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
59.5%	31.7%	27.8%

Portfolio Inception Date: May 17, 2011

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* Past performance is not a guarantee of future results.

Record Highs for Valuentum Members

By Brian Nelson, CFA

Valuentum members continue to hit the ball out of the park!

Best Ideas Newsletter portfolio holding Ford (F) closed over $17 per share, a 52-week high and up from our initial entry price below $10 in September 2011. Best Ideas Newsletter portfolio holding Buffalo Wild Wings (BWLD) closed at over $105 per share, a 52-week high and up from our initial entry price at roughly $65 per share in June 2011. Best Ideas Newsletter portfolio holding Visa (V) closed over $190 per share, a few pennies from its all-time high (and roughly double our entry price of just under $96 per share in November 2011). Best Ideas Newsletter portfolio holding Google (GOOG) set an all-time high at nearly $925 per share, up significantly from our initial entry price (and on its way to $1,000). Remember when others ran away from this position after the search giant reported weak third-quarter results last year and we stood our ground?

It's difficult for us to imagine a scenario where the Valuentum Best Ideas portfolio could have done better. Still, we're always looking for ways to improve, and we're not resting on our large outperformance gap. What we continue to exercise, however, is patience. We don't trade every day (or even every week for that matter), but we're constantly monitoring our watch lists and VBI rankings to uncover the next Valuentum gem for members. However, we're also cognizant of potential economic pressures from China, uncertainly about Fed policy, and the fact that the market continues to march higher, despite meager domestic economic expansion.

In any case, Valuentum members can count on one thing: we're laser-focused on achieving our portfolio goals--exceeding the market benchmark and achieving positive returns year after year*. Let's keep the momentum going!

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= All Time High!

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Goals of our Best Ideas Newsletter: At Valuentum, we task ourselves with a tall order. While most investment newsletters compare themselves to a market benchmark, we go one step further. We want to deliver positive returns to you, our subscriber, year after year, in addition to outperforming the market benchmark. Our best ideas portfolio is generally found on page 8 of each edition.

Investing's Odd Couple: Value and Momentum

By Kevin Truitt, MBA

For value investors, the sweet spot in investing is being able to buy an undervalued stock right before its value is recognized by the market and just before its stock price begins to take off. But how can a value investor tell when a stock is in the sweet spot? The answer, according to Brian Nelson, president of investment research company Valuentum Securities, is to identify stocks with good value that are just starting to exhibit good technical/momentum characteristics.

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Investing's Odd Couple: Value and Momentum

By Kevin Truitt

Article Highlights

- Several research studies argue that value and momentum strategies work well together.
- Diversification benefits are achieved by combining the best elements of both strategies.
- Characteristics to look for are low price-earnings ratios and bullish moving average formations.

For value investors, the sweet spot in investing is being able to buy an undervalued stock right before its value is recognized by the market and just before its stock price begins to take off.

But how can a value investor tell when a stock is in the sweet spot? The answer, according to Brian Nelson, president of investment research company Valuentum Securities, is to identify stocks with good value that are just starting to exhibit good technical/momentum characteristics.

Doing so helps an investor avoid:

- value traps: stocks whose prices continue to fall—so-called "falling knives"—or stocks whose value will never be recognized by the market,
- underperformance due to the opportunity cost associated with holding a stock with great potential, but whose value takes an inordinate amount of time to be recognized by the market and
- speculative momentum or irrational high-yielding stocks whose technicals are unsupported by their fundamental valuation ("greater fool" stocks).

Many investors often base their investment decision on whether a stock is undervalued or overvalued or whether it has excellent competitive advantages or other qualitative measures. Nelson believes this a great start but it's an incomplete assessment, as stocks can stay undervalued or overvalued for decades (and some stocks may never converge to an estimated intrinsic value). Only when there is buying or selling in the stock based on its overvalued or undervalued state does a stock actually converge to its intrinsic value. Investors are highly dependent on other investors' actions (buying a stock drives its price higher, all else equal).

This core market dynamic is why Nelson looks for undervalued stocks that are just starting to be bought by other investors, the latter evidenced by a stock's positive technical/momentum considerations. He does not believe it is enough for a stock just to be undervalued. When it takes too long for a stock's value to be recognized by the market, both the power of compounding and the stock's annualized rate of return are adversely affected. A 30% return in nine months, for example, is far better than a 30% return over five years. Investors who focus only on value, growth or competitive-advantage analysis may not be using everything in their tool kit to maximize returns.

The value school of investing has seen this happen before. For a long time, "value investing" and "growth investing" were mistakenly viewed as separate and incompatible styles of investing. Legendary investor Warren Buffett debunked this myth when he said, "Growth and value investing are joined at the hip. Value is the discounted present value of an investment's future cash flow; growth is simply a calculation used to determine value." Similarly, some value investors have viewed value and momentum as being likewise incompatible investment strategies, even though there is a benefit to combining them.

As a common example, value investors have traditionally been conditioned not to accept technical/momentum analysis. Price movement strategies have often been dismissed as a self-fulfilling prophecy, the belief that they only work

Ford Paces US Auto Sales in June

By RJ Towner

With an estimated SAAR of 15.7 million units during June, the US auto market continues to surge back to relevancy. Let's take a look at the major players and their respective results.

Ford

Best Ideas Newsletter holding Ford (F) continues to execute at an exceptionally high level. Unit sales jumped 13% year-over-year to 235,643 units. With the housing recovery in full gear, pickup sales have really accelerated, as F-Series sales surged 24% year-over-year to 68,009 units. Heavy truck sales increased 31% year-over-year, but only accounted for 726 units.

Car sales were also fantastic, with sales increasing 13% year-over-year. Sales of the Fiesta more than doubled, while Focus sales jumped 9% and Taurus sales surged 15%. Fusion sales were roughly flat, but Ford still sold 24,313 cars.

SUV sales were "only" 8% higher than a year ago, driven by a 32% increase in Ford Edge sales and an 11% increase in Explorer sales.

	June		%	Year-To-Date		%
	2013	2012	Change	2013	2012	Change
LINCOLN BRAND						
MKZ	3,180	3,137	1.4	14,440	14,539	-0.7
MKS	906	1,091	-17.0	5,112	6,804	-24.9
Town Car	0	80	-100.0	0	687	-100.0
Lincoln Cars	4,086	4,308	-5.2	19,552	22,030	-11.2
MKX	2,014	1,922	4.8	11,651	12,428	-6.3
MKT	689	697	-1.1	3,256	3,648	-10.7
Navigator	680	617	10.2	3,829	3,856	-0.7
Lincoln Utilities	3,383	3,236	4.5	18,736	19,932	-6.0
Lincoln Brand	7,469	7,544	-1.0	38,288	41,962	-8.8

Image Source: Ford June Sales Presentation

Lincoln continues to lag the greater Ford business, but sales losses moderated in June, declining just 1% year-over-year (though sales remain down 9% year-to-date). Net of the impact of the discontinued Town Car, sales in June were virtually flat. Again, we're not anticipating much from Lincoln, but any incremental improvement has a positive impact, in our view.

Overall, we were very pleased with Ford's June performance and across-the-board strength. F-Series sales are highly-profitable for the company, so we wouldn't be surprised to see a modest increase in operating margins if the sales mix tilts in favor of the pickup.

Please see Ford Paces US Auto Sales... **continued on next page**

*Ford Paces US Auto Sales…*from the previous page

General Motors

Though it's not experiencing the same robust growth as Ford, GM (GM) posted solid sales gains in June, with unit sales increasing 7% year-over-year to 264,843 units. As electric vehicles become accepted by the mainstream, GM continues to benefit, with sales of the Chevrolet Volt surging 53% year-over-year to 2,698 units. The recently-released Spark performed well during its first month, with sales totaling 3,104 units. The Spark is reminiscent of the other small cars we've seen hit the market over the years such as the Fiat 500 and SmartCar. With its small stature, the vehicle expects to attract young, urban buyers.

