OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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Our Best Ideas (see page 8): AAPL, BABA, MO, CSCO, EBAY, XLF, GE, GILD, GOOG, XLV, INTC, KBE, PCLN, RSG, RIO, TEVA, UNP, XLU, V

Portfolio Return	Benchmark Return	Outperformance
95.1%	67.6%	27.5pts

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"Investors must continue to weigh the risks of income growth in the future with capital market risk today."
– Brian Nelson, CFA

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.

Business As Usual

By Brian Nelson, CFA

It may seem like something is different, but nothing has changed since the last edition of the Best Ideas Newsletter. We'll continue to provide spot-on analysis across our entire coverage universe.

For some of our new members that may not be familiar with our independent investment research firm, we publish two newsletter portfolios. The Best Ideas Newsletter portfolio is housed in this publication, the Best Ideas Newsletter, which we release on the 15th of the month. The other newsletter portfolio that we produce is the Dividend Growth Newsletter portfolio, and that portfolio is housed in the Dividend Growth Newsletter, which we release on the 1st of each month.

The newsletters are a companion to the research we produce on our website on a daily basis.

I know some of you are anxiously awaiting the release of this month's Dividend Growth Newsletter. I appreciate your patience. We will release the July edition of the Dividend Growth Newsletter on the first of July, as originally scheduled. Concurrent with that release, we will also release our quarterly financial advisor publications, the Dividend100, the Ideas100, and the DataScreener. If you are not currently but are interested in receiving these quarterly publications, please be sure to let us know. We also have fully-populated discounted cash-flow models supporting every fair value estimate on our website.

The S&P 500 has essentially been flat since the beginning of the year, and it didn't do much since the last edition of this newsletter. We won't waste much of the valuable space in this publication addressing the implications of the breakdown in talks between Greece (GREK) and its European creditors, an event that has been all over the news as of late, but we'll give it a brief mention, if only to dismiss it. The Greece economy is peanuts (or mostly olive oil but you get my drift--it's small), and you'd be hard-pressed to find US equities outside of the tanker industry that are based in the country. There may only be a couple dozen Greece ADRs trading on the US OTC markets, hardly the S&P 500 or the FTSE 100. The global financial system

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KEY CONCEPT: Firms in the Best Ideas portfolio (see page 8), which have generally registered a 9 or 10 on the VBI when added, should be considered our best ideas at any point in time. 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 equivalent to a 'we'd hold'). We tend to remove firms from the Best Ideas portfolio when they register a 1 or 2 (we'd sell). View page 27 for more details about how the team utilizes the Valuentum Buying Index to run the portfolio.

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Business As Usual…**from previous page**

has been monitoring the situation in Greece for years, and any potential default will be a complete non-event, in our view.

We're focusing our attention elsewhere, and we think most other investors should, too. But where?

The more important conversation rests on the valuations of US equities and what might happen should the discounting mechanism via increased interest rates take hold. Any portfolio manager worth his salt will tell you that the market looks 2-3 quarters ahead, and we'll know fairly certain when the beginning of a contractionary period of monetary policy will take hold when the equity markets start to weaken. Nearly 6 months into 2015 and with the market still resilient, our experience tells us that we won't see any action by the Federal Reserve until at least 2016. But that may not matter. 2016 is coming. Not even the Oracle of Omaha himself can stop time from passing.

The mantra continues: equity prices are a forward-looking indicator to economic activity, not the other way around. There have been several quarters during the past several years alone, where an economic contraction has surfaced, most recently in this year's first quarter, and the market continued to advance, albeit modestly as of late. Economic observers help us in understanding where the economy has been, certainly not where the stock market is going. But even the market as a predictive mechanism is far from perfect. This tidbit of wisdom from economist Paul Samuelson dates back to September 1966: "Wall Street indexes predicted nine out of the last five recessions."

We've been telling clients that we're more worried about the implications of rising interest rates on the behavior of dividend holding entities than on the general impact to valuations. The healthcare and consumer staples sectors are two of the most overpriced sectors in the economy today, and two of the most income heavy. Investors must continue to weigh the risks of income growth in the future with capital market risk today. If the risk free rate eventually rises to 5%, what should the yields be on risky assets like stocks--and if lower stock prices are warranted, how much lower? Will the ensuing capital loss erode the present value stream of increased dividends? These are the right questions.

We've generally been pleased with performance from Best Ideas Newsletter portfolio constituents. Gilead Sciences (GILD) has set new highs, and I appreciate the e-mails from members on the call. Alibaba (BABA) has seen better days, but we don't think the Street completely understands the earnings leverage tied to its monetization rate. Even a couple basis points of improvement in the metric relative to existing expectations could drive the stock materially higher. Apple (AAPL) is still hovering around all-time highs, and we don't think its run is over yet. Priceline (PCLN) has broken its downtrend, and we're watching that one closely. Please be sure to view the entire portfolio on page 8.

Overall, we like what we see and how we're positioned. The portfolio is flush with a ~29% cash position, and we won't hesitate to highlight the next best idea for addition. From cyber security to bird flu to economic profit generation in the airline sector, I hope you enjoy this edition of the Best Ideas Newsletter. Cheers!

Iron Prices to Move Higher, Ore Is It Wishful Thinking?

By Kris Rosemann

A number iron ore producers--including Vale (VALE), BHP Billiton (BHP), Cliffs Natural Resources (CLF), and Best Ideas Newsletter portfolio holding Rio Tinto (RIO)--have seen share prices jump after reports that Chinese demand for the key ingredient in steel production will increase in the second half of 2015. This is good news for iron ore producers, as approximately half of the world's steel is produced in China.

According to Vale CEO Murilo Ferreira, Chinese imports of iron ore will increase significantly in the back half of this year as domestic production is expected to be down ~200 million metric tons. According to Ferreira, a significant amount--more than most realize--of Chinese iron ore producers have ceased operations, boosting the country's import demand. Iron ore prices have decreased ~60% from peak levels in 2013, and producers have not been spared the pain.

Supply expansions in Australia and Brazil, two areas commonly associated with iron ore production, and the economic slowdown in China helped drive prices to the lowest point in a decade in mid-April. Prices have since rallied ~39% on the aforementioned anticipation of increasing demand in China. Also increasing the anticipated demand in the near term is the closing of many high-cost mines in less-developed areas across the globe, including those in China. Vale expects the global seaborne market for iron ore will increase 3.6% in 2015.

However, Chinese iron imports in the month of May decreased 12% from April, and on an adjusted basis (accounting for the number of business days in a month), iron ore imports were at the slowest pace since last November. The 70.87 metric tons of imported iron in the month of May represents an 8.4% decrease from the comparable period in 2014. Prices in May posted the largest increase in nearly two years as stockpiles at Chinese ports fell by record levels, but this may be more a result of a conscious effort by the country to destock.

In relation to the slowing Chinese economy, global oversupply of many metals markets is not going away. Recent expansions by BHP Billiton and Vale are expected to swell the global surplus of iron ore to ~215 million metric tons by 2018, compared to the expected ~45 million metric ton surplus in 2015. The price movement of iron ore is a prime example of the delicacy of supply and demand within a cyclical, commoditized industry. The normalization of growth of the Chinese economy will help to eventually balance the market, but before then, prices are likely to drop near record lows once again until high-cost suppliers are forced out of the market, normalizing supply and representing a truer tightening of the market.

The future trajectory of the price of iron ore has probably never been more important to global participants. Balance sheets across the diversified mining industry are mired in debt, many at alarming levels. A look at their 16 page reports tells the story quite well. One of the few firms with a solid balance sheet, however, is Rio Tinto, a Best Ideas Newsletter portfolio holding. We like Rio's focus on driving free cash flow by improving its capital allocation and efficiency. The firm also sports a nice dividend yield. We value shares at nearly $60 each.

Though the second half of 2015 looks more promising than the environment of the past few years, an expected iron ore global surplus beginning in 2016 cannot be ruled out. BHP's CEO explained that his firm does not believe Australian iron producers should slow production during periods of economic weakness or downward pricing pressure, an indication that the global surplus may be more difficult to overcome than some initially expected. In this light, it's difficult to be very positive on the long-term outlook for the iron ore markets, regardless what happens through the remainder of 2015.

We only have a very small position levered to mining and iron-ore exposure specifically, and the recent developments in the iron ore market speak to why. Most mining companies are held down by their massive debt loads and all participants are subject to cyclical commodity prices, a dangerous combination in our minds. We're sticking with Rio, and we think it is the best risk-adjusted exposure to the global iron-ore market, with the most valuation upside.

Gilead Price-to-Fair-Value Convergence Underway!

By Kris Rosemann and Brian Nelson, CFA

It's a bird… It's a plane… Nope, it's Best Ideas Newsletter Portfolio holding Gilead Sciences (GILD) flying high in the months of May and June.

For those that are new to the Gilead "story," shares registered a 10 on the Valuentum Buying Index in September of last year, and while the near term has been a bit rocky, the company is now off to the races. The pharma giant was trading just over $100 at the end of April, and now, 10 days into the month of June, its share price is over $117 and climbing, a cool 17% move.

Despite news being sparse on the company during the past few weeks, there are certainly a number of factors driving its share price advance. When examining its price chart--shown above--the company is breaking out technically, and setting a new all-time high in doing so (there's no overhead supply, as they say!). We continue to believe the firm is undervalued on a fundamental basis, and shares are now firmly in the black since the email transaction alert in September. Be sure to access the firm's updated 16-page report on the website.

Few seem to be looking to sell Gilead at a price lower than today's, and we're certainly not looking back. Price-to-fair value convergence, or when a firm's price starts to accelerate toward its intrinsic value, is beginning to take hold at Gilead, and significant momentum is building. Our fair value estimate is $162 per share, implying significant upside potential on the basis of its discounted cash-flow derived valuation.

Gilead registered a pristine 10 on the Valuentum Buying Index in late August 2014. The stock was subsequently added to the Best Ideas Newsletter portfolio in mid-September with a fair value estimate of $153 per share. Since then, the company has been rated a 6 on the Valuentum Buying Index, while our fair value estimate has increased to $162 per share. If you're not sure how the Valuentum Buying Index rating can fall in the event of a fair value increase, please email me at brian@valuentum.com.

