OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

May 15, 2017
Volume 7 Issue 5

Valuentum Securities Inc.
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Portfolio Return	Benchmark Return	Outperformance
131.0%	97.7%	33.2pts

See page 8.

The Best Ideas Portfolio (see page 8): AAPL, MO, BWLD, BRK-B, CSCO, CVS, DG, FB, XLF, GM, GOOG, GOOGL, XLV, INTC, JNJ, KBE, KMI, KORS, PYPL, PCLN, SDY, TEVA, UNP, XLE, XLU, VRNT, V

Inside This Issue

Goals of the Best Ideas Newsletter: We want to deliver positive returns, year after year, in addition to outperforming the market benchmark. We may not always be successful, however. Our Best Ideas portfolio is generally found on page 8 of each edition.

"… if Trump's corporate tax reform efforts fall flat like his efforts to repeal Obamacare and the Fed continues to hike rates, we could be setting up for a really, really difficult 2018." – Brian Nelson, CFA

Time to Throw Caution to the Wind? Absolutely Not.

By Brian Nelson, CFA

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= ALL TIME HIGH

KEY CONCEPT: Stocks 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 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"). Contact us for more details about how the team utilizes the Valuentum Buying Index to run the portfolio.

The S&P 500 (SPY) is looking like it might break out to new highs again, and we continue to be content with riding the equity market ever higher, even as we continue to emphasize valuation risk and considerable uncertainty regarding corporate tax reform. The US economy is on solid ground, unemployment has fallen to 4.4%, and fidget spinners have become the latest craze (see an image next page). These are the best of times, and all appears well on Wall Street as well as Main Street.

But is it time to throw caution to the wind? For the most part, equity markets have gone up-and-to-the-right since the March 2009 panic bottom that marked the low point of the Financial Crisis of late last decade, something that it appears many have forgotten about as they continue to chase risk of all varieties. Certainly – there is a lesson to be learned. Will the Fed always bail out the markets, and if so, what then is the risk to equity investing? After all, the Financial Crisis that toppled Bear Stearns and Lehman Brothers was the worst since the Great Depression. If the markets can rally back as they have, almost as if the credit crunch can't happen again, what can possibly go wrong? Right?

Well, quite a bit really. In my view, if Trump's corporate tax reform efforts fall flat like his efforts to repeal Obamacare and the Fed continues to hike rates, we could be setting up for a really, really difficult 2018, but none of this should be surprising. Most of our readers have been expecting the stock market bubble

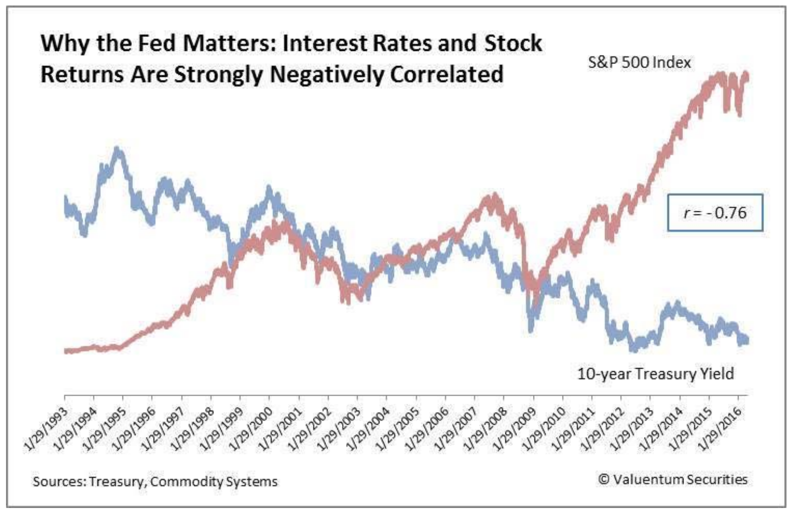
*Is it Time to Throw Caution to the Wind…*continued on next page

Is it Time to Throw Caution to the Wind … from previous page

to continue to inflate this year, a view we outlined in December. I think it is perfectly fine for investors to reap the outsize rewards of a stock or market that has run past intrinsic value. In fact, this is core to the Valuentum style--we know stocks overshoot and undershoot intrinsic value all the time. It is a natural part of the markets. We'd only grow concerned about the frothiness of the market in the event technicals roll over. We've been saying the S&P 500 has been expensive for some time now, and it could always get more expensive.

Image Shown: Fidget Spinner

That said, we're certainly not throwing caution to the wind. Market valuations are not attractive by any stretch, and Fed contractionary policy is nothing to scoff at. Our in-house analysis of the 10-year Treasury reveals an extremely sharp negative correlation to equity returns, with roughly three fourths of stock market returns explained by interest rate movements, since the dawn of the S&P 500 SPDR in 1993. Statistical analysis always has its nuances, but a rising 10-year Treasury, as in what can almost be expected as the Fed engages in a multi-year tightening cycle, should give some pause to the most bullish investors. It rubs me the wrong way to hear Warren Buffett as bullish as he is, and I wonder if he has lost his touch a bit given just how reasonable he was during the dot-com bubble compared to his reckless abandon today. His blunder with IBM (IBM) and his move into airline stocks are hard to explain. 2018 could be a tough year.



Aside from our decision to part ways with General Electric (GE) in the newsletter portfolios--see next page--the biggest news hitting the wires recently has been the re-emphasis on the importance of cybersecurity following the WannaCry "ransomware" worm that has already infected more than 200,000 computers. Here's what Valuentum's Chris Araos had to say about cybersecurity in our November 2016 podcast, available on the website: https://www.valuentum.com/articles/20161103

> "…currently cybercrime is costing the global economy about $400 billion each year. As an example for a more localized North American cybercrime, there was the Yahoo (YHOO) hack that occurred in 2014 where 500 million user accounts were compromised; in 2011, there was the Sony (SNE) PlayStation Network outage, which led to 77 million accounts being compromised. As more time passes, more and more people will be online such that online security will become more valuable as time passes. As an example, right now the market size for cybersecurity (spending) is $106.3 billion in the year 2015 and is expected to grow to $170.2 billion by 2020."

As we said in November, one of the most interesting ways to gain exposure to increased cybersecurity spending without having to pick individual winners and losers is via the Purefunds ISE Cyber Security ETF (HACK), which just hit a 52-week high May 15. We continue to monitor the cybersecurity space as we look to allocate additional cash, mainly related to the GE removal. Newsletter portfolio returns hit an all-time high again, and while relative outperformance continues to hover around all-time highs, we like our cautious stance. We hope to distance ourselves from market returns the most during the next downturn… when the tide goes out. I hope you enjoy this edition of the Best Ideas Newsletter!

GE! Newsletter Alert

We're as surprised as you are by this alert, but we're removing GE from both newsletter portfolios. After rolling our discounted cash flow model forward (2017 first forecast year) and in light of GE's release of its 10-Q late April, which showed surprisingly poor cash flow from operations conversion (negative $1.6 billion in industrial cash flow from operations) and only modest capital spending reductions (two key components of the Dividend Cushion ratio), we no longer have the confidence in shares as we did before. But why the change and why now? New information in the 10-Q and new forecasts in our newly rolled-forward discounted cash flow model.

By Kris Rosemann and Brian Nelson, CFA

We had just finished saying how engine troubles weren't going to derail General Electric (GE) and that we'd be keeping it in the newsletter portfolios when our update cycle prompted us to take another deep look at shares. We still don't believe engine troubles will be an issue, but we can't believe what our new forecasts imply. Looking toward the end of this decade as GE transitions to a purely-industrial entity (and support from non-core asset sales and its financials operations wane), our expectations for normalized industrial operating cash flow of about $12-$14 billion and industrial gross capital spending of ~$6 billion will put traditional industrial free cash flow generation (FCF) at $6-$8 billion, which is lower than current annual run-rate cash dividend obligations ($8+ billion). For context, GE's adjusted industrial cash flow from operations came in at $12.2 billion in 2015 and $11.6 billion in 2016 against gross capital spending north of $7 billion for both years.

In light of the most recent update to our discounted cash-flow model, we've lost our appetite for shares. Will GE cut its dividend tomorrow, or this year, or next? Not likely. Why? For one, it is still generating gobs of traditional free cash flow, augmented by dividends from its financials operations (for the time being); and two, it has tens of billions in cash just sitting on the balance sheet. Said differently, there's no need for panic, but still, **we demand more from newsletter portfolio holdings,** and GE's 10-Q has been an unfortunate catalyst for us to part with shares (the poor cash flow from operations showing coupled with only a modest reduction in capital spending; we thought capex drawdowns would be much greater). We'll be removing General Electric from both newsletter portfolios at a price of $28.04 per share. The exit price is higher than the cost basis in the Best Ideas Newsletter portfolio, but the idea has effectively been a wash for the Dividend Growth Newsletter portfolio after considering dividends received.

Our updated 16-page report and dividend report on GE are now available on the website. Concurrent with adjusted future free cash flow assumptions, we've also lowered our cash-flow-based fair value estimate of GE to $30 per share from the mid-$30s previously (we've also widened our fair value range), and our updated Dividend Cushion ratio, which is also based on GE's future cash flow trends, now rests near parity (from much higher before), consistent with expectations for normalized industrial free cash flow to be roughly at parity with future cash dividends paid. As GE transitions away from being both an industrial and finance entity (and we set 2017 as our first forecast year in the model), we also no longer calculate an adjusted Dividend Cushion ratio for GE (something we do for MLPs, REITs, and conglomerates with financial arms). The lower free cash flow expectations and methodological adjustments are the main drivers behind its reduced Dividend Cushion ratio (now at 0.8). Generally speaking, we prefer dividend growth entities with Dividend Cushion ratios far greater than 1.

All this said, GE's sprawling industrial portfolio has more than its fair share of attractive assets, and we expect it to play a pivotal role in the continued development of the next generation of industrial technology in our economy. Investors should even note the potential for an improved operating environment to drive shares to the upper bound of our fair value range, too. However, given the size of the company's debt load--net debt was just over $45 billion at the end of the first quarter of 2017--and our expectations for industrial free cash flow to be far too close in covering future cash dividend obligations for comfort, we find the prudent move is to remove GE from both newsletter portfolios at this time. We're available for any questions, and we're sorry for the short term horizon on this one. Fundamentals change all the time--and we have to stay ahead of them.

Large Cap Biotech Earnings Review Featuring Biogen, Celgene, and Gilead Sciences

The large cap biotech industry remains mired in a downtrend trend since posting a near-term top in the summer of 2015. Growth has clearly slowed and in some cases turned negative--we review the recent earnings reports of some of the largest companies.

By Alexander J. Poulos

Biogen: Still Waiting For a Catalyst

Q1 2017 Financial Results Summary: MS Revenues

$ in Millions	Q1 2017	Q4 2016	Q1 2016	Δ Q/Q	Δ Y/Y
TECFIDERA US	$751	$800	$744	(6%)	1%
TECFIDERA ROW[1]	$207	$202	$202	2%	3%
Total TECFIDERA Sales[1]	$958	$1,002	$946	(4%)	1%
AVONEX US	$400	$411	$400	(3%)	0%
AVONEX ROW[1]	$136	$152	$164	(10%)	(17%)
Total AVONEX Sales[1]	$537	$564	$564	(5%)	(5%)
PLEGRIDY US	$65	$77	$67	(16%)	(4%)
PLEGRIDY ROW[1]	$47	$48	$39	(1%)	21%
Total PLEGRIDY Sales[1]	$112	$125	$106	(10%)	5%
Total Interferon Sales[1]	$648	$688	$670	(6%)	(3%)
TYSABRI US	$306	$289	$288	6%	6%
TYSABRI ROW[1]	$239	$185	$189	29%	27%
Total TYSABRI Sales[1]	$545	$474	$477	15%	14%
FAMPYRA[1]	$20	$22	$20	(7%)	1%
ZINBRYTA ROW	$11	$6	$0	81%	NMF
Total MS Sales[1]	**$2,183**	**$2,192**	**$2,114**	**(0%)**	**3%**

Biogen. Numbers may not foot due to rounding. Percent changes represented as favorable & (unfavorable). For all periods, there were no adjustments between GAAP and non-GAAP revenues.
[1] Net of Hedge

Image Source: Biogen

Shares of Biogen (BIIB) continue to sell-off post the release of first-quarter earnings on April 25. We view Biogen as a company at the crossroads--growth of its main franchises has slowed with new products still in the distant future. In addition to slowing top line expansion, the CEO who led Biogen through its recent growth phase has left the company. The new leadership team is attempting to position Biogen as a pure-play on neurogenerative disease with a focus on Multiple Sclerosis (MS) along with significant R&D resources focused on Alzheimer's disease.

Top-Line Growth is Slowing

Biogen is now facing the unenviable task of waiting for the next crop of treatments to manifest to drive top-line growth. Biogen is coming off an extended run where earnings have nearly tripled on a GAAP basis with revenue more than doubling since 2012. Biogen's product lineup is in dire need of new products as key Multiple Sclerosis (MS) franchises are showing their age. Top-selling product Tysabri has grown 1% as compared to the same quarter in 2016, with overall franchise sales up 3%, but barely up versus the previous quarter. We think the MS franchise will continue to face pressure as Ocrevus begins its sales ramp.

Spinraza

The sales push for Spinraza has gotten off to a promising start with worldwide sales of $47 million. Spinraza is indicated for the treatment of Spinal Muscular Atrophy, an area of unmet need, which we

*Large Cap Biotech...*continued on next page

Large Cap Biotech...from previous page

think bodes well for future revenue growth. We do feel Spinraza is an important first step in arresting the slow growth that is plaguing Biogen's top line, however; additional products need to come to market for the equity to resume growth.

Conclusion

We remain uninspired by Biogen's current valuation, however (shares at the time of this writing have only started to become more attractive). The company does not pay a dividend which removes some of the appeal of holding a stake. In essence, Biogen is a growth stock that has stopped growing; for us to become excited Biogen would need to trade below $210, the lower end of our fair value range. It's not quite there yet.

Revlimid Continues to Power Celgene's Revenue

Shares of Celgene (CELG) remain under distribution post an impressive earnings release on April 27. The power of Celgene's Hematology franchise remains on full display as top-selling product Revlimid posted revenue growth of 20%. We remain impressed with Celgene's growth--please see our in-depth review titled: "Celgene--A Hemeoncology Powerhouse."

Quarterly Results

It is easy to see why we remain optimistic on Celgene's prospects in the large-cap biotech space. Unlike its large-cap biotech peers, Celgene continues to generate double-digit revenue growth which underscores the equity's growth characteristics.

