OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

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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,VRNT, V

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Inside This Issue

1 2018 Starts Out with a Bang!
4 Is Visa the Best Company Ever?
8 Simulated Best Ideas Newsletter Portfolio
9 Apple (AAPL) – Page 1 of 16
10 Facebook (FB) – Page 1 of 16
11 Alphabet (GOOG, L) – Page 1 of 16
12 Intel Facing Selling Pressure Over Security Issue
13 SMART Global: A Leader in Specialty Memory Solutions
15 SMART Global Holdings (SGH) – Page 1 of 16
16 2018 Healthcare and Biotech Outlook
18 Tweaking the Newsletter Portfolios for a Rising Interest-Rate Environment
21 The Watch List
23 About the Valuentum Buying Index
30 About the Fair Value Range
35 How We Use the Valuentum Buying Index in the Newsletter Portfolio

"Said differently, it matters more what the 10-year yield ends up being in the event of a higher cost of borrowing for the US, for example, than the delta in earnings per share for next year or 2020, even if that delta may be meaningful and exciting."

- Brian Nelson, CFA

2018 Starts Out with a Bang!

By Brian Nelson, CFA

Image Shown: An ETF that measures momentum (MTUM) has done considerably better than the S&P 500 since the beginning of 2017. Among its top 5 holdings are Microsoft (MSFT), Apple (AAPL), Boeing (BA)—newsletter holdings that have had excellent value characteristics along the way. Visa (V) is also included in its top 10 holdings.

Goal of the Best Ideas Newsletter

The goal of the Best Ideas Newsletter is to highlight ideas with strong capital appreciation potential and to update readers about new developments in the market. A simulated portfolio of capital appreciation ideas is presented on page 8 of each edition.

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Even some the most bullish and optimistic investors have been surprised by the resiliency of today's market environment. Why does it seem appropriate to remind members that the stock market doesn't always go straight up with almost no volatility?

What a great start to the New Year!

The Dow Jones Industrial Average (DIA) and the S&P 500 (SPY) are up more than 4% so far this year, while the Nasdaq (QQQ) has been on a tear, up 5%, marking the best start since 2004, according to Seeking Alpha. It truly is incredible. I'm sure many of you reading this now were in the markets during the Global Financial Crisis and during the Great Recession, and many of you probably also remember the dot-com bubble and bust of the late 1990s/early 2000s, but you'd have to go back to the Crash of 1987 to capture the third most recent bear market, more than 30 years ago now. According to First Trust, the current bull market is nearly 9 years old, representing a total return of ~385% and an annualized return of ~18%, this following the collapse in 2008-2009, which sent stocks down more than half and some of the most prestigious banks (XLF) belly up.

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Though we continue to believe that readers should exercise caution due to existing stock market valuations, which are frothy regardless of how you measure them, whether it's the forward price-to-earnings ratio on the S&P 500, or the cyclically adjusted price-to-earnings ratio, or the market-cap-to-GDP ratio. But that may not matter. What many seem to be caught up on is that we are currently in a bull market, and that means that investors buy, and they hold, and without meaningful volatility in the markets these days, there's not much to give the long-term investor to think about when it comes to reasons to sell. The self-perpetuating cycle of a steadily-increasing market with ultra-low volatility has taken many an investor by surprise, and even the most experienced of market observers can hardly believe it. We'd be remiss to say that the current magnitude and duration of the ongoing bull market is unusual, however. Perhaps this may be where optimists are gathering excitement.

For starters, if you look at the bull market that ended with the dot-com bust, stocks advanced more than 816%, representing an annualized return of ~19%, from the Crash of 1987. It took nearly 13 years to achieve this remarkable run. If we go back to the bull market than ended with the Crash of 1987, that was a near-13-year run, too, with a return of more than 845%, marking a 19% annualized return, too. There have been two other bull markets in market history with durations of nearly 14 years and over 15 years, with total returns of 800%+ and 900%+, respectively, meaning that today's bull market could still be in the middle innings if history is any guide and if it is of the longer-duration variety. The average duration of a bull market is ~9 years, however, with average cumulative total return of 480%, meaning that if today's bull market is only of the average variety, it is starting to get long in the tooth.

How did we get here? For starters, ultra-low interest rates and a flood of liquidity by the Fed, which has caused many an investor to jump into risky assets for yields. Second, the proliferation of indexing and/or buy-and-hold investors that aren't paying attention to the price-to-fair value equation, but instead to other considerations ("put money to work" and the like), is generating a buy-at-any-price mentality, what many consider to be the primary cause of any stock market bubble. Third, a generally strong US economy that has not been exposed to exogenous shocks or systemic events for some time, though one could possibly point to Brexit (EWU), the London Whale incident, the property/stock markets in China (FXI, KWEB), or even the threat of nuclear war with North Korea--but nobody seems to care. Fourth, the March 2009 panic bottom may have been the greatest cause of this bull market, a generational low, perhaps shaking out some of the most reasonable and/or most emotional of investors for good, and they may have never come back.

For some to have witnessed this much wealth evaporate during such a recent event as the Financial Crisis, for example, it's hard to believe that the stock market could ever be considered a long-term wealth creator--but it has bounced back, and it may very well be because of the idea that the market has bounced back from the depths of ruin in late last decade, and in a big way, that investors may no longer be paying attention to it. They may say: "Buy and hold. Index. Reinvest Those Dividends. Keep Putting Money to Work. Get Started Saving as Early as Possible." After all, if today's investor believes the market always goes up, will it continue to be a self-fulfilling prophecy? Or will game theory take over and that one incremental investor that decides to get out eventually lead to the beginning of the end of this bull market? It has to end some time, right? Here's the real deal: the bull market is going to work until it doesn't, and valuations aren't going to matter until they do. Unlike bull markets, which are long, slow marches higher, bear markets are fast and cut deep (and are very painful). According to First Trust, "the average bear market lasted 1.4 years with an average cumulative loss of ~41%."

I think you need to start thinking, if or when, we do enter the next bear market, whether you might be able to handle a 40%+ loss in your wealth. This is why I want you to keep paying attention to the markets and your money--because if you believe in bull markets and you buy into what is driving the market today, then you have to also believe in bear markets, and we all know what happened during the very

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worst of the bear markets following the Crash of 1929. That bear market lasted less than 3 years, but it wiped out more than 80% of wealth in the US stock market. It's a story nobody wants to remember, but it is one we should never forget. Sometimes it's easy to get caught up in the latest and greatest financial instrument, or the buy-and-hold mentality, but you should also pay attention to price-versus intrinsic value. Nobody has ever been hurt taking profits, to my knowledge, but many an investor has gotten hurt being greedy.

The rise in cryptocurrencies ensues, as Bitcoin (XBT, GBTC) continues to hold most of its massive advance, though its conversion rate to the US dollar (UUP, UDN), has come down quite a bit from its height. The SEC is cracking down on initial coin offerings (ICO), but we won't see the last of them. Still, speculators are growing more and more skeptical of the scarcity of cryptocurrencies, as more and more cryptocurrencies are created. Perhaps each has a limited supply, but if a new one can be created, then the scarcity argument may not hold for all, in aggregate. We're also witnessing things that I never thought I would see again, things that are dot-com-bubble-like. For one, Long Island Iced Tea (LTEA) changed its name to Long Blockchain, blockchain being the technology behind Bitcoin and others, and saw its shares soar. Even Eastman Kodak (KODK)—yes that Eastman Kodak—is getting in on the action, announcing that it will launch a cryptocurrency called KODAKCoin "to help empower photographers and agencies to take greater control in image rights management." Shares surged on that news, too!

We think the most important developments, however, are happening with respect to interest rates (TLT, TBT). Near term yields are reaching the highest they been in years, and the 2-year Treasury (DTUL, DTUS) has now passed the average dividend yield on the S&P 500, perhaps creating a conundrum for some portfolio managers that had been holding a passive index, in part for a yield portion, as now such portfolio managers can get an equivalent yield on a riskless Treasury instrument of rather small duration. We have been saying for some time that the tipping point will rest on when the market wakes up to a higher-yield environment, and while we may be a few percentage points away in the 10-year Treasury for that, yields are slowing inching higher, some of course more abruptly than others. This is partly why we are witnessing the sell-off in utilities (XLU) and REITs (VNQ), both equities' prices highly sensitive to risk-free yields, regardless of underlying constituent fundamentals. Midstream energy equities (AMLP), though not directly tied to energy prices, only indirectly, have held up a little better thanks to rising crude oil prices (USO, OIL), which help the credit quality of their customers.

We think the rise in near-term risk-free yields, the weakening US dollar relative to the euro (FXE, EUO), and the recent advance in gold (GLD) prices are all in some part tied to US corporate tax reform. Our initial opinion of the tax bill is that the US will have a very difficult time paying for the capital expensing provision of the new bill, "which allows companies to deduct their investments in tangible assets in the year of the investment," let alone the cut in the corporate tax rate to the low-20s (21% from 35%), too. The reality is that while the corporate tax cut will help stimulate new investment and pave the way for higher wages, it also has the ancillary dynamic of potentially driving sovereign yields higher, as we are witnessing, and driving inflation, as in what we have also seen with respect to higher wages and one-off bonuses. Waste Management (WM) issued tax-related bonuses, for example, and Walmart (WMT) did the same, but the latter's announcement was followed shortly by the layoff of 1,000+ corporate workers.

The long-term implications of the tax cuts have yet to be completely ironed out yet, in our view, but if government tax receipts fall to the point where yields on US Treasury instruments soar, an occurrence that may be accompanied by outsize inflation, an increased discount rate could have a more-than-offsetting impact on company valuations, across the board. Though it may be hard to believe that the corporate tax reform could potentially be a negative in the long run, given that it will drive accounting earnings per share higher in the near term, the largest component of value for an organization originates in its long-duration enterprise free cash flows, which are very sensitive to discount rates that tie future value to today. Said differently, it matters more what the 10-year yield ends up being in the event of a higher cost of borrowing for the US, for example, than the delta in earnings per share for next year or 2020, even if

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that delta may be meaningful and exciting. No change happens in a vacuum, and that's the case for political events in the form of tax cuts, too.

All things considered, however, the US economy is performing wonderfully. GDP continues to advance at a nice clip, unemployment is super low, and consumer sentiment is at or near highs. Innovation at Silicon Valley continues unabated, the energy (XLE) ecosystem is recovering, and companies like Netflix (NFLX) and Tesla (TSLA) remain of great interest. Newly-minted millionaires in Silicon Valley and in the Bitcoin community may be in part driving the broader stock market higher, too, and some are saying that the demographic make-up of millennials (MILN) could make the next 20 years in the stock market the best 20 years yet. That is going to largely depend on continuous innovation, and while we had Microsoft (MSFT) in the 1990s (Windows 95), Apple (AAPL) in the 2000s (iPod), Facebook (FB) and Twitter (TWTR) in 2010s (social media), only time will unveil that next-generation breakthrough in the 2020s. How about a cure for cancer? Wouldn't that be nice? We're monitoring the oncology divisions of big pharma very closely these days.

As we wrap up, there is one change that I have been mentioning for months now, but as of this edition, it is finally incorporated into the Best Ideas Newsletter. I think it moves us in the right direction of giving our customers what they want. What we've found from member feedback is that many are having varying experiences with the newsletters. For example, many of our members were not aware that Visa (V) and Apple, two of the best performers in the Dow Jones Industrial Average during 2017, were among our favorite ideas last year, as they were the "highest-weighted" ideas in the simulated Best Ideas Newsletter portfolio--so calculations regarding the ideas in simulated portfolio fashion were less relevant for a great majority of our members, and in some ways, our excitement surrounding the success of ideas wasn't as well-received as we would have liked.

As a result, and as we have been saying for a couple months now, we think a list-versus-weighting format may work the best, as it gets our favorite ideas at the top, and helps to explain how we think about the ideas themselves, that we may like one idea more than the next one, etc. This is now reflected in this January edition of the Best Ideas Newsletter. It also offers more flexibility with respect to providing a range of weightings, giving us more time for analytical work as opposed to doing the monthly calculations. We continue to measure our ideas and methodologies, of course, as we view this as par for the course, and we think the Valuentum Buying Index rating, the fair value estimates and ranges, the Dividend Cushion ratios are worth the membership price alone, let alone the newsletters that we provide. In any case, thanks for the feedback and making Valuentum the best it can be. We appreciate it greatly. Here's to a great 2018!

Is Visa the Best Company Ever?

Visa's business model is phenomenal and its competitive advantages among the best in the world. The company's free cash flow generation is remarkable, and it alone covers its cash dividend payment by more than 5 times. There are few companies with higher levels of profitability than Visa's, and even fewer that also have as strong of growth potential. The company's valuation is starting to get a little stretched, but it has the free-cash-flow generation to grow into it.

By Brian Nelson, CFA

Very few companies draw me to them like Visa (V). For starters, the company is one of the largest retail electronic payments networks based on payments volume, total volume and number of transactions. Though scale is appealing, the driver behind it is even more so. Visa benefits from one of the strongest competitive advantages out there, in my opinion – the network effect. For example, as more consumers use its credit/debit cards, more merchants accept them, thereby creating a virtuous cycle. This kind of cycle is incredibly difficult to break, and as society moves more toward cashless, Visa is right there to capture not only the incremental demand, but also market share. It is in a sweet spot.

