OUR BEST IDEAS NEWSLETTER

Valuentum Securities

Stock Analysis: From Value through Momentum Investing

June 15, 2023
Volume 13 Issue 6

Valuentum Securities Inc.
www.valuentum.com
info@valuentum.com

The Best Ideas Newsletter Portfolio (page 8): AAPL, BKNG, BRK-B, CMG, CSCO, DPZ, GOOG, MCD, MSFT, PEP, RSG, UNH, XLE, XLF, XLK, XLV, V, VRTX

Inside This Issue

1 ALERT: Going to "Fully Invested" in the Best Ideas Newsletter Portfolio
3 FDA Accepts License Application for Vertex Pharma's and CRISPR Therapeutics' Key Investigational Treatment
5 Earnings Roundup: DE, WMT, CSCO, HD, FL
8 Valuentum's Best Ideas Newsletter Portfolio *CHANGES*
11 Apple's 'Vision Pro' Not in Our Valuation Model; Expect Upside
12 ICYMI: We Prefer Visa
14 Berkshire Hathaway's 2022 Shareholder Letter Addresses Buybacks
17 UnitedHealth Group's Long-Term Story Intact
18 Artificial Intelligence Is the Real Deal
19 About the Valuentum Buying Index
26 About the Fair Value Range
29 How We Use the Valuentum Buying Index in the Newsletter Portfolio

"We want to go to 'fully invested' in the newsletter portfolios to continue to "ride out' what we think will be continued strength in the markets through the remainder of this year."

-- Brian Nelson, CFA

ALERT: Going to "Fully Invested" in the Best Ideas Newsletter Portfolio

Image: Since the publishing of the first edition of the book 'Value Trap,' the stylistic area of large cap growth (SCHG) has meaningfully outperformed both the equal-weight S&P 500 (SPY) and small cap value (IWN).

Summary of Best Ideas Newsletter portfolio changes

UnitedHealth Group (UNH): 0% --> 4%-6%

Booking Holdings (BKNG): 0% --> 4%-6%

Chipotle (CMG): 1%-2% --> 6%-8%

Technology Select Sector SPDR (XLK): 0% --> 4%-6%

By Brian Nelson, CFA

A version of this note was emailed to members June 5.

With the debt-ceiling debate behind the markets, the regional banking crisis largely in the rear-view mirror, and the Fed winning the fight against inflation, a continuation of the strength in the markets as witnessed from the October 2022 lows can probably be expected. We "rode" the latest upswing with

ALERT: Going to "Fully Invested"...continued on next page

Brian M. Nelson, CFA
President, Equity Research
brian@valuentum.com

Christopher Araos
Associate Stock and Dividend Analyst
info@valuentum.com

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.

© 2023 Valuentum. All rights reserved. Reproduction by any means is prohibited.

Previously (June 5):

UnitedHealth Group (UNH) added. Booking Holdings (BKNG) added. Chipotle (CMG) increased. Technology Select Sector SPDR (XLK) added.

ALERT: Going to "Fully Invested"...from previous page

meaningful exposure to the stylistic area of large cap growth with key ideas Visa (V), Alphabet (GOOG) (GOOGL), Apple (AAPL) and Microsoft (MSFT), and we think this area will continue to lead the markets higher. According to data from Seeking Alpha, the Schwab U.S. Large Cap Growth ETF (SCHG) has advanced more than 35% so far this year, while small cap value (IWN) has been roughly flat. We've been pleased by the huge relative "outperformance."

As for other possible ideas, Meta Platforms (META) has had a nice rebound in light of massive cost-cutting measures, but we won't be adding that one back to the Best Ideas Newsletter portfolio given the low-quality earnings expansion. Nvidia (NVDA) has also done a nice job powering the markets higher, but we think that one's shares will likely have to consolidate for some time, and its valuation remains less than attractive, in our view. That said, Nvidia may very well grow into its valuation in coming years, and the rush to implement artificial intelligence into processes across myriad industries will fill order books across the semiconductor (SMH) space for some time. This will benefit the areas of big cap tech and large cap growth, two areas uniquely positioned to take the most advantage of the advancing technology.

High ratings on the Valuentum Buying Index are few and far between at this stage in the market cycle as equities recover more generally. However, we want to go to "fully invested" in the newsletter portfolios to continue to "ride out" what we think will be continued strength in the markets through the remainder of this year. **Last year was a big challenge to the newsletter portfolios but thanks to considerable energy "exposure," both the Best Ideas Newsletter portfolio and Dividend Growth Newsletter portfolio beat not only the market-cap weighted S&P 500 (SPY), but also the widely followed 60%/40% stock/bond portfolio.** As we have narrowed our coverage down to focus more on some of the strongest names in light of the swoon witnessed across crypto and disruptive innovation equities during the latter part of 2021 and throughout 2022, we're sticking with larger "growthy" names as our main source of idea generation.

Specifically, in the Best Ideas Newsletter portfolio, on June 5, we initiated a new "position" in key large cap growth idea UnitedHealth Group (UNH) at a 4%-6% weighting. We already include UnitedHealth Group in the Dividend Growth Newsletter portfolio. We also added a new 4%-6% weighting in Booking Holding (BKNG) and upped the weighting in Chipotle (CMG) to 6%-8%. On a hypothetical estimated basis, we had a "ten bagger" in our options idea generation service with respect to a consideration on the Technology Select Sector SPDR (XLK) recently, and on June 5, we "initiated" a new position in that ETF at a 4%-6% weighting. These changes bring the Best Ideas Newsletter portfolio weighting ranges roughly in-line with ~95%-100% at the midpoint. The moves have been reflected in this, the June edition of the Best Idea Newsletter portfolio on page 8.

What a great year 2023 is shaping up to be!!!

A version of this article was emailed to members June 5.

FDA Accepts License Application for Vertex Pharma's and CRISPR Therapeutics' Key Investigational Treatment

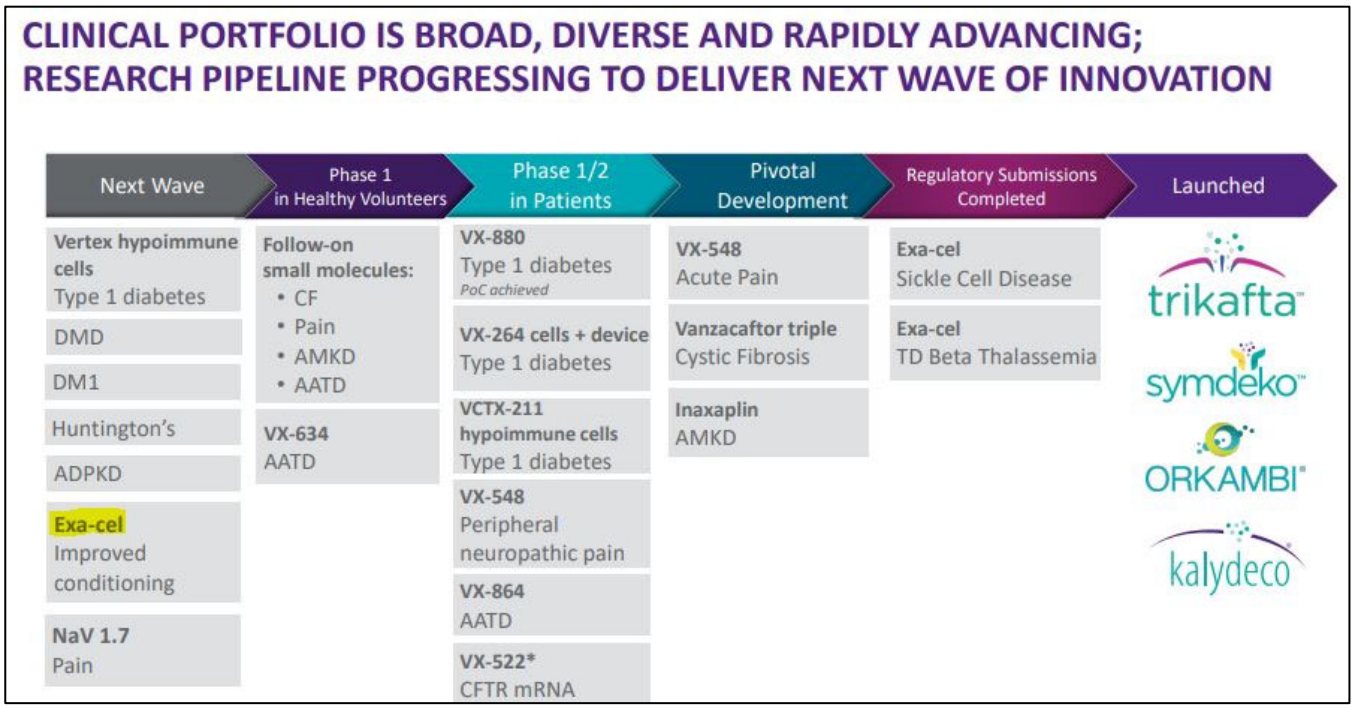


Image: *Vertex's pipeline is impressive. We like its areas of focus and the progress it continues to make with key therapies in CRISPR and pain management.*

By Brian Nelson, CFA

On June 8, it was announced that the Biologics License Applications (BLAs) for the investigational treatment exagamglogene autotemcel (exa-cel) for sickle cell disease (SCD) and transfusion-dependent beta thalassemia (TDT) from two of our favorite speculative biotech entities Vertex Pharma (VRTX) and CRISPR Therapeutics (CRSP) have been accepted by the U.S. FDA. The submission received Priority Review for SCD, and exa-cel has the potential to be the first CRISPR gene-editing therapy to be approved. We continue to be huge fans of this technology and Vertex's risk-adjusted exposure to the potential payoff via its partnership with CRISPR Therapeutics. Vertex remains a key idea in the Best Ideas Newsletter portfolio.