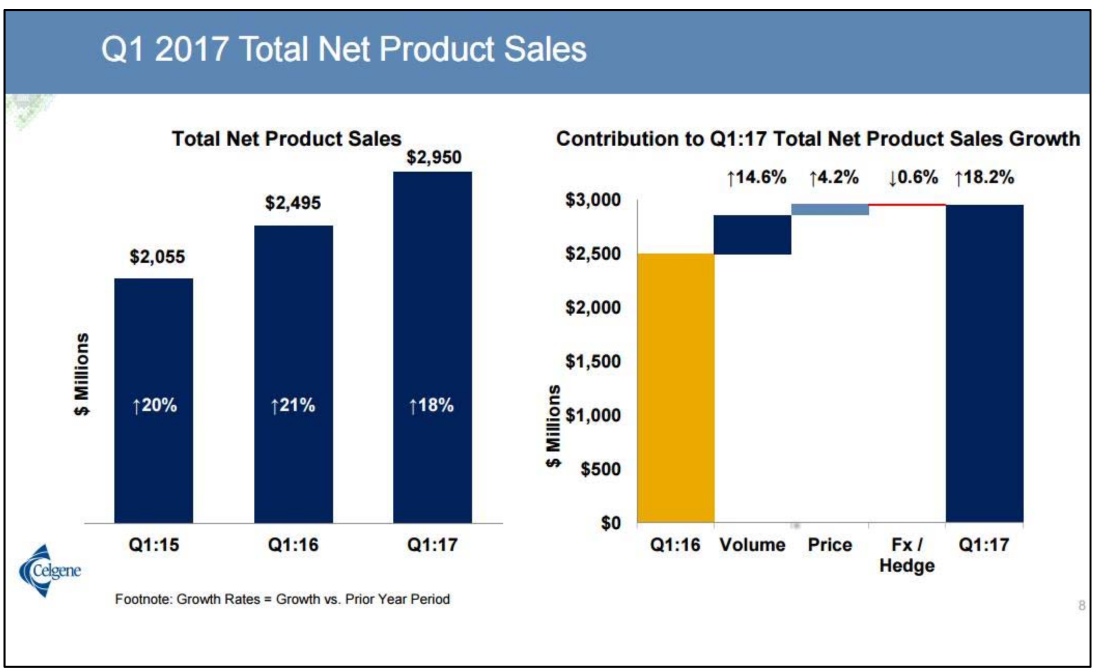


Image Source: Celgene

Celgene continues to post high-teens revenue growth that does not exclusively rely on price hikes to generate revenue growth. We feel the ability to create volume growth is the most important characteristic going forward as payers are pushing back on wholesale price hikes. Payers may only truly allow price hikes in the mid-single digit range in particular disease states with oncology the most

Large Cap Biotech...continued on next page

*Large Cap Biotech...*from previous page

prominent. Celgene's products with an intense focus in hemeoncology are well-positioned to weather the changing reimbursement landscape, in our view.

Product Diversity

Celgene's top-selling product Revlimid accounts for over 50% of total sales. To say the least, Celgene remains highly-levered to the commercial success of Revlimid. While Revlimid's patent is secure, management is investing to diversify the product line-up, a wise move in our opinion. One of Celgene's most promising products is Ozanimod for the treatment of Inflammatory Bowel Disease and Multiple Sclerosis. Management believes the overall market is quite large, but it remains fiercely competitive. A differentiated product with a favorable side-effect profile would carve out a lucrative portion of the market. Ozanimod is working its way through the various stages of the clinical trials process-- we are following the molecule closely as an approved product will help diversify Celgene's product lineup further.

Ozanimod: Building Our Next Transformational Therapy

Development Program	Status Update	US and EU G5 Prevalence (K)	WW Targeted Market Size ($B) 2017E	2020E
Relapsing Multiple Sclerosis	**SUNBEAM** (Ph III) trial met its primary and measured secondary endpoints; safety and tolerability consistent with Ph II studies **RADIANCE** (Ph III) readout on target for Q2:17	650	$22	$27
Crohn's Disease	**STEPSTONE** (Ph II) positive results support initiation of Ph III program	1,000	$8	$10
Ulcerative Colitis	**TRUE NORTH** (Ph III) enrollment accelerating; data expected in 2018	1,300	$6.5	$8
	Total	**2,950**	**$36.5**	**$45**

Celgene Source: Evaluate Pharma; CDC; Decision Resources; GlobalData; Datamonitor; internal Celgene estimates

Image Source: Celgene

Annual Guidance

Celgene reaffirmed its guidance for 2017 while raising its GAAP earnings range to $5.95-$6.29. The increase in earnings guidance is due to the increase in expectations for its GAAP operating margin, to 46% from 45.5%, as the company is keeping a tight lid on costs. Unlike its biotech peer Biogen, Celgene is a growth company that remains firmly entrenched in its growth trajectory. Our fair value remains $140, not far from the company's current price. We remain bullish on Celgene's prospects, but in today's expensive market we would be more comfortable evaluating the equity closer to the bottom end of its fair value range ($105-$175)

The Decline in the Hepatitis C Franchise Continues to Plague Gilead Sciences

Gilead Sciences (GILD) remains mired in a pronounced downward spiral as the drop in Hepatitis C (HCV) sales continue to plague top line revenue. The earnings report released May 2 underscores the trend with earnings on a GAAP basis dropping from $2.53 per share to $2.05. Let's examine the report for signs of revenue stabilization and potential new product introduction.

*Large Cap Biotech...*continued on next page

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Growth in HIV Is Starting To Offset the Decline in HCV

Gilead Sciences has transformed from market darling to one of the most intensely disliked equities on the market today. While we felt the optimism may have been a bit misplaced, we remain attracted to the copious amount of free cash the company continues to generate. While many are correctly pointing to the drop in revenue, upon further examination a few clear trends are noticeable. The first is the all-important HIV franchise has been refreshed with the reformulation of existing products with tenofovir alafenamide (TAF), which improves the overall side-effect profile. Revenue from the HIV and HBV franchise rose to $3.3 billion from $2.9 billion in the same period last year.

The second inescapable trend is that Gilead remains mired with the unenviable task of cycling through the stellar sales growth in the HCV franchise. We have not soured on the management team, irrespective of which company brought forth a functional cure for HCV, the same fate awaited. The HCV market dynamics are unique--the key was a first-mover advantage. By providing a functional cure ahead of deep-pocketed rivals, Gilead was able to capture the bulk of the overall market's revenue.

By providing a cure instead of treatment, however, the usual annuity-like revenue stream was short-circuited with the majority of the income generated in the first couple of years of the product's life. As the pool of existing patients begins to exhaust itself, the revenue stream may continue to diminish. The high water mark for HCV sales was in 2015 with $19.1 billion in sales; it decreased to $14.8 billion in 2016 and has a forecasted range of $7.5-$9 billion in 2017.

We are treating the HCV franchise as we do with a product that has lost patent exclusivity-- namely, we expect at minimum a 50% drop in sales after year three of patent loss. The revenue dynamics of the HCV market are manifesting themselves a year earlier than expected assuming the range offered by management is accurate. This is what the Street is caught up on.

Pipeline

That said, however, we think the most promising assets in Gilead's product pipeline are Bictegavir for HIV and Selonsertib for non-alcoholic steatohepatitis (NASH). Bictegavir has advanced as expected through clinical trials with phase three data due shortly. We are excited by the products potential--we can envision a scenario where Gilead can attain additional HIV market share, but we do not view the molecule as a game changer. Gilead will further its dominance in HIV, yet it will have little in the way of assets outside of its dominance in infectious disease.

For the share price to attain its former highs, a new revenue stream outside of HIV will need to be established, in our view. We're cautiously optimistic the assets in NASH will diversify and grow Gilead revenues. NASH provides an area of high unmet clinical need with numerous competitors such as Allergan (AGN) spending large sums of money to gain molecules in a race to bring forth a treatment. We applaud the management team at Gilead for having the foresight to acquire promising molecules well before the elevated levels that Allergan paid. We are following the path of the NASH assets closely--we view the winner will undergo substantial growth once brought to market.

Disclosure: Alexander J. Poulos is long Celgene and Gilead Sciences.

= ALL TIME HIGH

The Best Ideas Portfolio

By Valuentum Analysts

Portfolio Return	Benchmark Return	Outperformance
131.0%	97.7%	33.2pts

Below we outline the constituents of the portfolio and their respective weightings and returns thus far (please note that many stocks have been removed since inception). 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 18% of the portfolio in cash, a reasonable level given the current market environment. Tactically, we like to have the most cash when the market is making new highs and fully invested when the market is putting in short-term lows.

Our investment process is completely transparent and easy to implement in your own portfolio. The goal of the Best Ideas portfolio is to outperform the S&P 500 Index and to generate positive returns each year regardless of the market environment. We may not always be successful.

THE BEST IDEAS PORTFOLIO -- as of May 15, 2017 — **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	7	$159.00	0.98	17-Jun-11	51.92	107	5,569.33	155.70	16,659.90	1,279.22	7.2%	222.1%
Altria Group	MO	8	3	$60.00	1.18	28-Jun-11	28.39	157	4,471.86	70.67	11,095.19	2,571.33	4.8%	205.6%
Berkshire Hathaway	BRK-B	6	6	$173.00	0.95	20-Apr-16	146.13	69	10,089.97	163.80	11,302.20		4.9%	12.0%
Buffalo Wild Wings	BWLD	6	3	$177.00	0.90	27-Aug-15	179.81	16	2,876.90	159.60	2,553.60		1.1%	-11.2%
Cisco	CSCO	9	7	$42.00	0.82	14-Nov-14	26.33	221	5,831.87	34.23	7,564.83	396.93	3.3%	36.5%
CVS Health	CVS	9	6	$104.00	0.77	6-Jan-17	81.84	79	6,472.36	80.47	6,357.13	79.00	2.8%	-0.6%
Dollar General	DG	4	4	$75.00	0.96	13-Apr-17	68.83	50	3,448.50	71.72	3,586.00		1.6%	4.0%
Energy Select SPDR	XLE	NR	NR	NA	NMF	6-Oct-15	67.14	143	9,608.02	68.28	9,764.04	380.71	4.2%	5.6%
Facebook	FB	6	7	$172.00	0.87	29-Jan-16	112.10	50	5,612.00	150.19	7,509.50		3.3%	33.8%
Financial Select SPDR	XLF	NR	NR	NA	NMF	9-Jan-11	13.46	178	2,405.83	23.74	4,230.92	305.71	1.8%	88.6%
General Motors	GM	6	6	$43.00	0.79	26-Aug-16	31.65	132	4,184.80	33.82	4,464.24	150.48	1.9%	10.3%
Google - Class C	GOOG	10	7	$924.00	1.01	23-Oct-12	450.92	7	3,170.42	937.08	6,559.56	10.35	2.8%	107.2%
Google - Class A	GOOGL	10	7	$924.00	1.01	4-Apr-14	Split	7	Split	959.22	6,714.54		2.9%	+++
Health Care ETF	XLV	9	6	NA	NMF	22-May-12	36.60	125	4,582.00	75.77	9,471.25	563.86	4.1%	119.0%
Intel	INTC	6	4	$42.00	0.85	12-Sep-11	20.48	150	3,086.50	35.63	5,344.50	714.45	2.3%	96.3%
Johnson & Johnson	JNJ	6	7	$121.00	1.05	29-Jan-16	104.18	54	5,632.72	126.99	6,857.46	213.30	3.0%	25.5%
SPDR S&P Bank ETF	KBE	NR	NR	NA	NMF	9-Jan-12	21.07	100	2,114.00	42.68	4,268.00	277.14	1.8%	115.0%
Kinder Morgan	KMI	5	3	$20.00	1.00	17-Feb-16	17.29	157	2,721.53	19.90	3,124.30	98.13	1.4%	18.4%
Michael Kors	KORS	8	6	$60.00	0.61	27-Aug-15	43.44	68	2,953.80	36.47	2,479.96		1.1%	-16.0%
PayPal	PYPL	NR	6	$46.00	1.08	17-Jul-15	Spin-off	100	Splt	49.77	4,977.00		2.2%	+++
Priceline	PCLN	10	6	$1705.00	1.06	26-Feb-15	1239.49	6	7,450.91	1813.81	10,882.86		4.7%	46.1%
SPDR S&P Dividend ETF	SDY	NR	NR	NA	NMF	20-Apr-16	81.33	124	10,091.92	87.99	10,910.76	251.28	4.7%	10.6%
Teva Pharma	TEVA	6	7	$52.00	0.62	24-Jul-13	41.22	77	3,180.94	32.31	2,487.87	390.27	1.1%	-9.5%
Union Pacific	UNP	6	6	$97.00	1.15	24-Jul-13	79.67	40	3,193.80	111.28	4,451.20	288.40	1.9%	48.4%
Utilities Select SPDR	XLU	NR	NR	NA	NMF	18-Mar-14	41.12	83	3,419.96	51.95	4,311.85	398.97	1.9%	37.7%
Verint Systems	VRNT	6	6	$50.00	0.80	13-Apr-17	38.95	87	3,395.65	39.95	3,475.65		1.9%	2.4%
Visa	V	7	7	$84.00	1.11	30-Nov-11	26.86	188	5,064.39	93.23	17,527.24	393.71	7.6%	253.9%
Latest changes: Sold 375 shares of GE (5/15).														
Cash -- changes in monthly cash balance reflects dividends received and trading gains/losses, where applicable.											42,031.99		18.2%	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 -->	**230,963.54**			**131.0%**
S&P 500 Index (SPY)						17-May-11	132.69	754	100,000.00	240.30	181,098.80	16,648.91	91.6%	
Cash											16,648.91		8.4%	
Benchmark Portfolio Value											**197,747.71**			**97.7%**
Relative Outperformance														**33.2 pts**

Data as of May 15, 2017. The cost basis of positions includes commissions. The Best Ideas Newsletter portfolio's performance includes dividends received, but not interest received on cash balances. The Best Ideas Newsletter portfolio is not a real money portfolio. The 'Benchmark Portfolio Value' reflects dividends received and held as cash.

* 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.

Not Worried About Priceline, Boeing; Yes Worried About Fickle Retail

Priceline and Boeing have been here before. Fickle retail continues to succumb to the Amazon effect.

By Brian Nelson, CFA

The Dow Jones Industrial Average (DIA) closed just shy of the 21,000 mark on May 11, while the S&P 500 (SPY) ended the session at ~2,395. We continue to ride the wave in the equity markets higher, even as we exercise caution almost across the board. First-quarter earnings season has actually been quite good, however, with the "blended earnings growth rate for S&P 500 companies north of 10% (it was 13.5% with more than 80% of S&P 500 companies reporting). FactSet noted in its May 5 report that this pace of growth is the highest since the third quarter of 2011. The 12-month forward P/E for the S&P 500 remains in elevated territory at 17.5 times.

