It's possible the Blackberry 10 (RIM's newest OS) may never come, and Microsoft isn't interested in exclusively supporting Nokia devices. We think smartphone OEMs may now become more interested in partnering with Microsoft (to avoid legal troubles) because Windows mobile OS looks and feels like a different ecosystem than Android and iOS. As a result, the OS-makers (namely Microsoft and Apple) could be the long-term winners rather than the hardware firms (Samsung's competitors). However, we think it's important to remember that Microsoft has yet to make gains in the smartphone market. Still, smartphone success isn't priced into our valuation of the software giant, or its inclusion in the portfolio of our Dividend Growth Newsletter.

Ultimately, we think Apple will be the winner. Assuming the ruling stands, Apple has validated its dominance, legally. We expect any high-end Samsung products that are banned will lead to more Apple users rather than movements to substitute Android products. Though this ruling doesn't materially impact our fair value estimate of Apple, we maintain shares have further upside from current levels. The company scores a 7 on our Valuentum Buying Index (our stock-selection methodology), and our fair value estimate is $813 per share. We continue to hold the company in the portfolio of our Best Ideas Newsletter.

More on Apple: iPhone 5 Will Be a Huge Success

By RJ Towner

We've been big Apple (AAPL) bulls since we became excited about the name in June of 2011 (around the time of our founding). The iPhone 5 release, a disappointment to some, will be the biggest smartphone ever, in our view. Following its courtroom victory against Samsung, we think Apple is poised to converge to our fair value estimate at over $800 per share.

Some seem concerned that the new iPhone is an incremental upgrade rather than a re-invention. However, we think that's the new normal for the smartphone market: what more can be done to a phone? Still, we think the pent-up demand for the device is absolutely incredible, as people from all walks of life have been anticipating this release since earlier in the year. Even those who don't see the upgrades as "worthwhile," will probably purchase new iPhones because, well, it's the new iPhone.

We think the major risks presented from the new iPhone lie in the mobile carriers and at rival firms. Verizon's (VZ) CFO announced that the iPhone 5 will cost Verizon $449 each in subsidies and will only have a small impact on margins. He did mention that if demand is incredibly high, the impact could be more substantial. However, we do expect demand to be incredibly high, so we think AT&T (T), Verizon and Sprint (S) could see margin pressure throughout the holiday season. With 4G capabilities, we could see Sprint and its popular unlimited data options gain some market share, but we don't think market share shifts will be too significant.

We expect competitors to be the biggest losers, especially Android (GOOG), Samsung, Nokia (NOK), and Research In Motion (RIMM). The Samsung/Google cohort, already damaged by its legal loss, will likely lose more market share, in our view. We think the iPhone 5 will completely overshadow any smartphone releases for the next several months. For Nokia and RIM, the release simply highlights how far behind the curve these two companies continue to be. We expect the two firms to continue to lose market share, though we admit, the new Nokia phone shows some promise.

On the other hand, we think Facebook (FB) could be a big winner. Apple has focused on seamlessly integrating the social network throughout iOS 6 (Apple's new operating system). Shares of Facebook have been on a bumpy ride since its IPO, mostly staying within our fair value range (in fact, it's now trading about in line with our fair value estimate after its huge fall). However, we think successful ad placement on the Facebook app could help lift the firm's fortunes.

All things considered, we continue to like shares of Apple and hold the name in the portfolio of our Best Ideas Newsletter. Shares score a 7 on our Valuentum Buying Index (our stock-selection methodology), so we think it remains a very interesting investment opportunity. Apple initially registered a perfect 10 on our Valuentum Buying Index on June 17, 2011, and has never looked back.

