OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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Valuentum Securities Inc.
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The Best Ideas Portfolio (see page 8): AAPL, MO, BRK-B, CSCO, CVS, DG, FB, GM, GILD, GOOG, GOOGL, XLV, INTC, JNJ, PYPL, PCLN, SDY, UNP, XLE, XLU, VRNT, V

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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"). Results are hypothetical and do not represent actual trading. Contact us for more details about how the team utilizes the Valuentum Buying Index to run the portfolio.

Inside This Issue

"The top-weighted ideas are getting the job done, while we avoided one of the biggest missteps in all of 2017. We've had better years, but 2017 was still a great one."

- Brian Nelson, CFA

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 Newsletter portfolio is generally found on page 8 of each edition.

The Best Ideas Newsletter portfolio is not a real money portfolio. Results are hypothetical and do not represent actual trading. Actual results may differ from performance information being presented.

How Have Our "Best Ideas" Performed During 2017?

By Brian Nelson, CFA

New for 2018! See page 7.

Key takeaways:

1) "The top-weighted ideas in the Best Ideas Newsletter portfolio, Apple and Visa, performed wonderfully from the release of the December 2016 newsletter through November 13, 2017, averaging more than an increase of 45%, excluding dividends, versus a mid-teens percentage advance for the S&P 500, excluding dividends."

2) "The weighting concept within a portfolio context is an important one because, as a portfolio manager adds more and more ideas to the portfolio, the next best idea is just that--the next best one--so the probability of diluting portfolio returns may increase with the addition of each next best idea, even as diversification benefits are added. As I often say, absent diversification reasons, the next best idea may be, or rather should be, the first best idea, and that was the case in 2017 given Apple's and Visa's performance."

3) "…we're viewing the decision to "exit" (General Electric) at nearly $30 per share as a huge win (it is now trading in the high-teens per share)."

4) "Facebook, up nearly 50%, Intel, up nearly 25%, and Johnson & Johnson, up more than 20%, were the key advancers in the middle-weighted ideas group of the Best Ideas Newsletter portfolio, or those with weightings of 2.5%-3.99%. The lower-weighted ideas, or those with 1.6%-2.49% weightings, were led by strength in PayPal, which jumped nearly 90%, and General Motors, which also performed quite well, up more than 20%."

5) "Our least-favorite ideas in the newsletter portfolio, meaning those of a more-speculative variety, and ones we don't like nearly as much as the others, didn't do that great, unfortunately. Buffalo Wild Wings, Kinder Morgan, Michael Kors and Teva Pharma all declined. One might say that's why we had them weighted so low though."

6) "We show each and every day that hard work and a systematic cash-flow-based process can add value across the board, not only in highlighting and

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ranking top performers such as Visa and Apple, but also in avoiding what could have been a disaster in General Electric."

7) "Beginning in 2018, we plan to present the newsletter portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter in a manner that better emphasizes how much we like each idea. We want to make sure that readers are finding our very best ideas easily, ones, for example, with high weightings such as Visa or Apple, and not focusing too much on our lower-conviction, speculative considerations that are but a very small part of any well-diversified portfolio (some even included solely for diversification reasons). We think the list-and-weighting format does a much better job communicating our sentiment toward ideas, and we hope you will, too."

8) "We're bound to get a top-weighted idea wrong every now and again, especially as we stare down a rather overheated stock market, in general. We're always available for any questions."

As 2017 is nearing a close, it's probably a good time to start reflecting on the year past -- some things we got right, and some things we got wrong during the year. I think, without a doubt, the highlighting of the tremendous risk of General Electric's (GE) dividend cut, months before it happened, **and more than 30% ago**, may be one of the most valuable pieces of research we produced this year, right up there with our work on Kinder Morgan (KMI) in June 2015 before its collapse. We can thank the focus on free cash flow generation for continuing to help dividend growth investors, the Dividend Cushion ratio, in particular.

But what about our "best ideas," the ones on the Best Ideas Newsletter portfolio? How have they stacked up? We've talked a lot about the astounding success rates in the Nelson Exclusive publication and exciting developments with respect to the new High Yield Dividend Newsletter, but what about the workhorse ideas in the Best Ideas Newsletter? Right? Well, I think they're doing fantastic. For example, here's how I might envision the sentiment of someone joining our service in December 2016, right before the release of the December edition of the Best Ideas Newsletter.

First, the person might have scoured the Best Ideas Newsletter newsletter portfolio for ideas, and uncover that **our two top favorite ideas** are Apple (AAPL) and Visa (V) because they were the top-weighted in the newsletter portfolio, both comfortably above 5% weightings **and nearly 7% in Visa's case**. The reader might come to interpret these weightings in the view that **we like these two ideas 4-5 times as much as a lower weighted idea**. The top-weighted ideas in the Best Ideas Newsletter portfolio, Apple and Visa, performed wonderfully from the release of the December 2016 newsletter through November 13, 2017, averaging more than an increase of 45%, excluding dividends, versus a mid-teens percentage advance for the S&P 500, excluding dividends.

The weighting concept within a portfolio context is an important one because, as a portfolio manager adds more and more ideas to the portfolio, the next best idea is just that--the next best one--so the probability of diluting portfolio returns may increase with the addition of each next best idea, even as diversification benefits are added. As I often say, absent diversification reasons, the next best idea may be, or rather should be, the first best idea, and that was the case in 2017 given Apple's and Visa's performance. We couldn't be more pleased getting these two top ideas in front of our readership. **They were home runs in 2017!**

But what about those with lower weightings between 4%-5.49%? Well, General Electric was once a part of this group (it feels like a long time ago now, after its share-price-plunge), and **we're viewing the decision to "exit" the idea at nearly $30 per share as a huge win** (it is now trading in the high-teens per share). Overall, this weighting bucket did "okay," with an average advance of ~10%, just shy of the market return, mostly because of the more conservative ideas, the SPDR S&P Dividend ETF

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(SDY) and Berkshire Hathaway (BRK.B). Alphabet (GOOG, GOOGL) was a very, very strong performer in this weighting segment, **with its share classes up nearly 30%,** and there were some other solid ideas, too, including the Healthcare Select SPDR (XLV), for example.

Facebook (FB), **up nearly 50%**, Intel (INTC), up nearly 25%, and Johnson & Johnson (JNJ), up more than 20%, were the key advancers in the middle-weighted ideas group of the Best Ideas Newsletter portfolio, or those with weightings of 2.5%-3.99%. The lower-weighted ideas, or those with 1.6%-2.49% weightings, were led by strength in PayPal (PYPL), **which jumped nearly 90%**, and General Motors (GM), which also performed quite well, up more than 20%. We can't be too disappointed with the 15%+ advance by the Utilities Select SPDR (XLU).

Our least-favorite ideas in the newsletter portfolio, meaning those of a more-speculative variety, and ones we don't like nearly as much as the others, didn't do that great, unfortunately. Buffalo Wild Wings (BWLD), Kinder Morgan (KMI), Michael Kors (KORS) and Teva Pharma (TEVA) all declined. **One might say that's why we had them weighted so low though**. Our confidence level wasn't nearly as high as that of a Visa or Apple, for example. The 40% gain in near-7% weighted Visa, for example, contributes about 280 basis points of portfolio strength, while a 1.3% weighting in Teva provides only a 30-basis point headwind, **a net of about +250 basis points**. We got Visa right, and Teva wrong, but weightings and levels of conviction matter.

How awesome it is for the top-weighted ideas to be doing this well, and for us to stay on our toes to get ahead of the developments at General Electric. We're not taking it easy. We're not resting on our solid past. **We show each and every day that hard work and a systematic cash-flow-based process can add value across the board**, not only in highlighting and ranking top performers such as Visa and Apple, but also in avoiding what could have been a disaster in General Electric. Importantly though, we can't possibly get everything right, and I cannot stress this enough, but when the top ideas are jumping at a pace that is a multiple of the market, it's really hard not to be pleased.

Beginning in 2018, we plan to present the newsletter portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter in a manner that better emphasizes how much we like each idea. **We want to make sure that readers are finding our very best ideas easily**, ones, for example, with high weightings such as Visa or Apple, and not focusing too much on our lower-conviction, speculative considerations that are but a very small part of any well-diversified portfolio (some even held solely for diversification reasons). We think the list-and-weighting format does a much better job communicating our sentiment toward ideas, and we hope you will, too.

But even so, we're bound to get a top-weighted idea wrong every now and again, especially as we stare down a rather overheated stock market, in general. Perhaps put bluntly, if it wasn't for our independent cash-flow based analysis on GE more recently, for example, the portfolio would have suffered immensely from the company's share-price collapse. Since its inception, the Best Ideas Newsletter portfolio has created more return for the level of risk (volatility), and while we expect to stop measuring the performance on a portfolio level at the end of 2017 due to the migration to list-and-weighting format, we plan to publish a deep analysis of its history soon. We trust you find tremendous value in the Best Ideas Newsletter publication, and we're always available for any questions. Thank you!

The image on the following page shows the "performance" of ideas that were in the Best Ideas Newsletter portfolio at the time of the release of the December 2016 edition of the Best Ideas Newsletter. The portfolio has changed quite a bit since then, so please be sure to read each edition as it becomes available on the 15th of each month.

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Best Ideas Newsletter	Price (12/15/16)	Current[6] or 'Close' Price	% Increase
Top-Weighted Best Ideas (5.5% weighting or higher)			
Visa (V)	$79.50	$111.40	40.1%
Apple Corp (AAPL)	$115.82	173.97[7]	50.2%
Average			45.2%
Higher-Weighted Best Ideas (4%-5.49% weighting)			
Altria (MO)	$66.27	$65.84	-0.6%
Berkshire Hathaway (BRK.B)	$165.65	$184.40	11.3%
Energy Select Sector SPDR (XLE)	$76.42	$69.25	-9.4%
General Electric (GE) **- REMOVED**	$31.26	$28.04[1]	-10.3%
Alphabet (Class C and Class A)			
GOOG (Class C)	$797.85	$1,025.75	28.6%
GOOGL (Class A)	$815.65	$1,041.20	27.7%
Healthcare Select SPDR (XLV)	$69.83	$81.30	16.4%
Priceline (PCLN)	$1,501.20	$1,722.15	14.7%
Republic Services (RSG) **- REMOVED**	$56.65	$62.41[2]	10.2%
SPDR S&P Dividend ETF (SDY)	$87.03	$92.68	6.5%
Average			9.5%
Middle-Weighted Best Ideas (2.5%-3.99% weighting)			
Cisco (CSCO)	$30.63	$33.95	10.8%
Facebook (FB)	$120.57	$178.77	48.3%
Intel (INTC)	$36.79	$45.75	24.4%
Johnson & Johnson (JNJ)	$115.89	$139.76	20.6%
SPDR S&P Bank ETF (KBE) **- REMOVED**	$43.83	$41.97[3]	-4.2%
Average			20.0%
Lower-Weighted Best Ideas (1.6%-2.49% weighting)			
Financial Sector SPDR (XLF) **- REMOVED**	$23.70	$23.63[3]	-0.3%
General Motors (GM)	$36.24	$43.57	20.2%
PayPal (PYPL)	$39.54	$74.03	87.2%
Union Pacific (UNP) **- REMOVED**	$104.68	$103.54[5]	-1.1%
Utilities Select SPDR (XLU)	$48.27	$56.17	16.4%
Average			24.5%
Least Favorite Best Ideas (Less than 1.59% weighting)			
Buffalo Wild Wings (BWLD) **- REMOVED**	$165.50	$134.10[4]	-19.0%
Kinder Morgan (KMI) **- REMOVED**	$21.02	$19.43[3]	-7.6%
Michael Kors (KORS) **- REMOVED**	$46.02	$36.83[3]	-20.0%
Teva Pharma (TEVA) **- REMOVED**	$36.72	$28.67[3]	-21.9%
Average			-17.1%
SPDR S&P 500 ETF (SPY)			13.92%

(1) Removed May 15, 2017
(2) Removed May 19, 2017
(3) Removed May 25, 2017
(4) Removed June 20, 2017
(5) Removed August 18, 2017
(6) Current prices, as of November 13.
(7) Halved August 18, 2017

Note: Analysis is an apples-to-apples comparison and excludes both dividends for ideas and dividends in S&P 500 ETF.

GE Takes the Plunge, Halves Dividend

There may have been little surprise across the market when GE halved its dividend in its investor update November 13, but shares have sold off after management issued weaker-than-expected EPS guidance for 2018.