Gilead…continued on next page

*Gilead……*from previous page

How Gilead, the Valuentum Buying Index, and the Best Ideas Newsletter Portfolio Interact

GILD Rating History	Price	Fair Value	VBI
5-Jun-15	$113.96	$162.00	9
9-Jan-15	$102.21	$162.00	6
28-Nov-14	$100.32	$153.00	6
22-Aug-14	$103.96	$153.00	10
25-Apr-14	$73.90	$100.00	6
10-Jan-14	$74.87	$80.00	6
4-Oct-13	$63.04	$51.00	7
17-May-13	$56.30	$51.00	7
18-Jan-13	$39.14	$37.00	6
21-Sep-12	$67.76	$64.00	5
4-Jun-12	$49.21	$66.00	6
13-Jan-12	$44.89	$54.00	7
30-Sep-11	$38.80	$58.00	6

For those just getting acquainted with the methodology, the Valuentum Buying Index is a multi-factor rating system (DCF valuation + risk, relative valuation, technical/momentum indicators), while other widely-followed star-rating systems are only single-factor models (e.g. DCF valuation + risk). This is why a Valuentum Buying Index rating on a company can change from a 9 to a 3 or to a 6 and back again in subsequent updates. The Valuentum Buying Index is a dynamic system.

Just like in the case of Gilead, after a company is added to the newsletter portfolio, its Valuentum Buying Index rating may change to a 3 or to a 6 or other. We consider ratings between 3 and 8 the "big middle" of our coverage, equivalent to a "we'd consider holding" rating. In the case of newsletter holdings such as Gilead that had or have these ratings, this is exactly what we've been doing or are doing with them – holding the company in the newsletter portfolio.

In such examples, we may add or trim the position in the portfolio if the company has a rating between 3 and 8, but we'd only consider removing the company when it registers a 1 or 2, the equivalent of a "we'd consider selling" rating. Gilead has never registered a 1 or 2 on the index, so we'd still consider it one of our best ideas. Such a dynamic is why companies in the newsletter portfolios can sometimes have ratings below companies that are not included in the portfolios.

Gilead's most recent VBI rating of 9, updated today, indicates that we may consider adding more shares to the position in the Best Ideas Newsletter portfolio. We're monitoring the situation closely.

Market Is Catching On To Alibaba

By Kris Rosemann

Since Alibaba's (BABA) IPO in September 2014, we have been adamant about the long-term potential of Chinese e-commerce giant Alibaba. Our fair value estimate of its share price currently sits at $134. Though we expect price-to-fair convergence to happen eventually, it will take some time.

Despite currency and country-specific risk concerns, as well as the recent development of potential tax ramifications of Yahoo!'s (YHOO) spinoff of Alibaba shares and whether ultimately the tax bill would land on shareholders' laps, the company is currently undervalued, and the firm has just started to turn heads regarding the improvement in its monetization rate.

*Market is Catching on…*continued on next page

*Market is Catching on…*from previous page

As we stated earlier in May, it wouldn't make sense for us to say that Alibaba has been a great performer since it peaked at ~$120 per share in early November of last year. But it's important to note that no stock is a fantastic performer if we measure it from its latest peak (if you think about it, it's all definitional--the stock has gone down).

Alibaba's share price has recovered nicely in recent weeks, topping $92 following Bernstein's outperform rating and price target of $120 (it has come back a little since the announcement). We think the market is finally catching up to our analysis; if you take a read of some of the "new" material, you will notice that we have been saying much of the same, or to the same effect, in our 16 page report and various writings concerning the company for some time now. The attention the firm has garnered from the market is partially due to continued momentum of its mobile utilization, which is widely regarded as the most likely source for increased long-term earnings growth at the company.

We've been impressed with Alibaba's total gross merchandising volume (GMV) on its China retail marketplaces for some time now, and its GMV has only increased since the last update of our report. The metric investors follow most closely at the company is its monetization rate. Any upside surprises--even only a few basis points--could cause share prices to jump substantially. However, the firm is not as concerned about this metric; it manages its business for growth in GMV and active buyers. Despite this, other analysts--including those at Bernstein--have recently begun to think that the firm's mobile monetization rate will catch, if not exceed, its PC rate over the long-term.

Hence the rising share price this past week.

At the end of the day, we aren't doing backflips over Alibaba's slight increase relative to our cost basis at the moment. We expected situations like this, and we see similar increases coming in the future. The company remains one of our favorite long-term investment ideas--it has been a holding in the Best Ideas portfolio since its IPO--and for investors seeking non-US exposure, Alibaba is worth considering.

Like so many of our other ideas that took some time to get going, price-to-fair value convergence has just started to begin with Alibaba!

No Fly Zone: Airlines' Economic Profitability Still Unproven

By Kris Rosemann

We've said it before, and we'll say it again: the airline industry is not well-suited for long-term investors. The industry that we're talking about is the airline industry and includes companies such as United Continental (UAL) and JetBlue (JBLU), not the aerospace industry and its constituents such as Boeing (BA) and Precision Castparts (PCP), which are involved in aircraft-making and have fantastic business models.

Today, we're reiterating our view that most airline stocks should be viewed as nothing more than boom-or-bust, speculative vehicles. Perhaps the biggest issue with airlines is that the factors that drive their revenue and costs are largely out of their control. In other words, an airline can't do much to guarantee profits through the course of the cycle. An airline's costs are a function of fuel prices and labor--and we don't need to remind you of the difficulty of predicting crude oil prices (XLE, USO)--while an airline's revenue is almost entirely dependent on the trajectory of the economy (passenger travel) and the actions of others' capacity decisions.

The relationship between capacity and demand growth, as measured by the industry's load factor, has had a mixed history, and while such false warnings of excess capacity (available seat miles) have happened before, it seems as though the industry is moving itself toward another potentially sticky wicket…yet again. For several years now, airlines have been realizing the benefits of positive economic trajectory in the form of increased passenger travel, but have they now begun to grow capacity too quickly, a dynamic that inevitably pressures prices and real yields?

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American Airlines Group (AAL) CEO Doug Parker doesn't think so.

The enthusiastic and flamboyant roll-up artist, who merged America West into US Airways and then that combined entity into American Airlines Group, claims the industry has learned its lesson from past examples of companies growing too quickly ahead of passenger demand growth. In situations when airlines flood the market with 'seats,' certain routes that have too many flights are then priced aggressively to capture demand. This results in each flight operating at a less profitable level between city pairs.

Southwest Airlines (LUV) has been toying with its expected expansion of available seat miles for 2015, initially raising the targeted growth rate from 6% to 7%, then to 8%, then back down to 7%. Management brushed this off as nothing more than approximations that caused a reaction, but the firm also said the US economy isn't growing as rapidly as it had originally expected. Southwest, American Airlines, and other participants appear to be telegraphing their capacity moves, so as to not upset the delicate balance of supply that has paved the way for airline industry profits in recent years.

The International Air Transport Association (IATA) projects the global airline industry's net profit margin will increase from 2.2% to 4% in 2015, mostly due to shrinking fuel costs. In its semi-annual report, released mid-year, the IATA noted that due to the strengthening US dollar, North American airlines are expected to realize much higher profit margins than their Asian and European counterparts, on a US dollar basis. Though the "correct" measure of an airline's true weighted average cost of capital (WACC) may vary, the industry is on track to generate economic value for investors in 2015 for the first time in history, according to the IATA.

Worldwide airline industry	2013	2014	2015
ROIC, % invested capital	4.9%	5.7%	7.5%
ROIC-WACC, % invested capital	-1.9%	-1.2%	0.7%
Investor value, $ billion	-13.0	-8.3	4.9
EBIT margin, % revenue	3.5%	4.6%	6.9%
Net post-tax profits, $billion	10.6	16.4	29.3
% revenues	1.5%	2.2%	4.0%
$ per passenger	3.37	4.94	8.27

Note: ROIC = Return on Invested Capital, WACC = Weighted Average Cost of Capital, EBIT = Earnings Before Interest and Tax. **Current year or forward-looking industry financial assessments should not be taken as reflecting the performance of individual airlines, which can differ significantly.**
Source: IATA, McKinsey, ICAO.

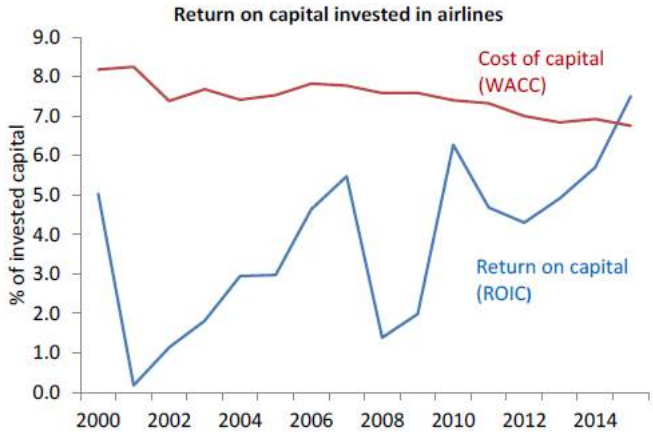

Image Source: IATA

No Fly Zone ...continued on page 9

The Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
95.1%	67.6%	27.5pts

Below we outline the constituents of the portfolio and their respective weightings and returns thus far. 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 ~29% of the portfolio in cash, a level we're looking to bring down in coming months. 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 our Best Ideas portfolio is to outperform the S&P 500 Index and to generate positive returns each year regardless of the market environment. Firms added to our Best Ideas portfolio are the cream of the crop based on our stock-selection methodology, the Valuentum Buying Index.