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 (EDAC, RSG, RIO, INTC), 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
Commercial Vehicle Group	CVGI	UNDERVALUED	ATTRACTIVE	0.52
Huntsman	HUN	UNDERVALUED	ATTRACTIVE	0.53
KEMET Corp	KEM	UNDERVALUED	ATTRACTIVE	0.53
Abercrombie & Fitch	ANF	UNDERVALUED	ATTRACTIVE	0.55
Jabil Circuit	JBL	UNDERVALUED	ATTRACTIVE	0.56
EDAC Tech	EDAC	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
Revlon	REV	UNDERVALUED	ATTRACTIVE	0.59
Rio Tinto	RIO	UNDERVALUED	ATTRACTIVE	0.59
Foster Wheeler	FWLT	UNDERVALUED	ATTRACTIVE	0.60
Mylan	MYL	UNDERVALUED	ATTRACTIVE	0.60
Hess	HES	UNDERVALUED	ATTRACTIVE	0.61
Tenneco	TEN	UNDERVALUED	ATTRACTIVE	0.62
Tempur Pedic	TPX	UNDERVALUED	ATTRACTIVE	0.63
Hewlett-Packard	HPQ	UNDERVALUED	ATTRACTIVE	0.63
Microsoft	MSFT	UNDERVALUED	ATTRACTIVE	0.63
Teva Pharma	TEVA	UNDERVALUED	ATTRACTIVE	0.64
Safeway	SWY	UNDERVALUED	ATTRACTIVE	0.65
Synaptics	SYNA	UNDERVALUED	ATTRACTIVE	0.65
General Cable	BGC	UNDERVALUED	ATTRACTIVE	0.65
Weatherford Intl	WFT	UNDERVALUED	ATTRACTIVE	0.66
Nabors Industries	NBR	UNDERVALUED	ATTRACTIVE	0.66
Caterpillar	CAT	UNDERVALUED	ATTRACTIVE	0.67
Chicago Bridge & Iron	CBI	UNDERVALUED	ATTRACTIVE	0.67
Genpact	G	UNDERVALUED	ATTRACTIVE	0.67
Cisco	CSCO	UNDERVALUED	ATTRACTIVE	0.68
Jarden	JAH	UNDERVALUED	ATTRACTIVE	0.69
Koppers	KOP	UNDERVALUED	ATTRACTIVE	0.69
Total	TOT	UNDERVALUED	ATTRACTIVE	0.70
Google	GOOG	UNDERVALUED	ATTRACTIVE	0.70
Tyson Foods	TSN	UNDERVALUED	ATTRACTIVE	0.70
Broadcom	BRCM	UNDERVALUED	ATTRACTIVE	0.71
AAR Corp	AIR	UNDERVALUED	ATTRACTIVE	0.71
Insperity	NSP	UNDERVALUED	ATTRACTIVE	0.72
Western Union	WU	UNDERVALUED	ATTRACTIVE	0.73
Pfizer	PFE	UNDERVALUED	ATTRACTIVE	0.73
Crane Co	CR	UNDERVALUED	ATTRACTIVE	0.73
Dover	DOV	UNDERVALUED	ATTRACTIVE	0.74
Harman Intl	HAR	UNDERVALUED	ATTRACTIVE	0.75
Johnson & Johnson	JNJ	UNDERVALUED	ATTRACTIVE	0.75
Intel	INTC	UNDERVALUED	ATTRACTIVE	0.75
Omega Healthcare	OHI	UNDERVALUED	ATTRACTIVE	0.76
Republic Services	RSG	UNDERVALUED	ATTRACTIVE	0.77
Zimmer	ZMH	UNDERVALUED	ATTRACTIVE	0.77
Waste Management	WM	UNDERVALUED	ATTRACTIVE	0.79
Quality Systems	QSII	UNDERVALUED	ATTRACTIVE	0.80