By Kris Rosemann

We can't say we didn't see this coming for General Electric (GE), a newsletter idea we parted ways with in May of this year as concerns rose over the sustainability of its dividend. It registered a Dividend Cushion ratio of 0.3 and dividend growth and dividend safety ratings of VERY POOOR at the time of the cut. The halving of GE's dividend did not come as a surprise to most, "GE Cuts Guidance, All Eyes Turn to November 13," but shares are still facing noteworthy selling pressure in the trading session November 13, immediately following the announcement.

However, the pressure may be more a result of weaker than expected earnings per share guidance for 2018, a year that new CEO John Flannery has requested investors view as a "reset year." 2018 adjusted EPS is expected to be in a range of $1.00-$1.07, compared to guidance of $1.04-$1.12 for 2017, while free cash flow for 2018 is being targeted at $6-$7 billion--2017 free cash flow is projected to be ~$3 billion. Prior to the dividend cut, such a level of free cash flow in 2018 would imply a material shortfall in free cash flow covering cash dividend obligations. The image below, taken from GE's investor update presentation, says it all.

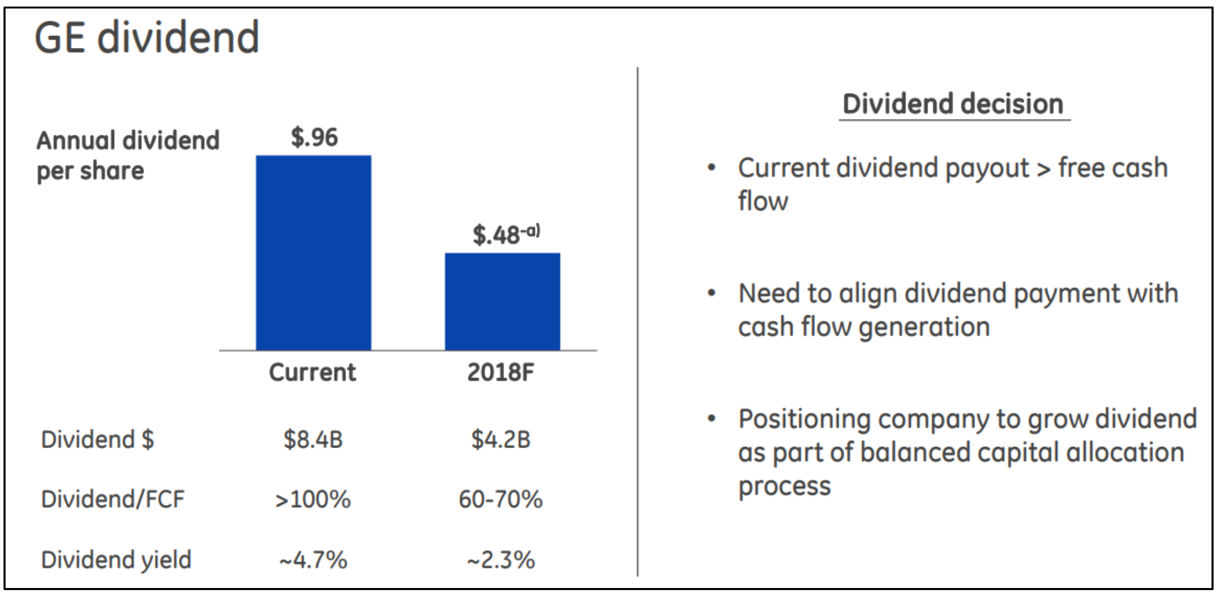

Image Source: General Electric

Moving forward, GE will focus on its three core units--aviation, power, and healthcare--which accounted for roughly 58% of total revenue in 2016. Generally speaking, we like the idea that the industrial giant is getting back to the basics in its attempt to turn the business around, but it is not out of the woods yet. We'll be monitoring progress in its plans to exit $20+ billion in non-core assets, not an immaterial amount of divestitures that come on the heels of its massive portfolio transformation.

We're still not interested in shares of GE, and though we like the new, or rather refocused, direction the company is heading, there is a meaningful amount of uncertainty and execution risk surrounding its turnaround plans. Its balance sheet remains tremendously bloated, and the new look GE has yet to prove itself as a free cash flow generating machine able to handle such a debt load.

Alphabet Soars to New Highs, Priceline Tumbles

Best Ideas Newsletter portfolio idea Alphabet continues to drive tremendous fundamental performance via its strength in search, and its pipeline of new opportunities may offer another blockbuster product in the years ahead. Priceline, on the other hand, has been under selling pressure following a disappointing bottom-line outlook for the fourth quarter.

By Kris Rosemann and Brian Nelson, CFA

Image shown: Alphabet's shares have been surging higher, and we think the move is justified on the basis of our fair value estimate.

The company formerly known as Google, Alphabet (GOOG, GOOGL), has been a core idea in the Best Ideas Newsletter portfolio since what are now Class C shares were added in October 2012 at just over $450 per share. As shown in the image above, Class C shares (GOOG) are trading at more than $1,030 as of this writing. The search giant is doing better than expected, having exceeded consensus estimates on both the top and bottom lines in its third-quarter report, released October 26, and shares haven't looked back. Our fair value estimate remains ~$1,150 at the time of this writing.

Alphabet's reported revenues advanced 24% in the third quarter on a year-over-year basis and operating margins expanded to ~28% from ~26%, helping to drive diluted earnings per share to $9.57 from $7.25 in the year-ago period. The ~32% growth in diluted earnings per share came despite a 5+ million increase in diluted shares outstanding, showcasing the tremendous earnings leverage inherent in Alphabet's business model. Alphabet has also been able to drive improved levels of profitability, even as it continues to invest hundreds of millions of dollars in its 'Other Bets' segment--the segment reported an operating loss of $812 million in the third quarter of 2017.

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Most importantly, Alphabet's free cash flow generation remains impressive, though the measure has taken a step back through the first nine months of 2017 to $17.9 billion as a result of materially higher capital spending more than offsetting a slight increase in cash from operating activities. Nevertheless, free cash flow continues to come in well over 100% of net income, reaffirming the notion that the tech giant is nothing short of one of the highest-quality cash-flow generators on the market.

With impressive cash flow generation comes a fortress-like balance sheet, too, and as of September 30, 2017, Alphabet held a net cash position of just over $96 billion, compared to ~$82 million at the end of 2016 (this increase does not consider non-marketable investments growing to ~$7.3 billion from ~$5.9 billion over the same time period). We expect Alphabet to continue to remain an idea in the Best Ideas Newsletter portfolio for the foreseeable future. We note our ~$1,150 fair value estimate does not consider material upside potential in the event the company delivers another mega hit from its 'Other Bets' segment. We continue to like shares of Google's parent.

On the other hand, the online travel industry has been under material selling pressure as of late, perhaps initiated by Trivago's (TRVG) growth warning in early September. We have to be careful how to explain this, however. Trivago's warning means that it "now expects revenue growth of 40% this year after initially guiding to 50% growth," so it's fair to say that expectations are running high for the travel group, perhaps unfairly so, and we think this is partly why Priceline's (PCLN) shares have been under pressure, in sympathy. The "bad" news from Trivago, however, was followed up by Expedia's (EXPD) full-year EBITDA guidance cut in late October and then, of course, the "disappointing" bottom-line outlook from Priceline, released in its third-quarter report November 6. We think the market may be asking for too much growth from the group.

In any case, we had some good timing with respect to Priceline's shares. In August, we removed half of the position in Priceline from the Best Ideas Newsletter portfolio, or 3 shares at ~$1,810. Though the company's equity price continues to "sell off" aggressively, the current price tag in the mid-$1600s remains significantly higher than the "cost" basis in the Best Ideas Newsletter portfolio (~$1,240). We certainly don't like what's happening with the stock on a technical (charting) basis, but we think the company's "disappointing" guidance for the fourth quarter may likely set it up for an easy beat, despite exogenous events (namely the hurricanes in the US) that may impact performance. Through the first nine months of 2017, Priceline has generated ~$3.25 billion in traditional free cash flow, up from $2.72 billion during the same period a year ago, and its balance sheet remains very healthy.

Taking Care of Our Members

We're excited about what's in store for 2018 and beyond, and here are a few things to look forward to!

By Brian Nelson, CFA

NEW for 2018

We are expanding and optimizing our stock coverage. In addition to the 16-page stock reports, dividend reports, and ETF reports, we will now be publishing more thematic coverage in pdf fashion on the stock and ETF symbol pages. This will allow us to provide even more breadth of coverage as we continue to focus on enhancing the depth of analysis. We believe this optimization will be a valuable improvement for members, regardless of which membership plan you are on.

We are launching a brand-new High-Yield Dividend Newsletter and accompanying simulated portfolio, the first edition is planned for release January 1, 2018. We're going to be looking for some of the biggest (and strongest) yields on the market and putting them in a simulated income portfolio. Reserve your membership to this add-on monthly newsletter today. Contact us for more details.

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PayPal, Intel Pushing Higher

By Valuentum Analysts

Below we outline the constituents of the portfolio and their respective weightings and simulated 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 ~29% of the portfolio in cash, a reasonable level, in our view, 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. 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, however.

SIMULATED BEST IDEAS PORTFOLIO -- as of November 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	$199.00	0.85	17-Jun-11	51.92	54	2,817.63	169.08	9,130.32	1,380.65	3.8%	273.0%
Altria Group	MO	8	3	$58.00	1.13	28-Jun-11	28.39	78	2,228.73	65.26	5,090.28	2,621.41	2.1%	246.0%
Berkshire Hathaway	BRK-B	6	6	$183.00	0.99	20-Apr-16	146.13	69	10,089.97	181.81	12,544.89		5.2%	24.3%
Cisco	CSCO	9	7	$42.00	0.81	14-Nov-14	26.33	221	5,831.87	34.11	7,538.31	525.11	3.1%	38.3%
CVS Health	CVS	9	4	$88.00	0.79	6-Jan-17	81.84	79	6,472.36	69.80	5,514.20	158.00	2.3%	-12.4%
Dollar General	DG	4	6	$76.00	1.08	13-Apr-17	68.83	50	3,448.50	82.30	4,115.00	26.00	1.7%	20.1%
Energy Select SPDR	XLE	NR	NR	NA	NMF	6-Oct-15	67.14	143	9,608.02	67.35	9,631.05	568.61	4.0%	6.2%
Facebook	FB	6	7	$219.00	0.81	29-Jan-16	136.15	92	12,539.34	177.95	16,371.40		6.7%	30.6%
General Motors	GM	6	7	$43.00	1.00	26-Aug-16	31.65	132	4,184.80	42.86	5,657.52	200.64	2.3%	40.0%
Gilead Sciences	GILD	7	7	$109.00	0.66	31-Jul-17	76.32	61	4,662.52	71.81	4,380.41	31.72	1.8%	-5.4%
Google - Class C	GOOG	10	6	$1147.00	0.89	23-Oct-12	450.92	7	3,170.42	1020.91	7,146.37	10.35	2.9%	125.7%
Google - Class A	GOOGL	10	6	$1147.00	0.89	4-Apr-14	Split	7	Split	1036.41	7,254.87		3.0%	+++
Health Care ETF	XLV	NR	NR	NA	NMF	22-May-12	36.60	125	4,582.00	80.72	10,090.00	640.49	4.2%	134.2%
Intel	INTC	6	5	$48.00	0.95	12-Sep-11	20.48	150	3,086.50	45.46	6,819.00	796.35	2.8%	146.7%
Johnson & Johnson	JNJ	6	7	$121.00	1.15	29-Jan-16	104.18	54	5,632.72	139.10	7,511.40	304.02	3.1%	38.8%
PayPal	PYPL	NR	6	$58.00	1.27	17-Jul-15	Spin-off	100	Splt	73.43	7,343.00		3.0%	+++
Priceline	PCLN	10	3	$2018.00	0.86	26-Feb-15	1239.49	3	3,732.46	1726.78	5,180.34		2.1%	38.8%
SPDR S&P Dividend ETF	SDY	NR	NR	NA	NMF	20-Apr-16	81.33	124	10,091.92	92.16	11,427.84	379.37	4.7%	17.0%
Utilities Select SPDR	XLU	NR	NR	NA	NMF	18-Mar-14	41.12	83	3,419.96	56.37	4,678.71	469.85	1.9%	50.5%
Verint Systems	VRNT	6	6	$50.00	0.83	13-Apr-17	38.95	87	3,395.65	41.30	3,593.10		1.9%	5.8%
Visa	V	7	6	$91.00	1.21	30-Nov-11	26.86	188	5,064.39	110.25	20,727.00	455.75	8.5%	318.3%
Latest changes: Removed UNP (8/18), Halved AAPL (8/18), Halved PCLN (8/18).														
Cash -- changes in monthly cash balance reflects dividends received and trading gains/losses, where applicable.											71254.05		29.3%	0.0%
Bearish														
For investors seeking 'short' or 'put option' exposure, please consider firms with VBI ratings with 1 and 2 as ideas.														
Best Ideas Portfolio Value								Original -->	100,000.00	Current -->	**242,999.06**			**143.0%**
S&P 500 Index (SPY)						17-May-11	132.69	754	100,000.00	256.44	193,262.49	18,471.20	91.3%	
Cash											18,471.20		8.7%	
Benchmark Portfolio Value											**211,733.70**			**111.7%**
Relative Outperformance														**31.3 pts**

Data as of November 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 rating 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.

