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
88.2%	52.9%	35.3pts

See page 8.

Our Best Ideas (see page 8): AAPL, BWLD, MO, CSCO, EBAY, XLF, GE, GILD, GOOG, GOOGL, XLV, INTC, KBE, KORS, PCLN, PYPL, RSG, TEVA, UNP, XLE, XLU, V

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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.

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""If I were asked what I did to make my life worthwhile, part of that answer would include founding this "beacon for good" called Valuentum." -- - Brian Nelson, CFA

Valuentum: A Beacon For Good

By Brian Nelson, CFA

Image Source: US Embassy

"Any man who may be asked in this century what he did to make his life worthwhile, I think, can respond with a good deal of pride and satisfaction: 'I served in the United States Navy.'" - John F. Kennedy

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= ALL-TIME HIGH

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.

I felt inspired today. Maybe it was President Barack Obama's reference to a new "war on cancer" in this week's State of the Union speech, akin to that of John F. Kennedy's mission to "go to the moon," or maybe it was something else, but I was reminded of the great Jack Kennedy and the second quote above: what a man does to make his life worthwhile.

If I were asked what I did to make my life worthwhile, part of that answer would include founding this "beacon for good" called Valuentum. If you look at what we've done in the short time we've been in existence, it is with a tremendous deal of pride and satisfaction that I can say we must have saved investors of all types billions and billions of dollars. I get an email almost every week along the lines of: "thanks for warning about SeaDrill," or "thanks for the unerring call on Kinder Morgan," or "nice call on the MLPs."

We've saved good people, good money.

I don't think people know the story of Valuentum, but we're the underdog; we're the longshot. You know we don't get a cut of your assets every month…

A Beacon for Good…continued on next page

***A Beacon for Good…*from previous page**

…you know we don't get a commission when you buy or sell something, and you know exactly how much you pay our team for all the work we do.

One of our members recently chuckled, "how do you make any money when you charge so little?" The reality is that I can't see a scenario where someone couldn't find value in our service. Whether you're an advisor or an individual or a fund manager, having Valuentum's newsletters and fair value estimates as a resource should be an absolute no-brainer.

I fear at times the Chartered Financial Analyst (CFA) designation may be losing some of its awareness among mom-and-pop investors. Believe it or not, the financials industry is the only one where you don't need a specific designation to sign off on managing money for others – anyone can legally do it. Yet, you need a CPA to audit financials; you need an MD to practice medicine; you need a JD to practice law. You even need a driver's license to legally drive a car! Yet, anyone can manage anyone else's money. It puzzles me, but it also explains why there's so much "stuff" out there (putting it politely).

Nowadays, there are even content "farms" that allow anonymous authors to write about companies they own…boy how far we have come since the Global Analyst Settlement that paved the way for independent research. Some may now even believe that it is a "good thing" for a writer to have "skin in the game." My goodness, do they really think a "biased" author is going to be honest if something is truly wrong with the company before they get out first? Personally, if someone holds the charter, I'd give them a couple years to feel out their work. If they have the charter and have made the calls that we have, I'd say stick with them for a lifetime. We've done some pretty incredible things.

Last month marked a doubling of the Best Ideas Newsletter portfolio since its inception. The news came and went without much fanfare, but it was a rather big deal for our flagship product. We continue to make progress toward the goals of both newsletter portfolios. We cover over a thousand companies, but I think readers continue to keep a close eye on our work on MLPs. We keep saying that ship has sailed; after all, we've been warning about the group since the peak, even before Barron's picked up our first bearish piece in mid-June. I still get readers telling me how wrong we were since Energy Transfer Equity (ETE) went from $8 to $12 or $15… Do they know we've been warning about this business model since ETE was $35? Remember when we warned about Kinder Morgan (KMI) at $40?

Sometimes it's really hard to find a way to help people, but I won't stop trying, which brings me to this next rudimentary point. Since the March 2009 panic bottom in the markets, the S&P 500 has effectively tripled. In many ways, even a modest downdraft of 10%-20% in 2016 can be expected. This could pose a headwind for newsletter portfolio constituents. If investors move broadly out of equities, the nature of index funds and index ETFs almost guarantees pressure on the individual securities they hold. From my buyside days, it's commonly known that roughly 30% of a stock's return comes from the overall market, 40% from its industry, and 30% from individual characteristics, give or take. With the proliferation of indexing in recent years, broader market returns have probably only become more important to individual stock returns. This is reality.

With all of that out of the way, this newsletter edition is one of my favorites. Kris has written up an updated take on the auto industry, and we're taking a close look at Ford (F) and GM (GM) for addition to the Best Ideas Newsletter portfolio. Obviously, you know we've moved out of shares of Alibaba (BABA) and Rio Tinto (RIO) in the Best Ideas Newsletter portfolio, but we also talk about our wanting to scoop up Chipotle (CMG). To wrap things up, there are a couple well-traveled pieces about our definition of timeliness and how we think about forecasting, both in valuation and with respect to the dividend.

I hope you enjoy, and most of all, I hope you choose to stick with Valuentum!

We Continue to De-risk the Newsletter Portfolios

This email transaction alert article was emailed to members January 6, 2016.

By Brian Nelson, CFA

There's never a good reason to panic in investing, but the worst start to a year since the credit crisis in 2008 reminded us why we hold more than a 30% cash position in both newsletter portfolios at the moment: with a US stock market still near all-time highs, we like having ample capital available to scoop up bargains as stocks inevitably give back some of their gains.

The question for us is not whether the broader US stock market will decline from here but whether such a decline will be 10%, 20% or more. After all, the S&P 500 (SPY) has essentially tripled from the March 2009 panic bottom. What's a rather "meaningless" 10% or 20% drop? If a move of this magnitude may frighten you, it may be a good time to think about your risk tolerances and talk over your equity allocation with your financial advisor.

The latest reading in Caixin Purchasing Managers' Index (PMI), a gauge of manufacturing activity in China (FXI), confirmed that a slowdown in the pace of emerging market growth and even greater pressure on commodity prices are key themes to be mindful of in 2016. We believe slowing emerging market demand and corresponding pressure on developing countries' currencies make for a very troubling situation. Several of the weaker steel mills in China have been under significant pressure for some time, and we posit the Chinese banks have yet to feel the true impact of the commodity price slowdown. We continue to watch prices in residential real estate markets in China very closely, and needless to say, we remain skeptical that China's housing markets are as healthy as government officials make them out to be, as local stock exchanges in Shanghai and Shenzhen, for example, experience nothing short of crashes.

The Chinese manufacturing PMI fell to 48.2 in December, down from 48.6 in the previous month, marking the tenth straight month of contractionary activity (anything less than 50 represents a slowdown). Despite the weakening activity, however, official government readings of China GDP still indicate a country growing at 6%-7% or more, a figure we simply have trouble believing in earnest. Apple's (AAPL) iPhone is selling well in the country and Alibaba (BABA) has a long runway of e-commerce growth ahead of it, but it's likely the dislocations in the local Chinese equity markets we witnessed during the summer months of 2015 are probably only starting to seep through into managerial planning for 2016. Local Chinese equity markets fell at such a rapid pace January 4 that the both the Shanghai and Shenzhen exchanges were halted at declines of 6.95% and 8.25%, respectively.

We noted through the summer months that the local Chinese markets were far from genuine, with activities ranging from indirect government intervention to direct purchasing of stock by the state. The local Chinese markets have not reflected true price discovery for some time, in our view, and our willingness to retain risk in markets we've grown more and more uncomfortable with has waned. With much of Chinese political willpower and economic firepower used to prop up local Chinese markets several months ago, we're starting to think a fallout is becoming more and more likely as government resources have deteriorated. From our perspective, local Chinese equity markets should not be gyrating at near-10% daily ranges, and the spillover effect on equities from Alibaba to Baidu (BIDU) to JD.com (JD) and Sohu (SOHU) has become severe. *Jan 6: We have removed Alibaba from the Best Ideas Newsletter portfolio, a long-term holding we've decided we'll part with early, at $78.34 per share.*

Though we can't possibly read too much into the Chinese manufacturing PMI for December, the data in conjunction with a wide variety of other indicators leaves us less enthused about much of our commodity-dependent universe, not the least of which is iron ore. The collapse of two dams has put BHP's (BHP) and Vale's (VALE) backs against the wall, and while we continue to prefer Rio Tinto (RIO) out of the three, it's time for us to move on from this "valuation" play. The spot price of iron ore plunged to a record low December 11, to $38.30/ton, and the modest bounce into the low- to- mid-$40s is hardly worth getting excited about, in our view. The big three in iron ore have slashed their capital spending plans, much to the dismay of construction equipment makers Caterpillar (CAT) and Joy Global (JOY), but unless overproduction alleviates, and we see increased stability in emerging markets, pressures across the mining space will likely continue. *Jan 6: Rio Tinto will no longer be a holding in the Best Ideas Newsletter Portfolio; its shares have been removed at $26.82.*

We Continue to De-risk...continued on next page

Seeking to De-risk...from previous page

Though tensions between Iran and Saudi Arabia have reached a fever pitch and the export ban on oil in the US has been lifted, with implications still yet to be seen, US commercial supplies in the US remain at 80-year highs and OPEC continues to produce at a breakneck pace. We just got word of the 40th North American E&P entity to file for Chapter 11 in the US, Swift Energy (SFY), and capital spending cuts of another 20%-25% by most of the US oil and gas complex (XLE) can be expected in 2016. The credit rating agencies are expecting defaults to surge, and with half a trillion needed over the next 5 years to keep the domestic oil and gas markets afloat, the outlook appears grim for equity holders. With its integrated business and pristine credit rating, ExxonMobil (XOM) may be the only true safe haven in the space.

Bankruptcies continue to increase and crude oil prices continue to fall, with Brent and West Texas (USO) now under $30 per barrel, but almost haphazardly, midstream equities continue to raise their financially-engineered payouts. Enterprise Products Partners (EPD) raised its quarterly distribution a mere 1.3% January 4 and recommended the board hike the payout another 5% in 2016. The die-hard MLP (AMLP, AMZ) crowd loved it, but we continue to cast a skeptical eye on how long the debt and equity markets will keep fueling the payout. Most midstream MLPs do not cover distributions with free cash flow (CFO less capex), and unlike traditional corporations, use external funds to pay the distribution. How long before the external financing markets simply say no? We won't be sticking around to find out as long as energy resource pricing continues to dive. Executive teams are pulling out all the stops to keep the "distribution" merry-go-round going, it seems.

We'll have a significant amount of "dry powder" just waiting for the market to come to us, and we're fairly excited about what bargains might be had. We're watching Chipotle (CMG) especially close for the Best Ideas Newsletter portfolio and Cracker Barrel (CBRL) for the Dividend Growth Newsletter portfolio, and we're not against adding incremental utilities (XLU) exposure to both newsletter portfolios in the event markets truly nosedive. These conditions are ripe for the "stock picker" but patience will win the day. There's no reason to pull the trigger early, if lower prices can be had!