OUR BEST IDEAS PORTFOLIO -- as of June 15, 2015 — **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	126.92	20,434.12	10.5%	152.3%
Alibaba	BABA	IPO	3	19-Sep-14	92.95	78	7,264.10	86.12	6,717.36	3.4%	-7.5%
Altria Group	MO	8	3	28-Jun-11	28.39	315	8,958.11	47.54	14,975.10	7.7%	88.0%
Cisco	CSCO	9	7	14-Nov-14	26.15	100	2,622.00	28.48	2,848.00	1.5%	9.3%
eBay	EBAY	10	7	3-Oct-11	31.04	100	3,103.50	60.00	6,000.00	3.1%	93.3%
Financial Select SPDR	XLF	NA	6	9-Jan-11	13.46	150	2,026.00	24.93	3,739.50	1.9%	92.0%
General Electric	GE	7	7	21-Oct-13	25.99	375	9,761.75	27.21	10,203.75	5.2%	9.3%
Gilead Sciences	GILD	10	9	19-Sep-14	106.76	68	7,273.34	118.16	8,034.88	4.1%	10.5%
Google	GOOG	10	4	23-Oct-12	450.92	14	6,326.84	527.20	7,380.80	3.8%	16.7%
Health Care ETF	XLV	9	6	22-May-12	36.60	125	4,582.00	74.53	9,316.25	4.8%	109.8%
Intel	INTC	6	4	12-Sep-11	20.48	150	3,086.50	31.39	4,708.50	2.4%	64.6%
SPDR S&P Bank ETF	KBE	NR	NR	9-Jan-12	21.07	100	2,114.00	36.69	3,669.00	1.9%	80.6%
Priceline	PCLN	10	10	26-Feb-15	1248.97	3	3,753.91	1175.36	3,526.08	1.8%	-6.1%
Republic Services	RSG	8	4	19-May-11	31.42	201	6,329.42	40.22	8,084.22	4.1%	40.4%
Rio Tinto	RIO	9	3	22-May-12	46.40	75	3,487.00	43.61	3,270.75	1.7%	6.2%
Teva Pharma	TEVA	6	4	24-Jul-13	41.22	77	3,180.94	60.68	4,672.36	2.4%	52.6%
Union Pacific	UNP	6	3	24-Jul-13	79.67	40	3,193.80	100.52	4,020.80	2.1%	30.0%
Utilities Select SPDR	XLU	NR	NR	18-Mar-14	41.12	83	3,419.96	42.47	3,525.01	1.8%	5.9%
Visa	V	7	6	30-Nov-11	26.86	188	5,064.39	68.57	12,891.16	6.6%	158.1%
Latest change: A new position in PCLN was opened 2/26/2015. Please contact us at info@valuentum.com if you are not receiving the email transaction alerts.											
Cash -- changes in monthly cash balance reflects dividends received and trading gains/losses, where applicable.									57,064.24	29.3%	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		**195,081.88**		**95.1%**
S&P 500 Index (SPY)				17-May-11	132.69	754	100,000.00	209.1	157,585.35	94.0%	
Cash									9,981.16	6.0%	
Benchmark Portfolio Value									**167,566.51**		**67.6%**
Relative Outperformance											**27.5 pts**

Data as of June 15, 2015. 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). Best Ideas portfolio is not a real money portfolio.

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

No Fly Zone...from page 7

Here's the key takeaway: the notion that it has taken nearly seven years of positive economic growth from the March 2009 panic bottom (read: peak of cycle) coupled with significantly reduced input costs (jet fuel)--both of which were of no doing by the airlines themselves--to produce a positive economic profit for the first time ever should be enough to convince you that the airline industry is not really an investable universe of equities.

A savvy industry observer may even argue that the airlines are simply getting lucky with the current supply/demand balance and that the group will surely become overzealous yet again as it has so many times in the past. Bulls ("longs") will pound the table that "this time is different" because, in their view, industry consolidation has eliminated the factors that created the value-destroying capacity growth trends and the price wars of yesteryear.

But how can that be? As recently as a few weeks ago, American Airlines' CEO Doug Parker vowed that he will "compete aggressively" to match low-fare rivals. It doesn't sound like the industry has "it" figured out just yet, and if it takes a perfect operating environment for the airline industry to generate a shred of economic profit, as it might do in 2015, how can we point readers in the direction of this industry?

We can't. We're staying grounded, and we think long-term investors should, too.

The Global Pandemic of Cybercrime, Cyber Espionage and Cyber Warfare

By Brian Nelson, CFA

"The new generation of cyber-attacks on organizations, including large and small enterprises and governments worldwide, is characterized by an unprecedented escalation in the complexity and scale of advanced malware created by criminal organizations and nation-states. These modern attacks are built on dynamic, stealthy and targeted malware that penetrates defenses in multiple stages and through multiple entry points of an IT network. These highly targeted, "single-use" cyber-attacks easily circumvent legacy security solutions that rely on pattern-matching detection technologies. Additionally, because legacy solutions reference outdated signatures of past threats, they also generate a high number of false-positive alerts." – Fireeye Annual Report, 2014

The statistics are striking.

According to a 2011 survey of ~580 US IT experts by research center Ponemon Institute, an estimated 90% of organizations have at one time suffered a cybersecurity breach. Believe it or not, the Pentagon said in a 360+ page report that, as of 2014, nearly every US weapons program that was tested showed "significant vulnerabilities" to cyberattacks. The news reminds me of the 1980s flick, WarGames. It flat-out irks me that there's a chance that hackers can access US weapons programs.

Just this week, US officials announced that it believes China was behind a breach affecting the information of at least 4 million federal employees. This was allegedly the second intrusion by the country in the past few months and the largest breach of federal employee data in some time. Russia has also been tied to cybercrimes against White House computers. It appears the US is fighting yet another war—not one with guns and bullets but one against cyber adversaries. The plot of that 1980s teenage Matthew Broderick movie can't happen in real life, can it?

The world is simply not prepared for the latest round of criminal activity...in cyberspace.

The sophistication, scale and frequency of cyberattacks coupled with the complexity of new technologies from cloud computing and virtualization to enterprise mobility and social networking have made it incredibly difficult to keep important information and data safe. Reports from Snowden

Cybercrime ...continued on next page

*Cybercrime...*from previous page

documents, for example, contend that China stole "many terabytes" of data about Lockheed Martin's (LMT) F-35. China's new J-31 Gyrfalcon does look a lot like the F-35. In 2014 alone, there were 20 major data breaches, with Home Depot (HD), Target (TGT), and JP Morgan (JPM) perhaps making the biggest headlines, but even companies such as Staples (SPLS), Bebe (BEBE), and Sony (SNE) were impacted. Sony's network was taken hostage by a grinning skull.

Some estimates peg the cyber security market to surpass $150 billion by 2019 from under $100 billion today, but the reality is that the changing and evolving landscape could make this figure much larger. Traditional players such as Hewlett-Packard (HPQ), Cisco (CSCO), Check Point (CHKP), CSC (CSC), IBM (IBM), Booz Allen (BAH), Lockheed Martin, Northrop Grumman (NOC), Trend Micro (TMICY), Fortinet (FTNT), Barracuda (CUDA) and Symantec (SYMC) will be vying for share. But there are others as well. Fireeye (FEYE), Palo Alto Networks (PANW), Imperva (IMPV), Vasco (VDSI), Zix (ZIXI), Qualys (QLYS), Proofpoint (PFPT), AVG Tech (AVG), and CyberArk (CYBR) will be looking to capture a piece of the pie (potential industry earnings). Many of these firms are losing money hand over fist at the moment.

From an investment standpoint, it's simply too early to pick the long-term winners. But even if we we're pinned down to selecting just one or two potential winners, we'd maintain that the best consideration for investment exposure to rapidly-expanding cybersecurity demand is via PureFunds ISE Cyber Security ETF (HACK), which seeks to track the investment results of the ISE Cyber Security Index (the ETF's holdings can be downloaded here). Our investment thesis on HACK rests not on identifying which company will capture the greatest share of industry earnings, but on the view that spending on cybersecurity will increase considerably more than current expectations, a far "safer" bet.

If the pace and magnitude of recent cybersecurity breaches are any indication, organizations will be spending money in a hurry to make sure they're not the next victim. The consequences of a real-life WarGames event are far too great to skimp in this area, and the threat will never truly go away. HACK should be on your watch list, if it's not already.

Long-time 9-Rated Broadcom Soars!

By Brian Nelson, CFA

The Valuentum Buying Index is a system that is designed to generate new ideas. Firms that register a 9 or 10 on the ranking system are ones that our team digs into to decide whether they pass muster for inclusion into the newsletter portfolios. Not all 9's and 10's make the cut, but that doesn't mean they are poor ideas. Once an idea registers a high rating and is added to the newsletter portfolios, it is held until it registers a low rating -- thereby, capturing the pricing cycle from undervalued and "going up" to overvalued and "going down."

The newsletter portfolios are performing great, and so are some of the recent highly-rated companies! Convergys (CVG) was a company that has been atop the VBI ranking for some time, and it has popped nearly 20% since registering the coveted 10 on the index; its rating was only recently revised lower, but to the equivalent of a "we'd hold," the middle ground of the Valuentum Buying Index distribution (only 1's and 2's are ones to worry about).

AIG (AIG) has been a highly-rated 9 for a few years, and its performance has been stellar. We've been saying that it is our favorite idea in insurance every chance we get. The latest example of the efficacy of the Valuentum Buying Index is Broadcom (BRCM), which has met the criteria to register a 9 on the index on three separate occasions (see image below), but never made it into the newsletter portfolios.

There are a couple reasons for this. One, we already have heavy technology exposure in both newsletter portfolios, and the performance of companies such as Apple (AAPL) and Microsoft (MSFT) has been even better, if not just as good. There are always trade-offs in portfolio construction, and this is why we don't include all of our favorites. We simply can't.

Broadcom Soars ...continued on next page

Broadcom Soars...from previous page

BRCM Rating History	Price	Fair Value	VBI
20-Mar-15	$46.00	$49.00	7
26-Sep-14	$40.61	$48.00	7
9-May-14	$29.74	$41.00	6
17-Apr-14	$30.10	$41.00	6
17-Jan-14	$29.00	$41.00	9
11-Oct-13	$26.51	$41.00	6
17-May-13	$37.55	$48.00	7
4-Jan-13	$34.44	$50.00	9
7-Sep-12	$36.11	$51.00	9
1-Jun-12	$31.74	$53.00	6
20-Jan-12	$35.00	$48.00	7

News that Broadcom is in talks to be acquired by Avago (AVGO) sent Broadcom's stock soaring! We'll keep letting you know which companies register these high rankings before they surge. On average, it often takes 12-24 months for an idea to work out, so some patience is often required for the system to perform well. Congrats to those that own Broadcom. We had highlighted the company on a number of occasions at recent American Association of Individual Investor (AAII) meetings. It's a big win for those that scooped up shares.

May US Auto Sales Cruise Past Expectations

By Kris Rosemann

Key Takeaways

- The US auto market has recovered significantly since the depths of the Great Recession, posting its best monthly unit sales levels in May in a decade and possibly positioning itself to reach the highest level of annual unit sales since 2001.
- Consumer demand continues to shift from cars to light trucks and SUVs as pain at the pump eases.
- America's best-selling truck, the Ford F-Series, is losing market share, but this may just be temporary as it ramps up production to meet "sky-high" demand. Chevy and Toyota are busy capitalizing on the weakness, however.
- Tesla may have the brightest future among any auto maker in theory, but how long will it take for its plans to be realized?