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Another characteristic of Visa that I like is that it is not a bank in the traditional sense and does not even issue credit cards, meaning the company doesn't take on credit risk, unlike American Express (AXP) and Discover Financial (DFS), even as it remains an integral part of the global payments industry. Sales are primarily generated from payments volume on Visa-branded cards in toll-road fashion (every swipe of a Visa card generates revenue for the company). I learned a lot during the Financial Crisis about the hazards of credit risk and the havoc it can wreak on a company's balance-sheet health, and ultimately, an entity's equity price. Though there are numerous regulations that could stymie the pace of Visa's rate of expansion and the company remains inextricably tied to the global financial system, I think it is somewhat shielded from the dynamics that shook the financial markets late last decade.

The company is not resting on its success either. In June 2016, Visa acquired Visa Europe in a deal valued north of 21 billion euros ($23+ billion). The deal has unified the brand globally after eight years as separate companies. The transaction includes a payment of 16.5 billion euros upfront and another of as much as 4.7 billion euros after the fourth anniversary of closing. Visa added $15+ billion debt to finance the deal, flipping its balance sheet to a net debt position. Though we weren't exactly pleased that Visa's balance sheet took a hit, bringing in-house valuable assets offers it considerably more flexibility to achieve global growth and a better claim on non-US cash-flow generation. As is often the case, the best assets to acquire are already in your backyard ("portfolio"), and the purchase of Visa Europe fit the mold in this case.

Europe isn't the only place that Visa is looking to grow. Along with other US payment card companies, the company is reportedly preparing to request licenses to operating in China in the near future. Though it can take up to two years for the requests to clear scrutiny from Chinese regulators, what a tremendous opportunity it could bring. For starters, the ~$8 trillion yuan bank card network is currently dominated by state-backed China UnionPay, and even a fraction of the market would be a nice boost to incremental growth for Visa. Rivals in China are many, and we may have not seen the last of the new entrants to the payments processing market there, but Visa has a long track record and know-how, and we believe whether organically, if permitted, or via joint-venture or other means, Visa will find a way to tap into China's rapid growth over the long haul.

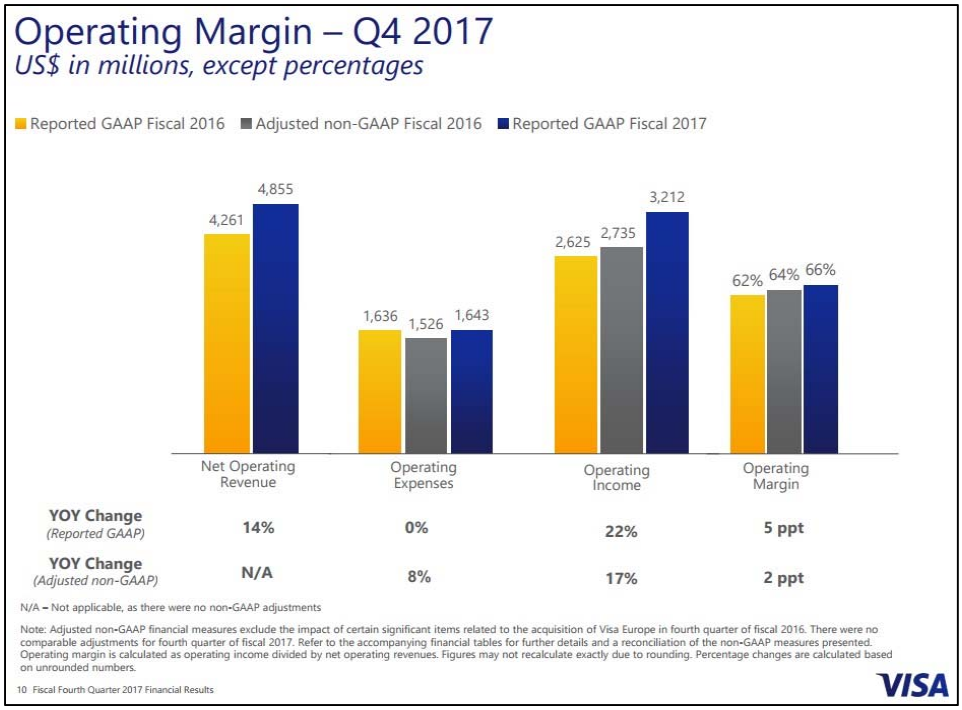

Image Source: Visa's fiscal fourth-quarter 2017 earnings slide deck

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Despite the good things I've said thus far, I've somehow managed to leave the elephant in the room out! Visa is arguably one of the most profitable companies on the planet when it comes to operating margins (and it translates to strong measures of return on invested capital, too). This is what really gets me excited about the company's business model: annual operating margins in the high 60s. Not only is Visa expecting to grow annual net revenue in the high-single-digits on a nominal basis, as its financial outlook for fiscal 2018 revealed in its fiscal fourth-quarter press release, released October 25, the revenue growth is coming at a tremendously high level of profitability. Some companies don't even have 60%+ gross margins, but Visa has 60%+ operating margins, levels of profitability that include overhead costs. Visa's competitive advantages and high-margin revenue model are the "real deal," and management is focused on doing what's right for shareholders.

Let's talk about that for a bit. I spend a lot of time talking about balance-sheet health and free cash flow generation when it comes to a dividend, and our team came up with this very interesting metric called the Dividend Cushion ratio--it blends the two into a very nice coverage ratio that considers both the balance sheet and cash flow statements. I already mentioned that Visa has a manageable net debt position of ~$5-$7 billion (depending on whether you give it credit for restricted cash), but let's quantify its free cash flow generation relative to its dividend payment. During 2017, Visa generated $9.2 billion in net cash flow from operations during 2017 and only spent ~$700 million in property, plant, and technology assets. Its free cash flow generation during 2017 was ~$8.5 billion, and it only paid out ~$1.6 billion in cash dividends for the year. This amounted to free cash flow coverage of the dividend of ~5.4 times. This speaks of tremendous dividend growth potential to enhance its modest annual dividend yield of ~0.7% at the time of this writing.

Financial Outlook for Fiscal Full-Year 2018

Annual net revenue growth	High single digits on a nominal dollar basis, with approximately 0.5 to 1 ppt of positive foreign currency impact
Client incentives as a percentage of gross revenues	21.5% to 22.5% range
Annual operating expense growth	Mid-single digits adjusted for special items in fiscal 2017 (see note below)
Annual operating margin	High 60s
Effective tax rate	About 29%
Annual diluted class A common stock earnings per share growth	Mid-40's on a GAAP nominal dollar basis and high end of mid-teens on an adjusted, non-GAAP nominal dollar basis (see note below), both including approximately 1 to 1.5 ppts of positive foreign currency impact

Note: The financial outlook for fiscal full-year 2018 includes Visa Europe integration expenses of approximately $60 million for the full-year. Annual operating expense growth is derived from adjusted full-year 2017 operating expenses of $6.0 billion. Annual adjusted diluted class A common stock earnings per share growth is derived from adjusted full-year 2017 earnings per share results of $3.48. Refer to the accompanying financial tables for further details and a reconciliation of the adjusted fiscal full-year 2017 results.

13 Fiscal Fourth Quarter 2017 Financial Results VISA

Image Source: Visa's fiscal fourth-quarter 2017 earnings slide deck

I like to look at valuation in the context of a discounted cash-flow framework, coupled with a fair value estimate range. I think this just makes sense. The value of a company is in part a function of what it has plus what it will generate in the future. Visa has a net debt position currently, but its future free cash flow generation potential continues to be phenomenal. We assume revenue will grow at a low-double-digit clip during the next five years (includes fiscal 2017) as operating margins average in the mid-to-high 60% range. This should drive a very nice ramp in earnings and enterprise free cash flow, in our view, as

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Valuation Analysis

Valuation Assumptions

In Millions of USD (except for per share items)	5-year Projections	
Revenue CAGR %	12.5%	
Avg. EBIT Margin %	66.5%	
Avg. Cash Tax Rate %	25.2%	
Earnings Before Interest CAGR %	6.0%	
Earnings Per Share CAGR %	19.9%	
Free Cash Flow to the Firm CAGR %	36.5%	
Earnings before interest = Net operating profits less adjusted taxes	Long-term Projections	
Phase II --> III FCFF CAGR %	5.5% (II)	3% (III)
Cost of Equity %	10.2%	
After-tax Cost of Debt %	4.3%	
Discount Rate (WACC) %	9.8%	
Synthetic credit spread = 1.453%	Results	
Phase I Present Value	44,255	
Phase II Present Value	106,242	
Phase III Present Value	73,909	
Total Firm Value	224,406	
Net Balance Sheet Impact	-5,917	
Total Equity Value	218,489	
Diluted Shares Outstanding	2,414.0	
Fair Value per Share	$91.00	

Valuation Breakdown

In the chart below, we show the build up to our estimate of total enterprise value for Visa and the break down to the firm's total equity value, which we estimate to be about 218.49USD billion. The present value of the enterprise free cash flows generated during each phase of our model and the net balance sheet impact is displayed. We divide total equity value by diluted shares outstanding to arrive at our $91 per share fair value estimate.

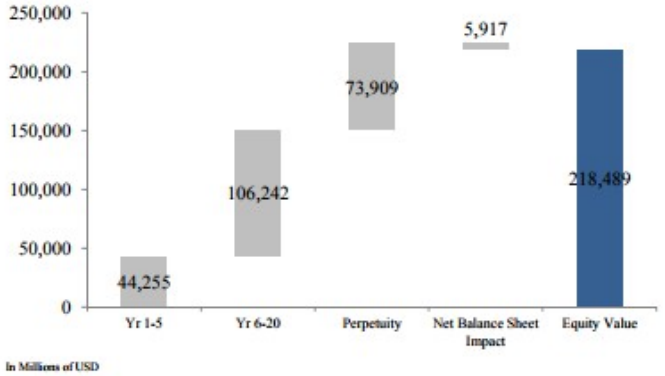


Image Source: Valuentum's 16-page Report.

the magnitude of cash-flow-from-operations generation trumps any comparatively modest increases in necessary capital outlays. Though we estimate Visa's shares are worth ~$90 today, meaning the market may be getting ahead of it a bit, strong free cash flow generation offers Visa the potential to grow into its current share price. The high end of our fair value estimate range is ~$109.

Let's now talk about risks. The financial industry is highly-regulated, and any changes in the regulatory environment could be a positive or negative for Visa, especially as it relates to the fees it can charge. This is certainly a long-term risk, but the current Trump administration is considerably pro-business if the recent tax cuts are any indication, and we doubt that any measures implemented in coming years will do damage to Visa's business model. There is the threat of other competitors such as PayPal (PYPL) and the rise of cryptocurrencies such as Bitcoin (XBT), but the cashless payment market is big enough for a large number of competitors, in our view. Some estimates reveal, for example, that as of 2015, approximately 85% of payments across the globe are still completed with cash or check, revealing a significant opportunity for a great number of companies within the financial tech industry, from Visa and Mastercard (MA) to PayPal and Square (SQ) to Bitcoin and beyond!

All things considered, here is what you need to know about Visa: It has strong competitive advantages, very high levels of profitability, tremendous free cash flow generation, solid growth prospects, and incredible dividend growth potential. No company is without risks to the long term, but Visa may have more things going for it than any other company. The one thing to be cautious about is Visa's valuation, but the payments giant has the potential to grow into it, especially in a bull market that has overcome so much during the past 8 or so years. Society is going to continue to need new ways to pay for "things," and Visa is at the heart of this long-term secular trend! Is it the best company ever? You be the judge.

Valuentum's Best Ideas

By Valuentum Analysts

Note: This edition of this newsletter, the January 2018 edition, features ideas in list-and-weighting format, as announced several months ago.

Study: Valuentum released a new study on its fair value estimates! Please download the paper at the following link: https://www.valuentum.com/downloads/20171031/download

Why the Simulated Newsletter Portfolio Format Changes?

We're constantly improving at Valuentum and incorporating members' suggestions as we go.

What we have found from members' feedback is that a meaningful percentage of subscribers are having a different experience than what is reflected in the newsletters. For example, many have not been excited about our Visa (V) and Apple (AAPL), and Johnson & Johnson (JNJ) and Intel (INTC) ideas, the top two respective weightings in each simulated newsletter portfolio, respectively. Many may not have known that these had been our favorite ideas either.

In some cases, what we've found is that the showcasing of the measurements is not helping our readership as much as we previously thought. Because of this and incorporating feedback, we believe we needed to make a change to a different presentation style--one that makes it easier to find our best ideas--so we've opted for the list-and-weighting format, as shown in the table below. We think this makes the most sense, too, as it gets our favorite ideas at the top.