We've covered a lot of ground in previous notes during this earnings season, but incremental news continues to flow in. The first order of business is Best Ideas Newsletter portfolio holding Priceline's (PCLN) first-quarter report, released May 9. Quarterly gross travel bookings advanced 27% on a constant-currency year-over-year basis, while gross profit leapt at a 17% pace from the prior-year period, also on a constant-currency basis. Shares sold off--as they usually do--on conservative guidance. This has happened many a time before with Priceline, and it will again. We still like shares a lot. Free cash flow of $310 million in the first quarter improved from ~$290 million in the year-ago period, and Priceline's balance sheet remains strong, even was we note $7.3 billion in long-term debt on the books. We think the market has overreacted to the report, and we don't plan to change our position in the newsletter portfolio.

News hit the wires May 10 Boeing (BA) has "temporarily suspended flights of its new 737 Max jetliner because of a potential manufacturing flaw in the engines." Engine-makers General Electric (GE) and Safran (SAFRY) are working to resolve this issue, and frankly, we're not concerned by this development at all. Having monitored Boeing's ups and downs with its 787 Dreamliner program, such news as it relates to plane development can almost certainly be expected. Even if the issue is more complex than reported, we're still not concerned. Boeing faced a plethora of problems with the 787, and it came out on top. I call these "teething" issues, and we won't be parting with Boeing in the newsletter portfolios. The 737 MAX is the fastest-selling aircraft in Boeing's history, and the jet maker knows how to make and deliver jetliners, especially the workhorse of the industry, the 737.

If it wasn't CEO Eddie Lampert blaming the media for Sears' (SHLD) troubles that made the top headline in retail May 11, it certainly was Macy's (M) and Kohl's (KSS) weak first-quarter reports that sent stocks of most equities in the retail industry reeling. Macy's finished 17% lower on the session May 11, while Kohl's dropped nearly 8%. The Amazon (AMZN) effect continues to wreak havoc, and we maintain our view that JC Penney (JCP) and Sears may not make it through the other side of the next recession. The ongoing trend toward online purchases will continue to hurt most mall-based retailers, and there may not be a solution to their problems. Our retail exposure in the Best Ideas Newsletter portfolio remains conservative and includes Dollar General (DG) and Michael Kors (KORS). We recently removed Coach (COH) from the Dividend Growth Newsletter portfolio, but we still include Hanesbrands (HBI). Others with heavy retail exposure may be panicking, but our exposure is minimal.

Talking Buffett, Unemployment, and Stock Market Valuations; Coach Removed

There are four takeaways from this piece you must know. We're removing Coach from the Dividend Growth Newsletter portfolio, Buffett may no longer be against paying a dividend at Berkshire, US unemployment now stands at 4.4%, and market valuations remain frothy.

By Brian Nelson, CFA

In the financial world, Berkshire Hathaway's (BRK.A, BRK.B) annual shareholder meeting probably received the most attention the first weekend of May, and we continue to be content with including shares of the Oracle of Omaha's brainchild in the Best Ideas Newsletter portfolio. Mr. Buffett, however, seems to be open to more and more ideas as the years go by, with him more recently stating that he's no longer against paying a dividend. This, now after his foray into airlines, has us thinking quite a bit about his teachings of yesteryear. Is Uncle Warren now just playing to the crowd?

In any case, if Buffett does give the thumbs up for a dividend payment, Berkshire could find its way into the Dividend Growth Newsletter portfolio, too, but only at the right price. His selling of IBM (IBM) and admission that he was wrong with that idea may be the biggest news of all. Readers of Valuentum never would have been involved in Big Blue's shares, now the poster child for poor earnings quality. IBM is in sad shape after executive incentive miscues, but as we noted time and time again, the writing was on the wall.

In other news, it's hard to believe that the US unemployment rate was once at 10% at the height of the Financial Crisis, especially in light of news, released May 5, that the US added 211,000 new jobs in April, pushing the US unemployment rate down to 4.4%. The job recovery has been simply incredible under Barack Obama (2008-2016), and the measure is now at the lowest in roughly a decade. We hope that the Trump administration can keep things moving in the right direction.

Though there are imperfections in how unemployment is measured, the US economy remains on solid ground, in our view, even as Brexit looms and the Fed continues to tighten. We believe that, while many Americans are employed and generating an income, underemployment still remains a key issue, and debt may be the biggest issue of them all. From subprime car loans to student loans, Americans seemingly can't get enough of "leverage," and we think it will eventually come home to roost in ways that we may not be able to predict as of yet. We're not sure politicians are ready to look at America's debt problem straight in the eye. After all, the US itself has been operating under mountains of debt for decades now.

Speaking of easy money, the US market's overall valuation remains more-than-full, in our opinion. In fact, we think it is "stuffed." The latest reading from FactSet is that the forward 12-month P/E ratio for the S&P 500 (SPY) is now at 17.5 times, above the 5-year average of 15.2 and the 10-year average of 14. Hopes are riding high that President Trump will be able to execute upon his promise of corporate tax reform, but we have doubts. Even if "The Donald" is successful, it won't be easy, and we doubt anything material will happen before the end of 2017, something that may be necessary for companies to hit consensus earnings estimates in 2018, which may be already embedding in some tax breaks, if not explicitly than implicitly by the analyst community. Here's what FactSet had to say about sector valuations May 5--very few are collectively attractive on a forward PE basis:

> At the sector level, the Energy (27.6) sector has the highest forward 12-month P/E ratio, while the Telecom Services (12.9) sector has the lowest forward 12-month P/E ratio. Nine sectors have forward 12-month P/E ratios that are above their 10-year averages, led by the Energy (27.6 vs. 18.2) sector. One sector (Telecom Services) has a forward 12-month P/E ratio that is below the 10-year average (12.9 vs. 14.3). Historical averages are not available for the Real Estate sector. [XLE, IYZ]

Talking Buffett...continued on next page

***Talking Buffett…*from previous page**

In other news, the retail REIT industry was hit by some bad news from Spirit Realty (SRC), which sold off aggressively last week, as it missed expectations on both the top and bottom line. Management noted that "a confluence of issues impacted a number of our credit watch list tenants in the first quarter resulting in an abnormally high credit loss. Furthermore, given the record number of bankruptcies in consumer and retail related companies thus far in 2017, and given that Shopko is our largest tenant, we are adjusting our outlook and approach for the balance of the year, including significantly reducing our acquisition activity." Though we believe Spirit's issues are more company-specific, we continue to be cautious on the retail REIT group, in general, in light of Amazon's (AMZN) growing dominance. We're still comfortable with a small position in one of our favorites, Realty Income (O), however, which exceeded expectations when it reported first-quarter results April 25. The "Monthly Dividend Company" expects full-year 2017 AFFO per share in the range of \$3.00-\$3.06, up 4.2%-6.3% from 2016.

We're taking the opportunity May 8 to shed Coach (COH) from the Dividend Growth Newsletter portfolio on pricing strength originating from news that it plans to purchase Kate Spade (KATE). We think the deal makes sense strategically and estimated synergies are achievable, but we don't like the increasingly acquisitive nature of Coach's executive team, and its balance sheet is no longer as appealing as it once was (we included Coach in the Dividend Growth Newsletter in part because of the net cash position on its books, which will be no longer). Kate Spade shareholders will receive \$18.50 per share in cash for total transaction value of \$2.4 billion, funded by cash and debt. The ride in Coach's shares was volatile while it was in the Dividend Growth Newsletter portfolio, but in the end we came out ahead. Excluding the many dividend checks from the handbag maker, shares removed at \$44.65 reveals a capital appreciation gain of ~20% from cost -- not bad. We have high hopes for the COH-KATE combination, but we're moving on.

Best Ideas Newsletter portfolio holding Facebook (FB) continues to be a star performer, and while many didn't like its first-quarter results, released May 3, we did. The company is off to a "good start" in 2017, with advertising revenue jumping more than 50%, and net income and diluted EPS advancing more than 70% each. The company's operating margin also expanded nicely, roughly 4 percentage points on a year-over-year basis during the first quarter of 2017. Cash and marketable securities now stand at \$32.3 billion on a debt-free balance sheet, while free cash flow surged to \$3.79 billion from \$2.35 billion in the year-ago quarter. It is logical to expect some slowing of Facebook's revenue growth in coming periods (due to the law of large numbers) as it combats fake news and other misdeeds on its platform, but we still like shares a lot. Facebook is trading north of \$150 at the time of this writing.

Just a few more tidbits before we wrap things up -- AIG (AIG) posted a better-than-expected first quarter report May 3, but we continue to opt for Berkshire as our diversified insurance exposure. We're generally not as enthused about owning insurance entities as their books are tied to market investments, something that we spend a lot of time ourselves evaluating. We continue to hear a lot of chatter, takeover speculation, on consumer staples entities from General Mills (GIS) to Kellogg (K), and it's difficult to make much of the rumor-driven, intraday moves on these companies, as they have been noticeable; there's lots of money moving in and out of these consumer staples giants. The last item to note is CenturyLink's (CTL) poor first-quarter results, released May 3. We think the company is setting up to cut its dividend again (it has a Dividend Cushion ratio of -1.9 at the time of this writing).

SEC Approves Financial Weapon of Mass Destruction and More Earnings Reports

Let's talk about quadruple-leveraged ETFs, Apple's and Altria's earnings reports, Coach's fundamental improvement, Gilead's fall from grace, IBM's ongoing deterioration and more.

By Brian Nelson, CFA

Well, it is what it is as they say. In our ETF research and analysis, we consistently warn readers about the long-term price erosion dynamics of ultra-leveraged ETFs (of the double and triple variety), vehicles that we have emphasized are for "day traders," not long-term investors. Believe it or not, however -- we received news May 3 that the SEC approved a request to now list quadruple-leveraged ETFs, what we describe to be "financial weapons of mass destruction." Yikes.

You read that correctly--quadruple-leveraged exchange traded funds, ones that mimic the movement of the index they track times four. Said differently, one of the ETFs, the ForceShares Daily 4X Market Futures Long Fund (UP) is crafted to deliver 4 times the performance of the S&P 500 (SPY) in a single trading day, while the ForceShares Daily 4X US Market Futures Short Fund (DOWN) seeks to deliver 4 times the inverted performance of the S&P 500 index in a single trading day. Do investors really need more leverage? Do investors really need more ETFs?

Though the long-term impact of the proliferation of these exotic trading vehicles on the market remains to be seen, it stands to reason that intra-day movements of the S&P 500 may become increasingly more pronounced as traders use these ultra-leveraged instruments (now four times over) as hedging vehicles during individual sessions. Certainly there may be reasonable uses for these instruments among the most sophisticated traders, but we doubt their creation marks a step forward toward promoting market integrity--nor do we think such ultra-leveraged ETFs make sense for most individual investors or financial advisors to consider them. They should come with warning labels. We must move on to other topics, however.

Two of our very favorite ideas reported calendar first-quarter results recently. Though all investors weren't completely thrilled with Apple's (AAPL) fiscal second-quarter results, released April 2, we were pleased with the near-5% revenue advance in the quarter, a nice 10.5% increase in the dividend, to $0.63 per quarter, and a boost in its buyback authorization to $210 billion (yes, that's correct -- $210 billion, more than the market capitalizations of most companies in the S&P 500, just to buy back its own stock!). If you think the iPhone is "dead," ponder this--there are still people like me that have an iPhone 5 and are looking to upgrade to the next version. Needless to say, we continue to be super excited about Apple's future, and we trust income investors are very pleased with the pace of the latest dividend hike (10%+). Apple is included in both the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio.

Another heavy-hitter that we include in both newsletter portfolios is Altria (MO), the cigarette and wine maker, but also part owner in ABInBev/SABMiller (BUD), one of its most valuable assets. In its first-quarter report, released May 2, Altria's adjusted diluted earnings per share nudged higher a bit, and the company reaffirmed its guidance for 2017. Management noted that it is off to a "solid start" in 2017, and we view the company's target for adjusted EPS growth this year in the 7.5%-9.5% range as achievable. Even if it comes up a bit light in this area, however, we're not too worried. Altria has a fantastic business model, and its dividend is further backed by the financial flexibility provided by its stake in ABInBev/SABMiller. Here is a quick excerpt from Altria's press release:

> In March 2017, Altria's Board of Directors (Board) declared a regular quarterly dividend of $0.61 per share. Altria's current annualized dividend rate is $2.44 per share. As of April 28, 2017, Altria's annualized dividend yield was 3.4%. Altria paid nearly $1.2 billion in dividends in the first quarter and expects to continue to return a large amount of cash to shareholders in

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> the form of dividends by maintaining a dividend payout ratio target of approximately 80% of its adjusted diluted EPS. Future dividend payments remain subject to the discretion of the Board.

We continue to include shares of Coach (COH) in the Dividend Growth Newsletter portfolio, but we continue to view them as a source of cash, too, meaning that we won't care too much about parting with the company in the coming months. Rumors have been flying that Coach is interested in buying Kate Spade (KATE) or more recently Jimmie Choo, and we don't like the idea of Coach being on the buying-end of M&A (we like its cash on its balance sheet more than any acquisition spree it may engage in). That said, Coach put up decent calendar first-quarter results (its fiscal third quarter) May 2 that showed Coach brand North America comparable-store sales advancing 3% and its bottom line improving nicely. Shares are now north of $42, a modest gain from their average cost of ~$37.

How about Gilead (GILD)? I seem to have lost some readers when we warned about the potential for Gilead to underperform significantly when we removed shares from the Best Ideas Newsletter portfolio at $83.37 in early January 2016, swapping it out for Johnson & Johnson (JNJ) at $104.180. Gilead is now languishing in the mid-$60s, while J&J is trading well north of $120 per share. Perhaps Gilead should never have been added to the Best Ideas Newsletter portfolio in the first place, but we've made up for it with J&J and a variety of other calls. If anything, capitalizing on our market instincts with Gilead could have been a good thing, and while we continue to prefer J&J, we could add Gilead back as shares do still look incredibly cheap.

For those that are involved with Hanesbrands (HBI), we still like the company, but we're still disappointed with its share-price performance out of the gates. The "story" with Hanesbrands is a cash-flow one, and we like that the company continues to work to drive annual cash flow from operations higher. For a dividend idea, a company that is focused on the following business strategy, "Sell More, Spend Less, Generate Cash," seems to line up well with what we're looking for. By the end of 2019, Hanesbrands' strategy is expected to drive $300 million of incremental annual net cash from operations, which will in part help support the dividend payout. We didn't like that organic sales dropped 4% in the first quarter, but management expects this to normalize during the second half of the year. In any case, we'll be watching organic performance closely, but we don't think there is any cause for alarm at this point. Remember, in the newsletter portfolios, we view things from a portfolio standpoint -- see "Alpha-Creating Hasbro-Hanesbrands (February 2017)."

I wanted to put a few more items on your radar. A Wall Street Journal article indicated that IAC/InterActiveCorp (IAC) is planning to buy Angie's List (ANGI), so our updated fair value estimate reflects a potential take-out price. Beleaguered IBM (IBM) received a ratings downgrade from Moody's today. We think IBM's troubles started many years ago when it set its operating earnings per share goals to $20, instead of setting a return-on-investment (ROI) goal. You can read about that saga here.