2015 Marks Record Year for US Auto Industry

By Kris Rosemann

The US auto industry set a sales record in 2015, as the largest automakers finished the year on a high note and pushed the full-year sales tally above the 17.4 million units sold mark set in 2000. 17.5 million light-vehicle sales were made in the US in 2015, which represents an increase of nearly 6% from 2014. December's unit sales growth rate of 8.9% was one of the highest marks of any month during the year.

December was a strong month for each of the major automakers in our coverage universe, as the lowest unit sales growth rate among the group was the 5.7% growth reported by General Motors (GM). Fiat Chrysler (FCAU) reported the highest growth in the month of December, followed by Toyota (TM), Honda (HMC), and Ford (F).

Trucks, SUVs, and crossovers were the leaders in vehicles sold, as gasoline prices remain suppressed and consumers feel less pressure to purchase smaller, more fuel efficient vehicles. The category saw unit sales jump 19% in December from the year-ago period and 13% in full-year 2015 from 2014. Car sales fell nearly 4% in the month of December and by more than 2% in the full-year 2015 from the comparable periods in 2014.

Looking ahead to 2016, we could witness another record setting year for the auto industry. Gains in employment and the corresponding growth in personal income are the most important drivers to a strong auto market, though falling energy resource pricing will provide a nice tailwind for the industry as well. Pent-up demand remains prevalent in the industry as well, though we note the industry's inventory-to-sales ratio is at its highest point since August 2008. This could lead to some discounting across the entire industry in 2016, which could impact bottom line growth for automakers, even if sales expansion remains robust during the year.

US Auto Industry...continued on next page

US Auto Industry...from previous page

Before we dive deeper into their performances in the month of December and 2015 as a whole, let's take a look at the prices of major automakers in our coverage universe as they compare to our fair value estimates in the chart below. To access our valuation and dividend analysis for each company below, please visit their respective reports on their landing pages.

Company	Price[1]	Fair Value Estimate	Fair Value Range - Lower Bound	Fair Value Range - Upper Bound	Price-to-Fair Value
Ford (F)	$12.70	$16.00	$12.00	$20.00	79.4%
General Motors (GM)	$30.16	$45.00	$32.00	$59.00	67.0%
Toyota (TM)	$114.10	$172.00	$121.00	$223.00	66.3%
Honda (HMC)	$29.14	$34.00	$26.00	$42.00	85.7%
Tesla (TSLA)	$207.00	$236.00	$177.00	$295.00	87.7%

1) Price as of intraday 1/11/16

Ford Remains Overall Best-Selling Brand in the US

Ford has been America's best-selling brand for 6 straight years in terms of total sales, powered by the F-Series being the best-selling vehicle in the US for 34 straight years and the best-selling pickup truck for 39 consecutive years. Total US vehicle sales grew 5.3% to more than 2.6 million in 2015 for the company as a whole. In the month of December, the firm advanced total vehicle sales by 8.4% to 239,242, driven by material growth in sales of the F-Series and Ford brand SUVs.

F-Series annual sales advanced 3.5% despite a weak first half due to the revamping of its production. In the month of December, sales of the F-Series jumped 14.6% to more than 85,000, which marks the first time in a decade the line has broken the 85,000 vehicles sold threshold. Meanwhile, Ford brand SUVs had their best December since 2003, as unit sales jumped 13.6%, led by the newly redesigned Explorer and Escape and the all-new Edge. Segment unit sales grew 7.8% for the full-year period.

Ford brand vans set an annual sales record with 220,586 vans sold in the year, an increase of 32% from 2014. The Fusion was the lone bright spot in the month of December for Ford brand cars, while the Mustang was the only Ford car to report material sales growth for the full-year 2015.

The company's Lincoln brand performed well in the month of December and 2015 as a whole thanks to high demand for its luxury SUVs. With unit sales growth of 12.1%, the brand had its best month of December since 2006, and its best annual volume since 2008 on the back of more than 7% unit sales expansion. The all-new Lincoln MKX advanced unit sales by more than 77% in the month, while the MKC nearly doubled unit sales on the year. Lincoln continues to grow its presence as a luxury vehicle brand.

	December		%	Year-To-Date		%
	2015	2014	Change	2015	2014	Change
SALES BY BRAND						
Ford	228,382	210,981	8.2	2,511,935	2,386,468	5.3
Lincoln	10,860	9,690	12.1	101,227	94,474	7.1
Total Vehicles	239,242	220,671	8.4	2,613,162	2,480,942	5.3
SALES BY TYPE						
Cars	57,989	60,557	-4.2	797,817	804,714	-0.9
Utilities	72,857	64,159	13.6	804,325	745,829	7.8
Trucks	108,396	95,955	13.0	1,011,020	930,399	8.7
Total Vehicles	239,242	220,671	8.4	2,613,162	2,480,942	5.3

Image source: Ford monthly sales report

US Auto Sales...continued on next page

US Auto Industry...from previous page

Though Ford car sales continued to languish in the month of December, the company as a whole continued to perform extremely well. The newly redesigned F-Series appears to be unstoppable now that it has been at full production and inventory for a number of months. The F-Series is also better equipped to handle a potential rebound in crude oil prices compared to its competitors, as it is one of the most fuel-efficient full-size models on the market.

China may be a point of interest for Ford moving forward, as slowing economic growth will more than likely impact auto sales growth. GM continues to execute well in the country, and as the country's middle class continues to expand, we're expecting competition to heat up. Ford finished 2015 with astounding 27% unit sales growth in the month of December, raising its full year unit sales growth to 3%, which was in line with the growth of the overall China auto market. Regardless of what takes place overseas, we expect the F-Series and Ford's new and redesigned SUVs to be the drivers of its sales growth for the foreseeable future.

GM, Chevrolet Continue to Grow Retail Share

Retail sales growth outpaced total unit sales growth at GM in 2015, as retail sales advanced 8% in the month of December and the full year while total unit sales increased 5% for the full year from 2014; unit sales totaled 3.1 million for the full year. GM's retail deliveries have increased every month since March 2015, and its 2015 US retail market share expanded 40 basis points from the prior year.

The Chevrolet brand advanced its market share by 40 basis points as well, which represents the largest increase of any full-line brand, while the GMC brand also increased its retail market share by 20 basis points. These retail market share gains are even more impressive when considering the fact that they took place during a record year for the industry as a whole. The company also grew its Commercial business by 12% in the year.

December	Total Sales	YOY Change	Retail Sales	YOY Change
Chevrolet	188,794	2.1%	151,168	6.2%
GMC	59,941	13.0%	52,605	11.0%
Buick	20,708	1.7%	18,988	2.2%
Cadillac	20,787	28.7%	18,963	25.0%
Total	290,230	5.7%	241,724	8.2%

2015CY	Total Sales	YOY Change	Retail Sales	YOY Change
Chevrolet	2,125,347	4.5%	1,572,099	9.2%
GMC	558,697	11.3%	483,361	10.5%
Buick	223,055	-2.6%	193,158	-1.7%
Cadillac	175,267	2.6%	155,866	-0.9%
Total	3,082,366	5.0%	2,404,484	7.8%

Image source: GM monthly sales report

US Auto Sales...continued on next page

US Auto Sales ...from previous page

The strength in retail market share was driven by GMC and Chevrolet trucks, of which 1.2 million units were sold in 2015, including 939,198 pickup trucks. GM's retail share of the full-size pickup market advanced by more than 1 percentage point to 39.2% as the Chevrolet Silverado and GMC Sierra both had strong years, while the firm's market share in the mid-size pickup segment jumped to 32.5% from less than 5% in 2014 thanks to the 2014 launch of the Chevrolet Colorado and the GMC Canyon.

The GMC brand continued its strong year in the month of December, with total unit sales growth of 13% in the month and 11.3% unit sales growth for the full year from the year-ago periods. GMC saw solid growth in all of its vehicles aside from the Savana. The Cadillac brand's strong December helped it buoy full year results in the low-single digits. The brand's full-year total unit sales growth was driven by strong performance from two Escalade models and the SRX.

Though the Chevrolet brand did not grow its total sales at the same rate as its retail sales, it still grew total unit sales by 4.5% in 2015 to 2.1 million units. The aforementioned pickup trucks were main drivers, and the performance of Chevy SUVs such as the Traverse, Equinox, and Trax helped boost results. The weakest brand for GM was Buick, which saw a minimal increase in unit sales of 1.7% in the month of December from the year-ago period. The Buick brand was weighed down by material declines in its lineup of mid-size cars.

Though we are not anticipating a material recovery in crude oil prices in the near term, GM may be the most sensitive to a potential increase in the price of the black liquid. The strength in its truck and SUV lineups has been a key driver of its performance in 2015, and its car offerings are not as robust as some of its competitors. The future of fuel efficient vehicles at GM may rely on crossover SUVs and the growth of its mid-size truck offerings as they relate to full-size competitors.

The firm had a strong year in China as well, reporting more than 5% growth in a year in which the country realized its slowest economic growth in 25 years. China, the world's largest auto market, is expected to have grown vehicle sales by 3% in 2015, showing the strength of GM in the country's auto market. GM's 3.61 million vehicles sold in China in 2015 was more than three times the amount sold by its major rival Ford. At the moment, shares of GM appear to be undervalued, based on our fair value range of $32-$59 and is trading at an attractive relative valuation, but its technical indicators are not favorable.

Toyota and Lexus Brands Report Best-Ever December Sales

The Toyota and Lexus brands reported their best-ever unit sales in the month of December, as Toyota Motor Sales sold 238,350 vehicles in the US in the month, an increase of 10.8% from December 2014. For the full-year 2015, the firm reported unit sales of nearly 2.5 million, an increase of 5.3% from 2014.

The strength in the month of December was backed by December unit sales records from the firm's light truck division, the Toyota RAV4, and the Toyota Highlander. Also, the Lexus NX and LX, both of which are luxury SUVs, grew unit sales by nearly 80%. In the full-year 2015, Lexus luxury SUV sales grew by 26.5% from 2014, while Toyota SUV and pickup truck unit sales advanced 10.5% and 9.1%, respectively, on the year. The mid-size pickup Toyota Tacoma had a strong year, reporting unit sales growth of 15.8% from 2014.

The RAV4 and Highlander also set annual unit sales records, as did the Toyota Corolla, which is Toyota's second best-selling car to the Camry. The Camry retained its crown as the best-selling passenger car in America for the 14th consecutive year, despite unit sales remaining nearly flat in 2015. The Corolla posted a solid 7% growth rate in unit sales in 2015, but the rest of Toyota and Lexus cars struggled on the year as the company's unit sales as a whole fell by 0.5%.

	-- CURRENT MONTH --				-- CALENDAR YEAR TO DATE --			
	2015	2014	DSR % CHG	VOL % CHG	2015	2014	DSR % CHG	VOL % CHG
TOTAL TOYOTA	**238,350**	**215,057**	**2.9**	**10.8**	**2,499,313**	**2,373,771**	**4.9**	**5.3**
TOTAL TOYOTA DIV.	196,970	175,178	4.4	12.4	2,154,712	2,062,382	4.1	4.5
TOTAL LEXUS	41,380	39,879	-3.6	3.8	344,601	311,389	10.3	10.7

Image source: Toyota monthly sales report

US Auto Sales...continued on page 9

The Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
88.2%	52.9%	35.3pts

= ALL-TIME HIGH

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 ~35% 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.

