

4-1-2013

SunTrust Portfolio Recommendations: Crummer Investment Management [2013]

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Terala, Soumya; Harvey, Peter; Mayo, Kevin; Talwar, Bhawna; Patil, Pankaj; and Enger, Chris, "SunTrust Portfolio Recommendations: Crummer Investment Management [2013]" (2013). *SunTrust Portfolios*. Paper 26.
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Authors

Soumya Terala, Peter Harvey, Kevin Mayo, Bhawna Talwar, Pankaj Patil, and Chris Enger

2013

Crummer SunTrust Portfolio Recommendations

Crummer Investment Management



Dear Members of the Committee,

We would like to thank you for your service to the Crummer SunTrust Portfolio. Without your participation Crummer students would not benefit from the unique insight you bring to managing an active portfolio.

We have benefitted from some outstanding guest speakers who have been generous with their time and expertise: Bessie Sealey, Newport Group; John Race, DRZ; Sabine Lien, SunTrust; John Moskos and Cameron Dawson, US Trust; Rick Ahl, AHL Capital Management; Phillip Rich, Seaside Bank and Derek Grimm, Merrill Lynch. We also learned a great deal from our analysts' visit to Tupperware, hosted by Teresa Burchfield.

This portfolio was endowed by SunTrust to provide scholarships for future Crummer students and to give current students a practical, hands-on learning opportunity. This year we are pleased to be able to provide \$30,000 in scholarships. We also agree that we have all learned a great deal from the experience and responsibility of managing real money.

This portfolio trades only once a year, in late April, presenting some unusual portfolio management challenges. Our first challenge is to establish a portfolio position that takes advantage of economic opportunities while avoiding unnecessary risk and conforming to the Crummer SunTrust Investment Policy Statement (IPS). We are also tasked by the IPS to operate at two levels simultaneously— tactical for the near-term and strategic for the long run.

Our tactical approach began with a top-down sector analysis. We established an economic forecast based on research and consultation with economists, including Professor Bill SeyFried of the Crummer School. That forecast then drove our allocation among the ten S&P sectors: Consumer Discretionary, Consumer Staples, Health Care, Telecommunications, Utilities, Materials, Technology, Financial and Energy. This year we have forecast a continued slow economic recovery and tilted the allocation towards market sectors that do well in a recovering economy.

Our long-run strategy is embodied in the asset class allocation. The IPS sets asset class ranges to moderate risk and to keep the portfolio from being whipsawed by transitory market cycles (refer to page 113 for the full IPS). We are in the middle of the large cap value and growth ranges, towards the low side on small cap growth and the high side of small cap value and international. More detail about our ranges and allocation starts on page 12. A major part of our asset allocation decision is the percentage to allocate to bonds. This year we are at the low end of the range. These allocations are modestly risk on, consistent with our view that the stock market has upside potential and bond prices are near a cyclical peak.

Last year's student analysis positioned the portfolio to take advantage of a market rally that went to sleep after the first quarter and did not wake up until the first quarter of this year. Despite the markets nap, their stock selections did well. This year we again are optimistic about the economy and the markets.

We look forward to sharing the results of our analysis with you in person.

Crummer Investment Management Team

Consumer Discretionary Sector Analyst:	Soumya Terala
Consumer Staples Sector Analyst:	Team
Energy Sector Analyst:	Peter Harvey
Financial Sector Analyst:	Peter Harvey
Fixed Income Analyst:	Kevin Mayo
Healthcare Sector Analyst:	Bhawna Talwar
Industrial Sector Analyst:	Pankaj Patil
Technology Sector Analyst:	Chris Enger
Materials Sector Analyst:	Kevin Mayo
Telecommunications Sector Analyst:	Pankaj Patil
Utilities Sector Analyst:	Bhawna Talwar

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Executive Summary

Our Flight Plan for following the Recovery's Course

Pilots know the saying: “There are bold pilots and old pilots but there are no old, bold pilots.” We take seriously our responsibility to provide scholarships for future generations of Crummer students. Accordingly, while bold investment moves are tempting, we have taken a conservative approach. We believe that the U.S. economy will continue growing modestly through 2013 and pick up speed in 2014. We have positioned the portfolio to take advantage of a slowly growing economy by slightly overweighting the consumer discretionary, energy, industrials, technology, and health care sectors as these have traditionally benefitted from recoveries. Accordingly, the consumer durables, financials, materials, telecommunications, and utilities sectors were underweighted. Although the future is unusually cloudy, we reached this conclusion based on expected economic growth rates, favorable market P/E ratios and continued low interest rates.

We agree with the IMF's forecast for a slow U.S. recovery with modest growth around 2% for 2013 and 2.7% for 2014. The majority of this growth can be attributed to improving economic indicators including steady job growth, increasing construction spending, expanding consumer credit, and rising housing prices. While direct cause and effect between economic growth and the capital market is often hard to see, we believe determined expansionary monetary policy will continue to help the market. Our second reason to be optimistic is favorable forward market P/E ratios. According to FactSet, the current 12-month forward P/E ratio is 13.4, below its historic average of 16.¹ Returning to average P/E ratios would put the market at 1800. Finally, we expect the Fed to keep its promise to control interest rates until the jobless rate recovers—using our forecast growth rates that probably will not happen until 2014 at the earliest. While interest rates remain low, banks appear more willing to lend. According to data from the St. Louis Fed, businesses and consumers increased borrowing in 2012, suggesting available credit should sustain economic expansion. Although we are optimistic, the portfolio is only slightly tilted towards recovery because we recognize any of a number of issues could put a drag on the U.S. recovery.

Although there may be optimistic indicators, some underlying issues generate concern for the market. The U.S. government's inability to curb spending and pass meaningful fiscal reforms will continue to drive investor uncertainty. Recent payroll tax hikes may have also put a damper on consumer sentiment and consumer spending is likely to remain cautious. Rising tax rates on dividends and capital gains are making equity returns harder to come by as well. The U.S. unemployment rate continues to hover around 8%, which is better than Eurozone unemployment of 11.7% but cold comfort as unemployment not only hurts those out of work but also makes businesses and households more cautious. Eurozone tensions continue to smolder. The 2013 rally has pushed stocks towards fair value, making it harder to find opportunities in the market. However, when analyzing the arguments from each side, it appears that the United States may be moving in the right direction.

¹ This P/E ratio is based on the S&P 500 index at 1500 and FactSet's forward aggregate 12-month EPS estimate for the index stocks of \$112.77.

What about that rally? The S&P 500 was up 6% in January, 0.3% in February and 3.3% in March finishing 10% higher on April 1st than where it started on January 1st. At this rate the market would be up 47% for the calendar year. Add dividends and the increase would beat April 1933 for the best since 1926. While we expect the market to cool and a correction sometime this year, we do expect the market to sustain its upward trend.

Global markets have only been able to watch in envy as the United States stock market, despite economic uncertainties, continues to rally. Many economists and financial professionals are crediting this recovery to the Fed, which continues to hold interest rates near zero at the short end and near 3% at the long end. With global monetary policy producing negative real rates and the continuance of quantitative easing in the U.S., many global investors are being forced into equities. Moreover, this rally has legs. According to the Investment Company Institute, U.S. stock mutual funds have received almost \$20 billion so far this year. However, this amount is only 3.5% of the withdrawals since 2007, suggesting that there is an abundance of potential inflows waiting on the sidelines.

Corporations are also a source of strength for the market. The cash sitting on corporate balance sheets earning nothing is looking more like a liability than an asset. As shareholders and institutional investors continue to voice their concern, we believe companies will start investing in new capital projects. Some of that cash will also show up as increased M&A activity that will, if nothing else, help capital market returns. Profit margins are healthy with a 5.2% gain for the S&P last year and a projected 9.8% for 2013. We believe our overall analysis and weighting structure positions the portfolio to take advantage of the recovering economy.

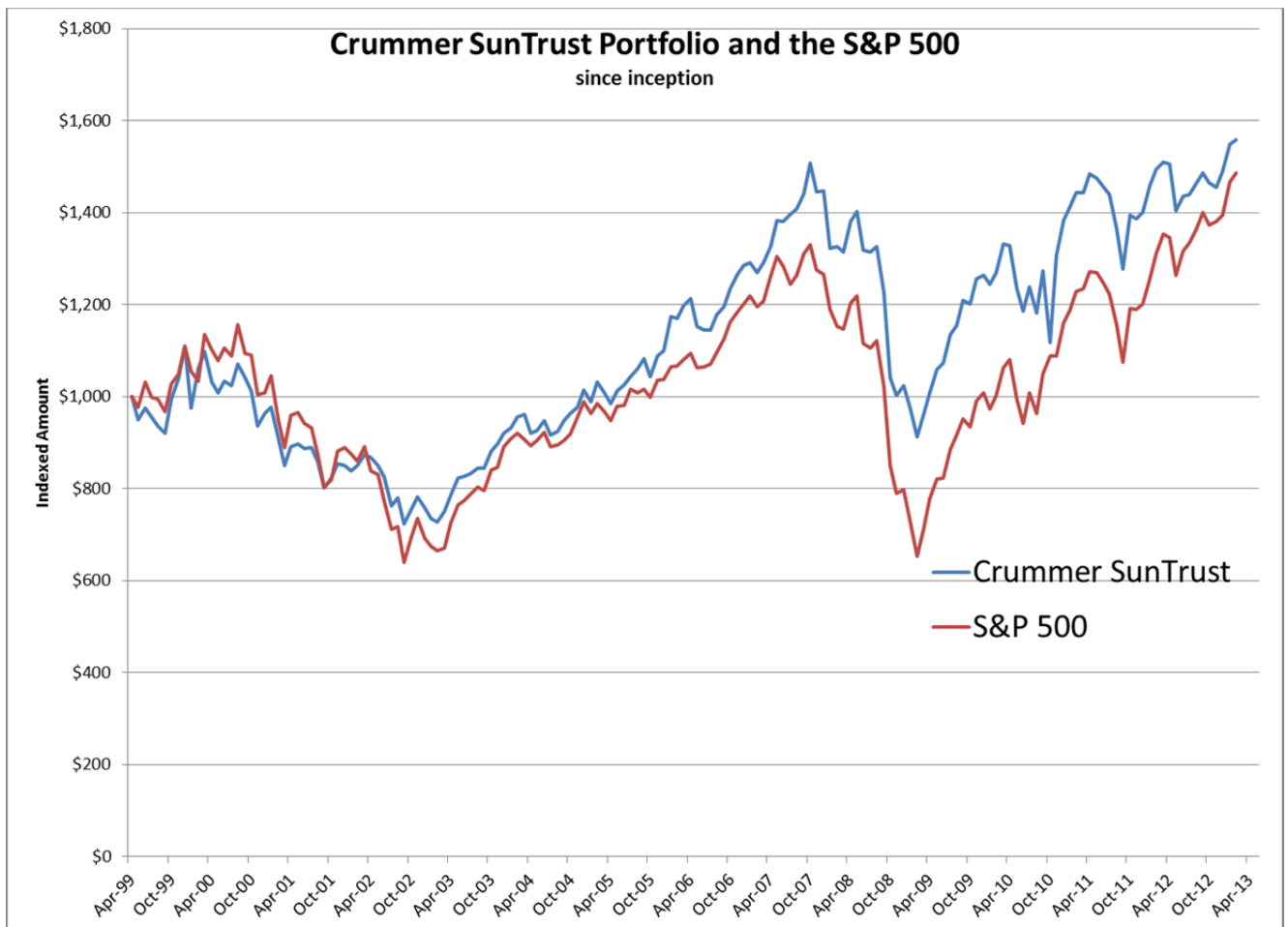
Tilting the portfolio in the right direction is only part of our investment process. Our analysis looked for companies we believe are undervalued based on our qualitative analysis and quantitative discounted cash flow, free cash flow, and price-to-earnings models. ADR's provide the portfolio international exposure and allow the fund to benefit from higher GDP growth rates in countries outside the Eurozone. In our international selections, we avoided currencies that appear to be overvalued. We looked at technical indicators to fine tune our selections. To fund the scholarship distribution and provide real return, we have invested in a global bond fund that invests in mid to low quality bonds. We expect inflation and interest rates to remain low, but protection has been built into the portfolio to hedge against unexpected inflation and interest rate increases.

The future is like flying in the clouds—you cannot see what lies ahead. Like experienced pilots, however, we have checked the weather and plotted our course. Our portfolio design and security selection are consistent with our economic forecast. We believe the continuing recovery, a return to an average market P/E ratio and low interest rates are strong enough to overcome adversity and help the Crummer SunTrust portfolio succeed.

Performance of the Crummer SunTrust Portfolio

Since Inception

The Crummer SunTrust portfolio invested the first \$100,000 SunTrust contribution in April 1999. Subsequent contributions brought the total invested to \$500,000. Since inception, the portfolio has generated over \$125,000 in scholarships. As the chart shows, the performance lagged the S&P 500 index until early 2002. Since then the portfolio has had a higher return with less volatility than the index. By the end of February 2013, the portfolio's since-inception annual return was 11.27% (with a standard deviation of 14.68%) versus the S&P 500 index's return of 10.75% (with a standard deviation of 15.81%) over the same period. This risk-return comparison is all the more noteworthy because the portfolio has held varying amount of bonds over time.



2012 – 2013 Plan Year Performance Highlights

The recommendations for the portfolio for the ten months ended February 2013 resulted in a 4.25% return while the S&P 500 index returned 12.77% for the same period. Most of their recommendations helped the portfolio while a few positions showed a net loss.

Buy Recommendations

Analyzing the individual buy trades executed last April, the thirty-two buy recommendations resulted in a net gain of \$31,855. The best purchase was Grupo Aeroportuario del Sureste (ADR) which gained \$18,616. The biggest loser was ITT Educational Services, Inc., down \$8,766.

Sell Recommendations

The sell recommendations were not timely. The thirty-two positions they sold would have gained \$48,287 for the portfolio as winners outpaced losers in this group. On the plus side of avoiding losses, the portfolio sold its position in Clean Energy, sidestepping a loss of \$2,712. On the other hand, the portfolio missed a gain of \$5,349 by selling Chicago Bridge and Iron, which went from \$12.62 to \$19.95.

Hold Recommendations

Each portfolio position is analyzed to make a buy, sell, or hold recommendation. The fifteen hold recommendations showed a modest gain of \$3,743 for the plan year. Intel and Abercrombie & Fitch were among the biggest losers while Goldman Sachs and American Tower were among the biggest gainers.

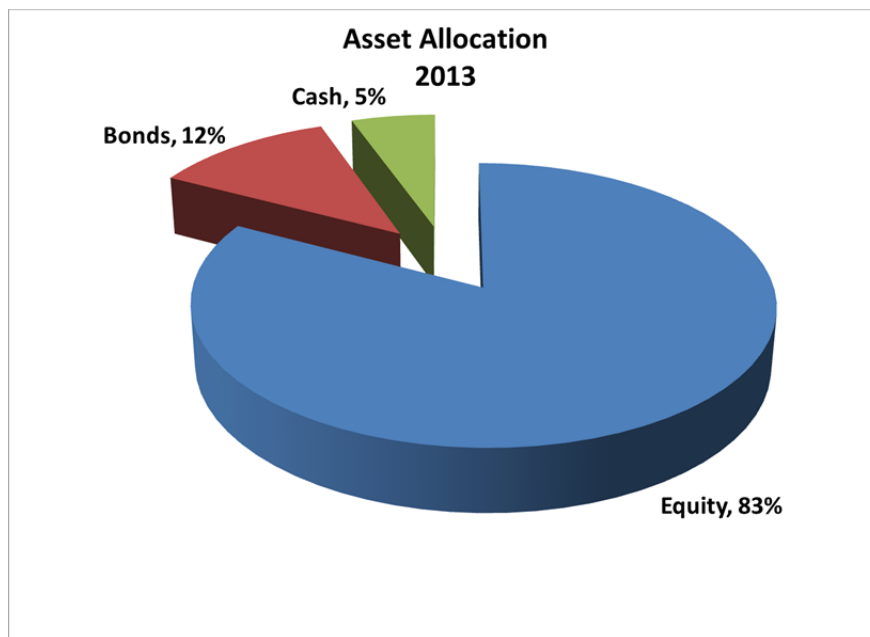
Bonds and Cash

The portfolio began the plan year (April 2012) with 5.7% allocated cash (to fund scholarships), 81.5% to equity, and 12.7% to bonds (Vanguard's Total Bond Market Fund). The bond investment yielded 2.4% over the plan year. As of April 1, 2013, the portfolio still held 5.5% in cash replenished after a \$27,000 contribution to scholarships by dividends and interest income, 12.1% allocated to fixed income, and 82.5% allocated to equities.

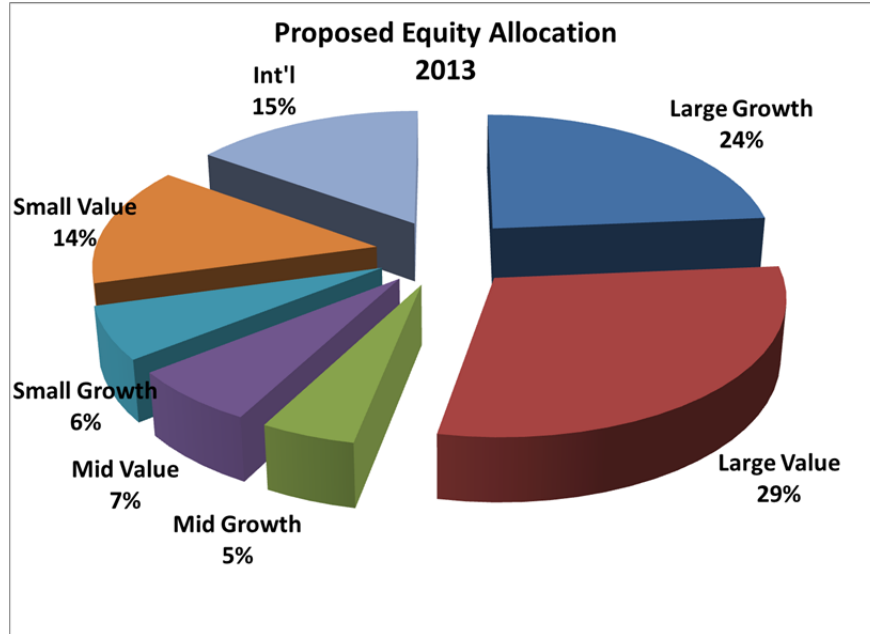
Portfolio Design

The Crummer SunTrust portfolio's investment policy guidelines provide a wide range of alternatives for tactical and strategic allocation decisions (refer to page 113 for a copy of the IPS). Strategically, we allocated among asset classes to reflect our economic outlook for a modest recovery in the near-term and a return to more normal markets in the long-term. To choose the most desirable allocation the management team looked at the past performance and volatility of each asset class. The asset class benchmarks and their target range are provided by the IPS as constraints to make the asset class allocation suitable for the portfolio's long-term strategy. After designing the portfolio, we conducted a mean-variance optimization to compare our recommendation to an optimal portfolio (the portfolio with the smallest risk for a desired level of expected return). Our portfolio, while not mathematically optimal, is reasonably mean-variance efficient (refer to page 118 for more discussion of mean-variance optimization).

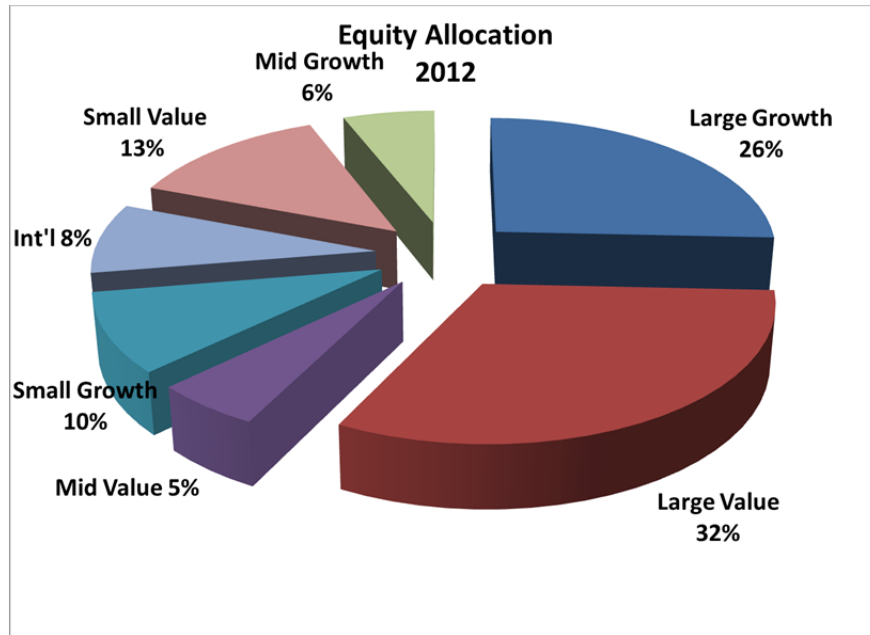
The charts included in this section show the proposed strategic allocation compared to last year's portfolio. Our asset allocation recommendation for 2013 is 83% equity, 12% bonds and 5% cash:



The proposed equity allocation is tilted towards value with 50% in value, 35% growth and 15% international. The size breakdown is 53% large, 11% mid, 21% small and 15% international. For stocks that are classified as core, we allocate their market value equally to value and growth.



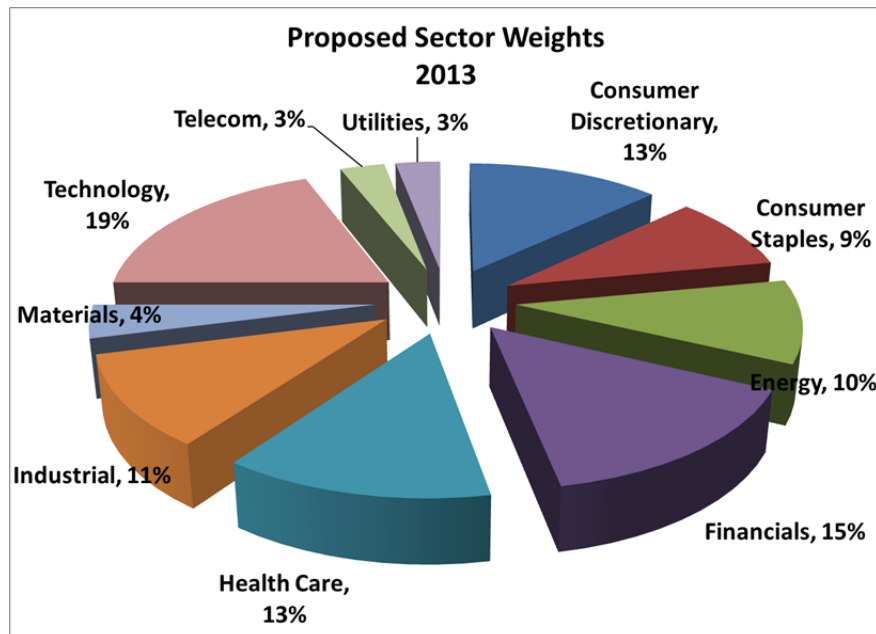
The proposed equity allocation differs from 2012 with more international, less large and fewer value stocks.



The table repeats the proposed asset class allocation and shows the ranges from the IPS. The portfolio is at the high end of the IPS ranges in large and small cap value and towards the lower end of the ranges for mid and small cap growth. Large cap growth and mid cap value are near the middle of their ranges. We believe our proposal reflects with our optimistic market forecast and is consistent the specifications of the IPS.

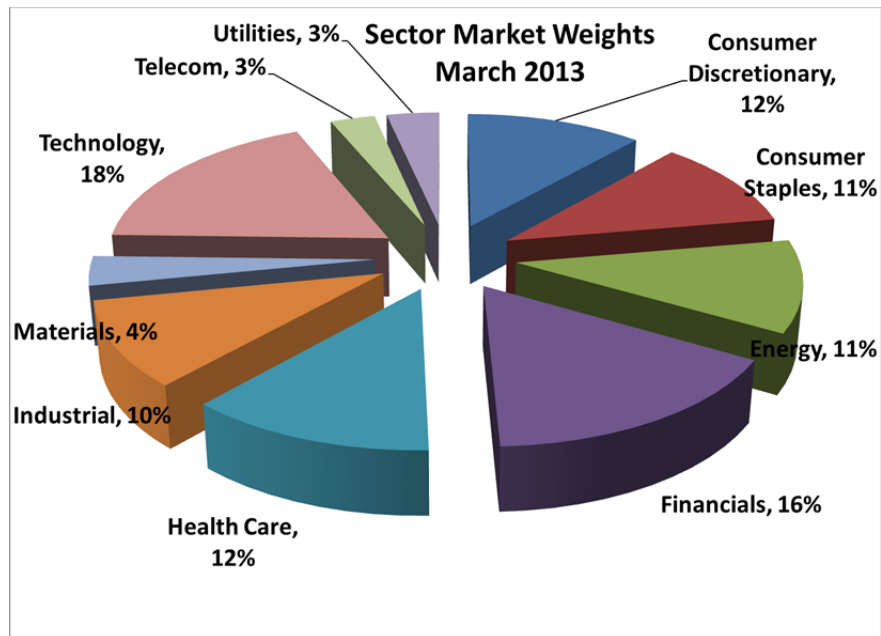
Asset Class	Proposed Market Weight	IPS Target Range
Large Cap - Growth	24%	10-30%
Large Cap – Value	29%	10-30%
Mid Cap – Growth	5%	5-10%
Mid Cap – Value	7%	5-10%
Small Cap - Growth	6%	5-15%
Small Cap – Value	14%	5-15%
International Equity	15%	5-15%
Fixed Income	12%	12-18%
Cash	5%	As needed

Our tactical sector allocation is slightly over weighted in pro-cyclical sectors like consumer discretionary and industrials as shown below:



For contrast, the market weights as of the end of March 2013 were:

Crummer Investment Management



The table shows how the sector allocations compare to market weights as of the end of March 2013.

Sector	Proposed	Market	Tilt
Consumer Discretionary	13%	12%	1%
Consumer Staples	9%	11%	-2%
Energy	10%	11%	-1%
Financials	15%	16%	-1%
Health Care	13%	12%	1%
Industrial	11%	10%	1%
Materials	4%	4%	0%
Technology	19%	18%	1%
Telecom	3%	3%	0%
Utilities	3%	3%	0%

Our intention was to design a portfolio that over-weighted cyclical sectors, consistent with our view of a recovering economy, increasing stock market and flat or declining bond market. This portfolio is well positioned to take advantage of our forecasts.

Sector Analysis

Consumer Discretionary

Outperformance during 2012

In 2012, consumer discretionary index rose 21.9%, versus a 13.4% gain for S&P 500. There are 32 sub-industry indices in this sector, with Movies & Entertainment being the largest at 14.4% of the sector's market value. This sector is most sensitive to economic cycles. The outperformance was mainly due to the rising consumer confidence index, increased consumer spending, and strategic initiatives taken by many leading companies in this sector.

A majority of stocks in 2012 portfolio consisted of dividend paying stocks, which offset the decrease in stock price. However, some of the companies' ability to pay consistent dividends is questionable. Our major gains were also because of increased distribution of wealth to stockholders in the form of repurchasing shares and using cash flows towards capital expenditure for operational expansion. Walt Disney Company has provided us with major price gains of 29% while Staples, Inc. was the worst performer with price depreciation of 15% since the last year.

Positioned for positive economic outlook

According to IBIS World Business Environment Reports, National Unemployment Rate will decline at a -2.1% compounded annual growth rate (CAGR) from 2012 to 2017. This explains the 2% CAGR growth in Per Capita Disposable Income of US consumers. The reports also project 2.7% CAGR growth in consumer spending with the rising consumer sentiment at 4.9% spurring the economic activity in the country. All these economic factors are keys to success of the consumer discretionary sector performance.

However, as the sub-industry portfolio of this sector is very diverse, the individual performance of each of those sub-industries is vital in determining success factors. Therefore, we need to consider individual company's management strategic moves in our analysis of the company's stock performance. Most of the leading companies in this sector have made substantial effort to position themselves for long-term economic growth rate by making changes to their senior management and focusing on unique expansion and brand management strategies.

Considering the economy is going to recover and grow at a slow and steady pace, we recommend over weighting consumer discretionary sector due to its market sensitivity and consistent market outperformance. We have selected those stocks that we believe are highly undervalued in the market and are strongly positioned for long-term strategic growth to realize their potential value. We considered consistent historical performance of the company, style consistency and distribution of earnings to shareholders as some of the important criteria in selecting our stocks in this sector.

Abercrombie & Fitch Co. ANF

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$62.71	\$46.38	3/25/2013	Mid Core	1.57%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Abercrombie operates as a specialty retailer of casual apparel for men, women and children, which include Hollister and Gilly Hicks, less well-known subsidiaries that operate as a lingerie company and retailer of women’s at-home products respectively.

Fundamental Analysis

With the rising consumer confidence, apparel industry has a positive economic outlook, especially the specialty retailers. According to S&P Capital IQ, the apparel industry sales are expected to grow at a modest 3% to 4%. Abercrombie is one of the top specialty retailers in the US although its other brands are struggling to stay top due to high competition and poor economic conditions, especially in the European markets. The company’s management has positive outlook towards earnings in 2013. Abercrombie has been going lean by paring out on its international presence due to European market crisis.

This can add on to operational efficiency and increased earnings. The firm is focusing on distributing increased earnings to its shareholders through share repurchase programs.