In other news, Sprint's (S) shares have seen better days, and we continue to believe that a takeout is the best possible scenario for shareholders. Telecom rivalries have become as cutthroat as they get. Dish Network (DISH) is rumored to be a likely suitor, though our team has little interest in gambling on takeout speculation. It's just not what we do, nor is it something any long-term investor should consider. And finally – did you see the Dividend Cushion ratio come up big again? Frontier Communication's (FTR) Dividend Cushion ratio of -1.6 preceded its 60%+ dividend cut May 2! This metric is incredible – get to know it.

WBA, ESRX, CVS: Earnings Update for the Pharmacy Services Industry

The first-quarter earnings performance across the pharmacy services industry has been a proverbial mixed bag with uncertainty continuing to weigh on performance. We continue to be interested in the industry for its defensive and strong free cash flow characteristics that bode well for dividend hikes and share repurchases going forward. We like CVS the most.

By Alexander J. Poulos

Walgreens Boots Alliance Remains Mired in Holding Pattern

Shares of Walgreens Boots Alliance (WBA) reported a relatively in-line first quarter, its fiscal second quarter, on April 5, and all eyes continue to be focused on the pending Rite Aid (RAD) acquisition. We have been fans of the moves taken by Walgreens post the Alliance deal that saw visionary CEO Stefano Pessina taking control of the combined entity. We view Pessina as a best-in-class leader, well suited to shake up a struggling entity. Pessina is operating out of the same playbook used with a large degree of success in Europe--consolidating the field with a razor sharp focus on cost containment. The most audacious part is for the consummated acquisition of Rite Aid.

Rite Aid is the third-largest pure-play pharmacy chain in the US with a large footprint in the Northeastern part of the US--a notable area that's under-penetrated by Walgreens. The optics of the deal are very compelling for Walgreens; by acquiring Rite Aid, it will significantly enhance market share in the Northeast while eliminating a poorly-run competitor. Also, economies of scale should kick in as Walgreens would hold even greater sway with payers as it would become increasingly difficult to exclude Walgreens from its network. Pessina would use the depth of Walgreen's system of pharmacies to push for a more generous reimbursement rate as well, boosting margins.

Though we applaud the audacious acquisition, significant doubt exists to the ultimate viability of the deal. The merger date has been pushed back multiple times as the FTC continues to be concerned over the anti-competitive nature of the deal. Walgreens has found a willing partner to offload stores in Fred's (FRED), but the deal is still up for review. At this time, we feel that until the final verdict of the deal is made by the FTC, Walgreens' shares may be range-bound. In any case, the acquisition continues to overshadow decent earnings by Walgreens as the company affirmed 2017 guidance range of $4.90-$5.08 in (non-GAAP) diluted net earnings per share. We'll continue to monitor the developing story and post a timely update when necessary.

Express Scripts Shocking Earnings Report

Shares of Express Scripts (ESRX) came under intense selling pressure upon the release of its first-quarter earnings report, issued April 24. Express dropped a bombshell stating it doesn't expect to retain its key contract at Anthem, which remains one if its largest customers. We continue to be skeptical of the validity of the bullish case on Express Scripts as detailed in a recent post, "PBMs: Express Scripts and CVS' Looming Victory? (February 2017)"

We feel Anthem (ANTM) holds all the cards in the dispute as it continues to pressure Express for $3 billion in cost savings. Express presented the case that it believes it is impossible to offer concessions of this magnitude and instead is trying to ameliorate the hostile negotiating stance taken by Anthem by providing $1 billion in immediate relief from now until the contract lapses in 2020. Still, the Anthem contract looms large as it encompasses approximately one third of Express' EBITDA. It's worth noting that Express recently lost the Catamaran contract when it was acquired by United Healthcare's (UHN) PBM division Optum.

We continue to view Express Scripts' independent business model as challenged. For starters, Express is being squeezed by the growth of Optum, which continues to consolidate the field. Express may be the

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second-largest PBM, but that doesn't matter; it is feeling the pressure from Optum, which sits at number three and from the hybrid model (retail network combined with a PBM) operated by industry leader CVS Health (CVS). We view CVS as the most likely victor of the Anthem deal as Anthem will be loath to turn over its data to one of its largest rivals.

The challenging operating environment for Express continues to weigh on the share price with the equity trading at the same level last seen in 2013. Value investors continue to point out the high free cash flow generated by Express, but as illustrated by the management team, with Anthem accounting for a large part of its EBITDA, sustaining existing levels of free cash flow may be out of reach. We think it is prudent to value Express while considering the loss of the Anthem contract. Though Express Scripts may look cheap on the basis of our DCF process, we point to the low end of our fair value range as a reasonable estimate in light of contract uncertainty--we'd need quite the turn of events to ever consider it in either newsletter portfolio.

CVS Health Continues to Feel the Impact of Contract Losses

CVS Health, one of the newest members of the Best Ideas Newsletter portfolio, has faced some selling pressure of late as it continues to reel from the loss of a few key contracts. On May 2, CVS posted adjusted first-quarter earnings of $1.17, slightly ahead of analyst expectations. The "earnings beat" was partially fueled by an aggressive capital allocation plan, which includes an accelerated share repurchase program (ASR). CVS managed to repurchase 46 million shares in total at an average price of $78.74 per share--a tremendous bargain in light of our $104 fair value. Any time shares can be scooped up below fair value, and especially below the low end of the fair value range, the move is highly value-creating.

We view the ASR as a strategic step that management can take to generate value now, while waiting for the business to the return to growth. To be clear, we do not view CVS as a strict capital return "story," as we feel the dip in growth is a temporary endeavor with growth to resume in 2018 as new contract wins in the PBM side overshadow losses in retail pharmacy. That said, CVS remains mired in the throes of working off the loss in Rx volume due to a few contract losses, but we feel the current selling season should bear fruit.

Further, we are encouraged by its local partnership with OptumRx, the third-largest PBM in the US. CVS is preparing to launch a 90-day fill at retail, similar to the current mail order option. The goal of the partnership is to offer the patient the choice of a three-month prescription to be delivered either through the convenience of mail-order or interaction with the local pharmacist. By allowing the local option, the partnership should improve members' satisfaction as a significant percentage of mail-order customers prefer the personal connection offered at retail. Optum's parent company, United Healthcare, in our view, is ahead of the curve--we feel the local option will appeal to seniors, thus aiding United in differentiating its product offerings in the Medicare segment. We'll closely monitor the roll-out of the partnership as we feel it could be a potential game changer.

That said, the retail division continues to suffer from the impact of the loss in Rx volume. We are not surprised with the drop in volume, and management has been deliberately managing expenses in light of the loss of business. The decrease in expenses should augur well for a return to growth as a lag will occur from the point of business gain before additional resources are allocated. While we do not feel the Optum contract is the panacea that cures all that ills CVS, we feel it has the potential to aid in the return to growth. We still like CVS.

Alexander J. Poulos is long CVS.

Stop Thinking Chronologically and Start Thinking Psychologically

By Brian Nelson, CFA

The Psychology of the Markets

"The stock market is a discount mechanism of future expectations. Period. Sometimes prices are rational and based soundly on reasonable future fundamental expectations and sometimes they're not." – Brian Nelson, CFA

Stop thinking chronologically, and start thinking psychologically.

Many investors believe that they can just buy any old stock that pays a growing dividend and hold it for decades, and that's long-term investing. Selection bias aside, this has worked in the past for many an investor. There are hundreds of examples of this. But I think it is incredibly important for you to understand how to think about the long term, regardless of your investment time horizon. The long term is generally taught and presented chronologically (i.e. hold a stock for years), but instead it is a far more psychological phenomenon.

First, any intellectual conversation of the long term must consider the discounting mechanism of stock prices in how they discount future information, whether it is risk through the discount rate or value through the magnitude of free cash flows. The long term, therefore, is a far more complex concept than many make it out to be. In the future, for example, stock prices will reflect the expectations of a "new" future at that point in time, not the fundamentals of the past or performance from the past to present. This is why in "The 14 Steps to Understand the Stock Market," we say the "long term" can never be attained. It's fallacious to think so. As time passes, there will always be a new "future," and a new "long term," and stock prices will always change to reflect the moving target of these changing long-term expectations.

Apple (AAPL), for example, is/was/has been a great performing stock because its future today has a larger free cash flow stream expected in it (and lower risk ascribed to it) than that of the future of its past. Its future value today is larger than what it was in the past. The present value of expectations of its long term, a "new" long term, have changed over time. This is very important to understand. It is not the passing of time (chronologically), per se, why stock prices advance/decline, but instead it is the change in the market's future financial forecasts of them (free cash flow and the like) +\- net cash on the books at any point in the future that causes the stock price change (driven by buying and selling activity based on these changing expectations).

It's psychological, not chronological. Because expectations of the future are always changing, and the future is inherently unpredictable, there can theoretically never be a determinate or definitive "long term." In fact, there is only a series of iterative expectations of the long term that drive the stock prices of today and stock prices as time passes. If you understand this, you're moving closer to understanding what makes the markets tick.

Source: "The 14 Steps to Understand the Stock Market," Brian Nelson, CFA

Dividends Are a Symptom, Not a Driver of Intrinsic Value

"The 'dividend' has done more to confuse investors about investing than anything else in modern-day society." – Brian Nelson, CFA

Dividends are a symptom of value, not a driver of it.

The intrinsic value of a company is based on its net cash position on the balance sheet and what it generates in future free cash flows, discounted back to today. All other qualitative factors (management, strategy, new products, and the like) must translate into future income/cash flows to have any monetary value. Because a company pays a dividend out of free cash flows (or net cash on the books), the dividend is an output to the valuation of the company (it is a symptom), not a driver behind

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it. To hit this point home, for example -- there are many companies that could be considered fantastic investments that pay no dividends at all.

How dividends impact valuation: https://www.valuentum.com/articles/20140114_1

Let's use Teva Pharma (TEVA) as an example. The company is a highly speculative idea (it is currently under DOJ investigation and is experiencing turnover in the executive suite) and one that we do believe has heightened risk to the sustainability of the dividend (its Dividend Cushion is far less than 1), even as we say we think shares are undervalued on our discounted cash flow process (the company has a tremendous free cash flow yield). We pay close attention to a large number of different variables in our work, but the price-to-fair value variable is one of the most important. For example, if an investor can buy a stock for $0.70 (price) on the $1.00 (value), that's a good deal, and what we consider to be the cornerstone of investing. Estimating the company's value correctly is one of the most important things investors can do, and that's outside the context (independent) of the dividend.

As a side note, Teva is only included in the Best Ideas Newsletter portfolio as a very, very speculative idea, and it is not in the Dividend Growth Newsletter portfolio (which focuses on companies with strong dividend growth potential). We continue to evaluate the Teva idea closely, and we haven't been pleased with its performance of late. For more information on Teva, please be sure to examine our archives on Teva at the following link:

https://www.valuentum.com/search2?searchtext=teva&searchtype=symbol

Don't Revenue and Earnings Have to Advance for Stocks to Go Up?

"In short, no. If a stock is undervalued on the basis of its future free cash flow stream, price-to-fair value convergence can occur even if future fundamentals are less-than-desirable." – Brian Nelson, CFA

The price-to-earnings (PE) ratio is a short cut and used incorrectly, almost all of the time.

The price of a stock almost never equals its true discounted cash-flow based intrinsic value, so regardless of where revenue or earnings go in future periods, a company can either be undervalued, fairly valued or overvalued today--meaning that its price will often differ from its true intrinsic worth. It becomes clear that even undervalued stocks with expectations for declining revenue and earnings can advance if price-to-fair value convergence occurs.

The discounted cash flow model, the method that we use to estimate intrinsic value, captures future expectations of revenue and earnings growth/declines today, and those future expectations are embedded in the current fair value estimate today, meaning future expectations are captured and discounted back to today (they are factored into the current estimate). Only deviations from those expectations (as expectations can and should change) will cause changes in the fair value. The future is all that matters when it comes to investing.

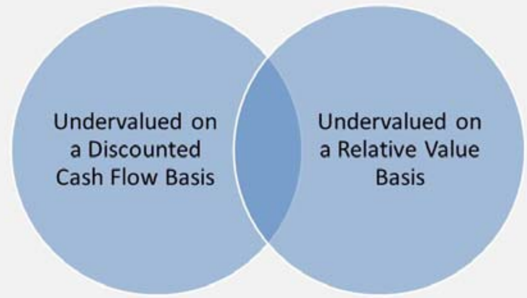
Importantly, thinking in terms of multiples may not be as rigorous of an approach as investors may like. Multiples at times can be meaningless in the case of negative ones, extremely small ones, astronomical ones, ones that exclude net cash, and others based on non-GAAP earnings. There are a great number of factors beyond just growth that can impact a company's multiple, which is driven by all of the drivers behind the discounted cash flow model. Please have a look at the following for some great reading: https://www.valuentum.com/articles/20120313_1.

Critically, the tendency for systematic overvaluation of industry and sector groups runs prevalent when only comparable multiple analyses are applied, too. This is what happened in the MLP space during mid-2015, as the price-to-distributable cash flow metric fallaciously took precedence over enterprise free cash flow estimation.

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).



"By overlaying a relative valuation process on a robust forward-looking discounted cash flow valuation methodology, "pure" value investors add an extra degree of conviction to their undervalued ideas. For the ideas in this screen to register the highest rating on the Valuentum Buying Index, however, the market would also have to agree that shares are undervalued, as evidenced by an advancing stock price, one that has good momentum." – Valuentum's Brian Nelson, CFA

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	DCF Valuation	Relative Valuation	Price/Fair Value	Fair Value Estimate
Xerox	XRX	UNDERVALUED	ATTRACTIVE	0.59	$12.00
Michael Kors Hldg	KORS	UNDERVALUED	ATTRACTIVE	0.63	$60.00
Synaptics	SYNA	UNDERVALUED	ATTRACTIVE	0.66	$77.00
Hanesbrands Inc	HBI	UNDERVALUED	ATTRACTIVE	0.72	$27.00
CVS Caremark	CVS	UNDERVALUED	ATTRACTIVE	0.76	$104.00
Sally Beauty	SBH	UNDERVALUED	ATTRACTIVE	0.77	$27.00
Western Union	WU	UNDERVALUED	ATTRACTIVE	0.78	$25.00

The price-to-fair value measures reflect the metric at the time of report publishing and may differ from today's metric.

*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.

For the first time since the creation of the Valuentum Buying Index, no stocks register a 9 or 10 on the system. The market remains frothy. Please consult the Best Ideas Newsletter portfolio on page 8 for our best ideas.