THE BEST IDEAS PORTFOLIO -- as of January 15, 2015 (intraday) — **Best Ideas Portfolio Inception Date: May 17, 2011**

Portfolio Holdings	Symbol	Initial VBI*	Current VBI**	Fair Value	P/FV	First Purchase	Cost/Shr ($)	# Shares	Total Cost ($)	Price/Shr ($)	Current Value ($)	Cumulative Div's Rec'd	% of Portfolio	% Return (dividends included)
Bullish														
Apple Corp.	AAPL	10	3	$142.00	0.68	17-Jun-11	51.92	107	5,569.33	96.02	10,274.14	940.29	5.5%	101.4%
Altria Group	MO	8	6	$55.00	1.04	28-Jun-11	28.39	157	4,471.86	57.25	8,988.25	2,106.61	4.8%	148.1%
Buffalo Wild Wings	BWLD	6	3	$192.00	0.75	27-Aug-15	179.81	16	2,876.90	144.25	2,308.00		1.2%	-19.8%
Cisco	CSCO	9	9	$37.00	0.64	14-Nov-14	26.15	100	2,622.00	23.66	2,366.00	103.00	1.3%	-5.8%
eBay	EBAY	10	UR	UR	UR	3-Oct-11	Pre-split	100	3,103.50	24.98	2,498.00		1.3%	+++
Energy Select SPDR	XLE	NR	NR	NA	NMF	6-Oct-11	67.14	143	9,608.02	53.56	7,659.08	77.51	4.1%	-19.5%
Financial Select SPDR	XLF	NA	6	NA	NMF	9-Jan-11	13.46	150	2,026.00	21.24	3,186.00	220.50	1.7%	68.1%
General Electric	GE	7	6	$31.00	0.91	21-Oct-13	25.99	375	9,761.75	28.31	10,616.25	728.25	5.6%	16.2%
Gilead Sciences	GILD	10	6	$161.00	0.57	19-Sep-14	106.76	68	7,273.34	91.85	6,245.80	58.48	3.3%	-13.3%
Google - Class C	GOOG	10	7	$682.00	1.01	23-Oct-12	450.92	7	3,170.42	690.36	4,832.52	10.35	2.6%	52.8%
Google - Class A	GOOGL	10	7	$682.00	1.01	4-Apr-14	Split	7	Split	704.67	4,932.69		2.6%	+++
Health Care ETF	XLV	9	6	NA	NMF	22-May-12	36.60	125	4,582.00	66.36	8,295.00	427.00	4.4%	90.4%
Intel	INTC	6	9	$38.00	0.78	12-Sep-11	20.48	150	3,086.50	29.66	4,449.00	478.50	2.4%	59.6%
SPDR S&P Bank ETF	KBE	NR	NR	NA	NMF	9-Jan-12	21.07	100	2,114.00	29.09	2,909.00	205.70	1.5%	47.3%
Michael Kors	KORS	8	8	$66.00	0.53	27-Aug-15	43.44	68	2,953.80	35.00	2,380.00		1.3%	-19.4%
PayPal	PYPL	UR	UR	UR	UR	17-Jul-15	Spin-off	100	Splt	32.01	3,201.00		1.7%	+++
Priceline	PCLN	10	7	$1681.00	0.65	26-Feb-15	1248.97	3	3,753.91	1089.01	3,267.03		1.7%	-13.0%
Republic Services	RSG	8	4	$40.00	1.08	19-May-11	31.42	201	6,329.42	43.18	8,679.18	1,038.18	4.6%	53.5%
Teva Pharma	TEVA	6	6	$64.00	0.97	24-Jul-13	41.22	77	3,180.94	61.87	4,763.99	259.37	2.5%	57.9%
Union Pacific	UNP	6	3	$86.00	0.85	24-Jul-13	79.67	40	3,193.80	73.46	2,938.40	174.00	1.6%	-2.5%
Utilities Select SPDR	XLU	NR	NR	NA	NMF	18-Mar-14	41.12	83	3,419.96	43.02	3,570.66	229.16	1.9%	11.1%
Visa	V	7	6	$75.00	0.95	30-Nov-11	26.86	188	5,064.39	71.14	13,374.32	252.71	7.1%	169.1%
Latest changes: RIO and BABA were both removed from the portfolio January 6. Please contact us if you are not receiving email alerts.														
Cash -- changes in monthly cash balance reflects dividends received and trading gains/losses, where applicable.											66,456.23		35.3%	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							Original -->		100,000.00	Current -->	**188,190.54**			**88.2%**
S&P 500 Index (SPY)						17-May-11	132.69	754	100,000.00	186.41	140,485.34	12,449.32	91.9%	
Cash											12,449.32		8.1%	
Benchmark Portfolio Value											**152,934.66**			**52.9%**
Relative Outperformance														**35.3 pts**

Data as of January 15, 2015 (intraday). 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.

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Toyota car sales continue to suffer from suppressed crude oil prices, and its mid-size pickup and diverse SUV offerings may be more resilient than some of its competitors. Lexus had a strong 2015, and the pent-up demand from the Great Recession has given luxury brands like Lexus and Lincoln a shot in the arm. We would expect this to continue should gains in employment and personal income continue. At the moment we feel shares of Toyota are undervalued based on our fair value range of $121-$223, but the firm's relative valuation and technical indicators could use some improvement.

Honda Sets All-Time Annual Sales Record

Honda Motor Company reported and all-time annual sales record of ~1.6 million vehicles sold in 2015, a 3% increase from 2014. The firm also set an all-time sales record for the month of December with unit sales growing nearly 10% from December 2014 to 150,893vehicles. The company's trucks segment set its annual unit sales record with 9.7% growth, and the Honda division recorded its best year ever, as unit sales advanced 2.6% from 2014.

Honda SUVs and Acura cars were the main drivers of growth in the company's record setting year. Honda truck and SUV unit sales increased 11.7% in 2015, while Acura SUV sales fell by 1.2%. The Honda CR-V maintained its leading position in the SUV market with its fourth straight annual sales record, as the number of CR-Vs sold grew 3.2% from 2014, and the Honda Pilot advanced unit sales by more than 25% on the year.

Acura car sales jumped 18.6% in 2015, defying the gravity of the car market as a whole thanks to the mid-2014 release of the TLX, which more than doubled sales in 2015. The ILX was the only other Acura car to report an increase in sales during the year as it grew sales by 3.8% from 2014. Honda car sales continue to flounder with the rest of the industry, losing 4.2% of 2014 unit sales. The bright spot for Honda cars was the 2.9% growth in Civic sales. The firm's best-selling car model, the Honda Accord, saw its sales fall by 8.4% in 2015.

American Honda Vehicle Sales for December 2015

	Month-to-Date				Year-to-Date			
	December 2015	December 2014	DSR** % Change	MoM % Change	December 2015	December 2014	DSR** % Change	YoY % Change
American Honda Total	**150,893**	**137,281**	**2.1%**	**9.9%**	**1,586,551**	**1,540,872**	**2.6%**	**3.0%**
Total Car Sales	78,016	69,802	3.8%	11.8%	816,127	838,521	-3.0%	-2.7%
Total Truck Sales	72,877	67,479	0.3%	8.0%	770,424	702,351	9.3%	9.7%
Honda Total Car Sales	**72,389**	**63,912**	**5.2%**	**13.3%**	**748,198**	**781,224**	**-4.5%**	**-4.2%**
Honda Total Truck Sales	**61,681**	**55,560**	**3.1%**	**11.0%**	**661,188**	**591,805**	**11.4%**	**11.7%**
Acura Total Car Sales	**5,627**	**5,890**	**-11.3%**	**-4.5%**	**67,929**	**57,297**	**18.2%**	**18.6%**
Acura Total Truck Sales	**11,196**	**11,919**	**-12.8%**	**-6.1%**	**109,236**	**110,546**	**-1.5%**	**-1.2%**

Image source: Honda monthly sales report

Honda is extremely proud of its annual US auto sales record in 2015, but it is important to remember that the company has multiple irons in the fire. It is anticipating continued unit sales expansion in its motorcycle and power products segments in addition to the recent strength in its auto segment. Honda is not dependent on pickup truck sales for growth as some of its domestic competitors are, so it may very well be more resilient should crude oil prices rebound. Also worth noting is the fact that the company set an annual sales record in a year in which its best-selling model's unit sales dropped 8.4%. We would expect this to rebound during the next revamp of the model, as was the case with Honda SUVs. Honda is off to a great start in fiscal 2016, and this strength goes well beyond its US auto sales record.

Fiat Chrysler Reports Best December in 90 Years

Fiat Chrysler increased unit sales 13% in the month of December to 217,527 units, the firm's best month of December in 90 years. This also marks the 69th consecutive month of year-over-year sales gains. For the year, annual unit sales advanced 7%, the sixth-consecutive year of annual sales growth, and the second straight year the company has topped 2 million in sales in the US.

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Eight different vehicles set sales records in the month of December for Fiat Chrysler, including five Jeep brand vehicles. The Jeep brand as a whole saw unit sales jump by 42% in the month of December. For the full year, the Jeep brand grew its unit sales by 25%, which resulted in its best annual US sales ever and its sixth-consecutive year of annual sales growth.

The Dodge brand experienced a strong month of December, as unit sales grew 6%, despite having a weak year overall. Annual unit sales fell 10% though the Dart, Challenger, and Journey all recorded their best annual US sales ever. The Ram Truck brand advanced unit sales 4%, which led to the brand's best month of December since 1999. The brand had its best annual US sales in a decade, while Ram pickup truck sales increased 3% on the year to its best annual US sales ever. This marked the model's sixth straight year of annual sales growth in the US.

Despite the Fiat Brand growing only 1% in the month of December, it was the brand's best December sales performance ever. The Chrysler brand experienced a weak month of December, as sales fell 21% from the year-ago period. For the full year, sales still grew 5% thanks to strong performance from the Chrysler 200 mid-size sedan, and 2015 marked the brand's best full-year sales since 2008.

TOTAL FCA US LLC	217.527	193.261	13%	2.243.907	2.090.639	7%
TOTAL CAR	35.273	43.375	-19%	507.171	486.577	4%
TOTAL TRUCK	182.254	149.886	22%	1.736.736	1.604.062	8%

Image source: Fiat Chrysler monthly sales report

Tesla Deliveries in line with Expectations

Tesla Motors delivered 17,400 vehicles in the fourth quarter of 2015, which met its expectations--revised in November--of shipping between 17,000-19,000 vehicles. Fourth quarter deliveries of the Model S grew 75% from the same period in 2014. The firm delivered a total of 50,580 vehicles on the year, compared to its expectations of 50,000 deliveries.

