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
79.1%	53.3%	25.7pts

Our Best Ideas (see page 8): AAPL, MO, BIDU, BWLD, EBAY, XLF, F, GE, GOOG, XLV, INTC, PCP, KBE, RSG, RIO, TEVA, UNP, XLU, V

Inside This Issue

Best Ideas Portfolio Working Overtime!

By Brian Nelson, CFA

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The past few weeks have been slow in terms of news flow, but the Best Ideas portfolio (see page 8) has been working overtime! Apple (AAPL) and Altria (MO) continue to advance nicely, and the portfolio benefited from the recent performance of DirecTV (DTV), which was removed from the portfolio May 23 at ~$84 per share. If you are not receiving our Best Ideas transaction alert emails, please be sure to let us know. For those following the portfolio closely, Apple completed a 7:1 stock split and Union Pacific (UNP) completed a 2:1 stock split. All told, the Best Ideas portfolio added 150 basis-points of outperformance since the last update.

There are a few things worth paying attention to in this edition. First, the piece on Intel (INTC)—see page 2—goes into how the chip giant is making inroads in mobile as PC demand stabilizes. The company has been a fantastic performer this month, and we may see upside to its $30 fair value estimate if the pace of operating improvement continues. On page 10, we address a number of items impacting Best Ideas portfolio holding eBay (EBAY), and while we're not happy with them, significant valuation upside exists with shares. Our fair value for eBay is close to $90 per share. On page 13, we wanted to keep in front of you a dynamic situation with GE's (GE) shares, as Siemens (SI) and Mitsubishi (MSBHY) have reportedly teamed up to make a joint bid for French firm Alsom's energy assets, which are currently under formal agreement to be acquired by GE. We expect news flow in this area to increase in coming weeks.

In this edition, we also wanted to share a conversational piece on 'The Hidden Advantage' (see page 4) of activist investors, and we thought it important to walk through the many "…Conflicts of Interest" (see page 14) that prevail in the investment research business. For new members, you'll be glad to know that Valuentum is completely free of conflicts of interest: our success depends on your success, and we wouldn't have it any other way. Toward the end of this edition, we feature three high-quality firms: Abbott (ABT), Exxon (XOM), and Procter and Gamble (PG). We also encourage new members to read on page 29 about how we use the Valuentum Buying Index in the Best Ideas portfolio. As always, I hope you enjoy the June edition of the Best Ideas Newsletter!

KEY CONCEPT: After adding firms to the Best Ideas portfolio, we may tactically trade around these positions when they have VBI ratings between 3 and 8 and depending on the size of their weighting in the portfolio or the attractiveness of them relative to other opportunities (a score of 3 through 8 is typically equivalent to a 'we'd hold'). We tend to remove firms from our Best Ideas portfolio (see page 8) when they register a 1 or 2 (we'd sell) on our process. Importantly, however, firms in our Best Ideas portfolio, which have generally registered a 9 or 10 on our scale when we added them, should be considered our best ideas at any point in time. View FAQ for more details about how the team utilizes the Valuentum Buying Index to run the portfolio.

Goals of our Best Ideas Newsletter: 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.

10-Year Highs: Intel Makes Splash in Mobile; PC Demand Stabilizing

By Brian Nelson, CFA

At the Computex conference in Taiwan, Best Ideas portfolio holding Intel (INTC) revealed the most energy-efficient processor in history -- its Core M line of processors. The goal of the Core M, which is based off of the Core i3, i5, and i7 processors, is to enhance processor performance (with less power consumption) in mobile products, and we think the firm will make a big splash with the new chip.

In recent past, Intel has faced myriad challenges in its efforts to gain traction in mobile against rival Arm Holdings (ARMH), which dominates the market. However, the Core M has changed all of this, and in our view, represents the first of many steps Intel will inevitably take to gain share in mobile. Most Intel 'bears' feel that Intel will fail in mobile, but we think the Core M throws cold water on that thesis. The new chip will be in tablets before the end of this year (just in time for the holiday season), and we're looking forward to a number of new data points in coming months to assess the firm's progress.

In other news, Intel announced June 12 that it had raised its second-quarter and full-year revenue and gross margin expectations thanks to **stronger than expected demand for business PCs**. The chip giant now expects second-quarter revenue to be $13.7 billion, plus or minus $300 million, compared to the previous range of $13 billion, plus or minus $500 million. Raising and tightening the guidance range is always a positive, as it signals strong business performance and greater visibility. Intel also noted that it expects the mid-point of the gross margin range in the period to increase by one percentage point, to 64%, plus or minus a couple percentage points. Though it made a couple tweaks higher to its expected R&D plus MG&A spending expectations and its tax rate for the quarter, the increased top-line and gross margin expectations are well-received.

On a full-year basis**, Intel will return to top-line expansion**, versus its previous outlook calling for flat performance. The firm also noted that the strong second-quarter gross margin will favorably impact full-year performance, driving the measure to the high end of its yearly guidance range (61% +/- a few percentage points). Intel expects to provide a new full-year gross margin range when it reports second-quarter results July 15 (as it receives a few more data points regarding the sustainability of business PC demand for 2014). R&D plus MG&A spending and its tax rate will also be a bit higher than previous expectations for the year. However, the top-line and gross margin news are far more important as it relates to materiality.

All-in, our thesis on Intel heading into 2014 has played out almost exactly how we imagined, and we trust you have profited greatly. For our new members, here was our quick take from December 2013:

> According to data released by the International Data Corporation (IDC) Worldwide Quarterly PC Tracker on December 2, personal computer shipments will drop more than 10% in 2013, the most severe yearly contraction on record. However, this news isn't the key takeaway. Instead, it is expectations for stabilizing demand by 2015 that we expect to provide a shot of optimism to the PC supply chain. We view the news as particularly positive for Intel, offering further support for the long-term growth and sustainability of its dividend. We think shares of Intel are worth nearly $30 each.

New Highs...continued on next page

*New Highs…*from previous page

We would expect other firms in the PC supply chain such as rival AMD (AMD), Dividend Growth portfolio holding Microsoft (MSFT), Hewlett-Packard (HPQ), and Nvidia (NVDA) to have an upward bias to near-term performance as a result of Intel's news.

Intel's shares have hit 10-year highs and continue to approach our current fair value estimate of $30 per share (they are just pennies away). Members should expect an upward bias in our fair value estimate if mobile progress at the company proceeds at a faster pace than embedded expectations. We continue to like shares of the chip giant (shares yield ~3.3%) and believe news of the Core M will serve to ignite Intel's equity heading into the back half of 2014. We don't expect to make any changes to our position in the chip giant's shares in the Best Ideas portfolio at this time.

AIG Scooping Up Its Own Underpriced Shares

By Brian Nelson, CFA

As Valuentum members know, we're not big fans of the insurance industry. The industry is highly competitive, with rivals numbering in the thousands--including stock companies, specialty insurance organizations, life insurers, mutual companies, other underwriting firms, and banks. Though risk-acceptance criteria, product pricing, and service are some ways insurers can try to differentiate, we view the insurance industry as largely commoditized. For one, most insurance products can easily be replicated by both existing peers and new entrants (at potentially value-destructive pricing), and sufficient financial strength (capital) is the only temporary barrier to entry. Any outsize economic profit opportunities will be competed away over the long haul, as capital will inevitably chase such an opportunity. Diversification across product lines and geography offer some large insurers stability, but such a strategy also exposes them to a larger variety of more complex risks.

Generally speaking, insurers are inextricably tied to the vicissitudes of the global stock and debt markets, as underwriting profitability (as measured by the combined ratio) can fluctuate wildly through the course of the economic cycle--and particularly during adverse or catastrophic events that result in large losses. In our view, the key portion of an insurer's income is generated from its investment portfolio, but these returns are largely out of the firm's control. Under difficult economic conditions, for example, the assets held in an insurer's investment portfolio can experience rapid declines in value and performance--not only threatening the capital position of the company but also hurting consumer confidence in the sustainability of the insurer (subsequently slowing demand for its financial and insurance products)—a "not-so-glorious" cycle. An insurer is also heavily dependent on its credit ratings that are issued by the major rating agencies, and any downgrade may force it to post additional collateral payments (especially if complex derivative instruments are held on its books), potentially hurting existing and future business.

With all of this said, we point to AIG as the highest-rated insurer on the Valuentum Buying Index at this time, with the company registering a 9 (equivalent to a "we'd consider buying" rating). AIG is now far-removed from its troubled past, and **our fair value estimate of the insurer is nearly $70 per share**. Shares are trading at roughly $55 each at the time of this writing, and we're expecting pricing upside. AIG's board seems to agree with our view, and it recently authorized the repurchase of an additional $2 billion of shares June 5, funded in part by the completion of its sale of ILFC. Since the end of the first quarter of 2014, AIG has repurchased more than $400 million of shares, and we're very much in favor of any share buybacks completed below our fair value estimate of the firm. For members seeking exposure to the insurance industry, which we do not prefer, AIG is our favorite idea. The company's book value per share stood at $71.77 at the end of the first quarter, advancing 6% on a year-over-year basis (price/book = 0.77).

The Hidden Advantage

This article appeared on our website June 10.

By Brian Nelson, CFA

Wouldn't it be great to load up on options and then announce to the world that you've done so, thereby generating tremendous gains as other investors pile into the stock driving its price higher? I think most investors either believe that such behavior is mere fantasy, or would love to have this significant influence for their own use, assuming it was legal. Perhaps to your surprise, this behavior is neither fantasy nor illegal (at least under the situation outlined below, to our knowledge), and some investors do have tremendous influence over the market.

Enter the activist investor. Most associate activist investing with driving change at a company for the benefit of all shareholders. Though this can be true, most investors don't realize that the activist investor has a built-in advantage that offers a leg up when it comes to generating outsize returns. Let's walk through an example to illustrate this point.

On June 6, Carl Icahn (IEP) disclosed a 9.39% position in dollar-store giant Family Dollar (FDO), stating that the purpose of the share accumulation is as follows:

> The Reporting Persons acquired their positions in the Shares in the belief that they were undervalued. The Reporting Persons see great long-term potential in the Issuer's industry and believe the Issuer's current situation is analogous to that recently faced by companies such as CVR Energy, Forest Laboratories, Chesapeake Energy and Biogen, as well as a number of other companies over the last two decades, where the Reporting Persons' involvement helped to generate tremendous returns for all shareholders. The Reporting Persons intend to seek to have conversations with members of the Issuer's senior management and board of directors to discuss the Issuer's business and strategies to enhance shareholder value, which may include the pursuit of operating initiatives or the exploration of strategic alternatives. The Reporting Persons may also determine to seek shareholder board representation if appropriate.

According to the SEC filing, Carl Icahn accumulated the vast majority of the 9.39% stake in Family Dollar through American-style call options, all of which appear to expire April 8, 2016. Since the per-share exercise price of the call options is $38 per share (not to be confused with the purchase cost of the options themselves), the options can be classified as "deep-in-the-money" calls. Shares of Family Dollar were trading at ~$60 per share before the filing was made public.

When "deep-in-the-money" calls become more "deep-in-the-money" (as in the case when a stock price increases), the delta of the option approaches 100% -- or for every dollar change in the price of the stock, there is an equal dollar change in the value of the option. This appears to be how Icahn has structured the position. Icahn won't benefit from the large delta that at-the-money, short-dated options provide, but he will benefit from significantly lower risk and materially lower capital investment than buying the shares outright. The lower capital investment in this example serves to magnify his immediate return.

The Hidden Advantage...continued on next page

*The Hidden Advantage...*from previous page

In all, Carl Icahn controls 10,691,011 shares of Family Dollar.

Then…the filing.