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We are optimizing how we communicate our best ideas in the Best Ideas Newsletter portfolio and how we communicate our best dividend growth ideas in the Dividend Growth Newsletter portfolio.

> We think we can better rank our best ideas and best dividend growth ideas in a list for these newsletters. Visa (V) is a prime example as to why we will be migrating to list format with these two newsletters. Its stock reached a new high today, November 1, but even though it is the top-weighted stock in the Best Ideas Newsletter portfolio, many may not take that to mean it is one of our very favorites.
>
> The lists, which will include ideas currently in the respective simulated newsletter portfolios, will begin with the editions of the Best Ideas Newsletter and Dividend Growth Newsletter in January 2018. We will close the calculations of the simulated Best Ideas Newsletter portfolio and simulated Dividend Growth Newsletter portfolio effective December 31, 2017.
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> We will publish analysis of the Best Ideas Newsletter and Dividend Growth Newsletter simulated portfolios in the coming months, and we'll continue to direct our attention to the existing ideas currently in the simulated portfolios, but the portfolios will now be in list format. Stocks will still be added and removed from the lists as needed, so you won't miss any changes in our thoughts or theses on ideas.
>
> The goal of the Best Ideas Newsletter list will be to source interesting ideas with capital appreciation potential from within our coverage universe. The goal of the Dividend Growth Newsletter list will be to source interesting ideas with strong dividend-growth potential from within our coverage universe. [Please evaluate our new High Yield Dividend Newsletter for higher-yielding ideas.]

We are launching a new data product that combines our archived data into one document. Please contact us if you are interested in receiving this. Many of our members love data, and we have it!

We are very excited about these initiatives, and we hope that you are, too! If you have any questions or concerns, please be sure to let us how we can be of any assistance. Thank you as always for your feedback.

The Market Loves PayPal; Shares Now $70+

Payments processor PayPal reported fantastic third-quarter results and raised its full-year guidance for the third time in as many quarters.

By Brian Nelson, CFA

We thought PayPal's (PYPL) second-quarter results were fantastic, but its third-quarter results, released October 19, were even better. For a little background, here's what we said about PayPal in July:

> PayPal's revenue advanced 20% in the second quarter, after excluding effects from currency exchange, and the company leveraged that growth into an impressive 27% jump in GAAP and non-GAAP earnings per share, the latter to $0.46, coming in ahead of expectations. PayPal added 6.5 million active customer accounts during the period, with net new additions up 80%, and its $106 billion in total payment volume was 26% higher than the mark in the year-ago period on a foreign currency neutral basis. The online payments innovator's newly-landed partnership with Baidu (BIDU) July 26 broadens its opportunity with Chinese consumers, and news of the extension of its existing partnership with Visa (V) into Europe is equally exciting.
>
> PayPal's cash-flow generating capacity and balance-sheet health are top notch. The company generated operating cash flow of $921 million and free cash flow of $747 million during the second quarter of the year, both solid marks, and it ended the second quarter with more than $4 billion in

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> cash and no short- or long-term debt. PayPal raised its full-year guidance, too, now calling for non-GAAP earnings per share in the range of $1.80-$1.84 (was $1.74-$1.79) on expectations of a 19%-20% increase in revenue (was 17%-19%), adjusting for impacts from currency exchange. This is the second time PayPal has raised guidance in as many quarters.

PayPal's outlook for 2017 just got a tad bit better. Now, the company expects revenue to grow at a 20%-22% clip on a foreign-exchange neutral basis, and non-GAAP earnings per share is targeted in the range of $1.86-$1.88. That makes the third guidance increase in as many quarters, and frankly, we like the momentum behind the business, and management's ability to set expectations. PayPal added 8.2 million active customer accounts in the quarter, and the 1.9 billion payment transactions processed during the period implies 26% growth. Operating cash flow during the third quarter eclipsed $1 billion, while free cash flow jumped to $841 million, up 36%. PayPal's cash and cash equivalents totaled $7.1 billion at the end of the quarter, and the company has no debt to speak of.

We second CEO Dan Schulman's view that "as the world rapidly accelerates to digital payments, (PayPal has) a tremendous opportunity in front of (it)." We're pretty excited about the company that the Best Ideas Newsletter portfolio inherited from eBay (EBAY) some time ago, and while its chart is a bit extended at the moment, we're going to continue to watch this big winner run. We rate its Economic Castle as 'Attractive.' What is an Economic Castle?

See here: https://www.valuentum.com/articles/Valuentums_Economic_Castle_Rating

Michael Kors' Stock Surges; Market Overreacts to Hanesbrands' Results

The sole 9 rating on the Valuentum Buying Index has had a very nice couple of months recently. Meanwhile, Hanesbrands is feeling the wrath of considerable selling pressure, and we don't think it is justified.

By Brian Nelson, CFA

What is value? It is not a low price-to-earnings ratio. It is not a low EV/EBITDA ratio. It is not a high book-to-market ratio or a low price-to-book ratio. Stocks with low price-to-earnings, EV/EBITDA, or price-to-book ratios could be undervalued or not. It depends on a variety of considerations. For one, what is the capital intensity of the company's business model? A firm that doesn't have to plow a lot of capital or free cash flow back into its business to sustain operations (and that can return more to shareholders) should have a higher multiple than one that must plow almost everything back into the business to keep operations going, all else equal. Surely this one makes sense: companies that have a significant amount of net cash on the books should trade at much higher multiples than companies that have a significant amount of net debt on the books, all else equal.

The only way to know whether a stock is undervalued is to calculate its fair value and compare that to its share price. That is how you know what is a value stock or what may constitute a grouping of value stocks. It kind of makes you wonder what in the world commentators are talking about when they make broad generalizations about value stocks or growth stocks, especially when you know they aren't doing many calculations at all. Truly, the financial industry needs a lot of help, and one can only feel for those that are trying to understand what in the world they are talking about when they, themselves, may not know. Remember: price versus value. If researchers aren't using price-to-fair value ratios in their analysis, then they aren't measuring value. They aren't measuring much of anything, in fact, and they shouldn't be generalizing about it. The many drivers that are implicitly embedded in traditional multiples are just too many. Only the price-to-fair value ratio measures value. It is what it is.

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We put together a recent piece on the predictive nature of fair value estimates, and we encourage readers to take a deep dive into the piece. The enterprise discounted cash flow model, which forms the foundation for our fair value estimates, is the first pillar in the Valuentum Buying Index, or our timeliness rating methodology. Always compare a company's price to its fair value estimate first, after considering an appropriate margin of safety, and then look to its Valuentum Buying Index rating for timeliness considerations.

We put together a very lengthy study on the Valuentum Buying Index rating system, but read this after the one on fair value estimates. The highest-rated company on the Valuentum Buying Index has been Michael Kors (KORS), and shares of the aspirational goods maker have been soaring of late. A combination of undervaluation and strong price momentum can often signal the mark of a good share-price run as the likelihood of price-to-fair value convergence is elevated given buying strength.

We're classifying the share-price activity in Hanesbrands (HBI) as very unusual. On October 18, the company announced preliminary third-quarter results, with shares trading and holding in the mid-$23 range at the time. There was nothing surprising in the pre-announcement, and the company said that it met its goal of "returning to organic growth" and that it "continued to generate strong operating cash flow." Interestingly, Deutsche Bank initiated the company with a $29 price target and a "Buy" rating on October 24, shortly after the pre-announcement.

When the company reported its third-quarter results November 1, they came in as expected, and management said that it "now expects net cash from operations to meet or exceed the midpoint of its original guidance:" $625-$725 million. Capital spending at the company is minimal, by comparison--expected to be $90 million in 2017. As with most in retail, the US market is challenging, but Hanesbrands noted that it expects to achieve "organic sales growth" in the fourth quarter and "drive strong double-digit online sales growth."

We're a bit puzzled by the market's reaction, but we admit that share prices have information in them, too. Could somebody know something? By the unusual pricing action, it sure would seem so. In any case, Hanesbrands' adjusted earnings per share from continuing operations is expected to come in at $1.93-$1.95 for fiscal 2017, implying shares are trading at about 10 times current-year earnings. The company has a decent-sized net debt position, but its equity looks to be a rare bargain, especially in today's frothy stock market. We're keeping a close eye on Hanesbrands, but we're not doing much more than that. The stock is not acting "right," and the technicals have "information," too. Our fair value estimate, nonetheless, remains at $27 at the time of this writing.

Does Visa Ever Disappoint?

By Brian Nelson, CFA

Another day, another new high for top-weighted idea in the Best Ideas Newsletter portfolio, Visa (V). Briefing Investor said it succinctly:

> Visa...is trading at a new all-time high after the company reported better than expected fourth quarter results and gave encouraging guidance for fiscal 2018…
>
> Visa owns a global payment network. Unlike American Express (AXP) and Discover (DFS), which own payment networks and issue credit, Visa doesn't take any credit risk -- Capital One (COF) is a bank that issues a lot of credit cards. Visa is a technology company in the financial sector, just like MasterCard (MA).
>
> Visa has missed earnings estimates just two times since its IPO nine years ago. The stock is up over 600% since the IPO. The company has also beat on the top line five quarters in a row.
>
> Visa has been and will continue to ride the secular shift to digital payments.

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We can't get enough of the good news. During Visa's fiscal fourth-quarter, results released October 25, the company showcased net operating revenue growth of 14%, a 13% increase in total Visa processed transactions, and a 15% advance in GAAP net income per share during the period, the latter excluding two special items from the same quarter last year. Visa ended fiscal year 2017 with $15.3 billion in cash and cash equivalents, as it continues to haul in copious amounts of free cash flow. Management is optimistic about future growth, too, particularly in Europe. CEO Alfred Kelly had the following to say in the quarterly press release about ongoing potential from the company's recent addition of Visa Europe:

> We're very pleased with our progress in Europe and will continue to make strategic investments that will further strengthen our franchise there and globally. As we look ahead to fiscal 2018, we are positioned for sustained growth and remain confident in our ability to continue delivering strong shareholder value.

For those that are new to the Visa "story," it's a good one. The company makes money every time a Visa user swipes his or her debit or credit card. Unlike rivals, Discover and American Express, Visa also doesn't hold customer credit risk. The company benefits from two fantastic competitive advantages: a network effect and costly initial investment. For starters, Visa has more than 3.1 billion cards outstanding accepted by retailers across the world. The number is significantly higher than the number of Mastercards and many times the number of American Express cards outstanding.

The company's network effect (or the concept that, as the number of Visa card users grows, it stimulates more merchants to accept Visa cards, which in turn then stimulates more consumers to use Visa cards, which then stimulates more merchant acceptance of them and so on…) took years, as well as billions of dollars to create--something that won't, or arguably can't, be easily be replicated by any new entrant. Most importantly, Visa generates incredible operating margins in the 60% range, leading to large levels of free cash flow generation. The company's executive suite is also one of the most shareholder-friendly in our coverage universe.

Visa's "moaty" business characteristics are near-impenetrable, in our assessment, and management expects the good times to continue in fiscal year 2018. Annual net revenue growth is expected in the high-single-digits on a nominal dollar basis, **while the company's annual operating margin is anticipated to be in the high-60s**. This is just a fantastic level of profitability, matched by few other firms out there. Visa has a net debt position as a result of bringing Visa Europe into the fold recently, but free cash flow generation remains remarkable. Net cash provided by operating activities came in at $9.2 billion in fiscal 2017, up from $6.6 billion in fiscal 2015, while purchases of plant and equipment remain quite manageable, averaging ~$550 million during the previous three fiscal years. Free cash flow generation, as a percentage of operating revenue during fiscal 2017, was 46%!