We also continue to conduct extensive studies on our research methodologies. Pasted below, for example, are links to two of the most recent papers we've put together on our calculated fair value estimates and Valuentum Buying Index ratings, respectively. These ratings are included in each company's 16-page reports and are a core part of our product offering. Both of these papers were written in 2017:

Fair Value Estimates (pdf): https://www.valuentum.com/downloads/20171031/download

Valuentum Buying Index ratings:
https://www.valuentum.com/articles/Value_and_Momentum_Within_Stocks_Too

Valuentum's BEST IDEAS -- as of January 15, 2018

Portfolio Holdings	Symbol	Div Yield %	Fair Value	Economic Castle	VBI Rating	P/FV	Last Close	% of Portfolio
Berkshire Hathaway	BRK-B	0.00%	$183.00	NA	6	1.15	210.16	5.5%-10%
Facebook	FB	0.00%	$238.00	Very Attractive	7	0.75	179.37	5.5%-10%
Visa	V	0.65%	$91.00	Attractive	6	1.32	120.09	5.5%-10%
Apple Corp.	AAPL	1.42%	$203.00	Highest Rated	6	0.87	177.09	4%-5.5%
SPDR S&P Dividend ETF	SDY	3.21%	NA	NA	UR	NMF	95.72	4%-5.5%
Energy Select SPDR	XLE	3.04%	NA	NA	UR	NMF	77.42	4%-5.5%
Health Care ETF	XLV	1.47%	NA	NA	UR	NMF	86.82	4%-5.5%
Cisco	CSCO	2.91%	$42.00	Very Attractive	7	0.97	40.87	2.5%-4%
CVS Health	CVS	2.53%	$88.00	Attractive	4	0.90	78.78	2.5%-4%
Google - Class C	GOOG	0.00%	$1181.00	Very Attractive	6	0.95	1122.26	2.5%-4%
Google - Class A	GOOGL	0.00%	$1181.00	Very Attractive	6	0.96	1130.65	2.5%-4%
Intel	INTC	2.51%	$48.00	Attractive	7	0.90	43.24	2.5%-4%
Johnson & Johnson	JNJ	2.32%	$130.00	Attractive	7	1.12	145.76	2.5%-4%
Altria Group	MO	3.79%	$58.00	Very Attractive	6	1.20	69.61	2.5%-4%
Dollar General	DG	1.05%	$89.00	Attractive	7	1.11	99.10	1.5%-2.5%
Gilead Sciences	GILD	2.63%	$109.00	Very Attractive	7	0.72	79.02	1.5%-2.5%
General Motors	GM	3.44%	$43.00	Attractive	7	1.02	44.07	1.5%-2.5%
Priceline	PCLN	0.00%	$2018.00	Highest Rated	3	0.95	1919.40	1.5%-2.5%
PayPal	PYPL	0.00%	$58.00	Attractive	6	1.39	80.54	1.5%-2.5%
Verint Systems	VRNT	0.00%	$50.00	Very Attractive	6	0.86	43.05	1.5%-2.5%
Cash consideration	-	-	-	-	-	-	-	5%-30%

UR = Under Review
This portfolio is not a real money portfolio. Data as of January 15, 2018.

Ideas may not add up to 100% on either the low % or high % due to rounding and/or other combinations / permutations.

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

Apple (AAPL) – Page 1 of 16

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

By Valuentum Analysts

Valuentum Retail Equity Research — Visit us at www.valuentum.com — Ratings as of 29-Dec-2017 — Data as of 28-Dec-2017

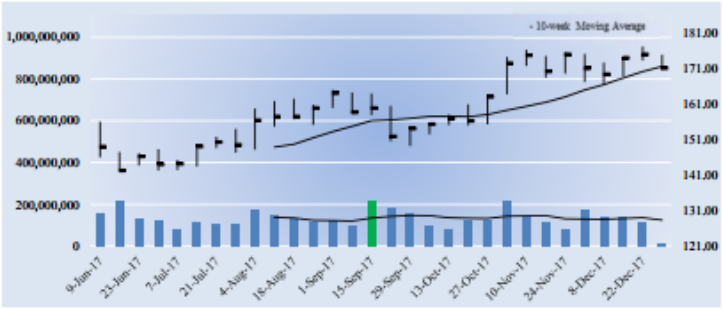
Apple AAPL FAIRLY VALUED

Buying Index™ 6 — Value Rating

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Highest Rated	$203.00	$166.00 - $240.00	MEGA-CAP VALUE	Information Technology	Computer Hardware

Pricing and cost pressures may be unavoidable for Apple, but execution remains top notch. We expect it to continue to roll out innovative products.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	MODEST
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Resistance, 10-wk MA	172.00

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

Business Quality

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

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

Company Vitals

Market Cap (USD)	$898,550
Avg Weekly Vol (30 wks)	131,912
30-week Range (USD)	142.2 - 177.2
Valuentum Sector	Information Technology
5-week Return	-2.3%
13-week Return	10.9%
30-week Return	10.8%
Dividend Yield %	1.5%
Dividends per Share	2.52
Forward Dividend Payout Ratio	27.4%
Est. Normal Diluted EPS	12.26
P/E on Est. Normal Diluted EPS	13.9
Est. Normal EBITDA	88,864
Forward EV/EBITDA	10.7
EV/Est. Normal EBITDA	8.4
Forward Revenue Growth (5-yr)	6.9%
Forward EPS Growth (5-yr)	12.0%

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

Investment Highlights

• Apple is as much a brand as it is one of the world's most innovative companies. The firm is no longer known for its iPods and personal computers, as the proliferation of the iPhone over the past several years has been a sight to behold. The company's execution remains top notch, and we expect it to continue to roll out innovative products in smartphones and wearable technology.

• Apple's rollout of future iterations of the iPhone should propel its fundamentals higher. Though we're not embedding another blockbuster hit in our model, we wouldn't be surprised if Apple delivers another one from its pipeline. The success of the Apple Watch is worth watching.

• Management is calling the iPhone X its biggest leap since the original iPhone, and we like its dedication to innovation, regardless of whether or not such a statement is entirely accurate. The company reported record fiscal fourth quarter revenue and its best quarter ever for its 'Services' segment in fiscal 2017, driven by its most recent iPhone launches, the Apple Watch Series 3, and Apple TV 4K.

• Investors should pay close attention to the firm's gross margin, which fell to ~38% in fiscal 2017 from 40% in fiscal 2015 and is expected to remain below 40% in the near term. Pricing and cost pressures may be unavoidable, and the currency exchange rates should not be ignored as Apple generates nearly two-thirds of its revenue outside the US.

• Apple's cash hoard is more than some of the market capitalizations of the largest companies in the S&P 500. The company retains tremendous flexibility in this regard, and we continue to expect a robust capital return program of dividend increases and share buybacks.

Relative Valuation

	Forward P/E	PEG	Price / FV
BlackBerry	NMF	NMF	101.6%
Cray	NMF	NMF	97.8%
Hewlett-Packard	11.7	3.2	88.5%
IBM	10.4	2.3	94.0%
Peer Median	11.1	2.7	95.9%
Apple	**18.6**	**1.7**	**84.3%**

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

Returns Summary

	3-year Historical Average
Return on Equity	38.9%
Return on Assets	17.8%
ROIC, with goodwill	217.7%
ROIC, without goodwill	282.1%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	87,032
Net Debt	-150,553
Total Debt/EBITDA	1.2
Net Debt/EBITDA	NMF
EBITDA/Interest	48.4
Current Ratio	1.4
Quick Ratio	3.4

NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Sep-15	Sep-16	Sep-17
Revenue	233,715	215,639	229,234
Revenue, YoY%	27.9%	-7.7%	6.3%
Operating Income	71,230	60,024	58,697
Operating Margin %	30.5%	27.8%	25.6%
Net Income	53,394	45,687	48,379
Net Income Margin %	22.8%	21.2%	21.1%
Diluted EPS	9.22	8.31	9.21
Diluted EPS, YoY %	42.8%	-9.9%	10.9%
Free Cash Flow (CFO-capex)	69,778	52,276	50,803
Free Cash Flow Margin %	29.9%	24.2%	22.2%

In Millions of USD (except for per share items)

Structure of the Computer Hardware Industry — NEUTRAL

The computer hardware space, which spans the personal computer to the iPhone and iPad, is highly competitive. The industry is characterized by frequent product introductions and rapid technological advances that can cause dramatic market share shifts. Though some firms benefit from a strong brand, participants often price aggressively, pressuring margins. Firms are also subject to potential component shortages/disruptions, which can punish performance. Obsolescence may be an eventuality for some, and services revenue has become critical for others. We're neutral on the space.

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Facebook (FB) – Page 1 of 16

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By Valuentum Analysts

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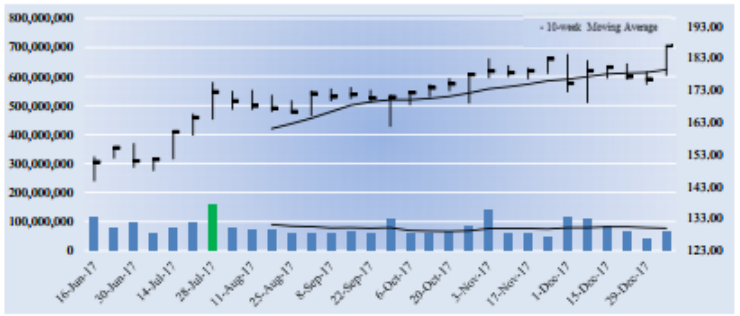
Facebook FB FAIRLY VALUED

Buying Index™ 7 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$238.00	$179.00 - $298.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

Facebook's monthly active users (MAUs) count is still growing at a tremendous rate, and mobile continues to account for a growing portion of its business.

Stock Chart (weekly)



The week with the highest trading volume out of the last 13 weeks was a week of heavy buying, or accumulation (green bar).

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	ATTRACTIVE
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	AGGRESSIVE
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	179.00

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

Business Quality

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

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

Company Vitals

Market Cap (USD)	$546,536
Avg Weekly Vol (30 wks)	78,968
30-week Range (USD)	144.56 - 186.9
Valuentum Sector	Information Technology
5-week Return	6.0%
13-week Return	8.2%
30-week Return	26.1%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	8.69
P/E on Est. Normal Diluted EPS	21.5
Est. Normal EBITDA	36,845
Forward EV/EBITDA	21.1
EV/Est. Normal EBITDA	14.0
Forward Revenue Growth (5-yr)	28.0%
Forward EPS Growth (5-yr)	27.9%

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

Investment Highlights

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

• It's unfair to lump Facebook in with other social media companies. Facebook is generating tens of billions in revenue and is throwing off gobs of excess free cash flow. The company's balance sheet is pristine with ~$38 billion in cash and no debt as of September 2017.

• As global data coverage improves, Facebook's number of mobile users continues to grow. It is well-positioned, and millennials are increasingly accessing its platform from mobile devices. For younger demographics, advertisers may have to go to Facebook to find their desired target market. Mobile ad revenue accounted for 87% of total ad revenue through three quarters in 2017.

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

• Facebook's monthly active users (MAUs) count is still growing at a tremendous rate. Overall MAUs sat at 2.07 billion as of September 2017, while its daily active user base was 1.37 billion, both of which were up 16% from a year earlier.

Relative Valuation

	Forward P/E	PEG	Price / FV
Alphabet	33.5	2.3	93.3%
Baidu	26.1	2.1	119.6%
Twitter	60.2	NMF	105.7%
Ultimate Software	60.6	4.3	105.1%
Peer Median	46.8	2.3	105.4%
Facebook	**31.6**	**1.9**	**78.5%**

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

Returns Summary

	3-year Historical Average
Return on Equity	13.4%
Return on Assets	12.1%
ROIC, with goodwill	41.9%
ROIC, without goodwill	107.5%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	17,928	27,638	40,213
Revenue, YoY%	43.8%	54.2%	45.5%
Operating Income	6,225	12,427	21,155
Operating Margin %	34.7%	45.0%	52.6%
Net Income	3,669	10,188	17,312
Net Income Margin %	20.5%	36.9%	43.1%
Diluted EPS	1.29	3.48	5.92
Diluted EPS, YoY %	17.1%	170.8%	69.9%
Free Cash Flow (CFO-capex)	7,797	11,617	14,137
Free Cash Flow Margin %	43.5%	42.0%	35.2%

In Millions of USD (except for per share items)

Leverage, Coverage, and Liquidity

In Millions of USD

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

NMF = Not Meaningful

Structure of the Internet Software & Services Industry — NEUTRAL

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

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Alphabet (GOOG) – Page 1 of 16

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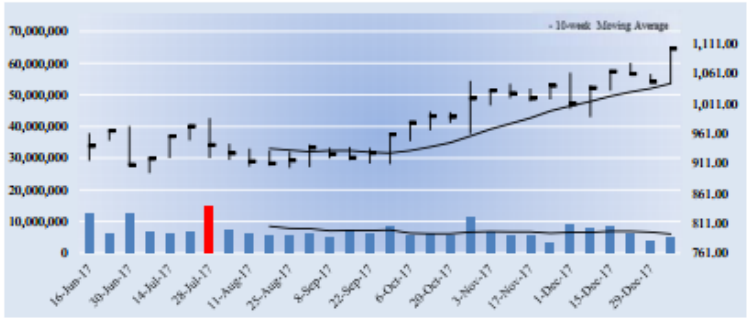
Alphabet GOOG FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Very Attractive	$1181.00	$945.00 - $1417.00	MEGA-CAP BLEND	Information Technology	Internet Software & Svcs

The mobile Internet space will be key for Alphabet moving forward, but Facebook is not backing down.