Date of Transaction	Amount of Securities	Price Per Share
04/07/2014	117,589	57.87
04/08/2014	120,000	58.44
04/09/2014	25,000	58.64
04/09/2014	53,622 (1)	20.76 (2)
04/10/2014	382,575 (1)	20.03 (2)
04/11/2014	206,512 (1)	18.15 (2)
04/14/2014	133,235 (1)	18.87 (2)
04/15/2014	95,000 (1)	18.99 (2)
05/27/2014	56,270 (1)	20.05 (2)
05/28/2014	115,610 (1)	20.20 (2)
05/29/2014	88,340 (1)	20.07 (2)
05/30/2014	188,761 (1)	20.38 (2)
06/02/2014	132,714 (1)	20.57 (2)
06/03/2014	26,876 (1)	20.52 (2)
06/03/2014	120,827 (1)	21.27 (2)
06/04/2014	88,548 (1)	21.93 (2)
06/05/2014	45,124 (1)	22.02 (2)
06/06/2014	141,600 (1)	22.36 (2)
04/07/2014	279,135	57.87
04/08/2014	284,857	58.44
04/09/2014	59,344	58.64
04/09/2014	127,289 (1)	20.76 (2)
04/10/2014	908,158 (1)	20.03 (2)
04/11/2014	490,220 (1)	18.15 (2)
04/14/2014	316,274 (1)	18.87 (2)
04/15/2014	225,512 (1)	18.99 (2)
05/27/2014	134,540 (1)	20.05 (2)
05/28/2014	274,528 (1)	20.20 (2)
05/29/2014	209,774 (1)	20.07 (2)
05/30/2014	448,234 (1)	20.38 (2)
06/02/2014	314,929 (1)	20.57 (2)
06/03/2014	63,816 (1)	20.52 (2)
06/03/2014	286,904 (1)	21.27 (2)
06/04/2014	210,310 (1)	21.93 (2)
06/05/2014	107,148 (1)	22.02 (2)
06/06/2014	336,233 (1)	22.36 (2)
04/07/2014	191,223	57.87
04/08/2014	195,143	58.44
04/09/2014	40,656	58.64
04/09/2014	87,198 (1)	20.76 (2)
04/10/2014	622,141 (1)	20.03 (2)
04/11/2014	335,828 (1)	18.15 (2)
04/14/2014	216,667 (1)	18.87 (2)
04/15/2014	154,488 (1)	18.99 (2)
05/27/2014	90,540 (1)	20.05 (2)
05/28/2014	187,910 (1)	20.20 (2)
05/29/2014	143,587 (1)	20.07 (2)
05/30/2014	306,808 (1)	20.38 (2)
06/02/2014	215,926 (1)	20.57 (2)
06/03/2014	43,686 (1)	20.52 (2)
06/03/2014	196,406 (1)	21.27 (2)
06/04/2014	143,881 (1)	21.93 (2)
06/05/2014	73,348 (1)	22.02 (2)
06/06/2014	230,167 (1)	22.36 (2)

Image Source: SEC, Icahn Capital

Followed by…a tweet on Twitter (TWTR).

By simply making his position publicly known, shares of Family Dollar popped 13.4% on Monday, June 9, to close up $8.09 to $68.62 each. The ~$8 per-share move in Family Dollar's stock increased Icahn's paper value by an estimated ~$86.5 million (in just one day). More importantly for this discussion, the ~$8 move on the ~$20 option positions represent a ~40% gain – all for just disclosing his stake.

*The Hidden Advantage...*continued on next page

*The Hidden Advantage...*from previous page

Is it fair than anyone should have such privileged gains in the stock market? Some may say that Icahn has created significant shareholder value via activism in the past (and this may be just the price to pay for his services as other investors pile on). Others, however, would say "probably not." Creating shareholder value via activism is one thing, but making a huge return on the position before any real work is done is another. These individuals may also say that something just doesn't seem right if activist investors can load up on options (acquire a full position in a firm's shares) and then record a ~40% gain on their position the day they make their holdings public. On an annualized basis, a ~40% return over two months is simply through-the-roof.

Both activist investors and hedge funds are protective of this advantage. In the recent instance of Greenlight Capital and Micron Technology (MU), for example, David Einhorn sued an anonymous Seeking Alpha author because the person(s) allegedly revealed the investment in Micron in a post before Greenlight disclosed its position with the SEC. Though this issue has been resolved, Einhorn argued that the website post drove up the costs of his purchases. Presumably in the eyes of the SEC, accumulating a large position in a company (perhaps via options) and *then* making the position public to reap huge gains is just fine. It's clear that, while activist investors and hedge funds are not doing anything "wrong" (to our knowledge), they can gain a significant advantage over the everyday investor.

Corporations have a similar advantage. The most recent example that comes to mind is Coca-Cola (KO) and Green Mountain (GMCR). In February, Coca-Cola scooped up 10% of Green Mountain at $74.98 per share (the soda-maker has subsequently increased its stake to 16%). With shares of Green Mountain trading at $114 each at present (primarily as a result of optimism regarding the KO-GMCR partnership), the deal for just a small portion of the firm now looks incredibly savvy (given the substantial gain in Green Mountain's shares). If, for example, Coca-Cola were to now decide to acquire all of the remaining shares of Green Mountain, buying the 10% stake when it did will have saved the soft-drink giant's shareholders ~$650 million [(114-74.980)*16,684,139)], assuming the initial agreed-upon deal price to acquire all of the outstanding shares of Green Mountain in February -- not just 10% -- would have been at today's levels -- not at $74.98 per share (the price to consummate the transaction in February, however, could have been even higher). Coca-Cola's profit in Green Mountain is simply not a small number. It begs the question: should all M&A proceed this way (i.e. the suitor scoop up a portion of the target's shares on the cheap before disclosing that merger talks have begun)?

Fiduciary duties and the freedom of investors to pile on to any idea they want probably precludes any increased investor protections in this area, but the use of options to build large equity stakes to further magnify a seemingly "built-in" competitive advantage could be something that regulators look to in order to level the playing field for the common investor. Without a doubt, it's a lot easier to make money when one is effectively starting with a ~40% gain on a position, as in the recent example of Icahn and Family Dollar. Individual investors do not have this benefit, and it's worth re-evaluating whether any investor should. But with each passing day, this hidden advantage continues.

The M&A Environment Remains Robust

By Brian Nelson, CFA

Let's take a look at a few deals that hit the wires recently -- some proposed, some speculated.

Analog Devices (ADI) Scoops Up Hittite Microwave (HITT)

Norwood, MA (06/09/2014) - Analog Devices, a global leader in high-performance semiconductors for signal processing applications, and Hittite Microwave Corporation, an innovative designer and manufacturer of high performance integrated circuits, modules, subsystems and instrumentation for RF, microwave and millimeter wave applications, announced that the two companies have entered into a definitive agreement whereby ADI will acquire Hittite for $78 per share in cash. The closing price of Hittite's common stock on June 6, 2014 was $60.56 per share.

This agreement reflects a total enterprise value for Hittite of approximately $2 billion. ADI expects to fund the acquisition through a combination of cash on hand and short-term debt financing. The Boards of Directors of each company have approved the transaction, which is expected to close near the end of ADI's third fiscal quarter of 2014, subject to regulatory approvals and other customary closing conditions.

To continue reading: http://www.analog.com/en/press-release/6_9_14_ADI_To_Acquire_Hittite_Microwave_Corporatio/press.html

Medtronic (MDT) Rumored to Be Interested In Smith & Nephew (SNN)

Per Bloomberg (6/05/2014): *"Medtronic Inc., the largest maker of heart rhythm devices, is evaluating a takeover of London-based Smith & Nephew Plc that could see the U.S. company move its tax domicile overseas, people familiar with the matter said…*

…Smith & Nephew, with a market value of about 9.5 billion pounds ($15.9 billion) based on yesterday's closing stock price, is aware of Medtronic's interest as are investment banks, said two of the people, asking not to be named discussing a private matter. Medtronic's preparations for a bid are at an early stage and no offer is imminent, the people said."

To continue reading: http://www.bloomberg.com/news/2014-06-04/medtronic-said-to-evaluate-takeover-of-smith-nephew.html

Note: At the time of this printing, recent unconfirmed news reports suggest that Medtronic and Covidien could be looking to combine operations. Please check back on our website for continued updates.

Merck (MRK) Buys Idenix (IDIX)

WHITEHOUSE STATION, N.J. & CAMBRIDGE, Mass (6/09/2014) - Merck, known as MSD outside the United States and Canada, and Idenix Pharmaceuticals, today announced that the companies have entered into a definitive agreement under which Merck will acquire Idenix for $24.50 per share in cash. The transaction, which values the purchase of Idenix at approximately $3.85 billion, has been approved by the boards of directors of both companies.

"Idenix has established a promising portfolio of hepatitis C candidates based on its expertise in nucleoside/nucleotide chemistry and prodrug technologies," said Dr. Roger Perlmutter, president, Merck Research Laboratories. "Idenix's investigational hepatitis C candidates complement our promising therapies in development and will help advance our work to develop a highly effective, once-daily, all oral, ribavirin-free, pan-genotypic regimen that has a duration of treatment as short as possible for millions of patients in need around the world."

M&A...continued on page 9

Our Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
79.1%	53.3%	25.7pts

Below we outline the constituents of the portfolio and their respective weightings and returns. Each subsequent issue discusses Valuentum's latest changes to the portfolio and analysis and trends impacting companies in our Best Ideas portfolio. We currently have about 24% of the portfolio in cash (after removing DirecTV), a level we're looking to bring down in coming months. Please note that the table below reflects the recent 7:1 stock split at Apple and the recent 2:1 stock split at Union Pacific. Tactically, 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 the portfolio of the Best Ideas Newsletter is to outperform the S&P 500 Index (SPY) 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, the Valuentum Buying Index.

OUR BEST IDEAS PORTFOLIO -- as of June 15, 2014											**Best Ideas Portfolio Inception Date: May 17, 2011**
Portfolio Holdings	Symbol	Initial VBI*	Current VBI**	First Purchase	Cost Basis ($)	Total Shares	Total Cost ($)	Price/Share ($)	Current Value ($)	% of Portfolio	% Return (dividends included)
Bullish											
Apple Corp.	AAPL	10	6	17-Jun-11	51.92	161	8,372.96	91.28	14,696.08	8.2%	81.0%
Altria Group	MO	8	6	28-Jun-11	28.39	315	8,958.11	41.45	13,056.75	7.3%	61.1%
Baidu	BIDU	10	6	1-Aug-13	133.60	20	2,679.00	178.05	3,561.00	2.0%	32.9%
Buffalo Wild Wings	BWLD	7	6	13-Jul-11	65.42	77	5,044.34	153.29	11,803.33	6.6%	134.0%
eBay	EBAY	10	6	3-Oct-11	31.04	100	3,103.50	49.04	4,904.00	2.7%	58.0%
Financial Select SPDR Fund	XLF	NA	6	9-Jan-11	13.46	150	2,026.00	22.61	3,391.50	1.9%	72.5%
Ford Motor	F	7	7	12-Sep-11	10.69	650	6,955.50	16.56	10,764.00	6.0%	59.8%
General Electric	GE	7	9	21-Oct-13	25.99	375	9,761.75	27.04	10,140.00	5.7%	5.2%
Google	GOOG	10	4	23-Oct-12	341.75	8	2,740.96	551.76	4,414.08	2.5%	61.0%
Health Care ETF	XLV	9	5	22-May-12	36.60	125	4,582.00	59.63	7,453.75	4.2%	67.2%
Intel	INTC	6	6	12-Sep-11	20.48	150	3,086.50	29.87	4,480.50	2.5%	53.8%
Precision Castparts	PCP	8	3	6-Jun-11	152.07	40	6,089.80	265.64	10,625.60	5.9%	74.7%
SPDR S&P Bank ETF	KBE	NR	NR	9-Jan-12	21.07	100	2,114.00	33.07	3,307.00	1.8%	61.4%
Republic Services	RSG	8	6	19-May-11	31.42	201	6,329.42	36.71	7,378.71	4.1%	26.7%
Rio Tinto	RIO	9	7	22-May-12	46.40	75	3,487.00	51.60	3,870.00	2.2%	18.7%
Teva Pharma	TEVA	6	5	24-Jul-13	41.22	77	3,180.94	51.98	4,002.46	2.2%	29.1%
Union Pacific	UNP	6	6	24-Jul-13	79.67	40	3,193.80	100.90	4,036.00	2.3%	28.5%
Utilities Select SPDR	XLU	NR	NR	18-Mar-14	41.12	83	3,419.96	42.55	3,531.65	2.0%	3.3%
Visa	V	7	6	30-Nov-11	107.46	47	5,064.39	211.29	9,930.63	5.5%	98.9%
Note: DirecTV (DTV) was removed from the portfolio May 23, 2014, at a price of $84.15.											
Cash -- changes in monthly cash balance reflects dividends received and trading gains/losses, where applicable.									43,709.16	24.4%	0.0%
Bearish											
For investors seeking 'short' or 'put option' exposure, please consider firms with VBI ratings with 1 and 2 as ideas.											
Best Ideas Portfolio Value							100,000.00		**179,056.20**		**79.1%**
S&P 500 Index (SPY)				17-May-11	132.69	754	100,000.00	194.13	146,303.41	95.4%	
Cash									7,010.32	4.6%	
Benchmark Portfolio Value									**153,313.74**		**53.3%**
Relative Outperformance											**25.7%**

Data as of June 15, 2014. 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).

***M&A…*from page 7**

Idenix is a biopharmaceutical company engaged in the discovery and development of medicines for the treatment of human viral diseases, whose primary focus is on the development of next-generation oral antiviral therapeutics to treat hepatitis C virus (HCV) infection. The company currently has three HCV drug candidates in clinical development: two nucleotide prodrugs (IDX21437 and IDX21459) and a NS5A inhibitor (samatasvir). These novel candidates are being evaluated for their potential inclusion in the development of all oral, pan-genotypic fixed-dose combination regimens.