What Is CRISPR?

CRISPR gene editing technology can identify a specified portion of damaged DNA in a cell and alter that DNA, potentially replacing faulty genes. CRISPR stands for 'Clustered Regularly Interspaced Short Palindromic Repeats' and is built around the Cas9 protein, with the "Cas" proteins (meaning CRISPR-associated proteins) found in bacteria. Researchers have found that by adding a guide RNA and the Cas9 protein to a cell, the guided Cas9 protein is able to identify the desired DNA sequence that the researcher aims to edit.

FDA Accepts…continued on next page

*FDA Accepts...*from previous page

Vertex Pharma is a power play in biotech. First, the company has a lucrative and established cystic fibrosis [CF] franchise, and it looks like its position in that area will remain dominant given AbbVie's (ABBV) recent failure and decision to abandon its CF-program. This means that, unlike many other speculative biotech peers, Vertex Pharma generates a tremendous amount of free cash flow and has an enviable net-cash-rich balance sheet. Second, its pipeline is fantastic. Not only does it have exposure to CRISPR, but we're looking forward to some big things with respect to its non-opioid, non-addictive pain killer, the NaV1.8 inhibitor VX-548.

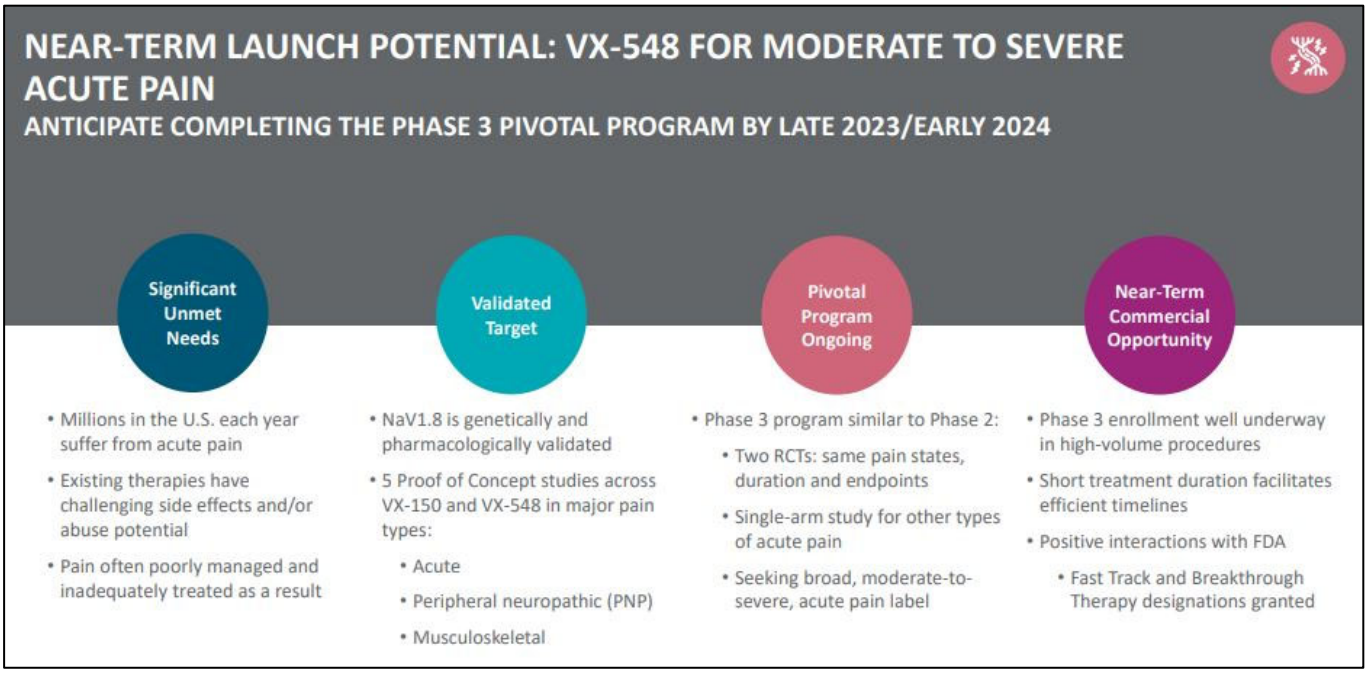


***Image**: Vertex's VX-548 for acute pain could be a huge game-changer in the field of medicine.*

The combination of robust financials and a tremendous pipeline of game-changing therapeutics from exa-cel to VX-548 makes Vertex Pharma a no-brainer idea for the Best Ideas Newsletter portfolio, in our view. Vertex Pharma's shares are up 20%+ so far in 2023, and we think its long term remains very bright. The company's dominance in CF gives it moaty economic characteristics, while the possible launch of as many as five new products in the next five years offers tremendous promise. Vertex Pharma's risk-reward situation continues to be skewed positively in investors' favor.

Earnings Roundup: DE, WMT, CSCO, HD, FL

By Brian Nelson, CFA

Deere & Company (DE) is a tried-and-true industrial giant. The company's dealer network offers it a strong competitive advantage, and while the company's business ebbs and flows with the general economic environment, the firm has been able to drive impressive product pricing increases of late. During the firm's first-quarter fiscal 2023 results (ending April 29, 2023), released May 19, Deere's worldwide net sales advanced an impressive 30%, while net income per share leapt to $9.65 per share from $6.81 per share in the same period a year ago. Deere's pricing power continues to be on display. In its 'Production & Precision Agriculture' division, sales jumped more than 50% in the quarter, while operating profit more than doubled thanks to an impressive ~7 percentage point increase in the segment's operating margin. 'Small Agriculture & Turf' sales increased 16% in the period on a year-over-year basis, while operating profit leapt more than 60% thanks to a near-6% increase in the division's operating margin. Deere's shares have fallen ~15% to start 2023, and they are starting to look interesting, with a respectable dividend yield to boot. Investors should be cognizant that Deere's results will always be cyclical, and the pace of product price increases won't be sustained forever.

Image: *Deere's shares have been choppy since the beginning of 2022.*

Earnings Roundup: DE, WMT, CSCO, HD, FL...continued on next page

Earnings Roundup: DE, WMT, CSCO, HD, FL...from previous page

Walmart Inc. (WMT) is back. On May 18, the company reported strong results for the first quarter of fiscal 2024 for the period ending April 30, 2023. Walmart's revenue advanced 7.6% in the quarter, while operating income jumped 17.3%. Inflationary pressures seem to be easing across the board, as the big box retailer's consolidated operating expenses fell 58 basis points as a percentage of sales in the period. **We think the Fed is winning the fight against inflation, and this dynamic should act as an ongoing tailwind, more generally, for the broader equity markets, in our opinion.** Walmart's cash flow trends also improved substantially in the quarter from the year-ago period, with operating cash flow growing to $4.6 billion (an increase of $8.4 billion), while free cash flow turned positive in the quarter, to $0.2 billion. Inventories were a huge drag on Walmart's operating cash flow generation during the fiscal first quarter of last year, and it looks like the retailing giant has largely worked through the inventory issues, with its gross margin holding up relatively well on a year-over-year basis, too. Walmart's first-quarter results last year were the 'canary in the coal mine' with respect inflationary pressures and inventory issues and may have been the key catalyst behind the market's tumble last year. The company's first-quarter fiscal 2024 results, however, suggest this market rally we've witnessed thus far in calendar 2023 is the real deal.