The company also stated that its deliveries of the new electric sports utility vehicle, the Model X, are in line with its expectations for its early stages of production after delivering the first Model X in September. The firm is producing just under 240 Model X vehicles per week as of the last week of 2015, and Tesla is depending on the Model X to turn a profit after years of recording losses. The all-wheel drive Model X is expected to compete with luxury SUVs, and it includes two electric motors that are capable of traveling ~250 miles on a single charge while seating seven people.

Tesla claimed in September that 25,000 customers had pre-ordered the Model X, which sells for $144,000, and it will take eight to twelve months for an order to be fulfilled. However, earlier in 2015, Tesla lowered its deliveries guidance due to issues in the firm's supply chain. This may not be a material issue in the short-term, but if Tesla hopes to compete with the large-scale automakers it cannot afford to have recurring issues in its supply chain. Though it may be getting closer to turning the corner with respect to profitability, Tesla remains a speculative bet at this point.

Bye Bye Energy MLPs

This article was published on www.valuentum.com January 11.

By Brian Nelson, CFA

West Texas crude oil prices (USO) just broke through $30 per barrel to the downside for the first time since 2003. Share prices of those in the energy complex (XLE) continue to reel, and we maintain our view that the tremendous fallout in energy master limited partnerships (AMLP, AMZ) may not be over. From our perspective, the MLP business model may not survive in its present state, as equity markets continue to "wise up" to the artificial equity pricing paradigm that has centered on the group's financially-engineered payouts. Without an artificial pricing paradigm to "prop up" their equity prices, for example, the incentive to perpetuate such a business model is substantially reduced. Distribution cuts would then inevitably ensue as a recirculation of capital from the equity and debt markets into unitholder pockets would make little sense, bear little fruit.

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For those that are new to the terminology, a financially-engineered distribution/dividend is one that is supported by the financing section of the cash flow statement (debt and equity issuance), not via traditional free cash flow generation, as measured by cash flow from operations less all capital spending, or earnings. We maintain our view that the MLP industry's definition of "cash flow" is severely imbalanced in that it accounts for incremental net income driven by growth capital spending, but does not deduct the growth capital spending within the calculation itself. Valuentum continues to encourage executive teams to disclose non-GAAP free cash flow so investors can better ascertain the severe capital market dependency of the MLP business model.

Perhaps surprising to many that are beholden to a recency bias calling for a return to $100+ per-barrel crude oil prices, crude oil prices today (~$30 per barrel) remain at the high end of the long-term inflation-adjusted range ($10-$35 per barrel) spanning a period of 100 years spanning from 1870-1970. Commercial inventories of crude oil in the US continue to reside at 80+ year highs for this time of year, and OPEC continues to produce with intentions to retain/grow market share (not support the price). Geopolitical risk, which traditionally has added a speculative premium to energy resource pricing, is now acting to the contrary. For one, tensions between Saudi Arabia and Iran are expected to result in even more "overproduction" as the former seeks to put incremental economic pressure on its Middle East rival, perhaps now even more so than US independents.

From our perspective, a not-so-virtuous cycle has taken hold, and absent an unprecedented level of defaults in the upstream arena in the US (a terrible situation), nothing will stop energy resource pricing from heading lower still. Continued lower energy resource pricing would then only force US independents to produce more to sustain cash flows in hopes to keep credit lines open and creditors at bay, moves that would only further exacerbate the energy resource oversupply situation. Sadly, even if US independents wanted to cut production to levels to appease OPEC, they may not be able to do so without committing "economic suicide." The credit rating agencies are expecting a surge in defaults across the energy arena in coming years. Existing equity holders of the most leveraged entities may end up with nothing.

What's worse, collapses in local Chinese equity markets (FXI) have only increased concerns about emerging market demand for energy resources, and the very probable prospect of $20 per barrel crude oil may become reality before this year is up. Energy bulls seem to forget that it was as recent as 1998 that crude oil prices averaged just $12 (twelve) per barrel. Given current supply/demand conditions, there's nothing to say the energy complex can't revisit those levels and even stay there for some time. The risk, from our perspective, is still to the downside, both with respect to energy resource pricing and the equities across the energy arena themselves. In many cases, we believe ExxonMobil (XOM) may be the only true "safehaven" across the energy complex. Its integrated business model and AAA credit rating speaks to tremendous flexibility, and it may be sitting back waiting to scoop up depressed assets at the right price. Over the past few years, we've removed both Chevron (CVX) and ConocoPhillips (COP) from the Dividend Growth Newsletter portfolio.

As we had expected, Moody's downgraded the outlook of Energy Transfer Equity (ETE) to stable from positive late last week, and we're not sure how creditors continue to sit by and allow the payment of massive dividends and distributions to unitholders as credit metrics within the ETE portfolio deteriorate. We continue to believe investors should evaluate Energy Transfer Equity's consolidated financial statements to assess holistic counterparty (related party) risk associated with its umbrella of master limited partnerships. ETE has severe financial leverage, is burning through free cash flow in an unprecedented fashion, and yet is still paying out distributions to unitholders.

Also, last week, Moody's lowered the credit rating of ETE subsidiary Williams Partners (WPZ) to Baa3 (negative), noting that WPZ is "exposed to a high level of customer concentration with Chesapeake Energy (CHK)." (We note that Plains All American (PAA) is also heavily dependent on Chesapeake's financial health.) In the past, ETE management has pointed to confidentiality agreements to prevent disclosures of its customers, at least to us, and we applaud Moody's for emphasizing WPZ's severe customer concentration risk to help investors better assess the likelihood of a fallout should upstream entities fail; of note,

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WPZ accounts for a significant portion of ETE's pro forma cash flow. Midstream equities are levered to energy resource pricing, if not directly, then through their customer base.

According to ETE's December 7-8 presentation at Wells Fargo (page 15), for example, WPZ is expected to contribute more than half of the cash flow to ETE in 2015 and about half of it in 2016. If Chesapeake folds, which it might, the timing perhaps the only degree of uncertainty, contracts will be renegotiated under Chapter 11. Even if it does not fold, we would expect Chesapeake management to look for cost savings in order to stay afloat for as long as it can to preserve some equity value for shareholders (option value). No matter how one looks at it, however, the outlook for WPZ is meek in light of its weakening customer credit profile, and we can't help but emphasize that what's not good for one subsidiary (WPZ) is not be good for another, Energy Transfer Partners (ETP).

We expect ETE to support its subsidiaries in the event of hardship, though we fail to see how it might do so when ETE itself is at least more than 6.25x leveraged (on the basis of our calculations) and is burning through billions of free cash flow as it bleeds more from distributions. Operating income at ETE and ETP has fallen considerably, to the tune of 20%-30% during the third quarter of the year, and acquisitions aren't "hiding" core organic deterioration even if they pad EBITDA via "purchased," acquisition-related depreciation. Frankly, we're not sure what ETE management should or can do (it might not be able to do much). ETE is a massively leveraged entity that is burning through free cash flow and experiencing sharp drops in operating earnings as it takes on severe customer concentration risk from one of the weakest upstream players in anyone's coverage universe, all the while it keeps its payout to unitholders.

Of considerable note, the downgrade of WPZ may be the beginning of more credit downgrades across ETE's portfolio, namely ETP. Operating income at ETP fell to $576 million from $810 million in the third quarter of 2015, a whopping decline of nearly 30%, a huge fall for a company that is supposedly not levered to a declining energy resource pricing environment. Long-term debt of $27.5 billion is materially greater than the firm's ~$860 million cash balance at the end of the third quarter, and free cash flow, consisting of $2 billion less capital expenditures of $6.5 billion, of -$4.5 billion (negative) through the first nine months of the year is simply frightening. Distributions to partners and distributions to non-controlling interest stood at $2.5 billion through the first nine months of the year, resulting in a $7 billion cash outflow for the trailing nine-month period. There is absolutely no way, in our view, that ETP is an investment-grade entity.

We believe many continue to hold onto the belief that the MLP business model is sustainable, but the jig is up, in our view. The only path to recovery that we see is one in which energy resource pricing surges, but that scenario has long odds, at least at the moment. We do not hold any MLPs in the newsletter portfolios.

Chipotle Fourth Quarter Comps Suffer Greatly; Could Qdoba Be the One to Eat Chipotle's Lunch?

By Kris Rosemann and Brian Nelson, CFA

Chipotle's (CMG) operating performance has come under tremendous pressure in recent months due to a number of reports linking illness in customers to its restaurants. At first, we thought the situation would be relatively contained to just a few dozen instances of sickened customers, but more concerns have come to light since we last commented on the topic. The media is having a field day.

Can a company that prides itself on "Food with Integrity" endure, and why so many different causes of illness, from E. coli to salmonella to the norovirus? Could these events mark the beginning of the end of the burrito-making giant's growth prospects, or is the bad press just a hiccup of indigestion, soon to be relieved with better sourcing and training practices?

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Background

The situation began this past summer, after a small case of E. coli was reported in Seattle in July. The issues in the Northwest eventually resulted in the closing of 43 Chipotle restaurants in Washington and Oregon despite only 10 restaurants being linked to the illness of more than 50 people in the two states. Things have only gotten worse since.

In late August 2015, a salmonella outbreak linked to 17 Chipotle restaurants in Minnesota sickened at least 45 people and sent five to the hospital. Also in August, perhaps the worst case connected to Chipotle was the norovirus outbreak took place at a Chipotle restaurant in Simi Valley, California, causing 234 people, including 17 employees, to fall ill. In relation to this case, Chipotle has been served with a Federal Grand Jury Subpoena from the US District Court for the Central District of California.

On December 7, another high-profile case took place at a Chipotle near Boston College, where 136 Boston College students were sickened after dining at the fast-casual restaurant. Though, according to Boston officials, the Boston College outbreak was likely caused by a sick employee, unrelated to other instances where E. coli had been suspected, and the Chipotle restaurant in question reopened just a few weeks after the incident, the bad press has only added to the restaurant's nightmare.

The month of December connected five additional E. coli cases in three different states to Chipotle restaurants.

Expect Terrible Results In the Near Term

The near term won't be easy for the fast-growing chain.

Chipotle plans to report an abysmal fourth quarter in the midst of a company history that has been full of nothing but strong growth numbers. Chipotle now expects comparable restaurant sales to fall by 14.6% in the fourth quarter of 2015 and December comparable restaurant sales to be down 30% from the comparable period in 2014. The company expects to record non-recurring expenses during the fourth quarter in the range of $14-$16 million associated with recent events (food replacement costs in select restaurants, lab analysis of food samples and environmental swabs, increased marketing expenses, retaining expert advisory services related to epidemiology and food safety, and preliminary estimates for legal claims and related expenses).

These factors are also expected to drive the firm's restaurant level operating margin to a range of 20%-21% in the fourth quarter; through the first three quarters of 2015, for comparison, its restaurant level operating margin was recorded at 27.9%, and in the fourth quarter of 2014 Chipotle reported a restaurant level operating margin of 26.6%. The company expects diluted earnings per share to be in a range of $1.70-$1.90 for the last quarter of 2015, less than half of the reported diluted earnings per share in the fourth quarter in 2014 of $3.84.