To continue reading: http://www.mercknewsroom.com/news-release/corporate-news/merck-acquire-idenix

Sprint (S) and T-Mobile (TMUS) Reported to Tie the Knot

Per Bloomberg (6/05/2014)*: "Sprint Corp. is nearing an agreement on the price, capital structure and termination fee for an acquisition of T-Mobile US Inc. that could value the wireless carrier at almost $40 a share, people with knowledge of the matter said…*

…Sprint will offer about 50 percent stock and 50 percent cash for T-Mobile, leaving Bonn-based parent Deutsche Telekom AG with about a 15 percent stake in the combined company, according to the people, who asked not to be identified because the process is private. The agreement could be announced as soon as July, the people said. At just under $40 a share, T-Mobile's equity would be valued at about $31 billion."

To continue reading: http://www.bloomberg.com/news/2014-06-04/sprint-t-mobile-said-near-accord-on-price-termination-fee.html

Tyson (TSN) Picks Up Hillshire Brands (HSH)

SPRINGDALE, Ark., June 9, 2014 - Tyson Foods, Inc. announced it has submitted a unilaterally binding offer to acquire all outstanding shares of The Hillshire Brands Company for a price of $63 per share in cash. The offer is subject to Hillshire Brands being released from its existing agreement to acquire Pinnacle Foods Inc. in accordance with the terms thereof. It follows a bidding process conducted by Hillshire Brands that concluded Sunday, June 8, 2014. The all-cash transaction is valued at approximately $8.55 billion, including Hillshire Brands' outstanding net debt, and represents a multiple of 16.7x trailing 12 months adjusted EBITDA or 10.5x including $300 million in synergies.

"The Hillshire Brands acquisition would represent a defining moment for Tyson Foods," said Donnie Smith, Tyson's president and chief executive officer. "Our strategy has been to grow our prepared foods business, and it has been our aspiration to be a leader in retail prepared foods just as we are in chicken. Now we will have those iconic #1 and #2 brands in numerous categories."

"Tyson Foods has a history of growing through strategic acquisition," said John Tyson, chairman of the board, "It is the view of the board of directors that this is truly a transformational opportunity and one that best fits with our strategic plan while enhancing our margins and creating long-term shareholder value." The Tyson family and the board are prepared to issue shares to maintain the company's investment grade credit rating.

To continue reading: http://ir.tyson.com/investor-relations/news-releases/news-releases-details/2014/Following-Conclusion-of-Bidding-Process-Tyson-Foods-Submits-Unilaterally-Binding-Offer-to-Acquire-Hillshire-Brands-for-855-Billion-in-Cash/default.aspx

***M&A…*continued on next page**

M&A...from previous page

Valuentum's Take

Merger and acquisition activity remains robust across a number of sectors. We don't expect the pace of M&A to slow anytime soon, as long as corporate balance sheets remain healthy and borrowing rates remain near all-time lows. For an opportunistic corporate buyer, a table of the 25 cheapest stocks on the market today is provided below. We're not speculating on which firms below may be takeover candidates, but we do think their undervaluation increases the likelihood of their involvement in M&A activity.

Name	Symbol	Sector	Industry	Price/Fair Value
Rent-A-Center	RCII	Industrials	Rental and Leasing	0.59
USG Corp	USG	Industrials	Building Materials	0.59
World Wrestling	WWE	Consumer Discretionary	Leisure	0.63
eBay	EBAY	Consumer Discretionary	Internet & Catalog Retail	0.63
Louisiana-Pacific	LPX	Industrials	Building Materials	0.64
Atwood Oceanics	ATW	Energy	Energy Equipment	0.66
Diamond Offshore	DO	Energy	Energy Equipment	0.66
Transocean	RIG	Energy	Energy Equipment	0.67
Boston Scientific	BSX	Health Care	Medical Instruments	0.67
Continental Resources	CLR	Energy	Independent Oil & Gas	0.68
Koppers	KOP	Industrials	Building Materials	0.69
Realty Income Corp	O	Financials	REIT - Retail	0.69
EV Energy	EVEP	Energy	Oil & Gas Pipelines	0.70
Synchronoss	SNCR	Information Technology	Software	0.70
Facebook	FB	Information Technology	Internet Software & Svcs	0.70
Symantec	SYMC	Information Technology	Software - security	0.70
Ensco	ESV	Energy	Energy Equipment	0.70
Baidu	BIDU	Information Technology	Internet Software & Svcs	0.71
Francesca's Corp	FRAN	Consumer Discretionary	Specialty Retail - clothes	0.71
Jabil Circuit	JBL	Information Technology	Electronic Suppliers	0.71
Herbalife	HLF	Consumer Discretionary	Luxury Goods	0.71
Vishay Intertech	VSH	Information Technology	Broad Line Semiconductors	0.71
Gentiva Health	GTIV	Health Care	Home Health Care	0.72
Broadcom	BRCM	Information Technology	Integrated Circuits	0.73
FTI Consulting	FCN	Information Technology	Management Services	0.73

Image Source: Valuentum Securities

Assessing Materiality of 5 Relatively Poor Incremental Data Points from eBay

By Brian Nelson, CFA

eBay (EBAY) has one of the strongest business models on the market today. The firm uniquely benefits from a network effect in its auction business and a secular trend toward consumer online consumption in its payments business, PayPal. Recent same-store sales performance has also been solid, albeit slowing, in recent periods. According to ChannelAdvisor same-store sales *growth* at eBay came in at 11.5% in May, down from 14% in April. eBay retains a vibrant Economic Castle.

Before we start walking through the five relatively poor incremental data points from eBay, we need to make a couple things clear. First, we hold eBay in the portfolio of our Best Ideas Newsletter, and we do not expect to make any changes to its weighting at this time. Second, every company has both good characteristics and bad characteristics, and every company strives

*Assessing Materiality...*continued on next page

Assessing Materiality...from previous page

to capitalize on positive trends as they navigate through inevitable challenges. Staying up with incremental pieces of news on your holdings is extremely valuable, but only insofar as the news informs the valuation process. An understanding of which pieces of news are material, and which pieces of news are 'noise' is one of the most important aspects of investing.

Let's walk through the recent eBay data points to assess materiality within the context that eBay's same-store sales are still growing at a nice double-digit clip.

1) Google's (GOOG) Panda 4.0. On May 20, Google rolled out a new iteration of Panda, an enhanced search algorithm. The goal is to improve the search experience, weeding out lower-quality "spammy" websites in the rankings and bolstering higher-quality websites that have strong brands and trusted, original content. Panda will impact as many as ~8% of all search queries performed in English. According to SearchMetrics, ebay.com is expected to experience a reduction of as much as 33% of traffic on the basis of the rollout of the new algorithm. Wordstream estimates that eBay may lose ~80% of all of its first page organic rankings.

Valuentum's Take: The latest Panda update is the 25th iteration of such improvements to Google's search algorithm. This certainly won't be the last update, and we fully expect eBay to recover in coming periods from any search rankings that it has lost. Our opinion of InterActive Corp's (IACI) Ask.com, which is expected to see traffic halved from Panda (much worse than eBay), is the same. We view the Panda 4.0 update as largely immaterial to long-term performance, though it may clip a few pennies off of earnings per share for this year and next as it forces some firms to buy more Google search ads.

2) The Cyberattack. On May 21, eBay disclosed a cyberattack that compromised a database containing encrypted passwords and other non-financial data. eBay concluded that after conducting extensive tests on its network that "there was *no* evidence of any unauthorized access to financial or credit card information." PayPal was not impacted in any way, shape or form, as the firm emphasized that PayPal data is stored separately on a different network and that there was no evidence of unauthorized access on that network.

Valuentum's Take: We think the market may be associating eBay's cyberattack with the recent credit/debit card data breach at Target (TGT), the latter we view as more severe. eBay has simply asked users to change their passwords, and we're not reading into anything more than that. Though the news could cause some weakness in traffic flow this month or next, the security breach is immaterial to eBay's long-term trajectory. We would expect a full recovery.

3) Management Turnover. On June 9, PayPal President David Marcus announced that he will be leaving the company to join Facebook's (FB) messaging products. The release indicated that Marcus is looking for a more entrepreneurial role: "leading smaller teams to build great product experiences." PayPal's leadership team will report to CEO John Danahoe until a replacement can be found.

Valuentum's Take: We're not reading too much into this piece of news either, as high-performing technology executives swapping companies is not unusual. For example, Sheryl Sandberg cut her teeth at Google before becoming chief operating office at Facebook. Marissa Mayer did the same before joining Yahoo (YHOO) as chief executive. eBay has a deep bench to find a replacement, though we would not be surprised to see the firm look externally to reignite innovation. We also cannot rule out the possibility that Marcus' departure may possibly hint at the separation of PayPal, an event that we would consider to be a distinct positive.

Assessing Materiality...continued on next page

Assessing Materiality...from previous page

4) News of Increased Payments Competition. On June 9, Amazon (AMZN) indicated that it will start managing subscription payments for start-ups and other firms. Rivals such as Apple (AAPL), Visa (V), Facebook, and even Alibaba (ABABA) will also be looking to invade PayPal's turf in coming years. Any one of them, for example, could acquire mobile payments firm Square or other tech-heavy upstarts to accelerate a push into electronic payments technology.

*Valuentum's Take***:** *We think this news is more important than the others and speaks to a more competitive environment in the next 3 to 5 years for PayPal. Still, PayPal benefits from a substantial first-mover advantage and a large installed base. Switching costs are not small for existing PayPal merchants, and Amazon will have to offer a superior product at a much lower price to make inroads into this market. In any case, however, the competitive landscape needs to be watched very closely.*

5) Carl Icahn's Proxy Fight and eBay's Tax Blunder. In mid-April, activist investor Carl Icahn, after an aggressive exchange with eBay management, abruptly ended the proxy contest, withdrawing his proposal to separate the company's PayPal business. eBay then in its first-quarter results, released late April, made a decision to repatriate earnings and foot a huge and unnecessary tax bill of $3 billion.

Valuentum's Take: Needless to say, we were disappointed with both events. We believe eBay should separate PayPal from its operations and preserve the economic relationship contractually. Existing eBay shareholders would benefit significantly from the separation, in our view, as the market would then assign more appropriate multiples to each firm individually. This may still happen in the years ahead, however.

The tax decision was a complete mess, in our view. To save from paying the tax bill, eBay could have issued new debt (like Apple) to fund repurchases and/or refill its cash coffers. The move is probably best-described as 'value-destructive from an opportunistic standpoint,' especially if an international opportunity comes along and eBay is unable to capitalize on it. We don't think Carl Icahn wanted eBay to repatriate earnings and foot a huge tax bill to buy back stock.

Wrapping It Up

The news flow hasn't been great for eBay as of late. Changes in Google's search algorithm, a cyberattack, management turnover, and growing competition have hit the wires in the past few weeks alone. These news items followed Icahn's withdrawn proxy contest and the tax debacle, both of which we weren't particularly happy about. eBay has been hit with a storm of negative news.

But in spite of all of this, eBay's same-store sales continue to advance at a nice double-digit clip, and we would expect the pace to continue to be resilient. With shares trading under $50 each at the time of this writing, **our ~$90 fair value estimate implies substantial upside potential**. Investors need to understand that news flow is quite different than valuation. Even firms with terrible press can be significantly undervalued and be great long-term investments. We're keeping our position in eBay in the Best Ideas portfolio at this time, though we fully admit that negative news flow could continue to pressure shares before they inevitable turn higher, in our view. eBay represents ~3% of the portfolio and has a cost basis just north of $30.

Shares of eBay are trading at less than 15 times 2015 earnings on sales growth in the mid-teens. They are cheap on almost every valuation multiple. The company's Valuentum Buying Index rating is a 6, but once technicals improve, it would register a 9 or higher (the equivalent of a "we'd consider buying" rating).

Siemens-Mitsubishi Consortium Looking to Spoil General Electric's Deal

This article appeared on our website June 15.