Sales of other small cars were solid, led by the Cruze (up 73% year-over-year) and the Sonic (up 7% year-over-year). Chevrolet pickup sales were also strong, jumping 29% year-over-year to 43,259 units—a solid improvement, but still greatly lagging the F-Series.

Other vehicles at Chevrolet were mixed, with the Corvette and Camaro experiencing double digit decline and the Suburban and Tahoe posting relative weak sales. Due to its similar product mix, GMC sales weren't great, increasing just 4.5% as strong Sierra (pickup) sales weren't enough to offset weakness from the Yukon, Yukon XL, and Acadia.

The strength at GM can be found in the resurgence of Cadillac and Buick. Though June was a fairly weak month for Buick (sales declined 4.1%), unit sales are up 12% year-to-date. The Enclave and Verano continue to experience strong sales gains, which we believe are the result of increased marketing and great design.

As for Cadillac, sales of the Escalade weren't great, falling 11% year-over-year during June. However, sales of the XTS jumped 197%. Needless to say, the vehicle faced weak comparisons from June a year ago, but we are blown away at how successful the car has been in replacing the DTS and STS. We like the positioning as a mid-sized vehicle, particularly as large cars appear to be losing ground.

Generally, we were pleased with GM's results, but we do not like the company nearly as much as we like Ford.

Toyota

Japanese manufacturer Toyota (TM) also experienced strong sales gains in June, with raw sales increasing 10% year-over-year to 195,235 units, which is 14% higher on a daily sales rate-basis (Toyota's preferred metric).

Toyota car sales were relatively strong across the board (minus Scion), increasing 8% during the month. The Camry managed to increase its unit sales 12% year-over-year to 35,870 units—without a question the industry leader in the mid-sized car. Corolla sales were roughly flat, but the hybrid market's darling, the Prius, experienced a 10% sales bump. We are optimistic that Toyota can remain a top competitor in the small and mid-sized space, though competition from Nissan, Honda (HMC), GM, and Ford remains fierce.

Pickup sales were solid, but the company likely lost share to GM and Ford, as pickup unit sales increased just 16% during June, compared to the 20%+ gains from the North American competitors. However, unlike its American OEM competitors, Toyota saw some strong SUV sales gain, particularly from the recently redesigned RAV4, as its sales jumped 36% year-over-year during the month to 20,540 units.

On the luxury front, LS and ES strength drove Lexus car sales 13% higher on a year-over-year basis during June. We think the ES's 6th generation is gaining increased acceptance in the marketplace, and the LS is experiencing similar success. SUV sales haven't been stellar in 2013, with the trend continuing in June, as unit sales increased just 0.5%.

Please see *Please see Ford Paces US Auto Sales…* continued on next page

*Ford Paces US Auto Sales…*from the previous page

Other than Toyota-branded and Honda SUVs, the SUV space was pretty weak during the quarter, likely the result of high gas prices and the poor fuel economy of larger vehicles. We aren't too worried about Lexus, even if SUV sales remain subdued.

Ultimately, Toyota remains among our favorite auto OEMs from a fundamental perspective, but its valuation isn't compelling enough to warrant a position in the portfolio of our Best Ideas Newsletter at this time.

Honda

Honda's June sales were, at risk of sounding like a broken record, very solid, with unit sales increasing 10% year-over-year to 136,915 units. Honda may not have the same variety of units as some of its competitors, but it doesn't seem to matter as the tried-and-true Accord (up 10%) and the Civic (up 8%) both sold around 30,000 units (and continue to be popular with a sticky customer base).

Regarding SUVs, the company saw its CR-V post a 14% year-over-year increase in sales to 26,572 units, Pilot sales surged 21% year-over-year to 12,085. The Pilot had some nice features added in the 2013 model year version, which we think helps explain the strong performance year-to-date (up 14%).

As for Acura, its performance was relatively weak during June, with sales declining 10% year-over-year to 13,765 units. For a long while, Acura had a nice niche as a low-end luxury player, but we've seen everyone from Audi and BMW to Mercedes crowd the space in recent years, making it highly competitive. Honda will need to invest heavily in its luxury division if it wants to remain competitive, in our view.

Best of the Rest

Chrysler's June sales rose 8% year-over-year during June to 156,686 units, driven largely by the Ram and Jeep Cherokee. After its run as the US growth story of 2012, Volkswagen's sales dipped 3.2% year-over-year. On the other hand, BMW's June sales rose 24.6% year-over-year, with the 3-Series leading the charge. Mercedes' growth wasn't as robust, but it also set sales records with a 7% jump during June.

Valuentum's Take

The US auto recovery continues its upward trajectory. Ford remains our best auto-OEM idea, and we're sticking with our position in the company in the portfolio of our Best Ideas Newsletter.

Core System Sales Slowed at Intuitive Surgical

By RJ Towner

Da Vinci surgical systems maker Intuitive Surgical (ISRG) released weak preliminary results. Fiscal year 2013 second quarter revenue is expected to be 7% higher than the same period a year ago at $575 million—well below the consensus estimate calling for $630 million. Net income is expected to be marginally higher at $160 million compared to $155 million during the same period last year. This net income figure implies earnings per share in the $3.85-$3.87 range, well below the consensus estimate of $4.29 per share.

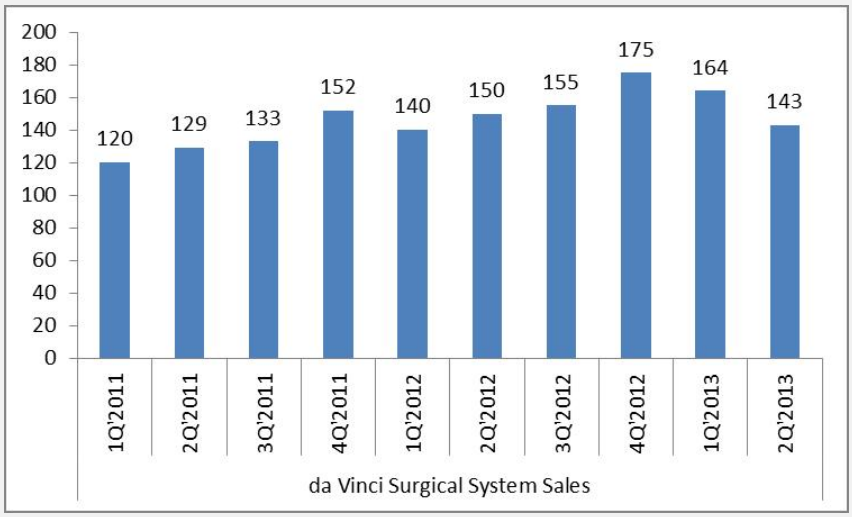
Management was quick to blame other parties, saying on the press release:

> *"The slowdown in benign gynecologic procedures reflected a number of factors including, but not limited to, reduced hospital admissions and **a trend by payers** toward **encouraging conservative management and treatment in outpatient settings**."*

The bolded section echoes what we heard from the American Congress of OB/GYN's president back in March, questioning the need for the "arguably" more expensive robotic procedures. We also brought the issue to light following news of FDA investigations into the *da Vinci* system. We note, however, the peer-reviewed literature regarding the clinical evidence for the efficacy of the da Vinci surgery is deep across many applications. Assuming management is forthright in its statements, we can imply that health insurers are using recent negative commentary regarding robotic surgery to avoid paying for it.

Regardless, we did **not** see a material slowdown in the number of procedures performed on *da Vinci* systems (which we would need to see if the 'short-seller' case held any water). In fact, *da Vinci* procedure growth increased 18% year-over-year. The issue has been on the new system side, where Intuitive sold 143 da Vinci systems compared to 150 in the second quarter of 2012, dragging system revenue down 6% year-over-year. Though system sales in Europe, Japan and ROW (rest of world) advanced nicely, system sales in the US were significantly lower during the period, with 90 systems sold in the second quarter of 2013 compared to 124 during the same period a year ago—a decline of 28%.