We'd expect weakness in same-store sales to continue into 2016, and while management may paint an optimistic picture for the back half of the year (as most management teams have done when encountered with similar dislocations), consumers are clearly being deterred by the illness outbreaks, even if they end up only being temporary setbacks for the burrito-making giant.

But as Chipotle's momentum fades, who might be reaping the benefits of its falling traffic?

Who's Eating Chipotle's Lunch?

The most likely answer to the question of Chipotle traffic vultures is other burrito-based restaurants such as Jack in the Box's (JACK) Qdoba and privately-owned Moe's Southwest Grill. In fiscal 2015, which ended September 27, Qdoba reported strong system-wide same-store sales growth of 9.3%, and it is reasonable to expect that number to remain as strong as ever in the calendar fourth quarter of 2015. Further, Qdoba's second half of fiscal 2015 same-store sales outpaced that of the larger Chipotle.

Fast-casual pizza joints may also benefit, but perhaps the next most logical winner is its contemporary in leading the fast-casual, health-focus charge, Panera Bread (PNRA). Aspiring consumers may seek to

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continue to swap a few tacos for higher-end bakery items. In recent quarters, Panera has reported solid comparable restaurant sales growth in the low-to-mid-single digit range; as of its third-quarter report, released October 27, the firm is targeting company-owned net bakery-cafe sales growth of 2%-3.5%.

Panera might beat its estimates for the year, given the languishing performance of one of its major rivals in the fast-casual space. It's worth noting the bakery recently announced that its entire US bakery-café soup menu no longer contains artificial colors, flavors, sweeteners, and preservatives. This could be a major draw when considering the news surrounding Chipotle and its food sourcing and food safety issues. Rivals are striking while the iron is hot.

Growing fast-casual Mediterranean chain Zoe's Kitchen (ZOES) could also be a beneficiary of the Chipotle traffic slide, and any number of fast-food chains--such as McDonald's (MCD), KFC (YUM), Taco Bell, and Wendy's (WEN)--have the potential to garner incremental lunch and dinner traffic as consumers may sacrifice short-term health benefits to avoid the stigma of food-caused illnesses at Chipotle.

Is Chipotle's Brand Permanently Tarnished?

Not from our perspective.

Though certainly a public relations nightmare, we don't believe the recent wave of health scares will fully unravel Chipotle's long-term growth potential, even if they test the firm's resiliency and challenge the executive team's ability to handle adversity. We've witnessed bird flu scares and sourcing issues that have plagued Yum Brands' KFC and McDonald's in China, for example, only to see consumers come back to those brands over the course of 6-12 months, even in the face of increasing competition. If you recall, McDonald's brand was severely tarnished a decade or so ago, until it revamped its menu to include more health-oriented items. Remember the documentary Supersize Me?

As in those cases, we think Chipotle will be able to improve both sourcing and marketing to restore a positive perception in time. We can also point to other consumer-related brand missteps that eventually worked themselves out as headlines faded. Who can forget the US Olympic skating team debacle and Under Armour (UA) or the ultra-sheer (see-through) yoga pants from lululemon (LULU)? These two public relations nightmares eventually resolved themselves in time. In many ways, the events of 2015 may make Chipotle a stronger organization over the long haul, as it improves sourcing practices, builds better oversight on the ground and adds a deeper executive team with greater accountability.

Time will heal this wound, in our view, and our bet will be on a full fundamental recovery at Chipotle, the timing of which the only uncertainly.

Will We Add Chipotle to the Best Ideas Newsletter? What About Qdoba?

Without a doubt, we've been big fans of Chipotle's fundamentals and growth story and have been waiting for a potential entry point to open a small position in the firm for some time. Despite the large slide in shares that has taken place since November, however, shares aren't yet attractive on a discounted cash flow basis, and with the company trading at nearly 30 times 2016 earnings estimates, it's difficult to make the case that the company is attractively valued in any respect.

That's not the half of it though.

Many aggressive-growth, technically-oriented investors may still be caught with overweight positions in their funds and many may continue to shed shares for some time as the company's metrics undoubtedly fall short of what they had been modelling. Quite simply, it's going to take some time for these types of investors to completely move out of the equity--many don't want to explain to outside investors why they continue to hold the stock, and this means "sell." A still-lofty valuation coupled with "portfolio-manager angst" may end up overly punishing shares.

Chipotle is on our radar for addition to the Best Ideas Newsletter portfolio, but we won't pull the trigger until shares "settle" and its valuation becomes far more attractive than current levels. We also

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can't lose sight of the view that Chipotle's shares have only fallen to late-2013 levels, hardly a disaster in this context, and an entry point in the mid-$300 range is something far more palatable, if only we start nibbling at those levels. Notably, shares of Jack in the Box, the owner of Qdoba, aren't attractively valued either, and the most we can say at this point is that we're watching both very closely. We need to get the right price.

Please be sure to visit each firm's valuation report for more information on how we arrive at our fair value estimates, fair value ranges, and Valuentum Buying Index ratings for firms mentioned in this article.

Resetting Your Mental Model

By Brian Nelson, CFA

"What is the definition of timeliness? Many believe it is getting information to investors as quickly as possible after an event, or updating something every single day or week for immaterial information. I believe in a different definition of timeliness. I believe timeliness is using all information available in a mosaic approach to accurately predict the event before it even happens. Take Kinder Morgan as the latest example. We were the only ones predicting what was going to happen before it did. To investors, it didn't matter how timely other research was after the fact, after the stock collapsed. What mattered to our members was getting the information to them before it was going to happen. The mosaic method allowed us to deliver. I don't care how quickly someone does something after the fact. I care about predicting the fact before anyone else and preparing for it before everyone else. That's the gold standard definition of timeliness, in my opinion. That's what we're after at Valuentum." -- Brian Nelson, CFA

The investing business is a lot different than other lines of work. Most individual investors like to build mental models in investing around frameworks that are familiar to them. For example, the mathematician may love the ratio analysis in our reports, while the finance gal may dig our discounted cash-flow process. The psychologist may go crazy over our Valuentum Buying Index rating system since it captures human tendencies via technical and momentum work, and the electrical engineer and architect may not be able to get enough of our margin of safety work and probability analysis. Having a mental model that works for you is a great thing, but we think one particular mental model can actually become an impediment to investing success. Please take a read of the quote by Tibco's (TIBX) founder and CEO below, for example:

Image source: http://www.tibco.com/company/default.jsp

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We had a little chuckle when we found this gem. In investing, if one receives "a little bit of the right information just a little bit beforehand" and uses it for profit, almost all of the time it is against the law. Though the quote may be relevant in Vivek's line of work, things are quite a bit different in the highly-regulated investing world. You can see here what a controversy receiving market-moving information causes, even just 15 milliseconds beforehand. Significant efforts are made every day by capital market regulators to ensure that there is a level playing ground for all participants, and proper information dissemination is an area that continues to be under great scrutiny. Said differently, Vivek's corporate insights from his experience at Tibco don't necessarily apply to the investing world.

So what do individual investors that share Vivek's mental model do – assuming that they aren't interested in breaking the law? Well, they do the next best thing, of course. If they can't be early, then it must be that whoever is fastest will win – whoever trades the quickest on new information. Well, unfortunately for many individual investors, it is unreasonable to try to compete with the quantitative and algorithmic trading systems used by many firms on Wall Street. Fifteen milliseconds, for example, is less than the time it takes to blink (400 milliseconds), and typically some trades are completed in less than 1 millisecond…automatically and programmatically.

So why then do investors care so much about real-time ratings or up-to-the-millisecond information? Well, in our view, they feel like they are missing out on something -- or if they are not doing something all the time, something must be wrong; they feel they're not getting their money's worth if they're not trading on a new idea every month. It isn't their fault. This, unfortunately, is what they've been trained to do by the 24/7 media cycle and the pundits championing the excitement of fast-trading, of "getting rich quickly." It has become their mental model, and it is a dangerous one. Our view is that rapid portfolio turnover -- on a weekly, monthly, or quarterly basis -- only results in higher commissions and taxes and not outsize investment gains over the long haul. Even successful trades of a few months or shorter are often considered by many to be luck.

We generally update the information and Valuentum Buying Index ratings in our reports on a standard quarterly basis to discourage a fast-trading mindset within the Valuentum community. The reports themselves are already forward-looking, so they target predicting the future, not reacting to events, though the latter certainly influences the former at times. Most importantly, we don't want our members to lose money! We think the most valuable information in the investing world is information that correctly predicts the future more often than not – for example, a Valuentum Buying Index rating of a 10 that precedes a firm's doubling in price, or a fair value estimate that reveals a firm's significant undervaluation before the stock surges. Having a report that gives you this kind of information beforehand more often than not is much more important than a report that simply updates for the news after the fact.

There's tons of information that investors trade around every day, and we think savvy investors will focus on information that matters, and not concern themselves with real-time ratings and/or up-to-the-millisecond data. Instead, these savvy investors will prefer information that correctly predicts the future more often than not. This information is not the information that provides the "two-second advantage" that Vivek speaks of in the image above. This information is information before it becomes information. It's information that reveals what a firm is worth—its fair value estimate—before other investors come around to recognizing its value. It's information that reveals the superb qualities of a stock via its pristine Valuentum Buying Index rating before money managers come around to including it in their portfolios.

This is the information we seek to provide in our newsletter products and research reports. We're not after a "two-second advantage" on widely disseminated market-moving information after the fact. We're trying to get you the right information on the right stocks before it even becomes information. That's the Valuentum advantage. That's what we call timeliness.

A version of this article was originally published on our website October 6, 2013.

5 Things New Subscribers (or Not-So-New Subscribers) Should Do

By Valuentum Analysts

For new members, welcome! We're honored to have you aboard. Here are the top 5 things new subscribers (or not-so-new subscribers) should do:

1. Send an email to President Brian Nelson, CFA

If haven't touched base with Brian yet, please make it a priority over the next few weeks. Brian strives to answer all questions received personally, with your needs in mind. Some members often note that having access to Brian is worth the few dollars a month subscription alone. It's important to get your questions answered – the website is only part of the service. We have an analyst team on call.

2. View the newsletters

The newsletter portfolios, the Best Ideas Newsletter and Dividend Growth Newsletter, are prime real estate. If you haven't visited the portfolios found within them and evaluated the archives, you may be missing out on some of the best ideas within the context of a portfolio setting and aggregated to achieve each newsletter portfolio's respective goals. Combined, the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio offer as many as 40 fresh ideas for consideration.

3. Learn about the Dividend Cushion ratio and Economic Castle rating

These are two of the most valuable metrics in the financial world, in our view, and both are proprietary to Valuentum. Take a read of the supporting evidence for each in the white papers on the website. The Dividend Cushion ratio can be found on each firm's dividend report, while the Economic Castle rating can be found on each firm's 16-page valuation report. Did we mention that we provide valuation reports on thousands of companies and dividend reports on some of the most heavily-followed (and underfollowed as well)?