Perhaps needless to say as the tone of this piece is clear, we like that Visa is leading the charge in the Best Ideas Newsletter portfolio. If the company ever stepped up its dividend payout, it may make for a great income idea, too, as dividend growth potential is absolutely phenomenal on the basis of our financial analysis. The company's Dividend Cushion ratio, for example, is a whopping 5 times, and it last raised its dividend 18%+ on October 18, to $0.195/share per quarter. This is good for only a 0.7% dividend yield on a forward basis, so income investors may still have to be patient. Sure Visa may not be a great income stock at the moment, but the company may very well have one of the best business models ever created. We like it.

Buffalo Wild Wings Should Go Private and Hasbro Should Buy Mattel...But at the Right Price

There is a lot happening across the M&A landscape as of late. Buffalo Wild Wings has reportedly received a go-private offer, while speculation is swirling that Hasbro is looking to gobble up Mattel. We like the prospects of both scenarios. However, price will always matter. Buffalo Wild Wings should hold out for the very best offer, while Hasbro should be very careful not to overpay for assets that may be past their prime.

By Brian Nelson, CFA

Buffalo Wild Wings (BWLD) has long been a favorite of ours. You have to read, "3 Reasons Why Buffalo Wild Wings Is a Long-Term Winner" from July 2015. Certainly the beer, wings and sports establishment is facing a host of issues at present, not the least of which is encroaching competition from the likes of Wingstop (WING), but we still like B-dubs a lot. The company is planting the seeds of long-term growth, and the restaurant chain may be doing today in the dine-in category what McDonald's did for fast-food in the 1980s. B-Dubs is a retreat for parents, and kids aren't balking at the menu. Those kids will grow up, and as it has been said, "Plant the Brownie acorn and the Kodak oak will grow."

Buffalo Wild Wings' third-quarter report, released October 25, was solid, and it included a bump in fiscal 2017 earnings-per-share guidance to the range of $4.85-$5.15 (was $4.50-$5). The improved outlook was welcome news for a company whose investors had only grown more concerned about its fundamental resilience in the wake of declining industy-wide restaurant traffic and executive turnover. Buffalo Wild Wings had been embattled by Marcato Capital during the summer months, likely the reason why CEO Sally Smith decided to step down, so it was reassuring to see the bottom-line hike in the outlook.

We think private equity has become more intensely-focused on Buffalo Wild Wings, especially given that established fast-casual exposure in the public markets is becoming harder and harder to come by given Panera's decision to go private in April 2017. Many in private equity understandably may not be willing to step up to the plate to tackle the customer-perception issues at Chipotle (CMG), as they don't ever seem to go away. On November 14, a high-profile actor Jeremy Jordan said he got sick from eating at Chipotle. Even though the restaurant refutes the claim, the bad press just won't go away. In any case, with Panera off the block and Chipotle struggling mightily, private equity seems to be chomping at the bit to get what's left of the established players in fast casual or in the more "growthy" dine-in space.

Enter Roark Capital, which reportedly had made a $150 per-share offer for Buffalo Wild Wings in mid-October, according to the Wall Street Journal. Our fair value estimate was $144 at the time. It seems like Roark Capital and Mercato Capital bump heads quite a bit on deals, with both having bid for Popeyes (PLKI) in the past, a company that eventually was folded into Restaurant Brands International (QSR). 3G Capital recently started buying shares of Buffalo Wild Wings, too, and many have speculated that another offer from a different suitor, well in excess of $150 per share, could be in the works. We can't help but be excited for shareholders, though we emphasis the price must be right to tender shares. A deal price approaching $190 per share, the high end of our new fair value range for shares, might get the job done, but even something higher might be necessary to please all.

In other news, a longtime idea in the Dividend Growth Newsletter portfolio has been on the prowl, looking to buy out a rival going through some tough times. On November 10, the Wall Street Journal reported that Hasbro made a takeover offer for none other than Mattel (MAT). With Hasbro's Frozen dolls putting Mattel's Barbie sales under tremendous pressure, Hasbro is looking to buy up assets on the "cheap," but we're cautious on the move. From where we stand, the Frozen franchise is ushering in a new era for "princesses," and the Barbie franchise may very well be permanently impaired. The executive team at Hasbro has to be super smart and not overpay for a deal that almost surely would mean bringing on more debt. We could talk all day about the positives of such a deal--efficiency initiatives, cost savings, better negotiating power with Toys R Us and Walmart (WMT), and reduced competition in the physical toy arena--but paying too-high of a price could negate all the strategic benefits and even put Hasbro's dividend at long-term risk.

Please be careful with shareholder capital Hasbro. For now, the company remains an idea in the Dividend Growth Newsletter portfolio.

Risky Restaurants? Taking a Look at Chipotle and Domino's Pizza

Chipotle and Domino's Pizza have very little in common, in our view, but let's take a look at what has been causing volatility in each company's stock of late.

By Kris Rosemann

Burrito giant and once-beloved Chipotle (CMG) continues to attempt to battle back to prominence in the fast-casual restaurant space--an area in which it was once the golden child but now looks to be a prodigal son at best. The burrito-maker's comeback story experienced a bit of a setback as shares dropped nearly 15% in the trading session October 25 after releasing third quarter 2017 results after the close October 24. Revenue grew nearly 9% in the period on a year-over-year basis in the quarter, restaurant level operating margin expanded 2 percentage points from the year-ago period to 16.1%, and net income more than doubled compared to the third quarter of 2016 to just under $20 million.

However, comparable restaurant sales advanced a meager 1% at Chipotle in the third quarter, a figure that may not have been as significantly disappointing had comps not dropped 22% in the comparable period of 2016. Such performance suggests the company's recovery is lacking any form of meaningful momentum. Management continues to expect comparable restaurant sales growth of 6.5% in the full year 2017, but the Street was clearly very disappointed in the lack of progress being made at the firm in returning to pre-food safety crisis performance levels.

Let's be clear, Chipotle is not going away anytime soon. The company remains materially free cash flow positive, it holds no debt on the balance sheet, and it is growing--management expects to open just under 195 restaurants in 2017 and 130-150 more in 2018. However, expectations from investors continue to be reset lower in a material way, and we can't conclude with any sort of certainty which reset will eventually prove to be appropriate (this line of thinking is in part why we employ a fair value range in valuation). Such is the nature of consumer facing concepts, too--consumer preferences can change on a dime with little-to-no warning--and a reality that is accentuated in a meaningful way by the recent public safety issues Chipotle has been battling.

Image shown: Chipotle's stock has been punished since late 2015 as food scandal after food scandal has scared investors away.

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Management has worked to stir up renewed interest from consumers and investors with new items such as queso and to stem fundamental deterioration with initiatives such as pricing increases, but it appears as though neither is generating the response as had hoped. A clear path to recovery for Chipotle may not exist, and while we assumed it would have an uphill battle in returning to pre-crisis performance levels, we have underestimated just how steep a grade it will face. After resetting our top-line growth trajectory, we've reduced our fair value estimate for shares to $350 at the time of this update. However, we would not be surprised to see shares continue to languish in the lower half of our fair value range, which is wider than that of a typical company in our coverage universe due to the amount of uncertainty surrounding the firm's future free cash flow trajectory, as a result of the ongoing consumer-perception and competitive risks that it continues to struggle with.

Yum Brands' (YUM) Taco Bell and Jack in the Box's (JACK) Qdoba have been a prime beneficiaries of Chipotle's troubles, in our view, though arguably the former more than the latter. Yum Brands' Taco Bell Division system sales increased 7% in its fiscal second quarter, as it opened 56 new restaurants. The Taco Bell Division restaurant margin advanced 0.5 percentage points during the period thanks in part to better-performing existing restaurants. In August, Jack in the Box CEO Lenny Coma had the following to say about the fundamental trajectory of Qdoba (of which a spinoff is a possibility in the near term):

> System same-store sales at Qdoba restaurants turned positive in the quarter, as guests responded favorably to menu innovation, including the launch of Fire-Roasted Shrimp. Company restaurant margins at Qdoba improved sequentially to over 16 percent in the quarter as we were able to manage labor costs more effectively.

As competition remains hot in the "Mexican-style" restaurant-themed markets, Domino's Pizza (DPZ) can be considered in some ways the anti-Chipotle in terms of the consistency of its performance of late. The third quarter of 2017, results released October 12, marked the 95th consecutive quarter in which the company was able to grow its international same store sales (up 5.1%) and the 26th consecutive quarter of positive sales growth in its domestic business. Domestic same store sales jumped 8.4% in the quarter on a year-over-year basis. In addition, the firm added 53 net new domestic stores and 164 net new international stores and has added 1,182 net new stores over the past four quarters--all the while the company has remained impressively free cash flow positive.

Domino's is able to run a capital-light business, a driver of its free cash flow generating prowess, thanks to it its highly franchised business model. As of the third quarter of 2017, the company had 14,434 total stores, of which only 399 were company-owned. That's a 97% franchise rate, and all of the company-owned stores are located in the US. Such a business model is also the driver of the company's tremendous Economic Castle rating, which currently ranks as one of the highest in our coverage universe. Through the first three quarters of fiscal 2017, Domino's reported free cash flow of ~$183 million, up from just over $124 million in the comparable period of fiscal 2016.

However, the company holds a material debt load that totals nearly $3.2 billion, and though we would expect its free cash flow generation to be able to manage the obligations associated with such a debt load, management has been scooping up its own shares at a tremendous rate, a practice we are even less fond of after considering the premium to our fair value estimate at which shares have traded of late. Through three quarters in fiscal 2017, the firm has repurchased more than $1 billion of its own shares while raising (on a net basis) a similar amount of debt. Holding such leverage is directly in-line with management's strategy, as its most recent investor presentation pegs its debt-to-EBITDA ratio at 5.9 times--within its target range of 3x-6x. We peg its net debt-to-EBITDA ratio at 5.8 times as of the end of the third quarter of fiscal 2017 after annualizing its 9-month EBITDA performance.

Though we are big fans of Domino's Pizza's franchise operating model, its massive debt load is simply impossible to ignore. It may be one of the few entities on the market with a dividend yield of ~1% that

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trades at more than 32 times current year consensus earnings estimates, while holding a leverage ratio near 6 times. It is also worth noting that the market has become accustomed to the company's tremendous performance of late, and one need look no further than its fiscal 2017 second quarter report for evidence of this. Shares have been a bit more volatile in recent months as a result but continue to trade in the upper half of our fair value range and well above our fair value estimate of $159.

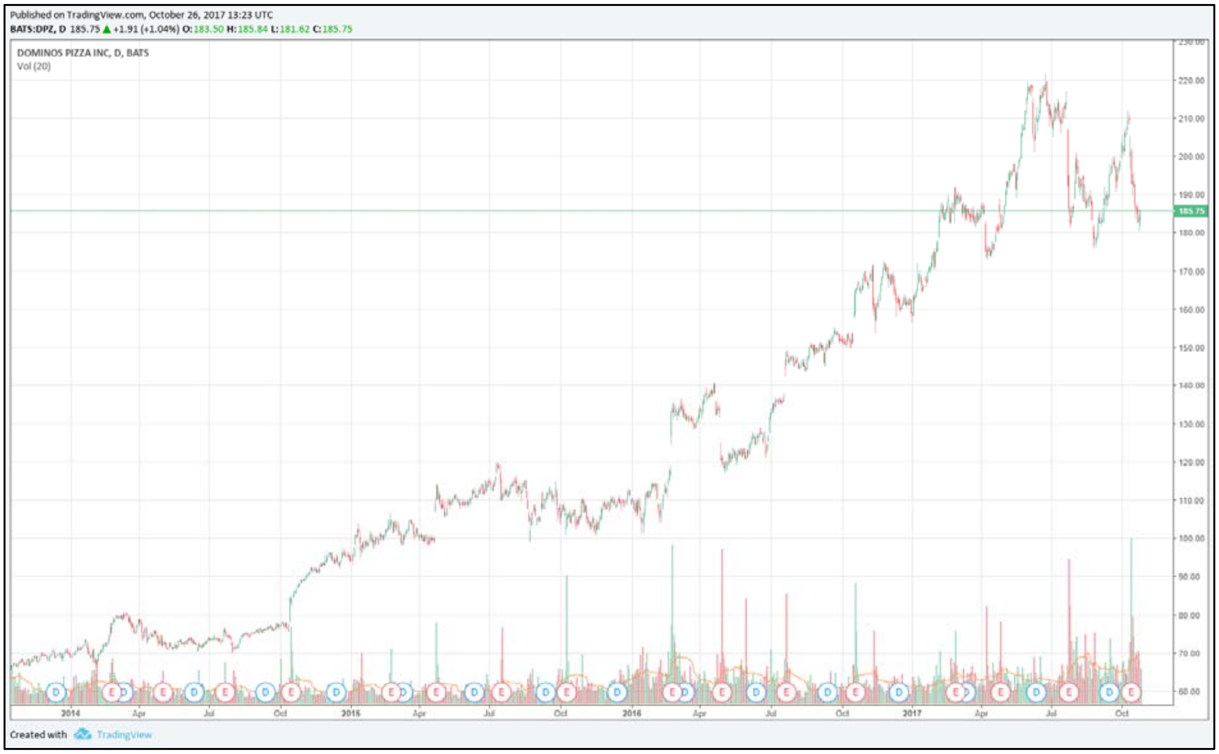

Image shown: Domino's stock has been one of the best performers in recent years thanks to its focus on digital ordering and its capital-light business model.