Though the quarterly performance was a disappointment in the US, system sales of the da Vinci are still robust. **Through the first half of the year, *da Vinci* system sales have advanced 6% (307 versus 290).** As such, we're not ready to extrapolate the current downward trajectory. We'll know more when the firm reports full quarterly results July 18.



Source: Intuitive Surgical, Valuentum

Please see *Core System Sales Slowed at Intuitive Surgical…* continued on next page

*Core System Sales Slowed at Intuitive Surgical…*from the previous page

Valuentum's Take

The preliminary second-quarter results from Intuitive Surgical reveal that the company has hit a speed bump in the pace of expansion in the US market. It seems like system sales in the US may face ongoing pressure if hospitals become increasingly concerned about the value proposition of *da Vinci* systems. But even if doctors don't grow more concerned, insurers may balk at paying for robotic surgeries if a clear advantage isn't presented. Still, underlying financial performance at Intuitive Surgical isn't terrible; at this point, we're looking at just a speed bump.

That said, we will be keeping this Best Ideas Newsletter portfolio holding on a short leash going forward (our position is one of the smallest in the portfolio at about 2%). We typically weight the stocks in the portfolio on the basis of the conviction we have in each respective idea.

Helen of Troy's Solid Run Continues

By Valuentum Analysts

Consumer products company Helen of Troy (HELE) reported strong results for the first quarter of its 2014 fiscal year. Revenue increased 1.4% year-over-year to $304.5 million, exceeding consensus estimates. Earnings per share advanced at a greater clip, growing 11% year-over-year to $0.82 per share on a non-GAAP basis, easily exceeding consensus expectations. Helen of Troy is one of the few names in the household products arena that trades at a discount to our fair value estimate, and the firm recently scored a rare 9 on the Valuentum Buying Index.

On the cost side of the equation, Helen of Troy surrendered to a competitive retail environment, as gross margins declined 90 basis points year-over-year to 39.5% as a result of more promotional activity.

Helen of Troy's Solid Run Continues… continued on page 9

Our Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
59.5%	31.7%	27.8%

Portfolio Inception Date: May 17, 2011

= All Time High!

Below we outline the constituents of our portfolio and their respective weightings and returns thus far. Each subsequent issue discusses Valuentum's latest changes to the portfolio, a summary of new names on our watch list (please see page 17), as well as analysis and trends impacting companies on our Best Ideas List. We currently have about 39% of our portfolio in cash, a level we're looking to bring down even more in coming months. Typically, we like to have the most cash when the market is making new highs and fully invested when the market is putting in short-term lows.

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 July 15, 2013										Best Ideas Portfolio Inception Date: May 17, 2011
Portfolio Holdings	Symbol	Initial VBI*	Current VBI**	First Purchase	Cost Basis ($)	Total Shares	Price/Share ($)	Current Value ($)	% of Portfolio	% Return (dividends included)
Bullish										
Apple Corp.	AAPL	10	7	17-Jun-11	328.99	16	427.44	6,839.04	4.3%	33.1%
Altria Group	MO	8	6	28-Jun-11	26.43	252	37.05	9,336.60	5.9%	53.7%
Buffalo Wild Wings	BWLD	7	6	13-Jul-11	65.42	77	105.05	8,088.85	5.1%	60.4%
DirecTV	DTV	9	9	15-Apr-13	55.02	55	65.25	3,588.75	2.3%	18.3%
eBay	EBAY	10	3	3-Oct-11	31.04	100	56.45	5,645.00	3.5%	81.9%
Financial Select SPDR Fund	XLF	NA	6	9-Jan-11	13.46	150	20.44	3,066.00	1.9%	54.5%
Ford Motor	F	7	7	12-Sep-11	10.69	650	17.12	11,128.00	7.0%	61.6%
Google	GOOG	10	7	23-Oct-12	683.49	4	924.69	3,698.76	2.3%	34.9%
Health Care ETF	XLV	9	5	22-May-12	36.60	125	49.93	6,241.25	3.9%	39.0%
Intel	INTC	6	6	12-Sep-11	20.48	150	23.94	3,591.00	2.3%	21.7%
Intuitive Surgical	ISRG	5	3	22-May-12	532.13	5	426.78	2,133.90	1.3%	-20.0%
Precision Castparts	PCP	8	3	6-Jun-11	152.07	40	234.41	9,376.40	5.9%	54.1%
SPDR S&P Bank ETF	KBE	NA	UR	9-Jan-12	21.07	100	30.28	3,028.00	1.9%	46.6%
Republic Services	RSG	8	6	19-May-11	31.42	201	35.31	7,097.31	4.5%	20.5%
Rio Tinto	RIO	9	3	22-May-12	46.40	75	42.28	3,171.00	2.0%	-5.5%
Visa	V	7	6	30-Nov-11	107.46	60	190.25	11,415.00	7.2%	78.0%
Cash								61,615.55	38.6%	0.0%
Bearish										
SPDR S&P 500 Trust ETF	SPY - put option		7	23-May-13	644.25	1	412.00	412.00	0.3%	-36.0%
---> $160 strike, December 2013 expiration										
Best Ideas Portfolio Value								**159,472.41**		**59.5%**
S&P 500 Index (SPY)				17-May-11	132.69	754	168.15	126,723.94	96.2%	
Cash								5,018.46	3.8%	
Benchmark Portfolio Value								**131,742.41**		**31.7%**
Relative Outperformance										**27.7%**

This portfolio is not a real money portfolio. Data as of July 15, 2013. 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.

*Helen of Troy's Solid Run Continues…*from page 7

Management noted that the current gross margin run-rate should hold strong for the rest of the year, revealing that the competitive environment shouldn't escalate too much from current levels. SG&A declined 130 basis points year-over-year to 28.7% of sales as the firm received a nice boost from easy comparisons during the same period a year ago. We think the company will also benefit from its new Mississippi distribution center, which should help lower operating expenses.

Looking ahead, the company continues to target strategic acquisitions that it can integrate into existing operations to generate shareholder value. With manageable financial leverage, the company has plenty of room to take on additional debt to make selective acquisitions, and we'd be fans of such activity if the deals are value-creative by our projections. Helen of Troy offered solid guidance for its fiscal year 2014, forecasting revenue to come in the range of $1.29-$1.32 billion and earnings per share of $3.50-$3.60. The midpoints of these ranges compare favorably to consensus estimates that called for earnings per share of $3.53 on revenue of $1.3 billion during the period.

Valuentum's Take

Given the price momentum in the shares of peers such as Johnson & Johnson (JNJ) and Kimberly-Clark (KMB), it seems like a bit of a surprise that the company trades at such a discount on a relative basis (with respect to its price-to-earnings ratio and price-earnings-to-growth—PEG—ratios). However, we think consumer staples investors want dividends (which Helen of Troy doesn't offer), leaving the firm a relatively undervalued (and unloved) stock. This may spell opportunity, however, and we continue to like the company's strong Valuentum Buying Index score, solid business model, and attractive valuation (both on a discounted cash flow—DCF—and relative value basis).

Another Elite Mind Heads to Apple

By Valuentum Analysts

Best Ideas Newsletter holding Apple (AAPL) is perhaps best known for its relentless focus on design elegance, with a legacy started by Steve Jobs and carried on by Jony Ive. That trend continued this week when the company nabbed high-end fashion brand Yves Saint Laurent CEO Paul Deneve. Devene will join as an executive in charge of "special projects" and will allegedly report directly to Apple CEO Tim Cook.

Why does this matter? In our view, it signals that Apple could be branching out into different product lines, and after Apple filed to trademark iWatch in Japan, we think it could mean the company is currently focusing more extensively on wearable technology. At the 'All Things D' conference, Cook spoke favorably of biometric monitoring technology. Though it may be somewhat of a fruitless exercise to spend a lot of time speculating on what Apple might work on next, a competing product to Google Glass, Jawbone, and/or other accessories could be around the corner.