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*May US Auto Sales…*from previous page

According to Autodata, US auto sales SAAR (seasonally adjusted annualized rate) for the month of May beat economists' expectations by a significant margin, with an actual figure of 17.79 million compared to the projected 17.3 million. This reflects the highest sales level for a month and for the month of May--a traditionally high volume month for automakers--since 2005. Pent-up demand remains the primary reason why we, as with many market onlookers, believe auto sales will reach 17 million for the year, which would mark the highest volume since 2001. The month's 1.64 million unit sales represent a 2% increase over last May's levels. Strong demand for new SUVs benefitted many automakers, as the steady shift from cars to small and medium SUVs continued thanks in part to lower gasoline prices thus far in 2015.

Sales at major automakers Ford (F), General Motors (GM), Honda (HMC), and Toyota (TM) all beat consensus expectations for the month, with Honda posting the highest beat, as measured by year-over-year growth. Honda increased sales by 1.3%, compared to an expected decline of 4.4%; GM grew sales by 3%, compared to its forecasted growth of 0.1%; though Ford saw its sales decline by 1.3%, it beat its expectations of a decline of 3.1%; and Toyota beat its expected decline of 1.8% with an actual decline of 0.3%. There was one less selling day in May 2015 than May 2014. The links to monthly and quarterly reports can be found by clicking on the company headings. Let's dig deeper into the trends of each individual major automaker.

Ford

Of the four major automakers in our coverage universe, Ford saw the sharpest decline in May auto sales. Its total US auto sales for the month declined 1.3% to 250,813. Retail sales were down 2%, accounting for ~68% of monthly sales, while fleet sales remained flat.

Despite the slight drop in overall May performance, there were a number of bright spots for the company in the month. Though commercial vans do not make up a significant portion of overall sales, it's worth noting that the vehicle type turned in the best month since 1978. The company's legendary sports car, the Mustang, had its best month since 2007, increasing unit sales by nearly 40% compared to May 2014.

Supporting the trend of the market-wide shift to SUVs, the new Ford Edge grew unit sales 34% over the comparable period, and the 2016 Explorer, America's best-selling midsize utility vehicle, had its best May in terms of retail sales since 2004. The Edge is turning on an average of only 13 days on dealer lots. Ford's Lincoln division retail sales were up 10%, with the Lincoln Navigator increasing sales by 50%. Ford and Lincoln utility vehicles were relatively flat as a whole, growing 0.5% over the year-ago period.

Traditionally, the firm's highest-selling segment, Ford's truck division, performed poorly in the month, dragging overall results lower. The company's best-selling product by a large margin--accounting for 25% of overall sales--the F-Series saw a decline of 9.7% in units sold from last May. Management cited tight supply, as the Kansas City F-Series factory is just now ramping up to full speed, as the main reason for the sharp decline. However, May 2014 also saw a 4.3% decline in F-Series sales, and while this, too, could be explained away (consumers were anxiously awaiting the new "aluminized" version of the pickup at that time), investors are starting to get tired of the excuses. Overall truck sales were down 5.1% in the month of May this year.

Though we continue to monitor the situation closely, the expected increase in supply should boost Ford's truck numbers in the future, and recent ground-floor comments suggest demand for the F-Series is "sky-high." But what appears to be a just a shortage of frames for the series at present may turn into more serious problems at a time when fuel efficiency has become less of a concern with crude oil prices about half of what they were just a number of months ago. In light of the sales numbers, we're not expecting a big second-quarter report from Ford, though expectations have certainly been ratcheted lower, increasing the possibility of a better-than-feared report eventually being positive for the stock. The F-Series is a big profit driver for the company, and the executive suite needs to get this back on track in a hurry.

May US Auto Sales …continued on next page

May US Auto Sales...from previous page

	May 2015	May 2014	% Change
SALES BY BRAND			
Ford	241,639	245,239	-1.5
Lincoln	9,174	8,845	3.7
Total Vehicles	250,813	254,084	-1.3
SALES BY TYPE			
Cars	89,755	88,926	0.9
Utilities	77,806	77,409	0.5
Trucks	83,252	87,749	-5.1
Total Vehicles	250,813	254,084	-1.3

Image source: Ford May sales presentation

Ford had been a Best Ideas Newsletter portfolio holding in the past, but we removed exposure to the firm in light of where we are currently with respect to the ongoing economic upswing. Pent-up demand for autos should continue to provide a boost to Ford, but the company's earnings outlook has been muted due to product investments and work to get production levels of the F-Series on par. Some remain skeptical that weakness in the F-Series is completely a result of tightened supply levels, and GM's three truck lineup is gaining market share in the US. Our fair value estimate of Ford is $20 per share.

GM

GM outperformed its own sales growth expectations by 2.9% in the month of May, growing overall sales at a rate of 3% to a total of 293,097. Leading the firm in growth rate was its GMC division, which increased sales by 12.5%. Chevrolet saw a 1.4% increase in sales while Buick remained relatively flat at 0.5% growth, and Cadillac reported a decrease of 1.9% in sales. Retail sales grew at a much higher rate for Chevrolet, which accounted for ~71% of overall sales, and the company as a whole.

May	Total Sales	YOY Change	Retail Sales	YOY Change
Chevrolet	207,970	1.4%	146,681	8.0%
GMC	50,657	12.5%	43,151	11.0%
Buick	20,062	0.5%	17,428	0.0%
Cadillac	14,408	-1.9%	12,971	-4.8%
Total	293,097	3.0%	220,231	7.0%

Image source: GM May sales presentation

Driving Chevy's retail sales was strong performance from GM's leading seller, the Silverado pickup series, as it gained 3% market share and grew sales 10.6% from May 2014. More Silverados were sold in the month than Buicks and Cadillacs combined, and slightly more than all GMC sales. The company's best-selling SUV for the month was the Chevy Equinox, a compact SUV, up ~30% from the year ago period. Despite opening a third production shift in March, GM cannot keep up with the demand for the all-new Chevy Colorado midsize pickup. It has been the industry's fastest-selling pickup for four months now, and its days-to-turn is an impressive 13 days.

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May US Auto Sales...from previous page

GM's commercial deliveries were up 5% in May, including full-size pickup sales growing by 9%; on a year-to-date basis, commercial deliveries are up 29%. These terrific growth numbers come despite a planned reduction of 7,000 rental deliveries due to discontinuity and reduced production of certain line items.

Overall, GM has posted a nice string of 15 straight profitable quarters, and its May performance was similarly impressive. If the Chevy Silverado can continue to grow its market share, it could take serious advantage of the decline of the F-Series, and the new midsize Colorado is likely to continue to gain market share. GM will focus toward increasing its supply of SUVs to match market demand shifting from traditional cars. The company has been doing well lately, and its position as first mover into what will eventually become the world's largest auto market, China, should prove to be a savvy one. Our fair value estimate is $48 per share.

Toyota

Toyota was the top selling US auto retail brand in the month of May, despite total sales remaining relatively flat from the year-ago period, from which it dropped 0.3% to a level of 242,579. The firm's Toyota division's slight decrease in sales of 1.3% was offset by its smaller Lexus division jumping 10.2%. Lexus was able to capitalize on the consumer shift to SUVs, as it is one of the most recognized luxury SUV brands on the market.

	2015	2014	DSR % CHG	VOL % CHG
TOTAL TOYOTA	**242,579**	**243,236**	**3.6**	**-0.3**
TOTAL TOYOTA DIV.	212,908	216,315	2.2	-1.6
TOTAL LEXUS	29,671	26,921	14.5	10.2

Image source: Toyota May sales presentation

Toyota cars had a difficult month, though year-to-date numbers aren't nearly as poor. In the month of May, total Toyota car sales were down 10.9% from last May. Total truck sales, including SUVs, were up 14.3% for the comparable period, further accentuating the shift from cars to SUVs and midsize trucks. The Tacoma, Toyota's smaller truck, increased sales 26.3% this May, and total Toyota light trucks set a May record for sales growth with 13.4%. Though premature to say definitively, it seems as though Ford may be in serious jeopardy of losing significant market share and slipping from the best-selling truck in America, mainly due to Toyota and Chevy making a push with their light trucks amid the company's production problems.

Sales of the Tacoma may be a good indicator of the success of Toyota, as new competition such as the Chevy Colorado will force it to test its famously lean Toyota Production System. The firm's best prospects may lay in Europe, where it stands to gain significant market share as Ford and GM restructure their respective European operations. Toyota shouldn't have much to worry about if the long-term dominance of the Camry continues. It has been the best-selling car in America for 12 years straight, as was reflected by the company being the leading auto retail brand in the US. Our fair value estimate of Toyota is $145 per share.

Honda

Honda performed surprisingly well in the month of May, growing its total sales by 1.3% to a total of 154,593 after expecting sales to decline by 4.4%. Though the firm's Acura division only accounted for ~11% of total sales, the division increased sales by 16.3%, bucking the trend of the market moving away from cars (Acura car sales increased by 43.5% from the year-ago period). More impressively, every current Acura model was up from the comparable period.

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The Honda division followed general market trends, as its car sales decreased by 8.1%, and light truck sales, including SUVs, increased by 10.6%. Despite poor car trends, the Accord and Civic remain very popular and sold over 30,000 units a piece. The new Honda Fit is gaining momentum as well. Honda's SUVs continue to be popular too, boasting a solid lineup that should gain momentum with the June debut of the 2016 Pilot. The brand new compact SUV HR-V hit the ground running, as it only had a half month of sales but was on pace to outsell the well-established Pilot.

American Honda Vehicle Sales for May 2015

	Month-to-Date			
	May 2015	May 2014	DSR** % Change	MoM % Change
American Honda Total	**154,593**	**152,603**	**5.2%**	**1.3%**
Total Car Sales	79,850	84,467	-1.8%	-5.5%
Total Truck Sales	74,743	68,136	13.9%	9.7%
Honda Total Car Sales	**73,572**	**80,093**	**-4.6%**	**-8.1%**
Honda Total Truck Sales	**63,979**	**57,835**	**14.9%**	**10.6%**
Acura Total Car Sales	**6,278**	**4,374**	**49.1%**	**43.5%**
Acura Total Truck Sales	**10,764**	**10,301**	**8.5%**	**4.5%**

Image source: PR Newswire

Honda has been reporting impressive results lately, and the month of May was no exception. The poor performance of its car lineup, including the Accord and Civic, is not likely to continue, but if it does, Honda may not deliver on expectations. It has a variety of other products to offer, not only its solid SUV offerings, but also its power products and motorcycles, the latter of which is currently experiencing great momentum. Steering the firm's growth may require handlebars rather than a wheel in the future. Our fair value estimate of Honda is $33 per share.