By Valuentum Analysts

"A tendency for the winning bid in an auction to exceed the intrinsic value of the item purchased. Because of incomplete information, emotions or any other number of factors regarding the item being auctioned, bidders can have a difficult time determining the item's intrinsic value. As a result, the largest over-estimation of an item's value ends up winning the auction." – The Winner's Curse (Investopedia)

On Friday, Reuters reported that Siemens (SI) and Mitsubishi (MSBHY) are finalizing a joint offer for Alstom's energy operation, a unit currently under formal agreement to be purchased by General Electric (GE) for $13.5 billion (€9.9 billion) enterprise value and $3.4 billion (€2.5 billion) of net cash -- totaling $16.9 billion (€12.35 billion). The news service indicated that, under the Siemens-Mitsubishi bid, "Siemens would acquire Alston's gas turbines business, while Mitsubishi would inject cash and industrial assets into a joint venture in steam turbines…Mitsubishi and the French government would take equal stakes in Alstom." The bid is quite complex, as currently reported, and it reveals the great lengths the French government may go to halt a GE-Alstom combination out of fears of job cuts and losing energy independence (a source of national defense). Though French Finance Minister Michael Sapin expects a revised offer from GE that is higher than the US-based firm's current offer price, proposed April 30, we would generally be against GE materially upping its offer solely for political reasons. However, a higher deal value could make sense for GE, but only if additional synergies are feasible and can be identified.

The GE-Alstom situation continues to be dynamic and politically-charged, and in light of the latter reason, largely unpredictable. We're reiterating our view that, for GE, the Alstom deal is a nice-to-have transaction, not a must-win acquisition. The US industrial conglomerate could simply walk away from the proposal (if the Siemens-Mitsubishi consortium wins) and receive a nice break-up fee equal to 1.5% of its originally-proposed purchase price. Under this scenario, we would like shares of GE all the same. On an organic basis, for example, GE's industrial backlog has never been stronger, and we like that it continues to diversify away from its riskier and relatively opaque financial operations. We also cannot forget about the strength of the company's dividend, which yields ~3.2% at present.

That said, if GE does let political motivations dictate financial decisions, the firm could end up engaging in a textbook "winner's curse" bid, overestimating the intrinsic value of the target. We think GE's executive suite is far too savvy to fall into this trap, however. GE CEO Jeff Immelt is focused on the right return metrics, in our view, and we have confidence the leadership team will simply walk away from the Alstom transaction in the event the deal characteristics become value-destructive to GE shareholders. We're monitoring new developments very closely, and we expect quite a bit of news flow on this topic in coming weeks. GE remains a holding in both the Best Ideas portfolio and Dividend Growth portfolio.

Analyst Job Preservation and the Conflicts of Interest That Prevail

By Brian Nelson, CFA

"I'd rather lose half of my clients than lose half of my clients' money." – Jean-Marie Eveillard (First Eagle Global)

I think very few investment research firms other than Valuentum can say that they are truly free from conflicts of interest. As shown in the excerpt from FINRA attached at the end of this article, there are at least five sources of analyst conflict of interest: investing banking relationships, analyst compensation, brokerage commissions, buy-side pressures, and ownership interests. No matter how much you may want to believe that sell-side equity research, or research provided by companies such as Morgan Stanley or Goldman Sachs, is free from conflicts of interest, it simply is not. Valuentum prides itself on being one of the only true independent investment research firms that is completely free from conflicts of interest. We attribute this to our integrity, our user-paid subscription-model, our mission to serve others and how ideas are filtered through our research structure.

Let's start with structure. In other research firms, for example, there may be as many as three or four individuals commenting on any single stock at any one time. For example, there could be an equity analyst, a credit analyst, a strategist, and then perhaps the head of research – all doing their own jobs but serving different types of investors at any given moment. Check out what could happen under this structure in the following Barron's blog:

> In one of those made for Wall Street moments, JPMorgan Cazenove's equity strategy team is recommending investors short mining stocks, while its mining analysts rush in to defend some individual stocks, including BHP Billiton and Rio Tinto.
>
> First the strategists. JPMorgan Cazenove's Mislav Matejka and team offer seven reasons for their call. Here are a few of the more compelling ones…please see blog.
>
> JPMorgan Cazenove's metals & mining team, however, appear to have some reservations. They write…please see blog.
>
> UPDATE: After reading a comment or two, I should note that there's nothing nefarious going on here. The strategist team is looking at the sector in aggregate from the top down, the analysts at single companies from the bottom up. And they come to different decisions. The question for each of us is to decide which one matters more for our individual investing style.

We think the words in the 'UPDATE' are perhaps most informative. There's nothing wrong with having varying internal opinions on the same group of companies (this is actually a good thing), but it is rather peculiar to publish externally these varying internal opinions, unless one wants to create a great deal of confusion. At the end of the day, one of these opinions has to be wrong.

There is a tremendous amount of pressure on analysts and strategists to meet different viewpoints. For example, if a client is bullish on such-and-such industry, a research firm may send them the bullish analyst piece. If a client is bearish on such-and-such industry, the research firm may send them the bearish strategist piece. Having a report that meets the client's view simply opens the door for conversation and potential business – attaining common ground to exchange thoughts is just par for the course in the sales process. We're not saying that any research firm would be interested in pursuing (or is pursuing) such a strategy, but the inherent conflict of interest and temptation certainly exists.

*Analyst Job Preservation…*continued on next page

Analyst Job Preservation...from previous page

We also continue to see the ratings game played by analysts. Sometimes, we see instances of an analyst cutting an investment rating (from 'Buy' to 'Hold'), but raising the price target and earnings estimates. We may see 'Sell' or 'Hold' ratings on firms that have price targets (where they expect the company will trade to) above their current price. Though there may be a good reason for all of this, the most likely reason stems from a combination of analysts trying to serve a wide variety of clients and the concept of 'hedging' (creating an explanation for if/when the stock price increases or for if/when it declines). Some of these research firms' clients could be using analyst ratings exclusively while other clients may only be only looking at the earnings estimates or price targets. Consistency and ease-of-interpretation is often lost in all of this.

Another well-documented source of analyst conflict of interest comes from herding, which stems from analyst job preservation. We see a strong herding tendency, for example, with respect to earnings estimates and ratings, in part because an analyst may be out of a job if he or she goes against the crowd and is wrong. This herding tendency limits independent thinking. There are also pressures on analysts to perform well internally, whether to demonstrate knowledge of a methodology in front of superiors or to make a call that works out to gain peer respect. For example, you'd be hard-pressed to find an analyst that doesn't have a good stock idea, even if the industry he or she covers is the worst industry out there and all of the companies within that terrible industry are truly overvalued. In yet other research firms, the pressure to showcase a particular methodology may lead to an overabundance of firms that fit the particular methodology. For example, roughly 60% of Morningstar's (MORN) stock coverage universe now has what it describes to be an economic moat. Either the economic moat has become widely commoditized (irrelevant), or there is a selection bias akin to why most sell-side firms have a majority of 'Buy' rated stocks.

Long-term members of Valuentum know that we have a single firm-wide view on each company and that our best ideas are always included in the Best Ideas portfolio and Dividend Growth portfolio. The structure of our team is such that all ideas roll up to be considered in the portfolios (we don't talk out of both sides of our mouth), and we execute upon the goals of the portfolios with complete transparency. We are here to serve our members, and as the introductory quote to this piece highlights, we'd rather lose half of our members than lose half of our members' money. Unlike other providers of research, we simply refuse to introduce any conflicts of interest to our investment process. We remain laser-focused on providing the very best valuation and dividend growth analysis of any independent provider on the market today, and our team is fully driven to achieve the goals of the Best Ideas portfolio and Dividend Growth portfolio through all business cycles.

With all of this said, please find pasted below FINRA's excerpt on 'Conflicts of Interest' (source), which walks through the five sources of conflicts of interest mentioned at the beginning of the article:

> Research analysts study companies and draw on a wealth of industry, economic, and business trend information to help their clients make better investment decisions. Retail investors may believe that most analysts work for them — that their primary obligation is to the investing public. But in fact, the full story is much more complicated.
>
> Some analysts are unaffiliated: they sell their independent research to financial or investing institutions, banks, insurance companies, or private investors on a project or subscription basis. But a large number of analysts are employed by institutions whose financial stake in their recommendations may go well beyond their accuracy.
>
> For example, many analysts work for large financial firms that underwrite securities. An underwriter acts as an intermediary between the company publicly offering securities and investors buying the new stock. Even after the initial public offering, or IPO, it may have an ongoing relationship with the company or own a significant amount of the company's stock. And it will often stand to benefit from analyst recommendations that would tend to support the price of or encourage trading in that security.

Analyst Job Preservation...continued on next page

Analyst Job Preservation...from previous page

Other analysts work for institutional money managers, such as mutual funds, hedge funds, or investment advisers. They may provide research and advice for institutional clients whose investment decisions can differ significantly from those faced by ordinary investors. A mutual fund that relied on its analyst's earlier positive recommendation in acquiring the stock of a company might be harmed by any revised recommendation that would tend to lower the market value of the security.

Just by thinking about these kinds of employment arrangements, you can begin to imagine the kinds of conflicts that analysts may face as they develop and offer their opinions in research reports. For example:

Investment Banking Relationships. Providing investment banking services, such as underwriting an IPO or advising on a merger or acquisition, can be a lucrative source of revenue for an analyst's firm. Thus, the analyst may feel an incentive not to say or write things that could jeopardize existing or potential client relationships for their investment banking colleagues. On the other hand, the analyst may also be more knowledgeable or diligent in his research because his firm did the underwriting.

Analyst Compensation. Brokerage firms' compensation arrangements can put pressure on analysts to issue positive research reports and recommendations. For example, many analysts are paid at least partly and indirectly on the basis of their firms' underwriting profits. So they may be reluctant to make recommendations that could reduce such profits, and hence their own compensation.

Brokerage Commissions. An analyst's report can help firms make money indirectly by generating more buying and selling of covered securities — which, in turn, result in additional commissions for the firm.

Buy-Side Pressures. A mutual fund with large holdings in a stock has little desire to see an analyst put out a "Sell" recommendation on that security and possibly contribute to a sharp decline in its price. Hence the proliferation of euphemistic ratings — such as "Hold," "Retain," and "Market Perform" — which small investors may take at face value, but which professional and institutional investors know are often tantamount to "Sell." As a result, ratings inflation became as widespread and unhealthy in our markets as grade inflation in our schools.

Ownership Interests in the Company. An analyst, other employees, and the firm itself may own significant positions in the companies or market sectors on which the analyst conducts research and makes recommendations. The analyst may own such shares directly, or through employee stock-purchase pools.

These economic realities certainly do not mean that analysts are corrupt or even biased. But because analysts are called upon to make so many judgments that are not black and white, any of the above factors can put pressure on their objectivity — no matter how honest or competent they may be. So you should bear these realities in mind before making an investment decision.

Thank you for reading!

The Watch List

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 at least monthly and deliver it to you in this 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. BIDU, EBAY, GE), 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
AIG	AIG	UNDERVALUED	ATTRACTIVE	0.79
Atwood Oceanics	ATW	UNDERVALUED	ATTRACTIVE	0.66
Baidu	BIDU	UNDERVALUED	ATTRACTIVE	0.71
Broadcom	BRCM	UNDERVALUED	ATTRACTIVE	0.73
Diamond Offshore	DO	UNDERVALUED	ATTRACTIVE	0.66
eBay	EBAY	UNDERVALUED	ATTRACTIVE	0.63
Francesca's Corp	FRAN	UNDERVALUED	ATTRACTIVE	0.71
General Electric	GE	UNDERVALUED	ATTRACTIVE	0.83
Gilead Sciences	GILD	UNDERVALUED	ATTRACTIVE	0.74
GNC	GNC	UNDERVALUED	ATTRACTIVE	0.80
Herbalife	HLF	UNDERVALUED	ATTRACTIVE	0.71
Koppers	KOP	UNDERVALUED	ATTRACTIVE	0.69
Micron Technology	MU	UNDERVALUED	ATTRACTIVE	0.75
Realty Income Corp	O	UNDERVALUED	ATTRACTIVE	0.69
Symantec	SYMC	UNDERVALUED	ATTRACTIVE	0.70
Tech Data	TECD	UNDERVALUED	ATTRACTIVE	0.77
USG Corp	USG	UNDERVALUED	ATTRACTIVE	0.59
Vishay Intertech	VSH	UNDERVALUED	ATTRACTIVE	0.71

*Ideas...*continued on next page

*Ideas…*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.