Financial Statement Analysis

Abercrombie & Fitch has seen revenue growth of over 8% and 19% for 2012 and 2011 respectively. The company reported net income of \$263.2 million in 2012 versus \$127.7 million in 2011. Operating efficiency has improved tremendously in 2012, almost by 100%. This huge jump although looks great on financial statements, it sets higher and difficult targets for the company’s future performance. The fact that growth is not occurring at the cost of margins makes the company willing and able to continue to pay its financial obligations and fund its intended expansions. The company has been spending huge amounts on share repurchases and has plans to continue it resulting in increased earnings per share. The company recently announced \$0.20 quarterly dividend compared to \$0.175 in previous quarters.

The company also announced its change in method of accounting from retail method to cost method. According to this method, the net income for 2012 is at \$237 million versus \$143.9 million in 2011.

Conclusion & Recommendation

Through a dividend discount model, forecasting the next 5 years of growth of 4% and 2.5% over the long term, the company is undervalued therefore hold the stock to realize the potential increase in the value of the stock.

The positive industry outlook, the company’s plans to repurchase shares resulting in increased effective dividend, increasing consumer spending on specialty retailers, improved operational efficiency signal the continued better performance of the company.

Einstein Noah Restaurant Group, Inc. BAGL

Recommendation Sell	Valuation \$16.09	Last Price \$14.83	As of 3/31/2013	Style Small Value	Dividend Yield 3.37%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Einstein Noah Restaurant Group, Inc., operates restaurants. The Company operates under the Einstein Bros., Noah's New York Bagels and Manhattan Bagel Company brands. It belongs to fast-casual dining segment.

Fundamental Analysis

According to IBIS World Healthy Eating Index Report published in November 2012, the healthiness of Americans' diets have decreased steadily since they peaked in the late 1990s and are projected to decrease further until 2018. Einstein Noah Restaurant Group typically caters to healthy food options versus the less healthy fast food. Therefore, the industry trends do not provide any rosy outlook for the company.

The restaurant industry's performance is dependent highly on the economy growth rates and consumer spending patterns. With a slower growth in consumer spending with the economic recovery, the industry is projected to have a slower growth rate.

Financial Statement Analysis

The company had a stable performance in 2012 compared to 2011. Revenue went up from \$424 million in 2011 to \$427 million in 2012. Net income remained in 2012 was \$12.7 million while in 2011 it was \$13.2 million. However, the earnings per share reduced to \$0.74 in 2012 from \$0.78 in 2011. The company's cash flows position improved slightly. Overall, the company is projected to have slow or no growth in the short term.

The industry does not look promising and the declining healthy eating index poses challenges for the company in future. In addition, the poor financial performance and strategic moves by the management do not guarantee the firm's sustainable growth. The company started paying dividends only in 2011. It also declared a special dividend in 2012 by taking on additional debt, which does not seem to be a sound move. The recent news about the company does not speak of any major strategic initiatives that the company would take to position itself for long-term growth.

Conclusion & Recommendation

Through a discounted cash flow method forecasting the next 5 years of growth from 2% to 5%, fading down to 1.5% to 2.5% over the long term correlated with consumer confidence rises, the company is slightly undervalued in market or realized its potential. Therefore, we recommend a short position on the stock.

Clear Channel Outdoor Holdings, Inc. CCO

Recommendation Sell	Valuation \$4.64	Last Price \$7.49	As of 3/30/2013	Style Small Value	Dividend Yield N/A
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Clear Channel Outdoor Holdings, Inc. is one of the world’s largest outdoor advertising companies. It has displays in Asia, Australia, Europe, Latin America and Americas. It offers wide range of displays, which include traditional and digital formats on roadside billboards, street furniture and retail, point of sale, airport, and transit and lifestyle environments.

Fundamental Analysis

ZenithOptimedia’s December 2011 forecast report projects the outdoor media to maintain 6.8% share of the global advertising sales until 2014. The report projects a slow or stable performance of the industry. The projected growth in ad spending for outdoor media was 5.2%.

The company named Suzanne Grimes, the President and COO of CCOA (Clear Channel Outdoor Holdings Americas) as a move towards transforming the company into a leading global advertising business. The company plans to invest in new digital technology to provide advertisers with unique opportunities to cut through the saturated media environment.

The industry presents a highly competitive environment with billboard advertising becoming a commoditized product. Lack of innovation in product puts most of the money into the hands of major players in the industry that can reap the economies of scale. CC Media, a privately held parent company owns 89% of CCO. CC Media’s extremely high debt levels forms another major concern for CCO investors as it passes on the debt burden to 11% shareholders of CCO.

Financial Statement Analysis

Clear Channel Outdoor Holdings exhibit extremely volatile earnings. The company had poor financial performance in the year 2012. The company’s net sales went down by 1.9% from December 2011 to December 2012. The company had negative \$183 million earnings during 2012. The company’s available free cash flows went down from \$226 million in 2011 to \$74 million in 2012.

Although, the future move into digital technology and industry’s slow and stable growth presents a positive outlook for the company’s stock, high volatile performance of the company downgrades the stock value.

Conclusion & Recommendation

As the company does not pay dividends, we used the discounted cash flows model to arrive at the intrinsic value of the company. The model concludes that the stock is currently overvalued in the market and therefore we recommend selling the stock.

The company’s stock style is also inconsistent due to its volatile conditions. It moves between Small Core and Small Value. The company’s poor performance in the past, high volatile earnings, increased debt burden, and low competitive advantage further convince us to use this money elsewhere.

The Walt Disney Company DIS

Recommendation BUY	Valuation \$62.66	Last Price \$56.78	As of 3/24/2013	Style Large Core	Dividend Yield 1.32%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Disney operates a worldwide entertainment company. According to its annual report, Disney’s operates in five business segments including Media Networks, Parks and Resorts, Studio Entertainment, Consumer Products and Interactive.

Fundamental Analysis

Disney is under the strong leadership of CEO Robert Iger who is continuously looking to make business changes those keep the company proactive in the technological shift of the media industry. Recent developments include re-election of all the Board of Directors by the shareholders translating into a great management team, unveiled the first model image of Shanghai Disney Resort which is set to open its gates in 2015, acquired Lucasfilm Ltd. and STARWARS franchise, and announced Disney Springs at Walt Disney Resort.

ESPN in partnership with Full Sail University unveiled new state-of-the-art Sports Lab to develop new technology enhancements including virtual applications, and to provide students the mentoring opportunity by ESPN’s Emerging Technology team to gain real-world experience. This is a sign of company’s investment in technological advancements and future generations.

Financial Statement Analysis

Disney had an exciting 2012 with record performance, as well as innovation and creativity. Revenue increased by 3% from last year, while their net income went up by 18%. This is a clear result of operational efficiency, which has been improving year over year. The diluted earnings per share increased 24% to \$3.13 per share to a record high. A quick look at the company’s free cash flows reveals the company’s distributions are sustainable and should see further growth within the next few reporting periods. The cash flows generated from operating activities has been going up since past three year. The annual cash dividend increased by 25%, to \$0.75 per share by the Board in the most recent Annual General Meeting. The company also offers Dividend Re-investment Plan.

Conclusion & Recommendation

Through a dividend discount model, forecasting the next 15 years growth moving from 15% to 2.5% over the long term, the company is undervalued and the position should be held and increase the stake for at least another year to realize the potential value of the stock.

The rising consumer confidence index, technological advances and strategic acquisitions by the company are keys to success in the following year. The continuing superior performance of the management and the shareholder confidence in them is a strong signal for Disney’s continued excellence.

Ford Motor Company F

Recommendation Sell	Valuation \$14.75	Last Price \$13.15	As of 03/31/2013	Style Large Value	Dividend Yield 1.90%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Ford Motor Co. is the second largest U.S. motor vehicle manufacturer. It produces cars and trucks, and many of the vehicles' plastic, glass and electronic components, and replacement parts. It also has a Financial Services segment, which provides automotive financing and insurance.

Fundamental Analysis

The US Automotive Industry outlook looks good. The demand for motor vehicles is increasing due to the aging vehicles in US. However, the demand for cars is reducing in Europe due to the poor economic conditions. Ford is still struggling to obtain back its market share in the US, which it lost due to the increased consumer confidence in Japanese and European vehicles. It is a highly competitive industry and the poor economic conditions make the environment more challenging for the company.

As the company is the second largest US motor vehicle manufacturer, we expect it to take full advantage of the increase in future demand. The company is also working on producing vehicles more efficiently. For example, it has reduced water consumption by 8.5% in 2012 from 2011 and 60% overall since 2000.

Financial Statement Analysis

Despite cost savings, the company's financials reflect the challenges Ford faces. Sales have declined by \$2 billion in 2012 compared to 2011. There is a huge decline in net income to \$5.6 billion in 2012 compared to \$20.2 billion in 2011. Cash flows have also been reduced.

Conclusion & Recommendation

Through a discounted cash flow method forecasting the next 5 years of growth from 7% to 9.5%, fading away to 2.5% over the long term, the company is slightly undervalued in the market. We recommend selling the stock as it has realized its potential value in the market, or there is not much gap between the current market value and the intrinsic value of the stock.

The company had a poor financial performance in 2012 followed by an outstanding fiscal 2011. This conveys high volatility in earnings of the company, which would be reflected in the stock price with high beta. With current market value close to its intrinsic value, and keeping in mind our one-time trading policy, we recommend selling the stock.

Foot Locker, Inc. FL

Recommendation BUY	Valuation \$45.02	Last Price \$33.79	As of 3/26/2013	Style Mid Core	Dividend Yield 2.10%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

According to the Annual Report of the company, Foot Locker, Inc. is a leading global retailer of athletically inspired shoes and apparel. Headquartered in New York City, the Company operates 3,369 athletic retail stores in 23 countries in North America, Europe, Australia, and New Zealand under the brand names Foot Locker, Lady Foot Locker, Kids Foot Locker, Footaction, Champs Sports, and CCS.

Fundamental Analysis

Foot Locker, Inc. has received enthusiastic reviews from analysts for their leadership. Richard Johnson is responsible for all of the company's store operations. The direct-to-consumer business reports to Ken Hicks, the President and CEO, and Robert McHugh has responsibility for operational support.

The company also updated its strategic plan and elevated long-term financial objectives during 2012. This may be the result of outperformance in the industry during the last two years.

The competitive environment in this industry is tough, which makes the company's success all the more noteworthy. After a slight dip in 2009, the company rebounded with the economic recovery. The company's management expects their sales growth and EBITDA to improve as the economic rebound continues.

Financial Statement Analysis

In 2012, Foot Locker, Inc. reported net income of \$397 million or \$2.58 per share. Total sales increased 9.9% to \$6,182 million compared to \$5,623 in last year. The operating margin increased by more than 40% in the last two years, which is a sign of improved productivity performance.

The company's capital allocation plans include 11% increase in quarterly dividend to \$0.20 per share, authorization of new \$600 million share repurchases program and capital expenditure program of \$200 million to invest in business expansion and profitable investment opportunities to return greater wealth to the company's shareholders. The company also offers Dividend Reinvestment Plans to ensure that the shareholder's wealth is continuously generating income.

Conclusion & Recommendation

The discounted free cash flows model using the next 5 years expected growth rates ranging from 10% to 15% translating to 2.5% in the long-run growth conveyed that currently, the stock is highly undervalued in the market.

The strong strategic plans and financial objectives targeted by the company, the operational efficiency and productivity improvements, the economies of scale of operations and growing consumer confidence further supports our recommendation. Additionally our P/E model confirms that the stock is undervalued.

Gap Inc. GPS

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$40.82	\$35.08	03/26/2013	Large Growth	1.41%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

According to its Annual Report, Gap Inc. is a leading global apparel retail company. They offer apparel, accessories, and personal care products for men, women, children, and babies under the Gap, Old Navy, Banana Republic, Piperlime, Athleta, and Intermix brands.

Fundamental Analysis

Gap Inc. has been expanding not only geographically, but also in its product lines through acquisitions and market presence. The company's Old Navy brand started its international expansion with entry into Japanese markets. The company has also introduced e-commerce in Japanese markets for its brands Gap and Banana Republic. During 2012, Gap Inc. has opened Gap stores in Brazil, China and Mexico markets. All these convey a strong expansion strategy for Gap Inc.

Piperlime, Gap Inc's online store brand opened its first store in New York in 2012. The company created global brand management structure to drive company's long-term growth through establishing innovation and digital strategy group. It has appointed Rebekka Bay as Creative Director and Head of Global Design for Gap brand during 2012 who brings global experience to help build upon brand's long-term growth opportunities. Gap Inc. acquired Intermix in 2012. This deal creates additional opportunity for Gap Inc. to compete in global luxury apparel market.

Financial Statement Analysis

Gap Inc. announces its plans to increase dividend by 20 percent for 2013. The company reported fourth quarter earnings per share increase of 66%. The net sales in the year 2012 grew by more than \$1 billion to \$15.7 billion. The company also authorized a new \$1 billion share repurchase program as the previous \$1 billion program ended successfully. This results in greater distribution of earnings to the shareholders.

The Dividend Discount Model, using growth forecasts from Valueline of 11%, fading away to 2.5% in long term convey that the company's stock is undervalued in the market. The free cash flows model further confirms the recommendation.

Conclusion & Recommendation

We recommend buying Gap Inc. due to its superior performance during the last year, its global expansion strategy; its strategic acquisition of Intermix, its proactive marketing strategies and increased distribution of wealth to shareholders through share repurchase programs. The P/E model further supports the conclusion that the company's stock is undervalued in the market.

GameStop, Corp. GME

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$69.26	\$26.36	3/26/2013	Mid Value	3.31%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

GameStop Corp. is the world's largest multichannel video game retailer. They sell new and used video game hardware, physical and digital video game software, accessories, as well as PC entertainment software and other merchandise primarily under the names GameStop, EB Games and Micromania.

Fundamental Analysis

The video game industry is anticipating a strong finish to 2013 with the release of Grand Theft Auto V and the launch of at least one next generation console by holiday. Ahead of these events, GameStop expects the first half of the year to be challenging as consumers postpone purchases leading up to the fourth quarter console launch. Paul Raines, chief executive officer, stated, "While 2012 was a challenging year for console gaming, we focused on factors within our control. We expanded our market leadership position, maintained our financial strength and controlled our spending. Perhaps most importantly, we invested in our mobile and digital businesses to position the company for future success. These channels delivered as planned and significantly contributed to our highest ever gross margin and profitability."

Therefore, the company although has a tough year in 2012, the expected release of next generation of consoles at the end of 2013 provides an optimistic overview for the stock price. The release would also be right in time for our next trading.

Financial Statement Analysis

During fiscal year 2012, total global sales were \$8.89 billion, a 7.0% decrease compared to \$9.55 billion in fiscal 2011. Digital receipts and mobile sales were the main reason for a 21.2% increase in the other category. New hardware, new software and pre-owned sales each declined year-over-year primarily due to the effect of the longevity of the current console cycle.

During fiscal 2012, GameStop generated \$632.4 million in operating cash flow and spent \$151.2 million in capital expenditures and other investments generating free cash flow of \$481.2 million. In February 2012, the company started paying out dividends. The company has existing \$400 million share repurchase authorization. The company also announced 10% increase in its annual dividend.

Conclusion & Recommendation

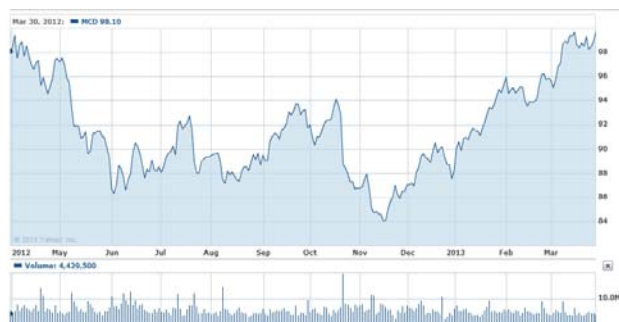
As the company does not have a sufficient dividend paying history, we used discounted cash flows model to arrive at the stock's intrinsic value. We recommend buying the stock as the company's stock is highly undervalued in the market with a conservative short-term growth projections of 7.5% fading into 2.5% in the long term.

Despite the poor performance during 2012, the management did a good job of managing the expenses and focusing on expansion of digital divisions, which partially offset the reduced sales due to the longevity of the existing game consoles. And, expected market releases and greater distribution of cash flows to shareholders create optimistic vibes for the stock of the company.

McDonald's Corporation MCD

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Reduce	\$167.19	\$96.97	3/26/2013	Large Core	2.95%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

McDonald's operates as a worldwide foodservice retailer. It franchises and operates McDonald's restaurants that offer various food items, soft drinks, coffee, and other beverages.

Fundamental Analysis

Outlook for restaurant industry is neutral. The healthy index eating is trending downwards, thereby increasing demand for fast food industry. Although, McDonald's has adopted its menu to accommodate healthy eating consumers and wide variety of coffee beverages, the demand for daily products and fat products are expected to increase according to a IBIS World report. This resulted in increased sales for the company.

The company had strong sales growth in international markets. The management has displayed a superior performance in strategic expansion of product lines and business itself. The consumer spending is expected to grow in next five year at 4.9% according to an IBIS world report.

The company is a market leader in the industry and reaps economies of scale by having second largest number of franchises all over the world after Starbucks. It also improved their operational performance by aligning their services.

Financial Statement Analysis

McDonald's revenue has increased about 2% in 2012 from 2011. However, its cost of goods sold increased at 11.74%, reducing the operating margin and EBITDA. Although operating margin displayed a little above 0.8% increase in 2012 the net income of the company decreased by 0.7%. The overall earnings per share increased to \$5.36 per share due to offset by share repurchases. The company's annual cash flows statement shows that there have been share repurchases continuously every year for the past decade. Additionally, the company's consumer and market sensitive adaptations of their menu during the past year convey that they can sustain their growth for few more years.

Conclusion & Recommendation

The management's proactive performance, the company's brand image, scale of operations, consistent superior performance, rising consumer confidence, increasing demand for fast food, strong marketing and pricing strategy are keys to its success. McDonald's enjoys an economic moat in the restaurant industry. Its resilience during economic challenges ensures its growth prospects in future.

Through a Dividend Discount Model, forecasting the next 5 years of growth from 8.5% fading away to 2.5% over the long term, the company seems to be highly undervalued in the market. Despite the attractive margin between price and value, we recommend reducing our position to better balance our holdings in this sector.

PetSmart Inc. PETM

Recommendation BUY	Valuation \$113.37	Last Price \$62.39	As of 3/26/2013	Style Mid Growth	Dividend Yield 1.02%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

PetSmart Inc. is the leading specialty provider of products, services and solutions for the lifetime needs of pets.

Fundamental Analysis

According to the American Pet Products Association, 62% of U.S. households own pets. Spending on pets has nearly doubled in the past decade, and the category has reported mid-single-digit growth despite a lackluster economic recovery. According to IBIS World Data, PetSmart represented nearly 40% of industry sales in 2011.

PetSmart Inc. is proactive in bring innovation and variety in its products according to the market preferences during a specific period. It identifies the craze that exists in market and tries to incorporate that image in its products. This can be seen from its partnership with Disney, Lyric culture and Toys 'R' Us in launching clothing and toys with respective characters and images.

The company also announced a planned management succession. Bob Moran is to be appointed as the Executive Chairman from June 2013, David K. Lenhardt as the CEO and Joseph O' Leary as the President and COO. All three of them have spent considerable amount of time

in senior leadership roles in the company and now they have re-structured the team to position for a strategic long-term growth.

PetSmart Inc. opened a new store in Pico Rivera and a new distribution center in Bethel, PA, which created 500 new jobs over next three years thereby stimulating the DC economy. This also speaks of their geographic expansion.

Financial Statement Analysis

PetSmart Inc.'s fourth quarter earnings have gone up by 36% to \$1.24 per share. The company's total sales went up by 15%. In 2012, the total company's sales went up by 11% and earnings increased by 39% to \$3.55 per share hinting a strong fiscal performance.

The company announced 18% increase in its quarterly dividend in April 2012 to \$0.165 per share. It also authorized a new \$525 million share repurchase program, which will expire in January 2014, substantially increasing shareholder distributions.

Conclusion & Recommendation

Through a dividend discount model, forecasting the next 5 years of growth from 10% to 13%, fading down to 2.5% over the long term, the company's stock is highly undervalued in the market. We recommend buying the stock as it has not yet realized its potential value in the stock.

Additionally, the stock repurchase program ensures increased distribution of wealth. PetSmart Inc. possesses the market leader position enjoying a narrow economic moat for itself in the niche market. The company's consistent growth over the past and bright future industry prospects further convinces that the company's stock is undervalued in the market. Further, the P/E model and the discounted cash flows models confirm our recommendation.

Scripps Networks Interactive SNI

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$74.93	\$64.05	3/26/2013	Mid Growth	0.79%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Scripps Networks Interactive operates in media industry. It exists as national television networks and internet based media channel. Its segments include lifestyle media and Interactive services. Their channels include Food Network, Home and Garden Television ("HGTV"), Travel Channel, DIY Network ("DIY"), Cooking Channel, Great American Country ("GAC") and the websites of these channels.

Fundamental Analysis

Scripps Networks Interactive completed the Travel Channel International (TCI) acquisition, an independent company based in United Kingdom that distributes the Travel Channel brand in 20 languages across Europe, Africa, the Middle East and Asia Pacific regions. This is a great boost toward their geographic expansion.

Solid candidates filled several leadership roles during 2012. Richelle Parham, CMO of eBay Marketplaces, North America was elected to the Board of Directors and Cynthia L. Gibson, a member of Senior Management team at SNI with more than 20 years of experience as a media attorney was named the new Chief Legal Officer.

Beth Lawrence from The Weather Channel is the new Head for Digital Ad Sales. The company appointed two Managing Directors for Latin America and Asia Pacific regions to lead international expansion strategy for the respective regions. Dennis Shuler who held leadership roles in Kellogg, Disney and P&G, is the new Head for Human Resources. The change in management structure seems to be a strategic move by the company for long-term growth planning.

Financial Statement Analysis

Scripps Networks Interactive Inc. saw reduced sales revenue in 2012 compared to 2011. However, the EBITDA increased 65% in 2012 from 2011. This increase is partly due to their increased operational efficiency. The earnings per share increased to \$4.44 per share in 2012 compared to \$2.49 per share in 2011. The free cash flows available in 2012 went down due to huge stock repurchases. However, overall, these buy backs resulted in increased shareholder distributions.

Conclusion & Recommendation

Through a discounted cash flow method, forecasting the next 5 years of growth from 13% fading down to 2.5% over the long term, the company is highly undervalued in the market.

The company announced a 25% increase in quarterly dividends in 2013. It also authorized a new \$1 billion share repurchase program in an effort to distribute increased wealth to its shareholders. The geographical expansion and rising intelligent television viewer demography supports future growth of the company.

Staples, Inc. SPLS

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Sell	\$19.39	\$13.42	3/31/2013	Mid Value	3.35%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Staples, Inc. is one of the world’s largest office products retailer. It provides services and expertise in office supplies, technology, furniture, copy and printing among others.

Fundamental Analysis

Staples, Inc. has consistently generated excess economic returns than most of its peers in the industry. Although it has underperforming international division, its domestic divisions display a superior performance. Due to the commoditized nature of the office products, the industry presents a highly competitive environment with no economic moat.

We expect declining industry trends because of structural headwinds in printing supplies and increasing competition from mass merchants and online retailers. The company’s recent news does not present any strategic moves to prepare for the long-term growth. Specialty retailers are seeing continued recovery, but the growth is likely to be modest.

Financial Statement Analysis

In 2012, the company sales decreased one percent to \$24.4 billion from \$24.7 billion in 2011. According to their fourth quarter earnings call, the company generated operating cash flows of \$1.2 billion and invested \$350 million in capital expenditures in 2012, resulting in free cash flow of \$870 million for the full year. The company utilized free cash flow to repurchase 35 million shares for \$449 million and returned \$294 million to shareholders through cash dividends in 2012.

Conclusion & Recommendation

Through a discounted cash flow method and forecasting the next 5 years of growth from 0 % to 2%, the company is slightly undervalued in the market. We recommend selling the stock owing to the one-time trading policy, as it is close to realizing its potential value.

Poor industry forecasts, high competitive environment, increased volatility in performance, and commoditized nature of products further confirms our decision to sell the stock.

Consumer Staples

Slow and Steady

Consumer Staples is a defensive sector--performing best during recessions but lagging during recoveries. Consequently, during the current recovery we do not expect Staples to outperform.

True to form this past year, the Consumer Staples index -- up almost 11% -- was outpaced by the broad market that was up 15% and Consumer Discretionary stocks that turned in a 22% increase. Companies that specialize in staples were not standing still, however.

Little help from developing markets

With volume in North America and Europe showing modest growth, many companies turned their attention to developing markets where demand is growing as consumers begin to have more disposable income. Companies that sell items like pre-packaged foods, beverages and paper goods are all moving to capture a part of this expanding market. A stronger dollar, however, has crimped results for companies with strong international exposures. The slowdown in China has also slowed results of many company's ambitious expansions.

Many Consumer Staples companies embarked on cost-savings campaigns during the Great Recession. Some of the larger companies that have announced ambitious plans are Coca-Cola Enterprises, Altria Group and Kimberly-Clark. Even the best of these plans, however, is unlikely to spark dramatic increase in profits, cash flows or stock prices.

A few bright spots

Despite the countercyclical nature of the Consumer Staples sector, some companies show promise. For example, Green Mountain Coffee benefitted from the success of the trendy Keurig coffee brewing machines. The company has increased its earnings guidance for 2013 and appears to be positioned for solid growth in the near-term.

Despite some promising examples, the Consumer Staples sector faces many challenges as the economic environment in the US improves ever so slowly. The Eurozone remains unstable and China is slowing. We have positioned Consumer Staples at 9% of the equity—slightly under its market weight of 11%.

Avon Products Inc AVP

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Sell	\$8.65	\$20.34	4/4/2013	Mid Core	2.86%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Avon Products Inc. is a global manufacturer and marketer of beauty and related products. Its product categories include Beauty, Fashion and Home. According to its annual report 2012, Beauty consists of color cosmetics, fragrances, skin care and personal care. Fashion consists of fashion jewelry, watches, apparel, footwear, accessories and children’s products. Home consists of gift and decorative products, housewares, entertainment and leisure products, children’s products and nutritional products.

Fundamental Analysis

The company had announced new initiative to improve its cost management. The company announced that it would be closing its distribution facilities in Atlanta and Pasadena in lieu of their cost savings initiative. The global actions seek to concentrate resources in high priority activities, boosting efficiencies and reducing costs.

However, due to the poor financial performance in the past and heavy debt burden, the turnaround strategy may take some time to have an impact. With the current competitive environment in the global beauty industry, we do not expect the company’s fortune to reverse course in a year.

Financial Statement Analysis

Avon had a poor financial performance during fiscal 2012. The company had loss of \$38 million from continuing operations. Total revenue of \$10.5 billion declined 5% in 2011. Operating profit decreased a whopping 63% to \$315 million with operating margin down by 4.7% compared to 2011, signifying substantial operational inefficiencies. Impairment charges, foreign currency devaluation and tax charges have been causes for this significant impact on 2012 financial performance.

The company also has an atrocious debt to equity ratio. The total debt of the company is approximately six times of total equity. On top of that, the company recently has refinanced its multi-billion dollar debt through issue of notes and an unsecured revolving credit facility. Therefore, a turnaround strategy would not result in immediate distribution of cash flows to the shareholders.

Conclusion & Recommendation

We expect the company’s dividend to decline in the short-term. The company also announced a dividend reduction in Q3 of 2012. The discounted cash flow model suggests the company’s stock is highly overvalued. The P/E model further confirms these results, especially with negative earnings in 2012. Owing to the declining financial performance, increased debt burden and absence of an economic moat, we recommend selling the stock.

Green Mountain Coffee Roasters, Inc. GMCR

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$66.48	\$54.97	4/4/2013	Mid Growth	N/A

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Green Mountain Coffee Roasters, Inc. is a leader in specialty coffee and coffemaker businesses. Its three business segments include the Specialty Coffee Business Unit (SBCU), the Keurig Business Unit (KBU), and Canadian Business Unit (CBU).

Fundamental Analysis

Green Mountain Coffee has consistently displayed superior performance concerning sustainability and managing their financials. The company has an excellent strategy. It supports millions of coffee farmers through its fair-trade activities. The company had strategic partnerships with several other peer companies like Unilever, Starbucks and Kroger in expanding their existing product lines and infusing sustainability. GMCR's K-Cups, Keurig and Vue are bestselling specialty coffee related products. Although the company has been expanding exponentially, it is going to find its saturation, at which point growth will begin to slow down. However, there seems to be some time before it reaches this stage.

GMCR has appointed Brian Kelley, the Chief Product Supply Officer of Coca-Cola Refreshments, as the CEO of the company effective December 2012. "With leading consumer brands, compelling distribution and relationships, and an ongoing commitment to funding innovation to leverage its single-serve expertise, we knew that GMCR's next leader had to possess a strong combination of operational expertise, consumer product and brand experience and strategic insight," said Michael J. Mardy, Interim Chairman of the Board of Directors. The company also had appointed Norman H. Wesley as the Chairman and David Mackay the Independent Director Interim Chairman. The company seeks to achieve strong strategic direction through the new leadership.