Image: *Walmart has bounced back since its missteps in early-mid 2022.*

Earnings Roundup: DE, WMT, CSCO, HD, FL...continued on next page

Earnings Roundup: DE, WMT, CSCO, HD, FL... from previous page

Best Ideas Newsletter portfolio holding Cisco Systems (CSCO) reported solid third-quarter fiscal 2023 results for the period ending April 29, 2023, on May 17. In the quarter, revenue advanced 14% on a year-over-year basis, while non-GAAP earnings per share increased 15%. The company's operating cash flow of $5.2 billion was an impressive 40%+ higher than that of the same period a year ago. Though orders fell 23% on a year-over-year basis in the quarter, Cisco's deferred revenue balance came in at $24.3 billion at the end of its fiscal third quarter, up 8.8% from the same period a year ago. During the quarter, Cisco returned $2.9 billion to shareholders in buybacks and dividends, and it noted that $12.2 billion remains on its share buyback program. For the current quarter, Cisco's fourth quarter of fiscal 2023, revenue is targeted to grow 14%-16% on a year-over-year basis, while non-GAAP earnings per share is expected in the range of $1.05-$1.07, beating consensus expectations at the time. **The market didn't like the weakness in orders in the period, however, and while some caution is in order, we continue to like shares of the networking giant.**

Image: *Cisco's shares are climbing back from the lows set late last year.*

Earnings Roundup: DE, WMT, CSCO, HD, FL...continued on page 9

Valuentum's Best Ideas Portfolio

Valuentum's BEST IDEAS -- as of June 15, 2023								
Portfolio Holdings	Symbol	Est. Div Yield %	Fair Value	Economic Castle	VBI Rating	P/FV	Last Close ($)	% of Portfolio
Alphabet - Class C	GOOG	-	$118.00	Very Attractive	7	1.07	125.79	10%-12%
Visa Inc.	V	0.81%	$216.00	Very Attractive	6	1.05	226.17	10%-12%
Apple Inc.	AAPL	0.52%	$139.00	Highest Rated	5	1.34	186.01	6%-8%
Chipotle *INCREASED*	CMG	-	$2186.00	Very Attractive	6	0.94	2,051.66	6%-8%
Health Care ETF	XLV	1.58%	-	-	-	-	132.22	6%-8%
Microsoft Corp.	MSFT	0.81%	$262.00	Very Attractive	3	1.33	348.10	6%-8%
Booking Holdings *NEW*	BKNG	-	$3091.00	Very Attractive	6	0.86	2,671.70	4%-6%
Cisco Systems	CSCO	3.06%	$51.00	Very Attractive	6	1.02	51.93	4%-6%
Energy Select SPDR	XLE	4.14%	-	-	-	-	80.98	4%-6%
McDonald's Corp	MCD	2.11%	$250.00	Attractive	3	1.17	292.61	4%-6%
PepsiCo, Inc.	PEP	2.76%	$181.00	Attractive	3	1.03	185.71	4%-6%
Technology Sector SPDR *NEW*	XLK	0.77%	-	-	-	-	174.63	4%-6%
UnitedHealth Group *NEW*	UNH	1.64%	$513.00	Very Attractive	3	0.91	465.89	4%-6%
Berkshire Hathaway	BRK-B	-	$320.00	Very Attractive	5	1.06	339.82	3%-5%
Republic Services	RSG	1.38%	$132.00	Attractive	3	1.10	144.55	3%-5%
Domino's	DPZ	1.58%	$346.00	Highest Rated	3	0.94	325.46	1%-2%
Vertex Pharma	VRTX	-	$353.00	Very Attractive	6	0.99	349.08	1%-2%
Financial Select SPDR	XLF	2.10%	-	-	-	-	33.65	1%-2%
Cash								~0%-5%

UR = Under Review
This portfolio is not a real money portfolio. Data as of June 15, 2023, retrieved from YF, Valuentum, Seeking Alpha.

Correction: *This table has been corrected to reflect Chipotle's weighting of 6%-8%.*

The cash weighting in the Best Ideas Newsletter portfolio is ~0-5%. The midpoints of our respective weighting ranges sum to ~100% to reflect the range of possible combinations that may result in this allocation.

Goal: The simulated Best Ideas Newsletter portfolio seeks to find stocks that have both good value and good momentum characteristics and typically includes in the portfolio each idea from a Valuentum Buying Index rating of a 9 or 10 (consider buying) to a rating of a 1 or 2 (consider selling). Just like a value manager may not include every single undervalued company in the market in his/her portfolio, not all highly-rated companies on the Valuentum Buying Index are included in the portfolio.

We may tactically add to or trim existing positions in the portfolio on the basis of sector or broader market considerations, but we seek to capture a stock's entire pricing cycle (from being underpriced with strong momentum to being overpriced with poor momentum). The simulated Best Ideas Newsletter portfolio puts the Valuentum Buying Index into practice.

Every person has different goals and different risk tolerances, so where before in the newsletter portfolios, we would outline the specific percentage weighting, we think providing ranges make much more sense. For example, depending on someone's risk tolerances, a larger cash position in an overheated market may be prudent. On the other hand, the longer one's time horizon, perhaps a smaller cash position may make more sense.

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

Standard Disclaimer: The simulated 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 the simulated Best Ideas Newsletter portfolio and accepts no liability for how readers may choose to utilize the content.

Earnings Roundup: DE, WMT, CSCO, HD, FL... from page 7

Home Depot (HD) reported weaker first-quarter fiscal 2023 results for the period ending April 30, 2023, but we're not at all concerned about the home improvement retailing giant. The firm has shown that its business model can not only survive the worst of the residential housing market during the Great Financial Crisis, but also that it can adapt to some of the most uncertain times with respect to the COVID-19 pandemic. Home Depot's comparable store sales fell 4.5% in the quarter, a decline that was driven in part by lumber deflation and a slowdown in discretionary consumer spending across the home improvement arena. However, **it's reasonable to expect that 2023 will be a year of moderation for the home improvement retailing industry, more generally, after years of breakneck expansion, and Home Depot's outlook speaks to this.** For fiscal 2023, revenue and comparable store sales are targeted to fall between 2%-5%, while diluted earnings per share is targeted to decline 7%-13% versus fiscal 2022. We're not worried about the resilience of Home Depot at all, and we continue to like shares.

Image: *Home Depot's shares continue to be under pressure.*

Earnings Roundup: DE, WMT, CSCO, HD, FL...continued on next page

Earnings Roundup: DE, WMT, CSCO, HD, FL... from previous page

Foot Locker (FL) doesn't register high on our interest list for a number of reasons. For starters, the company is mall-based retail exposure, and we generally don't like the long-term picture when it comes to malls, more generally. That includes many of the mall REITs, too. Second, the specialty athletic retailer offers a rather narrow line of merchandise (unlike the big box retailers, by comparison), and we think Foot Locker may cede market share to online retailers and big box retailing giants. Though some consumers may still want the in-store experience of trying on new shoes and the like, we think consumers are growing more and more comfortable with ordering online and finding the best price. Foot Locker's shares dropped nearly 30% during the trading session May 19 after the firm reported terrible first-quarter fiscal 2023 results (ending April 29, 2023) that showed accelerating revenue declines and a huge jump in inventories. **Though Foot Locker offers an above-average dividend yield, we're not interested in the company at all.** There are too many other companies that we like more, both on our radar and in the newsletter portfolios.

***Image**: Foot Locker's shares gapped down after it reported weak quarterly performance.*

Apple's 'Vision Pro' Not in Our Valuation Model; Expect Upside

***Image**: Apple released its first major product since the Apple Watch in the Vision Pro on June 5. The device opens the door to the era of spatial computing and is priced at $3,499.*

By Brian Nelson, CFA

Apple unveiled its Vision Pro at the company's Worldwide Developers Conference on June 5. We were impressed with the new major product launch, its first since the release of the Apple Watch nearly a decade ago but estimating the total market opportunity for a $3,499 device is a difficult one.

The Vision Pro will be available in early 2024 and will compete in many areas with the Meta (META) Quest, and **we expect Apple's annual numbers come next year to be impressive.** The market for high-end consumer devices is a large one, and from what we can tell, the number of possible applications of the Vision Pro are many.

We're not making any changes to our valuation of Apple until we get a better feel for just how big of a needle-mover the Vision Pro will be, but we expect to raise our fair value estimate of Apple. The company has another winner on its hands, in our view.

ICYMI: We Prefer Visa

By Brian Nelson, CFA

Visa Inc. (V) has probably the best business model in our coverage universe. The company benefits from a network effect, acts as a toll-road operator collecting fees every time one of its cards is swiped, and the credit card giant puts up huge operating and free cash flow margins. Visa is a top "weighting" in the portfolio of the Best Ideas Newsletter, and we don't see that changing anytime soon. The high end of our fair value estimate range for Visa stands at ~$259 per share.