Name	Symbol	Sector	Industry	VBI
AIG	AIG	Financials	Insurance - Property & Casualty	9
General Electric	GE	Industrials	Conglomerates	9
Micron Technology	MU	Information Technology	Computers & Peripherals	9
Realty Income Corp	O	Financials	REIT - Retail	9
Tech Data	TECD	Information Technology	Computers & Peripherals	9
GNC	GNC	Consumer Staples	Food Retailers	8

First American	FAF	Financials	Insurance - Property & Casualty	2
J.C. Penney	JCP	Consumer Discretionary	Multiline Retail	2
Magellan Midstream	MMP	Energy	Oil & Gas Pipelines	2
Mercury General	MCY	Financials	Insurance - Property & Casualty	2
Monster Beverage	MNST	Consumer Staples	Beverages - nonalcoholic	2
NewMarket	NEU	Materials	Chemicals - broad	2
Public Storage	PSA	Industrials	Rental and Leasing	2
Badger Meter	BMI	Industrials	Electrical Equipment	1
China Life	LFC	Financials	Insurance - Life	1
EnPro	NPO	Industrials	Electrical Equipment	1
Jack Henry	JKHY	Information Technology	IT Services	1
LinkedIn	LNKD	Information Technology	Internet Software & Svcs	1
Manhattan Associates Inc	MANH	Information Technology	Software	1
Morningstar	MORN	Financials	Securities Research	1
Northern Trust	NTRS	Financials	Banks & Money Centers	1
Sigma-Aldrich	SIAL	Materials	Chemicals - broad	1
Sun Hydraulics	SNHY	Industrials	Electrical Equipment	1
TCF Financial	TCB	Financials	Banks & Money Centers	1
Tennant	TNC	Industrials	Pollution Controls	1
Under Armour	UA	Consumer Discretionary	Luxury Goods	1
Vulcan Materials	VMC	Industrials	Building Materials	1

Frequently Asked Question: What is considered a Best Idea at Valuentum?

A best idea in Valuentum parlance is a holding in the Best Ideas portfolio (see page 8) and/or the Dividend Growth portfolio (see Dividend Growth Newsletter). We typically add shares to the Best Ideas portfolio when they register a high rating (a 9 or 10 = a "we'd consider buying" rating) on the Valuentum Buying Index and hold them until they register a low rating (a 1 or 2 = a "we'd consider selling" rating) on the Valuentum Buying Index. We don't add all firms that register a high score on the Valuentum Buying Index to the actively-managed portfolios due to sector weighting or overall market valuation considerations, among others. The Valuentum Dividend Cushion is a key factor behind adding companies to the Dividend Growth portfolio and is used in conjunction with a company's annual dividend yield, its price-to-fair value ratio and Valuentum Buying Index rating.

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 3-Apr-2014 | Data as of 28-Mar-2014

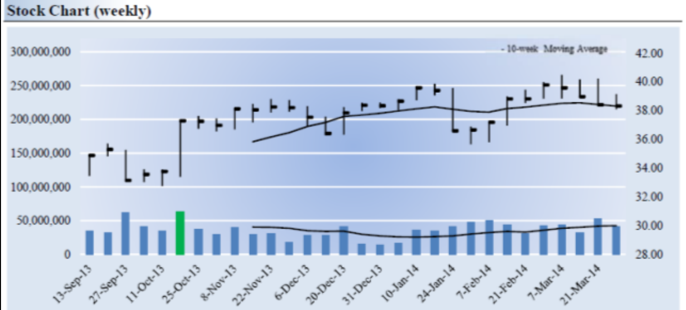
Abbott ABT FAIRLY VALUED

Buying Index™ 3 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$38.31	$38.00	$30.00 - $46.00	LARGE-CAP CORE	Health Care	Pharmaceuticals

When it comes to business quality, Abbott is top notch.

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	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	VERY BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Support, 10-week MA	38.00

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

Company Vitals

Market Cap (USD)	$60,300
Avg Weekly Vol (30 wks)	36,341
30-week Range (USD)	32.75 - 40.49
Valuentum Sector	Health Care
5-week Return	-1.4%
13-week Return	-0.4%
30-week Return	14.4%
Dividend Yield %	2.3%
Dividends per Share	0.88
Forward Dividend Payout Ratio	39.6%
Est. Normal Diluted EPS	2.68
P/E on Est. Normal Diluted EPS	14.3
Est. Normal EBITDA	8,302
Forward EV/EBITDA	8.2
EV/Est. Normal EBITDA	7.1
Forward Revenue Growth (5-yr)	4.1%
Forward EPS Growth (5-yr)	15.3%

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

Returns Summary

3-year Historical Average	
Return on Equity	16.2%
Return on Assets	6.7%
ROIC, with goodwill	12.8%
ROIC, without goodwill	20.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	6,561
Net Debt	-1,537
Total Debt/EBITDA	1.5
Net Debt/EBITDA	NMF
EBITDA/Interest	27.7
Current Ratio	2.0
Quick Ratio	1.3

NMF = Not Meaningful

Investment Highlights

• The new Abbott isn't much different from the old Abbott, minus the blockbuster drug Humira and other members of its drug lineup like AndroGel and TriCor. It remains aligned with favorable long-term healthcare trends in both developed and developing markets. The company is more than 125 years' old.

• Abbott'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

• The new Abbott's nutritionals segment is one of the more attractive businesses in the healthcare space. It is home to some well-known brand names such as EAS, Myoplex and ZonePerfect. The division is #1 in adult nutrition and #1 in pediatric nutrition. It's hard not to like its branded generics (#1 in India) and its medical devices (#1 in drug-eluting stents) segments either.

• The new Abbott's diagnostics segment is one of the areas of the healthcare world that could be negatively impacted by the Affordable Healthcare Act. Still, the firm has some solid products in the pipeline that could kick-start growth, and it remains #1 in immunoassay diagnostics and #1 in blood screening.

• Abbott 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 19.2% in coming years. Total debt-to-EBITDA was 1.5 last year, while debt-to-book capitalization stood at 20.7%.

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
Bristol-Myers Squibb	28.8	1.5	101.6%
Eli Lilly	20.3	0.9	106.7%
Merck	16.2	1.6	100.0%
Pfizer	14.0	2.1	93.8%
Peer Median	18.2	1.6	100.8%
Abbott	**17.2**	**1.7**	**100.8%**

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

Financial Summary

	---- Actual ----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	39,874	21,848	22,787
Revenue, YoY%	2.6%	-45.2%	4.3%
Operating Income	8,373	2,629	5,410
Operating Margin %	21.0%	12.0%	23.7%
Net Income	5,675	2,383	3,458
Net Income Margin %	14.2%	10.9%	15.2%
Diluted EPS	3.57	1.51	2.22
Diluted EPS, YoY %	37.8%	-57.5%	46.8%
Free Cash Flow (CFO-capex)	7,231	1,986	4,257
Free Cash Flow Margin %	18.1%	9.1%	18.7%

In Millions of USD (except for per share items)

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.

Please select the following link (or copy to your browser) to view the full 16-page report:

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Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 20-May-2014 | Data as of 16-May-2014

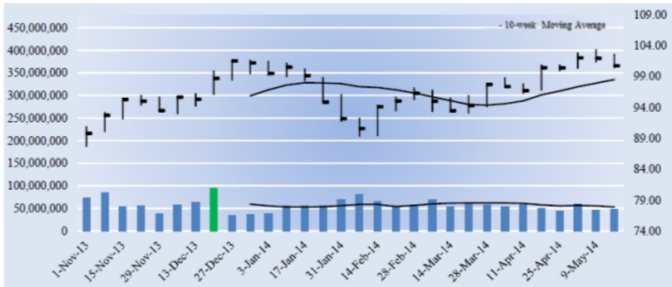
Exxon Mobil XOM FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$100.74	$90.00	$72.00 - $108.00	MEGA-CAP CORE	Energy	Major Oil & Gas

Exxon's economic returns are the best among peers, and the firm has been consistently replacing reserves.

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	FAIRLY VALUED
Relative Valuation	UNATTRACTIVE
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)	IMPROVING
Near-term Technical Support, 10-week MA	99.00

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)	$445,170
Avg Weekly Vol (30 wks)	57,469
30-week Range (USD)	87.61 - 103.45
Valuentum Sector	Energy
5-week Return	3.3%
13-week Return	7.1%
30-week Return	14.7%
Dividend Yield %	2.7%
Dividends per Share	2.76
Forward Dividend Payout Ratio	35.4%
Est. Normal Diluted EPS	8.24
P/E on Est. Normal Diluted EPS	12.2
Est. Normal EBITDA	77,490
Forward EV/EBITDA	6.0
EV/Est. Normal EBITDA	6.0
Forward Revenue Growth (5-yr)	0.1%
Forward EPS Growth (5-yr)	4.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	25.8%
Return on Assets	12.5%
ROIC, with goodwill	14.1%
ROIC, without goodwill	14.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	22,699
Net Debt	17,786
Total Debt/EBITDA	0.2
Net Debt/EBITDA	0.2
EBITDA/Interest	Excellent
Current Ratio	0.8
Quick Ratio	0.5

NMF = Not Meaningful

Investment Highlights

• Exxon Mobil 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 14.1% during the past three years. Exxon has 25.2 BOEB of total proved reserves.

• Exxon Mobil is involved in the exploration and production of crude oil/natural gas, and the manufacture of petroleum products as well as the transportation and sale of crude oil, natural gas and petroleum products. It also makes commodity petrochemicals.

• We were quite impressed with Exxon Mobil's 2013 performance. Return on capital employed was a solid 17%+, while the company's reserve replacement was north of 100%. The firm's ROCE performance is consistently better than that of its peers, and its upstream earnings-per-barrel trails only that of Chevron in its peer group. It has generated $100+ billion in free cash flow since 2009.

• Exxon has a wonderful streak going. The energy giant has had 20 straight years of more than 100% reserve replacement. We find this to be a remarkable streak given its size and production capacity. The investments that it is making continue to position it for long-term success.

• Exxon Mobil's dividend is solid, and we expect growth in it for many years to come. The energy giant's Valuentum Dividend Cushion score is significantly greater than parity.

Relative Valuation

	Forward P/E	PEG	Price / FV
BP	10.6	NMF	98.7%
Chevron	11.3	1.4	104.4%
ConocoPhillips	12.3	1.5	114.8%
PetroChina	10.0	1.4	89.0%
Peer Median	11.0	1.4	101.5%
Exxon Mobil	**12.9**	**3.1**	**111.9%**

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

Financial Summary

	---- Actual ----		Projected
Fiscal Year End:	Dec-12	Dec-13	Dec-14
Revenue	482,295	438,255	442,638
Revenue, YoY%	-0.8%	-9.1%	1.0%
Operating Income	64,043	74,382	59,692
Operating Margin %	13.3%	17.0%	13.5%
Net Income	44,880	32,580	33,723
Net Income Margin %	9.3%	7.4%	7.6%
Diluted EPS	9.70	7.37	7.79
Diluted EPS, YoY %	15.1%	-24.0%	5.6%
Free Cash Flow (CFO-capex)	21,899	11,245	21,384
Free Cash Flow Margin %	4.5%	2.6%	4.8%

In Millions of USD (except for per share items)

Structure of the Oil & Gas (majors) Industry — NEUTRAL

The global oil and gas industry is dominated by state-owned firms, including member nations of OPEC, which have a large influence on pricing. Public constituents are not small, however, as firms in this group make up a large portion of the energy sector's market cap. Oil and gas prices are the key profit driver and largely reflect supply/demand dynamics, though it is not uncommon for speculative/geopolitical price premiums to occur. A firm's estimated reserve life and cost for exploration and development should be monitored closely. We're neutral on the structure of the majors, given their commoditized product.

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Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 11-May-2014 | Data as of 2-May-2014

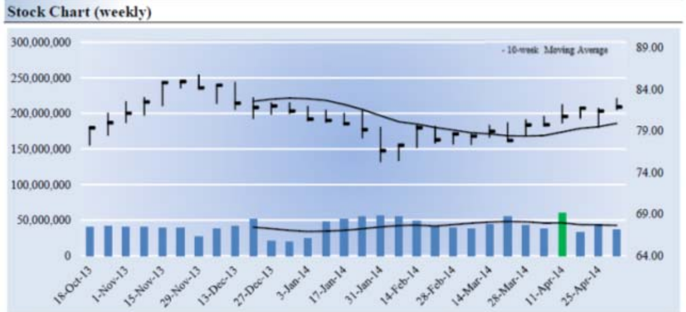
Procter & Gamble PG FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Last Close	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
$81.92	$77.00	$62.00 - $92.00	MEGA-CAP CORE	Consumer Staples	Household Products

Procter & Gamble boasts some of the most recognized branded consumer packaged goods.

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	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	MEDIUM
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	80.00

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)	$240,075
Avg Weekly Vol (30 wks)	41,524
30-week Range (USD)	75.26 - 85.82
Valuentum Sector	Consumer Staples
5-week Return	2.4%
13-week Return	6.8%
30-week Return	5.0%
Dividend Yield %	3.1%
Dividends per Share	2.57
Forward Dividend Payout Ratio	60.6%
Est. Normal Diluted EPS	5.22
P/E on Est. Normal Diluted EPS	15.7
Est. Normal EBITDA	23,623
Forward EV/EBITDA	13.4
EV/Est. Normal EBITDA	11.2
Forward Revenue Growth (5-yr)	3.2%
Forward EPS Growth (5-yr)	10.6%

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

Returns Summary	3-year Historical Average
Return on Equity	16.9%
Return on Assets	8.0%
ROIC, with goodwill	10.7%
ROIC, without goodwill	21.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	31,543
Net Debt	25,596
Total Debt/EBITDA	1.8
Net Debt/EBITDA	1.4
EBITDA/Interest	26.6
Current Ratio	0.8
Quick Ratio	0.4

NMF = Not Meaningful

Investment Highlights

• Procter & Gamble'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.