Tesla

Tesla (TSLA) is widely-regarded as the forerunner for advanced electric automobile technology. It seems as though the company is doing things within vehicles that few, if any, competitors are doing. Tesla Motors performed well on both its top and bottom-lines in the first quarter of 2015, results released in early May, increasing revenue by more than 50% while driving lower-than-expected operating expenses. CEO Elon Musk is dreaming big, expecting that the firm will reach an annual run rate of a few million cars by 2025.

The company recently launched its Tesla Energy business with products that management believes will eventually transform the global energy paradigm. This new business, along with Tesla Motors, will benefit from the launch of the Gigafactory project, which will begin producing its state-of-the-art battery packs in 2016. From free data connectivity to autopilot technologies to its unique suite of energy storage products, Tesla very well may be the future of automobiles.

As Tesla Motors moves forward, its production capacity will be necessary to drive resulting top-line growth. In the first quarter of 2015, it beat production guidance by 10% and decreased labor time per car by more than 20% by the end of the quarter. The newly developed Model X is on track for deliveries beginning in the third quarter of this year, as the company ramps up production capacity for both this line and its existing Model S--the first premium sedan engineered from the ground up as an electric vehicle. Coupling the increased production and efficiency with its sometimes mind-blowing technology makes for a bright future at Tesla Motors as well as Tesla Energy.

That said, the challenge with any investment in Tesla is exactly that, the future. The company's plans are focused on long-term strategy, which is where the executive suite should have its focus, but from our perspective, Tesla simply cannot compete with the big dogs of the auto-making industry, at least at this point in time. Order rate increases in the US and Europe in recent quarters are encouraging, but the company's investment prospects remain speculative at best.

May US Auto Sales...continued on next page

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Apple

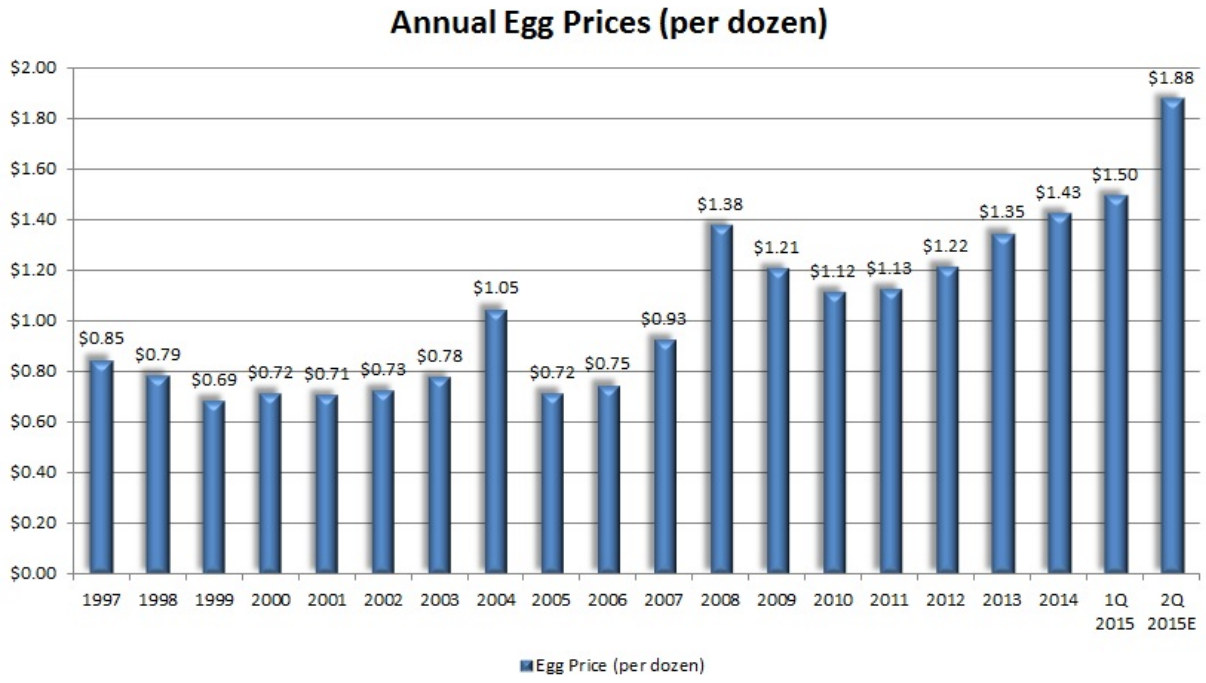
Rumors have been swirling about the possibility of an Apple Car, and the more talk going around, the more people seem to think it's true. There are varying levels of believability concerning the information, but many analysts think that Apple (AAPL) will be rolling out a fully electric car around 2020 that could give Tesla a run for its money.

The expected launch date seems reasonable given the 5-year period it took Apple to develop the iPhone, and the relatively quick 3 years for the Apple Watch. We would love to see an Apple vehicle of some kind, given the firm's track record of rolling out cutting-edge technology that is immensely popular.

However, this talk remains in the rumor mill, and we're not ready to form any sort of opinion on how it could affect the automobile market in the future just yet. Then again, maybe Apple has something up its sleeve. After all, it is sitting on a huge pile of cash…

The Under-reported Story: The Presence of Avian Influenza May Be the "New Norm"

By Kris Rosemann and Brian Nelson, CFA



Source: Cal-Maine, Valuentum estimates; Urner-Barry Southeastern Regional Large Egg Market Price (per dozen eggs)

Egg prices are soaring as the avian flu has run rampant across chicken farms in Midwestern states. According to some studies, the outbreak has reduced the national flock by more than 10%, and it is the largest outbreak on record in US history. Egg prices are the highest they've been in some time, and investors may not be fully aware of the implications.

A state of emergency has been declared in Iowa, where the impact may be the worst. Scientists believe the virus may recede as temperatures in the Midwest increase, but every company in the food products industry, big or small, is being impacted at the moment, and consumers have yet to see the full impact the outbreak on prices. Retailers from Costco (COST) to Walmart (WMT) have been hesitant to share the effects in an attempt to avoid sticker shock by consumers. We find that the biggest "tsunami" that has ever hit the egg market has also been under-reported by the media.

Avian Influenza...continued on next page

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Through the middle of May, egg prices increased nearly 60% since the month prior! The Midwest price of a dozen eggs reached ~$1.90 during the month. But that's just the beginning of the latest price surge. Data from the US Department of Agriculture is even more jaw-dropping. On June 8, the USDA said the combined regional average price for large eggs reached ~$2.43 per dozen. The red line in the chart below reveals the meteoric year-over-year increase in egg prices.

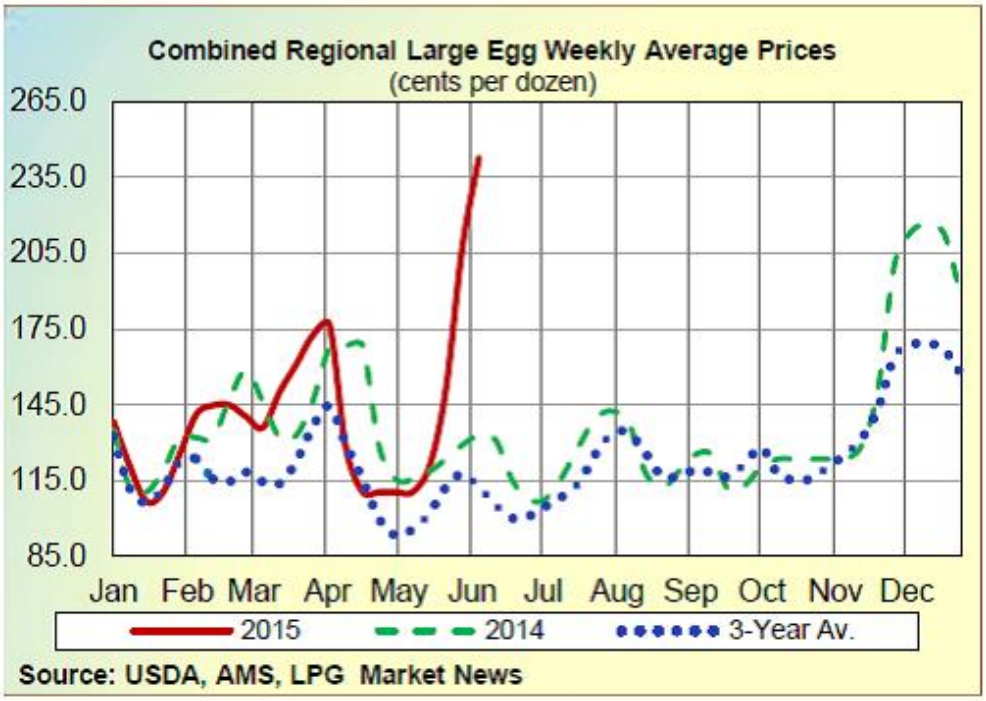


Image Source: USDA Egg Market News Report (pdf)

Some egg producers not based in the Midwest are picking up momentum. Cal-Maine (CALM) continues to benefit on pricing as most of its flocks are not in areas impacted by the flu. On the other end of the spectrum is Hormel Foods (HRL), which is feeling the pressure within its turkey supply chain. 55 of Hormel's farms have been affected, and management has warned investors of the potential for sales pressure in the back half of 2015. Tyson Foods (TSN) may face some pressure with respect to leg quarter pricing, and Pilgrim's Pride (PPC) has stepped up its efforts to prevent bird flu from spreading to its own flocks. Sanderson Farms (SAFM) believes the impact on the export markets is the primary risk with respect to avian influenza.

What's more, the outbreak may not go away soon, and the reach of the disease may actually be widening. Four farms in Arizona have been quarantined after receiving shipments of birds and eggs from farms in the Midwest known to be affected by the virus. The farms in question are not involved in commercial egg production, but the report is alarming. Southwestern US poultry producers have been on high alert. The states of Puebla and Guerrero in Mexico have also experienced outbreaks.