Adobe Systems	ADBE	Information Technology	2
Chemed	CHE	Health Care	2
Clorox	CLX	Consumer Staples	2
Graco	GGG	Industrials	2
Intercontinental	IHG	Consumer Discretionary	2
Intuitive Surgical	ISRG	Health Care	2
KEMET Corp	KEM	Information Technology	2
Kyocera	KYO	Information Technology	2
LHC Group	LHCG	Health Care	2
Mercadolibre	MELI	Information Technology	2
MKS Instruments	MKSI	Information Technology	2
MSCI	MSCI	Information Technology	2
National Beverage	FIZZ	Consumer Staples	2
Northern Trust	NTRS	Financials	2
Roper Technologies	ROP	Industrials	2
Royal Caribbean	RCL	Consumer Discretionary	2
SBA Comm	SBAC	Telecom Services	2
Sherwin-Williams	SHW	Consumer Discretionary	2
Ulta Salon	ULTA	Consumer Discretionary	2
Waters	WAT	Health Care	2
Autodesk	ADSK	Information Technology	1
Badger Meter	BMI	Industrials	1
Brown-Forman	BF.B	Consumer Staples	1
CACI Intl	CACI	Information Technology	1
CONSOL Energy	CNX	Energy	1
Danaher	DHR	Industrials	1
Diageo	DEO	Consumer Staples	1
Emcor Group	EME	Industrials	1
Heartland	HTLD	Industrials	1
Jack Henry	JKHY	Information Technology	1
Jack in the Box	JACK	Consumer Discretionary	1
Lockheed Martin	LMT	Industrials	1
Manhattan Associates Inc	MANH	Information Technology	1
MGE Energy	MGEE	Energy	1
Northrop Grumman	NOC	Industrials	1
Nvidia	NVDA	Information Technology	1
Quad/Graphics Inc	QUAD	Consumer Discretionary	1
RBC Bearings	ROLL	Industrials	1
Scotts Miracle-Gro	SMG	Materials	1
STMicroelectronics	STM	Information Technology	1
Zayo Group	ZAYO	Information Technology	1

General Electric (GE) – Page 1 of 16

By Valuentum Analysts

Download General Electric's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 15-May-2017 | Data as of 12-May-2017

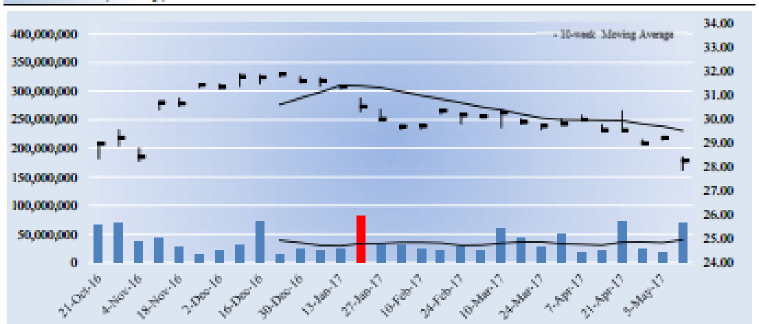
General Electric GE FAIRLY VALUED

Buying Index™ 4 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Attractive	$30.00	$23.00 - $38.00	MEGA-CAP VALUE	Industrials	Conglomerates

We've lowered our fair value estimate for GE after reassessing the trajectory of its cash flow from operations generating capacity, especially as dividends from GE Capital wind down.

Stock Chart (weekly)



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

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	POOR
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	MEDIUM
Financial Leverage	HIGH
Growth	MODEST
Technical Evaluation	BEARISH
Relative Strength	WEAK
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	IMPROVING
Near-term Technical Resistance, 10-wk MA	30.00

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

Business Quality

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

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

Company Vitals

Market Cap (USD)	$232,295
Avg Weekly Vol (30 wks)	36,758
30-week Range (USD)	27.85 - 31.94
Valuentum Sector	Industrials
5-week Return	-4.8%
13-week Return	-7.0%
30-week Return	-0.6%
Dividend Yield %	3.4%
Dividends per Share	0.96
Forward Dividend Payout Ratio	58.3%
Est. Normal Diluted EPS	2.15
P/E on Est. Normal Diluted EPS	13.2
Est. Normal EBITDA	30,394
Forward EV/EBITDA	10.8
EV/Est. Normal EBITDA	9.1
Forward Revenue Growth (5-yr)	4.0%
Forward EPS Growth (5-yr)	19.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	8.1%
Return on Assets	1.6%
ROIC, with goodwill	4.1%
ROIC, without goodwill	4.8%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	136,211
Net Debt	43,769
Total Debt/EBITDA	7.2
Net Debt/EBITDA	2.3
EBITDA/Interest	3.7
Current Ratio	1.9
Quick Ratio	1.7

NMF = Not Meaningful

Investment Highlights

• GE is one of the largest and most diversified industrial firms in the world, with products/services ranging from aircraft engines to power generation and beyond. The company has largely completed its portfolio transformation to reduce exposure to financials. It was founded in 1892 and is headquartered in Connecticut. GE bought Alstom's power business in 2015.

• In 2017, GE is expecting organic growth of 3%-5% and core margin expansion to drive operating earnings per share to a range of $1.60-$1.70. The company is looking to hit $2 per share in earnings in 2018, ~90% of which is expected to be generated from industrial operations.

• GE has strong liquidity, a large backlog, and major cost programs underway to deal with anything the economic environment has to throw at it. Emerging markets and infrastructure investments are key sources of expansion potential, and its industrial portfolio is as diverse as they come. Though we are still fans of the scope of its business, our opinion of the firm's cash flow generating sustainability has weakened.

• Reduced reliance on financials and shedding its SIFI designation were smart moves, in our view. Not only did we like the monetization of a portion of its far-reaching financial operations, but the move also frees up the executive suite to focus on driving top-notch performance at its industrial operations.

• GE boasts a very nice dividend yield, but the recent portfolio transformation has muddied its cash flow generating capacity. After stripping its operating cash flows of non-core asset sales and waning GE Capital dividends, our opinion of its dividend safety and fair value have been reduced.

Relative Valuation

	Forward P/E	PEG	Price / FV
3M	21.6	3.2	125.8%
Danaher	22.6	1.6	113.0%
Honeywell	17.7	2.8	115.8%
United Technologies	16.7	1.6	105.0%
Peer Median	19.6	2.2	114.4%
General Electric	**17.2**	**1.3**	**94.2%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	117,386	123,693	125,796
Revenue, YoY%	-21.0%	5.4%	1.7%
Operating Income	14,634	13,827	20,598
Operating Margin %	12.5%	11.2%	16.4%
Net Income	1,369	9,785	13,528
Net Income Margin %	1.2%	7.9%	10.8%
Diluted EPS	0.14	1.07	1.65
Diluted EPS, YoY %	-91.0%	684.1%	53.6%
Free Cash Flow (CFO-capex)	12,582	-7,443	7,541
Free Cash Flow Margin %	10.7%	-6.0%	6.0%

In Millions of USD (except for per share items)

Structure of the Conglomerates Industry — GOOD

The industrial conglomerate industry is characterized by firms that operate various business lines on a global scale. Demand for industrial products tends to be cyclical in nature, and most firms couple their manufacturing operations with generally more stable services businesses to mitigate fundamental volatility. Firms tend to have bargaining power over suppliers due to industry dominance and boast substantial resources to adapt to changing conditions or competitive threats. Most sell products under powerful and recognizable brand names and look to emerging markets for future growth. We like the group.

Facebook (FB) – Page 1 of 16

By Valuentum Analysts

Download Facebook's 16-page report, 2-page supplemental dividend report and read Valuentum's latest commentary on its website at www.valuentum.com.

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 13-May-2017 | Data as of 1-May-2017

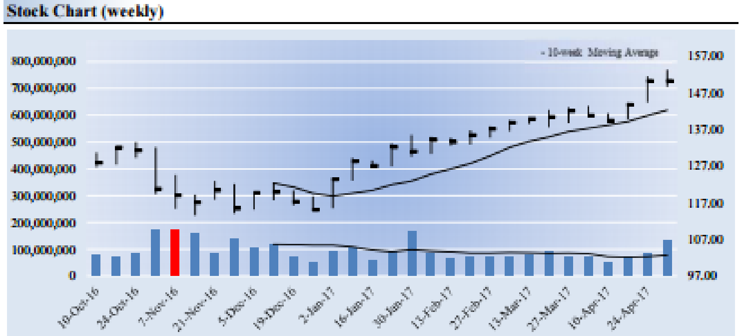
Facebook FB FAIRLY VALUED

Buying Index™ 5 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$187.00	$140.00 - $234.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

Facebook's free cash flow generation and balance sheet strength continue to impress.

Stock Chart (weekly)



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

Investment Considerations	
DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	AGGRESSIVE
Technical Evaluation	NEUTRAL
Relative Strength	STRONG
Money Flow Index (MFI)	OVERBOUGHT
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	142.00

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

Business Quality — ValueCreation™

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

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

Company Vitals	
Market Cap (USD)	$439,452
Avg Weekly Vol (30 wks)	93,777
30-week Range (USD)	113.55 - 153.6
Valuentum Sector	Information Technology
5-week Return	5.9%
13-week Return	14.7%
30-week Return	15.9%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	7.38
P/E on Est. Normal Diluted EPS	20.4
Est. Normal EBITDA	38,446
Forward EV/EBITDA	16.6
EV/Est. Normal EBITDA	10.7
Forward Revenue Growth (5-yr)	24.8%
Forward EPS Growth (5-yr)	23.6%

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

Returns Summary	3-year Historical Average
Return on Equity	13.4%
Return on Assets	12.1%
ROIC, with goodwill	37.3%
ROIC, without goodwill	95.6%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	0
Net Debt	-29,449
Total Debt/EBITDA	0.0
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	12.0
Quick Ratio	11.6

NMF = Not Meaningful

Investment Highlights

• Facebook's mission is to make the world more open and connected. People use Facebook to stay in touch with friends and family, to learn about current events, and to share and express what matters to them. CEO Mark Zuckerberg is a true visionary, and his genius may not yet be fully on display. The company was founded in 2004 and is headquartered in California.

• It's unfair to lump Facebook in with other social media companies. Facebook is generating billions in revenue and is turning a strong profit as it hauls in free cash flow. The company's balance sheet is pristine with ~$29.5 billion in net cash at the end of 2016. Long-term investors are taking notice.

• As data coverage improves, the number of mobile users continues to grow. Facebook is well-positioned, and millennials are increasingly accessing its platform from mobile devices. For younger demographics, advertisers may have to go to Facebook to find their desired target market. Mobile ad revenue accounted for 83% of total ad revenue in 2016.

• While Facebook's free cash flow generation and balance sheet strength are strong sources of reassurance, investors must be cognizant of the low barriers to entry in the social media space as well as the potentially fickle nature of its users. The social media landscape could be completely different in 5-10 years, presenting both risks and opportunities.

• Facebook's monthly active users (MAUs) and mobile monthly active users are growing at tremendous rates. As of the end of 2016, MAUs rose to ~1.8 billion and mobile MAUs rose to ~1.7 billion compared to less than 950 million mobile MAUs at the end of 2013.

Relative Valuation	Forward P/E	PEG	Price / FV
Alphabet	27.1	1.9	93.2%
Baidu	31.3	NMF	95.7%
WebMD	26.8	5.3	114.9%
Yahoo	NMF	NMF	110.2%
Peer Median	27.1	3.6	103.0%
Facebook	**30.8**	**1.8**	**80.3%**

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

Financial Summary

Fiscal Year End:	Dec-15 (Actual)	Dec-16 (Actual)	Dec-17 (Projected)
Revenue	17,928	27,638	38,444
Revenue, YoY%	43.8%	54.2%	39.1%
Operating Income	6,225	12,427	21,458
Operating Margin %	34.7%	45.0%	55.8%
Net Income	3,669	10,188	14,412
Net Income Margin %	20.5%	36.9%	37.5%
Diluted EPS	1.29	3.48	4.88
Diluted EPS, YoY %	17.1%	170.8%	40.1%
Free Cash Flow (CFO-capex)	7,797	11,617	12,933
Free Cash Flow Margin %	43.5%	42.0%	33.6%

In Millions of USD (except for per share items)

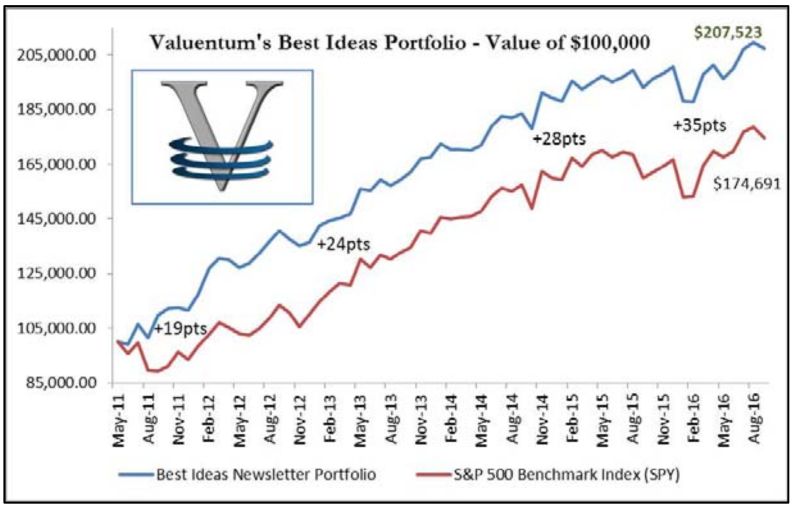
Structure of the Internet Software & Services Industry — NEUTRAL

The Internet software/services industry is composed of a variety of companies with rapidly-changing business models. Most focus on improving the ways people connect with information, either via Internet search or by social media platforms, and generate revenue primarily by delivering cost-effective online advertising. Constituents earn significant returns on invested capital due to their capital-light operations, though competition remains fierce. We expect most companies in this group to look substantially different 10 years from now than they do today. Overall, we're neutral on the structure.

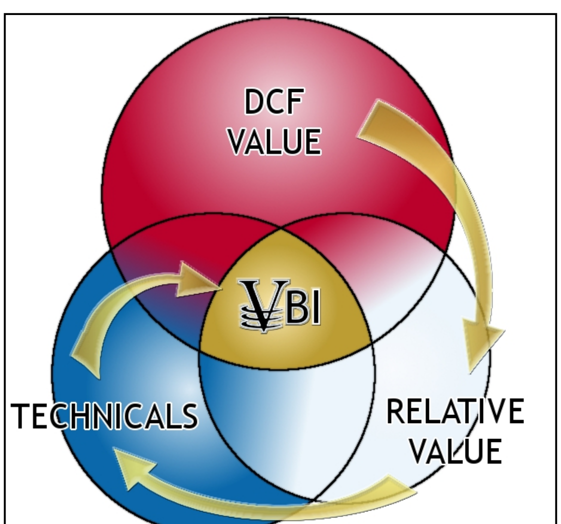
Our Methodology – The Valuentum Buying Index (VBI)

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 think 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.