• Procter & Gamble boasts some of the most recognized branded consumer packaged goods. Though the markets in which its products are sold are highly competitive, the firm is well positioned in the industry and holds a significant market share position.

• Procter & Gamble 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 16.4% in coming years. Total debt-to-EBITDA was 1.8 last year, while debt-to-book capitalization stood at 32%. We expect continued SG&A leveraging to drive cash flow improvement.

• P&G's brands include Tide, Ariel, Gillette, Venus, Bounty, Charmin, Pantene, Olay, Pampers, Crest, Oral-B, Duracell, and Vicks. These brands aren't going away anytime soon, and the company's innovation pipeline is robust. The markets the firm serves from 'Beauty' to 'Baby, Feminine, Family' to 'Health & Grooming' are massive and growing.

• Procter & Gamble boasts 120+ consecutive years of dividend payments and 55+ consecutive years of dividend increases. Its payout is rock-solid, and we include shares in the Dividend Growth portfolio.

Relative Valuation	Forward P/E	PEG	Price / FV
Clorox	20.4	3.5	119.4%
Colgate-Palmolive	22.2	2.2	117.7%
Johnson & Johnson	16.7	2.5	92.8%
Kimberly-Clark	18.0	2.3	111.0%
Peer Median	19.2	2.4	114.4%
Procter & Gamble	**19.3**	**2.0**	**106.4%**

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

Financial Summary	---- Actual ----		Projected
Fiscal Year End:	Jun-12	Jun-13	Jun-14
Revenue	83,680	84,167	85,009
Revenue, YoY%	1.4%	0.6%	1.0%
Operating Income	14,868	14,789	16,822
Operating Margin %	17.8%	17.6%	19.8%
Net Income	9,169	11,312	12,387
Net Income Margin %	11.0%	13.4%	14.6%
Diluted EPS	3.12	3.86	4.24
Diluted EPS, YoY %	-20.7%	23.8%	9.9%
Free Cash Flow (CFO-capex)	7,733	10,865	11,903
Free Cash Flow Margin %	9.2%	12.9%	14.0%

In Millions of USD (except for per share items)

Structure of the Household Products Industry — **GOOD**

Firms in the household products industry sell some of the most recognized branded consumer packaged goods in the world and often hold a significant market share position in a variety of product categories. Though the industry is characterized by stiff competition from retailers' private-label brands, constituents tend to boast meaningful competitive advantages due to their brand strength/reputation and generate high returns on invested capital. Household products companies remain tied to the vicissitudes of consumer spending, but we tend to like the structure of the group.

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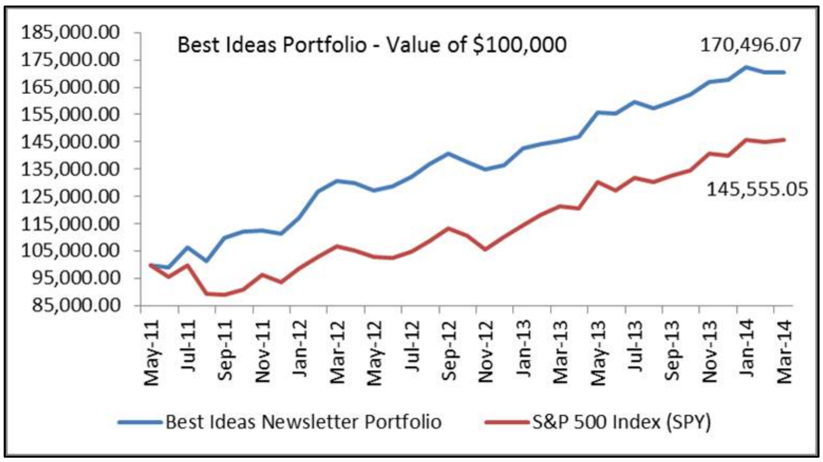
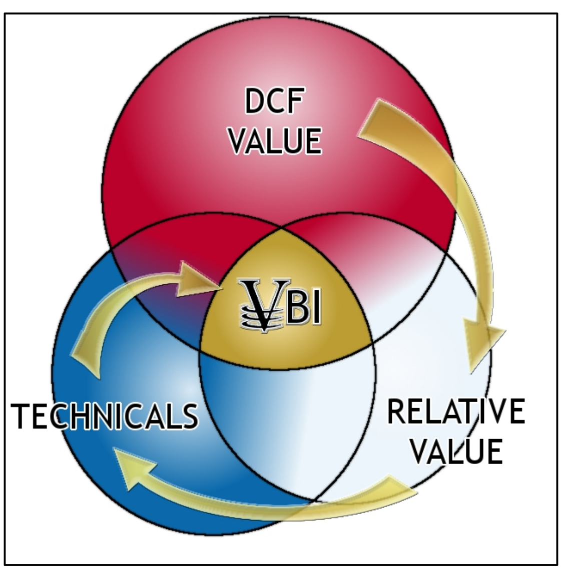
Our Methodology – The Valuentum Buying Index (VBI)

By Valuentum Analysts

At Valuentum, 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 deep-pocketed institutional investors that are interested in the stock for reasons based on their respective investment mandates, the more likely it will be bought and the more likely the price will move higher to converge to its true intrinsic value (buying a stock pushes its price higher). On the other hand, we think the worst stocks will be shunned by most investment disciplines and display expensive valuations, poor technicals and deteriorating momentum indicators.



Stocks that meet our demanding criteria fall in the center of the Venn diagram below, displaying attractive characteristics from a discounted cash-flow basis, a relative value basis, and with respect to a technical and momentum assessment. The size of the circles reveals the relative emphasis we place on each investment consideration, while the arrows display the order of our process -- value first then technicals and momentum last. We may like firms that are undervalued both on a DCF basis and relative value basis, but we won't like firms just because they're currently exhibiting attractive technical or momentum indicators. We're not traders or speculators. We're long-term investors and want to have complete confirmation and conviction in the best ideas we deliver to our subscribers.



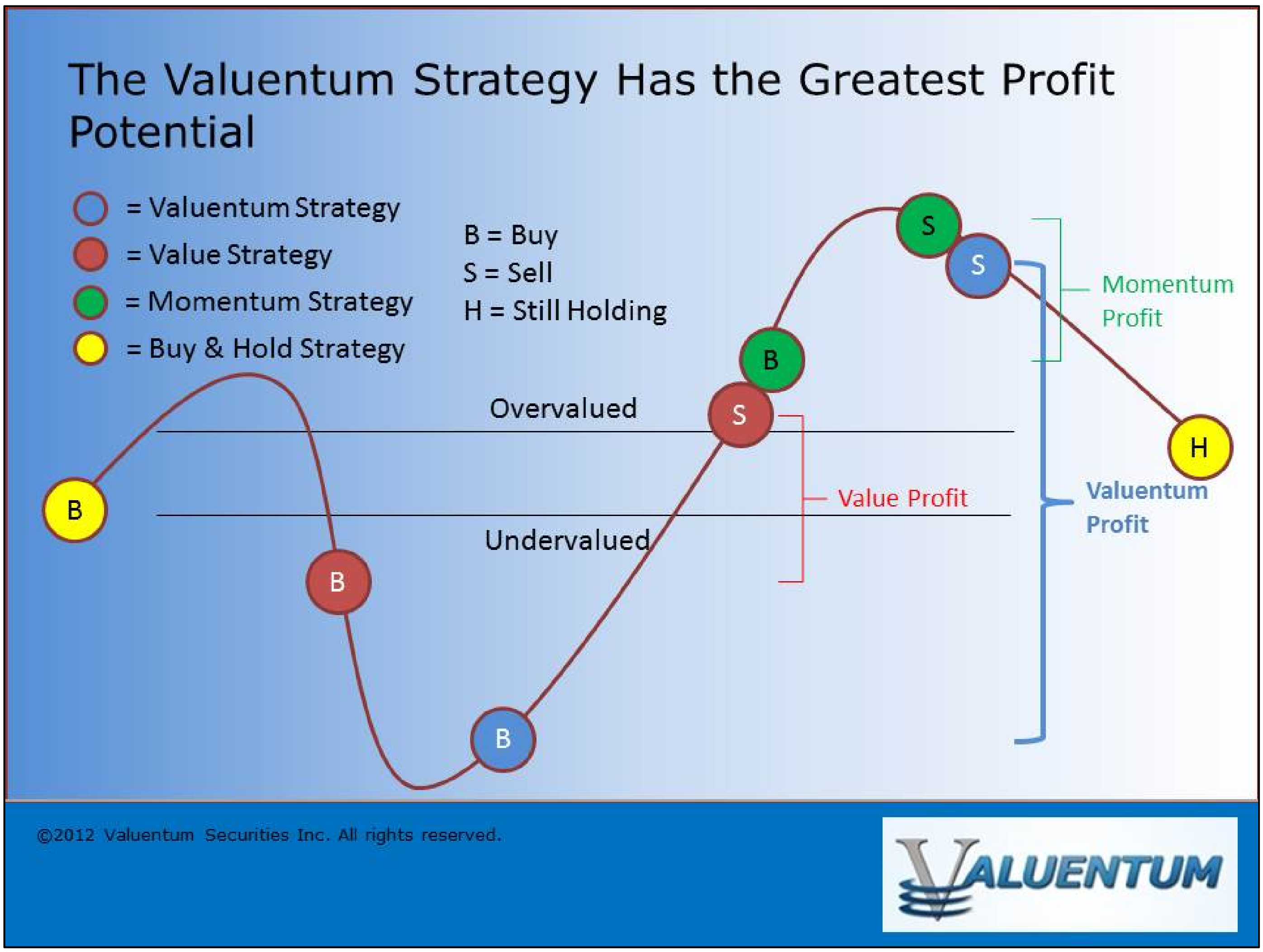
Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

The center of the Venn diagram above, 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). Because our process factors in a technical and momentum assessment after we evaluate a firm's investment merits via our rigorous DCF and relative-value process, we're better able to pinpoint the best entry and exit points on the most undervalued stocks.

Research firms that just focus on valuation may encourage investors to buy a stock all the way down (a falling knife), while those that just use technical and momentum indicators may expose portfolios to significantly overpriced stocks at their peaks. Only when both sides of the investment spectrum are combined can investors get the best stocks on the market today at the best prices, in our view.

Let's examine the chart below, which showcases how the Valuentum process has the greatest profit potential of any investing strategy. The Valuentum process targets adding stocks to actively-managed portfolios when both value and momentum characteristics are "good" and removing them when both value and momentum characteristics are "bad" (blue circles: Buy --> Sell). The Valuentum strategy captures the entire equity pricing cycle, while the value and momentum strategies individually truncate profits.