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
Google	GOOG	Internet Software & Svcs	10
AAR Corp	AIR	A&D Suppliers	9
Broadcom	BRCM	Integrated Circuits	9
Cisco	CSCO	Networking Equipment	9
EDAC Tech	EDAC	A&D Suppliers	9
General Cable	BGC	Electrical Equipment - industrial	9
Huntsman	HUN	Chemicals - broad	9
Intel	INTC	Broad Line Semiconductors	9
Jarden	JAH	Household Durables	9
Johnson & Johnson	JNJ	Household Products	9
Mylan	MYL	Pharmaceuticals	9
Nabors Industries	NBR	Energy Equipment	9
Omega Healthcare	OHI	REIT - Healthcare	9
Pfizer	PFE	Pharmaceuticals	9
Republic Services	RSG	Environmental Services	9
Superior Energy	SPN	Energy Equipment	9
Synaptics	SYNA	Computers & Peripherals	9
Tenneco	TEN	Auto Parts Suppliers	9
Total	TOT	Major Oil & Gas	9
Zimmer	ZMH	Medical Devices	9

Name	Symbol	Industry	VBI
Badger Meter	BMI	Electrical Equipment	1
Cepheid	CPHD	Medical Devices	1
Cerner	CERN	Medical Srvc Providers	1
Commvault Systems Inc	CVLT	Software	1
Fifth Third	FITB	Banks & Money Centers	1
Fred's Inc	FRED	Multiline Retail - discount	1
Hyatt	H	Hotels	1
Mercury General	MCY	Insurance - Property & Casualty	1
Northern Trust	NTRS	Banks & Money Centers	1
Teradata	TDC	Computer Hardware	1
Tractor Supply Co	TSCO	Specialty Retailers	1
Ulta Salon	ULTA	Personal Services	1
Healthcare Realty Trust	HR	REIT - Healthcare	2
Hershey Foods	HSY	Food Products - Large	2
Infinity	IPCC	Insurance - Property & Casualty	2
Sherwin-Williams	SHW	Specialty Retailers	2
Sun Life	SLF	Insurance - Life	2
Wisconsin Energy	WEC	Utilities	2

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

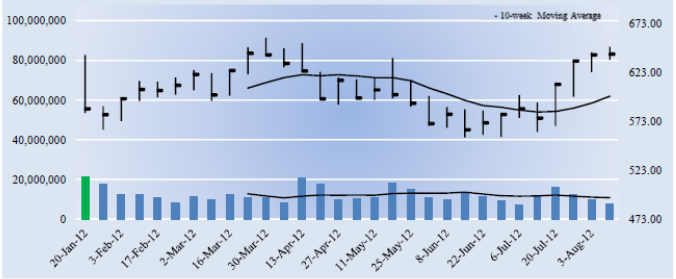
Google GOOG UNDERVALUED 11.2%

Buying Index™ 10 Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$642.00	$921.00	$714.00 - $1128.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

Google '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 selling, or distribution (red bar).

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	AGGRESSIVE
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	599.00

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)	$210,071
Avg Weekly Vol (30 wks)	12,253
30-week Range (USD)	556.52 - 658.59
Valuentum Sector	Information Technology
5-week Return	9.8%
13-week Return	6.9%
30-week Return	1.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	58.94
P/E on Est. Normal Diluted EPS	10.9
Est. Normal EBITDA	25,321
Forward EV/EBITDA	8.9
EV/Est. Normal EBITDA	6.7
Forward Revenue Growth (5-yr)	15.9%
Forward EPS Growth (5-yr)	20.5%

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

Investment Highlights

• Google 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 105.8% during the past three years.

• Google '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.

• Google 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 27.1% in coming years. Total debt-to-EBITDA was 0.3 last year, while debt-to-book capitalization stood at 6.7%.

• 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 20.3% during the past 3 years. We expect its revenue growth to be better than its peer median during the next five years.