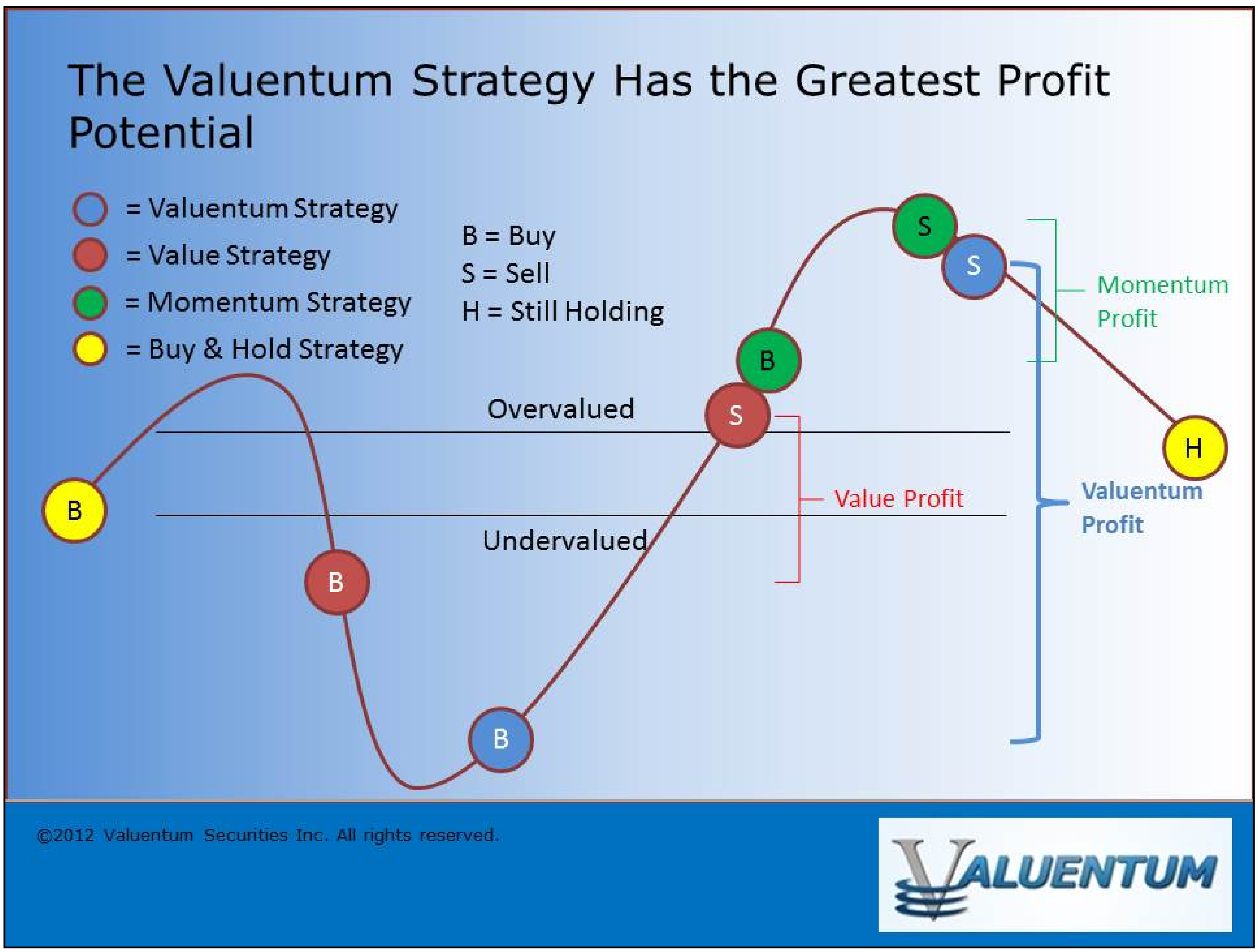


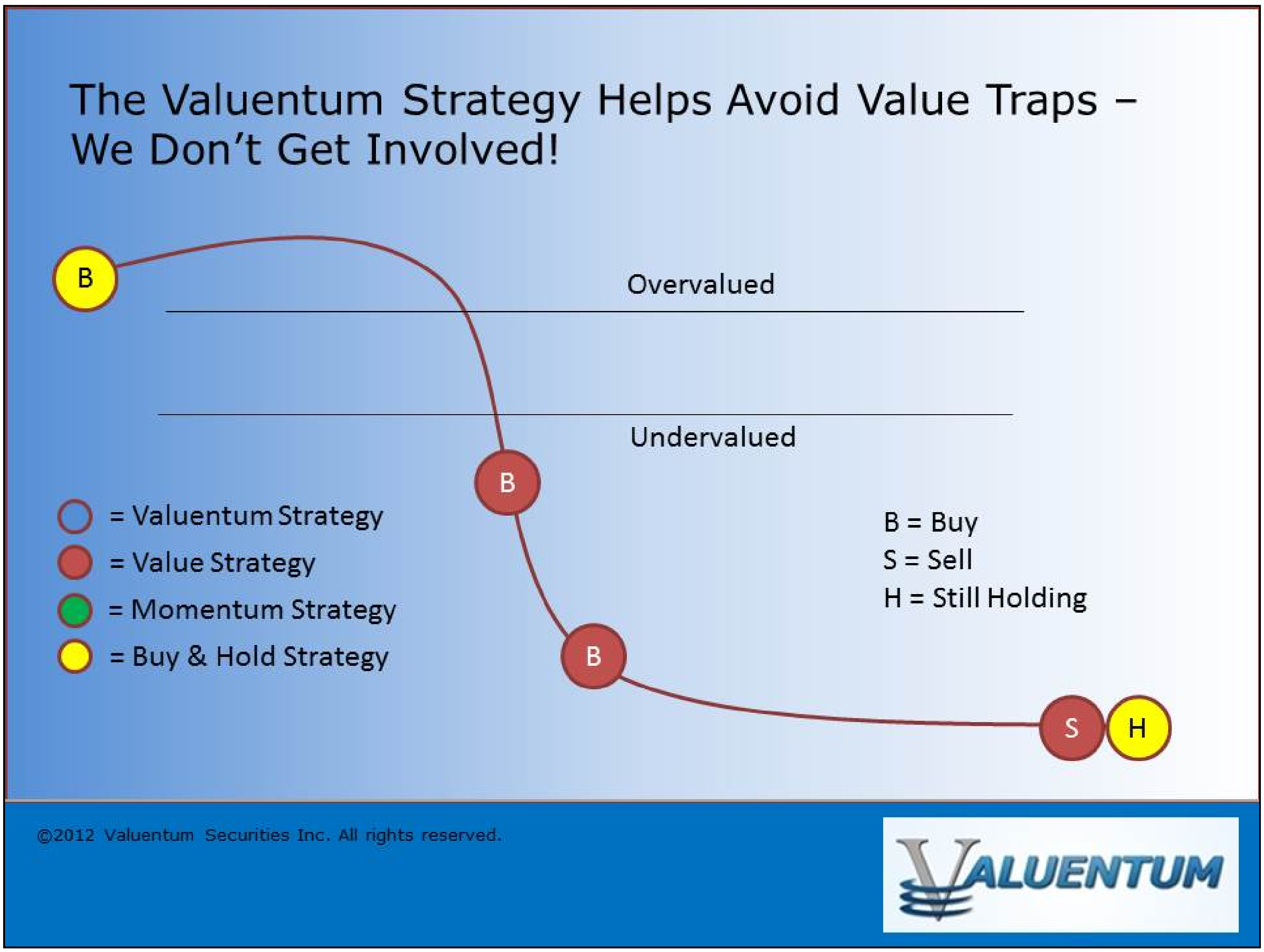
Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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

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



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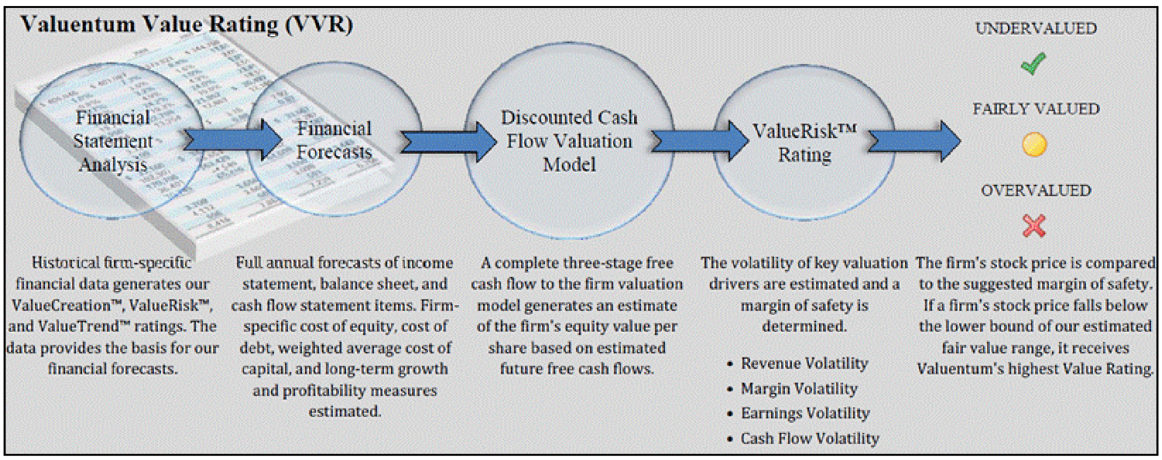
Our Methodology – The Valuentum Buying Index continued on next page

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.



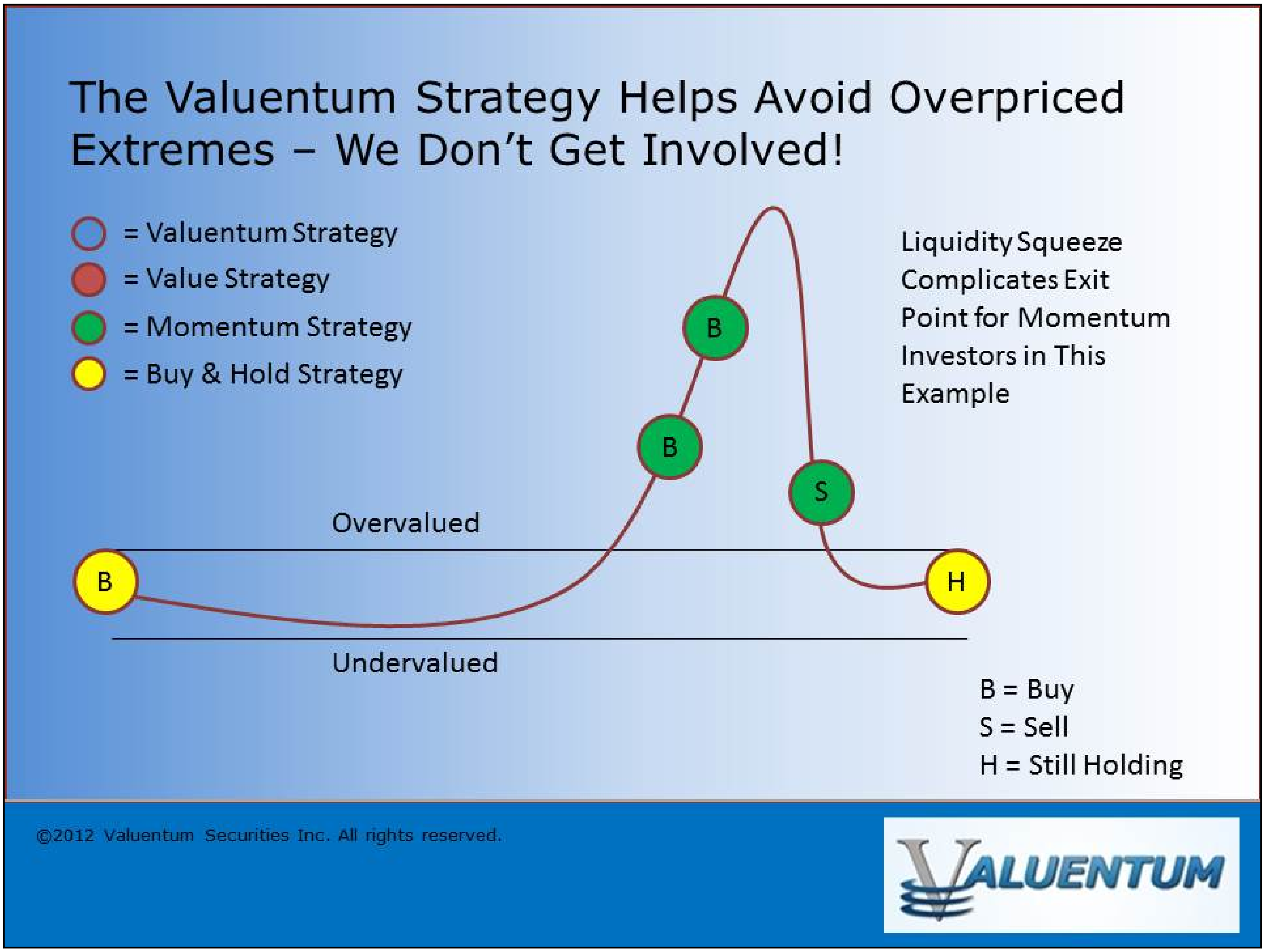
After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation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

We then assess each company within our complete three-stage free cash flow to the firm (enterprise cash flow) valuation model, which generates an estimate of a company's equity value per share based on its discounted future free cash flows and the company's net balance sheet impact, including other adjustments to equity value (namely pension and OPEB adjustments). Our ValueRisk rating, which considers the underlying uncertainty of the capacity of the firm to continue to generate value for shareholders, sets the margin of safety bands around this fair value estimate. For firms that are trading below the lower bound of our margin of safety band, we consider these companies undervalued based on our DCF process. For firms that are trading above the higher bound of our margin of safety band, we consider these companies overvalued based on our DCF process.