Despite Domino's Pizza's impressive consistency in recent years and lofty Economic Castle rating, we continue to view shares as a highly-volatile, high-beta consideration, which may not be for everyone. A massive debt load and tremendously high expectations from the Street are not characteristics of a typical Valuentum stock, and neither is a current P/E ratio in the low 30s range. Similarly, Chipotle's fundamental struggles and brand-quality deterioration keep it from garnering material consideration from us. Though shares of Chipotle have been beaten down badly, we don't view Chipotle as particularly undervalued at the moment, and a great deal of the "hair" surrounding the company would have to be trimmed before we contemplated adding exposure to a restaurant that was once battling for the king of fast casual crown. How far Chipotle's perception in the eye of the 'consumer' has fallen…

*4 Burning Questions…*continued on next page

4 Burning Questions About Gilead Sciences

We were pleased with the jump in shares of Gilead Sciences following its recent addition to the newsletter portfolios. The equity has given back some of those gains more recently as questions have resurfaced on the vitality of the enterprise. In this article, we work through the top 4 questions for readers to consider in evaluating Gilead Sciences.

By Alexander J. Poulos

#1 - How rapidly will the HCV market continue to decline?

We remain a bit perplexed as to the investment community's continued fascination with the HCV marketplace. The overall market remains in decline thanks in large part to Gilead Sciences' (GILD) innovative suite of treatments that have cured thousands afflicted with HCV. The management team has repeatedly mentioned on recent calls that R&D spending will no longer be earmarked for additional research in the area--a sentiment echoed by Johnson and Johnson (JNJ) and Merck (MRK) who have both discontinued HCV research in one form or another.

At the moment, we are treating the HCV franchise in a similar vein as a molecule that has lost patent exclusivity. Gilead has generated over $54 billion thus far from its HCV franchise--a staggering sum which has transformed the company from a niche HIV player to a full-scale biotech behemoth. The loss of HCV revenue is not a new phenomenon, but many continue to focus on the decline rate of Gilead's HCV franchise, which may be an oversight as its HIV franchise growth is outpacing its HCV franchise.

Financial Highlights: Nine Months Ended September 30
(in millions, except percentages and per share amounts)

	2016	2017	Change
Net Product Sales	$22,737	$19,825	(13%)
Antiviral Products	21,150	18,123	(14%)
HCV	11,605	7,641	(34%)
HIV and HBV	9,545	10,482	10%
Other Products*	1,587	1,702	7%
Non-GAAP Costs and Expenses**	$7,600	$7,342	(3%)
COGS	2,554	2,456	(4%)
Product Gross Margin	*89%*	*88%*	
R&D	2,790	2,446	(12%)
SG&A	2,256	2,440	8%
Operating Margin	*67%*	*64%*	
Effective Tax Rate	*20%*	*25%*	
Non-GAAP Net Income**	$12,128	$9,311	(23%)
Non-GAAP Diluted EPS**	$8.87	$7.06	(20%)
Diluted Shares	1,369	1,319	(4%)

Image Source: Gilead Sciences

#2 - Is the sales velocity in the HIV franchise repeatable?

Gilead rose to prominence based on cutting-edge research in virology. The field of focus in this area is HIV, where Gilead muscled past other well-entrenched players such as Merck to become the dominant

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player in HIV. Prior to Gilead's entry into the field, patients were forced to juggle multiple doses taken at various times of the day. The cumbersome dosing regimen would often lead to a drop in compliance in spite of the best of intentions from the patient population. Gilead was able to combine the different regiments into one dose taken once a day, thus significantly improving compliance and ultimately clinical outcomes. The same playbook was employed in the HCV market, leading to Gilead's impressive success.

Gilead retains the most significant share in the HIV market--over 67% of new Rx's written according to recent IMS data--thanks to its innovative suite of combination therapies taken once a day. Gilead, in a clever bit of lifecycle management, has substituted TAF in its existing formulations, creating a host of new treatments that are tailored for the aging HIV positive populace. In essence, thanks to the stunning success of Gilead's treatments, HIV has transformed into a chronic disease with a large cohort of patients now reaching middle age where kidney function begins to decline naturally. In this regard, the addition of TAF has been a welcome innovation, underpinning Gilead's acumen in the field of infectious disease.

Gilead is on the cusp of addressing the notable hole in its product suite with Bictegavir, an integrase inhibitor that will be used in combination with existing products to form a potent triplet therapy. Gilead's goal is to take share from its chief rival GlaxoSmithKline's (GSK) Triumeq, thus extending its market dominance in HIV. Bictegavir has been issued a PDUFA date (deadline for FDA to approve a drug) of February 12, 2018--the shorter time frame a direct result of the priority review voucher that Gilead had purchased in years past. We applaud Gilead's management team for its foresight in acquiring the voucher in advance, and the shortcut to the marketplace should help offset some of the expected loss in HCV thus setting the company up for what may be a trough in revenue in 2018. Identifying the revenue trough is vital in the pharma/biotech world, and once Gilead is able to return to year-over-year top-line growth, we would expect Mr. Market to reconsider the discount at which the equity is trading to our fair value estimate.

#3 - What is the sales potential of the CAR-T therapy?

A warranted criticism pushed by bears on Gilead Sciences was its lack of pipeline assets to offset the erosion of HCV revenue, but management may have since laid those concerns to rest as it scooped up Kite Pharma and its innovative CAR-T therapy. We liked the purchase as the clinical data put forth the CAR-T therapy suggests it has a very real potential to develop into a multi-billion dollar treatment. The sales ramp of the treatment may be a tad complicated as the novel therapy will require extensive coordination between healthcare providers, infusion clinics, and the scientific backbone of the community in bringing the treatment to market.

As a result, the initial uptake of the CAR-T therapy will likely take some time--not from lack of demand but from the dearth of required infrastructure to proceed with the innovative treatment. However, most of the challenges with delivery and logistics may very well be mapped out and the potential patient pool expanded by the end of 2018. We will closely monitor the progress made as well feel the therapy is an actual transformational treatment with the potential to deliver stellar results similar to those posted by Gilead in the HCV market. The clinical data remains astounding, and the CAR-T treatment is significantly expanding clinical outcomes.

#4 - How is the clinical pipeline progressing?

Gilead Sciences' clinical pipeline continues to receive a lack of respect from the market, even as we have been impressed with the clinical data released thus far with respect to Filgotinib, a Jak-1 inhibitor for the treatment of inflammatory disease, along with the trickle of initial data from the product suite used for the treatment of NASH. The developing NASH assets may be the most notable in Gilead's pipeline as a valid therapy in NASH could quickly capture market share in the market for the

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*4 Burning Questions...*from previous page

undertreated disease. We view NASH in a similar vein as the CAR-T and the HCV/HIV assets--areas with a high level of unmet need where Gilead was able to capture impressive levels of market share.

The disconnect is particularly striking when compared with Celgene (CELG), a biotech powerhouse in the field of oncology. Celgene's pipeline remains highly regarded by the market, so when management recently reported a phase 3 failure the stock cratered as the expected value of the pipeline was diminished. One of the primary reasons why we favor Gilead over Celgene is the current disconnect in valuation--we feel Gilead has a worthy pipeline that is not reflected in the equity's current valuation.

Further, Gilead's impressive cash flow generation capacity bodes well for additional bolt-on assets similar to the recent Kite Pharma deal. Such a characteristic is a greater advantage in the hands of Gilead's management, which boasts an extensive scientific background that aids in identifying and acquiring stellar compounds before they are recognized by competitors. This phenomenon has played out in HCV where Gilead swooped in and purchased Pharmasset thus paving the way for its HCV franchise. The team looks to have repeated the process with the deal for Kite in gaining access to CAR-T therapy at its infancy, as well as recent tuck-in acquisitions in the field of NASH before it became a focus of other pharma firms.

Conclusion

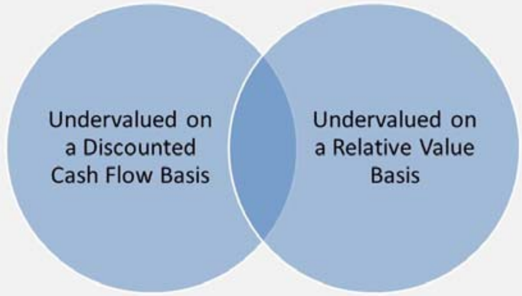
We plan to continue to include shares of Gilead Sciences in both the Dividend Growth Newsletter and Best Ideas Newsletter portfolios as we feel the company has an appealing blend of capital appreciation potential coupled with immediate income generation in today's extended ("frothy") market environment. We're looking for management to potentially announce another deal or two in 2018 as it works to set the company up for a return to meaningful revenue growth in 2019.

Disclosures: Independent Healthcare and Biotech contributor Alexander J. Poulos is long Celgene and Gilead Sciences.

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.

[Screen expanded to include stocks with NEUTRAL relative value ratings.]

Company Name	Symbol	DCF Valuation	Relative Valuation	P/FV	Fair Value Estimate
Continental Resources	CLR	UNDERVALUED	NEUTRAL	0.69	$50.00
Sally Beauty	SBH	UNDERVALUED	NEUTRAL	0.72	$22.00
Gilead Sciences	GILD	UNDERVALUED	NEUTRAL	0.73	$109.00
Michael Kors Hldg	KORS	UNDERVALUED	ATTRACTIVE	0.75	$60.00
Huron Consulting	HURN	UNDERVALUED	NEUTRAL	0.76	$48.00
Western Union	WU	UNDERVALUED	ATTRACTIVE	0.76	$25.00
Cisco	CSCO	UNDERVALUED	NEUTRAL	0.77	$42.00
AMC Networks Inc	AMCX	UNDERVALUED	ATTRACTIVE	0.79	$75.00
Apple	AAPL	UNDERVALUED	NEUTRAL	0.80	$199.00
AIG	AIG	UNDERVALUED	ATTRACTIVE	0.85	$78.00

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.

Michael Kors (KORS), a 9 on the Valuentum Buying Index, is the only stock that registers either a 9 or a 10 at the time of this publishing. The market remains frothy, in our view. Please consult the Best Ideas Newsletter portfolio on page 8 for our best ideas.

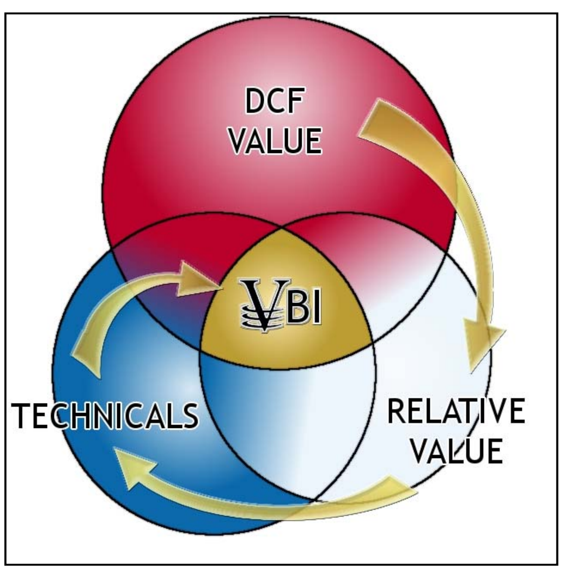
Company Name	Symbol	Sector	VBI
Ecolab	ECL	Materials	1
Quidel Corp	QDEL	Health Care	1
Badger Meter	BMI	Industrials	1
J&J Snack	JJSF	Consumer Staples	1
Lancaster Colony	LANC	Consumer Staples	1
Henry Schein	HSIC	Health Care	1
Church & Dwight	CHD	Consumer Staples	1
Clorox	CLX	Consumer Staples	1
Jack Henry	JKHY	Information Technology	1
Toro Co	TTC	Industrials	1
Bio-Rad	BIO	Health Care	1
Ulta Salon	ULTA	Consumer Discretionary	1
Healthcare Realty Trust	HR	Financials	1
Universal Health Realty	UHT	Financials	1
National Instruments Corp	NATI	Information Technology	1
Philip Morris	PM	Consumer Staples	1
South Jersey	SJI	Energy	1
Raytheon	RTN	Industrials	2
Teledyne	TDY	Industrials	2
Aluminum Corp of China	ACH	Materials	2
Northern Trust	NTRS	Financials	2
Praxair	PX	Materials	2
TriMas Corp	TRS	Industrials	2
Trimble	TRMB	Industrials	2
Amphenol Corp	APH	Information Technology	2
Navigators Group	NAVG	Financials	2
Estee Lauder	EL	Consumer Discretionary	2
Graco	GGG	Industrials	2
RBC Bearings	ROLL	Industrials	2
Aspen Technology	AZPN	Information Technology	2
VeriSign	VRSN	Information Technology	2
Consolidated Edison	ED	Energy	2

Our Methodology – The Valuentum Buying Index (VBI)

By Valuentum Analysts

At Valuentum, we think some of the best opportunities arise from an understanding of a variety of 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, we posit 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.