Relative Valuation

	Forward P/E	PEG	Price / FV
Ancestry.com	18.8	1.5	72.2%
Baidu	28.1	1.4	76.2%
WebMD	-41.1	NMF	106.6%
Yahoo	14.6	3.7	116.5%
Peer Median	16.7	1.5	91.4%
Google	**14.9**	**1.1**	**69.7%**

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

Returns Summary

	3-year Historical Average
Return on Equity	19.9%
Return on Assets	16.8%
ROIC, with goodwill	64.5%
ROIC, without goodwill	105.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	4,204
Net Debt	-40,422
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	243.0
Current Ratio	5.9
Quick Ratio	5.7

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	29,321	37,905	45,486
Revenue, YoY%	24.0%	29.3%	20.0%
Operating Income	10,381	12,242	16,788
Operating Margin %	35.4%	32.3%	36.9%
Net Income	8,505	9,737	13,774
Net Income Margin %	29.0%	25.7%	30.3%
Diluted EPS	26.31	29.76	42.96
Diluted EPS, YoY %	59.1%	13.1%	44.4%
Free Cash Flow (CFO-capex)	7,063	11,127	12,562
Free Cash Flow Margin %	24.1%	29.4%	27.6%

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 7-Sep-2012

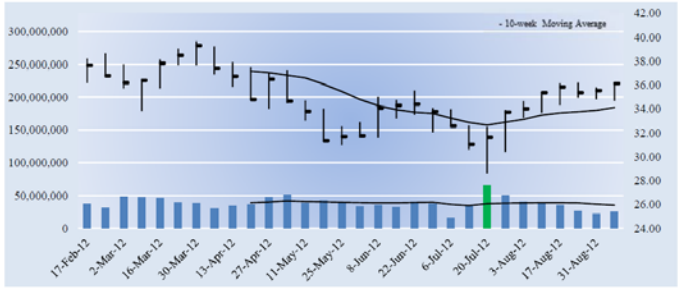
Broadcom BRCM UNDERVALUED 5.2%

Buying Index™ 9 — Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$36.11	$51.00	$38.00 - $64.00	LARGE-CAP VALUE	Information Technology	Integrated Circuits

Broadcom 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™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	34.00

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.

Company Vitals

Market Cap (USD)	$20,330
Avg Weekly Vol (30 wks)	38,104
30-week Range (USD)	28.6 - 39.66
Valuentum Sector	Information Technology
5-week Return	6.2%
13-week Return	4.5%
30-week Return	-2.6%
Dividend Yield %	1.1%
Dividends per Share	0.40
Forward Dividend Payout Ratio	13.5%
Est. Normal Diluted EPS	3.28
P/E on Est. Normal Diluted EPS	11.0
Est. Normal EBITDA	2,135
Forward EV/EBITDA	8.7
EV/Est. Normal EBITDA	8.0
Forward Revenue Growth (5-yr)	8.2%
Forward EPS Growth (5-yr)	16.6%

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

Investment Highlights

• Broadcom 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 222.5% during the past three years.

• Broadcom'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.

• Broadcom 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 20.7% in coming years. Total debt-to-EBITDA was 0.9 last year, while debt-to-book capitalization stood at 15.5%.

• The firm's shares have underperformed the market benchmark during the past quarter. Although Broadcom'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.

• Broadcom is a leader in semiconductor solutions for wired and wireless communications. It may have the broadest portfolio of system-on-a-chip (SoC) technology, but it cannot escape the industry's severe pricing competition and rapid technological changes.

Relative Valuation

	Forward P/E	PEG	Price / FV
Analog Devices	18.8	1.7	101.1%
Taiwan Semiconductor	14.1	2.1	103.6%
Marvell Tech	10.7	3.3	74.9%
MEMC Electronic	-21.1	NMF	106.3%
Peer Median	12.4	2.1	102.4%
Broadcom	**12.2**	**1.3**	**70.8%**

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

Returns Summary

	3-year Historical Average
Return on Equity	13.0%
Return on Assets	9.6%
ROIC, with goodwill	59.5%
ROIC, without goodwill	222.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,196
Net Debt	-3,333
Total Debt/EBITDA	0.9
Net Debt/EBITDA	NMF
EBITDA/Interest	252.0
Current Ratio	5.2
Quick Ratio	4.7