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Company Vitals

Market Cap (USD)	$761,964
Avg Weekly Vol (30 wks)	7,099
30-week Range (USD)	894.79 - 1104.25
Valuentum Sector	Information Technology
5-week Return	8.8%
13-week Return	12.5%
30-week Return	17.3%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	48.03
P/E on Est. Normal Diluted EPS	22.9
Est. Normal EBITDA	51,684
Forward EV/EBITDA	19.0
EV/Est. Normal EBITDA	13.1
Forward Revenue Growth (5-yr)	15.9%
Forward EPS Growth (5-yr)	16.7%

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

Returns Summary

	3-year Historical Average
Return on Equity	14.4%
Return on Assets	11.7%
ROIC, with goodwill	49.0%
ROIC, without goodwill	71.7%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	3,935
Net Debt	-82,398
Total Debt/EBITDA	0.1
Net Debt/EBITDA	NMF
EBITDA/Interest	Excellent
Current Ratio	6.1
Quick Ratio	6.0

NMF = Not Meaningful

Investment Highlights

• Known for its search dominance that it maintains, Alphabet is a tech company focused on a number of things: social, Android, ads, YouTube, Chrome, and research. We think the company will have some megahits in the years ahead, and we now value shares at more than $1,100 each. It reported an operating loss of ~$1.9 billion in 'Other Bets' in 2016, suggesting core levels of profitability are higher than reported.

• Alphabet offers investors a compelling combination of attractive valuation, growth potential, cash-flow generation and competitive profile. Very few firms are more attractive on a fundamental basis, in our view, and its impressive free cash flow conversion rates (consistently above 100%) speak to this.

• Alphabet continues to grow revenue at a healthy pace. The company is pleased with the momentum it is seeing from its mobile division, particularly within mobile advertising. The mobile Internet space will be key for the company moving forward, but Facebook is not backing down. YouTube and programmatic advertising offer additional upside potential.

• Alphabet has a strong future in search, and we continue to be in awe of the strength in this division. Its massive net cash position (~$96.2 billion as of the third quarter of 2017) gives the company a substantial cushion to fall back on as it invests in high-return opportunities and new concepts such as smart home features, Glass, Fiber, or other innovative ideas.

• Alphabet has three different stock classes with two different tickers. GOOGL is Class A stock, and GOOG represents the non-voting Class C stock that was created by a stock split in 2014 in order for Google founders to maintain majority control.

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	LOW
ValueTrend™	POSITIVE
Cash Flow Generation	STRONG
Financial Leverage	LOW
Growth	AGGRESSIVE
Technical Evaluation	BULLISH
Relative Strength	STRONG
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	BULLISH
Near-term Technical Support, 10-week MA	1044.00

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

Business Quality

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
Baidu	26.1	2.1	119.6%
Facebook	31.6	1.9	78.5%
Twitter	60.2	NMF	105.7%
Ultimate Software	60.6	4.3	105.1%
Peer Median	45.9	2.1	105.4%
Alphabet	**33.5**	**2.3**	**93.3%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Dec-15	Dec-16	Dec-17
Revenue	74,989	90,272	110,403
Revenue, YoY%	13.6%	20.4%	22.3%
Operating Income	19,360	23,716	28,386
Operating Margin %	25.8%	26.3%	25.7%
Net Income	16,348	19,478	22,894
Net Income Margin %	21.8%	21.6%	20.7%
Diluted EPS	23.79	28.18	32.92
Diluted EPS, YoY %	18.4%	18.4%	16.8%
Free Cash Flow (CFO-capex)	16,622	25,022	26,120
Free Cash Flow Margin %	22.2%	27.7%	23.7%

In Millions of USD (except for per share items)

Structure of the Internet Software & Services Industry — NEUTRAL

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

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VALUENTUM

Intel Facing Selling Pressure Over Security Issue

Dividend Growth and Best Ideas Newsletter idea Intel is facing pressure after reports of a chip flaw surfaced. We're not overreacting to what may be a transient issue, but we're monitoring developments like a hawk.

By Kris Rosemann

Reports surfaced on the morning of January 4 of an alleged Intel (INTC) processor chip security flaw that forced a significant redesign of Linux and Windows kernels (core of a computer's operating system). We're not ready to change our thesis on the company as the long-term outlook of its product suite appears more attractive than the negative impact we're seeing from what may very well be a transient issue.

Shares of Intel have since faced selling pressure as the report raises concerns of the security of operating systems running on Intel chips and what the kernel redesigns could mean for the performance of those chips. Intel responded by claiming that such security flaws, nicknamed Spectre and Meltdown, are not unique to its products. Here's what the firm had to say about the chip flaw:

BACKGROUND & SUMMARY

Security researcher notified Intel, AMD, and ARM of a new side-channel analysis exploit

- A method for an attacker to observe contents of privileged memory, circumventing expected privilege levels
- Exploits *speculative execution* techniques common in modern processors
- NOT unique to any one architecture or processor implementation
- NOT a result of product errata; processors are operating to specification
- Mitigations include updates to system software, firmware and future hardware

INDUSTRY-WIDE COLLABORATION TO FACILITATE RESPONSIBLE DISCLOSURE WITH MITIGATION OPTIONS

Image source: Intel

Intel has also stated that it has not observed active deployment of this exploit, and it believes a combination of operating system and firmware updates that are being developed in collaboration with industry partners, operating system vendors and OEMs should be effective in mitigating the risks related to the flaw. The chip giant expects this to become available to users within a few days.

Multiple tech firms have since commented on the developments. Intel rival AMD (AMD), which initially saw a nice boost in its share price from the security issue, originally stated that its chips are at a "near-zero risk" but later revealed its products were susceptible to the Spectre flaw. Alphabet (GOOG, GOOGL) has said that users of the Android OS that have installed most recent security fixes do not need to take further action, Chrome browser users may need to take some action, and its cloud customers must implement a patch made available. Amazon (AMZN) is currently working on a patch for its data center customers, and Apple (AAPL) confirmed that is devices were potentially at risk. However, Apple, Amason, Google, and Microsoft all reported minimal performance impact following the implementation of security patches.

*Intel Facing…*continued on next page

*Intel Facing...*from previous page

Though Intel may be correct in its statement that the security issues are not related to a specific architecture, processor implementation, or product malfunction, the fact remains that additional steps from customers and consumers are necessary in creating a fully secure product. Adding fuel to the selling fire is Intel CEO Brian Krzanich's sale of a significant portion of his stake in Intel last year after the security issue was detected but before it was publicly disclosed on January 4. Krzanich now holds the minimum number of shares the CEO is required to own, and while the timing of such a sale may be suspect, this is nothing more than speculative coincidence at this point.

All things considered, we do not think the new developments materially impact our thesis on Intel. The company remains tied to a number of growth drivers in next-generation technology, and we are fans of the virtuous cycle of demand it boasts as we head into the next Industrial Revolution--as its products that speed up the connectivity of devices to data centers and the cloud while enabling larger amounts of storage are adopted, demand for the same technology should increase on the data center end, and vice versa.

The chip giant's recent acquisitive nature (Altera for nearly $17 billion in 2015 and Mobileye for more than $15 billion in 2017) has weakened the flexibility of its balance sheet, but we continue to have confidence in its robust free cash flow generation, which should remain sufficient in covering financial obligations as well as quarterly dividend payments. CEO Krzanich has suggested the company will start taking on more risk, but we read this as a greater commitment to high-growth areas, which will inevitable come with a higher degree of risk. Intel's revenue split is nearly even between PCs and other growth areas, suggesting its participation in next-generation technologies, an inherently risky endeavor, is what the CEO is pointing to.

The security issue is undoubtedly one worth keeping an eye on, especially as it relates to Intel's presence in an increasingly data-rich society, but we are not overreacting to the news. We still like Intel.

SMART Global: A Leader in Specialty Memory Solutions

SMART Global is an interesting idea in the memory space, but obsolescence risk and overcapacity will always be two primary concerns. This one is still worth having on your radar.

By Kris Rosemann and Brian Nelson, CFA

SMART Global Holdings (SGH) is a global leader in specialty memory solutions. The company is the largest in-country manufacturer in Brazil of memory for desktops, notebooks, and servers, as well as mobile memory for smartphones. It also has a global specialty memory business, in which it works with OEMs to develop memory solutions with customer-specific requirements. The firm has strong tier 1 OEM relationships across its blue-chip customer base that spans industries and includes the likes of Dell, HP (HPQ), Lenovo, Samsung (SSNLF), Cisco (CSCO), General Electric (GE), and IBM (IBM), among others.

SMART Global's revenue is roughly evenly split between its Brazil and Specialty Memory segments. It is the top DRAM supplier in Brazil, and mobile memory accounts for nearly 70% of its revenue in the country. Recent economic turmoil in Brazil has brought increased risks, but strong momentum driven in the memory market, structural growth drivers in enhancing an established market presence, new vectors for growth in the country, and continued leadership in specialty memory and flash are expected to be key drivers of sustainable expansion for SMART Global. As it relates to growth potential in its Brazil segment in particular, SMART expects a 26% CAGR from 2016-2019 in its Brazil mobile TAM, while new growth areas (including wireless, camera module, fingerprint, and automotive) represent $2+ billion incremental growth by 2020.

*SMART Global...*continued on next page

*SMART Global…*from previous page

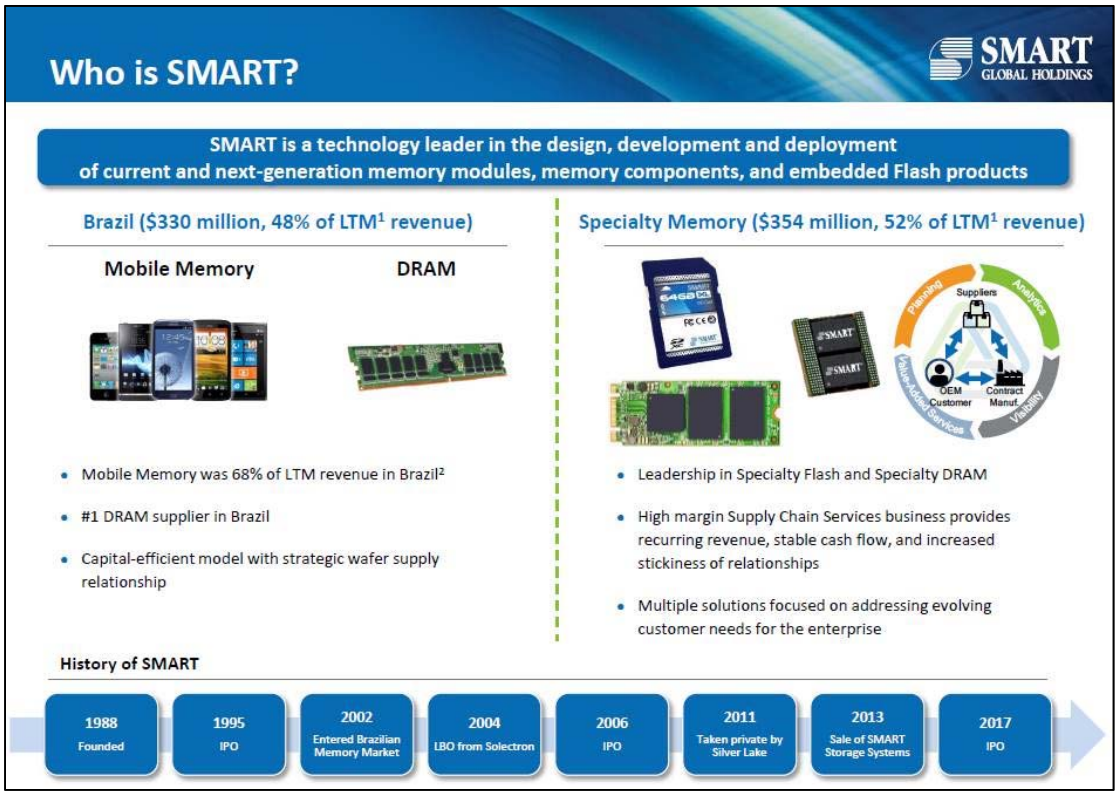


Image Source: SMART Global Solutions

Long-term secular fundamentals are expected to continue driving momentum in the memory market thanks in part to the stability brought by recent consolidation (top three players in the DRAM market held 94% market share in 2016, up from 64% in 2008). According to the IDC, DRAM bit demand is expected to advance at a 16%+ CAGR from 2016-2020, while NAND Flash bit demand is expected to increase at a 35%+ CAGR. Over the same time period, global memory spending in the areas of DRAM and NAND Flash are expected to grow at 1.5% and ~7% CAGRs, respectively, through 2021.