Financial Statement Analysis

The company displayed unsustainable revenue and earnings growth in the past five years. Total net sales increased by 46% in 2012 alone while the operating margin reached 14.7%. The company's first quarter 2013 results also present a significant increase in cash flows compared to first quarter 2012. The company has a favorable debt to equity position and can use excess leverage to finance further expansion. Although the company does not pay dividends, at the current rate of financial performance, we expect the company's stock price to rise in the near term.

Conclusion & Recommendation

The discounted cash flows model with extremely conservative growth rates gives an intrinsic value, which is much higher than the current stock price. We recommend buying the stock owing to its strong financial performance, strategic partnerships, sustainability impact and effective leadership team.

ITT Educational Services ESI

Recommendation Sell	Valuation \$8	Last Price \$12.61	As of 4/2/2013	Style Small Value	Dividend Yield 0%
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Technical Analysis	
Bollinger Bands	Positive
Money Flow	Negative



Introduction

ITT Educational Services is a for-profit provider of higher education. The classes are technology oriented and include associates, bachelors, masters, and non-degree programs.

Fundamental Analysis

As part of the for-profit higher education industry, ITT Educational Services has faced several challenges over the last few years. The industry has faced increasing scrutiny over its fees, its use of federal educational assistance programs, its graduation rates, its employment rates, and its recruiting practices. The federal government has taken action that negatively affects the industry and all of its participants are suffering. The outlook for the industry and this company is bleak over the next few years.

During the recession and during the higher education financial aid reform process the federal government increased its scrutiny of for-profit colleges.

The government found that significant fraud related to federal grants and federal student loan programs was taking place and these institutions had much lower graduation rates than traditional colleges, which led to much higher delinquency on student loans. The industry was also faulted for using incentive programs for its recruiters; these programs were made illegal.

The government reduced the amount of aid that students attending these colleges were eligible for and ceased certain loan programs. These challenges have made recruiting and retention more difficult and have resulted in falling enrollments, falling retention rates, falling revenue, and plummeting earnings.

Financial Statement Analysis

Over the last two years, revenues have fallen by 10% a year. Earnings fell 23% last year and are forecasted to fall another 57% next year. We expect both of these trends to continue for the next several years. The company has sold assets to increase cash flow, which is being used for stock repurchases. The company's ratios are deteriorating and there is a possibility of bankruptcy if the company is unable to meet its many challenges. In the event of bankruptcy, the company is trading at over two times book and recovery would be minimal.

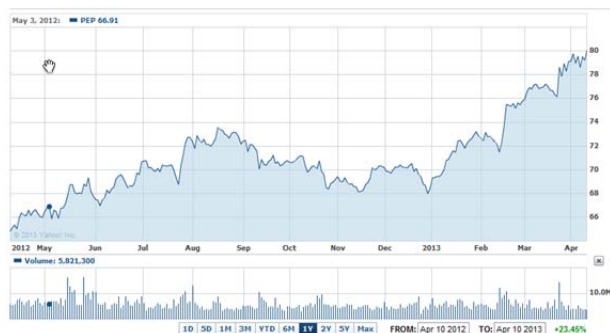
Conclusion & Recommendation

This industry is unattractive and so is this company. ITT Educational Services is facing massive declines in profitability and all of its vital metrics are moving the wrong way. We strongly recommend selling this position.

PepsiCo PEP

Recommendation	Valuation	Last Price	As of	Style
Hold	\$96.09	\$80.06	4/10/2013	Large Core

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

PepsiCo, Inc. is a global food, snack and beverage company, which manufactures or uses contract manufacturers, markets and sells a variety of salty, convenient, sweet and grain-based snacks, carbonated and non-carbonated beverages and foods.

Fundamental Analysis

Pepsi should really be known as “Frito-Lay” as it is the most dominant snack business on the planet. We believe the market has failed to understand the value of the Frito-Lay brand and see potential for greater growth as the company continues to leverage its products. The company controls 64% of the U.S. salty snack business, 46% of the U.K. market, and 60% of the Brazilian market. The North American snack business with brands such as Lays, Fritos, Cheetos, and Doritos generated 25% of the firm’s total revenues in 2012, and 40% of its operating profits. Management has a clearly articulated strategy for building and expanding its snack portfolio. The company is also likely to continue its past success because it understands consumer tastes are trending toward healthier alternatives. Pepsi has worked to push its *Good-for-You* portfolio of products that, over the past decade, have grown to more than \$13 billion in annual sales.

Financial Statement Analysis

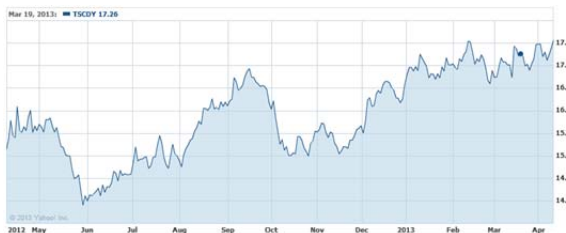
PepsiCo’s financial statements provide support of a wide moat. Return on equity has hovered between 30-40% for the past ten years. Earnings have grown at a steady and predictable rate for the past 10 years and operating margins have remained relatively steady between 14-18%. Debt to equity has risen in recent years due to Pepsi’s acquisition of its North American bottlers, though we believe the firm is financially healthy.

Conclusion & Recommendation

Using a simple dividend discount model with a historical growth rate of 4.5 %, PepsiCo, Inc. is currently undervalued. Due to the Company’s wide economic moat and steady, predictable returns, we recommend holding the stock.

Tesco PLC TSCDY (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$18.67	\$17.56	4/10/2013	International	-



Technical Analysis
Bollinger Bands
Relative Strength

Introduction

Unilever PLC and Unilever NV are the parent companies of the Unilever Group, which operates as a single unit. Unilever is a packaged foods business and household and personal products business, each component representing about 50% of the firm’s total sales. Unilever is the third largest packaged foods business in the world, with numerous valuable brands such as Lipton and Ben & Jerry’s.

Fundamental Analysis

According to S&P survey reports (Jan 2013), Tesco announced that it will likely exit from the US market. It operates about 200 Fresh & Easy stores in three different states in the US namely Arizona, California, and Nevada. We note that since the public announcement the stock is rising on a positive trend on a daily basis. It is expected this strategic move to generate a lot of cash from

sale of business operations and most likely, the company will either expand its presence in Southeast Asian, European countries or return cash to its shareholders in the form of high cash dividends or share buyback. Since the outcomes of such a move are not certain, we recommend holding TSCDY for another one year.

Financial Statement Analysis

The low price to book and price to earnings for the company are much lower as compared to the industry. This gives us another reason to hold the investment for now. In addition to this, the company has a strong cash flow position and we believe that the company is in a position to return its excessive cash to its shareholders.

TSCDY has been generating higher returns when compared to the S&P index since past decade. The company does not have a dividend reinvestment plan.

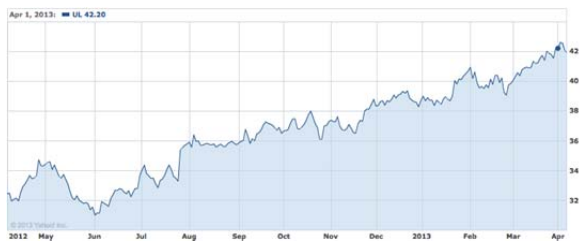
Our valuation suggests that the stock is slightly undervalued in the market, however, the ability to generate cash returns for the portfolio in 2013 makes this investment a hold from a sell recommendation. Morningstar projects the dividend growth at 10% for the next 3 years. Considering this estimate, we believe that we will be benefitted from this investment in the short-term.

Conclusion & Recommendation

Our hold recommendation for TSCDY is based on the restructuring of business operations of the company, which is likely to provide cost-savings as well as cash for further expansion or higher dividends.

Unilever PLC International (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$40.67	\$41.92	4/5/2013	International	3.00%



Technical Analysis
Bollinger Bands
Relative Strength

Introduction

Unilever PLC and Unilever NV are the parent companies of the Unilever Group, which operates as a single unit. Unilever is a packaged foods business and household and personal products business, each component representing about 50% of the firm’s total sales. Unilever is the third largest packaged foods business in the world, with numerous valuable brands such as Lipton and Ben & Jerry’s.

Fundamental Analysis

Unilever has grown in terms of sales as well as profits. Further, the company is going through restructuring which will generate cost-savings. UL operates in international markets and economic recession both in the US and EU countries pose lot of challenges for the company’s business operations. As a result, the consumer spending is not expected to rise steeply. According to Morningstar, spending on refreshments, household, and

personal care continued to shine (up 9.8%, 10.4%, and 11.5%, respectively) while the food category remained sluggish (up just 1.3%).

This industry faces stiff competition in both domestic as well as international markets. As pointer earlier that we expect mild recovery in the US economy in 2013, we do not expect an extraordinary year from holding this ADR. However, Unilever has a strong cash situation generated from operations during 2012. As reported in company news, the company plans to utilize the excess cash for further acquisitions growing emerging markets. Therefore, we do not anticipate any growth in future cash dividends to its shareholders.

Further, the management’s expectation as reported in the news is that commodity prices will raise hurting company’s future revenues.

Financial Statement Analysis

Unilever’s has higher operating as well as net profit margins as compared to its competitors in the industry. However, due to its operations in various countries, there is an additional foreign currency risk associated. Our dividend discount valuation model suggests that the stock is slightly overvalued in the market assuming 9.26% WACC and 6% short-term growth rate in dividends.

Conclusion & Recommendation

We recommend selling UL because of stiff competition in emerging markets, slowing down of economies and no expected rise in consumer spending. We believe that the company is valued fairly in the market.

The Washington Post Company WPO

Recommendation BUY	Valuation \$527.87	Last Price \$449.44	As of 4/10/2013	Style Mid Value	Dividend Yield 1.67%
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Technical Analysis
Bollinger Bands
Relative Strength

Introduction

The Washington Post Company is a media conglomerate providing products and services to students, readers and viewers such as Kaplan media properties and Cable ONE.

Fundamental Analysis

We note that newspapers are less than 15% of the overall business of WPO. The majority of operating profit is generated from Kaplan education division, and its cable and television broadcasting operations. The company's market position with both these products is strong and is well diversified to serve the needs of students, business schools as well as cable television needs. Despite the contraction in the industry in past 5 years, the company has been able to utilize its funds to do strategic market expansions.

The higher valuation of the company will be justified mostly based on the performance of Kaplan. There is an expected increase in the subscriptions to its programs mainly because it has unique tutors and programs specifically designed to meet the need of specific markets. The deeper penetration in the education market tends to make the stock non-cyclical; however, there is a negative impact on the demand for its educational products due to economic recession as well as the funding provided to community colleges.

Financial Statement Analysis

WPO maintains a healthy cash balance when compared to the levels of its debt in the history. We believe that the company has been conservative in valuing its stock at 1.3 times book value, which is low when compared to the industry average price to book.

Our dividend discount model suggests that the stock is undervalued in the market by \$78 per share, which may be because of the low expectation of growth in overall educational market. However, we believe that Kaplan has placed itself at a sweet spot in the industry providing lot of vocational courses with less competition. The cash flows of the company are expected to generate higher dividend growth in the future.

Conclusion & Recommendation

We recommend investing in WPO based on our analysis of the industry overall as well as the unique competitive advantages of WPO. The company also has aggressive share repurchase plans in 2013.

Energy

2012 Performance

The energy sector represents an 11% weight of the S&P 500 and is slightly underweighted in the Crummer portfolio as a result of strong 2012 performance. The major driver behind the strong performance in 2012 was high oil prices and strong demand. We expect integrated Exploration and Production companies to more or less market perform; however, mid-stream companies have a great opportunity to take advantage of the glut of WTI (West Texas Intermediate crude) that has bottlenecked in Cushing.

Midwest Refineries

With current crack spreads around \$12 per barrel, Midwest located refineries have a competitive advantage over costal refiners. We recognize that the spread is great enough that the use of rail to transport crude to costal refineries is economical. We believe that this will cause crack spreads to decline and place some pressure on Midwest refiners. However, this rail story can also be applied to the approximately 60% spread between WCS (Western Canada Select) and Brent (North Sea-sourced and the price benchmark for Atlantic basin crude oil), which we believe will drive earnings for East Coast refiners with capacity.

Fracking

Also in the energy space, we see a great opportunity to take advantage of the infrastructure build out of natural gas fractionation. In 2013 fractionation capacity in Ohio and other shale regions is likely to result in a dramatic increase in propane. Coupled with increasing export capacity in the Gulf, we see this as an opportunity, much like LNG, to capitalize on the spread by shipping internationally. With the increased supply, charter rates of LPG vessels will increase dramatically, which will create very compelling earnings stories for the LPG container ship holding companies.

Calumet Specialty Products Partners, LP CLMT

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$32	\$35.58	4/4/2013	Small Value	6.8%

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Positive



Introduction

Calumet Specialty Products is a refiner and processor of hydrocarbon products. The company contains seven plants across the United States with locations in Louisiana, Texas, Pennsylvania, Wisconsin, and Illinois. CLMT’s product lines include a full line of naphthenic and paraffinic oils, aliphatic solvents, white mineral oils, petroleum waxes, petrolatum and hydrocarbon gels, and fuel products. These products are refined from crude oil, which is acquired in order to service industrial, consumer, and automotive goods companies.

Conclusion & Recommendation

The fundamentals of the industry are still intact, however the stock has outperformed and we believe it to be fully valued.

Chevron Corp. CVX

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$120	\$118.07	4/4/2013	Large Value	3.05%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Chevron Corp. (CVX) is a global integrated oil company and the second largest oil company in the United States. The company targets both oil and natural gas plays, and engages in both upstream and downstream operations, primarily in the United States, Africa, and Australia. The upstream operations involve the exploration, extraction, and shipping of crude oil and natural gas. The downstream operations include refining and marketing the raw materials extracted. In addition, CVX manufactures and markets industrial-use petrochemicals, and holds stakes in renewable energy operations.

Fundamental Analysis

Higher oil prices in 2013 will continue to be a positive for integrated energy giants like CVX and XOM. Additionally, we see CVX's exposure to LNG as a positive as

infrastructure builds out to increase demand and create a better pricing environment.

On the other hand, with the great deal of uncertainty surrounding the United States budget crisis, we see the company's exposure to renewable energy as a potential liability as government subsidies and incentives run out.

Management has guided for strong petrochemical contribution over the next two years, expecting it to account for approximately 33% of earnings. They believe that this could be a strong driver of earnings.

Financial Statement Analysis

Management has announced that it will be shifting to a more traditional capital structure drawing down its large cash stores to fund large capital outlays for upstream projects. Management also expects to be net debt positive by the end of 2014.

Conclusion & Recommendation

With no clear catalyst driving CVX forward coupled with exposure to renewable energy, we do not see that CVX presents a better opportunity than XOM in the portfolio. Furthermore, we believe that CVX if properly priced at \$118 versus our price target of \$120 and recommend the stock as a SELL.

Exxon Mobil Corp. XOM

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$100	\$89.77	4/4/2013	Large Value	2.54%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Exxon Mobil has become the largest public “super major” energy company in the world. The integrated company controls all aspects of the supply chain, from exploration and drilling, to extracting and shipping, to refining and marketing. The company deals primarily in crude oil, natural gas, petroleum products and petrochemicals.

Fundamental Analysis

Management guided down forecasts for the coming year for a total decline in production of approximately 1%. This decline is primarily going to be driven by North American gas volumes declining. The company has guided 2-3% per year production growth through 2017 but we believe the majority of that will come after 2014.

The company has a full slate of projects coming on line over the next three years, weighted approximately 90% towards liquids. We do not account for these projects in our valuation until they actually start up.

Financial Statement Analysis

Management has not been averse to dividend hikes in the past and is in a position to increase the dividend this year as well. Historically these increases have come early in 2Q; that being said we are not figuring that into our valuation at this point and any increase will certainly have a positive effect on the stock price.

Conclusion & Recommendation

Given the magnitude of XOM’s operations, we believe that the company is in a great defensive position with the potential to outperform if management increases its dividend. We believe the entire energy sector is going to benefit from strong crude prices, of which XOM is in an optimal position given its vertically integrated structure. That will be slightly offset, as there remains a glut of natural gas holding domestic prices down. Based on the lack of a strong catalyst and limited organic growth opportunities, we recommend XOM a HOLD with a price target of \$100 based on 2013e EPS of \$9.10 and a P/E multiple of 11x.

PBF Energy Inc. PBF

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$50	\$38.82	3/26/2013	Mid-Value	3.25%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

PBF Energy operates three U.S. refineries accounting for about 3% of the entire country’s refining capacity. Their Toledo, Ohio refinery has 60% of capacity dedicated to refining WTI grade oil. The remaining 40% sources Syn-crude from Canada. This facility has been the driving force behind performance, taking advantage of the glut of oil production in the mid-west.

The east coast refining facilities located in New Jersey and Delaware are primarily equipped to handle heavy crude and are the only refiners in the region with coking capacity.

Fundamental Analysis

PBF’s Toledo refinery has, and we believe, will continue to benefit from crude extraction in the region far outstripping the build-out of pipeline capacity. This underdevelopment of crude transport infrastructure has created a bottleneck in Cushing, Oklahoma, which is depressing WTI crude relative to Brent crude. These crack spreads (\$12) will remain for as long as infrastructure capacity lags wellhead production.

The more interesting story for PBF, driving earnings growth over the next 12-24 months, is transporting Western Canadian Select crude to the east coast refineries by rail. Priced at approximately a 35% discount to WTI and up to 60% of Brent, WCS can be refined by the

New Jersey and Delaware refineries at a profit. The spread between WCS and WTI could potentially widen further with new oil sands projects. PBF is in a unique position to take advantage of these compressed prices as their facilities are already equipped to refine the lower grade crude.

PBF is also building out rail capacity to its refineries to maximize production. PBF’s Delaware City rail terminal plans to double capacity by the end of the year to 150,000Bbls per day. On top of that, the company is vertically integrating by leasing railcars capable of transporting heavy crude, essential to keep the refineries running as close to capacity as possible.

PBF has a very experienced and widely respected management team—a strong positive for this young company as it takes advantage of the current price disparity in crude sourcing.

Financial Statement Analysis

We do believe that WTI prices will increase slightly as the use of rail transport out of Cushing increases, thus slightly widening the bottleneck. This will likely cause a \$1-2Bbl margin contraction at the Toledo refinery. The increased use of rail transportation to the east coast refineries will more than offset that slight contraction at Toledo and we expect that overall margins will jump up into the \$12Bbl range. With the increased capacity, we believe that this will read through to a 12% increase in EPS for FY2013 to \$6.25.

Conclusion & Recommendation

We believe that PBF is in a great position to capitalize on the mismatch between crude oil production and transportation infrastructure. The use of rail transport will have a significant effect on earnings in the east coast refineries. Based on a median historical industry P/E multiple of 8x forward FY2013 earnings, we recommend a BUY for PBF with a price target of \$50.

PetroChina Co Ltd PTR (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$205	\$130.11	4/4/2013	International	3.85%



Technical Analysis	
Bollinger Bands	Positive
Money Flow	Positive

Introduction

PetroChina (PTR) is the largest integrated oil and gas company in China. PTR was intended to reform China's oil and gas industry and give it the ability to compete internationally. The company became an international energy company with strong competitiveness and is one of the major producers and distributors of petroleum and petrochemical products in the world. PTR engages in a wide range of activities related to oil and natural gas, including: exploration, development, production and marketing of crude oil and natural gas; refining transportation, storage and marketing of crude oil and oil products; the production and marketing of primary petrochemical products, derivative chemicals and other chemicals; transportation of natural gas, crude oil and refined oil, and marketing of natural gas.

Fundamental Analysis

PetroChina is the only super-major oil and gas company in China. It is majority owned by the Chinese Government and supplies a nation that has greater energy de-

mands than anywhere in the world. Non-OECD Asian countries are on track to increase demand by 3% annually.

With such high and growing demand, the company is finding it difficult to locate and extract net sources of oil. The company has had to add resources through acquisition, which has been more expensive than anticipated. The company has seen profitability slide approximately 13% y/y, as a result.

We are also intrigued by the use of hydraulic fracturing in China and the positive affect that it could have on production. Coupled with strong oil demand globally, we believe that PTR still has the opportunity to turn things around in 2013.

Financial Statement Analysis

Currently PTR is trading at a slight premium to its peers on a P/E basis and we believe the company could still increase its dividend to enhance shareholder value. The 4% dividend is already above the industry average and could account for this premium.

Conclusion & Recommendation

Much like most of the global fully integrated energy giants, PetroChina suffers from a lack of imminent catalyst to drive earnings growth. We believe that the stock has underperformed over the past year and believe that there is a strong likelihood the company will be able to use new technologies to bring dying wells back to life and control costs. We recommend a HOLD on PetroChina with a price target of \$205.

Stealth Gas. GASS

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$19.20	\$10.94	4/4/2013	Small- Value	-

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

StealthGas is a provider of international seaborne transportation of liquid petroleum gas (LPG). The company owns the largest 3,000 to 8,000 cbm LPG fleet worldwide with a total carrying capacity of 161,822 cbm (37 vessels). The vessels carry various petroleum and petrochemical gas products including propane, butane, butadiene, and most other byproducts of natural gas and oil. The company primarily services industrial companies, as well as national and independent companies and energy traders.

Fundamental Analysis

With the rise of hydraulic fracturing (fracking) in the US over the past five years and the increase in natural gas production, we have seen prices drop dramatically as supply far outpaced demand. This has led to a dramatic difference between domestic and foreign prices, leading to the increased profitability of exporting natural gas. This story is the driving force behind the use of cryogenic natural gas fractionation. In this process, natural gas is cooled and separated from the other natural gas liquids (NGL). This has led to a glut of propane in particular and resulted in the US becoming a net exporter of propane in 3Q12.

With the increase in natural gas fractionation and export capacity coming on line in the Gulf of Mexico, it is likely that the US will continue to increase the amount of propane that it exports. As the worldwide leader in LPG shipping vessels, GASS is in prime position to take advantage of this trend, which creates a favorable pricing environment for the company.

Financial Statement Analysis

From 2011 to 2012 GASS saw profits increase 241.2% from \$.41 to \$1.41, mainly driven by a 28.6% decrease in operating expenses because of fewer vessels under spot charters. We believe that LPG exports will grow steadily at around 8% annually coupled with the possibility of increasing charter rates by almost 100% in the coming year, we project 2013 EPS to be approximately \$2.40 per share.

Conclusion & Recommendation

With increased fracking and natural gas production in US shale plays, coupled with greater fractionation and export capacity coming on line in 2013, we believe that propane production will continue to outpace consumption and continue to put downward pressure on prices. As spreads grow between US and foreign propane prices, the economics will continue to favor the use of LPG vessels for export. This glut of propane will increase demand for LPG vessels and could increase charter rates twofold. We believe that GASS is positioned perfectly to take full advantage of this pricing environment. Based on 8% growth in LPG export volume annually and dramatically higher charter rates, we project 2013 EPS to be \$2.40. Based on an 8x P/E multiple, we recommend GASS as a BUY with a price target of \$19.20.

Transocean Ltd RIG

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$70	\$49.88	4/4/2013	Large Value	-

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Positive



Introduction

Transocean is an offshore drilling company. It has a fleet of over 132 vessels including drill ships, semisubmersibles, and jack-ups operating in technically demanding environments such as Brazil, Nigeria, and the North Sea. It is the largest deep-water exploration company in the world and contracts primarily with some of the largest global exploration and production companies.

Fundamental Analysis

The company has experienced some trouble with elevated out-of-service rig days in 4Q12, accounting for 77% of total days. This increased costs and decreased margins, causing the stock to sell off a bit.

As global oil demand continues to rise, RIG is in an advantageous position given the sheer size of their fleet. Operationally they have had a few major miscues that have caused the company to miss earnings and cut its dividends. However, we believe that RIG will be able to put its past issues behind it and return to being an industry leader that demands a premium.

Additionally, given the increase in out-of-service days above expectations, RIG should be expect to have greater utilization rates in the coming year as a result of the service work that was done on its fleet.

Financial Statement Analysis

Transocean's earnings were negative in 2012 and caused the stock to sell off. The company still has a strong balance sheet and in March announced that it would be reinstating its dividend which should yield 3.4%.

Conclusion & Recommendation

In 2013, shareholders are going to be looking for cash payouts to signal management believes the company is doing well and has ironed out any problems.

Based on improved utilization and a decrease in out-of-service rig days, we believe that RIG has the ability to perform well barring any other catastrophes. We recommend a HOLD with a price target of \$70.

Financials

Not your typical recession or recovery

The financial sector tends to do well in typical economic recoveries. This recession, however, has been anything but typical. Even though we believe large cap financials have not yet reached their full recovery, we have given financials a 15% weight in the portfolio, approximately 1% underweight to the S&P 500. We are more encouraged by the opportunities we see in the insurance sector and in housing.

Insurance a bright spot

Over the past two years, insurance companies with Property and Casualty exposure to the east coast have been crushed, first by Irene and more recently by Sandy (hurricanes). As claims increased, reserve adequacy and credit quality came into question. As a result, many of these companies are trading at significant discounts to book value. We believe that this is not warranted as most of the claims have already been processed and recorded as losses. Additionally, we see this as a great opportunity to build a position in this industry as we believe that many of the issues that caused these sell offs have been addressed and the stocks are poised to recover.

Time for REITs

With improving housing fundamentals, we see value that is not accounted for on the balance sheets of REITs with exposure to the subprime markets—especially naturally hedged, hybrid, agency and non-agency REITs. The agency exposure provides downside protection while non-agency paper is prepaying at par generating substantial cash payouts.

BlackRock Inc. BLK

Recommendation SELL	Valuation \$245	Last Price \$251.11	As of 4/4/2013	Style Large Growth	Dividend Yield 2.46%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

BlackRock Inc. is the world’s largest asset manager with \$3.5 Trillion assets under management. BLK’s clients are “sticky”, meaning BLK has established long-term relationships with large institutional investors who will not typically stray from using BLK’s services.

Fundamental Analysis

As the world’s largest asset manager with \$3.5 Trillion AUM, BLK’s business model is very scalable during times of expansion. That being said, the stock has not managed to outperform the market over the past 12 months, up only 9.7% versus the S&P 500 which was up 9.86% over the same period.

Financial Statement Analysis

BLK has seen consistent earnings growth over the past few years. The company has also seen AUM increase steadily with earning which we believe is already priced into the stock.

Conclusion & Recommendation

BLK is a solid “blue chip” name; however, given its current valuation at 15.4x forward earnings, we believe that there are better opportunities for capital appreciation in a recovering market. As such, we recommend a SELL.

Goldman Sachs GS

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$165	\$142.99	4/4/2013	Large Value	1.34%

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Positive



Introduction

Goldman Sachs is the world's most prominent investment bank, leading the industry in mergers and acquisitions and underwriting activity, and remains a major force in providing liquidity and market making. Other than investment banking, GS offers investment management and trading and execution services. GS has lately undergone a period of layoffs and cost cutting, and now appears lean and poised to capitalize on the market recovery.

Fundamental Analysis

GS is a market leader in M&A and underwriting, however, we do not believe that this is going to be the year of the giant investment bank. With the economic recovery still on edge and the nation's budget in the balance, we do not believe that there will be a broad enough market rally to generate enough activity for GS to outperform the broad market.

Financial Statement Analysis

GS had a good 4Q/12 with \$5.60 EPS, driven by cost cutting and the one-off sale of its hedge fund administrative business. I-banking revenues came in strong up 21% q/q.

Conclusion & Recommendation

We do not believe that 2013 is a year in which one will see outperformance from the major financial institutions. As such, we recommend reallocation of capital away from GS into opportunities with greater upside. Recommend SELL.

JPMorgan Chase JPM

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$60	\$47.49	4/4/2013	Large Value	2.53%

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Positive



Financial Statement Analysis

The company reports April 12 before the market opens.

Conclusion & Recommendation

Recommend a HOLD based on an 11x P/E multiple and 2013e EPS \$5.20 per share.

Introduction

JP Morgan Chase is an integrated financial institution offering investment banking, commercial lending, and private wealth management services. JPM has expanded its retail locations over the past two years and is well positioned to prosper in an economic recovery. JPM's profitability is highly dependent on consumer and commercial borrowing activity, investment banking, and overall health of the financial markets.

Fundamental Analysis

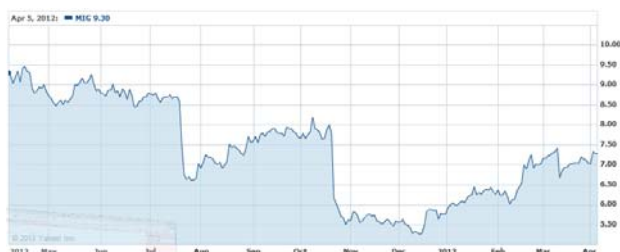
JPM has chosen to place an emphasis on the retail and small business lending markets. We believe that this provides a great differentiation versus the other integrated financial institutions. With borrowing in the current interest rate market remaining cheap, JPM is positioned to gain a lot of business as the markets turn and consumers begin to borrow and invest. This will be an ongoing story for JPM and could lead to outperformance.

Meadowbrook Insurance Group MIG

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$11	\$7.28	4/4/2013	Small Value	1.1%

Technical Analysis

Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Meadowbrook Insurance Group is primarily a specialty commercial insurance underwriter and insurance administration company. The company also markets and underwrites specialty property and casualty insurance products and programs through a broad network of independent retail agents, wholesalers, and program administrators and general agents. The retail P&C agencies also generate commission revenues and are located in Michigan, California, Massachusetts, and Florida. MIG's primary risk stems from inadequate reserve balances that, in the event of an unforeseen incident, could eat into the profitability of the company.