As for Devene, his business experience is diverse, ranging from internal auditing at ExxonMobil to a stint at Apple Europe during the 1990s before entering the world of high-fashion. Devene also holds an MBA from the University of Chicago and a graduate degree from Stanford University. His time atop Yves Saint Laurent was relatively brief, making it difficult to judge his tenure.

Valuentum's Take

From the information available on Devene, we think he hits the sweet spot of what Apple should be looking for in executives. He has design experience and, presumably, expertise, while he also has an extensive business background which could lead to a tremendous focus on margins.

Ultimately, Deneve might not push the needle for Apple, but it's hard not to like this hire. Shares of the tech giant are again showing some signs of life, and we feel very comfortable holding on to our position in the portfolio of our Best Ideas Newsletter.

Precision Castparts Scoops Up Permaswage; Commercial Aircraft Orders Keep Rolling In

By Brian Nelson, CFA

Best Ideas Newsletter portfolio holding Precision Castparts (PCP) acquired California-based aerospace supplier Permaswage for $600 million. Permaswage specializes in swage fittings, and its technology is included in almost every major commercial and military aircraft program. The deal is right in Precision Castparts' wheelhouse as it improves dollar-content per aircraft and enhances the firm's already-robust product suite.

Precision Castparts' CEO Mark Donegan should have no problems folding in the firm's state-of-the-art operations and driving material synergies across the board. Though profitability disclosures are limited, we have a high degree of confidence that cost-savings and revenue enhancements will trump any meaningful premium that may have been paid above the entity's fair value. We also think the deal strengthens Precision Castparts' position in separable fittings that it established with its purchase of Airdrome in 2008.

Commercial aerospace deliveries are expected to surge in coming years. If the massive multi-year backlogs of unfulfilled deliveries at the airframe makers weren't enough, the recent Paris Air Show (ending June 21) unveiled even more orders. At the show, Airbus pulled in nearly $70 billion in new business, consisting of firm orders for 241 planes and agreements for an additional 225. Boeing (BA) received 442 orders and commitments at the show, valued at more than $66 billion. So far this year, Airbus has hauled in 758 orders, while Boeing has booked 692 new agreements—both numbers suggesting an annual book-to-bill measure comfortably above 1 for each company, and we're not even halfway through the year yet!

All things considered, we're big fans of Precision Castparts' acquisition program, and we grow excited each time Donegan identifies a worthy candidate—the firm acquired Titanium Metals late last year. Permaswage will undoubtedly supplement the firm's current profitable growth trajectory, and while we don't expect a material change to our fair value estimate for Precision Castparts as a result of the transaction, the firm remains a core holding in the portfolio of our Best Ideas Newsletter.

Family Dollar's "Upside" Surprise Wasn't Great

By Valuentum Analysts

Off-priced retailer Family Dollar (FDO) reported stronger-than-anticipated third quarter results, led by strong sales of consumables. Revenue at the discount chain increased 9% year-over-year to $2.6 billion, roughly in-line with consensus expectations. Earnings per share actually declined a penny to $1.05, but that figure was better than the consensus estimates which called for a steeper decline. Free cash flow stands at a negative $275 million year-to-date as the company invests heavily in expanding and renovating its store base. The company has engaged in numerous sale-leaseback transactions, so the increase in capital spending has not materially drained the firm's coffers.

Taking a closer look at the numbers, we can see that the quarter was not as strong as it appeared on the surface. Same-store sales increased 2.9% year-over-year, equal to the performance in the second quarter, but down significantly from the 6.6% rate we saw in the first quarter. Growth at Family Dollar stores is clearly slowing, but more importantly, the composition of the sales growth is moving in an unfavorable direction as it relates to the firm's profitability. Revenue at Family Dollar's 'Consumables' category advanced 14.8% year-over-year during the quarter, but this category includes low-margin items such as cigarettes, beauty, and food. Smaller (but higher-margin) categories such as 'Home products' and 'Apparel and accessories' experienced sales declines.

NET SALES BY CATEGORY:

	For the Third Quarter Ended June 1,			
(in thousands)	2013	May 26, 2012	% Change	
Consumables	$ 1,866,714	$ 1,626,004	14.8	%
Home products	264,268	270,015	-2.1	%
Apparel and accessories	206,523	226,783	-8.9	%
Seasonal and electronics	236,001	237,155	-0.5	%
TOTAL	$ 2,573,506	$ 2,359,957	9.0	%

Image Source: FDO Q3 FY2013 Earnings Release

With a shift toward its 'Consumables' segment, Family Dollar is experiencing gross-margin pressure, with the measure declining 110 basis points on a year-over-year basis, to 34.7%. If the product mix continues to shift in such a way, we think there could be additional gross margin downside at the firm. However, given that its 'Consumables' segment accounts for a substantial amount of the company's total sales, further gross margin deterioration shouldn't be tragic. Sales expansion allowed the company to achieve some fixed-cost leveraging during the period, with SG&A falling 30 basis points as a percentage of sales to 27.4%. The company's operating margin declined 90 basis points year-over-year to 7.3%.

Looking ahead, Family Dollar's guidance wasn't too impressive. The firm anticipates fourth quarter same store sales to increase 2%, and management cited minimal SG&A leverage and gross margin pressure as profitability hurdles. Earnings are projected to be $0.83-$0.87 per share, in-line with the Street's current expectations.

Family Dollar's third quarter highlights the issue in the broader discount/off-priced industry—consumers are moving away from discretionary purchases. We aren't entirely sure this can be blamed on weak economic growth. Rather, we think it could be a consumer trade-up issue, which in turn would negatively impact peers such as Dollar General (DG), Five Below (FIVE), Big Lots (BIG), and Dollar Tree (DLTR).

*Please see Family Dollar's "Upside" Surprise Wasn't Great...*continued on next page

*Family Dollar's "Upside" Surprise Wasn't Great...*from the previous page

Company	MRQ Same-store Sales
Family Dollar	2.9%
Pier 1	5.9%
Nordstrom	2.7%
Restoration Hardware	41.0%
Saks	5.9%
Target	-0.6%
Wal-Mart	-1.4%

Source: Company Filings, Valuentum

The above image (of most-recent-quarter same-store sales) reveals that consumers are shopping increasingly more at Pier 1 (PIR) and Restoration Hardware (RH) than at Target (TGT) and Wal-Mart (WMT). Despite wage stagnation and the expiration of the payroll tax cuts, consumers still appear to be interested in purchasing more expensive items, leading sales of discretionary items at discounters to plunge.

Valuentum's Take

Dollar stores were an attractive play on a deleveraging consumer during the past few years. Now, we're seeing strong consumer credit growth, which may not bode so well for companies that benefit from penny-pinching. Free cash flow at Family Dollar remains elusive as the company invests heavily in new stores, and it could be even harder to generate if its gross margin suffers additional downward pressure. At the time of this writing, we believe shares of Family Dollar look fairly valued, and we aren't interested in adding the name to the portfolio of our Best Ideas Newsletter.

Weakness at Yum! Extends Beyond China

By Valuentum Analysts

Global fast food player Yum! Brands (YUM), owner of KFC, Taco Bell, and Pizza Hut, reported weak second quarter results as the Chinese poultry scandal and an outbreak of avian flu weighed on the firm's sales in China. The company's revenue fell short of consensus expectations, declining 8% year-over-year to $2.9 billion. Earnings-per-share was even weaker, falling 16% year-over-year to $0.56 per share on an adjusted basis—slightly above consensus estimates. Year-to-date, free cash flow has totaled $257 million or 18% of revenue—a relatively strong number, in our view.