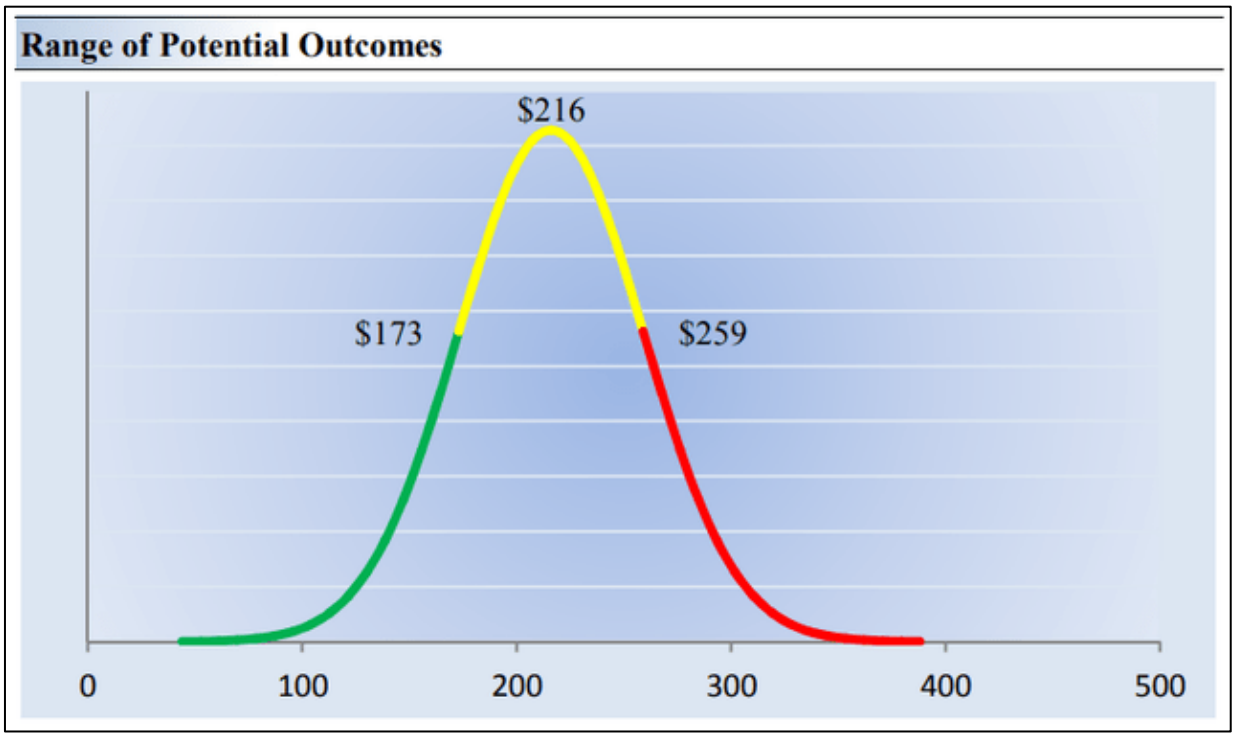


***Image**: Our estimate of Visa's range of fair value estimate outcomes. **Image Source:** Valuentum*

Our discounted cash flow process values each company in our coverage on the basis of the present value of all future expected free cash flows. Though we estimate Visa's fair value at about $216 per share, every company has a range of probable fair values that's created by the uncertainty of key valuation drivers (like future revenue or earnings, for example). After all, if the future were known with certainty, we wouldn't see much volatility in the markets as stocks would trade precisely at their known fair values.

Our ValueRisk rating sets the margin of safety or the fair value range we assign to each stock. In the graph above, we show this probable range of fair values for Visa. We think the firm is attractive below $173 per share (the green line), but quite expensive above $259 per share (the red line). The prices that fall along the yellow line, which includes our fair value estimate, represent a reasonable valuation for the firm, in our opinion. We think Visa's shares could run to the high end of the fair value estimate range.

ICYMI: We Prefer Visa...continued on next page

ICYMI: We Prefer Visa... from previous page

The credit card company's second-quarter fiscal 2023 results released April 25 were enough to support our continued positive take on the moaty entity, as it beat the consensus estimate on both the top and bottom line. During its quarter ending March 31, 2023, net revenues advanced 11%, while GAAP earnings per share leapt 20%, to $2.03 per share. Payments volume advanced 10% in the quarter on a year-over-year basis, while total cross-border volume increased 24%. Processed transactions advanced 12% in the quarter from the same period a year ago.

	Six Months Ended March 31,	
	2023	2022
	(in millions)	
Operating Activities		
Net income	$ 8,436	$ 7,606
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Client incentives	5,691	4,865
Share-based compensation	400	318
Depreciation and amortization of property, equipment, technology and intangible assets	461	405
Deferred income taxes	(154)	21
VE territory covered losses incurred	(15)	(16)
(Gains) losses on equity investments, net	196	(104)
Other	(22)	(61)
Change in operating assets and liabilities:		
Settlement receivable	147	3
Accounts receivable	(67)	(173)
Client incentives	(5,521)	(4,503)
Other assets	(77)	(291)
Accounts payable	(48)	(75)
Settlement payable	(493)	111
Accrued and other liabilities	(1,047)	(173)
Accrued litigation	144	(212)
Net cash provided by (used in) operating activities	8,031	7,721
Investing Activities		
Purchases of property, equipment and technology	(459)	(440)

***Image**: Visa's operating cash flow of $8 billion, and free cash flow of ~$7.5 billion through the first half of its fiscal 2023 is remarkable. **Image Source**: Visa*

Visa's growth rates continue to be impressive, and its free cash flow generation remains remarkable. Operating cash flow has come in at $8 billion during the first six months of the year, while the company shelled out ~$460 million in capital spending, good for free cash flow generation of ~$7.5 billion and a free cash flow margin of 47.5%. Very few other companies have this kind of free cash flow margin, and we look forward to a strong back half to Visa's fiscal 2023.

Berkshire Hathaway's 2022 Shareholder Letter Addresses Buybacks

***Image**: Berkshire Hathaway has held up fairly well following the market rout in 2022.*
***Image Source**: TradingView*

"A very minor gain in per-share intrinsic value took place in 2022 through Berkshire share repurchases as well as similar moves at Apple and American Express, both significant investees of ours. At Berkshire, we directly increased your interest in our unique collection of businesses by repurchasing 1.2% of the company's outstanding shares. At Apple and Amex, repurchases increased Berkshire's ownership a bit without any cost to us. The math isn't complicated: When the share count goes down, your interest in our many businesses goes up. ***Every small bit helps if repurchases are made at value-accretive prices. Just as surely, when a company overpays for repurchases, the continuing shareholders lose.*** *At such times, gains flow only to the selling shareholders and to the friendly, but expensive, investment banker who recommended the foolish purchases.* ***Gains from value-accretive repurchases, it should be emphasized, benefit all owners – in every respect.*** *Imagine, if you will, three fully-informed shareholders of a local auto dealership, one of whom manages the business. Imagine, further, that one of the passive owners wishes to sell his interest back to the company at a price attractive to the two continuing shareholders. When completed, has this transaction harmed anyone? Is the manager somehow favored over the continuing passive owners? Has the public been hurt? When you are told that all repurchases are harmful to shareholders or to the country, or particularly beneficial to CEOs, you are listening to either an economic illiterate or a silver-tongued demagogue (characters that are not mutually exclusive)." – Berkshire Hathaway 2022 Letter to Berkshire Shareholders*

Berkshire Hathaway's 2022 Shareholder Letter Addresses Buybacks...continued on next page

Berkshire Hathaway's 2022 Shareholder Letter Addresses Buybacks… from previous page

By Brian Nelson, CFA

The 2022 edition of Warren Buffett's Letter to Berkshire Hathaway (BRK.A) (BRK.B) shareholders was a great read, and the Oracle of Omaha took a jab at politicians that are in favor of banning or taxing buybacks. As Buffett puts it in the excerpt on the prior page, share buybacks play an important role in the stock market and can be significantly value-creating for long-term investors. At Valuentum, we love when companies buy back stock at a price below their estimated intrinsic value. After all, this instance is how buybacks are value-creating, per *Value Trap*:

> In most cases where companies have a simple capital structure, an intrinsic value estimate of any operating, non-financial equity is generally calculated as follows: the sum of the discounted future expected enterprise free cash flows to the firm (enterprise cash flow) are added to the company's current balance-sheet net cash position (or net debt is subtracted), and that sum (or difference) is divided by current shares outstanding. **Share buybacks influence the enterprise value equation as follows: shares are reduced by the number of shares repurchased, and cash on the balance sheet is reduced by the aggregate cost of the share repurchase program (price paid per share multiplied by number of shares outstanding), which may influence the capital structure and the estimate of a company's WACC.**
>
> The net impact is either value-creating to the fair value estimate output (it increases it) or value-destroying to the fair value estimate output (it decreases it). It all depends on which change is more powerful. Either the impact of the reduction of the number of shares has a smaller positive impact on the fair value estimate than the negative impact of a reduction in cash on the balance sheet and changes in the WACC, or the impact of the reduction of the number of shares has a greater positive impact on the fair value estimate than negative impact of a reduction in cash on the balance sheet and changes in the WACC. **Generally speaking, if share buybacks are completed at a price level that is below an estimate of a company's intrinsic value, the activity can be considered value-creating. If share buybacks are completed at a price level that is above an estimate of a company's fair value, they can be considered value-destroying.**

Buffett's shareholder letters are always a refreshing read, a reminder of just how important it is to practice good business principles and to view stocks as pieces of businesses and not pieces of paper. In a world where value investing may be gone forever, as Greenlight Capital (GLRE) founder David Einhorn has said: "Value investing as an industry is dead…The money has moved from value investors to index funds and it's not coming back," it becomes even more important to pay attention to the prices you pay for businesses (stocks). After all, if "everyone" is indexing, who's going to set the right price? One just can't accept the price as a good one.