4. Read the methodology documents

The Valuentum Buying Index is composed of three primary pillars – each alone perhaps more rigorous than some of the work found elsewhere with other services. Be sure to learn about the Valuentum discounted cash-flow process, why we use a relative valuation overlay, and why we like stocks that are "going up." Fair value estimates, fair value ranges, economic value generation, ROIC, and free cash flow are all terms you should become very familiar with. The pdf reports put everything at your fingertips.

5. Evaluate the screens

Anybody can put together screens on widely-available information that companies provide to the SEC. But the screens at Valuentum are of data derived solely in-house, from our VBI ratings to our fair value estimates, to a company's Dividend Cushion ratio and Economic Castle rating. We update the screens every month on the website and publish them in the monthly newsletters as well. The 'Yields to Avoid' screen is a great one to peruse periodically if you'd like to bulletproof your income portfolio.

If you've already done these things, you're well on your way to getting familiar with what we have to offer at Valuentum. We believe we're the best at Warren Buffett's rule No. 1: Never lose money. But we think we're doing a pretty good job outperforming in the newsletter portfolios as well.

Looking forward to a fantastic 2016!

The Watch List

By Valuentum Analysts

The Valuentum Buying Index (VBI), which places a considerable emphasis on a firm's valuation, is the primary driver behind companies 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	Sector	DCF Valuation	Relative Valuation	P/FV
Tenneco	TEN	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.73
Intel	INTC	Information Technology	UNDERVALUED	ATTRACTIVE	0.78
USG Corp	USG	Industrials	UNDERVALUED	ATTRACTIVE	0.73
Convergys	CVG	Information Technology	UNDERVALUED	ATTRACTIVE	0.79
Perficient	PRFT	Information Technology	UNDERVALUED	ATTRACTIVE	0.64
Huntsman	HUN	Materials	UNDERVALUED	ATTRACTIVE	0.50
QUALCOMM	QCOM	Information Technology	UNDERVALUED	ATTRACTIVE	0.70
Owens-Illinois	OI	Materials	UNDERVALUED	ATTRACTIVE	0.68
Hanger Orthopedic	HGR	Health Care	UNDERVALUED	ATTRACTIVE	0.63
Community Health	CYH	Health Care	UNDERVALUED	ATTRACTIVE	0.68
Jarden	JAH	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.78
AIG	AIG	Financials	UNDERVALUED	ATTRACTIVE	0.79
Semtech Corp	SMTC	Information Technology	UNDERVALUED	ATTRACTIVE	0.68
Priceline.com	PCLN	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.78
Baidu	BIDU	Information Technology	UNDERVALUED	ATTRACTIVE	0.68
Michael Kors Hldg	KORS	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.60
Commercial Vehicle Group	CVGI	Industrials	UNDERVALUED	ATTRACTIVE	0.45
Viacom	VIA	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.68
Cisco	CSCO	Information Technology	UNDERVALUED	ATTRACTIVE	0.75
Finisar	FNSR	Information Technology	UNDERVALUED	ATTRACTIVE	0.62
Intl Paper	IP	Materials	UNDERVALUED	ATTRACTIVE	0.75
Gilead Sciences	GILD	Health Care	UNDERVALUED	ATTRACTIVE	0.61
Mylan	MYL	Health Care	UNDERVALUED	ATTRACTIVE	0.77
Valeant Pharma	VRX	Health Care	UNDERVALUED	ATTRACTIVE	0.59
Omega Healthcare	OHI	Financials	UNDERVALUED	ATTRACTIVE	0.72
WP Carey	WPC	Financials	UNDERVALUED	ATTRACTIVE	0.74
Iconix Brand	ICON	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.64
Zumiez	ZUMZ	Consumer Discretionary	UNDERVALUED	ATTRACTIVE	0.63
JinkoSolar	JKS	Industrials	UNDERVALUED	ATTRACTIVE	0.45

*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.

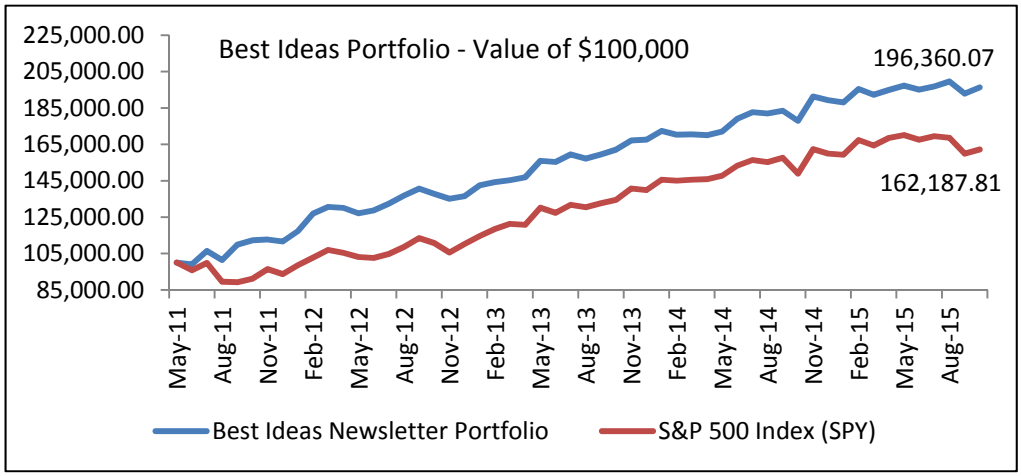
Company Name	Symbol	Industry	VBI	Fair Value Estimate
AIG	AIG	Insurance - Property & Casualty	9	$76.00
Cisco	CSCO	Networking Equipment	9	$37.00
Intel	INTC	Broad Line Semiconductors	9	$38.00
Finisar	FNSR	Networking Equipment	8	$19.00
Michael Kors Hldg	KORS	Luxury - Ultra & Aspirational	8	$66.00
Mylan	MYL	Pharma - Generic/Other	8	$69.00
Owens-Illinois	OI	Containers & Packaging	8	$30.00

Advance Auto Parts	AAP	Specialty Retail - auto	2	$151.00
Bright Horizons Family	BFAM	Personal Services	2	$46.00
Jack Henry	JKHY	IT Services	2	$52.00
McDonald's	MCD	Restaurants - Fast Food & Coffee	2	$87.00
Mercury General	MCY	Insurance - Property & Casualty	2	$42.00
National Beverage	FIZZ	Beverages - nonalcoholic	2	$19.00
Royal Caribbean	RCL	Leisure	2	$73.00
VeriSign	VRSN	Software - security	2	$70.00
Weight Watchers	WTW	Personal Services	2	$9.00
Yelp	YELP	Internet Software & Svcs	2	$19.00
Amazon.com	AMZN	Internet & Catalog Retail	1	$439.00
Ball Corp	BLL	Containers & Packaging	1	$56.00
BioMarin Pharma	BMRN	Biotechnology	1	$75.00
Brown-Forman	BF.B	Beverages - alcoholic	1	$66.00
Hyatt	H	Hotels	1	$39.00
Lowe's	LOW	Specialty Retailers	1	$52.00
Manhattan Associates Inc	MANH	Software	1	$33.00
Mettler-Toledo	MTD	Medical Instruments	1	$225.00
MSCI	MSCI	Software	1	$49.00
NewMarket	NEU	Chemicals - mid/small	1	$311.00
Rollins	ROL	Chemicals - mid/small	1	$19.00
Roper Industries	ROP	Electrical Equipment	1	$131.00
Starbucks	SBUX	Restaurants - Fast Food & Coffee	1	$47.00
WABCO	WBC	Auto Parts Suppliers	1	$98.00
West Pharma	WST	Medical Instruments	1	$42.00

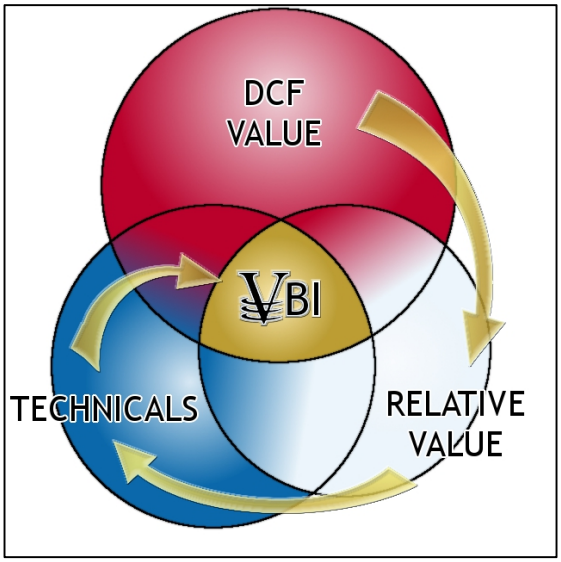
Our Methodology – The Valuentum Buying Index (VBI)

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 on the previous page, 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.