We think 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 generally 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 discounted cash flow (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 target the long term, and we want to have a strong process to support the ideas we deliver to our subscribers.



Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

The center of the Venn diagram above, the Valuentum Buying Index (VBI) combines rigorous financial and valuation analysis with an evaluation of a firm's technicals and momentum indicators to derive a rating between 1 and 10 for each company (10=best). Because the process factors in a technical and momentum assessment after evaluating a firm's investment merits via a rigorous DCF and relative-value process, the VBI attempts to identify entry and exit points on what we consider to be the most undervalued stocks.

We think research firms that just focus on valuation may expose readers to a stock on its way down (a falling knife), while those that just use technical and momentum indicators may expose portfolios to significantly overpriced stocks at their peaks. It is our view that only when both sides of the investment spectrum are combined can investors find undervalued stocks at potentially timely prices for consideration.

Let's examine the chart below, which showcases how the Valuentum process, by definition, may have the greatest profit potential of any common 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). We define the Valuentum strategy as capturing the entire equity pricing cycle, while the value and momentum strategies individually truncate profits, as illustrated in the image below.

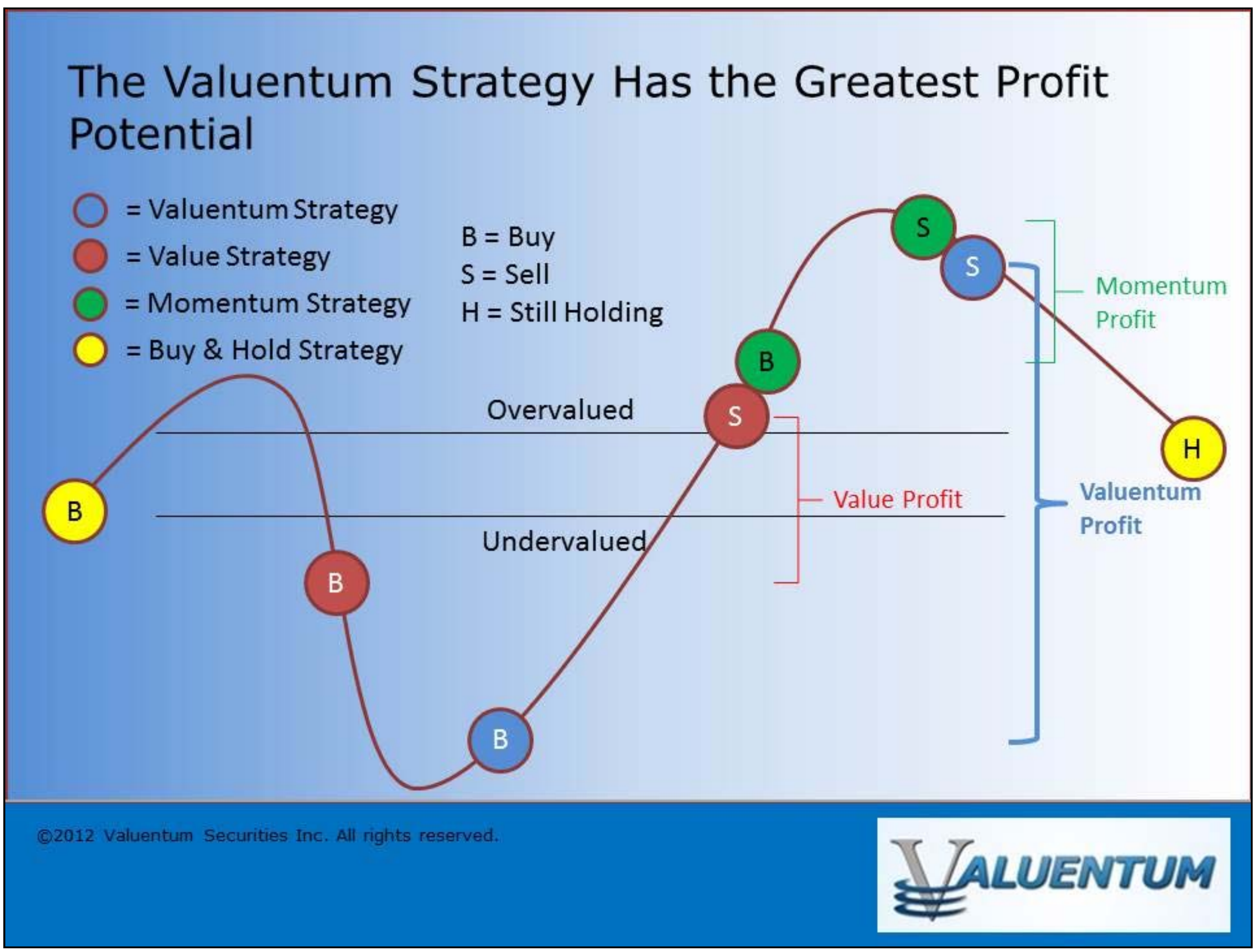


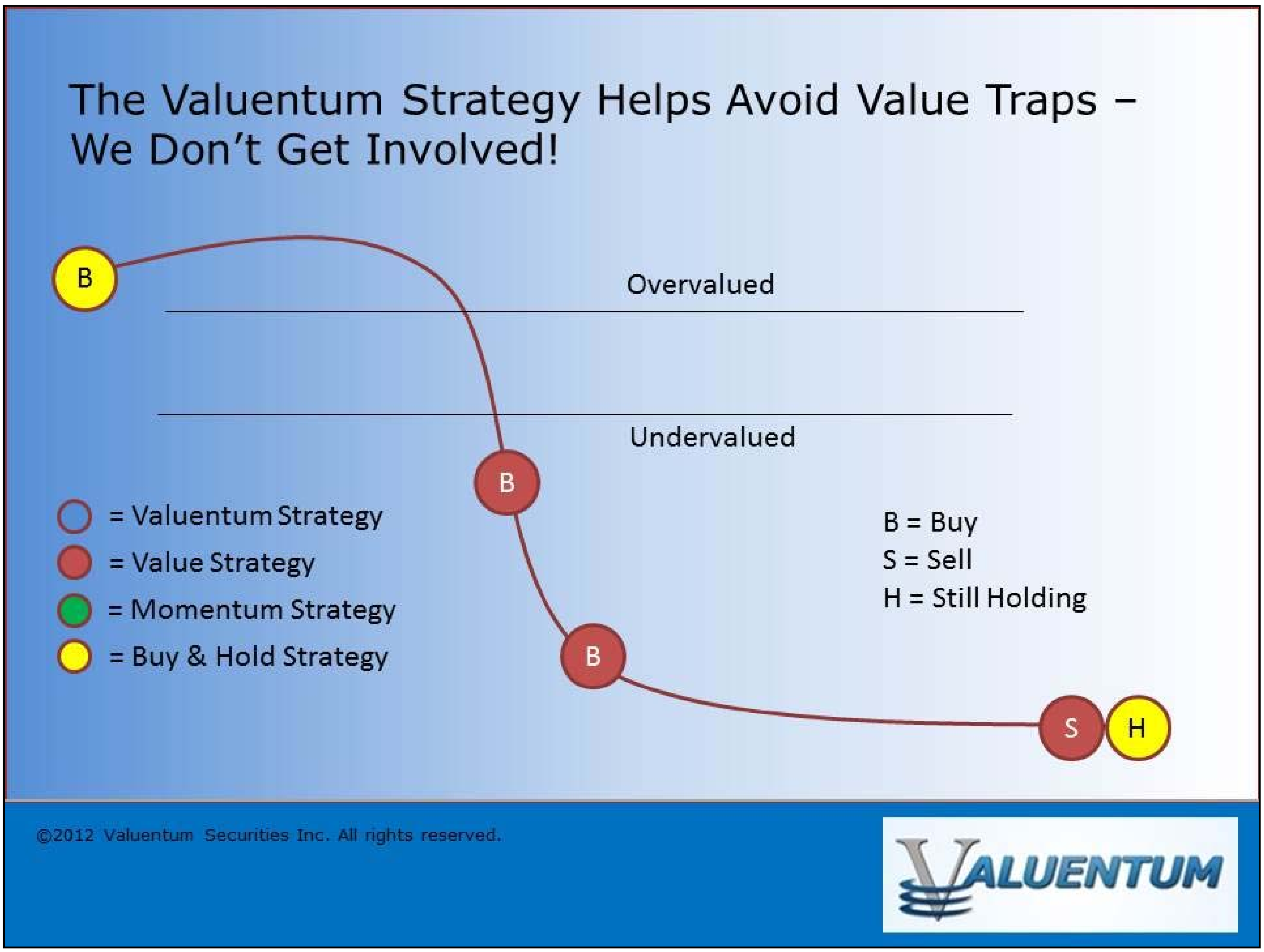
Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Furthermore, we think Valuentum subscribers are less likely to be involved in so-called value traps because we demand material revenue and earnings growth for firms to earn a 10 on the 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 often a falling stock price). We also think Valuentum subscribers are less likely to be exposed to these "falling knives" since the process requires firms to not only be undervalued, in our opinion, but also be exhibiting bullish technical and momentum indicators before we would consider adding them to the newsletter 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 attempts to steer clear of these situations. The Valuentum Buying Index is designed to wait for technical improvement in the equity, which often precedes fundamental changes at the company.



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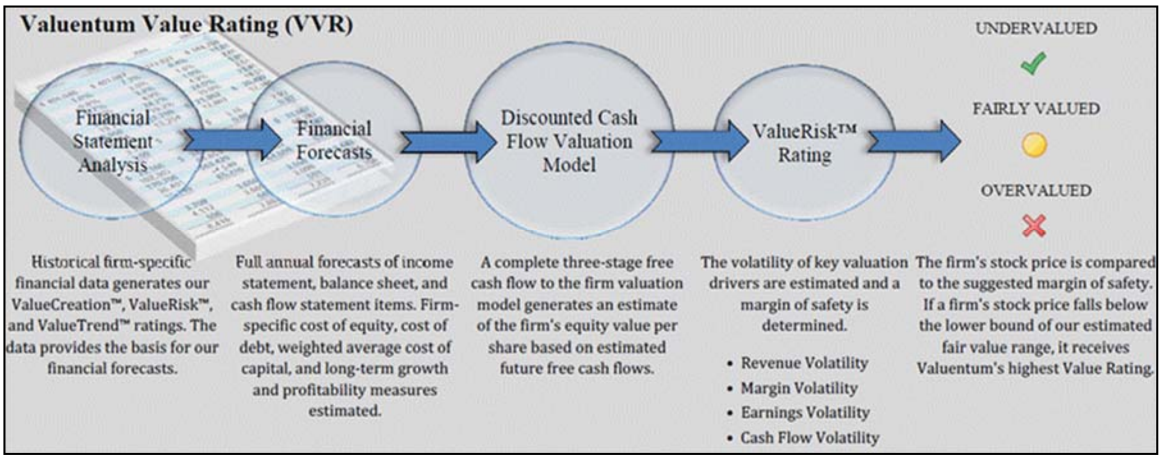
Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

Let's walk through the three investment pillars of our stock-selection methodology.

I. The Valuentum Buying Index Applies A Rigorous Discounted Cash Flow Valuation Process

The Valuentum Buying Index 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.