Berkshire Hathaway's 2022 Shareholder Letter Addresses Buybacks…continued on next page

Berkshire Hathaway's 2022 Shareholder Letter Addresses Buybacks… from previous page

We remain huge fans of intrinsic value investing and don't see much 'value' in quantitative value investing. These are two very different things, often misconstrued. When it comes to intrinsic value investing, there are only either undervalued, fairly valued, or overvalued stocks. Undervalued stocks are stocks that are trading at a price far below their estimated intrinsic value. Fairly valued stocks are stocks that are trading about in-line with their fair value estimate (range), while overvalued stocks are stocks that are trading at a price far above their estimated intrinsic value. When it comes to quantitative value investing, value stocks are stocks with low price-to-book ratios, while growth stocks are stocks with high price-to-book ratios, but simple multiple analysis doesn't tell the full story about valuation.

We've said it before, and we'll say it again: There are not really growth and value stocks!

UnitedHealth Group's Long-Term Story Intact

***Image**: UnitedHealth Group's shares are facing pressure as the pace of medical procedures normalizes following COVID-19. We still like shares.*

By Brian Nelson, CFA

On June 7, UnitedHealth Group (UNH) raised its quarterly dividend nearly 14%, to $1.88 per share, which reflects a forward estimated dividend yield of ~1.64%. The company remains a staple in the Dividend Growth Newsletter portfolio and is **a new add in the Best Ideas Newsletter portfolio.** Recent comments by UNH's John Rex on June 14 regarding the firm's healthcare costs during the second quarter have put shares under pressure during the trading session. Discretionary surgeries have picked back up following a lull during most of the COVID-19 pandemic as hospital capacity was largely constrained during that time.

We're viewing the expectations for higher medical costs in the near term for UNH as a reflection of pent-up demand (e.g. hip, knee replacements) and therefore largely a one-time step up that will weigh on its financials during 2023, but not in the longer run as premiums are eventually reset (repriced) to better cover the cost pressures. We think the market is overreacting to the news and likely reallocating to more aggressive areas within big cap tech as defensive stocks within healthcare weaken in 2023. UNH's shares are now trading in the lower bound of our fair value estimate range, and we still like this large cap growth idea in the long run.

Artificial Intelligence Is the Real Deal

By Brian Nelson, CFA

Artificial intelligence [AI] is the real deal, in our view, and Nvidia (NVDA) has the chips to power it. **When we first tested generative AI via ChatGPT, we were blown away by the technology.** There may be some hype surrounding the technology powering large language models at these early stages of development, but from where we stand, the future is as much AI as the present is Apple products, Google (GOOG) (GOOGL) search, and Microsoft (MSFT) and Amazon (AMZN) cloud.

Image Source: *Nvidia*

AI is the latest catalyst to propel the area of large cap growth, which continues to trounce other areas of the market. Since the release of the first edition of the book *Value Trap*, **an ETF that tracks large cap growth has outperformed an ETF that tracks small cap value by ~80 percentage points, beating the market return handily**, while leaving the strategies of dividend growth and real estate investing in its dust. We continue to like the area of large cap growth, and while we won't be adding Nvidia to any newsletter portfolio, we're loving the big cap derivative plays on AI, including Microsoft, Alphabet and Apple.

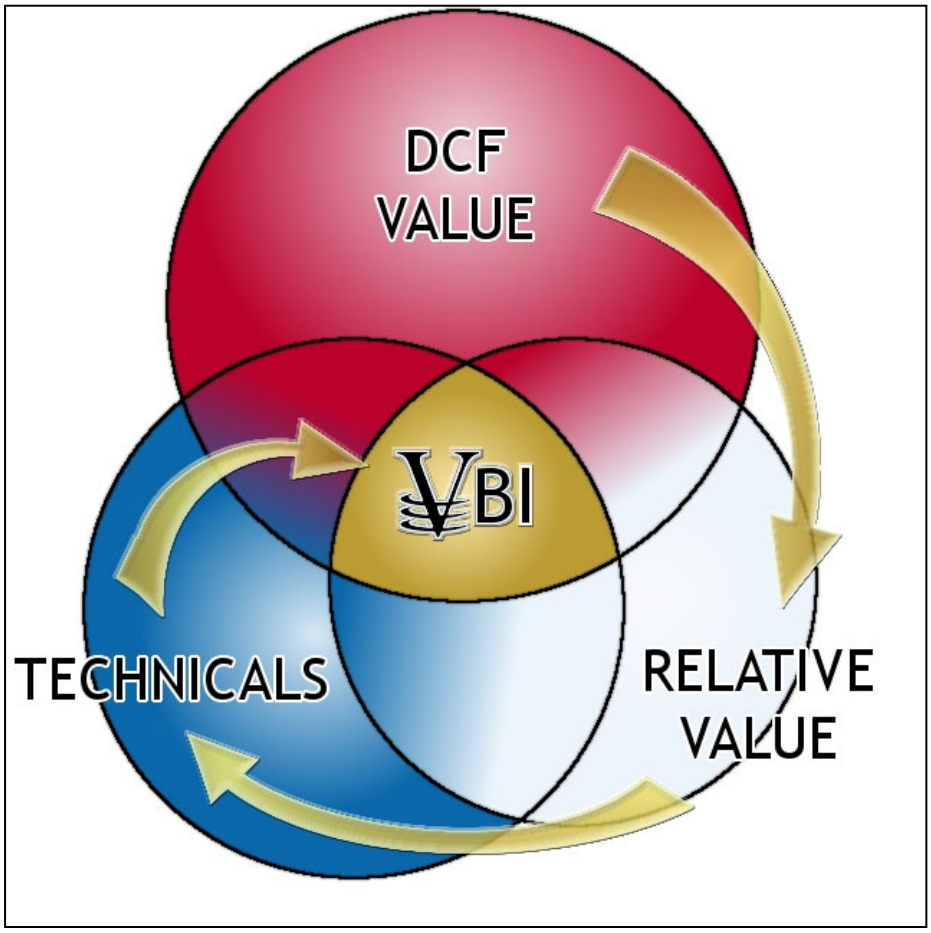
Let the good times roll!

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 simulated newsletter portfolios when both value and momentum characteristics are "good" and removing them when both value and momentum characteristics are "bad" (blue circles: Buy --> Sell). We define the Valuentum strategy as capturing the entire equity pricing cycle, while the value and momentum strategies individually truncate profits, as illustrated in the image below.