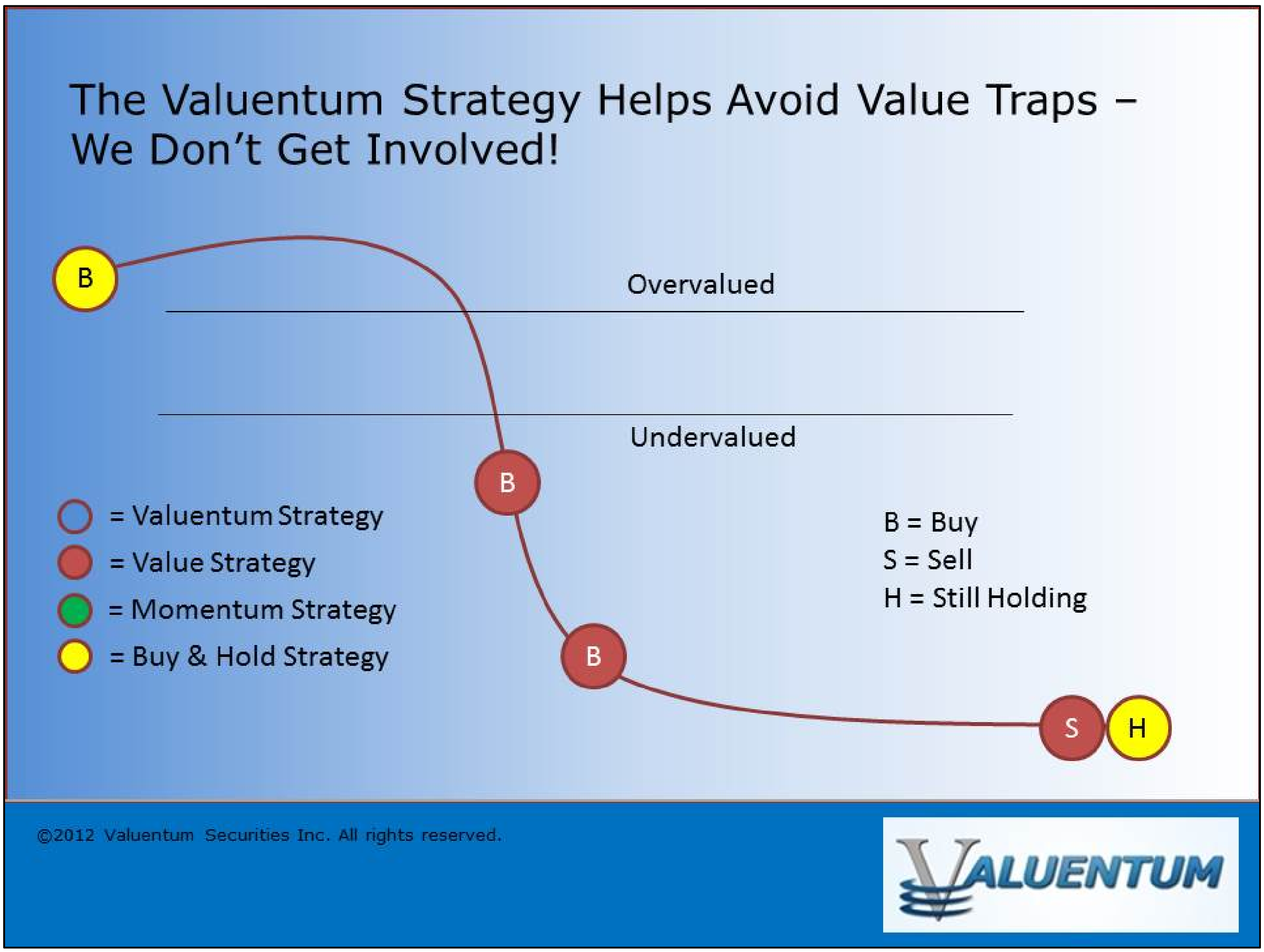


Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Furthermore, Valuentum subscribers are less likely to be involved in value traps because we demand material revenue and earnings growth for firms to earn a 10 on our Valuentum Buying Index. Value traps often occur as a result of secular declines in a firm's products or services, resulting in deteriorating revenue and earnings trends (and a falling stock price). Valuentum subscribers are less likely to be exposed to these "falling knives" since our process requires firms to not only be undervalued but also be exhibiting bullish technical and momentum indicators before we would consider adding them to our actively-managed portfolios.

Since the stock market is a forward-looking mechanism, price usually leads fundamentals. Without a turnaround in price, the risk that the fundamentals of an undervalued stock have not turned for the positive is higher. Where value strategies may encourage the buying of a stock all the way down regardless of whether fundamentals ever turn (red circles: Buy --> Sell), the Valuentum strategy simply steers clear of these situations. We wait for technical improvement in the equity, which often precedes fundamental changes at the company.

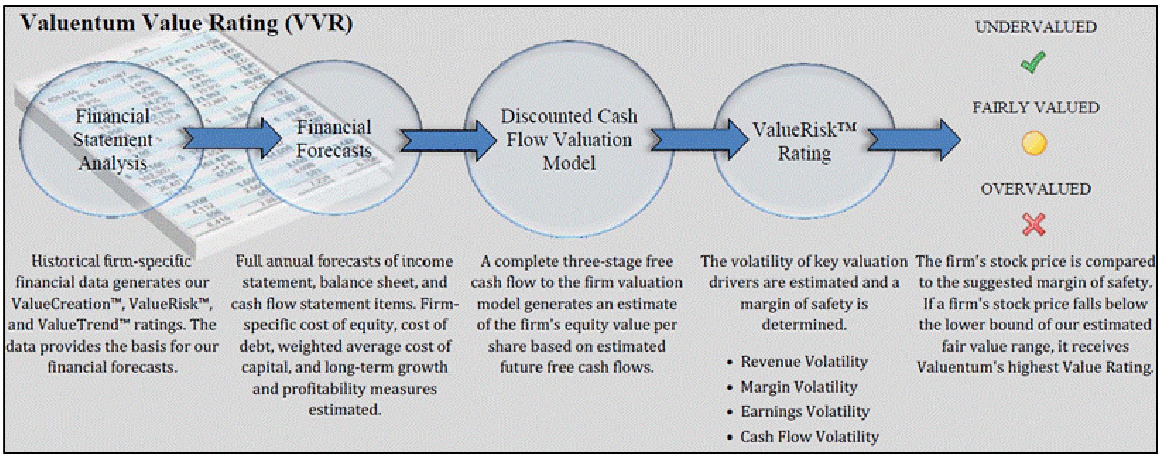


Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

I. We Use a Rigorous Discounted Cash Flow Valuation Process

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. We compare a company's return on invested capital (ROIC) to our estimate of its weighted average cost of capital (WACC) to assess whether it is creating economic profit for shareholders (ROIC less WACC equals economic profit). Firms that have improving economic profit spreads over their respective cost of capital score high on our ValueCreation and ValueTrend measures, while firms that have relatively stable returns score well with respect to our ValueRisk evaluation, which impacts our margin-of-safety assessment.



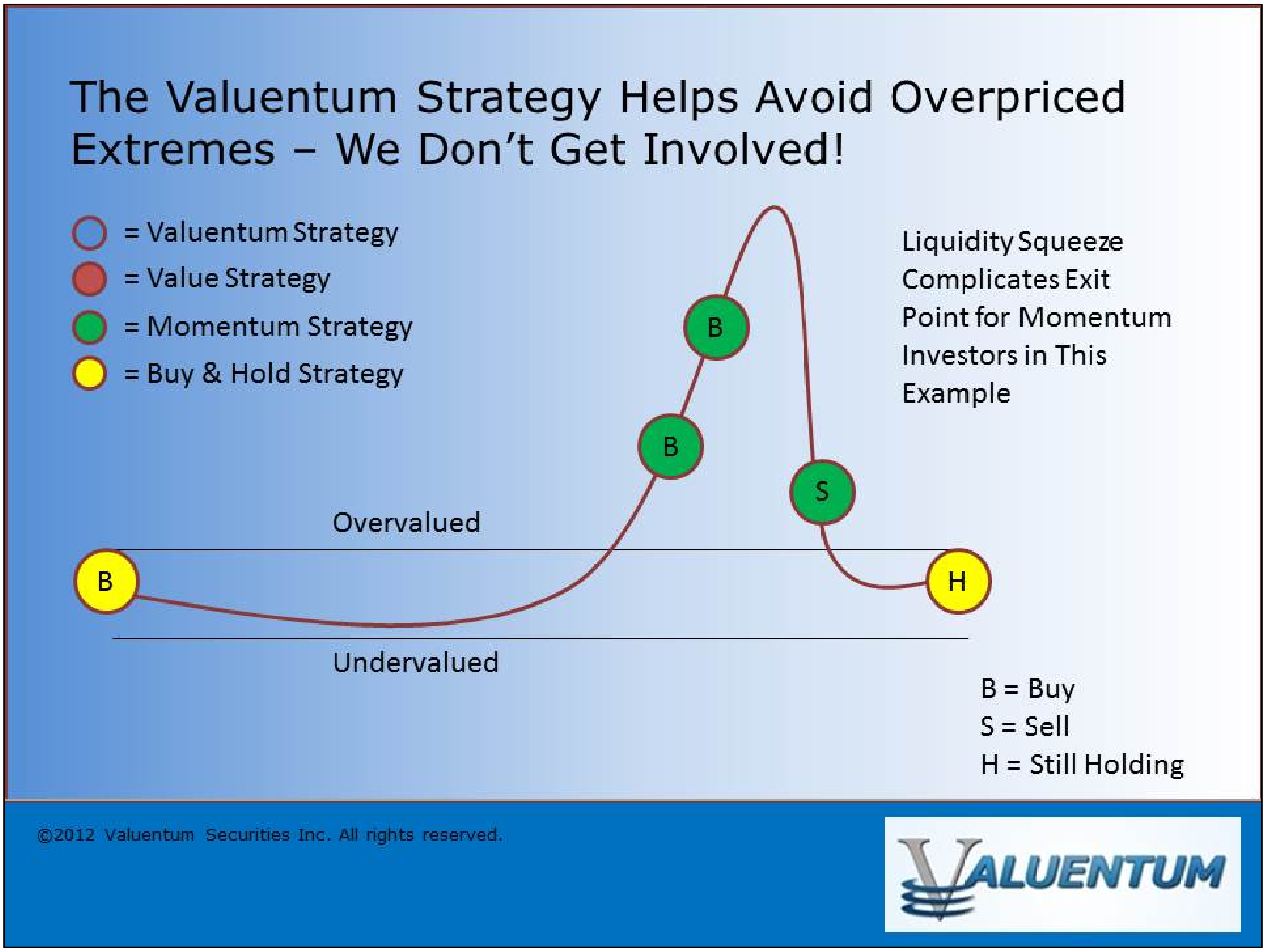
After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation 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 then 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.

We think a focus on discounted cash-flow valuation prevents investors from exposing their portfolios to significantly overpriced stocks at their peaks. The chart below reveals how pure momentum investors may expose their portfolios to pricing extremes and dramatic falls (green circles: Buy --> Sell). We stay away from these situations.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page



II. We Perform 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, 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 making buy/sell decisions. 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.

III. We Seek to Avoid Value Traps, Falling Knives 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 whether it has 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 (but only after it meets our stringent

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

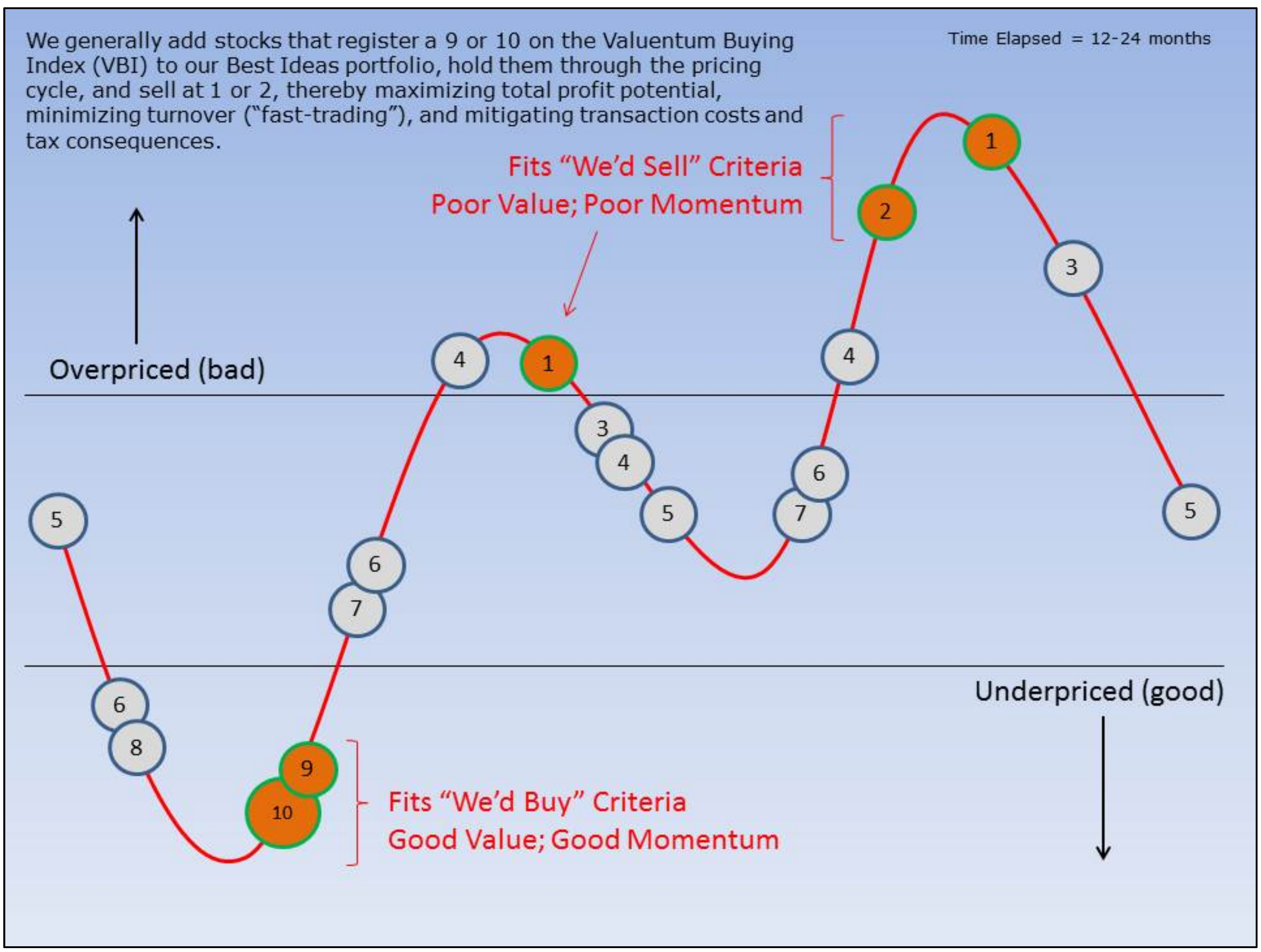
valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to our technical and momentum assessment of a company's stock.