Total egg production for the year in the US is expected to fall nearly 5% from 2014 levels, and industry-wide expectations have been reduced by 87 million dozen. That the manner in which the ultra-contagious disease is spreading remains unknown to scientists is not encouraging. Even if rising temperatures slow the spread of the virus, participants within the egg supply chain will continue to feel the residual effects. We'll keep clucking as the situation develops.

Traders betting on a continued rise in egg prices may look to Cal-Maine as the prime beneficiary. The company's earnings in fiscal 2016 could have explosive upside potential. Our fair value estimate of shares, however, is only slightly higher than its $55 per share trading price. If the structural landscape of egg pricing has changed (in the case that the presence of avian influenza is the "new norm," there's considerable upside to that estimate.

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 monthly and deliver it to you in our newsletter (for your added convenience, we also post it on our site). You'll see we often hold a number of these firms in our portfolio, 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.

Company Name	Symbol	Industry	DCF Valuation	Relative Valuation	Price / Fair Value
Commercial Vehicle Group	CVGI	Machinery - trucks	UNDERVALUED	ATTRACTIVE	0.60
Michael Kors Hldg	KORS	Luxury - Ultra & Aspirational	UNDERVALUED	ATTRACTIVE	0.63
Eastman Chemical	EMN	Chemicals - broad	UNDERVALUED	ATTRACTIVE	0.65
Century Aluminum	CENX	Aluminum	UNDERVALUED	ATTRACTIVE	0.65
Enerplus Corp	ERF	Independent Oil & Gas	UNDERVALUED	ATTRACTIVE	0.65
Ultra Petroleum	UPL	Independent Oil & Gas	UNDERVALUED	ATTRACTIVE	0.66
Avnet	AVT	Electronic Suppliers	UNDERVALUED	ATTRACTIVE	0.66
Patterson-UTI	PTEN	Energy Equipment	UNDERVALUED	ATTRACTIVE	0.69
QUALCOMM	QCOM	Communications Equipment	UNDERVALUED	ATTRACTIVE	0.70
Gilead Sciences	GILD	Pharma - Generic/Other	UNDERVALUED	ATTRACTIVE	0.70
Owens-Illinois	OI	Containers & Packaging	UNDERVALUED	ATTRACTIVE	0.73
USG Corp	USG	Building Materials	UNDERVALUED	ATTRACTIVE	0.73
Perficient	PRFT	Business Services	UNDERVALUED	ATTRACTIVE	0.73
Priceline.com	PCLN	Internet & Catalog Retail	UNDERVALUED	ATTRACTIVE	0.75
Huntsman	HUN	Chemicals - broad	UNDERVALUED	ATTRACTIVE	0.76
Hanger Orthopedic	HGR	Health Care Services	UNDERVALUED	ATTRACTIVE	0.76
Microsoft	MSFT	Software	UNDERVALUED	ATTRACTIVE	0.77
Baidu	BIDU	Internet Software & Svcs	UNDERVALUED	ATTRACTIVE	0.78
AIG	AIG	Insurance - Property & Casualty	UNDERVALUED	ATTRACTIVE	0.79

*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.

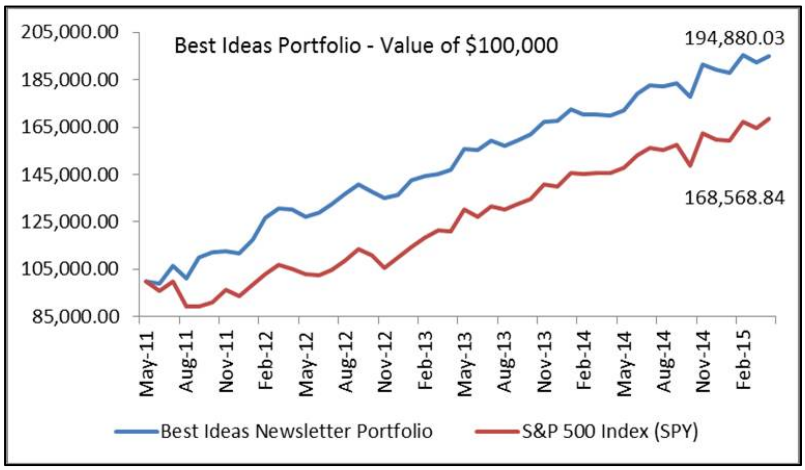
Company Name	Symbol	Industry	VBI
Priceline.com	PCLN	Internet & Catalog Retail	10
AIG	AIG	Insurance - Property & Casualty	9
Gilead Sciences	GILD	Pharma - Generic/Other	9
USG Corp	USG	Building Materials	9
Michael Kors Hldg	KORS	Luxury - Ultra & Aspirational	8

Alere	ALR	Health Providers & Svcs	2
Bristol-Myers Squibb	BMY	Pharmaceuticals - Big	2
DineEquity	DIN	Restaurants - Fast Cas & Full Svc	2
Home Depot	HD	Specialty Retailers	2
Intl Flavors	IFF	Chemicals - mid/small	2
Jack in the Box	JACK	Restaurants - Fast Food & Coffee	2
Mercury General	MCY	Insurance - Property & Casualty	2
Papa John's	PZZA	Restaurants - Fast Food & Coffee	2
Pinnacle West	PNW	Utilities	2
Red Robin	RRGB	Restaurants - Fast Cas & Full Svc	2
Sonic Corp	SONC	Restaurants - Fast Food & Coffee	2
Vulcan Materials	VMC	Building Materials	2
BJ's Restaurants	BJRI	Restaurants - Fast Cas & Full Svc	1
Brown-Forman	BF.B	Beverages - alcoholic	1
Columbia Sportswear	COLM	Retail - Under 30, Off-Price, Sport Apparel	1
Hess	HES	Refiners	1
Hyatt	H	Hotels	1
Marathon Oil	MRO	Independent Oil & Gas	1
Quidel Corp	QDEL	Diagnostic Substances	1
Rayonier	RYN	Conglomerates	1
Starwood	HOT	Hotels	1

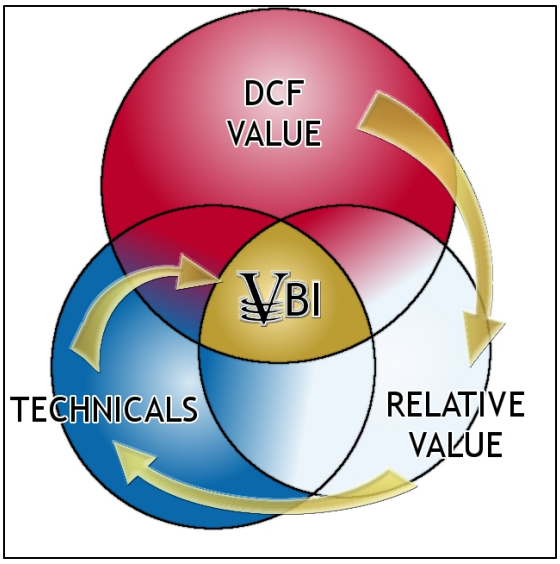
Our Methodology – The Valuentum Buying Index (VBI)

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.



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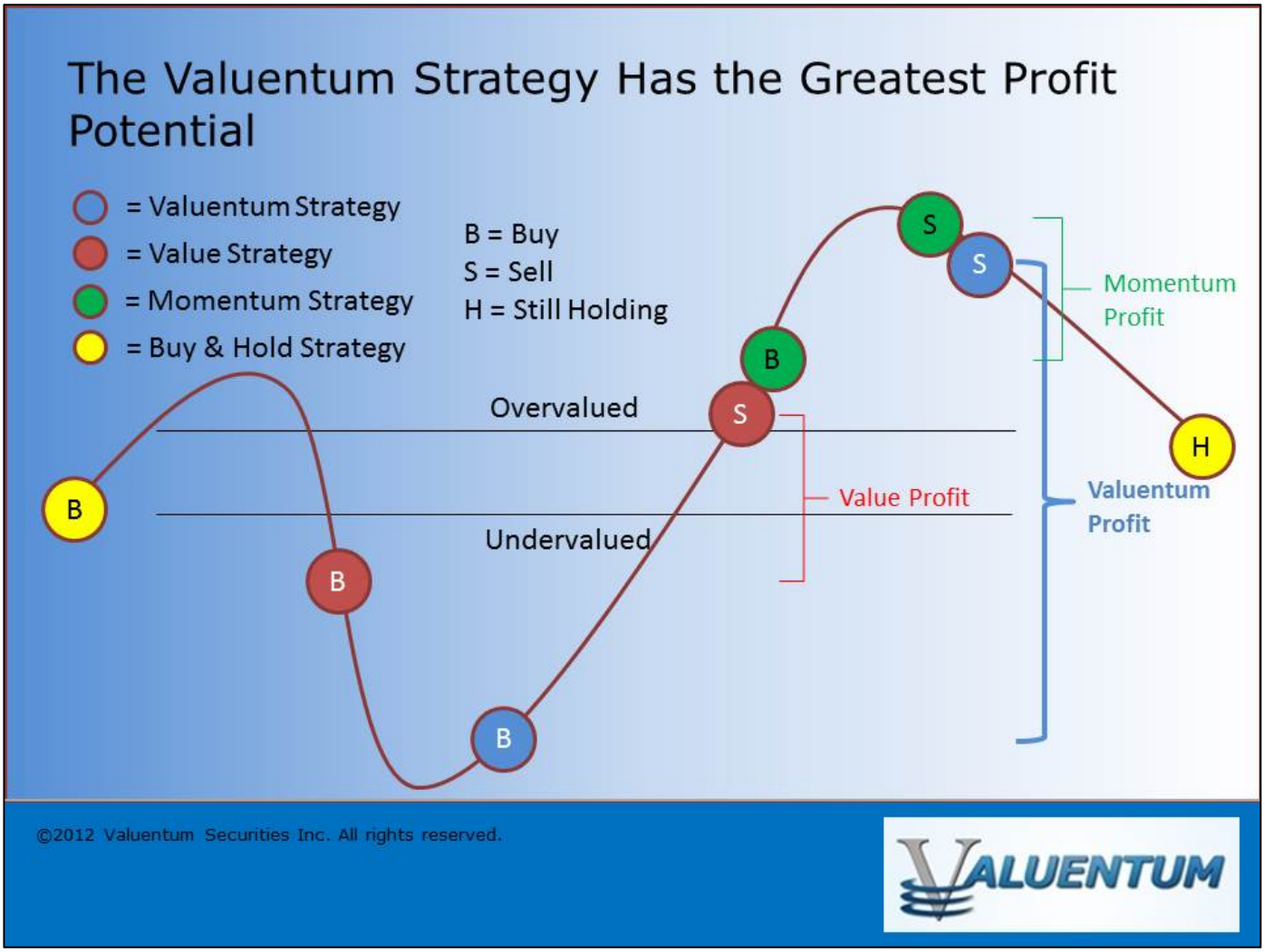
The center of the Venn diagram above, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a score between 1 and 10 for each company (10=best). Because our process factors in a technical and momentum 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.