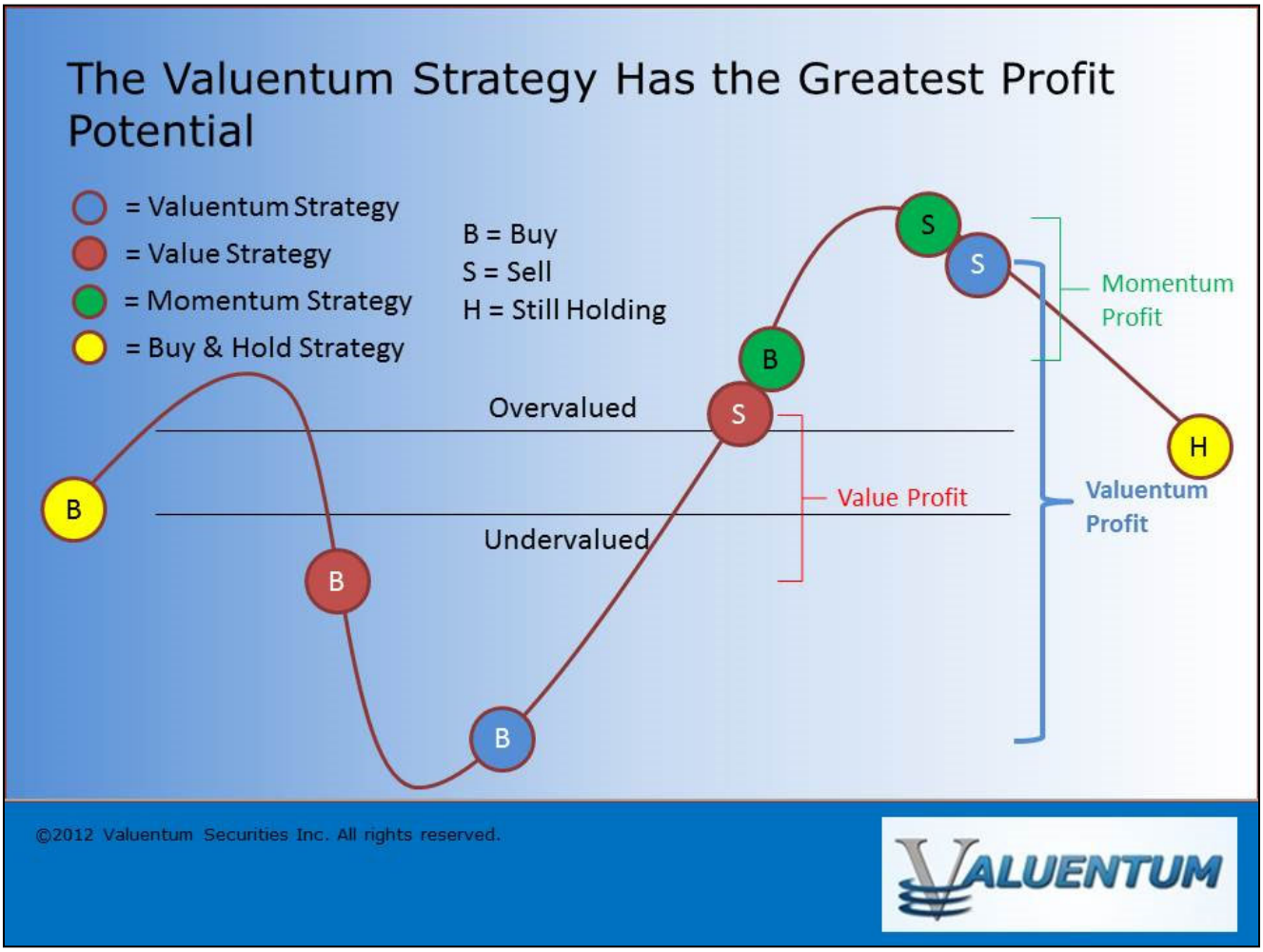


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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

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

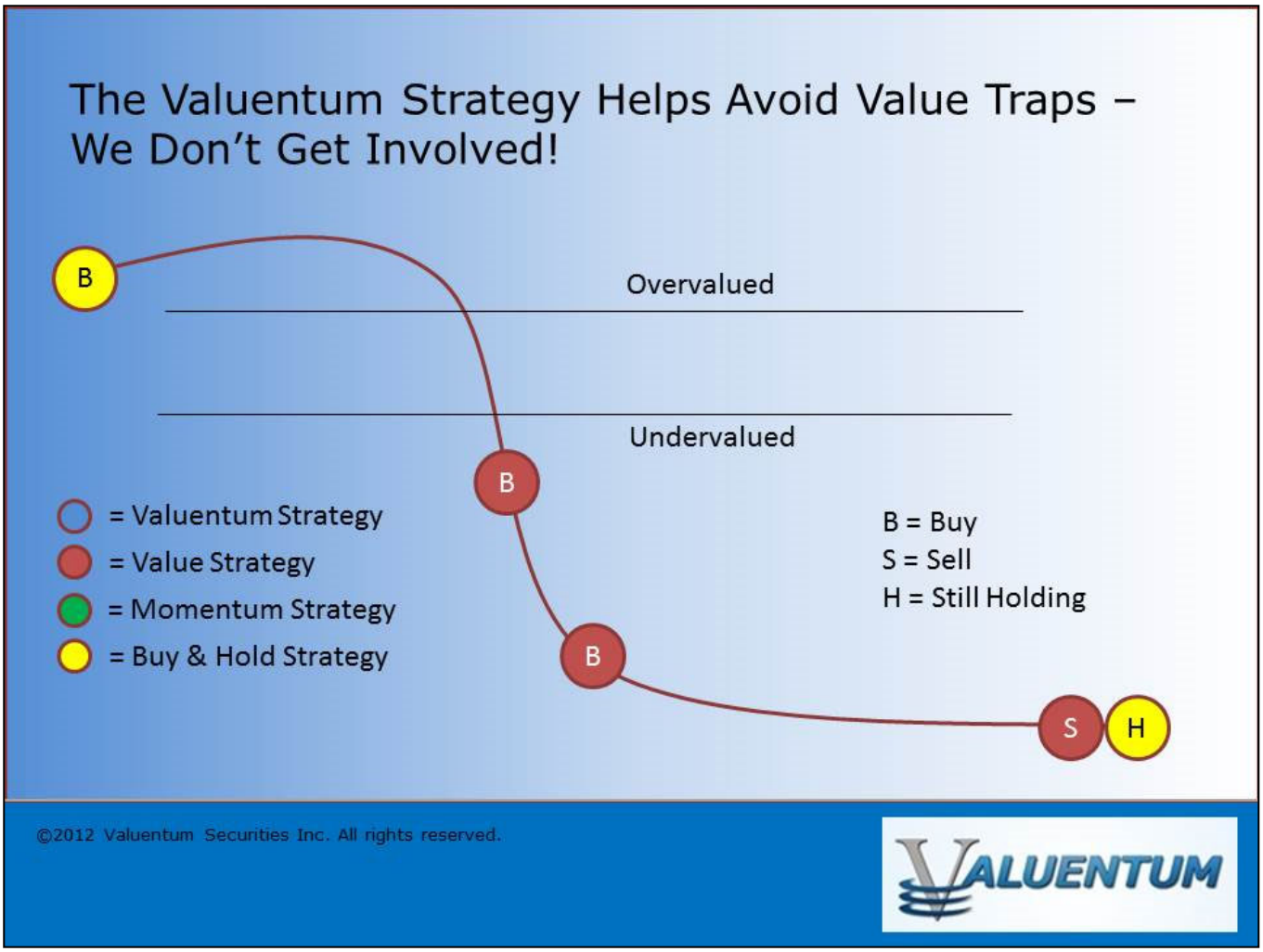


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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.

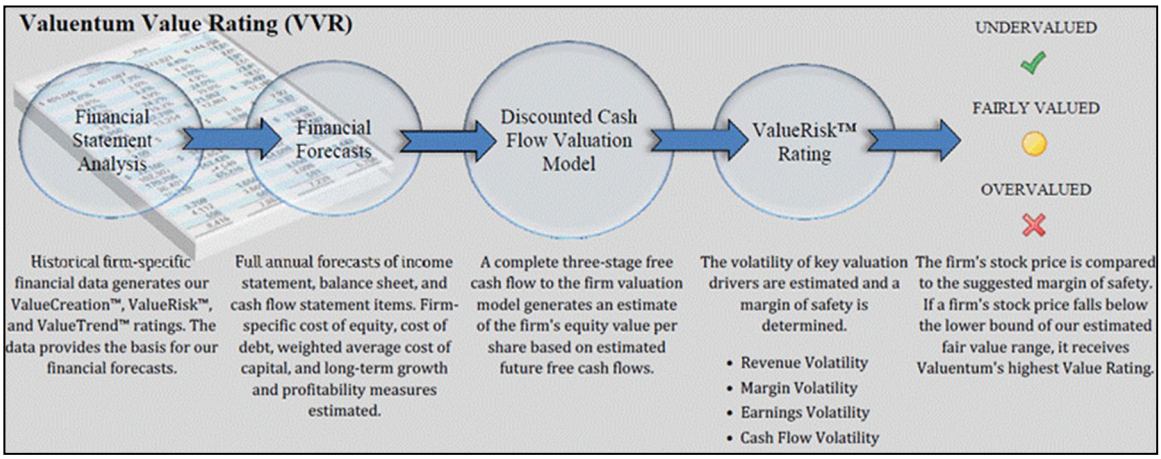


Illustration for educational purposes only.

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

Illustration for educational purposes only.

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 valuation criteria).

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index continued from previous page

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.