SMART Global's target operating model includes the following guidelines: 10%-15% revenue growth, gross margin of 20%-23%, operating margin of 10%-12%, EBITDA margin of 12%-15%, capital spending of 2%-4% of revenue, and leverage (unspecified ratio) of less than 2.0x (was 2.7x as of May 2017). Margin performance has been particularly strong of late, but we must warn of the potential for obsolescence risk and overcapacity in the global memory market, regardless of the degree of rationalization consolidation has brought in recent years.

All things considered, we find shares to be fairly valued at the moment, and we assign its valuation a somewhat wider margin of safety than we typically employ due to it being a small cap tech stock exposed to the aforementioned memory industry-specific risks coupled with its meaningful presence in Brazil. We must also note that ~67% of shares are owned by investment funds affiliated with Silver Lake Partners, giving Silver Lake meaningful control over matters related to shareholders. We still think this is one for your radar, however.

SMART Global Holdings (SGH) – Page 1 of 16

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

By Valuentum Analysts

Valuentum Retail Equity Research | Visit us at www.valuentum.com | Ratings as of 4-Jan-2018 | Data as of 2-Jan-2018

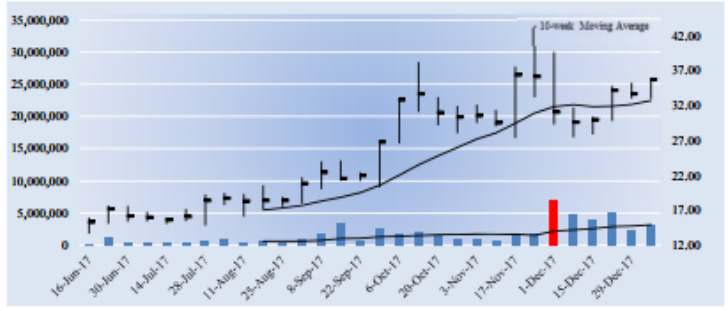
SMART Global Holdings SGH FAIRLY VALUED

Buying Index™ 6 **Value Rating**

Economic Castle	Estimated Fair Value	Fair Value Range	Investment Style	Sector	Industry
Neutral	$50.00	$35.00 - $65.00	SMALL-CAP BLEND	Information Technology	Computers & Peripherals

SMART Global Holdings is the largest DRAM supplier in Brazil, and it also holds a leading position in the specialty memory market.

Stock Chart (weekly)



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

Company Vitals

Market Cap (USD)	$785
Avg Weekly Vol (30 wks)	1,818
30-week Range (USD)	13.65 - 43.155
Valuentum Sector	Information Technology
5-week Return	14.1%
13-week Return	7.4%
30-week Return	126.4%
Dividend Yield %	0.0%
Dividends per Share	0.00
Forward Dividend Payout Ratio	0.0%
Est. Normal Diluted EPS	4.92
P/E on Est. Normal Diluted EPS	7.3
Est. Normal EBITDA	199
Forward EV/EBITDA	4.9
EV/Est. Normal EBITDA	4.7
Forward Revenue Growth (5-yr)	13.7%
Forward EPS Growth (5-yr)	-254.4%

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

Returns Summary

	3-year Historical Average
Return on Equity	-365.4%
Return on Assets	-4.6%
ROIC, with goodwill	21.9%
ROIC, without goodwill	29.0%

ROIC = Return on Invested Capital; NMF = Not Meaningful

Leverage, Coverage, and Liquidity

In Millions of USD

Total Debt	177
Net Debt	155
Total Debt/EBITDA	2.0
Net Debt/EBITDA	1.8
EBITDA/Interest	3.0
Current Ratio	1.4
Quick Ratio	0.9

NMF = Not Meaningful

Investment Highlights

- SMART Global Holdings is a global leader in specialty memory solutions. It is the largest in-country manufacturer in Brazil of memory for desktops, notebooks, and servers, as well as mobile memory for smartphones. It also has a global specialty memory business, in which it works with OEMs to develop solutions with customer-specific requirements. It is ~67% owned by Silver Lake Partners.
- SMART Global's revenue is roughly evenly split between its Brazil and Specialty Memory segments. It is the top DRAM supplier in Brazil, and mobile memory accounts for nearly 70% of its revenue in the country. Recent economic turmoil there has brought increased risks, however.
- Strong momentum driven in the memory market, structural growth drivers in enhancing an established market presence, new vectors for growth in Brazil, and continued leadership in specialty memory and flash are expected to be key drivers for SMART. It expects a 26% CAGR from 2016-2019 in its Brazil mobile TAM, while new growth areas represent $2+ billion incremental growth by 2020.
- Secular fundamentals are expected to continue driving momentum in the memory market thanks in part to the stability brought by recent consolidation. From 2016-2020, DRAM bit demand is expected to advance at a 16%+ CAGR, while NAND Flash bit demand is expected to increase at a 35%+ CAGR, according to the IDC.
- SMART Global's target operating model includes the following guidelines: 10%-15% revenue growth, gross margin of 20%-23%, operating margin of 10%-12%, EBITDA margin of 12%-15%, capital spending of 2%-4% of revenue, and leverage of less than 2.0x (was 2.7x as of May 2017).

Investment Considerations

DCF Valuation	FAIRLY VALUED
Relative Valuation	NEUTRAL
ValueCreation™	EXCELLENT
ValueRisk™	MEDIUM
ValueTrend™	NEGATIVE
Cash Flow Generation	WEAK
Financial Leverage	HIGH
Growth	HIGH
Technical Evaluation	BULLISH
Relative Strength	NEUTRAL
Money Flow Index (MFI)	NEUTRAL
Upside/Downside Volume (U/D)	DETERIORATING
Near-term Technical Support, 10-week MA	33.00

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

Business Quality

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

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

Relative Valuation

	Forward P/E	PEG	Price / FV
NetApp	24.5	2.7	122.9%
Seagate	9.0	8.9	103.8%
Tech Data	10.0	3.6	88.1%
Western Digital	7.0	2.2	114.5%
Peer Median	9.5	3.1	109.1%
SMART Global Holdings	**7.2**	**NMF**	**71.5%**

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

Financial Summary

	----- Actual -----		Projected
Fiscal Year End:	Aug-16	Aug-17	Aug-18
Revenue	534	761	1,148
Revenue, YoY%	-16.9%	42.5%	50.8%
Non-GAAP Operating Income	7	54	159
Non-GAAP EBIT %	1.4%	7.1%	13.8%
Non-GAAP Net Income	-20	-8	109
Non-GAAP NI Margin %	-3.7%	-1.0%	9.5%
Non-GAAP Diluted EPS	-1.44	-0.49	4.97
Non-GAAP Dil EPS, YoY %	NMF	NMF	NMF
Non-GAAP FCF (CFO-capex)	1	-20	42
Non-GAAP FCF Margin %	0.2%	-2.6%	3.7%

In Millions of USD (except for per share items)

Structure of the Computers & Peripherals Industry — POOR

Firms in the computer and peripherals industry primarily make storage solutions, while others may offer custom-designed computer/mobile interface solutions or other ancillary computer/mobile products. The industry is characterized by rapid technological change, which has not only increased the adoption of technologies for use in a variety of devices but also has put significant pricing/gross-margin pressure on industry constituents. Competition is fierce, threats of over-supply are continuous, and the prospects for generating long-term competitive advantages are negligible. We don't like the structure of the group.

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VALUENTUM

2018 Healthcare and Biotech Outlook

2017 will undoubtedly go down as one of the most fabulous years for the stock market, and while we continue to warn of the dangers associated with the market continuing to trade at lofty valuations, we are intrigued by the outlook for big cap pharma and biotech in the near term. Changes in the US tax laws will likely have a profound impact on the industry.

By Alexader J. Poulos

Big Cap Pharma

We view the big cap pharma sector as ripe for a change in its operating structure as the current environment may pave the way for a wholesale shift. We're not ignoring the frothy existing prices of the equity markets these days, but the big cap pharma industry still offers opportunities.

One key issue plaguing pharma heavyweights such as Dividend Growth Newsletter idea Novartis (NVS) is a large concentration in slower growth lines of business outside of the core biotech/pharmaceutical products we have come to expect. For example, Novartis derives nearly a third of its quarterly earnings from the Alcon eye care division and Sandoz, its generic drug division. The lack of meaningful growth from these businesses masks the stellar growth of Novartis' oncology portfolio and new star-molecule Cosentyx for inflammatory diseases.

A similar phenomenon is playing out at Shire Plc (SHPG) as its equity price came under enormous pressure in 2017 as its key hemophilia division is being disrupted by a new entity in Roche's (RHHBY) Hemlimbra, as detailed in a recent post, "Roche's Hemlimbra Looks Very Promising." The drop in demand in its hemophilia unit coupled with the lack of growth in its ADHD unit has capped the upside for Shire while obscuring the strong growth from its rare drug platform.

The venerable Eli Lilly (LLY) is operating under similar constraints as the expected loss of patent coverage for Cialis, one of its top-selling products, will put a lid on growth, thus masking the promising suite of recently-approved molecules in Eli Lilly's product lineup. To combat the lack of top-line growth, the management team at Lilly has signaled a willingness to seek strategic alternatives for its animal health division.

These developments may seem independent and uncorrelated, but we have chosen to highlight them as they illustrate big pharma players' willingness to disrupt traditional business models in search of improved growth potential. Strong growth in the pharma/biotech area invariably comes from bringing forth a new or more successful treatment for various disease states, but the challenge is the difficulty in developing a string of multi-billion dollar hits.

Bristol-Myers and AbbVie as a Template

We believe the recent willingness of big pharma management teams to dispose of non-core divisions is an attempt to emulate the uber-successful moves undertaken by Bristol-Myers (BMY) and the original Abbott Laboratories (ABT). Bristol-Myers was facing a relatively bleak product future as its top-selling product Plavix was facing the loss of patent protection thus blowing a massive hole in Bristol's annual revenue. The innovative management team decided to refocus the company into a "BioPharma" by spinning off its nutrition division Mead Johnson to shareholders. The transaction occurred in 2009 where existing Bristol shareholders could exchange $1 in BMY for $1.11 worth of Mead Johnson stock thus valuing Mead at ~$7.3 billion dollars. Mead was recently acquired in 2017 by Reckitt Benckiser for $16.7 billion dollars--a return of over 200% for those who exchanged shares in 2009!

Abbott underwent a radical transformation in early 2013 as it split itself into two companies with Abbott remaining a medical device and nutrition company, while the drug discovery unit would become a stand-alone entity under the corporate structure currently known as AbbVie (ABBV). AbbVie has thoroughly outperformed the market since its initial debut fueled by the continued growth of Humira, the top-selling inflammatory disease treatment.

*2018 Healthcare...*continued on next page

*2018 Healthcare...*from previous page

We believe the results delivered by Bristol and Abbott are noted by big pharma management teams--dare we say they are looked upon with envy. The recent changes in the tax law structure have brought a degree of clarity that had been lacking regarding policy impacts on major investments, which may have prevented more aggressive M&A activity in 2017 as heavyweights such as serial acquirer Pfizer (PFE) remained notoriously coy.

Pfizer has signaled it is willing to dispatch its consumer goods division with popular but slow growth products such as Advil. We view this as an incremental step towards a much more significant transformation--keep in mind Pfizer in recent years attempted to acquire AstraZeneca (AZN) in a tax-inversion deal and more recently went after Allergan (AGN). AbbVie was also very interested in a tax inversion with overtures towards Shire that fell through.

We believe a strong wind of change will rip through the traditional pharma sector with a dispatching of non-core assets to fund the acquisition of growth molecules in order to transform into the BioPharma model put forth by Bristol. In this scenario, a new blockbuster molecule will have an outsized impact on revenue and ultimately the share price.

Large Cap Biotech

The biotech industry is poised to be a significant beneficiary of the tax law change as 2018 could shape up to become the "Year of the Takeout" as we suspect big pharma players will open up the checkbook to acquire recently-approved or promising phase 3 molecules to round out their product portfolios.

We have written many skeptical articles on the prospects of Amgen (AMGN) as the decay in revenue from its top-selling products continues to plague top-line growth. This could change quickly should management deploy cash held overseas to fund the acquisition of promising molecules with meaningful sales potential, most notably in the area of oncology, where it has been lacking.

The prudent deployment of cash in M&A remains a core portion of our thesis in highlighting Gilead Sciences (GILD) in the Dividend Growth Newsletter portfolio. We were able to highlight Gilead in anticipation of a major splash--the takeout of Kite Pharma to gain the pole position in the revolutionary CAR-T treatment. It is not a coincidence that both Novartis and Gilead are listed among our top pharma ideas as a primary criterion for addition is the strength of the forward-looking pipeline. In the case of Gilead, we expect additional M&A activity in 2018 as its overseas cash hoard is now largely unlocked.

Feeding Frenzy in Small Cap Biotech

The small-cap biotech space remains one of the most exciting yet volatile sections of the entire stock market. Small cap biotech will often consist of companies that are attempting to bring forth one or two molecules through the rigors of the clinical trial process--hence the heightened risk profile. In essence, if the primary molecule is a success the share price will most likely leap accordingly. Unfortunately, a late-stage failure can torpedo the share price, often rendering the market value of shares nearly equal to the cash held on the books by the company as future free cash flow expectations are crushed.