Fundamental Analysis

MIG experienced large losses in the 2Q/12 and 3Q/12 that led to the need for significant reserve strengthening. These developments created a lot of negative press and reserve adequacy concerns amongst investors. Subsequently, A.M. Best Company announced that they were placing the company's credit rating under review with "negative implications".

Moving forward, the company has placed a major emphasis on improving the adequacy of its reserves and credit stability in the hopes of maintaining its A- rating. MIG reduced its dividend from \$.05 to \$.02 and improved its overall business by terminating unprofitable lines.

Furthermore, in March the company recapitalized with \$85 million of cash convertible senior notes due in 2020 at 5%. The notes are unsecured and management has plans to reduce exposure to cash payments in excess of the principle amount. The main goal of this issuance was to help MIG shore up its A.M. Best rating.

Financial Statement Analysis

Currently the company is trading at approximately 60% of book value mainly on concerns about reserve adequacy and the potential credit downgrade from A.M. Best. In the near term, we believe that the capital raised in March will have a slightly dilutive effect on earnings because of higher interest costs (\$.05/s). However, assuming loss reserves and credit stability are under control, and A.M. Best maintains an A- rating, we believe that MIG will be able to terminate its quota-sharing program with Swiss Re, which coupled with an improved pricing environment, should more than reverse the negative impact of the higher costs to the tune of approximately \$.16/s.

Conclusion & Recommendation

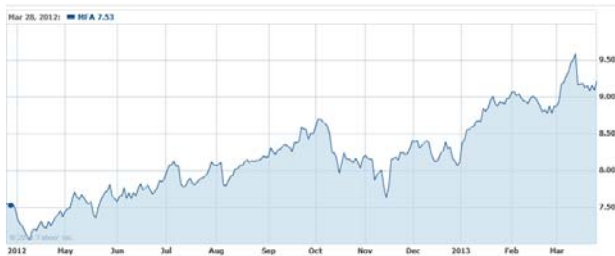
At 60% of book value per share, we believe that one of two scenarios could occur over the next two years. First, A.M. Best will be satisfied with the capital stability of MIG and maintain their A- rating. At which point we are confident that management will be able to execute its business model successfully and believe MIG will warrant PE multiple expansion and significant upside to the current stock price. Second, if A.M. Best is not satisfied and downgrades MIG's credit rating, the stock could sell off slightly. However, under this scenario, we believe that the stock is already near or at trough valuation. Under this scenario, we see MIG as an acquisition target.

We believe that the capital raised in March will satisfy A.M. Best's requirements and will result in improved consumer confidence throughout 2013. As such, we believe that MIG will experience multiple expansion to 1x book value per share and recommend a buy with a price target of \$11.

MFA Financial MFA

Recommendation BUY	Valuation \$11	Last Price \$9.10	As of 3/26/2013	Style Mid-Value	Dividend Yield 9.33%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

MFA Financial is a REIT that invests via the secondary markets in adjustable rate mortgage-backed securities (MBS). The company splits its portfolio between both agency guaranteed MBS (55%) and non-agency MBS (43%). MFA utilizes short-term borrowing agreements through repurchase agreements to leverage its acquisition of MBS to about 3x book.

Fundamental Analysis

MFA has a natural hedge against interest rates with its exposure to non-agency and agency MBS. As interest rates fall, agency MBS will tend to lag but provide good downside protection, as they tend to outperform in a macroeconomic downturn. The non-agency book is poised to outperform with improving housing fundamentals.

MFA has experienced a slowdown in prepayments during 4Q12 on its agency assets. We believe this to be a positive for MFA as prepayment means reinvestment at lower yields. On the non-agency book, prepayment has increased; allowing the underlying assets to be redeemed at par and the credit reserve can be reversed. This trend is driven by an increase in multi-family rents, limited new construction, and increased own-to-rent investment in the foreclosure markets. With these forces driving up home values, especially in the lower end markets, the underlying assets of the MBS will drive up

the book value of MFA’s non-agency portfolio and be accretive to the stock price.

Management is confident in the level of flexibility that they have in their portfolio. They believe that they are well positioned to reallocate capital if necessary depending upon fed policy. We see this as a positive as it allows MFA to capitalize on improving housing fundamentals through the non-agency portion of their portfolio, without overexposing themselves to interest rate risk.

Financial Statement Analysis

In 4Q12, MFA experienced net income margin expansion for the first time in six quarters, driven by the positive performance in the company’s non-agency assets and a slowing of prepayment in its agency assets. MFA also realized and \$81 million reversal of their credit reserve that we believe will be a recurring trend as the housing market continues to gain traction.

Conclusion & Recommendation

We believe that the housing market has bottomed out and has begun its gradual recovery. As such, MFA’s overly cautious approach to valuing its assets supports a book value per share higher than the \$8.99 the company reported. We see the company reversing some of the \$3.80 per share credit reserve on its non-agency prime assets, which we believe could increase BV/share by up to \$2 in 2013. The company also could realize a positive effect from its agency assets as the supply of agency MBS decreases. We are not including another special dividend in 2013; however, we do see this as a possibility for added upside as management cleans up its internal controls. Based on MFA continuing to trade around 1x BV and maintaining its 8+% dividend, we recommend MFA as a BUY with a price target of \$11.

Morgan Stanley MS

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$26	\$21.33	4/4/2013	Large Value	.94%

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Positive



Introduction

Morgan Stanley is a global investment bank that has a well-rounded breadth of business lines. Other than investment banking, MS offers wealth and asset management, as well as trading and execution services.

Fundamental Analysis

MS is poised to take advantage of its cost cutting initiatives in order to expand margins and increase profitability. With an improving economy and strong equity markets, we believe that the company could see some added earnings power from its fee based wealth management department.

Financial Statement Analysis

MS reported ROE of 5% but expects that to improve to 9% in the near future; the company also expects ROE to improve based on an improved operating environment. In 4Q12, MS reported increased revenues and decreased costs, thus proving the company's cost cutting measures are having the desired effect. The company saw increasing revenues and decreasing costs across all divisions.

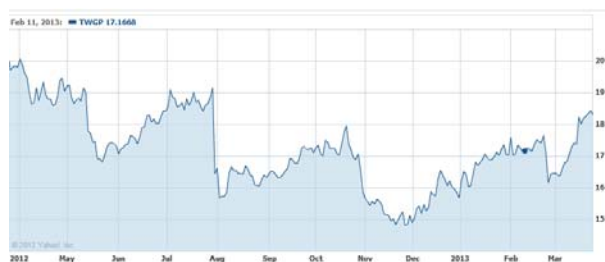
Conclusion & Recommendation

MS is currently trading below tangible book value. With continued revenue performance across all divisions and further cost controls, we believe MS will trade at back to tangible book value and recommend a HOLD with a target price of \$26.

Tower Group Inc. TWGP

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$25	\$18.44	3/22/2013	Small Value	3.65%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Tower Group Inc. is a global personal and casualty insurer and service provider. The company serves the small to mid-sized business, specialty commercial, personal insurance, and assumed reinsurance markets. TWGP focuses primarily on casualty lines including workers' compensation and commercial multi-peril, but has recently gained more exposure to property risk through a merger with Canopus Bermuda which moved its domicile to Bermuda. Tower distributes its products and services through its network of retail brokers, wholesalers, and agents.

Fundamental Analysis

TWGP has lagged its peers because of lingering reserve concerns for the 2011 accident year and a large exposure and claims in New York and New Jersey because of Hurricane Sandy. As of 2/24/2013, Tower had closed 93.7% of claims from the storm with an estimated loss of \$1.84/share. This loss should put Sandy in the rear-view for TWGP.

Reserve adequacy concerns were addressed in 1H/12 when reserves were bolstered by \$78.3 million. A lack of subsequent reserve charges in 2H/12 is indicative of adequate reserve coverage and should lead to improved investor sentiment going forward.

The merger with Canopus Bermuda should position Tower well to expand and increase their presence in

Lloyd's of London. Gaining Lloyd's exposure will have both a diversifying effect and will likely be the source of near term top line growth. The merger will provide a significant tax advantage to Tower, reducing its corporate tax rate from 30% to 8%. This decrease in tax expense will be accretive to earnings and visible in 2Q/13.

Financial Statement Analysis

Tower is currently trading at a 15% discount to book value versus its peers at 1.15x. On a P/E valuation, TWGP is trading at 7.38x 2013E versus its peers at 13x 2013E.

Over the past four years, Tower has been able to maintain its net expense ratio relatively stable between 34.1-36.4%. We believe this to be a good indicator of the company's ability to manage costs and not a contributing factor to a rising net combined ratio. The expansion of the combined ratio has been due to a lack of diversification with a large exposure to New York and New Jersey. The combination of hurricane Irene in 2011 and hurricane Sandy in 2012, have accounted for the majority of the increase in the loss ratio.

Conclusion & Recommendation

With the diversification provided by increased exposure to Lloyd's and the reduction in the corporate tax rate, barring another natural catastrophe, we believe that Tower's loss ratio will normalize somewhere in the high 50%- low 60% range. Coupled with the reduction in taxes we project 2013E EPS at \$2.5 based on 14% top line growth from Lloyd's exposure and a 14% corporate tax rate (30% in 1Q/13 and 8% the remainder of FY13) that will reduce to 8% in 2014.

Conservatively speaking, we do not believe that Tower warrants a discount to its peers as we believe that the overhang of claims relating to Sandy and reserve uncertainties have all but passed. As such, based on a 10x forward 2013E P/E multiple and target price of \$25 we recommend TWGP as a BUY.

US Bancorp USB

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$40	\$33.82	4/4/2013	Large Core	2.31%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

US Bancorp is a commercial bank that offers commercial lending, mortgages, and retail banking to consumers and small businesses. USB has seen increased credit quality from clients in recent years, and has been able to grow its loans, mortgages, and deposits during a time when its competitors have struggled to do so.

Fundamental Analysis

USB has grown its mortgage book as a way to stimulate revenues over the past couple of years as payment processing fees slowed. As these new businesses mature and mortgage origination revenues decline, USB's revenue growth will decline and resemble the industry as a whole. USB is a leader in efficiency and should maintain its superior profitability versus its peers. The company is actively involved in a share buyback program that will have a significant positive effect on EPS.

Financial Statement Analysis

The company currently trades at 2.6x tangible book value because of its superior efficiency and profitability.

Conclusion & Recommendation

At \$33.82 a share, we believe there is still upside to this stock as the full share buyback program increases EPS. We also believe that USB will continue to trade at a premium to its peers because of far superior revenue growth and efficiency. Recommend HOLD with a price target of \$40.

Health Care

The healthcare sector covers medical devices, services, pharmaceuticals, biotechnology and life sciences. While we hold a mix of stocks from these industries, we considered the impact of overall sector trends on these industries to evaluate our recommendations. During the year, Abbott Laboratories split into two stocks: Abbott and Abbvie. We valued these stocks separately because they became independent companies. Three stocks in the portfolio, Merck, Quest Diagnostics, and Abbvie, have realized their underlying value, and thus warrant a sell recommendation. Three stocks in the portfolio, Abbott, PDLI BioPharma, and WellPoint are undervalued in the market as per our analysis. Accordingly, we recommend a hold position for these three stocks. We recommend buying six more stocks in the healthcare sector. These stocks are chosen in consideration of the overall trends in the industry, impact of new healthcare reforms in the United States and growth in the emerging markets. These six stocks are: UnitedHealth Group, Express Scripts, Agilent Technologies, St. Jude Medical, Exelixis, and Covidien.

HealthCare Reform

We considered the impact of changing regulatory environment on our holdings and recommended stocks. With the introduction of new healthcare law, millions of Americans will be covered under healthcare insurance plans resulting into a broader patient base for hospitals, clinics, medical devices and pharmaceutical companies. Under the new healthcare law, more individuals and small businesses can buy affordable and qualified health benefit plans. Even though this may mean higher revenues for the medical services providers, cuts in payments made to health care providers and insurers under Medicare and other health programs will limit the overall growth potential. Under the new law, the payment systems established ensure incentive payments to the service providers that meet or exceed the performance standards that will not just impact the hospitals but also the pharmaceutical, medical device companies. Increase in medical device tax is another important aspect covered under the new law that will increase the already building pricing pressure. The provisions for more disciplined rules will give an opportunity to diversify revenue streams by providing home health care, nursing facilities etc.

Globalization

Even though the new healthcare reform will set the tone of this sector in the US in the years to come, we believe that the increasing trend towards globalization is inevitable for not just pharmaceutical or medical device companies, but insurance companies and hospitals, as well. According to Medcity news, more than 25% of the consumers report that they are willing to travel for a medical procedure. We believe that the US market is mature and provides less growth potential with the increase in regulatory compliance challenges. Accordingly, our portfolio recommends stocks that are looking to grow internationally and at the same time maintain their competitive advantages in the US market.

Changing Demographics

The changing demographics of the US population in terms of diversity as well as the aging gives a host of growth opportunities to healthcare service providers. There is an increase in overall demand as consumers are more aware of the health benefits programs as well as desire an access to medical information. Consumer satisfaction metrics become an important performance measurement for the companies and we looked at companies that cover the aspects of addressing the needs of varied consumer base.

Conclusion

We believe unforeseen and unintended consequences of healthcare reform and the subsequent investor uncertainty poses an opportunity to purchase undervalued securities. With the new healthcare reforms, companies like WellPoint will be able to maintain their competitive advantages because they face less pricing pressure from insurance companies. We think that a stable revenue stream from royalties and partnerships with large pharmaceutical companies still gives a competitive advantage to PDL BioPharma and we recommend holding the stock for one more year. Our buy recommendation for Exelixis is based on our thinking that the new healthcare reform may help this company because of increased healthcare expenditure and coverage to millions of Americans under affordable healthcare benefits. Due to the increasing pricing pressure in the US market, we believe that the movement towards globalization gives growth potential to our recommended stocks like UnitedHealth Group. On the downside, we anticipate Quest Diagnostics reputation for poor service in overseas markets will bring an increasing threat from competition and we recommend selling our position.

AbbVie Inc. ABBV

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$33.45	\$41.31	3/26/2013	Large Core	0.96%

Technical Analysis	
Bollinger Bands	Neutral
Relative Strength	Neutral



Introduction

In January 2013, Abbott separated into two independent companies: Abbott and AbbVie. AbbVie is an independent company holding research-based pharmaceuticals business, and other branded pharmaceuticals. We believe that the new health care reforms in the US will pose various challenges to the pharmaceutical companies.

Fundamental Analysis

AbbVie is a risky proposition for investors because about half of the sales are derived from one product, Humira, whose U.S. patent expires in 2016. Accordingly, there is an increased competitive threat to revenues and profits. Another important patent for a cardiovascular drug expired in 2012. Increased competition in generic drugs will inhibit the growth potential of ABBV. The company product pipeline consists of new treatments for hepatitis C, Parkinson's disease, and cancer. However, based

on industry news we do not expect these products to hit the market until 2015, reducing the probability AbbVie will generate positive returns for investors.

According to Morningstar, Humira sales will begin to decline approximately 20% in 2018 with the loss of patent protection, an increase in generic biologics and greater branded competition. All these factors lower the projected 10-year CAGR for the drug to -4%. Even though the company has a strong balance sheet and cash flow position currently, we believe that loss of patents, limited growth in the saturated US market, pricing pressure and stringent regulatory changes in new healthcare policy limit the company's growth potential. ABBV has yet to find its market position in products other than Humira.

Financial Statement Analysis

Our free cash flow valuation model suggests that the fair value of the stock is less than the current market price. We believe the market is too optimistic about the revenue growth from Humira. Despite the possibility the company might use excess cash for future R&D or strategic acquisitions, we do not see the delivery of satisfactory operating results from ABBV.

Conclusion & Recommendation

We recommend a sell for ABBV stock because there are more compelling opportunities in other healthcare stocks. Due to high risk and long time lags of new product, we believe that investors will be better elsewhere.

Abbott Laboratories ABT

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$74	\$36.01	3/26/2013	Large Core	4.62%

Technical Analysis

Bollinger Bands	Neutral
Relative Strength	Positive



Introduction

Abbott Labs is an Illinois based healthcare company maintaining a broad and diversified line of health products. Through acquisitions, product diversification and R&D programs, ABT offers a wide range of infant and adult nutritionals, diagnostics, medical devices and generic drugs.

Fundamental Analysis

In January 2013, Abbott separated into two independent companies: Abbott and AbbVie. AbbVie is an independent company holding research-based pharmaceuticals business, and other branded pharmaceuticals. We believe that the new health care reforms in the US will pose various challenges to the pharmaceutical companies and ABT's spin off this business will be profitable for the company as a whole.

ABT positioned itself technologically, geographically and demographically to serve the rising needs of the

healthcare market. ABT is expanding its margins and cash flows through favorable movements aligned with long-term growth of the sector and emerging market trends. Management is confident that ABT's 125-year-old business is taking advantage of new growth opportunities and will generate higher returns for its shareholders.

Financial Statement Analysis

According to 2012 Annual Report, sales increased almost 3% over 2011 and operating income rose up by 41% from 2011 driven by improved gross margins across all reportable segments because of cost reduction initiatives, the impact of exchange and favorable product mix. The company has a robust balance sheet and we believe that Abbott has significant cash flow generation potential, which should enable the company with ample resources for investments in future growth and returns to shareholders.

Our dividend discount analysis suggests a valuation of approximately \$74 considering the dividends paid in 2012 and a short-term growth rate of dividends of 9% per Value Line estimates.

Conclusion & Recommendation

We recommend holding ABT stock in the portfolio because we believe ABT has taken an overly cautious approach in valuing its assets and the \$17.01 book value per share that the company reported is understated. We see the company is building a wide-ranging product portfolio, innovating next generation products, aggressively cost cutting and investing in building out its emerging-markets infrastructure.

Agilent Technologies, Inc. A

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$51.00	\$41.76	3/26/2013	Large Core	1.01%

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

Agilent provides core bio-analytical and electronic measurement solutions to the life sciences, chemical analysis, diagnostics and genomics, communications and electronics industries. The US contributes the largest share of the firm's revenue (38%), followed by Asia Pacific (37%) and Europe (25%).

Fundamental Analysis

We believe that Agilent has a compelling portfolio of products and the ability to innovate. The following factors demonstrate the strong position of Agilent:

- High customer switching costs because of specific designs for customer's requirements
- Difficult entry to market for competitors
- Highly valuable patents
- Solid presence in international markets

The demand for its technology will increase, especially from international markets in China, Southeast Asia, and India. We also believe the foreign currency risk and tax

hit on cash repatriation to the US are significant challenges for the company because more than 65% of the revenue comes from international markets. Further, according to Morningstar, Agilent's recent acquisition of Dako establishes its strategic position in molecular diagnostic market, which is expected to grow organically resulting in better profitability and stability for the company over the long term. We believe that with the continuing global economic recovery outside the Eurozone, the demand for Agilent's technology in healthcare will increase.

Financial Statement Analysis

The financial health of the company is sound with the 2012 annual report showing cash and cash equivalents of \$2.35 billion, compared to \$2.11 billion in long-term debt. The company plans to use excess cash in 2013 towards internal R&D, acquisitions, share repurchases, and dividend payouts. Agilent paid dividends first time in 2012 and already declared dividends for first two quarters of 2013. Annual dividend is projected to rise by 53% in 2013. In January 2013, Agilent announced a new \$500 million stock-repurchase authorization for fiscal 2013, replacing its former share-buyback program. We believe that the increase in free cash flow also flows from company's cost-saving initiatives through centralization.

Conclusion & Recommendation

Our valuation models suggest that the stock is undervalued in the market by \$10 with an assumption of 12.88% WACC, 5.5% growth rate of free cash flow per Value Line estimates. We believe the new US healthcare policy will not significantly impact the company's business performance and the stock is less risky compared to other healthcare stocks.

Covidien PLC COV

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$80.00	\$67.28	3/26/2013	Large Core	1.48%

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

Covidien develops, manufactures, and distributes medical and imaging devices, pharmaceuticals, and other medical products to healthcare industry across the globe. The company’s wide presence in more than 50 countries provides a unique competitive advantage in its distribution channels.

Fundamental Analysis

The company has plans to spin off its pharmaceutical segment. Many analysts believe that it may be a reason for undervaluation of its stock in the market because pharmaceutical businesses face fierce price competition and do not differentiate the business. This view is in-line with our interpretation of healthcare policy’s negative impact on pharmacy companies. On a positive side, COV will be primarily a medical device company with a strong technical base as well as distribution network providing competitive advantages against other big players.

Further, COV’s leading position in providing certain medical imaging devices will be expected to grow be-

cause of increase in awareness of minimally invasive surgeries and demand among hospitals and surgeons. One factor can be the recovering economy and another being the increase in overall healthcare expenditure. COV has been performing better than most of its competitors and we believe that this will continue as a result of COV’s specific products for high demand in emerging markets. Further, we believe strongly about COV’s new developments in wireless medical devices launched in 2012.

Financial Statement Analysis

First quarter results of 2013 show 8% rise in medical Devices sales as compared to 2012. Company increased its sales guidance in all segments for 2013. On 21 March, 2013, COV announced the company will repurchase up to \$3 billion outstanding shares utilizing excess free cash flow. The company news reports that this is in addition to \$2 billion announced in Aug 2011. Further, COV returned more than \$1.75 billion to shareholders in dividends and share repurchases, increasing dividends by 45% from 2011. According to Net Advantage, the restructuring program announced by the company in FY 2011 will generate cost-savings of \$225 million per year by 2014.

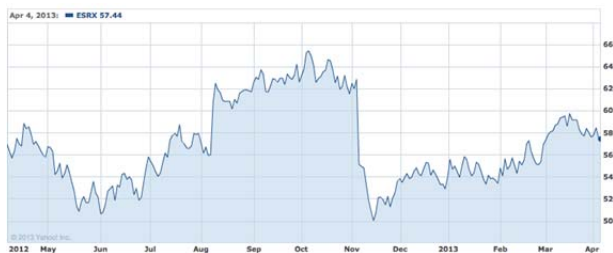
Conclusion & Recommendation

Our buy recommendation for COV is based on expected high performance of the company in 2013. There is a risk of increasing medical device tax as well as changing regulatory environment. However, assuming a growth rate of dividends per Value Line estimates and 12% WACC, our DDM model suggests that the stock is undervalued in the market much of which is due to the underperforming pharmacy business segment, which is going through a planned spin-off in 2013.

Express Scripts ESRX

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$75.00	\$56.74	3/26/2013	Large Growth	—

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Neutral



Introduction

ESRX is the largest US pharmacy benefit management company, providing services to managed care organizations, health insurers, third-party administrators, employers, union-sponsored benefit plans, workers' compensation plans and government health programs. The company consults health benefit providers address access and affordability concerns resulting from rising drug costs while helping to improve healthcare outcomes.

Fundamental Analysis

We believe the rising drug demand with the introduction of millions of Americans to the customer pool will be positive for ESRX's future growth. While the company should benefit from the introduction of the new healthcare policy, there is an operational risk from increased reporting standards. ESRX faces intense competition; however, the scale of their business provides a huge and sustainable competitive advantage.

According to NetAdvantage, the acquisition of Medco will provide huge cost synergies to the company, boosting EBITDA margins in 2013. We believe ESRX's strategy of helping clients as well as making strategic acquisitions will downplay the negative impact of new healthcare policy.

Financial Statement Analysis

According to the financial reports, the fourth quarter revenues increased 127% year over year, including revenue from the Medco acquisition, and adjusted EBITDA per adjusted claim increased 9.7%. This positive trend is a result of increasing healthcare costs as well as successful integration of company's recent major acquisition. Per Morningstar: "ESRX's profit growth in recent years has been fostered by increased penetration of generic drugs in the volume mix, and growth in mail-order scripts as a percentage of total scripts."

Our valuation is based on the free cash flow model that assumes 10% WACC, 18.5% cash flow growth per Value Line, suggests that the stock is highly undervalued in the market. We believe that one of the reasons for undervaluation could be the increased competition, in-house sourcing of services by clients as well as expected limitation on generics by 2014. However, we believe that the increase in the population covered under healthcare plans, creating cost synergies through strategic acquisitions as well as scale of business will decide the future growth.

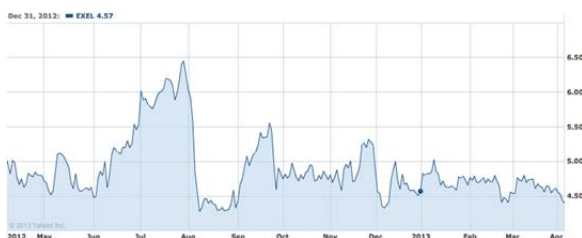
Conclusion & Recommendation

We recommend buying ESRX in the portfolio because we believe that increasing demand, merger synergies, increased generics penetration, and other cost-saving initiatives will lead to the growth in this stock.

Exelixis, Inc. EXEL

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$7.46	\$4.61	3/26/2013	Small Value	—

Technical Analysis	
Bollinger Bands	Neutral
Relative Strength	Neutral



Introduction

Exelixis is development stage biopharmaceutical firm dedicated to discovering and developing treatments for cancer and other serious illnesses. Its most advanced programs focus on small-molecule drugs that target various mechanisms involved in the proliferation, migration, and survival of cancer cells.

Fundamental Analysis

Exelixis has developed several in-house compounds that are in the advanced stages of getting FDA approval after successful clinical trials in Stage III. In addition to that, EXEL has entered into license agreements with large pharmaceutical companies for the development of its complex compounds. We believe that the company has allocated the capital resources among various pipeline products efficiently.

Exelixis has a strong pipeline of drugs for treating severe diseases such as cancer. We believe that EXEL will benefit from the increased healthcare expenditure and coverage to millions of Americans. The complex oncology or cancer treating compounds were not available to uncovered populations before. Even though many drugs are in early-stage development, we associate less risk with this company’s growth because their diversified pipeline serves to spread out clinical and regulatory risk.

Financial Statement Analysis

Even though the company is yet to perform strongly on its earnings reports, our valuation models suggest that the stock is undervalued in the market. Our valuation model, assuming a high discounting rate 13.26% and a nominal 5% growth rate of free cash flow, assigns a fair value of \$7.46 to EXEL.

The prospects of profitability are bright based on a strong probability of products hitting the marker in 2013. The cash flow situation of the company is strong—for a development stage company it has more than \$400 million in cash and short-term investments, and the company’s allocation of resources over the past year will make for solid future growth.

Conclusion & Recommendation

We believe the company has a strong negotiating position for double-digit royalties on sales abroad for partnered products in the future. We do not think the company will face pricing pressure because of new healthcare regulations. The development of new complex compounds gives a unique competitive advantage to EXEL.

Merck & Co. Inc. MRK

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$38.02	\$45.36	3/26/2013	Large Value	3.79%

Technical Analysis	
Bollinger Bands	Neutral
Relative Strength	Neutral



Introduction

Merck & Co Inc. is a global health care company that delivers innovative health solutions through its prescription medicines, vaccines, biologic therapies, animal health, and consumer care products.

Fundamental Analysis

Merck has lost certain valuable drug patents upon expiration reflecting loss of revenue in the future. MRK plans to introduce some new drugs in the market that face challenges from FDA and other regulatory requirements. Delays in introduction of new products or any non-approvals can hurt the bottom line in 2013. Although, MRK has done a strategic acquisition of Schering that will create synergies in cost saving by 2015, we found that the key pipeline products performed poorly in trial results increasing uncertainty of its success as reported

in news results. Morningstar reported that Merck lacks a coherent strategy of developing medical products in the crowded therapeutic areas instead of diseases with high unmet medical needs that tend to offer easier approvals and better pricing power. Overall, in the health care sector, health care reform increases pricing resistance from managed care organizations, government agencies and similar programs that will negatively affect Merck’s sales and profit margins.

Financial Statement Analysis

MRK’s revenues have grown steadily in the past when compared to the industry, however, its operating and net margins have been lower than industry averages. Based on the 2012 Annual Report, MRK’s worldwide sales declined 2% and earnings per common share declined to \$2 compared with 2011, reflecting a net unfavorable impact resulting from acquisition-related and restructuring costs, as well as settlement charges in various litigations. We think that the additional challenges of expiring drug patents will hurt the business in 2013.

Further, our DDM valuation (H-Model), assuming 3% cash flow growth rate, a WACC of 9.66%, and long-term growth rate of 2.5%, implies an intrinsic value of about \$38 suggesting that MRK is overvalued in the market.

Conclusion & Recommendation

We recommend selling MRK stock in the portfolio because we anticipate a high degree of volatility in revenue growth.

PDL BioPharma, Inc. PDLI

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$10.43	\$7.24	3/26/2013	Small Core	8.12%

Technical Analysis	
Bollinger Bands	Neutral
Relative Strength	Positive



Introduction

PDLI is a biopharmaceutical company engaged in the discovery and development of antibodies for oncology and immunologic diseases worldwide. PDL focuses on intellectual property asset management, investing in new income generating assets and maximizing value for its shareholders.

Fundamental Analysis

In-line with 2012 analysis of PDLI, we hold the similar position and anticipate greater returns in 2013. In addition to the company's assets of antibody humanization patents, royalty assets, licensing agreements, recent press releases announced additional royalty generating products that are already approved by FDA that will generate additional royalty revenues for the company. The income stream from the company acts like an annuity with depreciating assets. There is a level on uncer-

tainty due to some ongoing litigations regarding infringement of drug patents by Genentech, Roche and Novartis. Because the claims are made against the above-mentioned partners, the outcomes should not negatively influence PDLI's operating results. On the contrary, if the outcome is positive, PDLI will be eligible to settlement claims in the form of royalties on sale of all infringed patented products in EU and US markets.