The most obvious problem at Yum! Brands remains its China division, specifically KFC. If a tainted poultry scandal weren't enough, the outbreak of avian flu in several of China's largest cities has scared consumers even more. This led to a 20% same-store sales decline in China, led by a 26% decline at KFC offset partially by a 7% increase at Pizza Hut. With sales declining so sharply, the company experienced severe fixed-cost deleveraging resulting in operating margins falling 500 basis points year-over-year to 10.6%.

*Weakness at Yum!...*continued on next page

***Weakness at Yum!...*continued from previous page**

China Units	Q2 2013	% Change
Traditional Restaurants[1]	5,982	+14
KFC	4,429	+13
Pizza Hut Casual Dining	918	+32
Pizza Hut Home Service	171	+23

[1] Total includes East Dawning, Pizza Hut Express and Little Sheep units

Image Source: YUM Q2 FY2013 Earnings Release

On the positive side, Yum! Brands has not let the incident deter the growth of its restaurant footprint in China (shown above). The firm also suggested that the pace of sales declines are decelerating, mentioning that May same-store sales dropped 19% while June same-store sales fell only 10% (KFC: -13%; Pizza Hut: +6%). If we remember back to the first quarter, the company was able to mitigate the poultry issue relatively well, and we are confident Yum! Brands will get back on track going forward. The firm will be providing monthly sales reports in China until the situation resolves itself, so we will be able to monitor developments very closely going forward.

U.S. DIVISION

	Second Quarter			Year-to-Date		
	2013	2012	% Change	2013	2012	% Change
Same-Store Sales Growth (%)	+1	+7	NM	+1	+6	NM
Restaurant Margin (%)	18.3	17.5	0.8	17.6	16.0	1.6
Franchise and License Fees ($MM)	199	188	+6	389	366	+6
Operating Profit ($MM)	173	166	+4	338	324	+4
Operating Margin (%)	24.5	20.4	4.1	24.1	20.1	4.0

Image Source: YUM Q2 FY2013 Earnings Release

In the US, same-store sales growth registered just 1% after achieving 7% expansion in the same period a year ago. Although the company was positive about its results, 2% growth at Taco Bell, 3% growth at KFC, and a 2% decline at Pizza Hut isn't very exciting, in our view. Still, Taco Bell's innovation remains an industry best, and we think McDonald's (MCD) could take a lesson from Taco Bell's experimenting with new products and tastes. Further, Wendy's (WEN) North American same-store sales grew just 1% during its first quarter, suggesting that the broader US fast-food market simply isn't strong at the moment.

Though comparable sales weren't fantastic, the firm's operating margin in the US jumped 410 basis points year-over-year to 24.5%, boosted by an 80 basis-point jump in restaurant margins. Lapping costs from an employment lawsuit in the prior-year quarter primarily contributed to the increase in profitability. Still, we like the margin expansion we saw in the US.

India's same-store sales growth wasn't robust either, increasing just 2% year-over-year. However, India is far from a mature market, so system sales increased 24% year-over-year as the company added new restaurants at a rapid clip. India is an enormous country, but the firm's current store footprint is a small fraction of what it is in China. In the intermediate term, we believe India will be a massive growth market for Yum! Brands.

***Weakness at Yum!...*continued on next page**

*Weakness at Yum!...*continued from previous page

Valuentum's Take

As if the poultry scandal weren't enough, the avian flu has given Chinese consumers another reason to fear consuming chicken. As we stated in the wake of the poultry scandal, we think consumers will eventually come back to KFC once fears have calmed down.

Through the duration of Yum! Brands' China issues, we haven't altered our long-term outlook on the firm, and we continue to believe shares look fairly valued. We are huge fans of the firm's international expansion efforts, especially since the company is strong where McDonald's is weak. Taco Bell's continued innovation is also providing serious competition in the burgers-and-fries space. Still, we don't think the Yum! Brands' current valuation warrants a position in the portfolio of our Best Ideas Newsletter at this time.

Wolverine Worldwide Rides Acquisition to Strong Results

By RJ Towner

Footwear company Wolverine Worldwide (WWW) reported strong results thanks largely to the company's acquisition of Collective Brands' PLG brands in 2012. Valuentum subscribers may remember Collective Brands from the inception of our Best Ideas Newsletter—a position that returned 38% in less than one year—and featured several strong brands such as Sperry Top-Sider, Keds, and Saucony (dragged down by a weak Payless Shoes). Wolverine now owns those premium brands, which helped revenue increase 88% year-over-year to $588 million, roughly in-line with expectations. Excluding acquisition costs, earnings per share rose 10% year-over-year to $0.46, well above consensus estimates.

With a new fleet of higher-margin brands, Wolverine's gross margin increased 320 basis points year-over-year to 41%. Although gross margins increased substantially, operating expenses jumped 420 basis points year-over-year to 34.7%, dragging the firm's operating margin down 100 basis points to 6.3%. Wolverine's much larger revenue base, however, more-than-compensated for the decline, and the firm now carries debt (so interest payments will weigh on the velocity of profit expansion).

On top of giving Wolverine a larger revenue base, the PLG acquisition helps diversify Wolverine's revenue sources. As we can see from the data above, the firm now has a large presence in Lifestyle footwear that wasn't nearly as robust last year. We also think Sperry Top-Sider is a wonderful brand to anchor the Lifestyle segment over the long term.

Operating free cash flow during the quarter was terrific, coming in at $165.1 million, which is a fantastic 28% of revenue. Although we doubt this will continue, especially considering the firm generated free cash flow equivalent to 5% of revenue in fiscal year 2012, we do believe free cash flow as a percentage of revenue will increase thanks to the higher-margin brands.

Looking ahead, the firm reiterated its full-year revenue guidance of $2.7-$2.775 billion, but Wolverine raised its full-year earnings guidance to $2.60-$2.75 per share from $2.50-$2.65 per share as acquisition integration is going better than planned.

Valuentum's Take

Overall, we were pleased with Wolverine's second quarter, and the bold move to transform the company via acquisition seems to be yielding instant results. We plan to update our valuation to reflect the favorable results, but in any case, we won't be adding shares to the portfolio of our Best Ideas Newsletter at this time.

Fourth of July Weekend Highlights the New Norm for Disney

By RJ Towner

The recently passed Fourth of July weekend once again brought moviegoers several new films to watch. Disney (DIS) and Comcast's Universal (CMCSA) went head-to-head with The Lone Ranger and Despicable Me 2, respectively. The results are in, and the clear winner was Comcast's Despicable Me 2, which earned a record $142 million during its first five days. The Lone Ranger wasn't even close, grossing $48.9 million over its first five days—a number that wouldn't look so bad, except that the film cost Disney an estimated $375 million to create and market.

An Uneven Track Record

Although we like Disney's future prospects—given its robust pipeline of films related to The Avengers and Star Wars—the past weekend highlights one of Disney's recent issues: succeeding with unproven "commodities." Recent films from Marvel characters have been mostly hits with sequel potential. However, these characters are well-known by young and middle-aged moviegoers alike. The same will likely hold true for the Star Wars franchise. Not only were the newest Star Wars movies released within the past decade, but children are familiar with the characters from the successful extension of the Clone Wars TV series.

On the other hand, the dismal performance of John Carter and now The Lone Ranger exemplify the risks of betting on unproven "commodities." The Lone Ranger has a rich heritage, but the name and concept is mostly unfamiliar to today's moviegoer. Disney spent hundreds of millions of dollars backing both films, believing it had new franchises on its hands. Instead, both films will be written-off Disney's books and likely discussed as little as possible in the future.