The coming year may go down as one of the best in recent history for the small-cap biotech sector as a proverbial feeding frenzy will commence aided in large part by the increased willingness by big pharma to refocus the landscape into one with more pure play research-driven entities. The sweet spot of the sector for deals may be companies that can be had for less than $5 billion based on a plethora of comments from various big pharma CEOs. We will continue to monitor events as they transpire as we believe the ingredients are now in place to radically transform the industry. On that note, we would like to wish all of our members a healthy and prosperous New Year!

Independent Healthcare and Biotech Contributor Alexander J. Poulos is long Gilead Sciences and Allergan.

Tweaking the Newsletter Portfolios for a Rising Interest-Rate Environment

Many market observers are anticipating the Fed to accelerate the pace of interest-rate hikes in 2018. We're making a number of changes to the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio as we consider what a higher interest-rate environment might look like. We're also cognizant of the impact that higher interest rates may have on the High Yield Dividend Newsletter and its simulated portfolio. – This article was emailed to members December 26, 2017.

By Kris Rosemann and Brian Nelson, CFA

The stock market has many scratching their heads, and frankly we are, too. The rapid rise in interest rates (TLT, TBT) during the past few months has been a sight to see, and while most conversations have centered on the possibility, or rather the probability, of an inverted yield curve (where long rates are lower than short rates), we maintain our view that rising interest rates of any variety can do considerable damage to an unhedged dividend-paying portfolio. We've covered the interest-rate sensitivity of equities in the utilities (XLU) and real estate investment trust (VNQ) arenas at great length in the past, and with the Fed looking poised to deliver three or four interest rate hikes in 2018 (maybe more, maybe less?), we think now is as prudent a time as ever to revisit the impact that the recent upward trajectory in interest rates could have on a number of ideas within the Best Ideas Newsletter and Dividend Growth Newsletter portfolio.

As it relates to equity-oriented demand for income/yield (or those buyers focusing on the yield of an equity instrument), we would expect the prices of high-yielding equities in the utility and REIT spaces to generally face pressure as incremental fixed income issuances start to sport incrementally higher yields thanks to rising interest rates. (We'll talk how we're going to try to capture this theme later in this note.) According to Charlie Bilello, Director of Research at Pension Partners, the 1-year, 2-year, and 5-year US Treasury yields recently hit relative peaks. As of December 21, the 1-year and 2-year yields hit their highest mark since September 2008, and the 5-year hit its highest point since April 2011. The 10-year US Treasury yield is on the rise as well, pushing the 2.5% mark as of this writing. The market has been dealing with gyrating interest rates for years, but whether 2017 will mark the inflection point is a key question. Since 1980, the federal funds rate has fallen from nearly 20% in the 1980s to practically zero today, fueling a multi-decade bull market. Is this trend coming to an end, and what about bonds?

> Bond prices generally move opposite bond yields and interest rates. Over the past few decades bond prices have climbed while bond yields have fallen to historic lows—but bond prices don't always go up.
>
> While not the only factor to affect bond prices, U.S. interest rates have possibly the greatest influence. And in the current low-rate environment, bond investors should be wary of interest rate risk. An increase in rates could trigger potentially significant losses in unprepared bond portfolios (Source: ProShares, "Hedging Bond Risk With Inverse ETFs).

What's more, in December 2017, an important event for income-focused investors occurred, too: the yield on the 2-Year US Treasury surpassed the dividend yield of the S&P 500. Though largely overlooked by a lethargic and sleepy stock market, this development is an important turning point, in our view, as the risk-free 2-year US Treasury note now offers a greater yield than the average of 500 of the largest companies, collectively. Here's why this development is important: the Treasury note is "risk-free" and higher yielding, while the other is "risky" and exposed to considerable operating/economic influences (and lower yielding). Though it may take a bit longer for riskless yields to overcome those offered in the REIT and utility groups--the Utilities Select SPDR ETF and Vanguard REIT ETF currently yield ~3.3% and ~4.3%, respectively, compared to ~1.9% for the 2- year US Treasury--the market seems to already be pricing in rising rates ever so slowly.

*Tweaking the Newsletter...*continued on next page

*Tweaking the Newsletter…*from previous page

Given the success of tax reform and the corresponding considerable uncertainty how the US government will be able to handle the reduced tax revenue (and such large corporate tax cuts), we expect risk-free yields to continue climbing, and as a result of this view, we're going to make a couple modest tweaks to the Dividend Growth Newsletter portfolio and Best Ideas Newsletter portfolio. We are ridding the Dividend Growth Newsletter portfolio of the Vanguard REIT ETF and PPL Corp (PPL) and the Best Ideas Newsletter of the Utilities Select SPDR ETF. The two ETFs have faced considerable selling pressure as the market seems to already be pricing in a slowly-approaching "risk-reward" imbalance. As you are aware, stocks and bonds are competitors for the capital of income-minded investors, and as risk-free yields continue to march higher and as investors seek rebalancing in favor of better risk-adjusted yields, Treasury bills and notes may become incrementally more attractive than an overheated stock market…to some.

As it relates to Dividend Growth Newsletter portfolio idea PPL, as a high-yielding utility, it too, has faced pressure related to rising risk-free yields, but an added layer of risk is present in shares as well. The company generates nearly 60% of earnings from the UK (EWU), a country undergoing massive political reform in the form of its pending exit from the European Union (VGK). UK Prime Minister Theresa May recently announced a price cap on electricity and gas bills in the country in an effort to combat "rip-off energy prices once and for all." The bill, which is currently in the draft phase, is temporary and set to expire in 2020, but energy market regulator Ofgem could push for extension through 2023. We don't like the tone of the higher-ups at all, and given PPL's exposure there, we're being ultra-cautious.

Said differently, such a push may pressure rate allowances at PPL, as its utility businesses are 100% regulated, meaning the rates it is allowed to charge for energy delivery to customers is entirely at the hands of regulators. We must note that most utilities, as a result of bloated balance sheets and the capital-intensive nature of the business, register Dividend Cushion ratios that are far from desirable. However, set rate allowances from regulators typically provide ample and predictable cash flows that are sufficient in covering capital returns to shareholders. In the case of PPL, however, potential downward pressure on its rate allowances adds a degree of risk that may not be worth sticking around for, in our opinion, especially in the midst of a headwind of rising interest rates.

Whether we like it or not, rising interest rates may have a number of implications on dividend-paying equities. The removal of the two ideas in the Dividend Growth Newsletter portfolio leaves an opening for a couple new ideas, however. We're going to add a 5% weighting of the iShares International Select Dividend ETF (IDV) to the Dividend Growth Newsletter portfolio. With PPL's removal, we have ridded the Dividend Growth Newsletter portfolio of some modest international exposure, so we think it makes sense to rectify that immediately. The iShares International Select Dividend ETF has a few exciting weightings at the top, too, including AstraZeneca (AZN), Royal Dutch Shell (RDS.A, RDS.B) and Total (TOT), companies we may shy away from direct exposure, but within a diversified ETF, they become much more palatable. The ETF's 12-month trailing yield is just shy of 4%.

Here's an idea that may "play" directly into our thoughts regarding rising interest rates, and it sports a very nice yield, too. We're drawn to the PowerShares Senior Loan Portfolio ETF (BKLN) as it might help us navigate both the Dividend Growth Newsletter portfolio (and the new High Yield Dividend Newsletter portfolio) through what could become a prolonged rising-interest rate environment. The performance of the PowerShares Senior Loan Portfolio hasn't been great since it peaked in June 2013, but the ETF hasn't been that volatile either, bouncing between $21.50-$25.50 since 2012. A reading of the product description of this ETF draws us to it, and we think it makes sense given our views on rising interest rates and in the context of an already-diversified Dividend Growth Newsletter portfolio. Its distribution rate is ~4%. Here's what has caught our eye:

> The PowerShares Senior Loan Portfolio tracks the S&P/LSTA U.S. Leveraged Loan 100 Index – providing fixed-income investors with attractive yield potential, while mitigating the risks of rising interest rates.

*Tweaking the Newsletter…*continued on next page

*Tweaking the Newsletter…*from previous page

> The PowerShares Senior Loan Portfolio tracks the S&P/LSTA U.S. Leverage Loan Index, comprising the 100 largest bank loans with floating rate coupons. Unlike fixed-rate instruments, the coupons of floating rate bank loans adjust upward as interest rates rise – providing investors with the potential of an attractive source of current income.
>
> With their floating rate coupons and low durations, senior loans may offer compelling yield potential.

Wrapping Things Up

We think the next 30 years may be among the most difficult investors have yet seen. If tax rates can be cut, then surely they can be raised again, especially if the US enters into a natural recession and tax receipts come up decidedly short. Under that scenario, we'd expect government yields to rise (as the cost of sovereign borrowing increases), and that may put tremendous pressure on interest-rate sensitive financial instruments. We're not talking about a doomsday scenario, of course, but even a 20-30% "correction" in the equity markets in coming years might be devastating for some, even if it is only a fraction of what has been gained back since the depths of the March 2009 panic bottom. We want you to be aware of the real risks. Please keep paying attention to your money!

Here is a summary of the changes in the respective simulated newsletter portfolios (Dec 26, 2017):

Dividend Growth Newsletter portfolio

Remove all of VNQ at $82.36

Remove all of PPL at $30.86.

Add 5% of IDV at $33.55.

Add 3% of BKLN at $23.00.

Best Ideas Newsletter portfolio

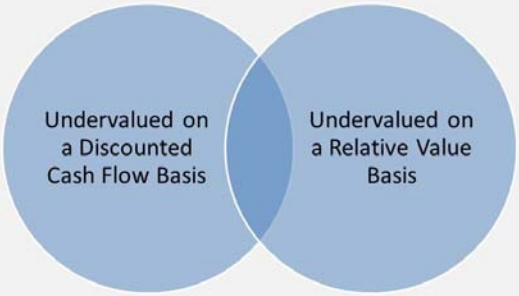
Remove all of XLU at $52.31.

We're available for any questions!

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	Price / Fair Value	Fair Value Estimate
R.R. Donnelley	RRD	UNDERVALUED	NEUTRAL	0.58	$17.00
Weatherford Intl	WFT	UNDERVALUED	NEUTRAL	0.56	$7.00
Western Union	WU	UNDERVALUED	ATTRACTIVE	0.76	$25.00
Cardinal Health	CAH	UNDERVALUED	NEUTRAL	0.71	$83.00
AIG	AIG	UNDERVALUED	ATTRACTIVE	0.85	$78.00
Huron Consulting	HURN	UNDERVALUED	NEUTRAL	0.76	$48.00
AMC Networks Inc	AMCX	UNDERVALUED	ATTRACTIVE	0.79	$75.00
Cisco	CSCO	UNDERVALUED	NEUTRAL	0.77	$42.00
Sally Beauty	SBH	UNDERVALUED	NEUTRAL	0.71	$22.00
Gilead Sciences	GILD	UNDERVALUED	NEUTRAL	0.73	$109.00
SunPower	SPWR	UNDERVALUED	NEUTRAL	0.47	$15.00
Nautilus Inc	NLS	UNDERVALUED	ATTRACTIVE	0.75	$17.00

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.

Due to the frothy stock market environment, which is making driving up prices, there are no stocks that register a 9 or 10 on the Valuentum Buying Index rating system at this time. **Please consult the Best Ideas Newsletter portfolio on page 8 for our best ideas.**

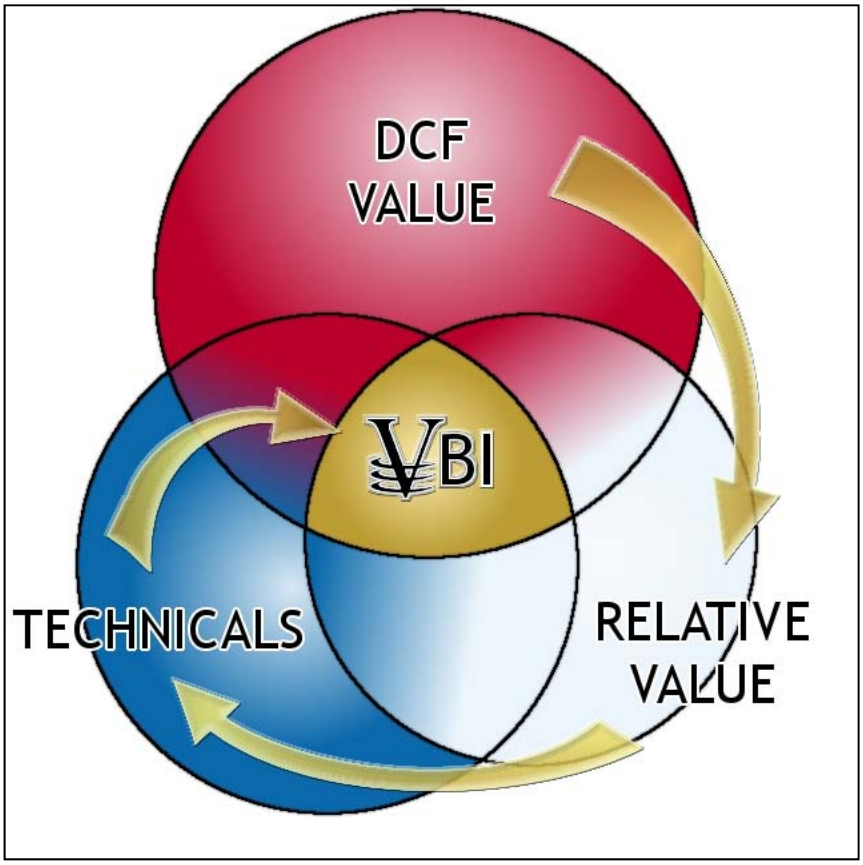
Company Name	Symbol	Sector	VBI
Analog Devices	ADI	Information Technology	1
Autodesk	ADSK	Information Technology	1
Badger Meter	BMI	Industrials	1
Bio-Rad	BIO	Health Care	1
Clorox	CLX	Consumer Staples	1
Cogent Comm	CCOI	Telecom Services	1
Ecolab	ECL	Materials	1
J&J Snack	JJSF	Consumer Staples	1
Jack in the Box	JACK	Consumer Discretionary	1
Lancaster Colony	LANC	Consumer Staples	1
National Beverage	FIZZ	Consumer Staples	1
National Instruments Corp	NATI	Information Technology	1
Netflix	NFLX	Consumer Discretionary	1
Quidel Corp	QDEL	Health Care	1
South Jersey	SJI	Energy	1
STMicroelectronics	STM	Information Technology	1
Toro Co	TTC	Industrials	1
Universal Health Realty	UHT	Financials	1

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.