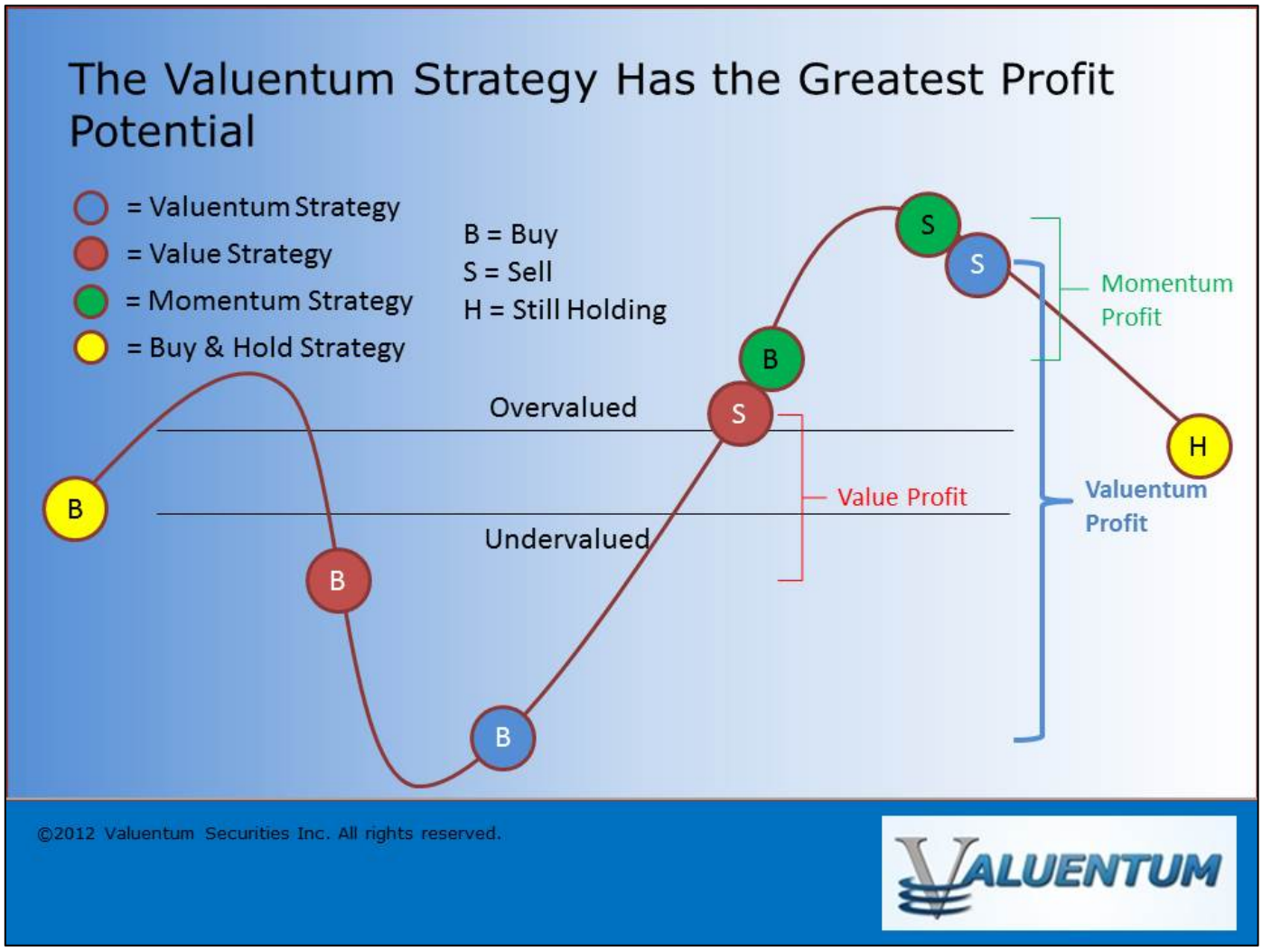


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

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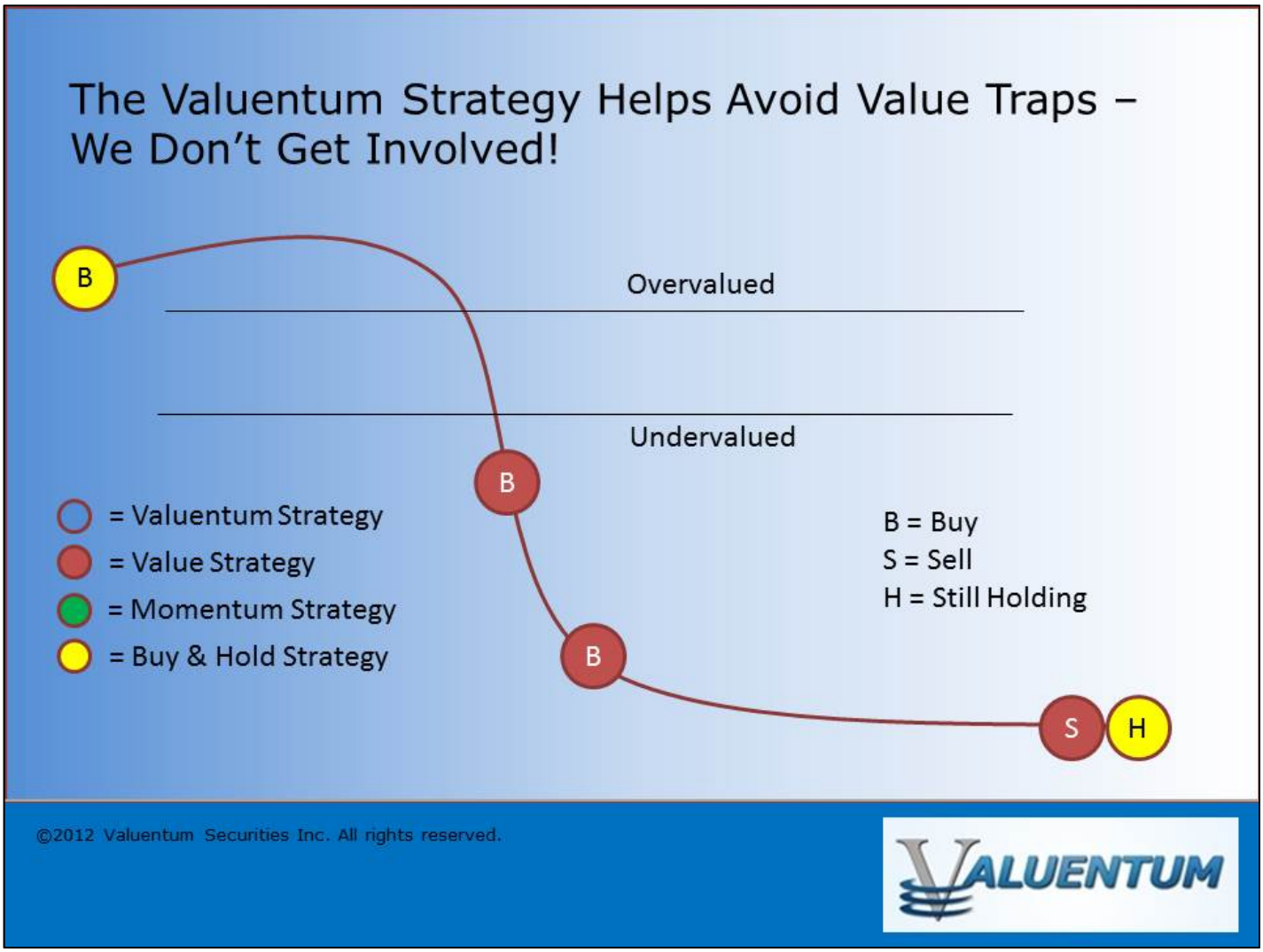
Furthermore, Valuentum subscribers are less likely to be involved in value traps because we demand material revenue and earnings growth for firms to earn a 10 on our Valuentum Buying Index. Value traps often occur as a result of secular declines in a firm's products or services, resulting in deteriorating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

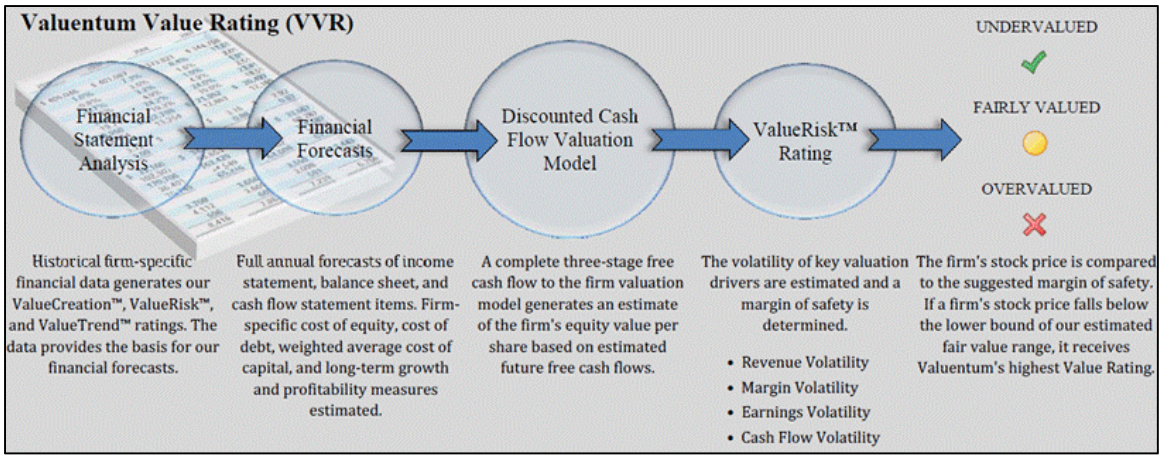


Our Methodology – The Valuentum Buying Index continued on next page

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

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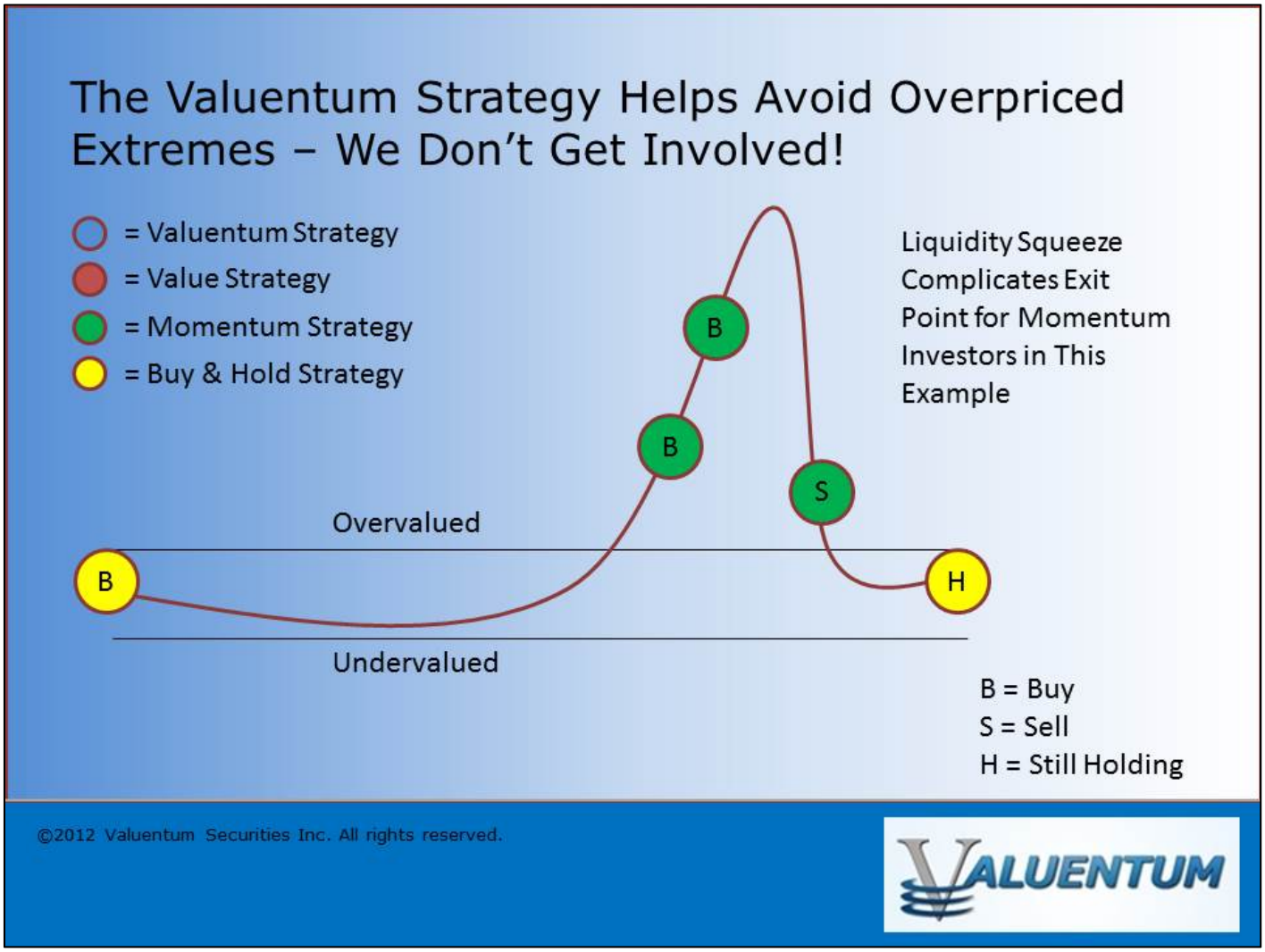