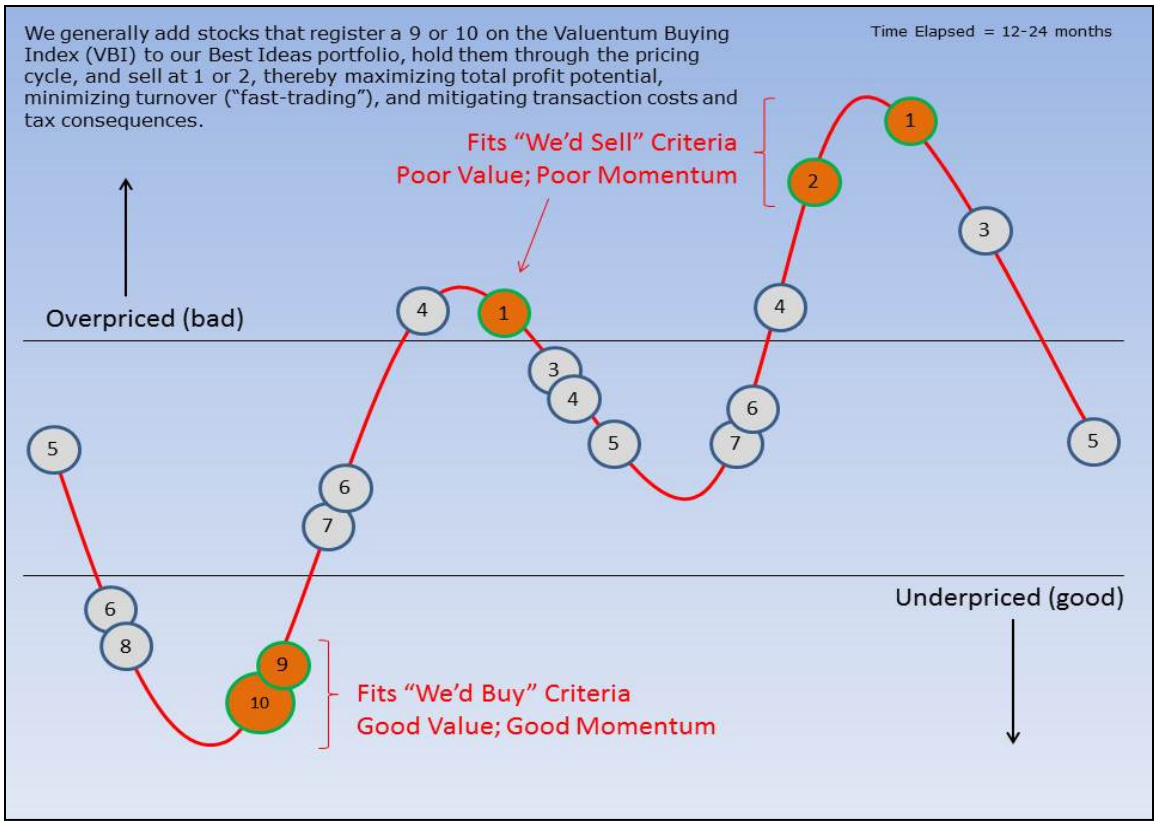


Illustration for educational purposes only.

Our Methodology – The Valuentum Buying Index continued on next page

Our Methodology – The Valuentum Buying Index **continued from previous page**

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 Idea"). 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 ("Poor Idea"). Most of our coverage universe falls between 3 and 7, but at any given time there could be large number of companies garnering either high or low scores, especially at market lows or tops, respectively.

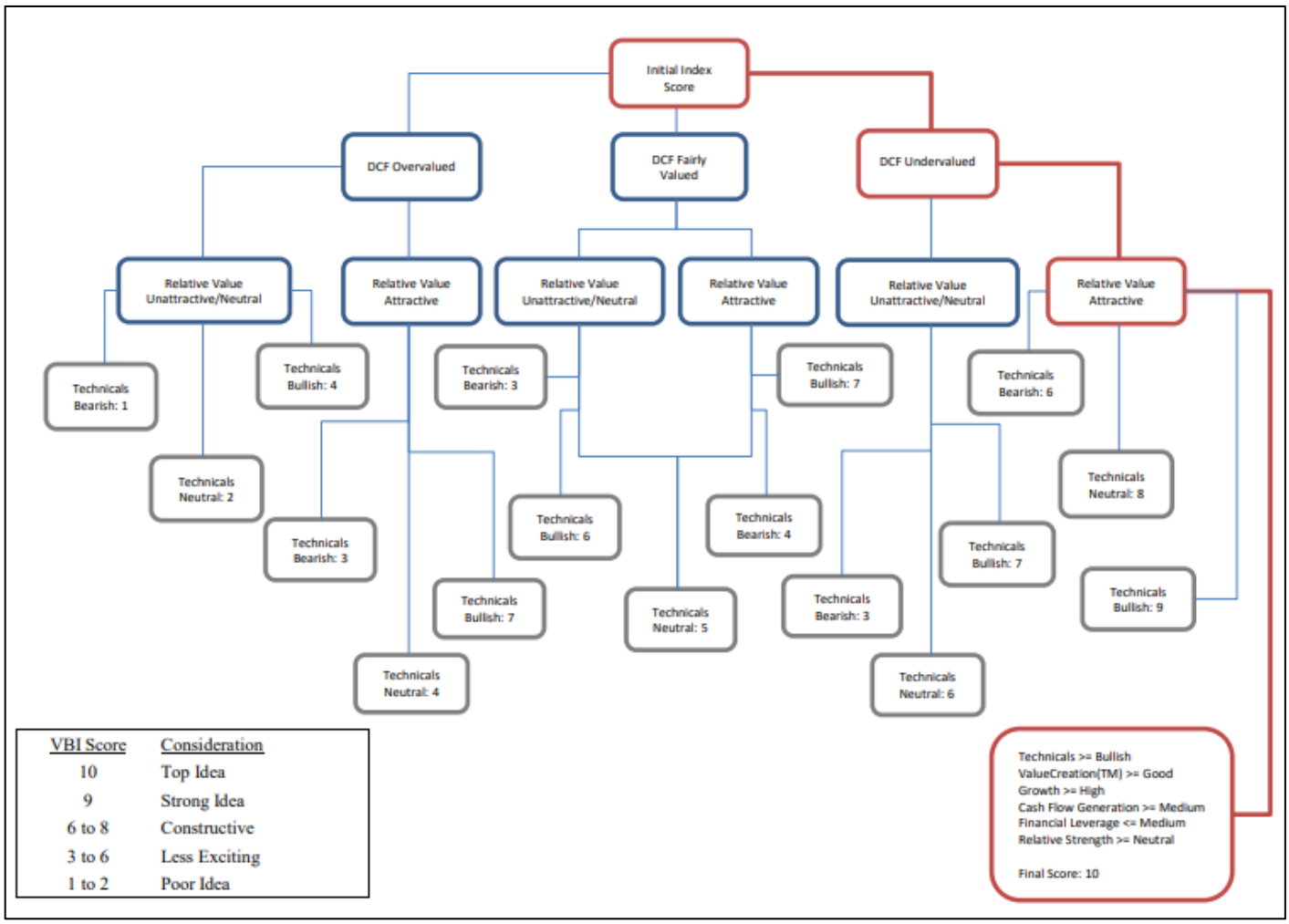


Illustration for educational purposes only.

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?

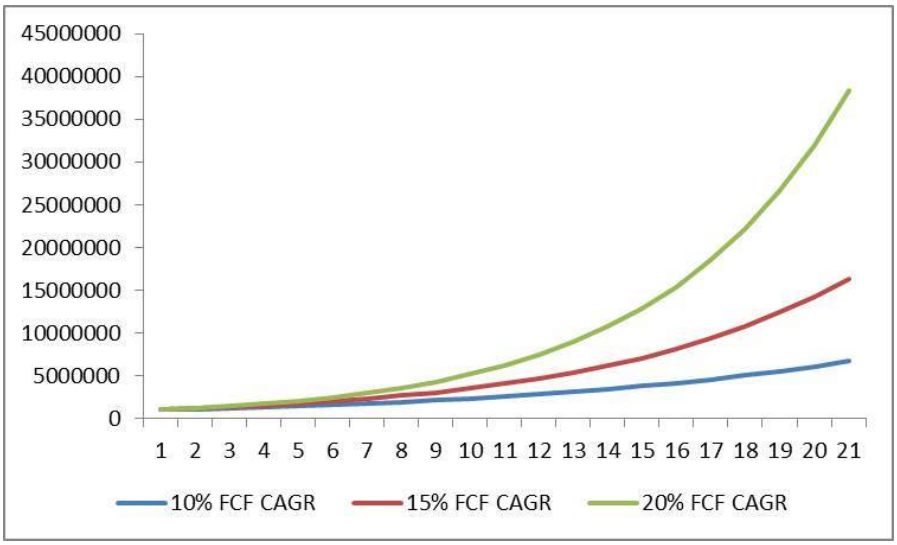
One of the most important concepts of the Valuentum methodology (and valuation in general) is the understanding that the value of a company is a range of probable valuation outcomes, not a single point estimate. Even well-seasoned stock analysts are guilty of saying that a company's shares are worth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

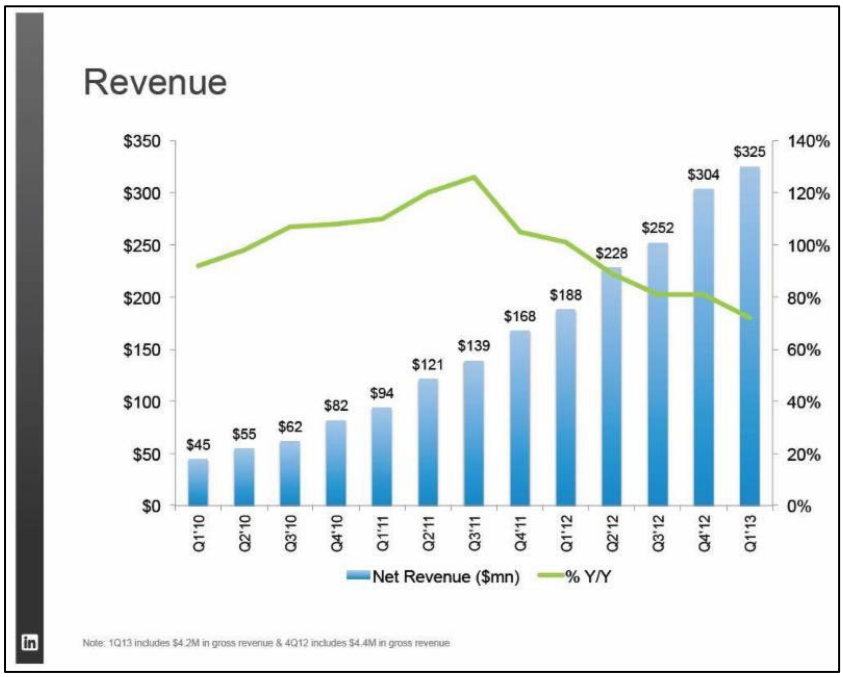


Image Source: LinkedIn

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 considering 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 simulated 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 simulated 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 simulated 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 every 3-12 months) 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).