Financial Statement Analysis

Based on the company news release dated 11 March 2013, PDLI expects to generate Q1 royalty revenue of about \$92M, which is up 19% from year-ago because of increased Q4 2012 sales for all licensed products for which co. receives royalties in Q1 2013. Further on January 23, 2013, company declared regular quarterly dividends of \$0.15 per share of common stock, payable in each quarter of 2013, which secures our regular earnings from holding of PDLI stock. The company's margins are wide and will continue to be so because the company has no R&D costs. Further, our valuation model suggests that PDLI is undervalued in the market at the current stock price of \$7.24.

Assuming a 4% growth rate of dividends per Value Line estimates and 9.26% WACC, the fair value of PDLI is estimated at \$10.43.

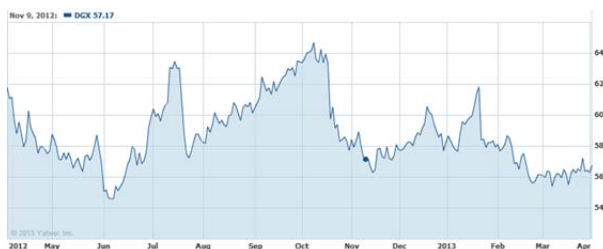
Conclusion & Recommendation

We recommend a hold for PDLI stock because of their attractive business model, undervaluation and because healthcare sector volatility will not have much impact on this stock.

Quest Diagnostics Inc. DGX

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$52.45	\$56.22	3/26/2013	Mid Core	1.65%

Technical Analysis	
Bollinger Bands	Neutral
Relative Strength	Positive



Introduction

Quest Diagnostics is the leading independent provider of diagnostic testing, information, and services in the United States. The company is operating in number of international markets providing diagnostic test products. During 2012, we incurred a loss of about 2% on DGX shares held in the portfolio.

Fundamental Analysis

Lab testing is a mature market in the US with limited growth potential. DGX has less bargaining power to increase prices because the industry is consolidation with only two major players and government is trying to control health care spending. Especially with the introduction of new health care reforms, we do not anticipate significant growth in revenues for DGX due to declining reimbursement rates with cuts in Medicare, Medicaid rates. Per the company's annual report, Medicare accounts for about 14% of DGX's revenue. According to Net Advantage, DGX is growing slower than the industry

average of about 4% losing its market share to hospital-based labs. DGX plans to do more strategic acquisitions that may further increase the high net debt level of \$3.06 billion as of December 31, 2012.

We observed in several healthcare industry newsrooms that DGX failed to maintain the standards of lab testing in overseas locations and lost market share to international competition. There is a lack of growth strategy overall in the company and we believe that it is going to further hurt the business in 2013.

Financial Statement Analysis

Based on financial reports, compound annual growth rate of sales from 2009 to 2012 is negative 0.33% due to the declining trends in physician office visits and lower reimbursement rates. The growth in Earning per share in 2012 is because of company's active stock repurchase program. DGX bought back shares worth \$1.13 billion in 2011 and 2012 and we see continued share repurchases in 2013. Morningstar expects the company to focus on reducing its debt load in the near term.

Our analysis based on company's dividend policies suggest a valuation of \$52.45 that signifies that the stock is overvalued in the market. The underlying assumptions of valuation take into account the expected growth rate of dividends of 20% per Value Line estimates.

Conclusion & Recommendation

We recommend sell for DGX stock in the portfolio because we do not anticipate any changes in business volume trends in 2013. Questionable level of service at Quest's labs and lack of operational efficiency makes it a less attractive investment in our portfolio.

St. Jude Medical Inc. STJ

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$52.37	\$41.94	3/26/2013	Mid Value	2.24%

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

St. Jude Medical, headquartered in Minnesota develops medical technology and services for treating cardiac, neurological and chronic pain patients worldwide. It focuses on 4 areas: cardiac rhythm management (CRM), atrial fibrillation (AF), cardiovascular and neuromodulation.

Fundamental Analysis

While we expect the reimbursement cuts in Medicare to affect sales and profits, the new product pipeline will offset the impact on growth. St. Jude’s strong product portfolio in CRM, implantable cardioverter defibrillator (ICD), AF, and Neuromodulation maintained its market share and compensated its shareholders in a challenging economy. Morningstar rates STJ as 4 stars on account of its launch of new products in Europe which will allow the company to tap into a high growth market projected to reach \$3 billion by 2020. We believe that medical technology companies overall will have expand with the increase in healthcare expenditure as well as healthcare

policy changes. Secondly, because STJ is developing new treatment options, such in atrial fibrillation and renal denervation for hypertension patients, we believe there is a strong growth potential. As an investor, we are concerned with changing regulatory environment leading to high R&D expenses to receive FDA approvals. However, STJ will be able to generate cost benefits by shifting its manufacturing facilities to Costa Rica and Malaysia. Morningstar analysts project 8% net income growth assuming 80-basis-point gain in operating margins in next 4 years after a 2% cut in Medicare reimbursement.

Financial Statement Analysis

According to Net Advantage, STJ generated a CAGR of 17.8% for sales and 13.4% for operating EPS from 2007 to 2012, which is well above large-cap medical device peers. The company’s strong cash position enabled share repurchases in both 2011 and 2012. On February 23, 2013, STJ authorized cash dividends of \$0.25 per share an increase of 19% compared to first quarter 2012.

Our free cash flow valuation model, assuming 10.47% WACC, 8.5% short term cash flow growth per Value line estimates suggests that the stock is undervalued as well as having a lower risk as compared to its competitors.

Conclusion & Recommendation

The unique product portfolio and strong cash flow position will offset any negative influence of healthcare reforms on the business. We believe taking the manufacturing facilities outside the US will generate huge cost-saving advantages for the company.

UnitedHealth Group, Inc. UNH

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$80.00	\$55.22	3/26/2013	Large Core	1.5%

Technical Analysis
Bollinger Bands
Relative Strength



Introduction

UnitedHealth provides health insurance and related services to more than 77 million Americans. Products include risk-based health insurance, non-risk-based plan management for self-insured employers, Medicare and Medicaid plans, pharmacy benefit and disease management, and data and consulting services.

Fundamental Analysis

Even though there is a mixed impact of new legislation on UNH, we believe the company's diverse and experienced multiple products will downplay the negative influence. According to Morningstar, reimbursement cuts in Medicare Advantage and expanded reporting requirements for meeting performance benchmarks will inhibit the growth potential for UNH. However, new insurance subsidies, investments in health infrastructure and disease management will benefit. We think that

UNH is well positioned to serve the increasing population covered under health care plans.

UNH has one of the most favorable medical cost ratio (medical costs as a percentage of premium revenue) in the industry, down 40 basis points from 2011. With the increase in pricing pressure on healthcare service providers, we believe it is extremely vital for a healthcare company to improve spending.

UnitedHealth's recent expansion to Brazil acquiring the largest health insurer is a strategic movement in one of the fastest-growing markets in the world.

Financial Statement Analysis

Our DDM valuation models assuming 11% WACC and 17% short-term growth rate of dividends for 5 years (Value Line estimates), suggests that UNH is undervalued in the market by \$25.

UNH's total revenue was up 9% in 2012, while fourth-quarter revenue growth accelerated to 11%. The company's robust revenue growth included \$1.0 billion from its new international segment, following the acquisition of a majority stake in Brazilian insurer Amil. The company maintained a strong balance sheet position with debt/capital ratio in the mid 30% range.

Conclusion & Recommendation

We recommend a strong buy for UNH because of its expected robust revenue growth and competitive position in the industry.

WellPoint Inc. WLP

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	\$119.17	\$64.98	3/26/2013	Large Value	1.81%

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

WellPoint is a U.S. health benefits company and an independent licensee of the Blue Cross and Blue Shield Association. Due to its regionally entrenched competitive advantage and deep discount to intrinsic value, we recommend a buy.

Fundamental Analysis

WellPoint is the largest publicly traded health benefits company in terms of membership in the United States, and its member base experiences organic growth nearly every year. Even though there is a possible threat from the new healthcare legislation, we think that WellPoint may have some positive impact because of insurance subsidies and expansions to the Medicaid program. According to Morningstar, WellPoint has limited exposure to Medicare that also reduces the impact of cuts in Medicare expenditure.

WellPoint has a strong brand in 14 states because it holds an exclusive licensee of Blue Cross and/or Blue Shield. We think that with the healthcare reform, as more Americans are covered under affordable health benefits programs, WLP's competitive advantage will prove to be more valuable for its shareholders. WLP has strategically acquired Amerigroup that increased the base of its medical members along with generating cost advantages.

Financial Statement Analysis

We think that the company's competitive advantages will boost the profits in the year to come. The stock price did take a hit in anticipation of negative influence of new legislation and increasing pricing pressure. However, we think that WLP faces less competition due to higher regional market share. Maintaining our underlying assumptions, we value WLP \$120. WLP declared dividends in 2012. On 21 February 2013, WLP announced 30% increase in dividends and declared a \$0.375 per share dividend for Q1 '13.

We concur with Net Advantage's forecast for operating revenues to increase by 18.0% in 2013, following the 1.4% growth WLP realized in 2012. We think that the stock is undervalued in the market assuming 10% WACC, and 6% growth in Cash flow per Value Line estimates.

Conclusion & Recommendation

We recommend a hold for WLP stock in the portfolio because we believe that the company has a unique position in the industry that may benefit from the shifts in policy regulations.

Industrials

Overview

The industrial sector encompasses a wide range of industrial firms that supply the machinery, equipment, parts, and services that other companies use to operate their manufacturing operations.

Following a resurgence in 2010, industrial machinery companies have continued to achieve year-over-year improvements. Following the 2007–09 economic recession, manufacturing-specific indicators began to show year-over-year improvements in late 2009, as did revenue and earnings figures for industrial companies. In 2010, industrial machinery companies built on this momentum as the economic recovery gained steam, leading to improved sales and earnings for the group. Acceleration in the pace of growth continued into early 2011. However, as concerns about world economic growth and rising commodity prices increased, the pace of growth began to slow.

Economic concerns have heightened through mid-2012, with a number of European economies in recession and growth slowing in both the US and emerging markets. These factors have resulted in continued slowing in revenue growth, orders, and net income growth among large industrial machinery companies. However, we note that even in the face of all these obstacles, industrial machinery companies have continued to grow.

We note that other industrial indicators and surveys have followed a similar path, with a positive trend into early 2011 before turning lower, then improving in early 2012 and dipping back downward in June.

Fundamental Outlook

Demand for industrial machinery is forecast to pick up as downstream industries regain profit and increase production. However, we view the recent slowing in global economic growth, along with recessionary conditions in Europe, as significant headwinds for companies in the industry. In our view, positive factors include continued economic growth in the US and in the emerging markets, especially in Asia and Latin America. We expect manufacturing and machinery usage to expand this year in the US, and we believe that over the longer term, developing regions should drive industrial machinery growth.

Conclusion and Recommendation

The fundamentals outlook for Industrials sector is somewhat positive. We also note that historically industrials sector has performed well in early days of economic recovery. Overall, we see the economic situations conducive to industrials sector. We believe this sector will outperform overall market and recommend slightly overweighting it.

Altra Holdings, Inc. AIMC

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	32.42	27.02	04/01/2013	Small Core	0.94%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Altra Holdings, Inc., through its subsidiary, Altra Industrial Motion, Inc., designs, produces, and markets a range of mechanical power transmission and motion control products worldwide. The company's product offerings include industrial clutches and brakes for elevators, forklifts, lawn mowers, oil well draw works, ethanol mixers, packaging machinery, turbines, steel strip mills, and pumps. It also offers engineered bearing assemblies for cargo rollers, power transmission components, and engineered belted drives. The company sells its products under multiple brands through its sales force, industrial distributors, and independent sales representatives. It serves aerospace, energy, food processing, general industrial, material handling, mining, petrochemical, transportation, and turf and garden markets.

Altra Holdings, Inc. is headquartered in Braintree, Massachusetts.

Fundamental Analysis

Our fundamental outlook for the industrial machinery sub-sector is very positive. Industrial production rose 0.7% in February, from the prior month, and 2.5% from a year ago.

Higher industrial activity will generate demand for AIMC's various products.

We expect new products and programs to contribute to AIMC's top line performance in 2013. We also believe lower interest costs achieved through 2012 refinancing and other strategic actions to contribute to enhance AIMC's bottom line performance.

Financial Statement Analysis

Revenues increased by 8.47% in 2012 and by 29.73% in 2011. AIMC's net income decreased in 2012 by 35%. This decrease in net income, despite increase in revenue is attributed to restructuring cost and significant jump in interest expense.

The company's dividend yield remained at 1.25% in 2012.

Conclusion & Recommendation

We believe AIMC is currently undervalued. In 2012, management was not successful in converting revenue gains into earnings gains, mostly because of restructuring the company. These one-time costs actually help AIMC bring down its interest expenses going forward. Moreover, it is difficult to ignore the trend of strong revenue gains year over year. We have confidence that revenue growth will reflect in earnings and dividend payouts. AIMC also represents a good small value company for diversification of the portfolio.

Our 12-month price estimate for AIMC, based on discounted dividend model analysis, is \$32.42. It is higher than its current market price and makes AIMC an attractive investment choice.

We recommend buying AIMC stock.

Grupo Aeroportuario del Sureste ASR (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	124.35	136.67	03/29/2012	International	1.86%

Technical Analysis	
Bollinger Bands	Negative
Money Flow	Neutral



Introduction

Grupo Aeroportuario del Sureste, through its subsidiaries, holds concessions to operate, maintain, and develop airports in the southeast region of Mexico. The company operates nine airports located in the cities of Cancún, Cozumel, Mérida, Huatulco, Oaxaca, Veracruz, Villahermosa, Tapachula, and Minatitlán. It also provides aeronautical services, which include aircraft landing and parking, passenger walkway, and airport security services. The company is also involved in leasing space at its airports to retailers, restaurants, airlines, banks, retail outlets, currency exchange bureaus, car rental agencies, and other commercial tenants; and offering automobile parking and ground transporting services, as well as construction services.

Grupo Aeroportuario del Sureste, S. A. B. de C. V. was founded in 1998 and is headquartered in Mexico City, Mexico.

Fundamental Analysis

ASR's monopoly over air travel in tourist-heavy southeast Mexico should allow ASR to keep generating robust profits over a long period. We believe company's fundamentals are strong to generate revenue and profit from the early stages of economic recovery worldwide.

ASR was the best performing stock in The Crummer SunTrust' portfolio in 2012 with 63% price appreciation and 67% returns including dividends. We view this extraordinary performance as the biggest negative factor for ASR. We believe ASR's stock is currently overvalued.

Financial Statement Analysis

Company's profit margin was reported at 40% in 2012, a 6% jump from a year earlier. We note that company's revenue growth was 24% in the same period. These numbers point to impressive top line improvements and cost cutting measures.

We believe it will be difficult for company to maintain such high level of margins for a long term in face of increasing competition.

The company's 2012 dividend yield was 1.90%. It will be hard for the company to maintain such high yield as the denominator, the stock price, has appreciated so much over the past year.

Conclusion & Recommendation

Although company has strong fundamentals and ability to generate top line revenue, we see it hard to maintain very high margins for ASR in 2013. The company's stock has appreciated a great deal over past year and is an attractive sell at current price.

Our intrinsic value of ASR stock, using DDM analysis, is \$124.35. The price is moderately lower than the stock's current price and we have a prime opportunity to cash out on our investments. We also do not find dividend yield attractive enough to warrant holding this stock.

We recommend selling our investments in ASR.

Brady Corp. BRC

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	31.56	33.53	03/29/2012	Small Value	2.34%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Brady Corporation (Brady) is an international manufacturer of identification solutions and specialty materials that identify and protect premises, products and people. Brady provides customers with a range of customized and diverse products for use in various applications. The Company is organized and managed on a geographic basis within three regions: Americas, Europe, the Middle East and Africa (EMEA), and Asia-Pacific. Across these regions, the Company operates three primary business platforms: Identification Solutions (ID Solutions), Direct Marketing and Die-Cut.

The company's product offerings include workplace safety and compliance products, such as facility identification products, labeling systems, spill control and lock-out/tag out products, software services, bar coding products, handheld printers, wire markers, sleeves, and tags; and self-expiring nametags, badges, etc. Brady Corporation was founded in 1914 and is headquartered in Milwaukee, Wisconsin.

Fundamental Analysis

BRC's revenue growth is not as strongly correlated with demand for industrial products. Therefore, expected improvements in industrial sector do not translate into increased demand for BRC's products.

We think the rate of growth in the sub-industry BRC operates in is stabilizing. Our opinion is based on the data from the National Electrical Manufacturers Association's Electro-industry Business Confidence Indexes. We therefore anticipate the revenue growth for BRC to be limited in 2013.

Considering dividends The Crummer SunTrust portfolio's return on investment in BRC in 2012 was 20%.

Financial Statement Analysis

The company reported losses of \$17.9 million, or \$0.34 per share in 2012. This loss is primarily due to whopping 179% tax liability reported in 2012. Revenue and EBITDA also contracted in 2012.

The dividend yield in 2012 remained at 2.21%. We anticipate dividend yield to be even lower in 2013.

Conclusion & Recommendation

In our opinion, BRC will have difficulties producing enough cash flow to even maintain its low dividend yields.

Our 12-month price estimate for BRC, based on discounted dividend model analysis, is \$31.56. This, combined with low dividend yield, makes it an unattractive investment choice.

We recommend selling all the holdings of BRC in the portfolio.

Diebold, Inc. DBD

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	27.45	30.32	03/29/2012	Large Core	3.81%

Technical Analysis	
Bollinger Bands	Negative
Money Flow	Neutral



Introduction

Diebold, which has served the financial services industry since it began providing safes and vaults in 1859, is a provider of integrated self-service delivery and security systems to financial, commercial, government and retail markets. The company offers a broad product line that includes automatic teller machines (ATMs) and other self-service transaction systems, electronic and physical security systems, and software and integrated systems. DBD is leveraging its core technologies into new product areas such as self-service checkout and electronic voting terminals and solutions for governments.

Services represented over half of revenues in the first quarter of 2012, and the company envisions the service portion of its business growing, based on maintenance needs and rising customer interest in advanced services.

Diebold was founded in 1859 and is headquartered in North Canton, Ohio.

Fundamental Analysis

We believe favorable trends in Asia for DBD will be offset by weakness in U.S. regional banks as well as delays in Brazil. In late January 2013, DBD preannounced revenues that were below analysts' forecasts for the fourth quarter of 2012.

During the third quarter, profitability slowed in Brazilian operations due to cyclical declines in the voting business and this trend continued in the fourth quarter. Meanwhile, the mix shift of revenues and increased investments in infrastructure in North America should continue to limit the region's margins.

DBD announced that its board of directors is replacing its CEO and we believe this is the result of operational challenges.

DBD was the only underperforming stock in The Crummer SunTrust portfolio for industrial sector, with net losses amounting to 20%.

Risks the company faces include reduced demand and increased competition, inability to hire a talented executive team and anti-takeover provisions that might inhibit a potential sale of the company.

Financial Statement Analysis

The company's revenue is highly cyclical. Revenue in Q4 2012 declined by 1.20% compared to Q4 2011. The company reported loss of \$0.12 per share in Q4 2012.

Diebold has history of high dividend payouts, and dividend yield in 2012 was 3.79%.

Conclusion & Recommendation

Although DBD stock has high dividend yield, we see difficulties in 2013 generating enough cash flow to support these payouts

Our 12-month price estimate, based on discounted dividend model analysis, is \$27.45. Our opinion price is moderately lower than the stock's current price.

We recommend selling all the holdings of DBD in the portfolio.

General Electric Co. GE

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	27.80	23.08	04/01/2013	Large Value	3.14%

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Neutral



Introduction

General Electric Company operates as an infrastructure and financial services company worldwide. It was founded in 1892 and is headquartered in Fairfield, Connecticut.

The company does business through eight segments: Power & Water, Oil & Gas, Energy Management, Aviation, Healthcare, Transportation, Home & Business Solutions and GE Capital. The company’s product offering across all segments include turbines, surface and subsea drilling and production systems, nuclear reactors, electrical distribution and control products, lighting and power panels, hardware, software, jet engines, turbo-prop and turbo shaft engines, medical imaging and information technologies, freight and passenger locomotives, underground mining equipment, commercial and home loans, credit cards, etc.

The company has strong presence around the world. Sales by region in 2012: U.S. 48%, Europe 18%, Pacific Basin 17%, Americas 9% and Middle East and Africa 8%

Fundamental Analysis

Our fundamental assessment of the economy is bullish. We expect recovery to pick steam in 2013 after the Great Recession.

GE, with its well-managed portfolio of profitable businesses, is in prime position to benefit from recovering economy. Majority of GE’s revenue comes from the sectors that have historically performed well in early days of recovery, such as power, oil and gas, home and business solutions, energy, etc. We also anticipate continued strong demand from emerging markets for GE’s infrastructure products and solutions.

Primary risks in our view are credit losses and litigation exposure at GE Capital and potential for a weaker than expected economic recovery.

Financial Statement Analysis

We expect GE’s revenue will rise by 6% in 2013 driven by growth in most of the sectors where its businesses operate. The revenue growth will be somewhat limited in Healthcare because of the austerity programs in Europe.

We forecast that operating margins will rise to 16.1% in 2013, from 15.5% in 2012, on improved volume, as well as some improvement in pricing.

Conclusion & Recommendation

Despite softness in a few sectors, most indicators are pointing in the right direction for GE.

Our 12-month price target of \$27.80 is higher than GE’s current stock price. GE also has a record of strong earnings and high dividend payouts. Its dividend yield remained at 3.29% in 2012 and there is potential for it increasing in 2013.

We believe GE is an attractive investment choice and we recommend buying its shares.

3M Company MMM

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	112.34	106.31	03/29/2012	Large Core	2.27%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

3M Co. is a global manufacturer operating a broadly diversified business. The company classifies its business into six reportable segments -- Industrial & Transportation, Health Care, Display & Graphics, Consumer & Office, Electro & Communications, and Safety, Security and Protection. The company's products involving some form of coating, sealant, adhesive, film, or chemical additive that increases the product's overall functionality and usability for consumers.

The company was formerly known as Minnesota Mining and Manufacturing Company, was founded in 1902 and is based in St. Paul, MN.

Fundamental Analysis

We see improving economic conditions in the U.S. and emerging markets as potential catalysts for the 3M's revenue in 2013. The company is well poised to benefit from early stages of economic recovery, which tends to generate more industrial output and hence demand for 3M's products.

We note that company's performance in 2012 was strong with none of its divisions losing money. We are even more optimistic about 3M's performance in 2013 in light of continuing economic recovery.

We also anticipate significant acquisitions and stock repurchase by 3M in 2013

Risks to our recommendation include slowing down global economy and acquisition risks.

Considering dividends the Crummer SunTrust portfolio's return on investment in MMM in 2012 was 20%.

Financial Statement Analysis

We note that company's operating margins were over 21% in five of six business segments on 3M, with some sectors posting substantially higher margins. These margin levels represent strong profitability in this industry. We project overall operating margin to improve to 22.3% in 2013 from 21.7% in 2012 on volume increases and productivity enhancements.

Conclusion & Recommendation

Favorable economic conditions will allow 3M company to benefit from its already strong position in many of the markets it serves. Moreover, the management has demonstrated ability to convert strong cash flow to strong earnings and dividends.

We estimate the intrinsic value of 3M stock at \$112.34, slightly higher than its current value. This, combined with strong dividends and lower risk make 3M an attractive investment choice and we recommend buying this stock.

Metso Oyj MXCYY (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	49.65	42.62	04/01/2013	International	4.78%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Metso Oyj is a supplier of technology and services to process industries, including mining, construction, pulp and paper, power, and oil and gas. Company's product and services portfolio includes products across three segments. The Mining and Construction segment offers technology, processes, machinery, and services for mining and minerals processing industry including products for crushing, feeding, grinding, separation, slurry pumping and pyro processing. The Automation segment supplies process industry flow control solutions and services such as quality controls, automated laboratory testing, consistency transmitters and ESD valve products. The Pulp, Paper and Power segment supplies processes, machinery and services for the pulp, paper, and power industries including products for wood handling, chemical pulping, etc. The company also engages in automotive business.

Metso Oyj is headquartered in Helsinki, Finland.

Fundamental Analysis

Uncertainty in the world economy in 2012 was reflected to some degree in Metso's customer industries. This uncertainty had somewhat negative impact on market activity, and certain customers had delayed their decisions on major projects.

We expect improving economic conditions ease off some of that uncertainty and drive demand for Metso's products and services.

Weaker euro also helped drive revenue in 2012. The company remained fundamentally and financially sound and reported 13% increase in revenue in 2012, despite the uncertainty it faced. About half of company's revenue comes from emerging markets and rest comes from developed markets.

Financial Statement Analysis

The company reported extraordinary top line and bottom line growth in 2012. Gross margins increased to 27% from 24.4% in 2011. We note the company's gross margin is better than industry average, and reflects the company's ongoing cost cutting efforts. We also expect the margin to widen further in 2014 driven by higher volume and economies of scale.

The company's dividend yield was an impressive 6.20% in 2012.

Conclusion & Recommendation

Favorable economic conditions will generate demand for Metso's products and services. Moreover, the management has proven its ability to convert revenue into earnings.

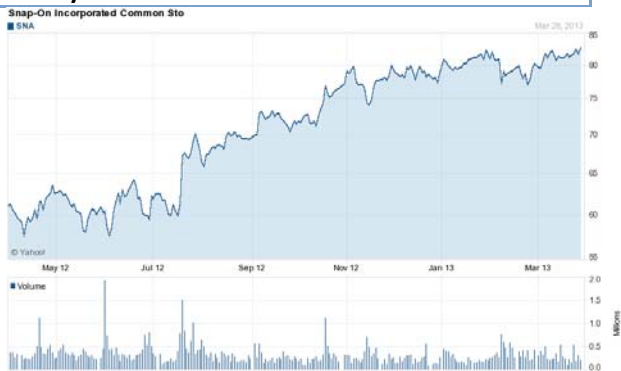
Our 12-month price estimate for MXCYY is \$49.65, higher than its current price of \$42.62. The company also has a history of strong dividend payouts, and its 6.20% dividend yield in 2012 was among the highest in the industry.

MXCYY at its current price represents an attractive investment choice and we recommend buying the stock.

Snap-on Inc. SNA

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	93.18	82.70	03/29/2012	Mid Core	1.76%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Snap-on Inc. is a major global manufacturer and marketer of high-quality tool, diagnostic, service and equipment solutions for professional tool and equipment users under various brands and trade names. Products and services include hand and power tools, tool storage, diagnostics software, information and management systems, shop equipment, and other solutions for vehicle dealerships and repair centers, as well as for customers in areas including aviation, aerospace, agriculture, construction, government and military, mining, natural resources and power generation. The company also derives income from financing programs used to facilitate the sale of its products. SNA services these customers primarily through the mobile van channel; company direct sales; distributors; and e-commerce.

Snap-on Incorporated was founded in 1920 and is headquartered in Kenosha, Wisconsin. The company sells its products in 130 countries.

Fundamental Analysis

We believe that modest global economic growth will lead to higher order rates and sales across SNA's segments.

On a geographic basis, we see the largest sales improvement in emerging markets, which continue to record stronger economic gains than those in developed markets (with sales declines likely to be posted in Europe in the near term). On a segment basis, we expect the biggest gains in the Snap-On Tools segment, where SNA has taken actions to expand its market share in serving the franchised dealer van channel.

Considering dividends, the Crummer SunTrust portfolio's return on investment in SNA in 2012 was impressive 39%.

Risks SNA faces in 2013 include possibility of renewed global recession and failure to introduce successful new products.

Financial Statement Analysis

Company's net margin at 9.88% in 2012 is marginally lower than the competitors, however, trends suggest its continually improving. This reflects the ongoing effort by SAN's management to reduce cost and transform into a leaner organization. We also anticipate margins to widen further in 2013 and 2014.

The company's dividend yield at 1.84% is lower than most of other companies in Industrials sector we are investing in.

Conclusion & Recommendation

Although company's dividend yields are relatively unattractive, SNA's fundamentals are strong and we expect 7% growth in revenue, after posting 4% gains in revenue in 2012. We anticipate similar improvements in earnings.

Our intrinsic values for SNA at \$93.18 suggest it is significantly undervalued. We also note that most indicators are pointing in right direction for SNA, and it will repeat its impressive 2012 performance.

We recommend holding our investment in SNA.

TAL International Group, Inc. TAL

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	48.85	44.90	04/01/2013	Small Value	5.74%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

TAL International Group, Inc. is a lessor of intermodal containers and chassis. The Company has two segments:

- Equipment Leasing, in which the Company owns, leases and disposes containers and chassis from its lease fleet, as well as manages containers owned by third parties, and
- Equipment Trading, in which the Company purchases containers from shipping line customers, and other sellers of containers, and resells these containers to container traders and users of containers for storage or one-way shipment.

As of December 31, 2011, its owned fleet included 1,598,132 twenty-foot equivalent units. During the year ended December 31, 2011, the Company sold approximately 69,700 twenty-foot equivalent units of its owned containers.