II. We Perform a Forward-Looking Relative Value Assessment

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

Our Methodology – The Valuentum Buying Index continued on next page

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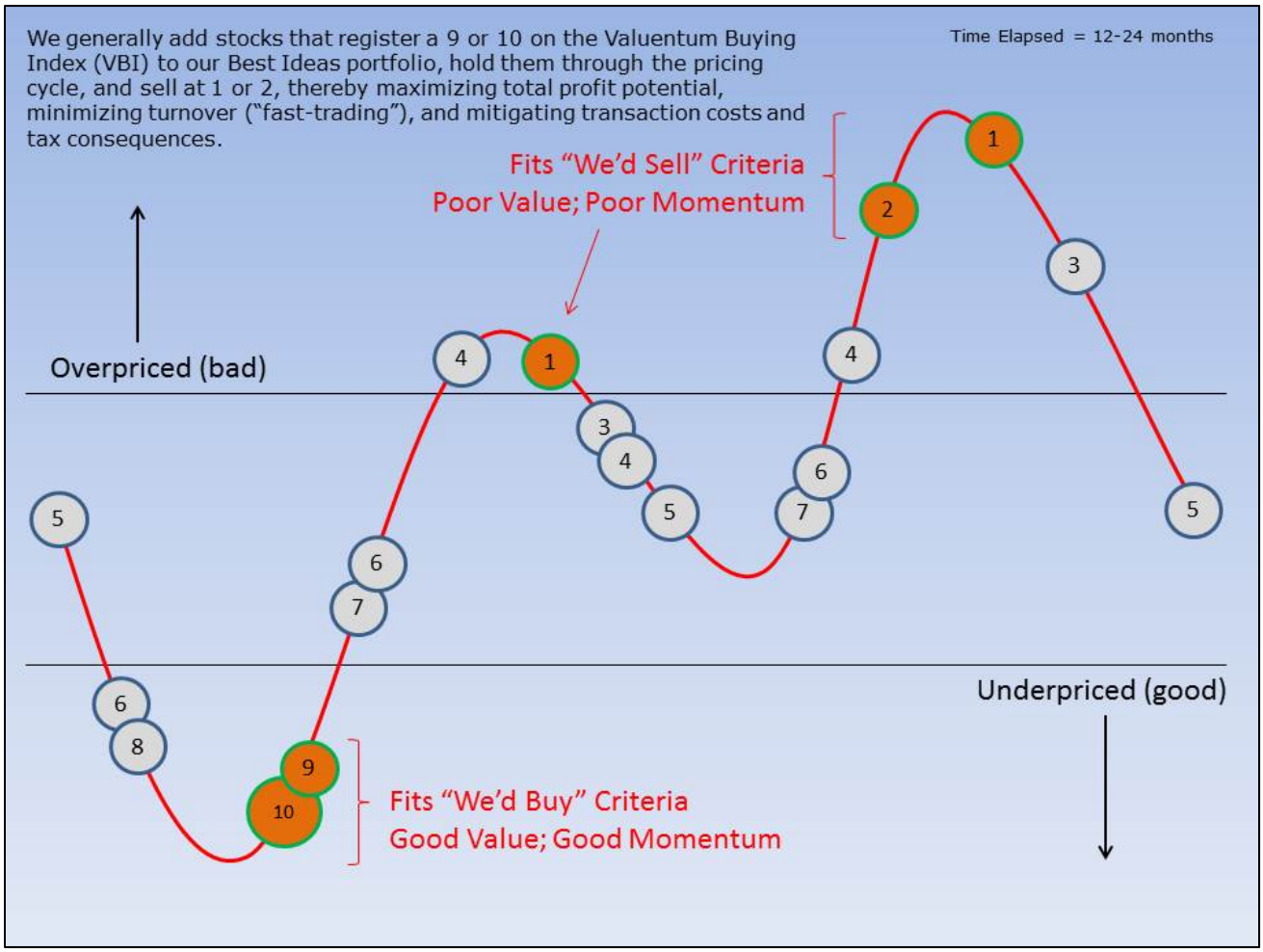
valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we 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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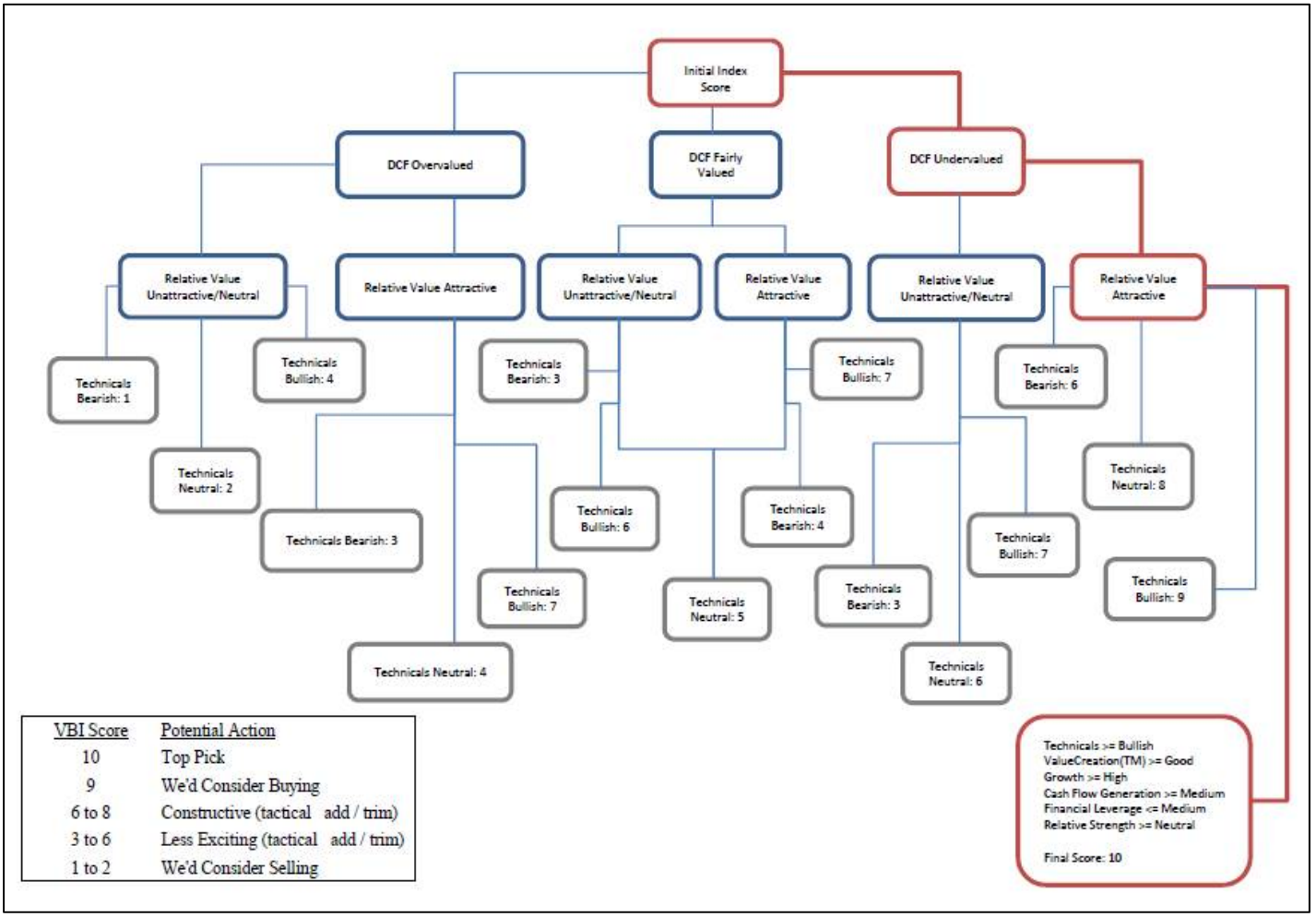
Let's follow the red line on the flow chart below to see how a firm can score a 10, the best mark on our index (a "Top Pick"). Please click here to view an enlarged pdf version. First, the company would need to be 'UNDERVALUED' on a DCF basis and 'ATTRACTIVE' on a relative value basis. The stock would 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

Our Methodology – The Valuentum Buying Index continued on next page

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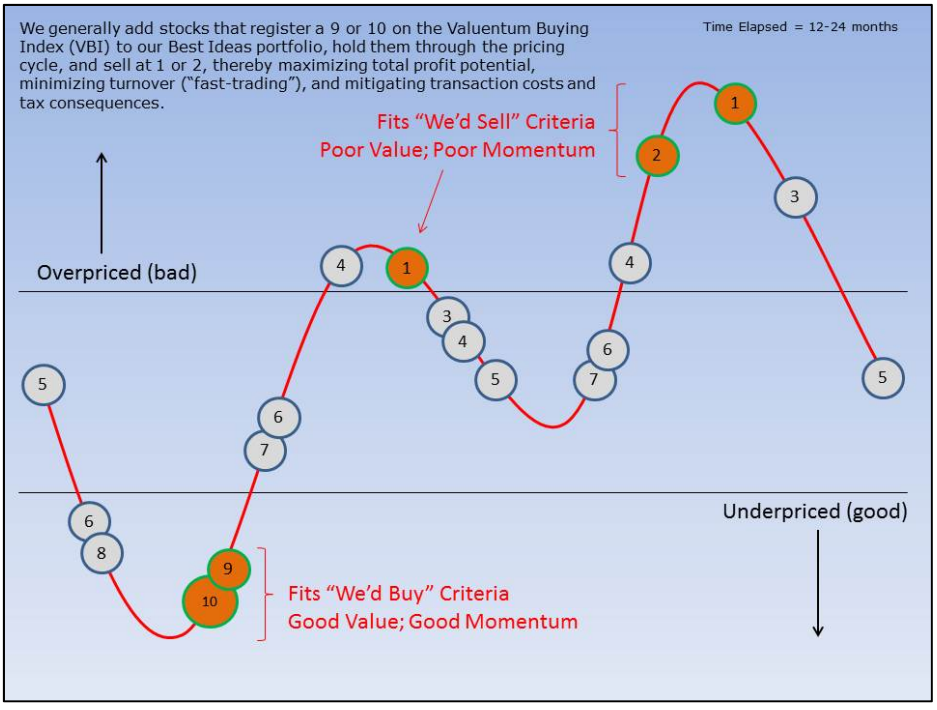
How We Use the Valuentum Buying Index in the Best Ideas Newsletter Portfolio

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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Our Methodology – The Valuentum Buying Index continued from previous page

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.

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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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