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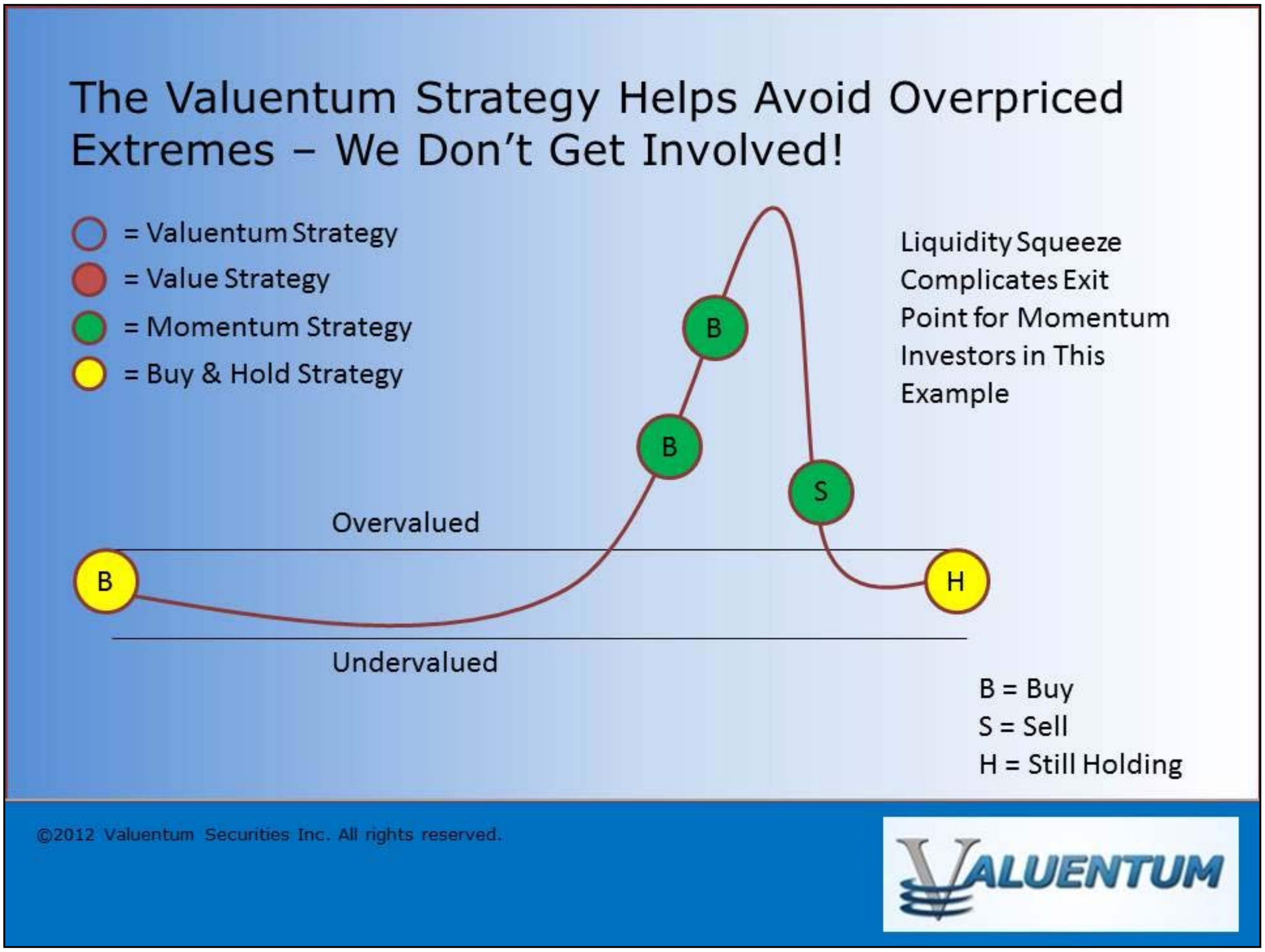
After evaluating historical trends, we then make full annual forecasts for each item on a company's income statement and balance sheet to arrive at a firm's future free cash flows. We derive a company-specific cost of equity (using a fundamental beta based on the expected uncertainty of key valuation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

We then assess each company within our 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 (DCF) valuation helps to prevent investors from exposing their portfolios to significantly overpriced stocks at their peaks. The image below reveals how pure momentum investors may expose their portfolios to pricing extremes and dramatic falls (green circles: Buy --> Sell). The Valuentum Buying Index attempts to steer clear 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. The Valuentum Buying Index Incorporates 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. The Valuentum Buying Index Seeks 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 in an attempt to consider 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).

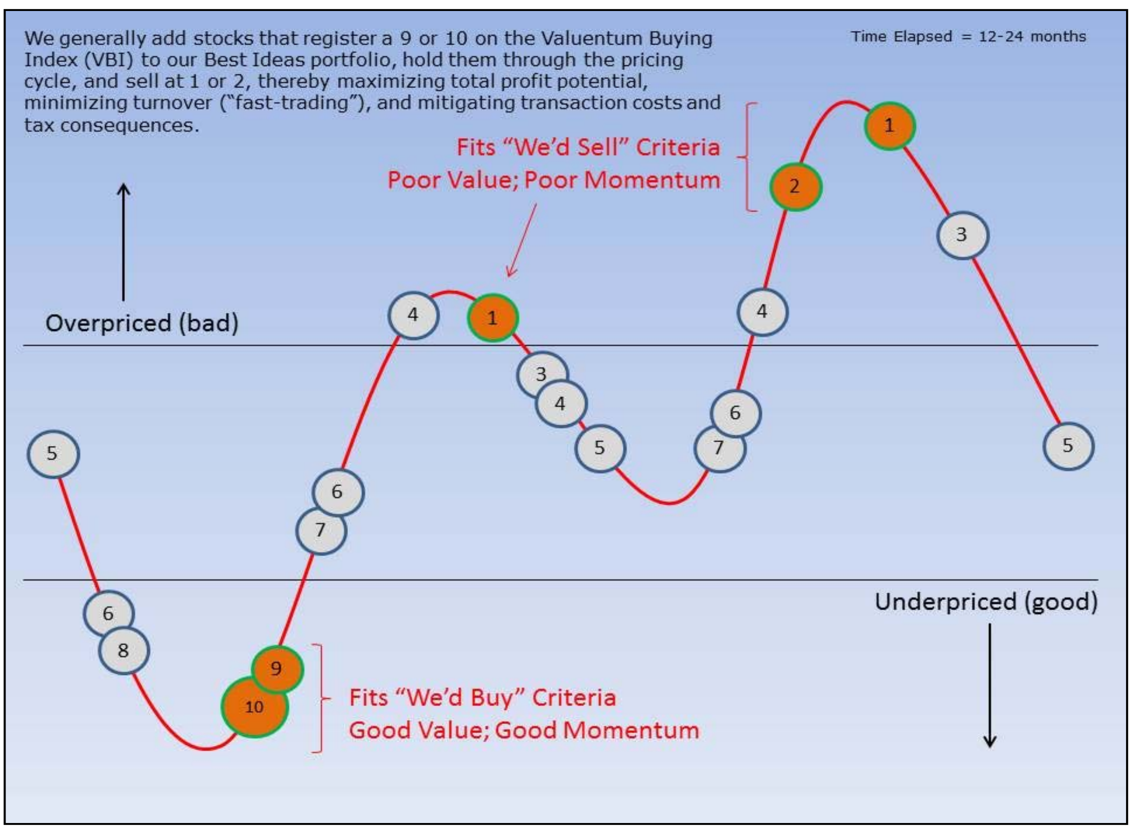
Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster idea generation. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with respect to a 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 in an attempt to help safeguard against value traps, falling knives, and the opportunity cost of holding an undervalued equity for years before it potentially converges to "fair value." Other research firms may 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, on a theoretically basis, we would expect our best ideas to "work out" over a 12-24 month time horizon (on average) -- the duration of any individual idea can vary considerably, however. We tend to include firms in the Best Ideas Newsletter portfolio when they register a 9 or 10 on our Valuentum Buying Index (VBI) and tend to remove firms from the Best Ideas Newsletter portfolio when they register a 1 or 2 on the Valuentum Buying Index.

In theory, the Valuentum Buying Index attempts to maximize profits on every idea within the Best Ideas Newsletter portfolio, 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), for example, may truncate potential profits, while a momentum strategy (4 --> 1), for example, may ignore profits generated via value assessments. The Valuentum Buying Index seeks to capture the entire profit potential, as shown below.



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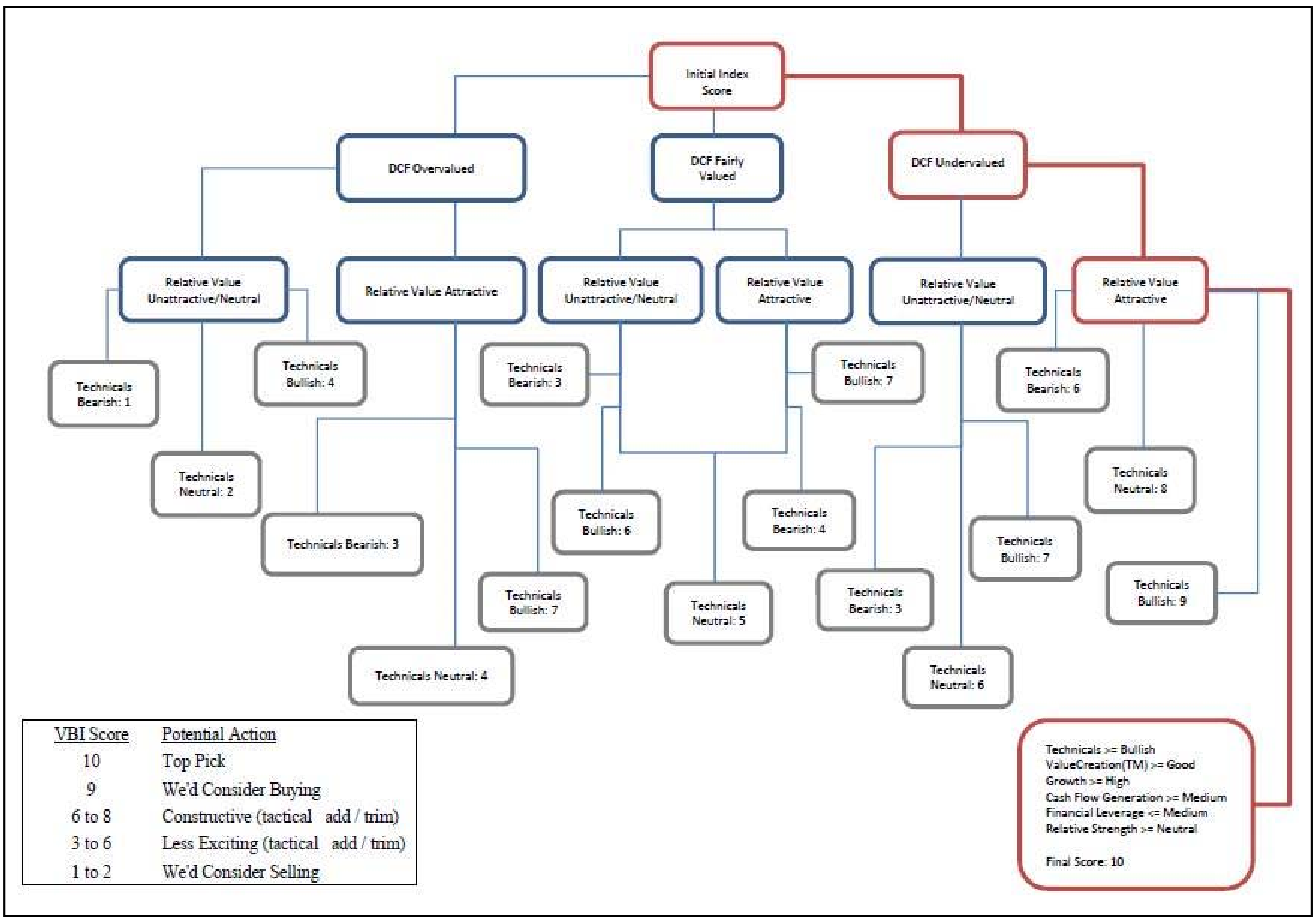
Our Methodology – The Valuentum Buying Index continued on next page

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 the Valuentum Buying 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. 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.



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Our Methodology – The Valuentum Buying Index continued on next page

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?