Film	Box Office (total) (millions) Domestic	Box Office (total) (millions) Foreign	Production Budget	Year
Alice in Wonderland	$ 334	$ 690	$ 200	2010
Captain America*	$ 176	$ 191	$ 140	2011
Cars 2	$ 191	$ 368	$ 200	2011
Iron Man	$ 318	$ 266	$ 140	2008
Iron Man 2	$ 312	$ 311	$ 200	2010
Iron Man 3	$ 406	$ 804	$ 200	2013
John Carter	$ 73	$ 209	$ 250	2012
Monsters University	$ 216	$ 184	N/A	2013
Oz The Great and Powerful	$ 234	$ 257	$ 215	2013
Pirates of the Caribbean	$ 241	$ 802	$ 250	2011
Prince of Persia: The Sands of Time	$ 90	$ 244	$ 200	2010
The Avengers	$ 623	$ 888	$ 220	2012
The Lone Ranger	$ 48	$ 24	$ 215	2013
Thor*	$ 181	$ 268	$ 150	2011
Toy Story 3	$ 415	$ 648	$ 200	2010

*Techinally released via Paramount, will be Disney going forward

Image Source: Valuentum, Box Office Mojo

The above table shows the box office success and costs of recent Disney films. Keep in mind both measures neglect additional revenue generated via other avenues as well as the marketing costs associated with films. Still, we can see most of Disney's "flops" weren't all that bad. In fact, international box office performance spared several films from complete disaster.

*Fourth of July Weekend Highlights...*continued on next page

Fourth of July Weekend Highlights ... continued from the previous page.

More importantly, we believe blockbuster franchises are able to generate more than enough revenue to compensate for poor performance from the "flops" (in most cases). The Iron Man franchise, for example, has grossed over $2.4 billion in box office revenues over the past five years! We anticipate similar performance from the upcoming Star Wars films, and additional revenue streams could be even greater.

Go Big or Go Home?

In our view, investing in big budget films is well worth the risk, especially for Disney which has several other cash cows including ESPN and its theme parks. Disney needs blockbuster franchises to move the needle for merchandising and to add new stories to its theme parks. A smaller film like Frankenweenie, which grossed $67 million with a budget of $40 million, is highly profitable, but it simply doesn't move the needle for a behemoth like Disney.

The same strategy hasn't yet been pursued by Despicable Me 2 owner Universal (Comcast). The studio seems to be firing on all cylinders as of late, investing significantly less in its films for strong returns. Identity Theft had a production budget of just $35 million and has earned $174 million in box office revenues thus far. The Purge cost Universal just $3 million and generated $74 million in box office receipts.

However, its movie-making business is a piece of a much-larger puzzle at Comcast, and we think the firm could pursue a similar 'blockbuster' strategy in the future. Comcast posted $62.5 billion in revenue during fiscal year 2012, so even movies like Identity Theft and The Purge would only add a few cents to earnings per share in a given year. However, franchises can add annuity-like revenue streams and ensure straightforward sequels.

George Lucas and Steven Spielberg recently warned about a potential landscape shift in the movie industry to fewer blockbusters with bigger budgets, longer runs, and higher-ticket prices. A change in strategy from Universal to bet more heavily on blockbusters would underscore the shift Spielberg and Lucas see coming.

Still, we haven't seen this change come to fruition just yet. Universal's pipeline still possesses many one-off type films, and only a few pricey blockbuster franchises are waiting in the wings. Universal has only been under full control of Comcast for a few months, and we haven't seen Universal go the Disney Route.

Valuentum's Take

Ultimately, even if The Lone Ranger doesn't earn another nickel at the box office, it won't hurt Disney, and it was probably worth the risk. The same cohort that brought The Lone Ranger to market was also responsible for the highly successful Pirates of the Caribbean franchise—also a relatively obscure notion at the time of its first release.

We think Disney will continue to pursue the 'blockbuster' strategy going forward, but we can't necessarily say the same about Comcast's Universal, even after Despicable Me 2 destroyed the competition at the box office. We'll be keeping a close eye on future movie releases to see how the strategies of the respective studios evolve. Any shift in focus will not only impact studios, but also TV and movie theaters.

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 (see page 8). 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 often hold a number of these firms in our portfolio (e.g. DTV), 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
Baidu	BIDU	UNDERVALUED	ATTRACTIVE	0.57
Tenneco	TEN	UNDERVALUED	ATTRACTIVE	0.64
Jabil Circuit	JBL	UNDERVALUED	ATTRACTIVE	0.66
NASDAQ	NDAQ	UNDERVALUED	ATTRACTIVE	0.67
Teva Pharma	TEVA	UNDERVALUED	ATTRACTIVE	0.70
Reinsurance Group	RGA	UNDERVALUED	ATTRACTIVE	0.72
Coach	COH	UNDERVALUED	ATTRACTIVE	0.73
Microsoft	MSFT	UNDERVALUED	ATTRACTIVE	0.73
Koppers	KOP	UNDERVALUED	ATTRACTIVE	0.73
Revlon	REV	UNDERVALUED	ATTRACTIVE	0.73
Helen of Troy	HELE	UNDERVALUED	ATTRACTIVE	0.75
Tyson Foods	TSN	UNDERVALUED	ATTRACTIVE	0.76
DIRECTV	DTV	UNDERVALUED	ATTRACTIVE	0.77
Johnson Outdoors Inc	JOUT	UNDERVALUED	ATTRACTIVE	0.77
Assurant Inc	AIZ	UNDERVALUED	ATTRACTIVE	0.79
Protective Life	PL	UNDERVALUED	ATTRACTIVE	0.79
Zimmer	ZMH	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	Sector	Industry	VBI
DIRECTV	DTV	Consumer Discretionary	Media - CATV	9
Helen of Troy	HELE	Consumer Staples	Household Products	9
Jabil Circuit	JBL	Information Technology	Electronic Suppliers	9
Johnson Outdoors Inc	JOUT	Consumer Discretionary	Sporting Goods	9
NASDAQ	NDAQ	Financials	Exchanges	9
Protective Life	PL	Financials	Insurance - Life	9
Reinsurance Group	RGA	Financials	Insurance - Life	9
Tyson Foods	TSN	Consumer Staples	Food Products	9

Name	Symbol	Sector	Industry	VBI
Badger Meter	BMI	Industrials	Electrical Equipment	1
Bank of NY Mellon	BK	Financials	Banks & Money Centers	1
China Life	LFC	Financials	Insurance - Life	1
Computer Sciences	CSC	Information Technology	IT Services	1
HSBC	HBC	Financials	Banks & Money Centers	1
Hyatt	H	Consumer Discretionary	Hotels	1
KB Home	KBH	Consumer Discretionary	Homebuilders	1
Layne Christensen	LAYN	Industrials	E&C	1
Northern Trust	NTRS	Financials	Banks & Money Centers	1
RadioShack	RSH	Consumer Discretionary	Specialty Retailers	1
Simpson	SSD	Industrials	Machinery & Tools	1
American Express	AXP	Financials	Banks & Money Centers	2
Cedar Fair	FUN	Consumer Discretionary	Leisure	2
Core Labs	CLB	Energy	Energy Equipment	2
Deckers	DECK	Consumer Discretionary	Specialty Retail - shoes	2
Ecolab	ECL	Materials	Chemicals - broad	2
Famous Dave's	DAVE	Consumer Discretionary	Restaurants	2
First American	FAF	Financials	Insurance - Property & Casualty	2
H&R Block	HRB	Consumer Discretionary	Personal Services	2
Intl Flavors	IFF	Materials	Chemicals - broad	2
LinkedIn	LNKD	Information Technology	Internet Software & Svcs	2
Mercury General	MCY	Financials	Insurance - Property & Casualty	2
Rayonier	RYN	Industrials	Conglomerates	2
Selective Insurance	SIGI	Financials	Insurance - Property & Casualty	2
Service Corp Intl	SCI	Consumer Discretionary	Personal Services	2
Tempur Pedic	TPX	Consumer Discretionary	Household Durables	2
WebMD	WBMD	Information Technology	Internet Software & Svcs	2

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 24-Jun-2013 | Data as of 14-Jun-2013