TAL International Group, Inc. was founded in 1963 and is headquartered in Purchase, New York.

Fundamental Analysis

Fundamental outlook for TAL international group is very positive. Accelerating recovery in North American and emerging markets will drive the trade and thus demand for the TAL's products. Our opinion is based on the data

published by various government agencies in the USA. Industrial production rose 0.7% in February, from the prior month, and 2.5% from a year ago.

Primary risks TAL faces include possibility of renewed global recession and disruption of global trade because of terrorism and international politics.

Financial Statement Analysis

Company reported \$589M revenue in 2012, up from \$517M in 2011. We note that company's earnings per share declined to \$3.87 from \$3.34 in the same period. This indicates company's management is capable of converting revenue into earnings.

Net margin widened to industry leading 22.09%. We expect the margin to increase further based on higher volume and cost cutting.

Company's dividend yield, at 5.60% is among top quartile in the industry.

Conclusion & Recommendation

Recovering economy and increasing prospects of global trade will drive TAL's revenue. The management has demonstrated capability of generating income from the revenues increase.

We expect 17% increase in TAL's revenue in 2013 after 14.2% increase in 2012. Our 12-month price estimate, based on discounted dividend model analysis, is \$48.85. This combined with strong dividend yield make this stock an attractive investment choice.

We recommend buying TAL stock.

United Technologies Corp. UTX

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	95.67	93.43	03/29/2012	Large Core	2.25%

Technical Analysis	
Bollinger Bands	Negative
Money Flow	Negative



Introduction

United Technologies is a multi-industry holding company that provides technology products and services to the building systems and aerospace industries worldwide. Its product and service portfolio includes:

- Otis: elevators, escalators, and moving walkways;
- UTC Climate, Controls & Security: heating, ventilating, air conditioning, refrigeration and security solutions;
- Pratt & Whitney: aircraft engines;
- UTC Aerospace Systems: aerospace products such as electric power generation systems, flight control systems, and engine control systems; and military; and
- Sikorsky: commercial helicopters.

United Technologies Corporation was founded in 1934 and is based in Hartford, Connecticut.

Fundamental Analysis

We expect improving economic conditions worldwide will drive demands for UTX's products and services. We see the economic factors driving increased global air traffic in 2013, improved demand for elevators and escalators, particularly in China, increased demand for Carrier residential and commercial HVAC equipment.

We note that in July 2012, UTX acquired Goodrich Corp. for \$18.4 billion, including \$1.9 billion in assumed debt.

Primary risks in our view are acquisition integration risks, sustained rise in the value of UD dollar against other currencies and possibility of a sustained slowdown in the global economy.

Considering dividends the Crummer SunTrust portfolio's return on investment in UTX in 2012 was impressive 13%.

Financial Statement Analysis

Company's long-term debt jumped to \$21.5 billion in 2012 from \$9.5 billion in 2011, partially because of acquisition of Goodrich Corp. and its \$1.9 billion assumed debt. This affected most of the ratios and margins for UTX. In 2012, net margins remained at 8.39%, considerably lower than the competitors.

Dividend yield in 2012 remained at 2.29%.

Conclusion & Recommendation

Although favorable economic conditions will drive the revenue for UTX in 2013, the interest expenses and low margins will limit its ability to convert sales dollars into earnings. Its dividend payouts are too little for our liking.

Our 12-month price estimate for UTX shares, based on discounted dividend model analysis, is \$95.67. We see the expected price appreciation and dividend payouts too little to compensate for additional risk related to its acquisition of Goodrich Corp. and additional debt acquired.

We also note that all the technical analysis trends are indication that UTX is overbought and is likely to reverse its course.

We recommend selling all the holdings of UTX in the portfolio.

Materials

Returning to normal as prices recover

We recommend the SunTrust Portfolio allocate market-weight to the materials sector in relation to the S&P — about 4% of equity assets. The Materials Sector encompasses a wide range of commodity-related manufacturing industries. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products, and metals, minerals and mining companies, including steel producers. Over the last year the materials industry was hit hard by a glut of supply and a decrease in demand. We expect demand to increase as the world economy continues to recover and expect developing countries to drive demand. The sector has begun moving towards more prudent capital allocation and is realigning cost structures to increase margins. We predict a rebound in key commodity prices which, coupled with better asset management and reduced cost structures, should drive the industry back to normal profitability.

We are recommending companies with exposure to multiple commodities to take advantage of diversification and our expectation of a broad recovery in the sector. Our picks are international companies that operate mines in a variety of countries and have convincing drivers for multiple product lines.

Rio Tinto RIO (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$58	\$46.21	4/2/13	International	3.62%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Rio Tinto PLC is engaged in finding, mining, and processing mineral resources. The company is involved in aluminum, copper, diamonds, energy, iron, gold, titanium dioxide, and several other minerals. The company's operations span the globe with mines in Canada, the United States, Australia, China, India, South Africa, Mongolia, and Namibia, among other countries.

Fundamental Analysis

After reporting over \$5.8B of earnings in 2011 the company posted a loss of \$2.99B in 2012. This loss is attributed to several factors including a decrease in cash flows from operations due to declining commodity prices, which affected many of the company's products, an increase in capital expenditure aimed at expanding mining capacity, and a \$14.4B accounting charge for goodwill impairment. Without the impairment charge, the company would have generated a healthy net income. We expect the company to return to profitability next year as demand for minerals increases with the continued economic recovery in the developed world and strong growth in the developing world. These trends will be amplified by the new CEO's commitment to disciplined capital management. Rio Tinto, with its diversified portfolio of minerals, is ideally suited to benefit from this increased demand across the industry.

The decrease in cash flow from operations was due to declining prices for many of the minerals that Rio Tinto mines. While prices were down, the company actually increased production from many of its business units. We expect commodity prices to rebound over the next year and expect the company to increase production after the capital expenditure last year. In addition, the company plans on being more disciplined in its capital expenditures, which should reduce costs. These factors should drive earnings per share growth.

The \$14.4B impairment charge was related to coal production in Mozambique. The company found that the infrastructure constraints and production volume did not support the value on the balance sheet and chose to impair it. This led to the CEO stepping down and a replacement that is focused on prudent financial management and growth in areas with large spreads between cost of capital and rates of returns.

We expect modest recovery in the developed world and stronger growth in the developing world, which should increase demand for Rio's products. The diversity of Rio's products position the company to take advantage of recovery in a variety of sectors and industries. This also provides protection against the volatility that might be experienced by a company that has only one product.

Financial Statement Analysis

In 2012 Rio saw revenue decrease after several years of strong growth. Expenses also increased for the year, but the company continued to generate strong cash flow from operations that allowed it to increase its dividend by 15% to \$0.93 per share.

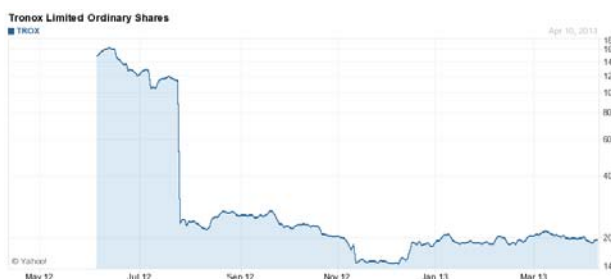
Conclusion & Recommendation

Rio did poorly in 2012 but the conditions that led to this were temporary. This has led the stock market to undervalue the company. The company is poised for capital appreciation and pays a dividend in excess of 3.5%.

Tronox Ltd. TROX (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Sell	\$18	\$19.15	4/5/2013	International	3.92%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Tronox LTD is a producer and marketer of titanium dioxide, a product used in paints, coatings, plastics and paper. The company also produces a few other specialty chemicals but they represent very little revenue and earnings. The company derives about half its earnings from the US and half internationally. The international segment is growing at a much quicker rate than the US segment.

Fundamental Analysis

The company is heavily dependent on titanium dioxide prices and demand. In 2011 prices spiked and the company had a very good year but in 2012 the price fell amid decreases in inventory and weak residential and commercial construction. Because the company is so reliant on titanium dioxide, these factors had a large impact on the company's profitability.

While we expect housing in the US to continue a slow and steady recovery this year, we do not anticipate a spike that would drive demand for titanium dioxide.

Most of the company's growth has come from the international segment, mainly Europe and Asia. Europe is facing continuing economic problems and its economic future is hazy. Asia has had strong growth, even during the recession, but this growth has started to slow. In China, 2012 real GDP growth fell from 9.2% to 7.2% and it is forecasted to decrease slightly in 2013. We do not anticipate Europe or Asia driving enough demand to improve the market for titanium dioxide.

Financial Statement Analysis

While the company has had steady growth in revenue, its earnings have been very volatile. After losing money in 2009, the company earned \$0.47 per share in 2010, followed by \$3.17 per share in 2011, but earnings fell to \$1.90 per share in 2012. Earnings for 2013 are forecasted to decrease again to \$0.60 per share and possibly rebound in 2014. The company made no profit from continuing operations in 2012 but showed earnings through a gain on bargain purchase.

Conclusion & Recommendation

The company is reliant on one product and the growth markets for this product are softening. While its revenue has been steadily increasing, its earnings have been volatile, are down this year, and are expected to be down next year. We recommend selling this stock.

Vale SA VALE (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Hold	\$25	\$16.97	4/4/13	International	5.58%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Vale SA is a Brazilian based metals and mining company. The company provides bulk materials, basic metals, fertilizers, and logistics services. While the company is somewhat diversified it derives a large percentage of its revenue from iron which experienced falling values in 2012. As a result, the company's revenue decreased even as production increased. We expect the economic recovery to cause growth around the world and we think increase demand along with reductions in the company's cost structure to drive earnings.

Fundamental Analysis

Vale suffered from falling mineral prices, something felt across the sector, but still generated substantial cash flow and continued to invest in its projects around the world. The company opened three new mines in 2012 and got approval to open a new iron mine, which should begin production in 2016. The newly opened mines are still building to full capacity and the company will see increasing production for several years at which time new projects like the 2016 iron mine will continue to provide growth.

The other issue that the company faced was a reduction of growth in China. Investors have revised their growth estimates for China downward and right now China is a major buyer of iron. While we expect lower growth than China has experienced over the last several years we still expect a 7-8% growth rate in 2013. The company will also benefit from increased demand from other developing countries including Brazil and India.

The company is also increasing value by streamline its operation and working on reductions in its cost structure. The new mine opening in 2016 has much lower extraction cost which will improve the company's margins and drive future profitability.

Financial Statement Analysis

After tremendous growth in revenues and earnings during 2010 and 2011 the company generated lower revenues and lower profit margin in 2012 but still maintained profitability, even after a \$4 billion impairment, and returned \$6 billion to shareholders. The remainder of the \$5 billion of earnings and the \$5 billion of additional debt was invested in Vale's mines and in acquisitions. The impairment was related to decreased capacity at a nickel smelting plant and to falling prices coupled with decreased production at an Australian coal mine. These non-recurring items should not significantly effect the company going forward and might belie the value of the assets once the production issues are solved.

Conclusion & Recommendation

After a really bad year, the company is undervalued and with the modest improvement in the global economy that we expect the company will spring back to its previous levels of profitability.

Technology

Growth from new corners of the sector

The technology sector is comprised of technological products and services that firms provide for multiple levels of users from personal to professional. Multi-national firms like International Business Machines (IBM), Apple (AAPL) and Microsoft (MSFT) lead this sector by providing some of the most innovative equipment and services within the market. Some of the most notable products in the Computer Hardware industry, a subsector of Technology, include personal computers, tablets, servers, chips, microprocessors and printing equipment. During lulls in the economy, companies have a tendency to reduce capital expenditures on updating computer hardware. The average age of personal computers in professional settings is higher than it has ever been; the current industry average is 4 to 5 years. However, for 2013, the Computer Hardware industry is likely to see growth from handset and tablet chip suppliers, while PC chip suppliers will likely be stagnant.

Services look promising

Another subsector of technology is the Computer Commercial Services industry. This industry is comprised of the intangible technological services including: outsourcing, payroll, human resources and enterprise storage. Growth for this subsector is expected to accelerate slowly as corporate trends continue to push the idea of doing more with less. As the economy continues to improve and companies begin to expand, IT services will ultimately follow. The global economic recession has also provided many stable firms within the technology sector the opportunity to grow inorganically through mergers and acquisitions. The synergies created through M&A provide attractive forecasts in an industry that prides itself on innovation.

It's the in the cloud

Currently, the industry is focusing on two central themes; cloud computing and mobile devices. Cloud computing is the ability for both personal and professional users to store data on the internet without the need for servers. It is a fast, cheap and efficient means of storage, which is gaining more notoriety every day. Looking ahead, the war of the cloud is only expected to heat up. Many of the dominant players are devoting significant R&D measures to ensure long-term market share in cloud technologies. The second trend in recent innovation pertains to the small, portable notebooks known, as Tablet PCs. Consumers are demanding mobility in their computer hardware and tablet PCs provide just that. Although it may appear that tablets will cannibalize the PC market for hardware producers, the trends have shown that they are, in fact, complimentary products for most users. The chart below demonstrates how the Technology Select Sector SPDR (XLK) has lagged behind the S&P 500 (in green). As the recovery continues, Tech will catch up.



Apple, Inc. AAPL

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$610.73	\$427.72	4/4/2013	Large Growth	2.00%

Technical Analysis

Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Apple Inc. designs, manufactures, and markets personal computers and mobile communication devices along with a variety of related software, services, peripherals and networking solutions. The Company sells its products worldwide through its online stores, retail stores, its direct sales force, third-party wholesalers, and resellers.

Fundamental Analysis

For the past 6 months, Apple, Inc. has had a tough time convincing the market that it is still the industry leader in innovative products. The share price has taken a beating, down nearly 38% since its September 2012 highs. With rivals like Samsung and Google's Android platform slowly chipping at away market share, industry competition is beginning to heat up for Apple. Most of the downward pressure on the stock price can be attributed to lower gross margins as manufacturing costs continue to rise. Because of this, Apple will face an uphill battle in the coming years, but can still prove to be a winner if the company positions itself correctly. "Apple's strength lies in its experience and expertise in integrating hard-

ware, software, services, and third-party applications into differentiated, premium devices that provide superior functionality and ease of use for the end customer (Morningstar, 2013)". The iPhone 5 had record sales and the iPad continues to be Apple's fastest-growing product line ever. With each iOS purchase, customers are less likely to switch devices, due to iCloud integration and the vast application ecosystem Apple has created.

The highly anticipated Samsung Galaxy S4 may prove to be a worthy competitor, but it has been touted as "evolutionary, not revolutionary" which helps Apple's case. The costs of production have also gone up, suggesting that Samsung's gross margins will be under the same pressures that Apple has been facing. Apple's product pipeline is also gearing up for some new releases in the coming months. A lower cost iPhone could be released early this summer, as Apple attempts to penetrate the low-end smartphone market. There are also rumors of an iWatch and an iTV, which can be controlled with a ring-like device, possibly to be released later this year.

Financial Statement Analysis

Although the stock price has taken a beating, Apple has no debt and remains in excellent financial health. As of December 2012, the Company held about \$43 billion in cash and investments in the U.S. that can be used for domestic acquisitions, stock repurchases, and dividend payments. We agree with Morningstar's projection of solid revenue growth of 19% for 2013 due to the success of the iPhone 5, iPad, iPad mini, and various Mac computers.

Conclusion & Recommendation

Through a dividend discount model, using a historical growth rate of 7.8%, the Company is attractively undervalued and we recommend an increase in the position for another year to realize the potential value of the stock.

CA, Inc. CA

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$28.57	\$24.78	4/4/2013	Large Value	4.00%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

CA, Inc. designs, develops, markets, licenses, and supports standardized computer software products. The Company's products are used with mainframe computers and in client/server environments. CA offers various enterprise systems management, information management, and business applications solutions to a variety of organizations.

Fundamental Analysis

We agree with Morningstar's analysts who praise CA for building a strong business and a narrow economic moat by helping large organizations monitor, manage, and protect increasingly complex IT environments. CA's products manage mission-critical assets and services ranging from mainframes to the growing industry of cloud computing. With limited competition and a lack of new entrants, CA has been able to entrench its market leadership in mainframe services, with profit margins averaging 60%. However, the mainframe business will continue to experience sluggish growth moving forward.

CA has also poured a significant amount of capital into R&D for upgrading its existing products, a move that could come back to hurt the firm in the faster-growing enterprise solutions market. Nevertheless, with a strong financial position, broad product portfolio, and a loyal customer base, CA remains a solid force to be reckoned with in information technology.

Financial Statement Analysis

With \$2.4 billion in cash and \$1.3 billion, CA has a net cash position of approximately \$1 billion. In fiscal 2012, the company generated approximately \$1.4 billion in free cash flow, enabling it to comfortably service its debt while investing in capital projects and returning capital to shareholders. Mainframe solutions contributed 54% to total revenue, Enterprise Solutions 38%, and Services 8%. (Morningstar, 2013)

Conclusion & Recommendation

With a simple dividend discount model and a historical growth rate of 5.7%, CA, Inc. is slightly undervalued. We recommend a buy position for this equity based on the firm's solid market position, healthy financials and the potential opportunity of aggressive stock repurchases over the next year. As a further inducement, CA repurchased 3.4 million shares in the 3rd quarter alone and is currently authorized for another \$579 million, or about 23 million shares. When fully realized this repurchase is worth \$1.27 per share.

Cadence Design Systems, Inc. CDNS

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$18.28	\$13.42	4/4/2013	Mid Growth	N/A

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Cadence Design Systems, Inc. provides software technology, design and consulting services technology. The Company licenses its electronic design automation software technology and provides a variety of professional services. Cadence's design realization solutions are used to design and develop complex chips and electronic systems, including semiconductors.

Fundamental Analysis

Cadence Design Systems, Inc. is a leading global provider in electronic design automation (EDA) tools that are used to create semiconductors in a quick and effective manner. The Company has a competitive advantage with its expertise in design and verification tools for analog chips in the EDA industry. Due to high barriers to entry, Cadence maintains a narrow economic moat in the EDA market.

It is extremely difficult for new entrants to develop the scale and resources to design comparable products. The firm is projected to grow 9% in 2013 as software sales offset declining hardware and services sales. Operating margins are also expected to increase from 16% in 2012 to around 25% by 2017, due to stronger pricing power from its premium differentiated IP library. (Morningstar, 2013) However, the firm's high exposure to fluctuations in semiconductor R&D spending will remain a concern going forward. If an economic downturn were to occur, the market for EDA products could shrink as chipmakers scale back their R&D spending.

Financial Statement Analysis

As of December 2012, Cadence had no long-term debt and \$726 million in cash and cash equivalents. Cadence was able to grow revenues by 15% last year, despite sluggish growth in the semiconductor industry and global economy. Currently, the firm is in strong financial health.

Conclusion & Recommendation

Through a free cash flow analysis, using an implied short-term growth rate of 17.15% and a 2.5% long-term rate, Cadence Design Systems is currently undervalued. We recommend a buy position for this stock, due to the firm's strong market presence and future growth potential.

EMC Corporation EMC

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$36.76	\$23.45	4/4/2013	Large Growth	N/A

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

EMC Corporation provides enterprise storage systems, software, networks, and services. The Company's products store, retrieve, manage, protect, and share information from all major computing environments and mainframe platforms. EMC operates globally.

Fundamental Analysis

EMC's leading position in the network storage industry and 80% ownership of VMware make the firm a major player among IT infrastructure suppliers. EMC's competitive advantage lies within its massive installed base of storage systems. High switching costs have allowed EMC to expand gross margins and extend its market leadership over large rivals such as IBM, HP, and Dell. EMC's acquisition of VMware was a homerun for the company.

VMware has been one of the most influential enterprise IT infrastructure suppliers over the past decade. Industry analysts cite EMC's aggressive sales force, armed with extreme discounts, for anchoring its distribution network to prevent customers from choosing other firms. However, EMC does face some potential treats in the market. Because the largest cloud-computing providers often build their own storage systems, if they begin to account for a greater percentage of enterprise storage, EMC could lose market share. Although EMC and VMware are well positioned within the industry, we agree with Morningstar that increasing competition could make it challenging to repeat the success they have had over the past 5 years.

Financial Statement Analysis

EMC's has a solid balance sheet, with roughly \$6.8 billion in cash plus \$4.6 billion in long-term investments. Offsetting its cash position is \$1.7 billion in convertible long-term debt that matures in 2013 but is currently convertible. EMC's information storage annual revenue has increased from \$10.6 billion in 2007 to \$15.6 billion in 2012, while its share of the network storage market has steadily climbed to above 30%.

Conclusion & Recommendation

Using a free cash flow analysis with a short-term growth rate of 13.5% and a long-term rate of 2.5%, EMC is currently undervalued. We recommend a buy position due to the strengthening of the firm's long-run competitive advantages because of its acquisition of VMware.

International Business Machines IBM

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Hold	\$206.99	\$211.31	4/4/2013	Large Core	1.80%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

International Business Machines Corporation provides computer solutions using advanced information technology. The Company's solutions include technologies, systems, products, services, software, and financing. IBM offers its products through its global sales and distribution organization, as well as through a variety of third party distributors.

Fundamental Analysis

IBM is a large established company that focuses on business clients in a variety of sizes. In the current market, many companies are hoarding their cash on the sidelines in order to see where the economy is heading. Throughout 2013, we believe corporations will begin offloading some this cash to invest in new capital projects and upgrade aging technology infrastructure. As businesses begin to invest in new capital, IBM will benefit due to the increasing focus on advanced technological solutions. IBM holds a defensible position in enterprise software, services, and hardware.

The combination of these services provides the firm with an unrivaled solution creation and ability that is the foundation to its wide economic moat. The advent of cloud computing will driver large enterprises to develop their own private clouds, and IBM is well positioned to build and manage such clouds for customers. However, at the same time, IBM's high-end computer hardware and mainframe business faces growing competition from these cloud-based servers that can provide vast computing capacity available on-demand. This could ultimately lower revenue and hurt profits for IBM's mainframe business going forward. (Morningstar, 2013)

Financial Statement Analysis

IBM has about \$11 billion in cash and cash equivalents, and about \$32 billion in debt. The firm generates adequate cash from operations to cover its debt obligations while continuing to invest in growth opportunities. IBM's board of directors has stated that it expects the firm to generate upwards of \$20 per share in non-GAAP earnings in 2015. The Company has announced plans to repurchase \$50 billion of stock and pay out \$20 billion in dividends to shareholders through 2015.

Conclusion & Recommendation

Using a simple dividend discount model and a historical growth rate of 7.5%, IBM is only slightly overvalued. However, we recommend holding this position for another year due to the Company's ability to maintain its competitive edge in the dynamic and constantly changing technology industry. As more companies invest their cash balances, IBM is in a very good position to benefit over the next year.

Insight Enterprises, Inc. NSIT

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Buy	\$45.51	\$20.39	4/4/2013	Small Value	N/A

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Positive



Introduction

Insight Enterprises, Inc. offers information technology hardware, software and services to large enterprises, small to medium sized businesses and public sector institutions in North America, Europe, the Middle East, Africa, and Asia-Pacific.

Fundamental Analysis

Insight Enterprises finished 2012 with mixed results. Reduced corporate spending and a weaker economic environment led the technology supplier's top line to fall 5% during the September quarter. Revenue came in at \$5.3 billion, slightly above the \$5.28 billion for 2011. However, Value Line credits Insight for making an effort to improve sales in North America, which makes up 75% of its business. The company is currently reorganizing its sales force and has appointed a new regional vice president.

Looking abroad, business remains weak in Europe, the Middle East, and Africa as the global economy tries to find its footing. European hardware sales saw a jump though, with the acquisition of Frankfurt-based Inmac, a technology hardware firm. Inmac is expected to provide synergies and expand the company's reach in the Euro-zone. So far, efficiency improvements in product lineup and cost control have helped offset downward pressure on Insight's top-line. This has allowed Insight's operating margin of 3.5% to remain relatively wide compared to the industry. Insight may also enhance its technology offerings in cloud computing, as the cloud market continues to gain popularity.

Financial Statement Analysis

Insight's balance sheet is in good shape. At the end of September 2012, the company had \$140 million in cash, which was up from the prior quarter. The debt-to-total capital level remains at 14%, allowing room for acquisitions. Insight's price-to-earnings multiple is below its historic range, but we concur with Value Line that the multiple will improve as the economic outlook brightens.

Conclusion & Recommendation

Using a free cash flow analysis with a short-term growth rate of 11.5% and a long-term rate of 2.5%, Insight Enterprises is undervalued. We recommend a buy position, due to the Insight's low P/E and Peg ratios, cloud computing opportunities, healthy balance sheet, and the Company recently being named to CRN's 2013 Tech Elite 250.

Intel Corp INTC

Recommendation Hold	Valuation \$26.09	Last Price \$21.14	As of 4/4/2013	Style Large Core	Dividend Yield 4.40%
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Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Intel Corporation designs, manufactures, and sell computer components and related products. The Company's major products include microprocessors, chipsets, embedded processors and microcontrollers, flash memory products, graphics products, network and communications products, systems management software, conferencing products, and digital imaging products.

Fundamental Analysis

Intel is another firm that will benefit from the corporate cash hoarding, once companies start to get more comfortable with the economic recovery. As technology becomes the centerpiece of modern times, the more appliances that interconnect with one another, the smarter each appliance becomes through communication. Each appliance requires a chip, and in most cases, Intel is the provider.

Intel Corp. is the largest semiconductor company in the world and continues to hold the top spot through its substantial investments in R&D. As companies begin to offload their cash in capital reinvestments, Intel is positioned for modest growth in their semiconductor chips. However, growth in the PC market has slowed dramatically compared to the 1990's, which will limit Intel's opportunities to expand in this market. Intel will need to capitalize on smaller chips as industry trends continue to push toward mobile devices. In the event that Intel loses its technology lead in the processor market, competitors, like AMD, could steal additional market share from the firm.

Financial Statement Analysis

Although annual revenue growth was down 1% for 2012, Intel continues to remain in solid financial shape. At the end of 2012, the firm had \$12.5 billion in cash and short-term investments, compared with 13.5 billion in debt. The firm typically generates significant amounts of free cash flow as well. Looking forward, Morningstar expects Intel's business to pick up in 2013, with revenue projected to grow 3% for the year.

Conclusion & Recommendation

Using a simple dividend discount model with a historical growth rate of 6.5%, Intel Corp. is slightly undervalued. We recommend holding this position for another year to capitalize on potential gains as the economy continues to recover.

Microsoft Corp. MSFT

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Hold	\$35.18	\$28.59	4/4/2013	Large Value	3.30%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Microsoft Corporation develops, manufactures, licenses, sells, and supports software products. The Company offers operating system software, server application software, business and consumer applications software, software development tools, and Internet and intranet software.

Fundamental Analysis

Microsoft continues to remain strong in the business and productivity software market, which is not going to disappear any time soon. Even with Apple's cult-like following, Microsoft retains the crown for corporate software licensing. Although many seem to think that Microsoft as a technology giant is in decline, a more cohesive strategy is starting to emerge with the release of Windows 8.

With Windows 8, Microsoft is raising the bar and taking notes from Apple by investing substantial capital into cloud technologies, allowing users to back up their data online with Skydrive. Live tiles have also added some differentiation to the platform, adding functionality and making the software more user-friendly. However, Microsoft's cash cow is beginning to believe external pressure due to a variety of factors including alternative devices and alternative operating systems. Google is now offering its cloud-based productivity suite, with similar functionality to MS Office, free with a Gmail account.

Financial Statement Analysis

Although Microsoft's market share is currently under pressure, the company still has a very strong financial position. Microsoft has more than \$66 billion in cash and cash equivalents and approximately \$12 billion in debt. The Company is expected to generate about \$20 billion in annual free cash flow, enabling it to service comfortably debt while investing in the business. (Morningstar, 2013)

Conclusion & Recommendation

Using a simple dividend discount model and a historic growth rate of 6.6%, Microsoft is currently undervalued. We recommend a hold position for another year to capitalize on potential gains from new product lines.

Paychex, Inc. PAYX

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
Hold	\$37.14	\$35.61	4/4/2013	Mid Core	3.00%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Negative



Introduction

Paychex, Inc. provides comprehensive payroll and integrated human resource and employee benefits outsourcing solutions for small-to-medium-sized businesses in the United States. The Company's services range from calculating payroll and filing tax payments to administering retirement plans and workers' compensation.

Fundamental Analysis

Paychex provides easy to use solutions for companies to outsource their human resources departments. They provide three main categories for business, which include Payroll & Taxes, HR and Employee Benefits. The first category is self-explanatory; HR includes hiring, compliance and management. The third is comprised mainly of savings and insurance plans.

Paychex is a medium-sized company that focuses on small-to-medium-sized businesses, which gives it greater pricing power to take on new clients, increasing gross margins. At the same time, high customer switching costs has allowed the Paychex to annually raise prices at a rate above that of inflation. With the economy slowly recovering, Paychex will see modest growth to its client base due to the inexperience of new business owners in HR management. In addition, Paychex and its main rival, ADP, make up about 40% of the payroll outsourcing industry, positioning the company for significant growth opportunities moving forward. (Morningstar, 2013)

Financial Statement Analysis

Revenue increased modestly from 2011 to 2012 at roughly 7%. With a small force of employees, Paychex has earned a little over \$2.2 billion in revenues for 2012. The \$2.2 billion translated into a net income of \$548 million, up roughly 6.4% from 2011. With an after tax margin around 25%, Paychex is in good position expand its business in the coming future.