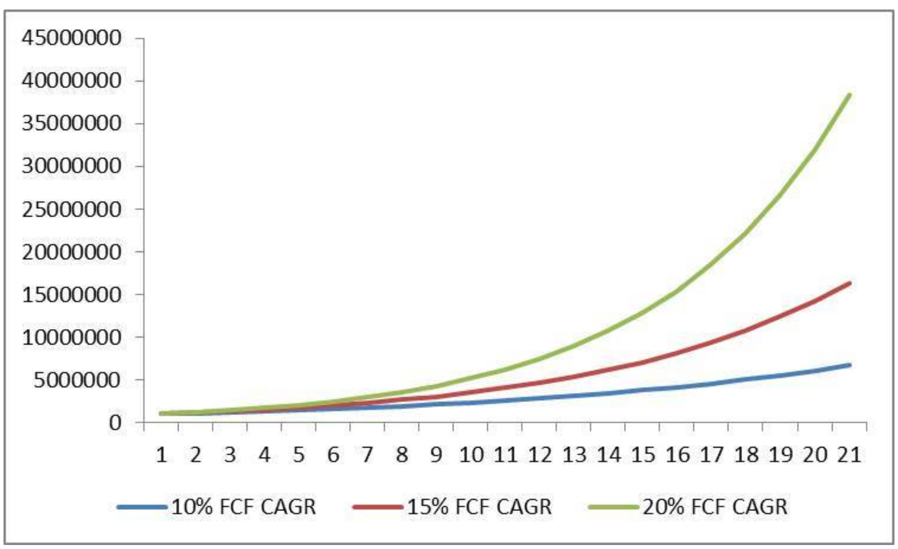
One of the most important concepts of the Valuentum methodology (and valuation in general) is the understanding that the value of a company is a range of probable valuation outcomes, not a single point estimate. Even well-seasoned stock analysts are guilty of saying that a company's shares are worth 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.



About the Fair Value Range continued on next page

***About the Fair Value Range* continued from previous page**

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.

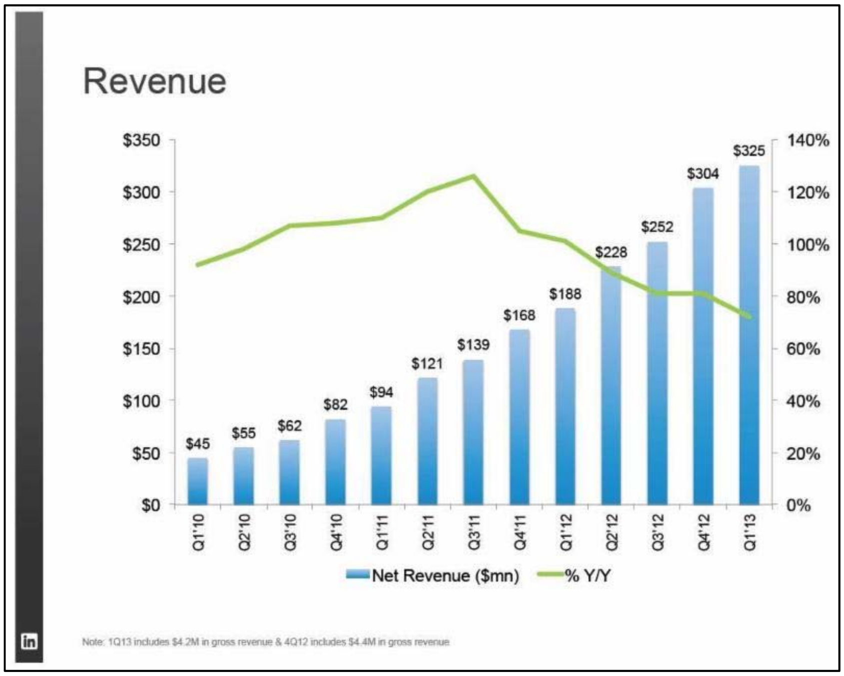


Image Source: LinkedIn

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.

***About the Fair Value Range* continued on next page**

About the Fair Value Range **continued from previous page**

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, one of the key metrics we use to source ideas, but we think it is equally important to mention up front 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! Don't forget about the Economic Castle rating and the Nelson Exclusive publication, too.

No matter your strategy or process though (it is not for us to say what is best for you), 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 evaluate as 1, 2, 3, or even buying 9s and 10s and selling 1s and 2s until their VBI changes upon the next update. Generally speaking, we measure the process over longer-term time periods--from the time a company registers a rating to a defined time in the future--not an interim update basis. Please read more our case study, where Valuentum Buying Index ratings, as of September 2013, were recorded and the performance of stocks were measured from that time through September 2014.

The Valuentum Buying Index Has Checks and Balances

With prudence and care, the Valuentum Buying Index process and its components are carried out. Our analyst team spends most of its time thinking about the intrinsic value of companies within the context of a discounted cash-flow model and evaluating the risk profile of a company's revenue model. We have checks and balances, too. First, we use a fair value range in our valuation approach as we embrace the very important concept that value is a range and not a point estimate. A relative value overlay as the second pillar helps to add conviction in the discounted cash-flow process, while a technical and momentum overlay seeks to provide confirmation in all of the valuation work. There's a lot happening behind the scenes even before a VBI rating is published, but it will always be just one factor to consider.

Within any process, of course, we value the human, qualitative overlay, which captures a wealth of experience and common sense. We strive to surface our best ideas for members, and flying blind is never a good strategy, in our opinion. 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 may not know any better. That's why the VBI has checks and balances and focuses on the discounted cash-flow process first and foremost, but the human, qualitative overlay is still extremely important, especially when considering various business models and unique "un-modelable" risks. 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, for the sake of transparency, we measure the performance* of the portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter. The portfolios, in part, represent data points measuring the outcome of the work we do on the website, rolled into an assessment: our best ideas for each respective strategy. The ideas in the portfolios in the Best Ideas Newsletter and Dividend Growth Newsletter have been evaluated by our analyst team for consideration in the newsletter portfolios. 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 this is important. 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 its benchmark return over a similar time period. What's more, we showcased this performance in full transparency, and we wrote every single day, and some days weren't all that great. When patience

*How We Use...*continued on next page

How We Use continued from previous page

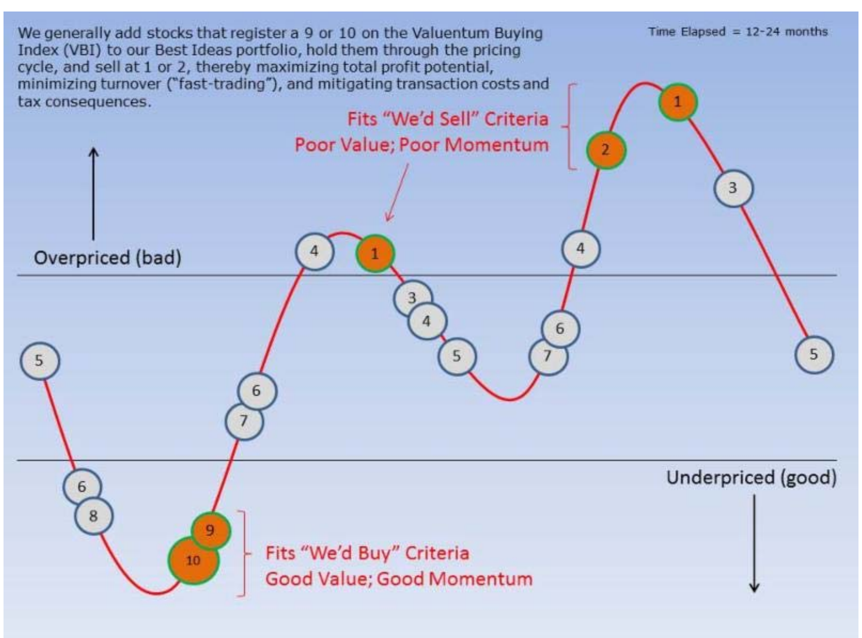
may be the secret to success in investing, a lot could have gone wrong with the temptation to do something each day. Obviously, we're very disciplined, but we also credit the portfolio outperformance to the VBI methodology itself. It is a very helpful tool.

** Actual results may differ from simulated information being presented. The Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio are not real money portfolios. Results are hypothetical and do not represent actual trading.*

The Valuentum Buying Index Is One of Many Important Factors to Consider

That said, let's talk about how the VBI helps to inform which ideas we include in the Best Ideas Newsletter portfolio. This is where some clarification is probably important. For one, the word choice is critical, "inform," because the VBI is generally just one factor that goes into whether we add a company to the Best Ideas Newsletter portfolio, even if the VBI is one of the most important factors. Second, the timing element or duration concept is a key consideration. We've noticed via our statistical backtesting that a momentum factor can be much more pronounced (powerful) over longer periods of time. This was one of the interesting findings of our academic white paper study (2012). We try to consider this dynamic with the update cycle of our reports (and the time horizon for ideas to work out). That's why our 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 think portfolio churn is the way to generate outperformance. Momentum may be high turnover, but Valuentum is low turnover.

Though the time frame varies depending on each idea that we consider for the Best Ideas Newsletter portfolio, we would expect our best ideas to generally work out over a 12-24 month time horizon (on average). Not all ideas will be successful, however. Our "holding period" is targeted to be much, much longer for some ideas in the Dividend Growth Newsletter portfolio, as income and dividend growth are other key factors (in addition to the Valuentum Buying Index and capital appreciation potential). The time horizon or duration concept is where the Valuentum Buying Index rating system becomes more complicated than a simple 1, 2, 3. For example, 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, based on dividend-related considerations).



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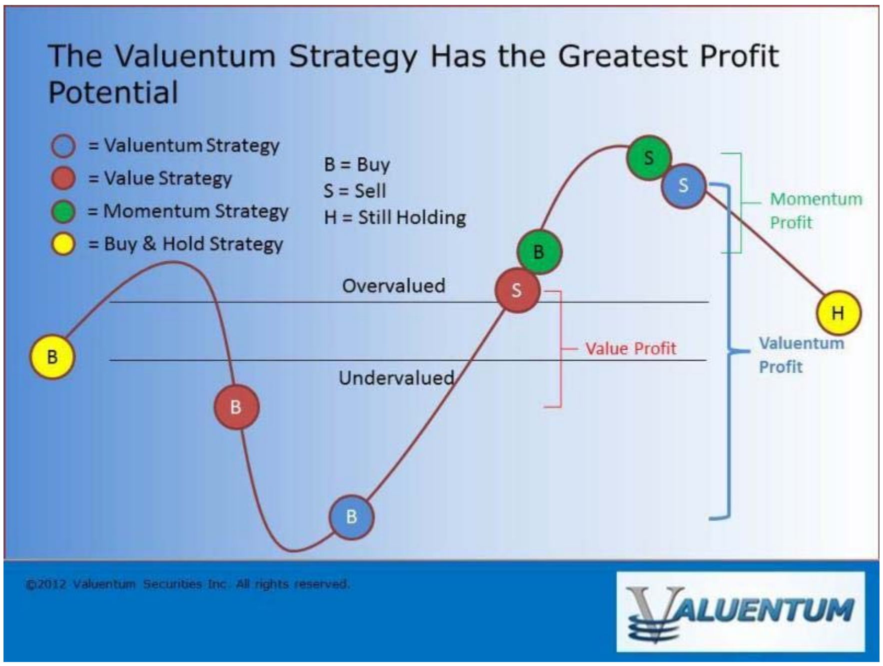
But why don't we churn our ideas by updating daily and trading a lot? Obviously, we don't think that's the secret to investment success. In quite the opposite approach, we strive to maximize profits on every idea that we pursue, with the understanding that momentum does exist and that prices over and 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 "outperformance" of the Best Ideas Newsletter 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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Not All Highly-Rated Stocks Are Added to the Newsletter Portfolios

Regarding the Valuentum process, as it is executed in the Best Ideas Newsletter portfolio, we do not "add" all stocks 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. Macro-economic, broader market valuation, and sector weighting considerations are other factors that impact the qualitative portfolio management process.

But why not add every highly-rated stock on the Valuentum Buying Index 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, in his or her opinion -- 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

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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 even have to relax the VBI criteria entirely in order to do what we think is required to achieve newsletter portfolio goals.

Some Examples of the Valuentum Buying Index In Action

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.]

There have been more straightforward opportunities in the Best Ideas Newsletter portfolio, too, especially in the case of EDAC Tech, which 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 (as in the eBay example). Not to be overlooked either, the Valuentum Buying Index rating also informs us when we may consider "removing" a position from the newsletter portfolios. Kinder Morgan (KMI), for example, registered a 1 on the Valuentum Buying Index just prior to its notorious fall and dividend cut. 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.

In all, the Valuentum Buying Index 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 my 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. Of course, please always contact your financial advisor to determine if any idea or strategy may be right for you.

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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 an understanding of a variety of 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. 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 11

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