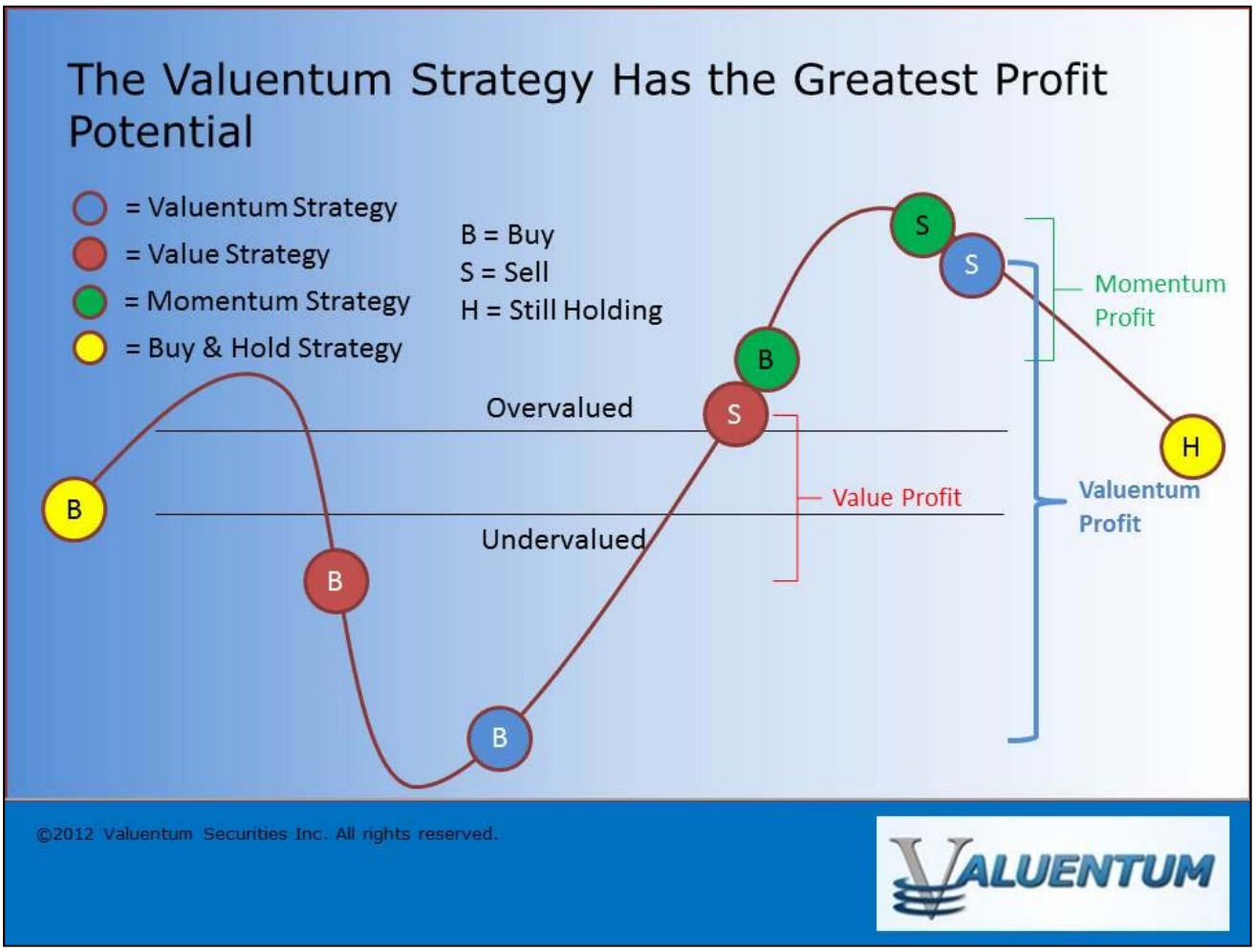
Our Methodology – The Valuentum Buying Index continued on next page

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.



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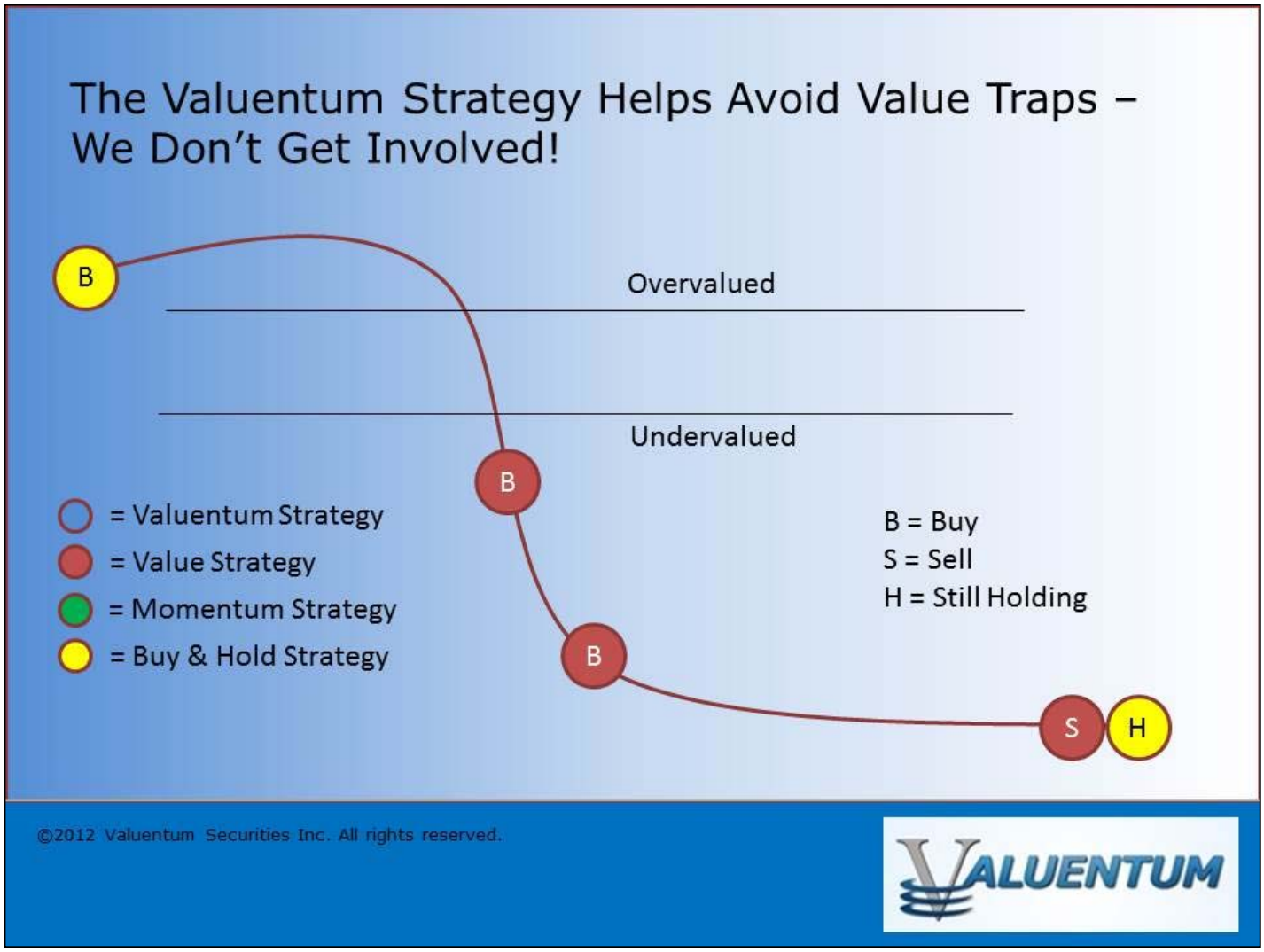
Our Methodology – The Valuentum Buying Index continued on next page

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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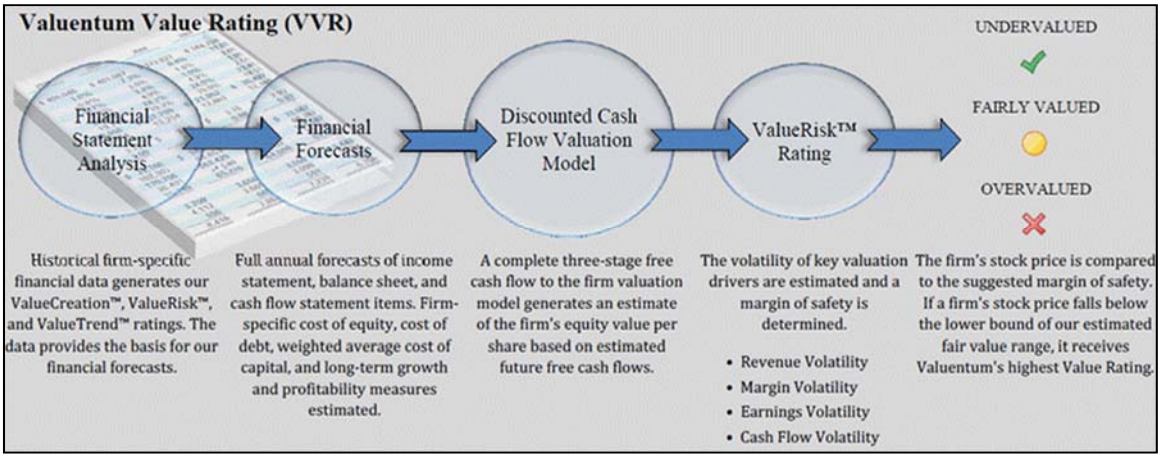
Our Methodology – The Valuentum Buying Index continued on next page

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).