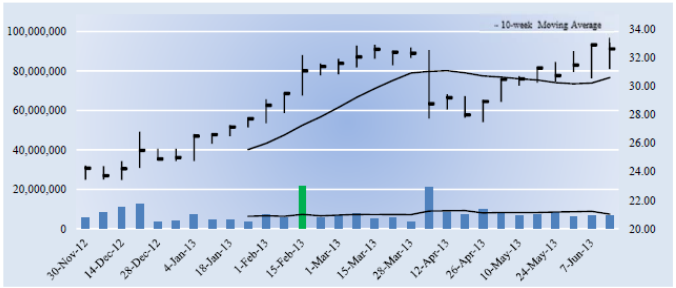
NASDAQ NDAQ UNDERVALUED 19.6%

Buying Index™ 9 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$32.60	$49.00	$39.00 - $59.00	MID-CAP VALUE	Financials	Exchanges

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

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Support, 10-week MA	31.00

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)	$5,626
Avg Weekly Vol (30 wks)	7,581
30-week Range (USD)	23.4 - 33.43
Valuentum Sector	Financials
5-week Return	6.9%
13-week Return	1.4%
30-week Return	37.4%
Dividend Yield %	1.6%
Dividends per Share	0.52
Forward Dividend Payout Ratio	19.5%
Est. Normal Diluted EPS	3.59
P/E on Est. Normal Diluted EPS	9.1
Est. Normal EBITDA	1,145
Forward EV/EBITDA	7.4
EV/Est. Normal EBITDA	5.9
Forward Revenue Growth (5-yr)	8.9%
Forward EPS Growth (5-yr)	17.1%

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

Investment Highlights

• NASDAQ'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.

• NASDAQ'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.

• NASDAQ 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 14.8% in coming years. Total debt-to-EBITDA was 2.3 last year, while debt-to-book capitalization stood at 27.5%.

• NASDAQ's global offerings include trading and clearing across multiple asset classes, market data products, financial indexes, capital formation solutions, financial services and market technology products and services. It operates the NASDAQ Stock Market in the US and several exchanges in Europe.

• The firm's PEG ratio is not only below 1, but it also falls below the median of its peer group. This provides additional support for the firm's attractive valuation on a DCF basis.

Relative Valuation

	Forward P/E	PEG	Price / FV
CBOE	21.4	2.1	115.1%
CME Group	23.4	2.7	106.1%
IntercontinentalExchange	20.4	2.4	115.4%
NYSE	17.4	1.5	101.2%
Peer Median	20.9	2.3	110.6%
NASDAQ	**12.2**	**0.9**	**66.5%**

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

Returns Summary

	3-year Historical Average
Return on Equity	7.6%
Return on Assets	2.8%
ROIC, with goodwill	7.8%
ROIC, without goodwill	26.9%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	1,976
Net Debt	1,171
Total Debt/EBITDA	2.3
Net Debt/EBITDA	1.4
EBITDA/Interest	8.8
Current Ratio	1.6
Quick Ratio	1.2

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-11	Dec-12	Dec-13
Revenue	3,438	3,119	3,524
Revenue, YoY%	7.5%	-9.3%	13.0%
Operating Income	734	738	791
Operating Margin %	21.3%	23.7%	22.5%
Net Income	387	352	451
Net Income Margin %	11.3%	11.3%	12.8%
Diluted EPS	2.15	2.04	2.67
Diluted EPS, YoY %	12.4%	-5.1%	30.7%
Free Cash Flow (CFO-capex)	581	507	509
Free Cash Flow Margin %	16.9%	16.3%	14.5%

In Millions of USD (except for per share items)

Structure of the Exchanges Industry — GOOD

The exchanges industry consists of firms that deliver trading, clearing, exchange technology, and regulatory securities listing. Industry constituents operate some of the most well-known exchanges including the NASDAQ, Chicago Board Options Exchange, and the Chicago Mercantile Exchange. Firms carve out competitive advantages via scale (operating the largest market for a given financial instrument) and via technological superiority (transaction speeds and reliability). The securities markets are intensely competitive, but new entrants tend to have limited liquidity/capability. We like the industry structure.

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http://www.valuentum.com/search2?searchtext=ndaq&searchtype=symbol

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 25-Jun-2013 | Data as of 21-Jun-2013

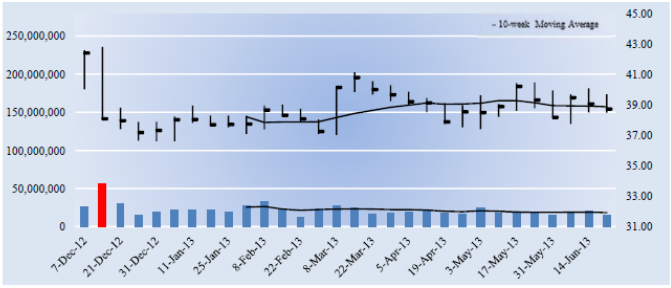
Teva Pharma TEVA UNDERVALUED 5.8%

Buying Index™ 6 | Value Rating ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$38.74	$55.00	$41.00 - $69.00	LARGE-CAP VALUE	Health Care	Pharmaceuticals

Teva has held the leading position in the generic drug industry in the US for roughly a decade, and its specialty pharma business has a budding late-stage pipeline.

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™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BEARISH
Near-term Technical Resistance, 10-wk MA	39.00

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)	$34,595
Avg Weekly Vol (30 wks)	22,030
30-week Range (USD)	36.63 - 42.83
Valuentum Sector	Health Care
5-week Return	-3.4%
13-week Return	-3.4%
30-week Return	-4.5%
Dividend Yield %	2.8%
Dividends per Share	1.09
Forward Dividend Payout Ratio	20.4%
Est. Normal Diluted EPS	5.39
P/E on Est. Normal Diluted EPS	7.2
Est. Normal EBITDA	6,118
Forward EV/EBITDA	7.7
EV/Est. Normal EBITDA	7.8
Forward Revenue Growth (5-yr)	3.7%
Forward EPS Growth (5-yr)	13.7%

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

Investment Highlights

• Teva Pharma 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 27.3% during the past three years.

• Teva Pharma'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.

• Teva Pharma's cash flow generation is robust, but its financial leverage could potentially be concerning down the road. If cash flows begin to weaken, we'd become more cautious on the firm's overall financial health.

• Teva is a fully-integrated global pharmaceutical company. Its business includes three primary areas: generic, specialty and over-the-counter medicines. The firm is well-positioned to benefit from changes in the global healthcare environment.

• Teva has held the leading position in the generic drug industry in the US for roughly a decade, and its specialty pharma business has a budding late-stage pipeline.

Relative Valuation

	Forward P/E	PEG	Price / FV
Abbott	20.4	NMF	101.7%
Eli Lilly	14.7	1.6	97.9%
Merck	12.3	2.3	114.6%
Pfizer	13.0	1.8	101.6%
Peer Median	13.8	1.8	101.7%
Teva Pharma	**7.2**	**0.9**	**70.4%**

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

Returns Summary

	3-year Historical Average
Return on Equity	13.4%
Return on Assets	7.2%
ROIC, with goodwill	13.5%
ROIC, without goodwill	27.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-10	Dec-11	Dec-12
Revenue	16,121	18,312	20,320
Revenue, YoY%	16.0%	13.6%	11.0%
Operating Income	4,299	4,010	5,062
Operating Margin %	26.7%	21.9%	24.9%
Net Income	3,349	2,759	4,685
Net Income Margin %	20.8%	15.1%	23.1%
Diluted EPS	3.64	3.09	5.35
Diluted EPS, YoY %	61.1%	-15.0%	73.3%
Free Cash Flow (CFO-capex)	3,444	3,081	3,792
Free Cash Flow Margin %	21.4%	16.8%	18.7%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	14,516
Net Debt	13,420
Total Debt/EBITDA	2.9
Net Debt/EBITDA	2.6
EBITDA/Interest	33.2
Current Ratio	1.0
Quick Ratio	0.5

NMF = Not Meaningful

Structure of the Pharmaceuticals Industry — GOOD

The pharmaceuticals industry is composed of makers of both brand and generic drugs. Intellectual property protection remains vital to the successful commercialization of safe/effective medicines and offers brand firms competitive advantages over the life of such patents. However, when brand drugs lose market exclusivity, makers of generic pharmaceuticals generate intense price competition. Long-term success for brand pharma companies depends on a strong drug pipeline, while cost-efficiency and being first-to-market are drivers of generic firms' success. We generally like the group.