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	6,818	7,389	8,054
Revenue, YoY%	51.8%	8.4%	9.0%
Operating Income	1,154	1,068	1,735
Operating Margin %	16.9%	14.5%	21.5%
Net Income	1,082	927	1,649
Net Income Margin %	15.9%	12.5%	20.5%
Diluted EPS	1.99	1.65	2.96
Diluted EPS, YoY %	1460.4%	-17.1%	79.7%
Free Cash Flow (CFO-capex)	1,262	1,675	1,831
Free Cash Flow Margin %	18.5%	22.7%	22.7%

In Millions of USD (except for per share items)

Structure of the Integrated Circuits Industry — VERY POOR

Firms in the integrated circuits industry make components that form the electronic building blocks used in electronic systems and equipment. The industry is notoriously cyclical and subject to significant economic upturns and downturns, as well as rapid technological changes. Firms must innovate to survive, and products stocked in inventory can sometimes become obsolete before they are even shipped. Severe pricing competition and lengthy manufacturing cycles only add uncertainty to the mix. We're not fans of the structure of the integrated circuits space.

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Valuentum Retail Equity Research — Visit us at www.valuentum.com — (10=best) — Data as of 17-Aug-2012

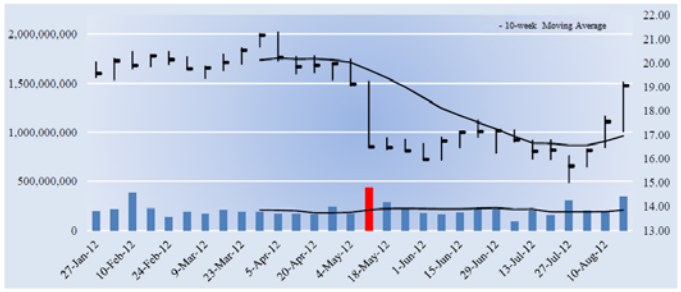
Cisco CSCO UNDERVALUED 15.4%

Buying Index™ 9 — Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$19.06	$28.00	$22.00 - $34.00	LARGE-CAP VALUE	Information Technology	Networking Equipment

Cisco hits the trifecta. The firm receives the highest marks for business quality, valuation, and near-term relative price strength. We'd look for an entry point.

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™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
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	17.00

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)	$103,000
Avg Weekly Vol (30 wks)	213,142
30-week Range (USD)	14.96 - 21.3
Valuentum Sector	Information Technology
5-week Return	17.6%
13-week Return	15.4%
30-week Return	-4.0%
Dividend Yield %	2.9%
Dividends per Share	0.56
Forward Dividend Payout Ratio	28.6%
Est. Normal Diluted EPS	2.20
P/E on Est. Normal Diluted EPS	8.7
Est. Normal EBITDA	16,873
Forward EV/EBITDA	4.5
EV/Est. Normal EBITDA	4.2
Forward Revenue Growth (5-yr)	3.5%
Forward EPS Growth (5-yr)	9.7%

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

Investment Highlights

- Cisco's 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.
- Cisco 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 22.6% in coming years. Total debt-to-EBITDA was 1.3 last year, while debt-to-book capitalization stood at 24.1%.
- Cisco's relative stock price performance, undervaluation, and dividend yield of 2.9% 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 2.9%. We expect the firm to pay out about 29% of next year's earnings to shareholders as dividends.