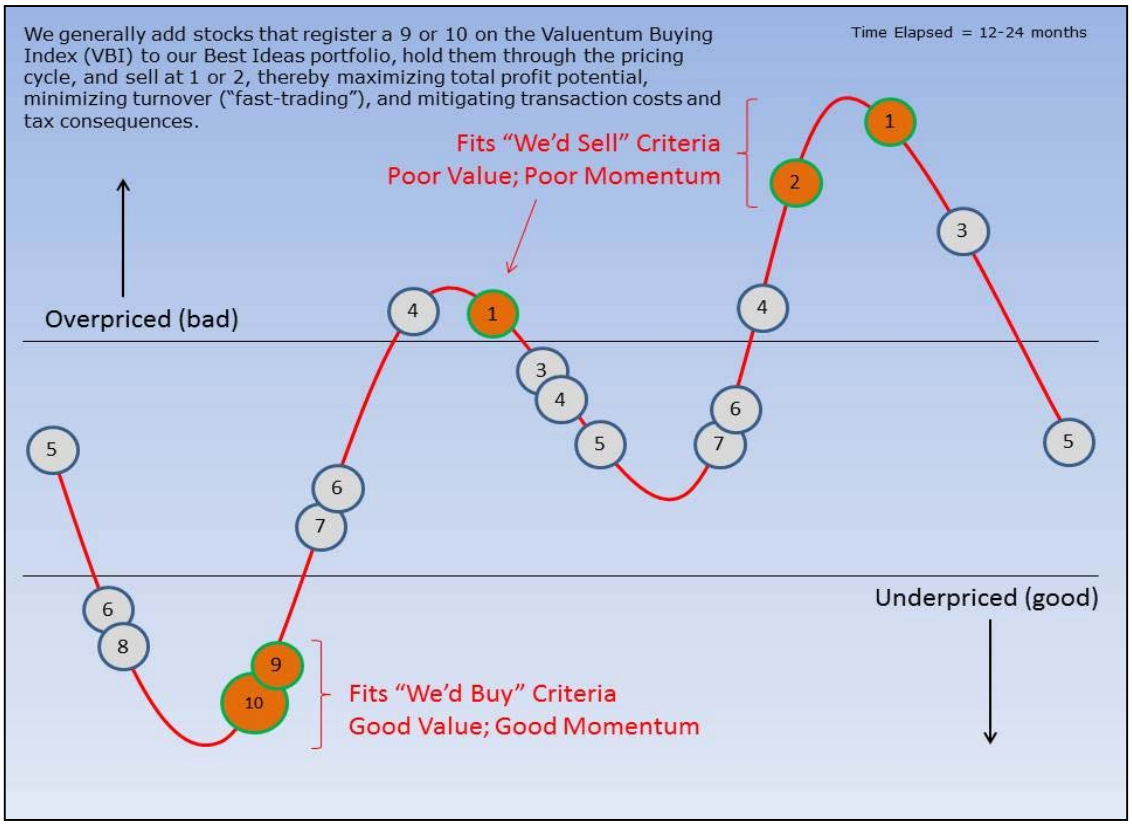
Rigorous valuation analysis and technical analysis are not mutually exclusive, and we believe both can be used together to bolster idea generation. An evaluation of a stock's moving averages, relative strength, upside-downside volume, and money flow index are but a few considerations we look at with 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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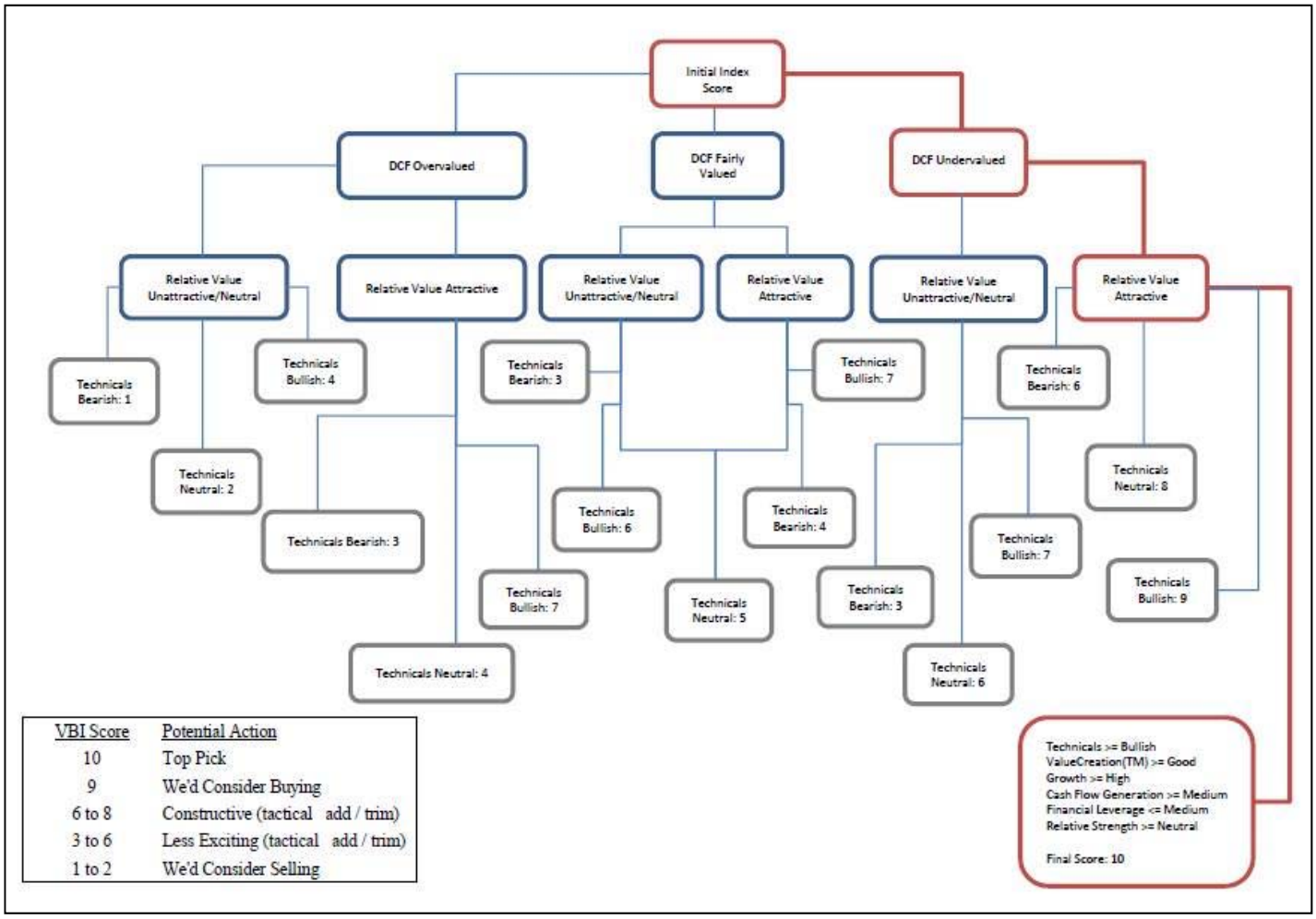
Our Methodology – The Valuentum Buying Index continued on next page

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.



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

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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?

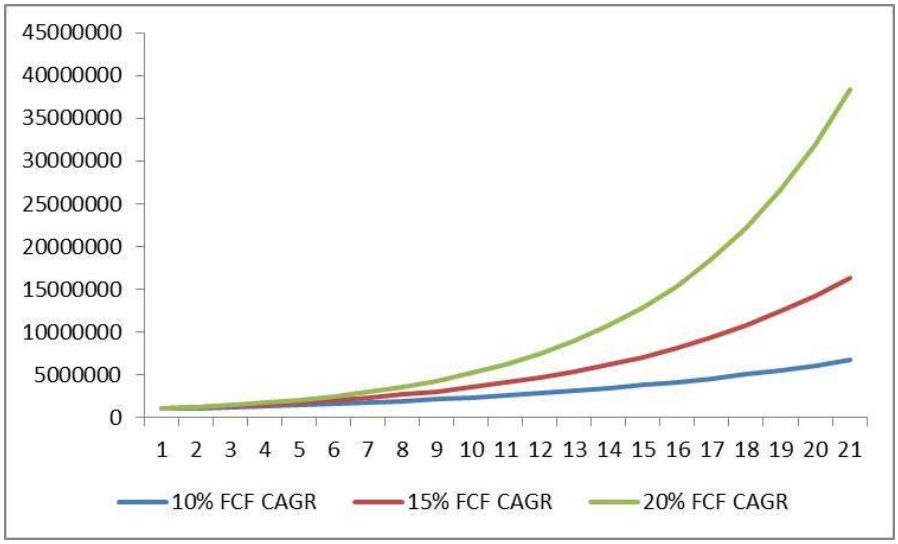
One of the most important concepts of the Valuentum methodology (and valuation in general) is the understanding that the value of a company is a range of probable valuation outcomes, not a single point estimate. Even well-seasoned stock analysts are guilty of saying that a company's shares are worth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

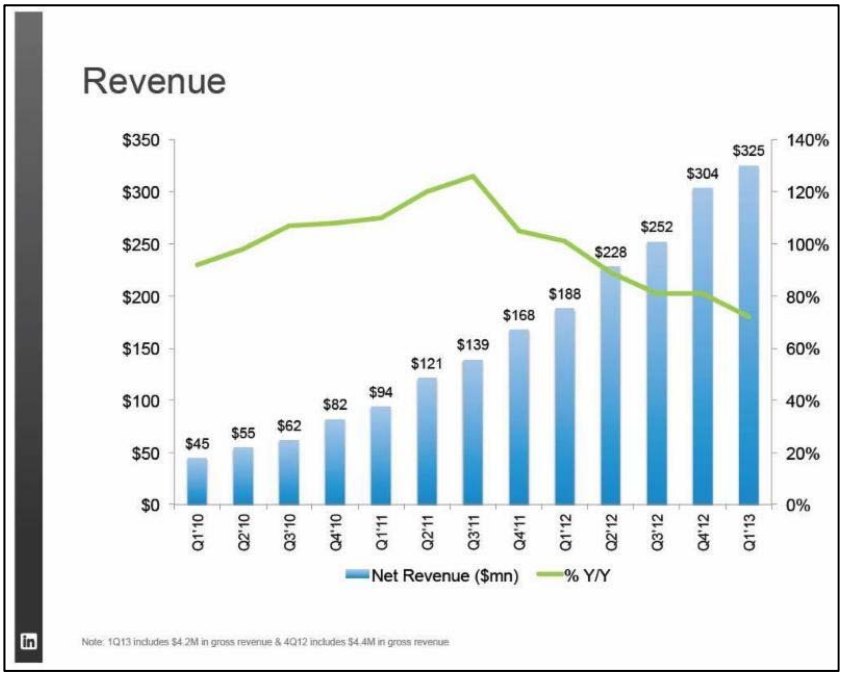


Image Source: LinkedIn

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

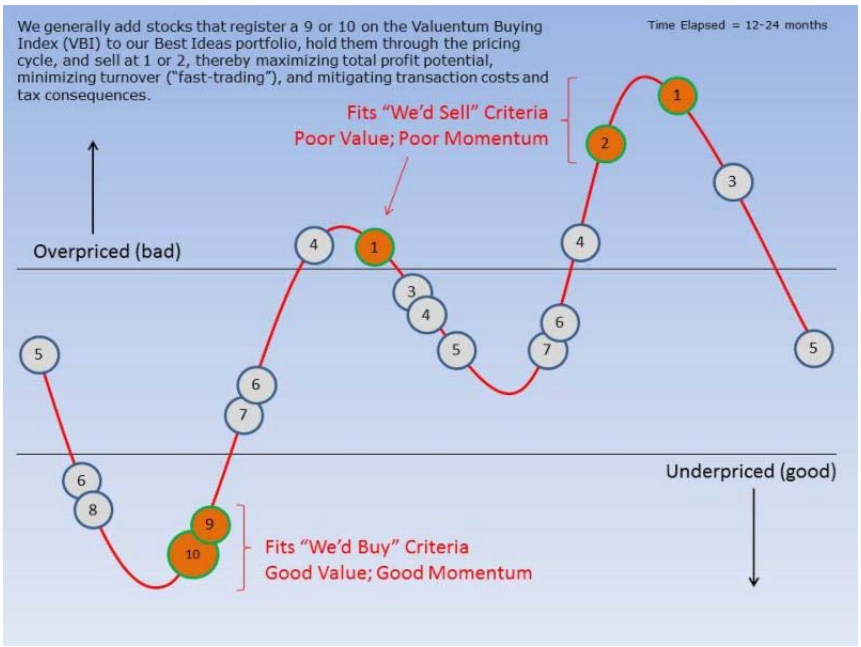
may be the secret to success in investing, a lot could have gone wrong with the temptation to do something each day. Obviously, we're very disciplined, but we also credit the portfolio outperformance to the VBI methodology itself. It is a very helpful tool.

** 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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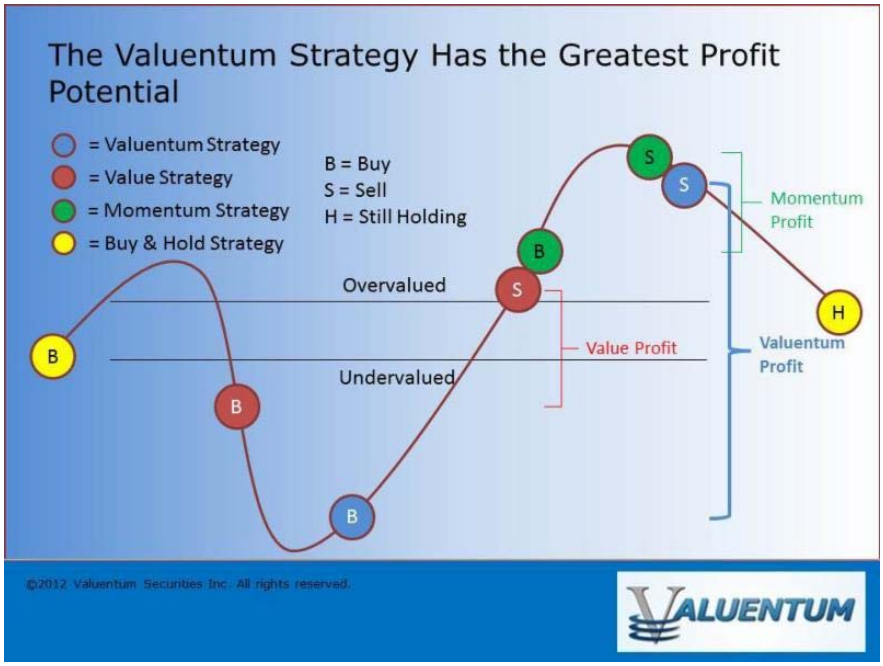
How We Use continued from previous page

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

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

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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.

** 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. Valuentum is an investment research publishing company.*

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.

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