Conclusion & Recommendation

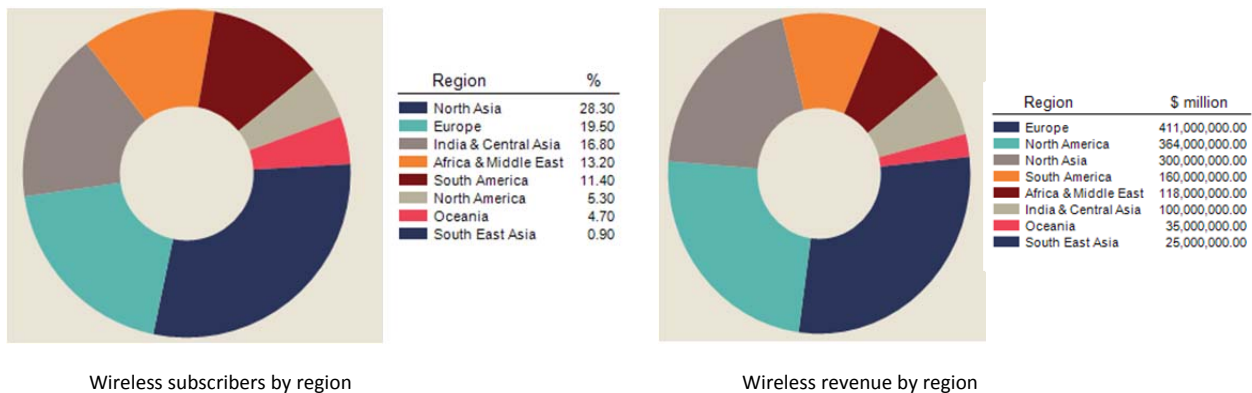
Through a simple dividend discount model using a historic growth rate of 5.3%, Paychex is slightly undervalued and we recommend holding this position for another year.

Telecommunications Services

Overview

The Telecommunications sector consists of the wireless and wireline sub sectors. The major names in the industry are organized as integrated wireless firms, participating in both sides of the industry.

The wireless industry has been expanding but at a declining rate. Postpaid subscriber growth has slowed in developed markets as the penetration rate reached 100%. We believe overall growth will still continue, due in part to connected devices such as e-readers and gaming devices, as well as additional data plans for wireless devices such as media tablets. We believe emerging market economies present the best opportunities for growth in postpaid subscribers as the penetration rates remain far below 100%. Moreover, average revenue per user in emerging markets remains substantially lower than in developed markets. As the wireless companies achieve higher penetration rate in emerging markets, they will be able to generate substantially higher average revenue per user with higher prices and economies of scale. The chart below depicts wireless subscribers and revenue by region in 2012. Note that although there are about the same number of subscribers in Europe and India & Central Asia, Europe draws four times more revenue than India & Central Asia.



Source: IBISWorld Global

The rapidly growing demand for data is putting pressure on provider’s infrastructure. The industry is likely to see the end of “unlimited” data plans very soon. Wireless spectrums are proving increasingly sparse and valuable assets the wireless companies possess. Limited availability of spectrums is leading to consolidation in industry, with mergers largely intended towards acquiring additional spectrum.

The wireline sub-industry is facing access line erosion due to a stiff competition from wireless carriers and cable and satellite providers. In this, large companies have expanded their product offerings and variety by offering bundles, triple or quadruple solutions (internet, landline phone, cell phone and TV solutions). These complete bundles have become more mainstream in the last several years increasing revenues for Telecom companies and offering multiple streams of revenue.

Telecom services remain one of the most regulated industries. Agencies like FCC in the US are common globally and oversee the regulator responsibilities and spectrum allocation.

Fundamental Outlook

Our fundamental outlook for the wireless telecommunications sector is neutral. We believe that the major wireless service providers in developed countries will generate strong cash flows, despite high wireless market penetration. Wireless providers in emerging markets should see double-digit subscriber and revenue growth continuing into 2013, with improving margins and profitability. In these areas, wireless carriers are investing in their networks mostly for geographic expansion or higher teledensity, but in many cases, they are also investing in 3G and 4G enhanced networks for data and video services capability. Despite a slowdown in net subscriber additions, wireless telecom will continue to be viewed as the growth arm of the telecom industry, in our view. New fuel for growth should come from enhanced non-voice services, such as wireless applications and web-based broadband services, which should stimulate network usage and average revenue per user.

Conclusion and Recommendation

Our fundamental outlook for Telecommunications sector is neutral. We note that Telecommunications is mildly counter cyclical. Therefore, we expect it to underperform during the continuing recovery. Therefore, it warrants no more than market weight.

American Tower Corporation AMT

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	79.14	76.92	03/29/2012	Large Growth	1.16%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

American Tower Corp. is a real estate investment trust that owns and operates the largest communications and broadcast tower infrastructure in North America. The company's primary business activity is leasing antenna space on multi-tenant communications towers to wireless service providers and radio and television broadcast companies.

The company has major footprint in other emerging market and developed economies such as Mexico, Brazil, India, South Africa, Ghana and Germany. International operations accounted for roughly 31% of revenue in 2012.

The company acquired a REIT status on January 1, 2012.

Fundamental Analysis

We expect AMT's revenue to grow at marginally lower rate in 2013 and 2014. We believe the network upgrades to 4G and to LTE will generate demand for AMT's services in developed markets for next several years. We also expect the demand from emerging markets will remain strong as wireless voice and data demands increase. However, the revenue growth rate will remain lower than that in 2012 reflecting higher lease activity per leased tower.

Financial Statement Analysis

The company reported dividend yield of 1.24% in 2012. As a REIT, the company is required to distribute at least 90% of its income to shareholders. Despite that, the dividend yield remains disappointingly low in our opinion.

AMT's \$8.8 billion of debt obligations remains a concern. In 2012, the company paid 14% of revenue towards interest expenses, and it seems to affect its bottom line.

Conclusion & Recommendation

Although the demand for AMT's services is strong, company's high debt obligation and interest payments affect its bottom line.

The company's ability to invest in its growth is limited by its status as a REIT. The company must pay most of its income to its shareholders and hence cannot invest in its own growth. Yet, AMT's dividend yield remains quite low.

AMT stock has appreciated by about 25% over last year and has generated healthy returns for The Crummer SunTrust portfolio. We believe AMT's current stock price already factors its strong market position and strong demand for its services.

Our 12-month price estimate, based on dividend discount model analysis, is \$79.14 per share. Although it is higher than its current stock price, low dividend yield and limited growth potential because of REIT status make it relatively unattractive stock.

We believe AMT's current stock price of \$76.92 presents an attractive exit point. We recommend selling the stock and replacing it with another with higher growth potential and consistently higher dividend yield.

BCE, Inc. BCE

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	49.70	46.69	03/29/2012	International	4.96%

Technical Analysis	
Bollinger Bands	Negative
Money Flow	Neutral



Introduction

BCE is Canada's largest communications company. BCE Inc. provides communications solutions to residential, business, and wholesale customers primarily in Canada. The company offers local and long distance telephone services, direct-to-home satellite television services, internet protocol TV services, and personal video recorders and online access services. It also provides data services, including Internet access services, internet protocol based services, and information and communications technology solutions.

Additionally, the company provides media services comprising TV programming services to broadcast distributors. It operates approximately 28 conventional over-the-air stations and 30 English and French-language specialty TV channels; 33 FM and AM radio stations and their related Websites; and TheLoop.ca Website.

Fundamental Analysis

We expect modest increase in company's revenue in 2013 following flat revenue in 2012, driven mostly by improvements in BCE's wireless operations from smart phone adoption, market share gains, and higher usage. We also expect growth in BCE's data and video services and recent rate increases to help drive the revenue up.

Within wire line segment however, we believe access lines will face ongoing competitive pressure from cable and wireless.

Among the challenges BCE will face are unfavorable regulatory conditions, inability to reduce cost structure and competitive pressure on its wireless and wireline segments.

Financial Statement Analysis

We expect modest gains in company's EBITDA margins, largely from the efficiency gains and cost savings due to headcount reduction.

The company also has an attractive dividend payout history. It has paid dividends since 1881, and the company's 2012 dividend payouts at 4.96% remain among the highest in the industry. Moreover, we expect the company to generate sufficient cash flow to support the dividend payouts at this rate.

Conclusion & Recommendation

As the largest telecommunication services company in Canada, BCE is better able to navigate challenging economic and regulatory conditions than its competitors. It continues to benefit from its wide array of product offerings and economies of scale.

We agree with the analysts' consensus that expects revenue to increase by modest 1.5% annually through 2014, and 2% thereafter. We expect these revenue gains to result in slightly higher earnings because of improving margins.

Our 12-month share price target, using a dividend discount model, is \$49.70; slightly higher than its current price at \$46.69. Despite the small margin between price and value, the high dividend payout and international diversification make BCE a good investment choice.

We recommend buying BCE stock.

France Telecom SA FTE (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	8.87	10.16	03/29/2013	International	15.69%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

France Telecom SA provides telecommunication services to wide array of customers. The company offers public fixed-line telephone, leased line and data transmission, mobile telecommunications, cable television, internet and wireless applications and broadcasting services, and telecommunication equipment sales and rentals.

Under the banner of Orange brand, the company operates in several geographic locations. France contributes about two-thirds of revenues, while notable revenue coming from Spain, Poland and rest of the world.

Fundamental Analysis

FTE has major presence in Europe with majority of its revenue coming from France, Spain and Poland. While FTE plans to expand in emerging economies particularly in Africa, it faces significant competition from already established operators in southern Africa.

Operating and regulatory conditions in Europe remain a challenge for telecom operators. France, Spain and Poland face deteriorating economic conditions. The situation is particularly demanding in France because of the entry of the mobile operator, Iliad. Although FTE has successfully navigated difficult conditions in the past, their future challenges remain too great.

The company's stock has lost more than 20% of its value over the last year. Generous dividend payout helped limit those losses. However, in face of significant operating challenges, we expect the dividend payout of under US \$ 1 per share compared to \$1.44 last calendar year.

Financial Statement Analysis

Company's revenue and net income have steadily declined in past six years, with the largest decline seen last year. The company's net margin also declined substantially last year, mostly because of additional competition in its home market.

We expect company's EBITDA margins to contract further in 2013, owing largely to increased competition in its home market. Although we do not expect the revenue to increase substantially, the company should return to higher margins through cost cutting measures.

Conclusion & Recommendation

Increased competition and deteriorating economic and regulatory conditions pose ever-stronger challenges for FTE. We also expect capital expenditure demands from the LTE rollout in France to affect its cash flow for the next two years. Increased competition may make it harder to monetize these investments.

We expect FTE revenue to shrink by 3% in 2013 and 0.75% in 2014. We expect earnings to shrink by 12% in 2013, and not turning positive until 2014 at the earliest if their cost cutting measures are successful.

Our 12-month price estimate, based on discounted dividend model analysis, is \$8.87 per ADR. We also anticipate over 40% reduction in dividend payout.

We recommend selling all the holdings of FTE in the portfolio.

Frontier Communications Corporations FTR

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	6.24	3.99	03/29/2012	Mid Value	9.71%

Technical Analysis	
Bollinger Bands	Positive
Money Flow	Neutral



Introduction

Frontier Communications provides wire line services to rural areas and small and medium-sized towns and cities across the U.S., including in Arizona, California, New York and West Virginia. The company’s offerings include residential services such as long distance voice services, data and Internet services , e-mail products, and hard drive back-up services and commercial services such as Ethernet, dedicated Internet, multiprotocol label switching, and TDM data transport services. The company was formerly known as Citizens Communications Company and changed its name to Frontier Communications Corporation in July 2008.

Fundamental Analysis

We believe FTR faces challenges from cable telephony and wireless that have led to access line erosion. FTR competes with cable providers such as Time Warner and Comcast.

We expect FTR’s revenue will decline slightly to \$4.8 billion in 2013 compared to \$5 billion in 2012. We see continued pressure on voice services from access line losses as the primary reason for the revenue loss. Broadband and video penetration gains, however, will partially offset the revenue loss.

Financial Statement Analysis

We expect EBITDA margins will narrow slightly to 46.4% from 46.8% in 2012. This minor decline is primarily due to lower futures revenues. Even at those levels, the margins are quite strong compared to industry.

We expect higher interest costs, higher taxes, and lower EBITDA in 2013 compared to 2012.

FTR has one of the most generous dividend payout policies in the industry, with dividend yield of more than 10%, or \$0.40 per share in 2012. We also believe that company’s free cash flow, projected to be between \$825 million and \$925 million by FTR, will be enough to support such high dividend payouts and debt reduction.

Conclusion & Recommendation

While we acknowledge risks and competitive pressures, we think the stock is undervalued. The stock has lost 20% of its value since September 2012. We see the 10% dividend yield adding to its appeal and believe management has reiterated a firm commitment to its dividend.

Our 12-month price estimate, based on discounted dividend model analysis, is \$6.24 per share. In our opinion, the stock, trading at \$3.99, is 64% undervalued. That, along with very strong dividend payout history, makes FTR a good investment choice.

We recommend buying FTR stock.

iShares S&P Global Telecommunications IXP (ETF)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
HOLD	NA	60.34	04/05/2013	NA	4.54%

Technical Analysis	
Bollinger Bands	NA
Money Flow	NA



Introduction

iXP was selected last year as means of attaining diversified sector exposure with a minimum of transaction costs. Due to our decreased allocation to the telecom sector, a diversified ETF becomes even more important for providing diversification. Our fundamental outlook for the sector has remained unchanged and Telecommunications sectors will represent less than 3% of The Crummer SunTrust portfolio in 2013.

Fund Description

A description of the fund per iShares Fund Fact Sheet: *The iShares S&P Global Telecommunications Sector Index Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of companies that Standard & Poor's deems part of the telecommunications sector of the*

economy and important to global markets, as represented by the Standard & Poor's Global Telecommunications Sector Index. The index is a subset of the Standard & Poor's Global 1200 Index.

Sector Fundamentals

Fundamental outlook for telecommunications industry remains neutral. While there is some growth opportunity in wireless sub-sector in emerging and developed economies, regulatory conditions pose a significant threat to the growth. Although increasing data demand will prove an opportunity for additional revenue generation, it will also put great stress on the existing infrastructure and warrant additional investment in the network capacity. Wireline sub-sector faces threats of access line erosion from increased competition from wireless and cable companies.

Conclusion & Recommendation

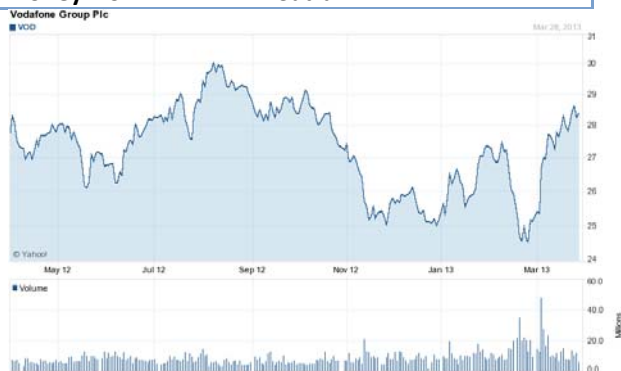
Our fundamental outlook for the telecommunications sector is neutral. Moreover, countercyclical nature of the industry suggests that it will underperform during the upcoming recovery. Our proposed allocation to the sector is less than 3% of the Crummer SunTrust portfolio.

Such a small investment therefore limits our ability to attain diversification without incurring significant transaction costs. We therefore recommend holding our investment in IXP.

Vodafone Group PLC VOD (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	32.44	28.40	03/29/2012	International	5.33%

Technical Analysis	
Bollinger Bands	Neutral
Money Flow	Neutral



Introduction

Vodafone is a leading mobile telecommunications company based in UK. It has a major presence in Europe, the Middle East, Africa, Asia-Pacific and the United States through direct operations and stakes in other operators. Vodafone has a 45% non-controlling stake in Verizon Wireless in the United States.

Europe and North America represent the most important markets for Vodafone with 70% revenue coming from Europe and 42% of its operating profit coming from North America. The company has major presence in some of the world's fastest growing economies in southern Africa and India.

Fundamental Analysis

We see above average growth prospects for Vodafone compared to its competitors in Europe largely due to its stake in Verizon Wireless in the USA and its strong presence in emerging markets.

We expect intense competition, worsening economic conditions and higher regulations in Europe will affect VOD's voice revenue. Although higher revenue generated in emerging markets may offset some of the revenue loss in Europe, we anticipate 5% decline in VOD's voice revenue in 2013 and stabilization in 2014.

We expect data revenue will continue to grow driven primarily by higher Smartphone penetration in both emerging and developed markets. Higher data usage is expected to help offset some of the lost voice revenue.

Some of the risks in our opinion include difficulties in receiving the spectrum needed to support higher data traffic demand.

Financial Statement Analysis

Company's dividend yield at 5.45% in 2012 remained quite attractive. Moreover, we expect the company can generate cash flows to support such high dividend payouts.

VOD is also undergoing efforts to cut costs and increase operational efficiency. We also anticipate company's EBITDA margins will decline only marginally in 2013 and increase in 2014 despite revenue loss, mostly because of increased efficiency and economies of scale.

Conclusion & Recommendation

Vodafone is better aligned than most of its competitors to weather difficulties in its largest market in Europe. Its investments in Verizon Wireless in the US and its operations in emerging markets will offset the revenue loss in Europe. Moreover, as the largest mobile operator in the world by number of subscribers, it is uniquely positioned to exploit economies of scale.

Our analysis estimates VOD's intrinsic value at \$32.44, moderately higher than its current price of \$28.40. This coupled with VOD's international exposure, generous dividend policy and ability to generate cash flow needed to support the dividends make it an attractive investment.

We recommend buying Vodafone ADR.

Utilities

Recovering from Sandy

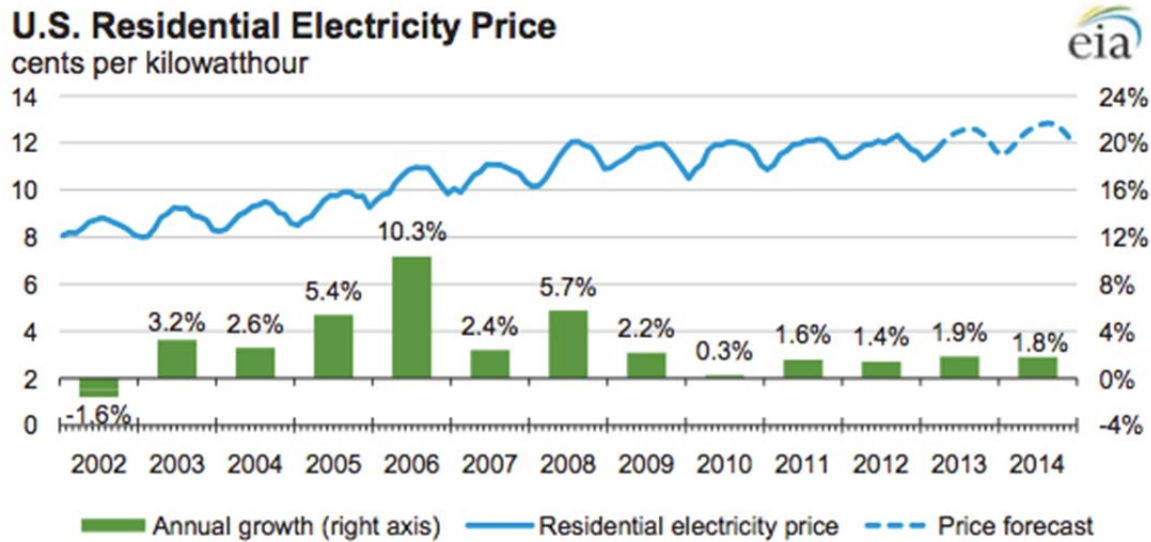
We recommend an underweighting of Utilities sector. Keeping in view the changing economic, political as well as social key trends, we have evaluated our current stocks. During 2012, we held three stocks in this sector and gained from Cleco Corporation's performance. We believe the stock has realized its full value and we do not expect it to grow. Entergy Corporation did not appreciate in value and we do not foresee any major changes for this stock. We lost from holding the third stock, Exelon Corporation because of power reductions at its nuclear plants possibly due to Hurricane Sandy. Based on our analysis, we believe that the US utility market is mature, has limited growth prospects under highly regulated political environment and there is an increasing shift towards green and clean energy sources for utilities. The demand in emerging markets provides better prospects for investors. Accordingly, we recommend two new ADR's: National Electricity Company of Chile, Inc. ADR and Energy Company of Parana ADR.

Challenging Economic and Political Environment

Firstly, we believe that the Utilities sector is recovering slowly from the slowdown of the US economy. There is a direct correlation with the housing market that is recuperating in some parts of the country, however, will progress slowly in the near future. Secondly, under the Obama administration new standards are established for promoting clean and sustainable energy sources, aiming at reducing the demand for electricity and improving energy efficiency. The government hopes to provide specific technical assistance to implement the proposed changes. In the long-term, the Obama administration will bring significant sustainable modifications to the electrical utility industry that may result in further stringent regulations and additional expenditure for meeting the standards. The government plans to invest large amounts of money to accelerate energy efficiency and the green product movement. Furthermore, the dynamic design of residential, commercial and industrial infrastructure requires technical advancements in electricity distribution networks. In order to fulfill the growing demand of electricity and utilize government incentives Investor owned utilities must integrate smart grid technology enabling two-way real time communication between electric transmission utilities, their customers and appliances. It involves installing smart meters which reduce the cost of transmission and distribution of electricity. We believe that these changes will bring additional initial outflow of cash and less stable dividend payments to shareholders.

Energy Prices

The chart below shows the expected U.S. residential electricity prices. It is projected to have a minimal rise in energy prices in 2013 followed by a 0.1% decrease in prices in 2014. As mentioned before, utilities being a highly regulated industry, service providers can only raise prices to a limited extent and that too with relevant authority approvals. The higher charge for depreciation of new infrastructure will offset the limited positive impact on revenue growth in 2013.



Source: Short-Term Energy Outlook, March 2013

Changes in Demand

The consumer attitude and behavior about electricity defines the growth for the electric generation and transmission industry. The trends in electricity consumption are changing because of the introduction of more smart energy technologies. Younger generations are becoming more aware of energy saving methods and minimizing electricity costs. The housing construction and industrial production in the United States will drive new sources of demand. However, increased emphasis on energy efficient technologies may have a negative short-term impact on the industry and the bottom line.

Conclusion

We believe that the uncertainty prevailing in the market because of changes in demand, unknown results of legislative measures and the subsequent fear from investors poses an opportunity to purchase undervalued securities. Due to the slow recovery in the saturated US market, we believe that the growth in this sector will come from emerging markets. Accordingly, we recommend two ADR's. We believe that all three existing stocks in our portfolio namely Cleco, Entergy and Exelon have less potential and we have a better opportunity in other markets. Even though we may have an increased currency risk, there is a higher possibility of future gains.

Calpine Corporation CPN

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$23.00	\$20.65	4/8/2013	Mid Growth	-

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

Calpine is engaged in generation of Power in the US and Canada. It mainly produces natural gas with some activity in geothermal plants. The total generation capacity of Calpine is 28.8 GW.

Fundamental Analysis

The competitive advantages of the company are its diversification across the locations as well as the lower amount of risk from the environmental impact. Calpine operates across the country in West, North, Southeast and Texas with one of the most efficient fleets of power generation. What makes most nuclear power generating plants more risky is the negative impact of severe weather conditions in coastal areas of the country. In addition to the above, we believe that changing regulations around the environmental standards for power generation industry should benefit Calpine's growth. Natural Gas being one of the cleaner sources of power should make advances. We understand that natural gas prices are very low since beginning of 2012; however,

Calpine's efficient energy production gives it wide margins without compromising the shareholder's net worth. This is evident from 2012 financial results that despite revenue going down because of lower gas prices, the net income became positive \$199 million from negative \$189 in 2011.

We believe that the company will enjoy some additional cost-advantages over its competitors, should the emission regulations be tightened. Further, Texas is a key market for growth of Calpine. According to Morningstar, it has 8.0 GW of generation capacity in the state with plans to add 520 MW at a discount to replacement cost. According to the state's grid operator, ERCOT, the demand growth is projected at 2%, nearly double the forecast of national growth rate.

Financial Statement Analysis

Even though Calpine has a high long-term debt to capitalization ratio, it has a robust liquidity when compares to its peers. We can reasonably conclude that the company plans to utilize the excess cash to pay off debt as well as buyback shares based on filing reports. In April 2012, the directors authorized doubling the share repurchase program, up to cumulative repurchases of \$600 million in shares.

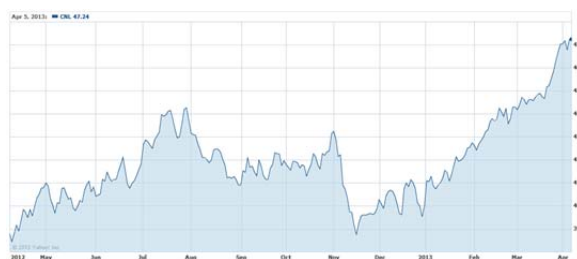
Conclusion & Recommendation

We recommend a buy of CPN in our portfolio because our valuation model suggests that the stock is undervalued in the market. Assuming 10% WACC and 10% short-term growth rate of earnings as per Value Line estimates, we value the stock at \$23. This value does not include the capital appreciation effect of share repurchases, making the stock even more attractive.

Cleco Corporation CNL

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$43.93	\$47.24	3/26/2013	Small Value	2.80%

Technical Analysis	
Bollinger Bands	Neutral
Relative Strength	Positive



Introduction

Cleco has two primary business segments: Power, which is a regulated electric utility that serves approximately 283,000 customers in central and southeastern Louisiana, and Cleco Midstream, a competitive wholesale generation business. Midstream is an unregulated merchant energy business with operations in Louisiana and Texas. Midstream owns and operates merchant power plants, which produce and sell electricity in the wholesale market. Cleco Power has a generation capacity of 1,318 megawatts.

Fundamental Analysis

Cleco expressed its interest in joining the Midwest Independent System Operator to integrate its transmission systems. We see strong competition in the mid-west region from bigger companies like Entergy Corp with its transmission systems in Louisiana, Arkansas, Mississippi and Texas. With the additional threats of price caps and regulatory changes, we think that Cleco's market position is not strong enough to defend its revenue growth and profitability.

Cleco provides electricity using a mixture of western coal, petroleum coal (petcoke), lignite, oil and natural gas to serve its customers. With the movement towards more clean and green energy initiatives to minimize the cost as well as environmental impact, Cleco will need to make huge capital investments. Other key factors such

as new environmental protection standards, upgrade of exiting power plants, and slow economic recovery make it even more risky business.

Financial Statement Analysis

According to 2012 annual reports, Cleco's revenues fell 11% with a 5% drop in operating income when compared to 2011. The company's financial situation is deteriorating with lower amounts of cash and increasing debt levels. In 2012, Cleco paid down some of its long-term debt as well as distributed cash dividends to its shareholders. However, Cleco will need external funds for capital expenses in 2013. The operating cash flows will not generate enough to cover planned capital investments.

Conclusion & Recommendation

Our valuation model suggests that the stock has realized its full value in 2012 and there may not be much growth in the value as well as dividends. With an assumption of 8.45% WACC and 10.5% short-term growth of dividends, the stock is overvalued in the market. We believe that investors are better elsewhere in the utilities sector.

Entergy Corporation ETR

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$63.00	\$65.44	3/26/2013	Mid Value	4.93%

Technical Analysis

Bollinger Bands

Relative Strength



Introduction

Entergy Corporation engages in the electric power production and retail electric distribution operations in the United States. The company operates in two segments, Utility and Entergy Wholesale Commodities.

Fundamental Analysis

Entergy is going through restructuring in 2013, announced its plans to divest its electric transmission business to a newly formed entity, Mid-South. It would then merge with ITC in, giving Entergy shareholders a 50.1% interest in ITC. Although the consequence of this transaction is unknown on the dilution of ownership, according to Morningstar's report the value for the shareholders will be reduced due to regulations issues involved. ETR plans to use the proceeds of the transaction to settle the debts of transmission business.

Entergy faces difficulties due to weather conditions, storms and hurricanes at its plant locations. The restor-

ing costs and other incidental damages affect its earnings as well as returns for shareholders. Further, Entergy faces lot of legal and regulatory challenges over licensing of its Vermont Yankee Nuclear Plant that represents approximately 40% of its earnings.

The adverse effects of the pricing war in the power market will inhibit the growth of cash flow for the company. The dividends are expected to grow by only 1% as per Value Line over the next five years.

Financial Statement Analysis

Highly capital-intensive business of nuclear power generation raised the levels of debt for the company over time. Since we do not expect the earnings to rise in the near term, we are not very optimistic about the strong cash position of the company too. According to company's Annual report 2012, the net cash flow from operating activities has decreased and the issuance of long-term debt has increased over last year.

The stock's performance since Dec 2012 is discouraging when compared to S&P500 Index.

Conclusion & Recommendation

Our DDM valuation model suggests that the stock is overvalued in the market assuming 8.86% WACC and 1% growth rate of dividends per Value line estimates. We believe that Entergy has enough negative points to rule out the possibility of a hold for another one year. Our money has better opportunities to earn a return elsewhere.

Energy Company of Parana ELP (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$22.56	\$16.91	4/8/2013	International	-

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

ELP operates in the state of Parana, Brazil generating, transmitting, and distributing electricity. The company operates 17 hydroelectric facilities and one thermoelectric plant with a combined installed capacity of 4,550 megawatts, 99.6% of which is hydroelectric.