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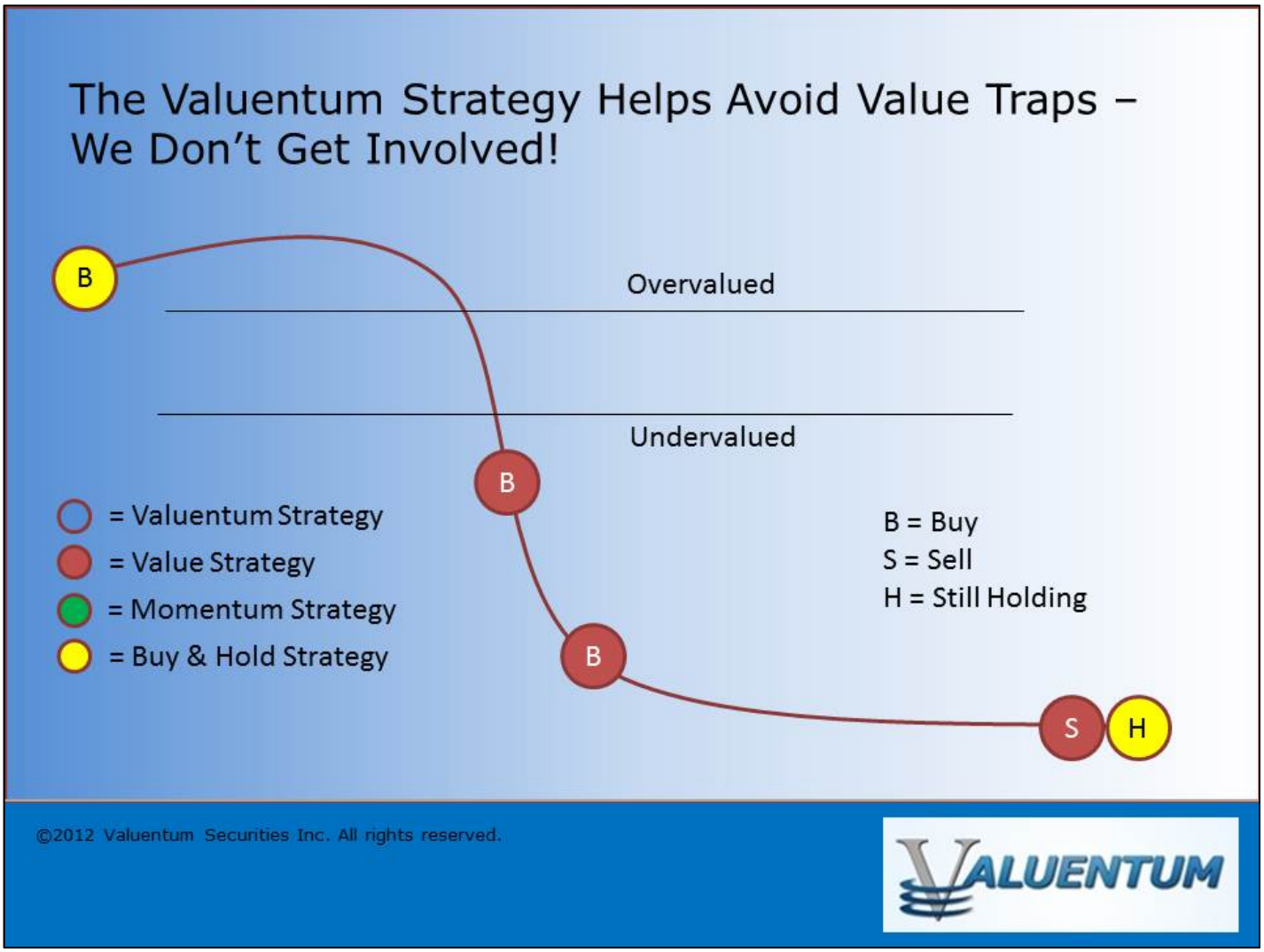
Furthermore, Valuentum subscribers are less likely to be involved in value traps because we demand material revenue and earnings growth for firms to earn a 10 on our Valuentum Buying Index. Value traps often occur as a result of secular declines in a firm's products or services, resulting in deteriorating 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.



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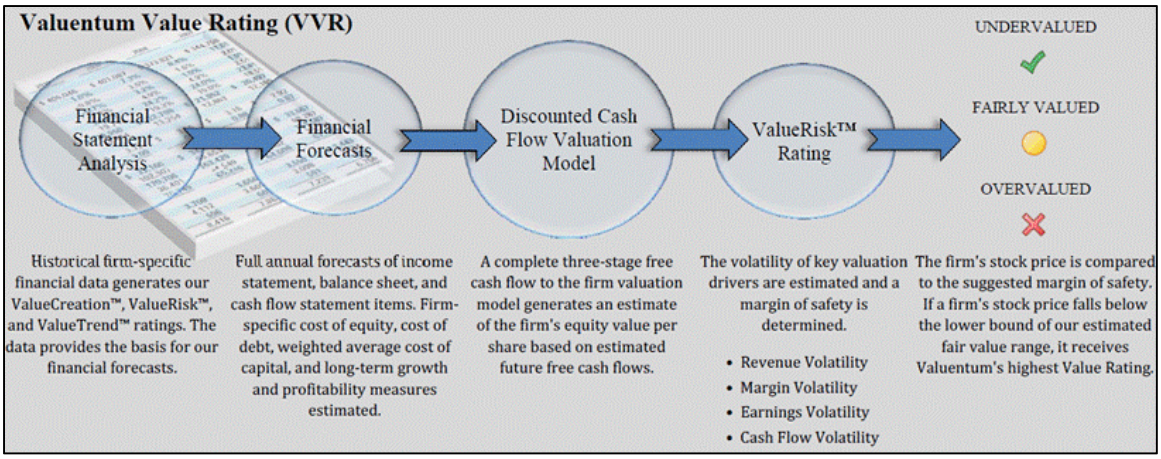
I. We Use a Rigorous Discounted Cash Flow Valuation Process

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.

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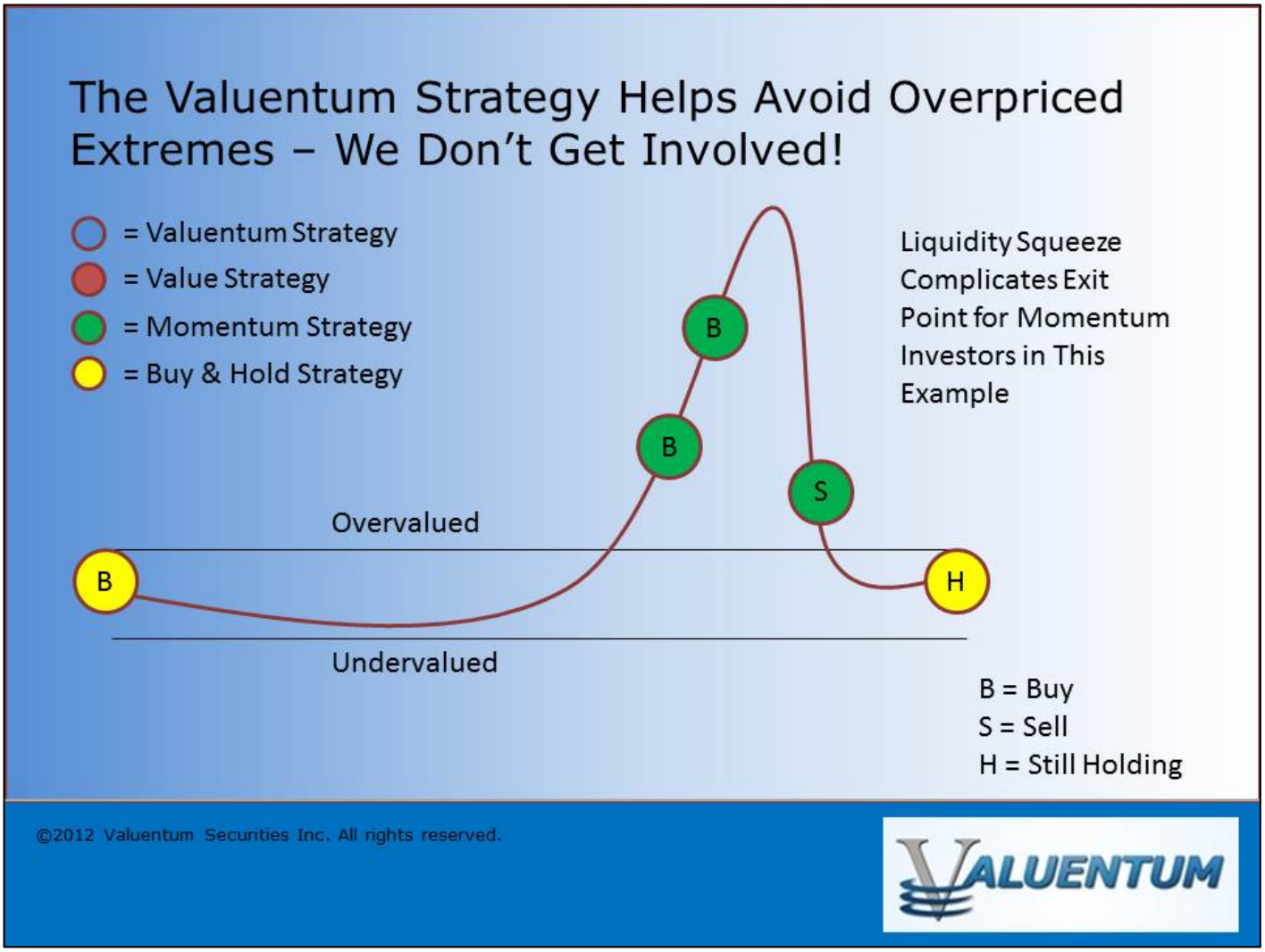