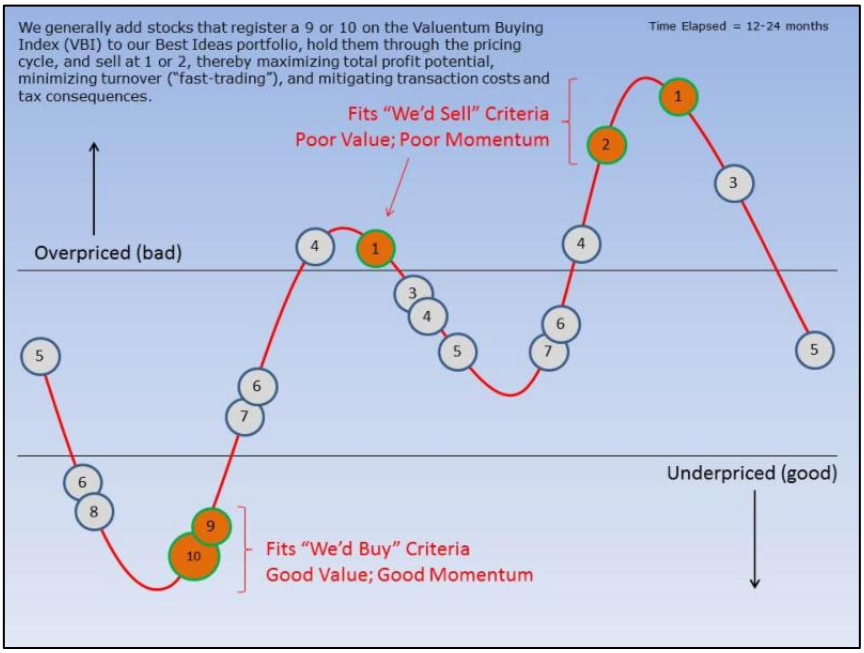


Image shown for informational/illustration purposes only. Valuentum is an investment research publishing company.

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

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).

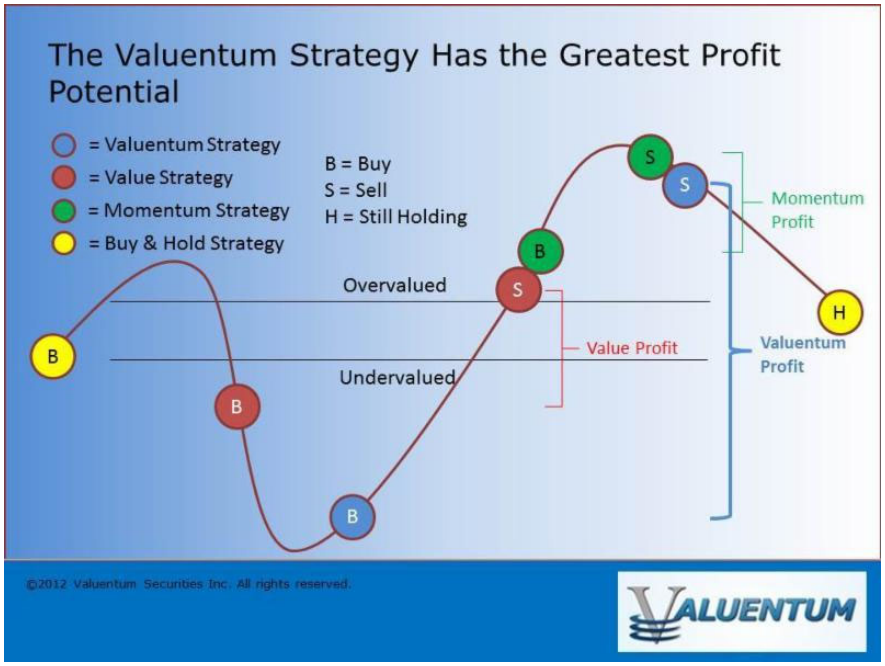


Image shown for informational/illustration purposes only. Valuentum is an investment research publishing company.

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

How We Use **continued from previous page**

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 or PayPal in the newsletter portfolio.]

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 simulated 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, 1992

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

Valuentum Best Ideas Newsletter: Volume 13, Issue 6

Valuentum's Best Ideas Newsletter is published monthly. To receive this newsletter on a monthly basis, please subscribe to Valuentum by visiting our website at www.valuentum.com. Or contact us at info@valuentum.com.

Disclosure: *Brian Nelson owns shares in SPY, SCHG, QQQ, DIA, VOT, BITO, RSP, and IWM. Valuentum owns SPY, SCHG, QQQ, VOO, and DIA. Brian Nelson's household owns shares in HON, DIS, HAS, NKE, DIA, and RSP. Some of the other securities written about in this newsletter may be included in Valuentum's simulated newsletter portfolios.*

Contact Valuentum for more information about its editorial policies.

Copyright ©2023 by Valuentum, Inc. All rights reserved.

No part of this publication may be reproduced in any form or by any means.

The information contained in this report is not represented or warranted to be accurate, correct, complete, or timely. This report is for informational purposes only and should not be considered a solicitation to buy or sell any security. No warranty or guarantee may be created or extended by sales or promotional materials, whether by email or in any other format. The securities or strategies mentioned herein may not be suitable for all types of investors. The information contained in this report does not constitute any advice, especially on the tax consequences of making any particular investment decision. This material is not intended for any specific type of investor and does not take into account an investor's particular investment objectives, financial situation or needs. This report is not intended as a recommendation of the security highlighted or any particular investment strategy. Before acting on any information found in this report, readers should consider whether such an investment is suitable for their particular circumstances, perform their own due-diligence, and if necessary, seek professional advice.

The sources of the data used in this report are believed by Valuentum to be reliable, but the data's accuracy, completeness or interpretation cannot be guaranteed. Assumptions, opinions, and estimates are based on our judgment as of the date of the report and are subject to change without notice. Valuentum is not responsible for any errors or omissions or for results obtained from the use of this report and accepts no liability for how readers may choose to utilize the content. In no event shall Valuentum be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document. Investors should consider this report as only a single factor in making their investment decision.

Valuentum is not a money manager, is not a registered investment advisor, and does not offer brokerage or investment banking services. Valuentum has not received any compensation from the company or companies highlighted in this report. Valuentum, its employees, independent contractors and affiliates may have long, short or derivative positions in the securities mentioned herein. Information and data in Valuentum's valuation models and analysis may not capture all subjective, qualitative influences such as changes in management, business and political trends, or legal and regulatory developments. Redistribution is prohibited without written permission. Readers should be aware that information in this work may have changed between when this work was written or created and when it is read. There is risk of substantial loss associated with investing in financial instruments.

Valuentum's company-specific forecasts used in its discounted cash flow model are rules-based. These rules reflect the experience and opinions of Valuentum's analyst team. Historical data used in our valuation model is provided by Xignite and from other publicly available sources including annual and quarterly regulatory filings. Stock price and volume data is provided by Xignite. No warranty is made regarding the accuracy of any data or any opinions. Valuentum's valuation model is based on sound academic principles, and other forecasts in the model such as inflation and the equity risk premium are based on long-term averages. The Valuentum proprietary automated text-generation system creates text that will vary by company and may often change for the same company upon subsequent updates.

Valuentum uses its own proprietary stock investment style and industry classification systems. Peer companies are selected based on the opinions of the Valuentum analyst team. Research reports and data are updated periodically, though Valuentum assumes no obligation to update its reports, opinions, or data following publication in any form or format. Performance assessment of Valuentum metrics, including the Valuentum Buying Index, is ongoing, and we intend to update investors periodically, though Valuentum assumes no obligation to do so. Not all information is available on all companies. There may be a lag before reports and data are updated for stock splits and stock dividends.

The portfolio in the Valuentum Best Ideas Newsletter is hypothetical and does not represent real money. Past simulated performance, whether backtested or walk-forward or other, is not a guarantee of future results. Actual results may differ from simulated portfolio information being presented in this newsletter. For general information about Valuentum's products and services, please contact us at valuentum@valuentum.com or visit our website at www.valuentum.com.