Relative Valuation

	Forward P/E	PEG	Price / FV
Aruba Networks	23.0	5.7	99.1%
Finisar	16.5	1.4	80.1%
Juniper Networks	23.2	1.7	93.6%
Riverbed Technology	18.7	1.8	87.3%
Peer Median	20.9	1.7	90.5%
Cisco	**9.7**	**1.3**	**68.1%**

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

Returns Summary

	3-year Historical Average
Return on Equity	16.4%
Return on Assets	9.0%
ROIC, with goodwill	28.4%
ROIC, without goodwill	59.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	16,328
Net Debt	-32,388
Total Debt/EBITDA	1.3
Net Debt/EBITDA	NMF
EBITDA/Interest	21.8
Current Ratio	3.5
Quick Ratio	3.2

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Jul-11	Jul-12	Jul-13
Revenue	43,218	46,061	48,594
Revenue, YoY%	7.9%	6.6%	5.5%
Operating Income	8,473	10,369	12,917
Operating Margin %	19.6%	22.5%	26.6%
Net Income	6,490	8,041	10,377
Net Income Margin %	15.0%	17.5%	21.4%
Diluted EPS	1.17	1.49	1.96
Diluted EPS, YoY %	-12.2%	27.5%	31.7%
Free Cash Flow (CFO-capex)	8,905	10,365	11,530
Free Cash Flow Margin %	20.6%	22.5%	23.7%

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.

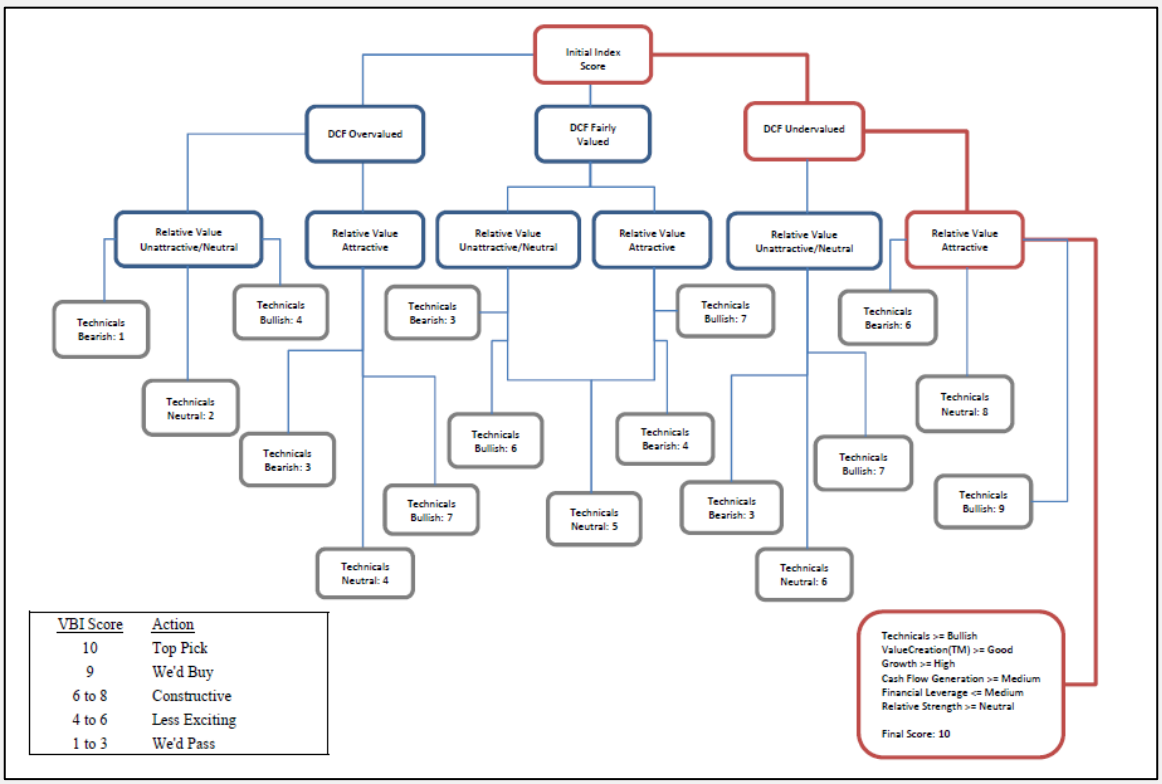
Avoiding Value Traps and Opportunity Cost

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 9

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