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http://www.valuentum.com/search2?q=teva&searchtype=symbol&btn=Search

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 6-Jun-2013 | Data as of 31-May-2013

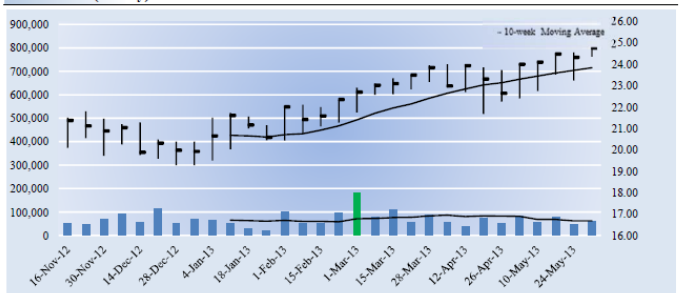
Johnson Outdoors Inc JOUT UNDERVALUED 5.1%

Buying Index™ 9 **Value Rating** ✓

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$24.75	$32.00	$26.00 - $38.00	SMALL-CAP VALUE	Consumer Discretionary	Sporting Goods

Johnson Outdoors operates in highly competitive markets.

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)	$232
Avg Weekly Vol (30 wks)	68
30-week Range (USD)	19.28 - 24.75
Valuentum Sector	Consumer Discretionary
5-week Return	9.2%
13-week Return	8.2%
30-week Return	20.7%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	2.17
P/E on Est. Normal Diluted EPS	11.4
Est. Normal EBITDA	48
Forward EV/EBITDA	4.1
EV/Est. Normal EBITDA	3.8
Forward Revenue Growth (5-yr)	2.2%
Forward EPS Growth (5-yr)	13.6%

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

Returns Summary

	3-year Historical Average
Return on Equity	11.3%
Return on Assets	6.8%
ROIC, with goodwill	11.9%
ROIC, without goodwill	13.3%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	9
Net Debt	-50
Total Debt/EBITDA	0.3
Net Debt/EBITDA	NMF
EBITDA/Interest	13.5
Current Ratio	3.1
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

- Johnson Outdoors Inc 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 13.3% during the past three years.
- Johnson Outdoors makes branded seasonal, outdoor recreation products used primarily for fishing from a boat, diving, paddling, hiking and camping. Its brands include Minn Kota, Humminbird, and Eureka, among others.
- Johnson Outdoors Inc's cash flow generation and financial leverage aren't much to speak of. The firm's free cash flow margin has averaged about 4.2% 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 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.
- Johnson Outdoors operates in highly competitive markets. Its primary rivals include Brunswick, Garmin, and Lowrance. Barriers to entry are limited.

Investment Considerations

DCF Valuation	UNDERVALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	GOOD
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	MEDIUM
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	24.00

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

Business Quality

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Black Diamond	148.0	0.5	99.7%
Callaway Golf	-8.8	NMF	114.2%
Nautilus Inc	23.3	1.9	133.2%
Pool Corp	27.8	1.8	131.9%
Peer Median	25.6	1.8	123.0%
Johnson Outdoors Inc	**12.4**	**1.7**	**77.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-11	Sep-12	Sep-13
Revenue	407	412	433
Revenue, YoY%	6.5%	1.2%	5.0%
Operating Income	18	18	31
Operating Margin %	4.3%	4.3%	7.2%
Net Income	33	10	19
Net Income Margin %	8.0%	2.5%	4.4%
Diluted EPS	3.51	1.08	2.00
Diluted EPS, YoY %	398.8%	-69.3%	85.2%
Free Cash Flow (CFO-capex)	22	20	18
Free Cash Flow Margin %	5.3%	4.8%	4.2%

In Millions of USD (except for per share items)

Structure of the Sporting Goods Industry — NEUTRAL

The seasonal sporting goods industry is heavily tied to sporting trends and relies on large athletic partners to distribute their athletic goods and apparel. Exclusive licenses can help certain firms achieve competitive advantages, and while scale helps, small companies have been able to carve out favorable niches. Unlike other apparel industries, we have yet to see tremendous online competition emerge. Potential firearm regulation could negatively impact sales, but most companies are well diversified. We're neutral on the space, but continued consolidation could ultimately benefit industrywide pricing and margins.

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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.

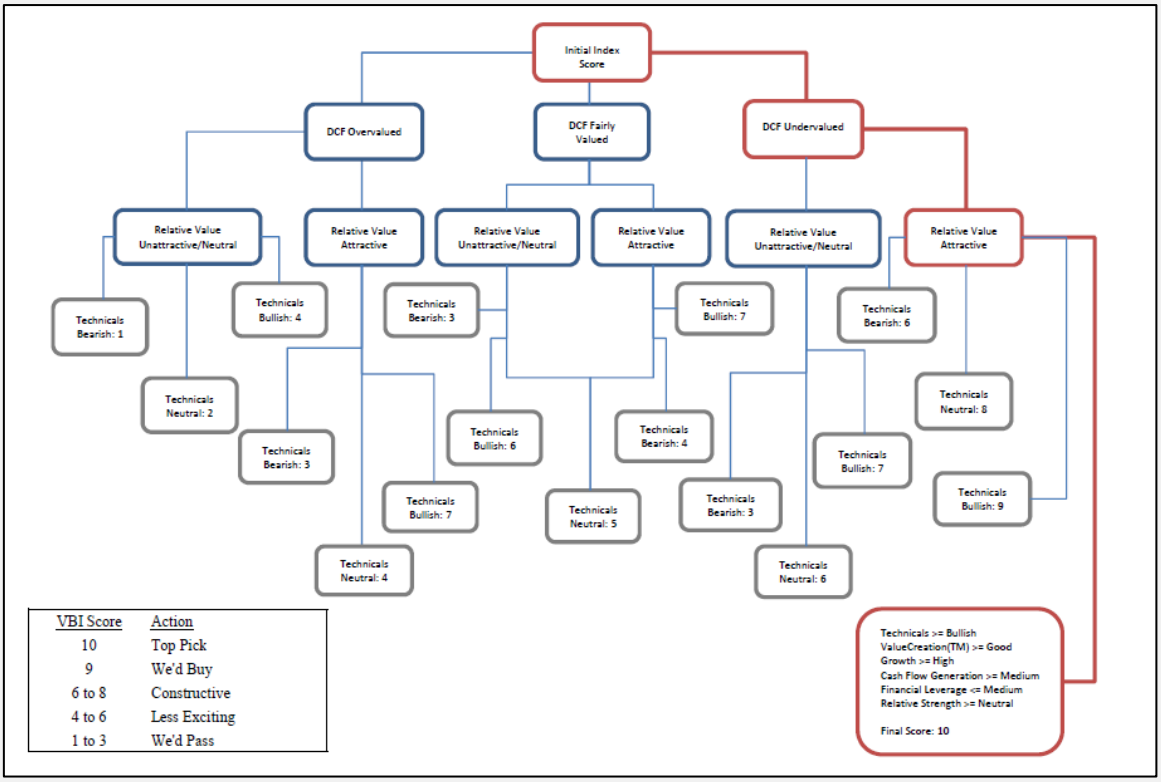
Avoiding Value Traps and Opportunity Cost

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 sell"). Most of our coverage universe falls between 3 and 7, but at any given time thee 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 3, Issue 7

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