We embrace the idea that the future is inherently unpredictable and that not all fundamental factors can be included in a valuation model. By extension, we use technical and momentum analysis to help safeguard us against value traps, falling knives, and the opportunity cost of holding an undervalued equity for years before it converges to fair value. Other research firms do not consider opportunity cost as a legitimate expense for investors.

Putting It All Together - the Valuentum Buying Index

Though the time frame varies depending on each idea, we expect our best ideas to work out over a 12-24 month time horizon (on average) -- any shorter than that is mostly luck, in our view. We tend to add firms to our Best Ideas portfolio when they register a 9 or 10 on our Valuentum Buying Index (VBI) and tend to remove firms from our Best Ideas portfolio when they register a 1 or 2 on our VBI.

We like to maximize profits on every idea, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all of the time. A value strategy (10 --> 5) truncates potential profits, while a momentum strategy (4 --> 1) ignores profits generated via value assessments. We're after the entire profit potential, as shown below.



Our Methodology – The Valuentum Buying Index continued on next page

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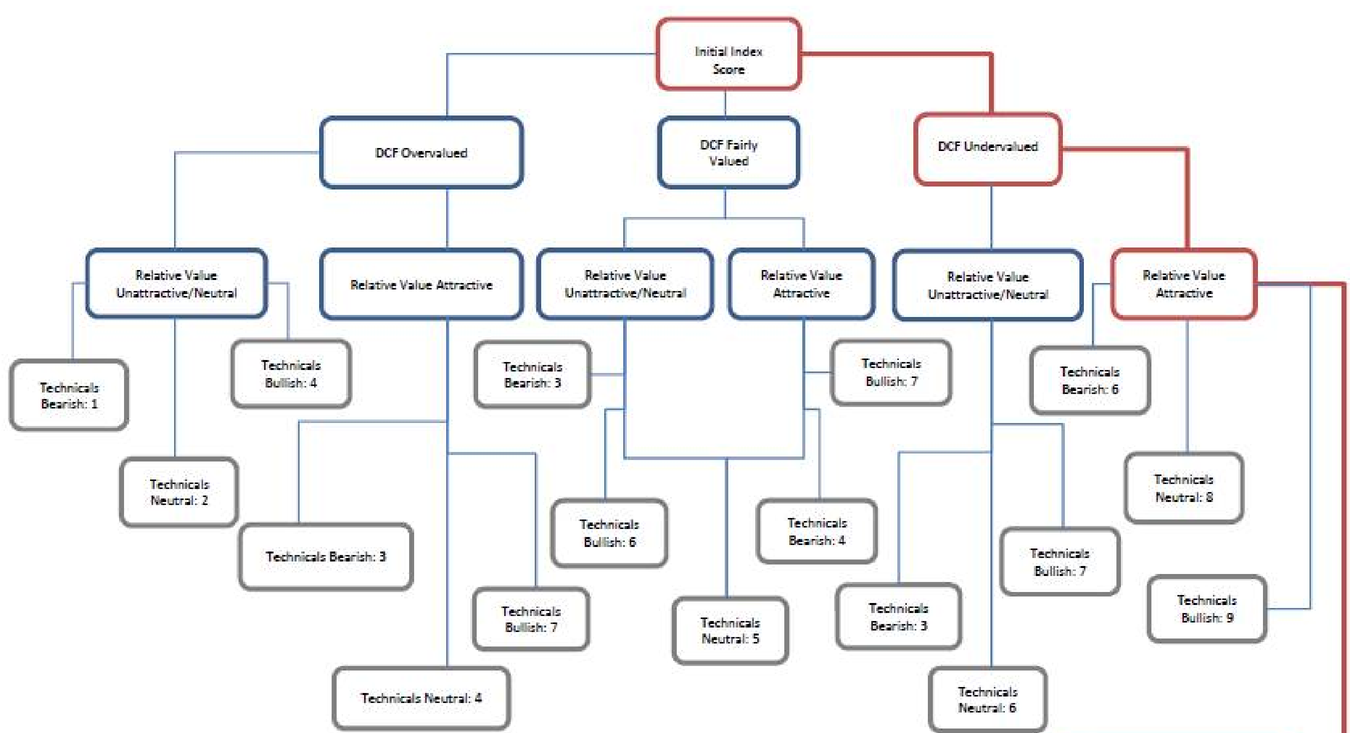
Let's follow the red line on the flow chart below to see how a firm can score a 10, the best mark on our index (a "Top Pick"). Please click here to view an enlarged pdf version. First, the company would need to be 'UNDERVALUED' on a DCF basis and 'ATTRACTIVE' on a relative value basis. The stock would also have to be exhibiting 'BULLISH' technicals. The firm would need a ValueCreation rating of 'GOOD' or 'EXCELLENT', exhibit 'HIGH' or 'AGGRESSIVE' growth prospects, and generate at least a 'MEDIUM' or 'NEUTRAL' assessment for cash flow generation, financial leverage, and relative price strength.

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



VBI Score	Potential Action
10	Top Pick
9	We'd Consider Buying
6 to 8	Constructive (tactical add / trim)
3 to 6	Less Exciting (tactical add / trim)
1 to 2	We'd Consider Selling

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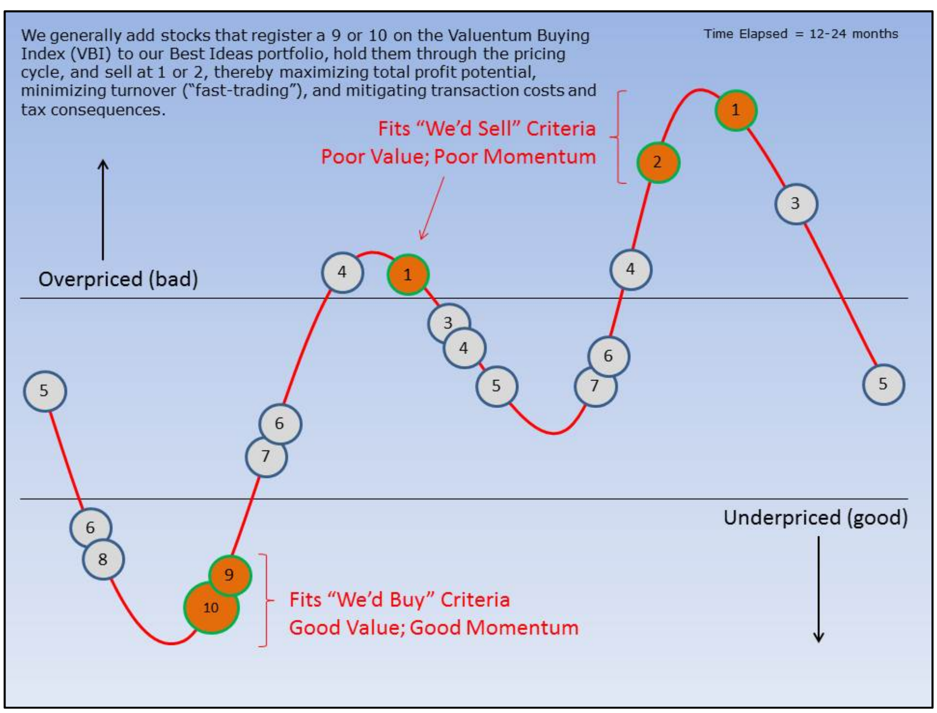
How We Use the Valuentum Buying Index in the Best Ideas Newsletter Portfolio

First and foremost, firms in our Best Ideas portfolio should be considered our best ideas at any point in time. The Best Ideas portfolio can always be found on page 8 of our monthly Best Ideas Newsletter. Firms in our Dividend Growth portfolio should be considered our best dividend growth ideas at any point in time. The Dividend Growth portfolio can always be found on page 5 of our monthly Dividend Growth Newsletter.

Let's talk about how the Valuentum Buying Index (VBI) informs which ideas we include in our actively-managed portfolios. We've noticed via our statistical backtesting that the momentum factor behind our process tends to be much more pronounced (powerful) over longer periods of time. This was one of the interesting findings of our academic white paper study. We try to replicate this dynamic with the update cycle of our reports (and the time horizon for our ideas to work out). That's why our reports are updated regularly (at least quarterly) or after material events and not daily or weekly. We don't want to whipsaw our membership, nor do we think churn is the way to generate outperformance.

Though the time frame varies depending on each idea, we expect our best ideas to work out over a 12-24 month time horizon (on average) -- any shorter than that is mostly luck, in our view. We tend to add firms to our Best Ideas portfolio when they register a 9 or 10 on our Valuentum Buying Index (VBI) and tend to remove firms from our Best Ideas portfolio when they register a 1 or 2 on our VBI. You'll notice that we have a qualitative overlay in the portfolio, which is necessary and similar in thinking as if you were to imagine a value investor not adding every undervalued stock to his/her portfolio. There are always tactical and sector weighting considerations in any portfolio construction.

As for the time horizon for ideas, we like to maximize profits on every idea, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all of the time. A value strategy (10 --> 5) truncates potential profits, while a momentum strategy (4 --> 1) ignores profits generated via value assessments. We're after the entire profit potential. So, for example, if a firm is added to the Best Ideas portfolio as a 10 and is removed as a 5, we would have tuncated profit potential. Most of our highly-rated Valuentum Buying Index rated stocks have generated the vast outperformance of the Best Ideas portfolio. Please view the pricing cycle below.



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Importantly, regarding our process, we don't blindly and immediately add firms to our portfolio once they score a 9 or 10 (and we do not add all firms that score a 9 or 10 to our portfolio). For example, Google (GOOG), a current Best Ideas portfolio holding, registered a 10 on our scale, but we remained patient and didn't add the company to our portfolio until after it reported earnings in late 2012, which provided us with an even better entry point (as new information came to light). We engage in a qualitative portfolio management overlay to maximize returns and minimize risk. The number informs our process, but the team makes the allocation decisions of the portfolio.

After adding firms to our Best Ideas portfolio, we may tactically trade around these positions when they have VBI ratings between 3 and 8 depending on the size of their weighting in our portfolio or their attractiveness relative to other opportunities (a score of 3 through 8 is typically equivalent to a 'we'd hold'). We tend to remove firms from our Best Ideas portfolio when they register a 1 or 2 on our process. Importantly, however, firms in our Best Ideas portfolio, which have generally registered a 9 or 10 on our scale when we added them, should be considered our best ideas at any point in time.

Take eBay (EBAY) as another example of our process in action. The firm initially flashed a rating of 10 in late September 2011 (at $32 per share), and we added it to our Best Ideas portfolio. The VBI rating changed to a 6 in December 2011 and then back to a 10 in May 2012. Because the rating never breached a 1 or 2, we did not remove the position from our portfolio. In fact, we tactically added to it. eBay is probably one of the better examples to use for illustrating the prolonged outperformance driven by undervalued stocks that are beginning to generate good momentum. We like to capture the entire pricing cycle and not truncate it as most value investors do.

Though eBay may register a lower VBI rating in a subsequent update, we would still view it as one of our best ideas, as it is a holding in our Best Ideas portfolio (it has never flashed a 'We'd Sell' signal, 1 or 2). Obviously, there have been more straight-forward opportunities in our Best Ideas portfolio, especially in the case of EDAC Tech (EDAC), which had tripled since we added it to the portfolio (never registering below a 9 along the way). The VBI ratings on our most recent 16-page reports, downloadable directly from our website, reflect our current opinion on the company.

The Valuentum Buying Index, like all methodologies, informs the investment decision process, but in constructing a portfolio, a qualitative overlay is not only necessary but has been shown to optimize performance in the white paper study.

About Our Name

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 to momentum investing. And a combination of the two approaches found on each side of the spectrum (value/momentum) in a name couldn't be more representative of what our analysts do here; hence, we're called Valuentum.

Valuentum Best Ideas Newsletter: Volume 4, Issue 6

Valuentum's Best Ideas Newsletter is published monthly. To receive this newsletter on a monthly basis, please subscribe to Valuentum by visiting our website at www.valuentum.com. Or contact us at info@valuentum.com.

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