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

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page



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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

Our Methodology – The Valuentum Buying Index continued from previous page

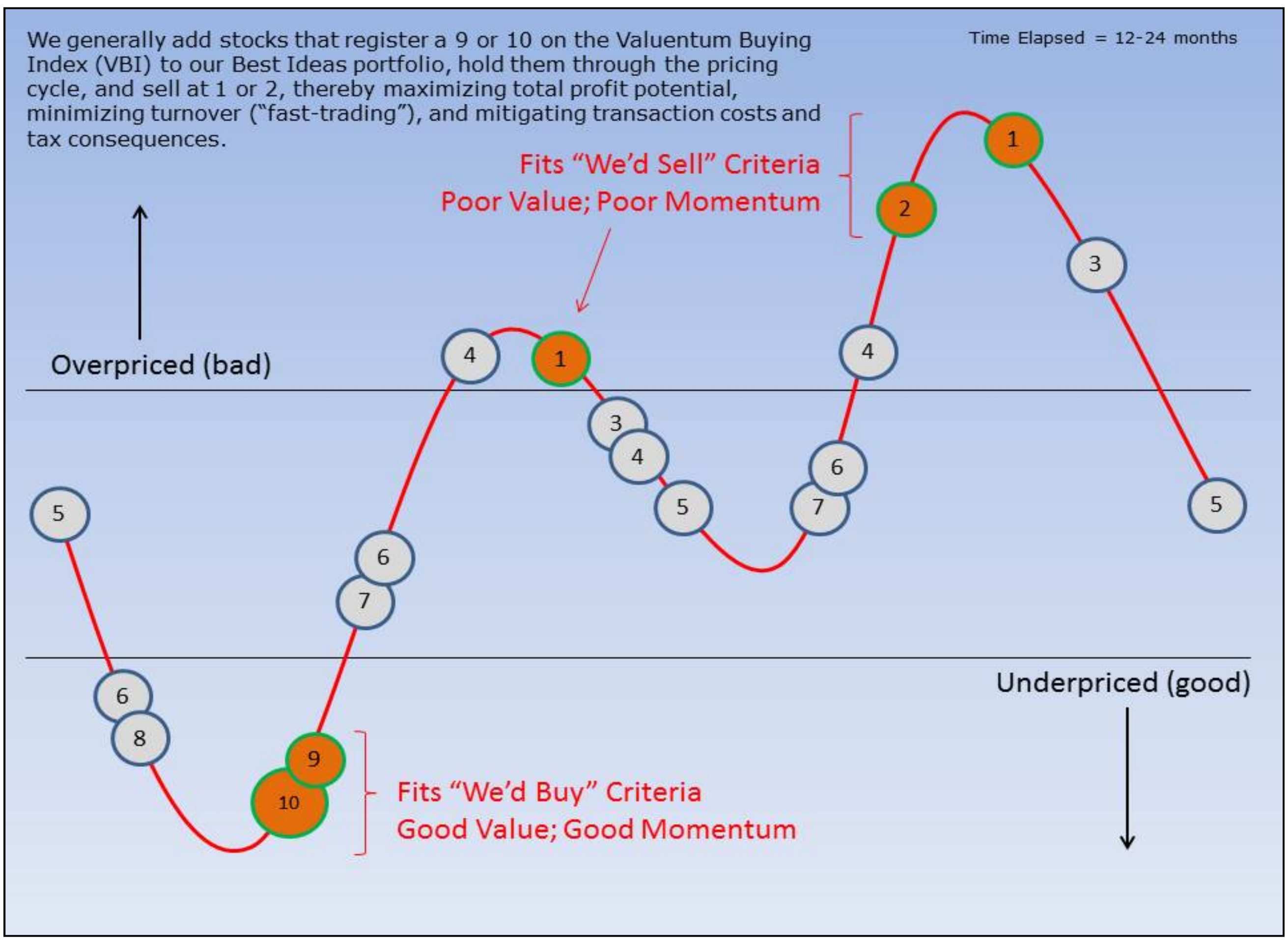
valuation criteria). Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster returns. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we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

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

Putting It All Together - the Valuentum Buying Index

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

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



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Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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.

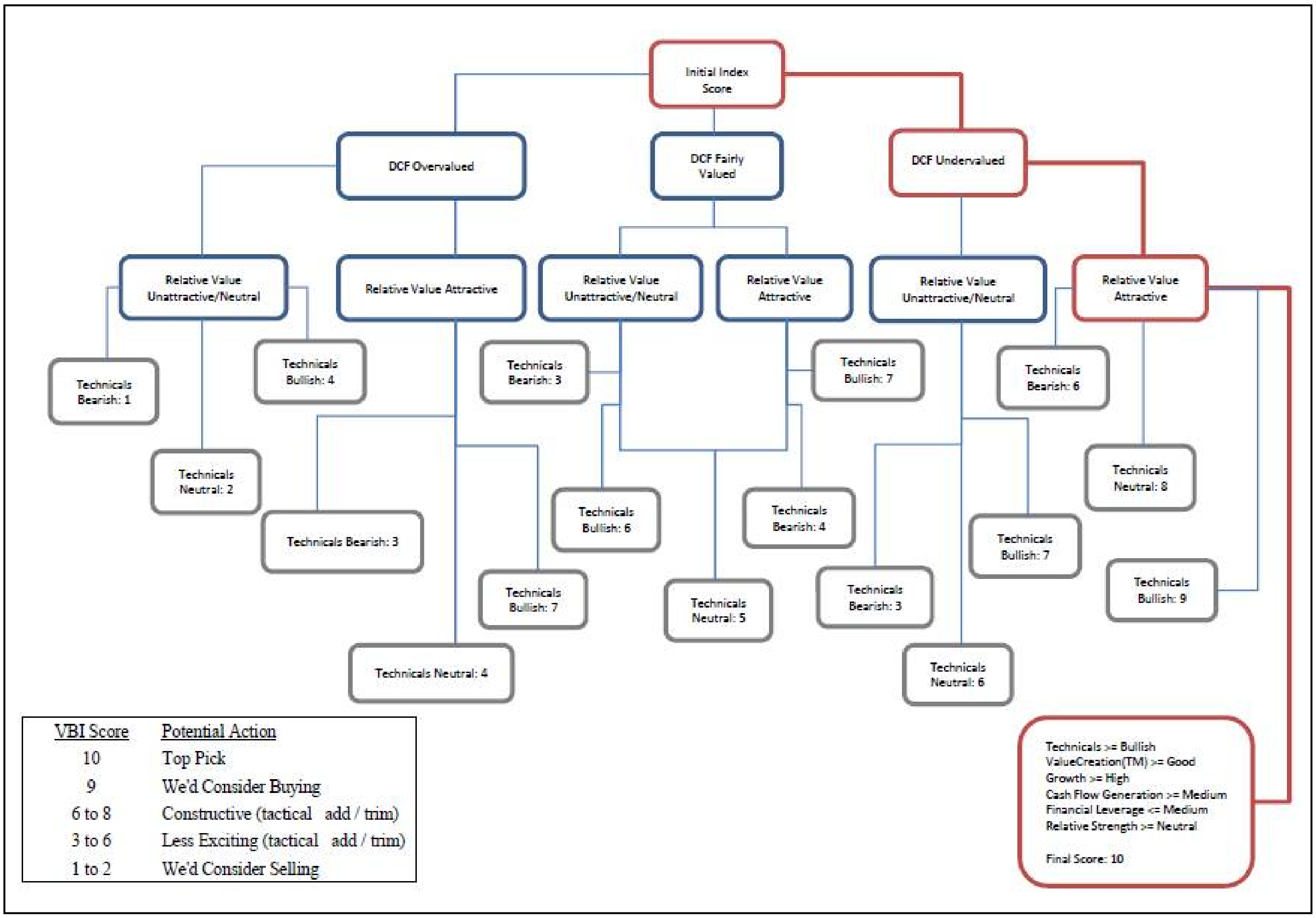

Illustration for educational purposes only.

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About the Fair Value Range

By Valuentum Analysts

Understanding the Fair Value Range and Why It's Important

FAQ: Why do you use such a wide fair value range for certain companies?

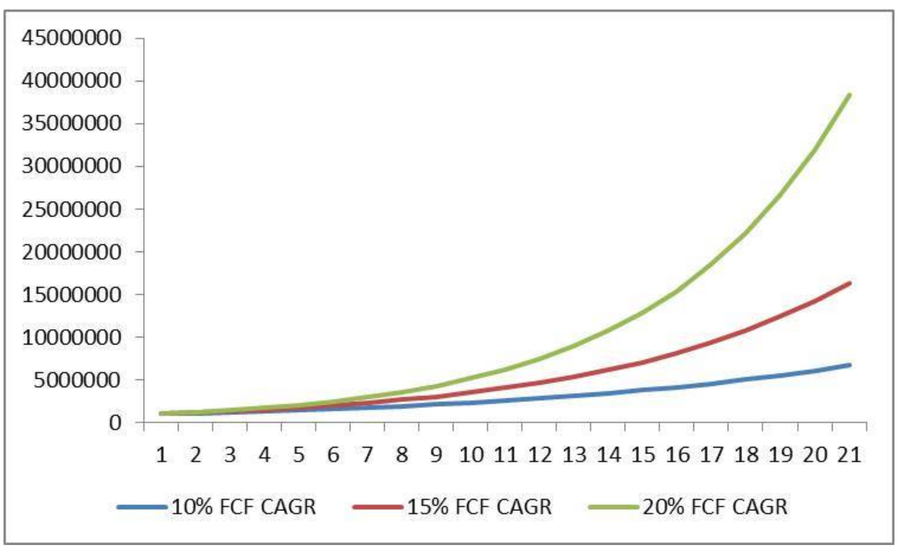
One of the most important concepts of the Valuentum methodology (and valuation in general) is the understanding that the value of a company is a range of probable valuation outcomes, not a single point estimate. Even well-seasoned stock analysts are guilty of saying that a company's shares are worth exactly $25 or a firm's stock is worth exactly $100. The reality is that, in the first case, the company's shares are probably worth somewhere between $20 and $30, and in the latter case, the stock is worth somewhere between $75 and $125.

Why? Because all of the value of a company is generated in the future (future earnings and free cash flow), and the future is inherently unpredictable (unknowable). If the future could be predicted with absolute certainly (knowable), then a stock analyst could say a company's shares are worth precisely this, or that a firm's stock is worth precisely that. Not *because he or she would know where the stock would be trading at*, but because he or she would know precisely what future free cash flows would be (and all other modeling facts-not assumptions in this case) and arrive at the exact and **non-debatable** value of the firm.

But the truth of the matter is that nobody knows the future, and analysts can only estimate what a company's future free cash flow stream will look like. Certain unexpected factors will hurt that free cash flow stream relative to forecasts, while other unexpected factors will boost performance. That's how a downside fair value estimate and an upside fair value estimate is generated, or in the words of Warren Buffett and Benjamin Graham how a "margin of safety" is generated. Only the most likely scenario represents the point fair value estimate. Any stock analyst that says a company is worth a precise figure--whether it's $1 or $100--falls short of understanding one of the most important factors behind valuation.

But why the large range in many cases?

Well, there are many firms in our coverage universe that have a very large range of outcomes in their future free cash flow growth. And because discounting free cash flows is an integral part of calculating the fair value estimate of a company, the range of fair values will also be large. To illustrate this point, let's take a look at the difference between the levels of free cash flows in Year 20 under three different future growth rates: 10%, 15%, and 20%. Though the growth rate between each scenario is but 5 percentage points, the magnitude of the free cash flow difference is astounding many years into the future, and our discounted cash-flow process considers the long-term intrinsic value of firms.



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Under these future free-cash-flow scenarios, if we assume an 8% discount rate and 100,000 shares outstanding (and no debt), the difference in the fair value estimate between the upside case (green line) and downside case (blue line) would be an incredible $68 per share ($82 per share less $14 per share). That's a huge fair value range (80%+), and all because of just a 10 percentage point difference in a future free cash flow growth assumption. For firms that are growing cash flows at 200% or 300% per annum, a large range of fair value outcomes is not only inevitable but also very reasonable. In other words, the Valuentum framework provides an avenue to quantify the upside and downside risks investors are taking in high uncertainty and fast-growing enterprises.

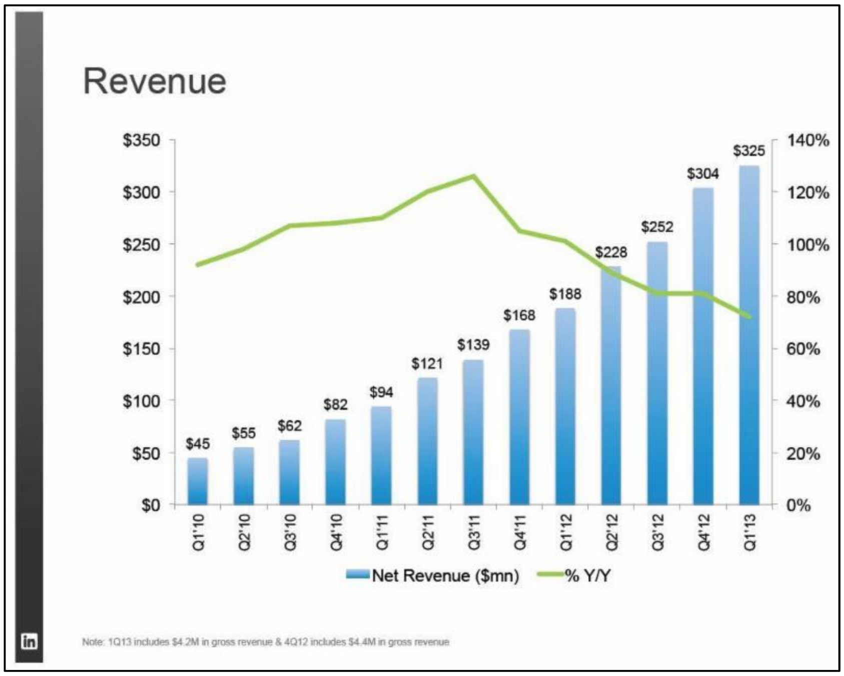

Image Source: LinkedIn

To really hit this point home, shown above is a slide of LinkedIn's (LNKD) revenue from the first quarter of 2010 through the first quarter of 2013. The green line (mapped to the right axis) shows LinkedIn's revenue growth rate. Let's assume revenue expansion translates into similar free cash flow growth expectations (not exactly a precise assumption, given the leverage in LinkedIn's business model), but bear with us for simplistic illustrative purposes. Will LinkedIn's revenue/cash flows expand at a 20% rate, a 40% rate, or a 60% rate (or an even greater pace) through year 20?

It's a very, very difficult question to answer. Remember how significant that 10 percentage point spread was in the hypothetical example above? Well, it's even more significant for LinkedIn. We know LinkedIn's free cash flows will expand, and expand fast, but just how fast is certainly debatable. To a very large extent, that's why LinkedIn's range of probable outcomes (fair value range) is so large. Understanding the cone of fair value outcomes of a company is helpful because the size of the range tends to be positively correlated to the equity's volatility. If you recall, look at what happened to LinkedIn's stock recently when investors ratcheted down their long-term growth assumptions (and by extension, the company's intrinsic value).

Shares collapsed in a huge way.

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But it was largely because of that same weakness in equity pricing that drove Microsoft (MSFT) to take the leap to buy LinkedIn's equity outright just a few months later. Over just a very short period of time, LinkedIn's shares effectively collapsed and then surged as the chart below shows (its intrinsic value range didn't change much, however). Having a fair value range that adequately captures both the upside and downside cases for a company's shares remains an integral part of stock investing. Not only does it help hone in on the potential risk-reward profile of an equity at any given time, it also helps reveal the attractiveness of various "entry" or "exit" points using a robust free-cash-flow based and fundamentally-sound intrinsic value estimate as the anchor.