II. We Perform a Forward-Looking Relative Value Assessment

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

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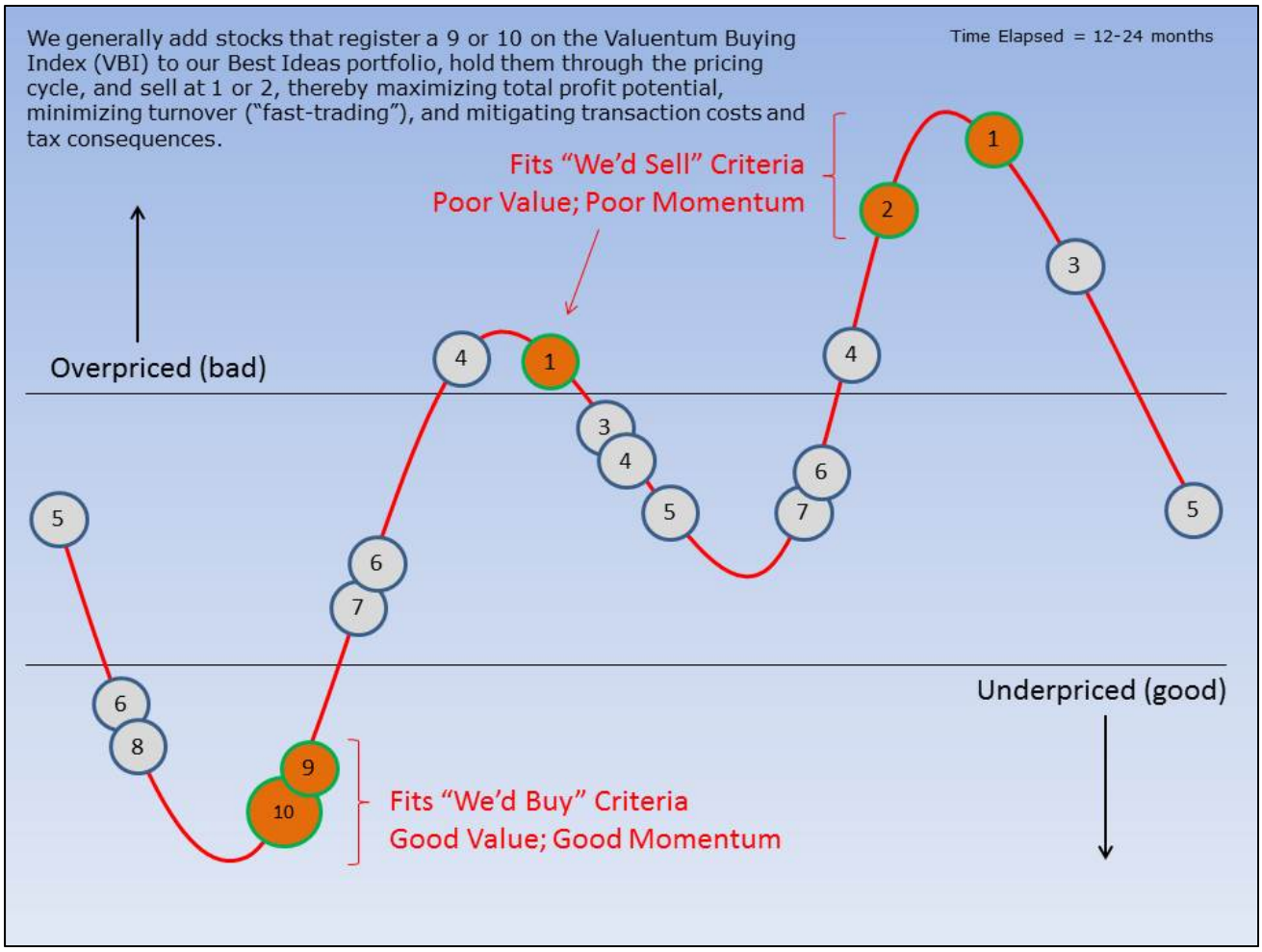
valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we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



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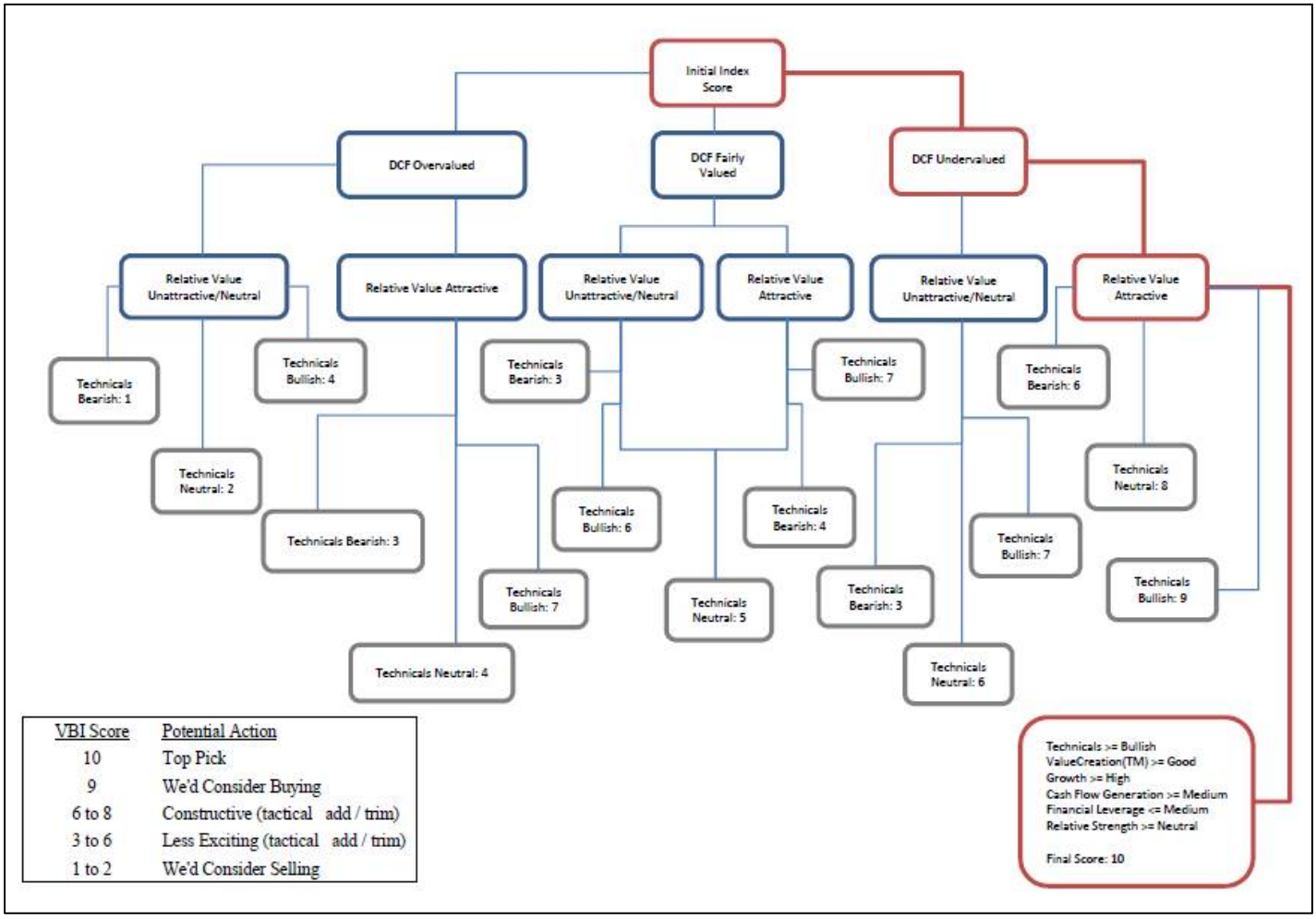
Let's follow the red line on the flow chart below to see how a firm can score a 10, the best mark on our index (a "Top Pick"). Please click here to view an enlarged pdf version. First, the company would need to be 'UNDERVALUED' on a DCF basis and 'ATTRACTIVE' on a relative value basis. The stock would 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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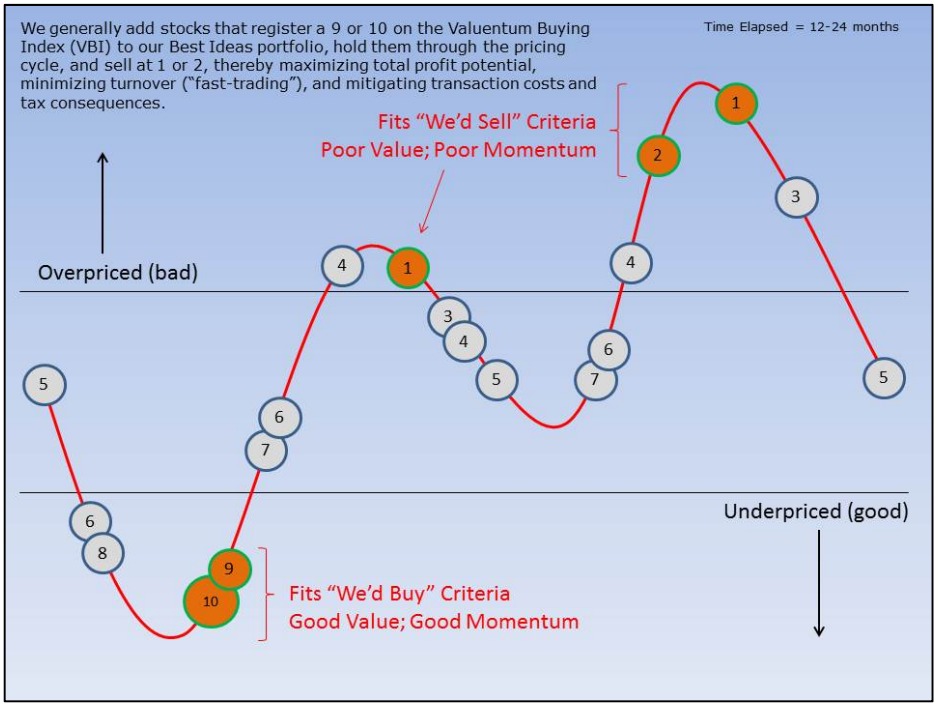
How We Use the Valuentum Buying Index in the Best Ideas Newsletter Portfolio

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 truncated 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 5, 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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