We're scouring our coverage universe for firms that are trading outside of their respective fair value ranges. A firm trading below the low end of its fair value range, for example, is undervalued, while a firm trading above its fair value range is overvalued. The fair value range for each company captures the inherent uncertainty of the trajectory of that firm's unique future free cash flow stream. For the 1,000+ companies we include in our coverage universe, we provide a discounted cash flow derived fair value estimate and a corresponding fair value range -- *and a robust discounted cash-flow process is only one aspect of our service.*

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

By Valuentum Analysts

We often receive questions about how we use the Valuentum Buying Index (VBI) rating system, but we think it is equally important to mention that it is only one of the many facets of our website and services. For example, if you haven't checked out the Dividend Cushion ratios on the stocks in your portfolio or the dividend growth product (from individual reports to the newsletter and beyond), surely you are not maximizing your membership! We love dividends, but you can also trust us to make sure you're aware of the real risks of any dividend strategy in today's market.

No matter your strategy or process though, the Valuentum Buying Index rating system is still a helpful tool to have at your disposal, even if you are not using it. Admittedly, the VBI, as we call it, is not as easy to use as 1, 2, 3, or even buying 9s and 10s and selling 1s and 2s until their VBI changes upon the next update. Within any quantitative process, we value the human, qualitative overlay, which captures a wealth of experience and common sense. We want to make sure that we're surfacing the best ideas for members, and flying blind is never a good strategy, in our opinion. With prudence and care, the VBI process is carried out.

In probably one of the most obvious cases, for example, an experienced investor knows when a price-to-earnings (P/E) ratio isn't informative (as in the case of negative or negligible earnings), but a quantitative rating system that uses a P/E ratio, which the VBI does, may not know any better. Of course the VBI has checks and balances to adjust for such instances, but we believe the human, qualitative overlay is still extremely important, especially when considering various business models and unique "un-modelable" risks (particularly with respect to the banks). In our opinion, a golf club is only as good as the player that uses it, and in a similar light, a financial model or a rating system is only as good as the user that applies it.

That said, we stake so much on the performance of the portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter. They represent the outcome of all of the work we do on the website, rolled into one final assessment: our best ideas for each respective strategy. Sure we have other screens on the website, but those are just screens -- listings of companies with similar data and information. The ideas in the portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter have undergone a painstaking process with our analyst team to ensure that we're delivering the very best to members within a portfolio setting. The thoughts behind the weighting of each idea and the portfolio management process revealed in full transparency on a month to month basis may be worth the cost of a membership alone, even if you're not using the portfolios!

Here's why. In a market environment where more than 90% of large-cap funds have trailed the S&P 500 in the 5-year period ending August 31, 2016, the Best Ideas Newsletter portfolio has exceeded the market return by 33 percentage points over a similar time period. Absolutely phenomenal. What's more, we didn't hide behind standard quarterly reviews and updates either, sending out pre-packaged information to members. We showcased this performance in full transparency, and we had to write every single day to capture interest! When patience is the secret to success in investing, do you know how much could have gone wrong when having to produce daily? Obviously, we're very disciplined, but we also credit the portfolio outperformance to the VBI methodology itself.

Let's talk about how the VBI helps to inform which ideas we include in the Best Ideas Newsletter portfolio (not the Dividend Growth Newsletter portfolio as additional criteria must be met, namely as it relates to yield and Dividend Cushion ratio). That's such an important word, "informs." Notice how we didn't say "dictate" in this reference. For starters, 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

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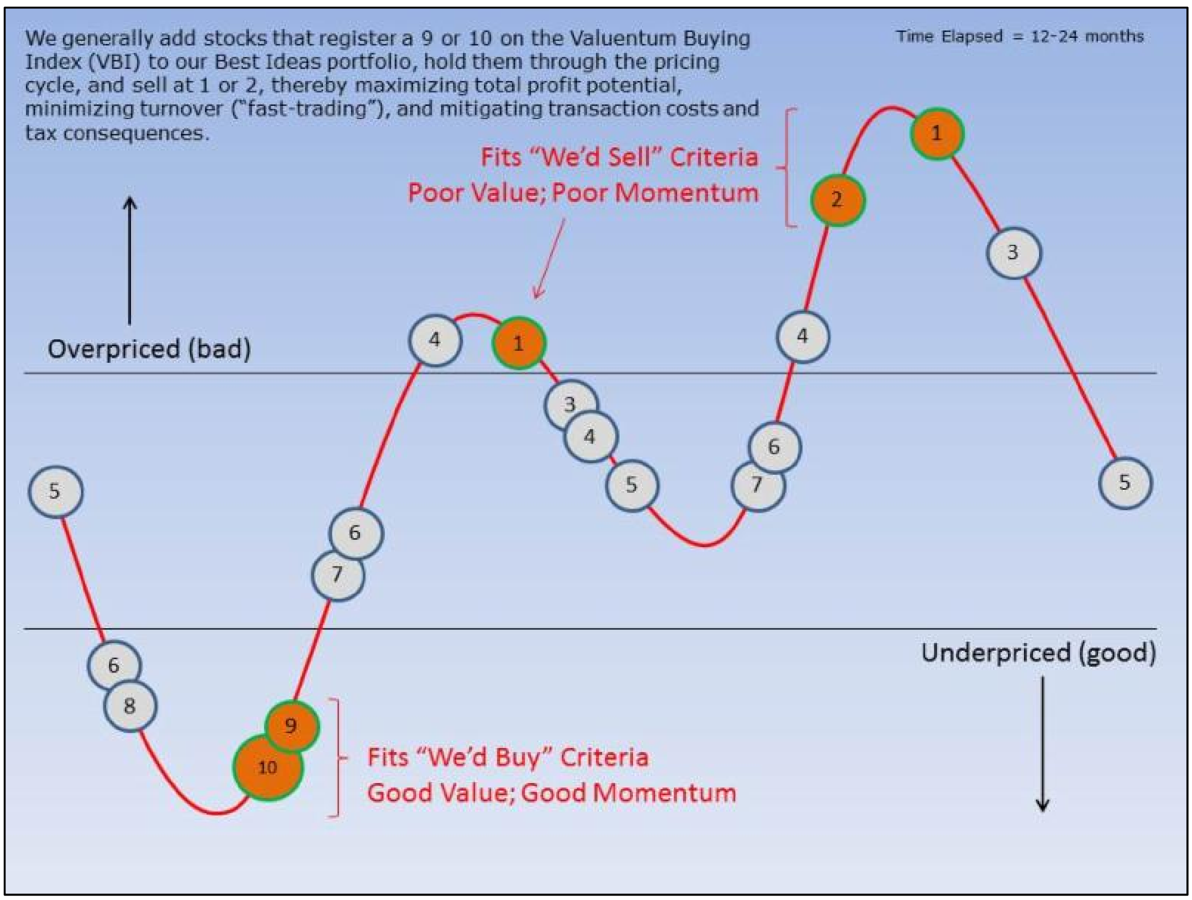
reports are updated regularly (generally on a quarterly basis) or after material events and not daily or weekly. Perhaps most practically though, we don't want to whipsaw our membership, nor do we think churn is the way to generate outperformance.

Though the time frame varies depending on each idea that we consider for the Best Ideas Newsletter portfolio, we expect our best ideas to generally work out over a 12-24 month time horizon (on average). Our holding period is targeted to be much, much longer for some ideas in the Dividend Growth Newsletter portfolio, however. Here is where the VBI rating system becomes somewhat more advanced than a simple 1, 2, 3. We tend to add stocks to the Best Ideas Newsletter portfolio when they register a 9 or 10 on the Valuentum Buying Index (VBI), hold them for some time depending on a number of variables (the VBI, market conditions, sector weightings within the portfolio itself), and then we tend to remove stocks from our Best Ideas Newsletter portfolio when they register a 1 or 2 on the VBI. You'll notice that we have a qualitative overlay for the Best Ideas Newsletter portfolio (and one for the Dividend Growth Newsletter portfolio, too, though it is based on dividend-related considerations).



But why don't we churn and burn by updating daily and trading a lot? Obviously, we don't think that's the secret to success. In quite the opposite approach, we like to maximize profits on every idea that we pursue, with the understanding that momentum does exist and that prices over and under shoot intrinsic value all of the time. For example, as shown in the image above, a value strategy (10 --> 5) truncates potential profits, while a momentum strategy (4 --> 1) ignores profits generated via value assessments. At Valuentum, we're after the entire profit potential of each idea. So, for example, if a firm is added to the Best Ideas Newsletter portfolio as a 10 and is removed as a 5, we would have truncated profit potential by not letting it run to lower ratings. Most of our highly-rated Valuentum Buying Index rated stocks have generated the vast outperformance of the Best Ideas portfolio, but these stocks' ratings declined over time as they were held (a good thing -- a declining VBI rating generally means the share price has advanced, assuming all else is well).

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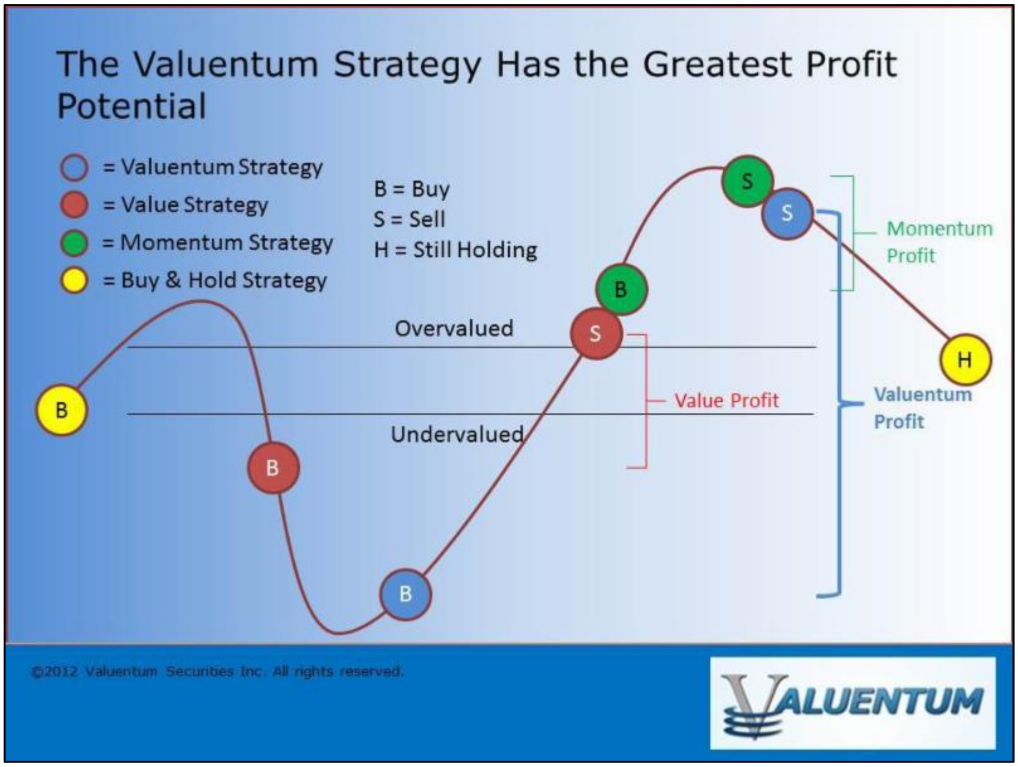

Critically, regarding the Valuentum process, as it is executed in the Best Ideas Newsletter portfolio, we do not add all firms that register a 9 or 10, nor do we add the ones we do immediately thereafter. For example, Google (GOOG, GOOGL), now Alphabet, a current Best Ideas Newsletter portfolio holding, registered a 10 on the Valuentum Buying Index, but we remained patient and didn't add the company to our portfolio until after it reported earnings at the time, providing us with an even better entry point (as new information came to light). There are more "structural/timing" instances like the one with Alphabet, for example, that are extremely difficult to capture in any model, and understandably aren't as obvious to those outside looking in.

But why not add every highly-rated stock to the Best Ideas Newsletter portfolio? Think of it as if you were to imagine a value investor not adding and holding every undervalued stock to his/her portfolio. He or she wants the very best ones -- obviously, that means having to leave some good ideas behind. And then, of course, there are always tactical and sector weighting considerations in any portfolio construction, yet another reason why the human touch remains a vital aspect of the Valuentum process. At the core of how we use the VBI in the Best Ideas Newsletter portfolio, however, is a qualitative portfolio management overlay. The VBI rating helps to inform the process, but the Valuentum team makes the allocation decisions of the newsletter portfolio on the basis of a number of other firm-specific and portfolio criteria. Sometimes, under certain market conditions, we may have to relax the VBI criteria entirely in order to achieve newsletter portfolio goals.

Okay, a couple examples. Take pre-split eBay (EBAY), which many years ago included PayPal (PYPL), as an example of our process in action. The stock initially flashed a rating of 10 in late September 2011, and we added it to the Best Ideas Newsletter portfolio. The VBI rating changed to a 6 in December 2011 and then back to a 10 in May 2012, but because the rating never breached a 1 or 2, we did not remove the position from the Best Ideas Newsletter portfolio. In the case of pre-split eBay, we sought to capture the entire pricing cycle and avoided truncating it as most pure value investors often do (and what we would had done, if we had removed the stock at that time). In many ways, pre-split eBay/PayPal has become one of the better examples to use for illustrating the prolonged outperformance driven by undervalued stocks that are beginning to generate good momentum. [We no longer include eBay in the newsletter portfolio, but its split-off PayPal is retained.]

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There have been more straightforward opportunities in the Best Ideas Newsletter portfolio, too, especially in the case of EDAC Tech, which had tripled since it was added to the newsletter portfolio (never registering below a 9 along the way), and then of course, Apple (APPL), Visa (V) and Altria (MO), but it is usually through the nuances of the process that one truly comes to understand it. The VBI ratings on each stock's most recent 16-page report, downloadable directly from the website at www.valuentum.com, reflect our current opinion on the company. The VBI rating system, as with all methodologies, helps to inform the investment decision process, but in constructing the newsletter portfolio, a qualitative overlay is not only necessary, in our view, but helps to optimize performance. If the returns of the Best Ideas Newsletter portfolio during the past 5+ years are any measure of the VBI rating system, it is performing fantastically well.

About Our Name

But how, you will ask, does one decide what [stocks are] "attractive"? Most analysts feel they must choose between two approaches customarily thought to be in opposition: "value" and "growth,"...We view that as fuzzy thinking...Growth is always a component of value [and] the very term "value investing" is redundant.

-- Warren Buffett, Berkshire Hathaway annual report, 1993

At Valuentum, we take Buffett's thoughts one step further. We think the best opportunities arise from a complete understanding of all investing disciplines in order to identify the most attractive stocks at any given time. Valuentum therefore analyzes each stock across a wide spectrum of philosophies, from deep value to momentum investing. And a combination of the two approaches found on each side of the spectrum (value/momentum) in a name couldn't be more representative of what our analysts do here; hence, we're called Valuentum.

Valuentum Best Ideas Newsletter: Volume 7, Issue 5

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