Fundamental Analysis

The company's presence in Brazil, one of the fastest growing economies of the world, and increasing demand for power gives better growth prospects. Because of the different regulatory environment, we believe that the company faces less pricing pressure as compared to the US utility providers. Further, the company has issued voting rights to the state and in a better position to negotiate for tariff rises with regulatory authorities. Morningstar reports that the Brazilian government plans to

lower the taxes on power generation in order to make it more affordable for the growing number of users. This will greatly benefit the company's revenues as well as profitability.

In 2013, the company will begin to generate power at two of its new hydro power plants adding to the overall generation capacity and serving the increasing demand.

Financial Statement Analysis

Morningstar analysts expect the growth in dividends because the company has underleveraged balance sheet and 36% payout ratio. The company's robust balance sheet and cash flow position as well as governmental funding provides the sources of capital to invest in capital projects, capital-intensive repairs of the power plants and make strategic acquisitions.

The Brazilian Real's (R\$) upward trend against the US dollar since 2012 will decrease debt service costs for the company and benefit the ADR holders through the translation effect.

Conclusion & Recommendation

We recommend adding ELP into our portfolio because our valuation model suggests that the stock is undervalued in the market. With an assumption of 12% WACC and 3% short-term earnings, we think that the stock is undervalued by \$6 approximately.

Exelon Corporation EXC

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
SELL	\$21.00	\$35.14	3/26/2013	Large Value	5.56%

Technical Analysis
Bollinger Bands
Relative Strength



Introduction

Exelon Corporation, a Chicago-headquartered energy holding company engages in the generation of electricity seven states in the United States from nuclear, fossil, hydro, and renewable energy sources. It currently has the largest nuclear fleet in the United States.

Fundamental Analysis

We believe that the volatility of utility stocks based on the prices of inputs such as natural gas, fuels and coal. As mentioned earlier in the report, pricing pressure and changes in regional demand will be continuous challenges for the company. We are aware that on 12 March 2012, Exelon completed the acquisition of Constellation Energy, supplier of power and natural gas that holds Baltimore Gas & Electric Co. We believe that consolidation does provide cost-saving benefits through economies of scale; however, it does not reduce the risk of volatility in the prices, shifts in demand or regulatory changes. We feel that it is uncertain keeping in view the possibility of regulators to cap the rates of electricity. In

order to place it well in the competitive energy market as well as recover from the downturn, Exelon will need further scale and financial strength. It is important to note that many nuclear plants operated by Exelon need capital-intensive repairs and maintenance to meet governmental environmental requirements.

According to Reuter’s news in Nov 2012, Exelon agreed to pay \$400,000 to settle its violation of a court order entered to receive government clearance of its acquisition of Constellation Energy. As an investor, we should be cognizant of such information about the company.

Financial Statement Analysis

According to Chicago news, Exelon’s third-quarter profit plunged 50 percent in 2012, hurt by higher nuclear fuel costs and lower prices. Its net income fell to \$296 million, or 35 cents per share, from \$601 million, or 90 cents per share, a year earlier. We noted that Constellation Energy’s nuclear power reactor in upstate New York did shut due to a problem putting power onto the grid, although it was not clear whether the trouble was related to the storm. In addition, Sandy caused power reductions at both units at Exelon’s Limerick nuclear plant in Pennsylvania and one unit at Dominion’s Millstone plant in Connecticut. These events exaggerated the loss in shareholder’s stock values.

Conclusion & Recommendation

We recommend a sell for Exelon because our valuation models suggest that it is overvalued in the market at \$35.14 currently. We also see a higher risk if regulators cap the prices in the three states where Exelon operates.

National Electricity Company of Chile, Inc. EOC (ADR)

Recommendation	Valuation	Last Price	As of	Style	Dividend Yield
BUY	\$100.48	\$53.25	4/8/2013	International	2.3%

Technical Analysis	
Bollinger Bands	Positive
Relative Strength	Positive



Introduction

Endesa Chile is engaged in generating electricity—mainly hydroelectric and rest from thermal power plants. It has a strong and wide market presence in Chile, Argentina, Brazil, Colombia, and Peru. We think that diversification in five different countries reduces any country-specific risk for the company as well as investors.

Fundamental Analysis

EOC's robust coverage in serving high-growth emerging markets of Latin America makes it an attractive opportunity. In the absence of more sophisticated nuclear power generation, these countries rely heavily on hydro generation of electricity (42% of the overall demand) and it is expected to accelerate from industrialization, urbanization. According to the recent statistics published, the demand grew 40% since 2002, 4 times as fast as in the US. EOC is strategic market player and holds 60% of Enersis, another electricity service provider in

that area. EOC is also engaged in electric transmission, distribution and engineering services that provide an expansive economies-of-scale in services and a competitive advantage in bargaining with its customers or regulatory authorities for price caps.

According to Morningstar, the low-cost generation advantages and high barriers to entry should help safeguard future cash flows. Keeping in view the pricing pressure by the regulatory authorities and unstable political environment in emerging economies, we think there is a higher risk when compared to the existing stocks in our portfolio. However, EOC's scale of business and strategic acquisitions place it for a better growth prospects.

Financial Statement Analysis

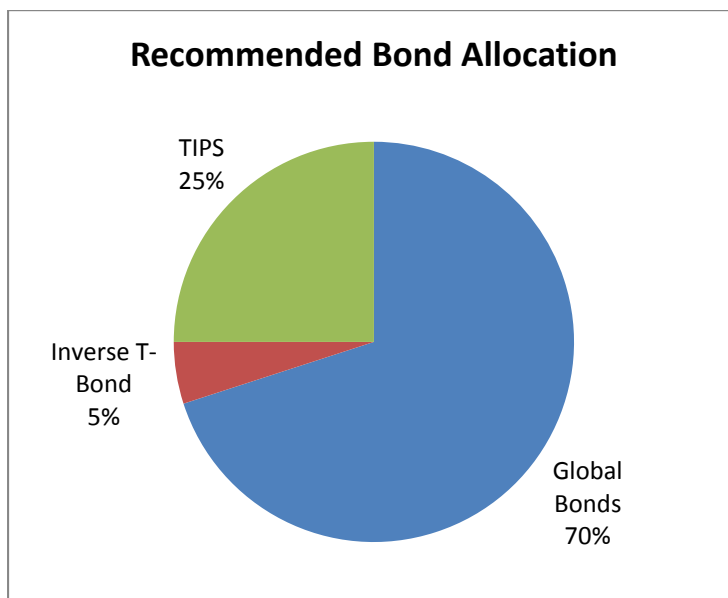
EOC has a strong balance sheet with 41% debt, which is less than the average industry debt to capitalization ratio. We considered the foreign currency risk associated with the long-term debt, especially if the payments are made in US dollars. However, Morningstar reports that EOC typically collects or hedges about 70% of its revenue in U.S. dollars.

Conclusion & Recommendation

Our valuation models suggest that the stock is highly undervalued in the market. We think that it may be because of the recent unsuitable weather conditions for hydroelectric power generation, but this factor should fade soon. Assuming 10% cost of capital and 6% growth in dividends, the stock is undervalued by \$47. We recommend adding EOC to our portfolio.

Fixed Income Assets

The Crummer SunTrust Portfolio was invested in high quality corporate bonds over the last year. This strategy led to a return of about 2.5%, which is in line with expectations. This level of return decreases the real value of the portfolio after accounting for scholarships and inflation. This year we recommend a more aggressive fixed income strategy investing 70% of the fixed income money in a global bond fund with a low duration, 25% of the money in a TIPS fund, and the remaining 5% in a 3x bear 20+ year Treasury fund. The individual funds were chosen because they implement our strategy at a low cost.



Global Bond Fund—70% allocation

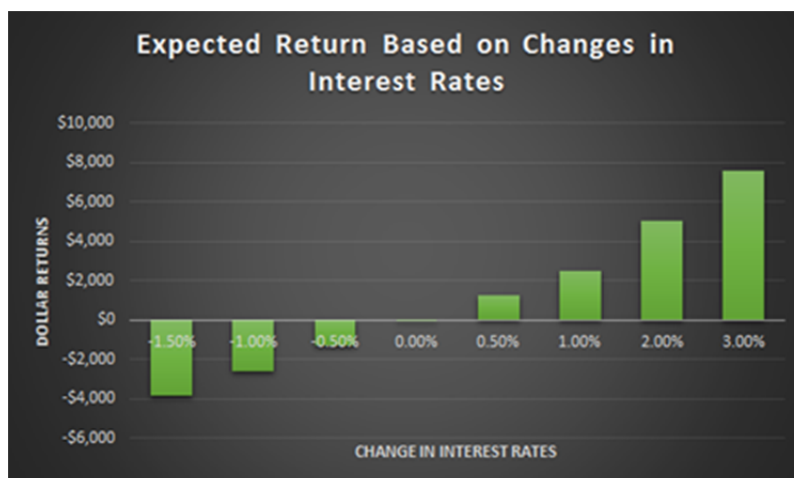
The bond fund that the portfolio is currently invested in has duration of over five, which is at the high end of the allowable duration according to the Investment Policy Statement. A higher duration makes the value of the bonds more sensitive to changes in interest rates. If interest rates across the entire yield curve were to increase by 1%, one would expect the value of the bonds in a fund with a duration of five to decrease by 5%. Although we do not expect interest rates to increase dramatically, we think they *could* rise if the gradual recovery that we predict continues. This belief has led us to the conclusion that we should lower the duration of the fixed income portfolio to around the minimum limit. In addition, we want the fixed income portfolio to pull its weight and fund a larger part of the scholarship distribution. To satisfy these goals we recommend investing 70% of this asset classes' money, or about \$60,000, in the Templeton Global Total Return fund. This mutual fund invests in corporate and government bonds from around the world and has a higher yield with less interest rate risk, meaning a lower duration, than our current holding. The two main risks of this investment are credit risk and currency risk. Because the fund is so diversified in terms of country and issuer, the credit risk is small. This fund is exposed to exchange rates but the country diversification should help hedge against currency risk.

TIPS—25% Allocation

We want to use a portion of the money for the asset class to protect the portfolio against surprise inflation. Due to the artificially low interest rates the Fed has put in place, real interest rates are negative. Negative real rates create counter-vailing forces that are hard to maintain and there is a chance that inflation could reappear. While we do not expect rampant inflation, we want to make sure the fund is somewhat protected if it does occur. We suggest investing 25%, or \$21,000, in the PIMCO 1-5 Year TIPS Index. The return on these inflation-protected bonds will adjust to the rate of inflation plus a rate of real return so these bonds will normally outpace inflation. Because the portfolio may not hold these bonds to maturity, the bonds are still subject to interest rate risk and could provide a return less than inflation if interest rates increase faster than inflation and the bonds are sold before maturity. This fund has a low duration, which is line with our overall strategy of lowering the portfolio’s duration.

Inverse Bond Fund—5% Allocation

We recommend the final piece of the fixed income portfolio be used to protect against interest rate risk. The global bonds and the TIPS bonds are subject to interest rate risk, but in an indirect way so are the stocks held in the portfolio. Although we are not predicting a dramatic increase in rates, if interest rates were to increase, the return on the portfolio would certainly suffer. To protect against the possibility of an unpleasant interest rate surprise, we suggest investing in something that has a negative duration, meaning the value of the asset would increase if interest rates increase. This can be accomplished by using an inverse treasury fund. To maximize the effect of this small investment we are suggesting a fund that is inverse long duration treasuries. If we do this unlevered our duration would be about -18 but if we invest in a leveraged fund, for instance a 3x leveraged fund, we can decrease the duration to about -54. If interest rates were to increase by 1%, we would expect this fund to return about 54% before expenses. Various scenarios are shown the chart below. Each bar in the chart shows the dollar return for changes in interest rates. For example, if interest rates do not change we would only lose the management fee charged by the fund. With 20-year treasury rates at 2.5%, a further decrease is unlikely. To get a 10% return on the investment, interest rates would only need to increase 20 basis points. That is, placing \$4,700 in this fund would return 54% times 20 bp times \$4,700 is \$462. The fund that we are suggesting to implement this strategy is the Direxion 20+ Year Treasury Bear 3x fund.



Appendix

Crummer SunTrust Portfolio Investment Policy Statement

(Revised April 6th 2008)

Crummer/SunTrust Portfolio

1.1 History: The SunTrust Banks of Central Florida Foundation contributed all of the Crummer/SunTrust Portfolio's (Portfolio) initial assets, totaling \$500,000 beginning with \$100,000 per year in 1999, and no additional contributions are expected. The Portfolio is part of the Rollins College endowment and is exempt from federal income taxes.

1.2 Purpose: The Portfolio was established to fund periodic scholarships for students at the Crummer Graduate School of Business and to provide Crummer students with practical experience in portfolio management. The Portfolio expects to exist in perpetuity and the only required distribution is the funding of scholarships.

1.3 SunTrust Scholars: SunTrust Scholarships are funded by an annual amount established by the Crummer School that generally follows the endowment distribution policy of Rollins College—4½ percent of the three-year moving average of the Portfolio's market value at calendar year-end.

Governance

2.1 Students: The students in Crummer's portfolio management class (class) act as security analysts and portfolio managers, making recommendations on portfolio strategy and individual asset selection, subject to the guidelines and limitation set forth in this Investment Policy Statement. This statement assumes the class is only offered in the spring term (January to April).

2.2 Oversight: An Oversight Committee (Committee), consisting of industry practitioners, a member of the Rollins College Board of Trustees, if the Board so chooses, a member selected by the Vice President of Finance at Rollins College and a Crummer faculty member, provides guidance for the Portfolio. The overall philosophy of the Committee is one of oversight and not direct portfolio management. When the class is not in session, however, changes in the portfolio can be made by the Committee but only in light of events with the potential to significantly affect the portfolio's value.

2.3 Prohibited Transactions: No transactions for the portfolio can be undertaken that are contrary to the SunTrust gift agreement, if any, or to applicable Rollins College Trustee policies.

Long-term and Short-term Investment Approaches

3.1 Long-term Strategy: The Portfolio operates in both long-term and short-term environments. As a perpetual portfolio, its long-term investment strategy is designed for a conservative investor who seeks a real total rate of return that will maintain the purchasing power of the Portfolio after distributions and net of expenses. A long-term portfolio will inevitably encounter many market cycles so the asset allocation is expected to be relatively constant. Table A contains the current long-term real growth and inflation expectations. These expectations are subject to an annual review by the class.

3.2 Short-term Tactics: On an annual basis, the Portfolio will adopt a tactical (short-term) sector tilt relative to the sector market weights of the S&P 500 Index. This investment tactic is designed to take advantage of short-term (one year or less) market movements by establishing the managers' economic outlook and then underweighting sectors that are expected to do poorly and overweighting sectors that are expected to do well. The S&P 500 sectors are shown in Table B. Tactical sector targets may deviate as much as +/- 20% from each sector's S&P 500 market weight.

3.3 Objective: These short-term and long-term approaches are consistent with the intent to maintain the Portfolio's value in down market environments and increase its value in up market environments while funding scholarships—all without diminishing principal.

Long-Term Perspective and Asset Allocation

4.1 Risk in the Portfolio is managed by allocating among asset classes and investment styles within asset classes as a long-term strategic policy. The Portfolio's asset classes, strategic targets, and designated benchmarks are discussed in Section 10.2 and listed in Table C. Monitoring asset allocation, combined with a sector focus, is designed to keep the Portfolio consistent with both its short and long-term goals.

Rate of Return

5.1 Target: The Portfolio's target rate of return incorporates the investment goals and spending policy. The target rate of return, investment goals, and expected volatility are interrelated and must be viewed as such. The long-term target rate of return goal that accommodates the Portfolio's expenses and distributions is attached as Table A.

5.2 Horizon: The investment horizon of the Portfolio is perpetual and preservation of the real value of principal is necessary with such a long-term perspective.

5.3 Investment Decisions: Long-term objectives guide asset allocation decisions. Short-term opportunities guide sector weight decisions.

5.4 Growth: The primary source of Portfolio growth is expected to be judicious and timely security selection. While the Portfolio might fund additional scholarships with a more aggressive asset allocation (e.g., all equity)—prudence, and the perpetual life of the Portfolio, suggest a less risky approach that will allow the value of the Portfolio to rise with the US economy. This organic economic growth is expected to be in line with historical experience—in the range of 2 to 2½%.

Portfolio Transactions

6.1 The class recommends one portfolio composition per year to the Committee. The Committee has the authority to make changes in these recommendations.

6.2 Trades in the Portfolio are made in only one batch each year, typically in mid-April, following the class presentation to the Committee. See Section 2.2 for exceptions.

Cash Requirements

7.1 Scholarship Funding: Because the date of the scholarship draw varies around the end of the College's fiscal year (May 31), as of May 1 the Portfolio will hold a cash reserve large enough to cover the annual scholarship funding rather than requiring security liquidation.

7.2 Transactions Costs and Fees: Trading costs and fees will be funded in cash and incorporated into the annual transactions to avoid forced security liquidation and will usually be covered by normal sell recommendations.

Volatility

8.1 The target rate of return will ultimately dictate the level of risk in the Portfolio. If the expected volatility of the Portfolio is deemed inappropriate, the class will recommend a change in the target rate of return to the Committee.

Income, Appreciation and Taxes

9.1 The Portfolio pays no taxes on investment income and, therefore, the investments are not tax sensitive. Portfolio distributions are not limited to realize income and, therefore, the Portfolio need not generate income to fund its spending policy. The cash requirements can be met by liquidating securities before May 1 (see Section 7) and will usually be covered by normal sell recommendations.

Sector & Asset Allocation

10.1 Short-term Sector Allocation: To achieve its short-term tactical investment objective the Crummer/SunTrust Portfolio's assets shall be managed by under- and overweighting S&P's ten market sectors. These sectors are listed in Table B. The tactical target deviations are +/- 20% of their S&P 500 market weights. Cash is a separate asset class and governed by the asset allocation policy.

10.2 Long-term Asset Allocation: Asset classes are outlined in Table C. Each asset class will have a minimum of 5% of the portfolio value. In the short-term, security selections are driven by sector weights and, although stable asset class allocations are essential for risk control, they are flexible enough to allow tactical sector allocations in the short run.

10.2.1 Equity Styles: Asset allocation recognizes equity investment styles to help manage the risk of the portfolio. Investment styles within the equity asset class are defined as follows:

10.2.1.1 Value—companies believed to be undervalued with potential for capital appreciation.

10.2.1.2 Growth—companies that are expected to have above average long-term growth in earnings and profitability.

10.2.1.3 Small Cap—companies with total market capitalization less than one billion dollars.

10.2.1.4 Mid Cap—companies with total market capitalization between one and five billion dollars.

10.2.1.5 Large Cap—companies with total market capitalization greater than five billion dollars.

10.2.1.6 International—equity investments in companies domiciled outside the U.S. are limited to American Depository Receipts (ADRs) listed on major U.S. exchanges or to mutual funds or exchange traded funds.

10.2.2 Each of the three size styles is combined with value and growth to produce seven equity styles: large growth, large value, mid growth, mid value, small growth, small value, and international.

10.2.3 While equity styles go in and out of favor over time, the portfolio's strategic risk control relies on a stable asset allocation near the target. Chasing the best performing equity style is inconsistent with maintaining value in the long term.

10.3 Bonds: Bonds function as both an asset class and a sector.

10.3.3 Allocation Range: The portfolio relies on the bond asset class to moderate risk over the long term through diversification. Therefore, the bond allocation range is limited.

10.3.4 Bonds as a Sector: Bonds are similar to a sector with an economic outlook that the managers should have the flexibility to incorporate into the portfolio.

10.3.5 Risk Control: The bond allocation's ability to temper the portfolio's risk is dependent on reasonable controls over the risk of the bond portfolio.

10.3.6 Effective Duration: To establish risk control, the bond portfolio's effective duration is bounded between 3.5 and 5.5 years.

10.3.7 Flexibility and Risk Control: By varying both the bond allocation and the effective duration, the managers have enough flexibility to take a view of the bond sector's prospects without distorting the risk profile of the portfolio.

10.3.8 Strategic and Tactical Balance: The managers must balance short and long run objectives and, therefore, navigate between sector and asset allocations. There is no set formula and the best judgment of the class and the Committee must be used to accommodate both tactical sector weights and strategic asset class allocation.

10.3.9 Diversification Limit: No individual asset in the portfolio may represent more than 5% of the total market value of the portfolio. This rule does not apply to mutual funds or exchange traded funds.

10.3.10 Derivatives: The Crummer/SunTrust Portfolio may contain derivative securities. Typically, the Portfolio will only use derivatives as a hedge in association with the derivatives class. In this case, a separate written proposal must be approved by the instructors involved. The cash required by these hedges will constitute no more than 10% of the Portfolio's market value.

Rebalancing Procedure

11.1 Should the asset allocation range for a particular asset class or sector be breached by reason of gains, losses, or any other reason, the class will recommend whether to rebalance the assets to the target asset class allocation, taking into account the transaction cost. In addition, the Committee shall have the authority to review the actual allocations at any time to insure conformity with the adopted tactical and strategic allocations. See Section 2.2. The assets will not be automatically rebalanced on any set schedule.

Custodian

12.1 SunTrust Bank is the custodian for the assets of the Crummer/SunTrust Portfolio.

Table A

Target Rates of Return, Components, and Spending Policy

	Long Term	Short Term
Administrative and Trading Expenses	½ - 1%	½ - 1%
Allowance for Inflation	2 - 3%	Consumer Price Index
Distribution from Portfolio	3½ - 5½%	Approximately \$25,000
Portfolio Real Growth	2 - 2½%	> 0%
Target Total Return	8 - 11½%	Dependent On Above

Table B

Crummer/SunTrust Portfolio Equity Portfolio Sectors

S&P 500 Sector	Benchmark
Consumer Discretionary	S&P Consumer Discretionary Index
Consumer Staples	S&P Consumer Staples Index
Energy	S&P Energy Index
Financials	S&P Financials Index
Healthcare	S&P Healthcare Index
Industrials	S&P Industrials Index
Information Technology	S&P Information Technology Index
Materials	S&P Materials Index
Telecom	S&P Telecom Index
Utilities	S&P Utilities Index

Target Deviation for any sector is +/- 20% of its S&P 500 market weight

Table C

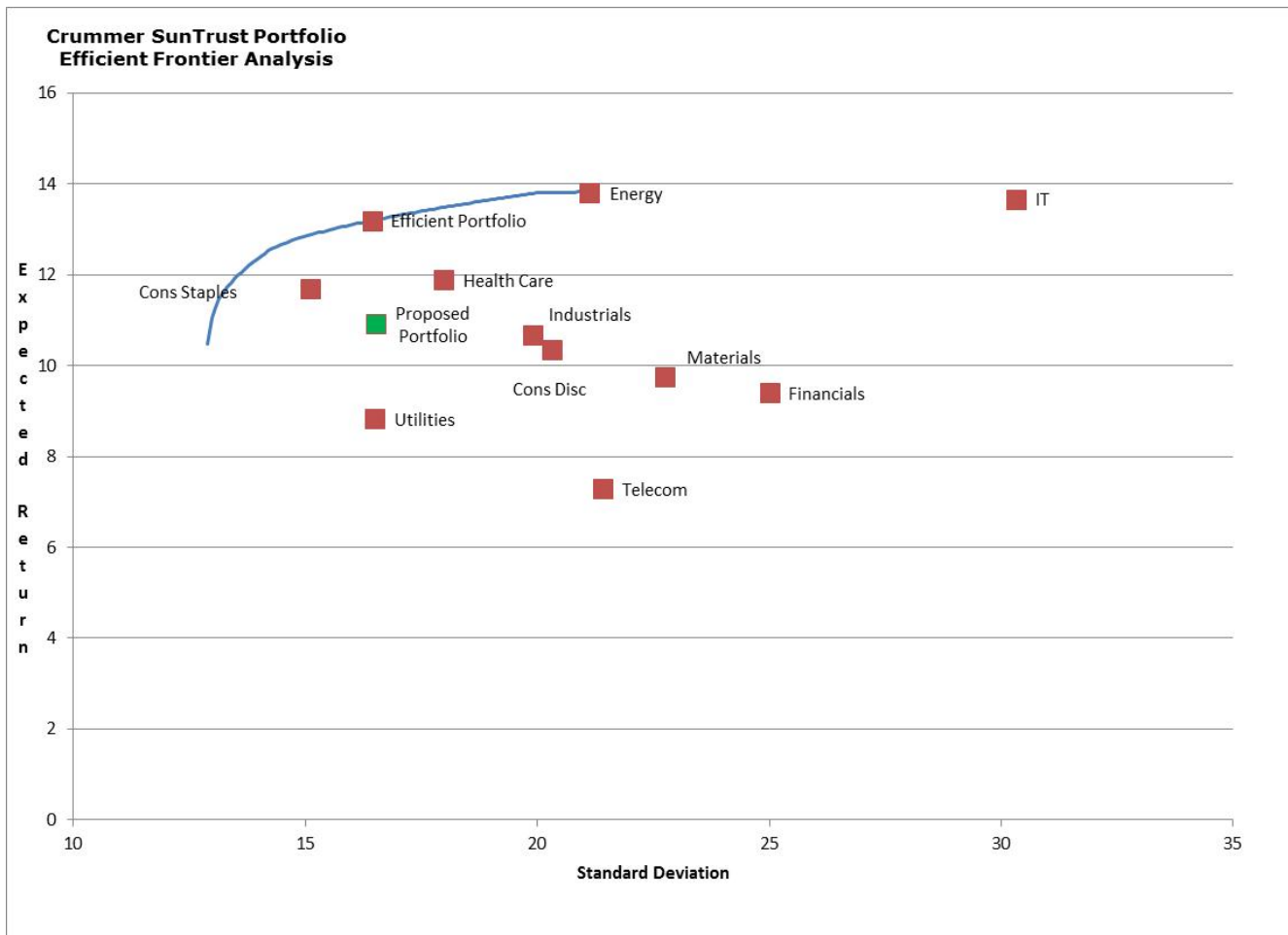
Crummer/SunTrust Portfolio Asset Allocation Guidelines

Asset Class	Target Range			Benchmark
	Low	Mid	High	
Large Cap - Growth	10%	20%	30%	Russell 1000 Growth
Large Cap – Value	10%	20%	30%	Russell 1000 Value
Mid Cap – Growth	5%	7.5%	10%	Russell MidCap Growth
Mid Cap – Value	5%	7.5%	10%	Russell MidCap Value
Small Cap - Growth	5%	10%	15%	Russell 2000 Growth
Small Cap – Value	5%	10%	15%	Russell 2000 Value
International Equity	5%	10%	15%	MSCI – EAFE
Fixed Income	12%	15%	18%	Vanguard Total Bond Market Bond Index Fund
Derivatives	10%	Max		
Cash	as needed			

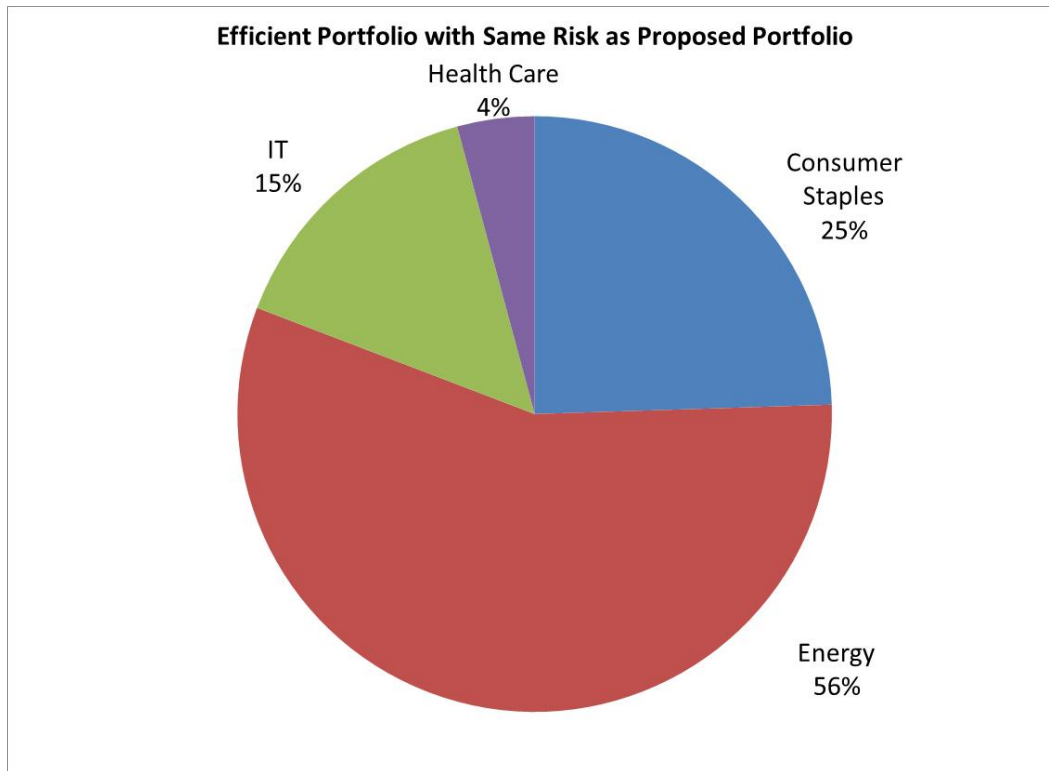
Minimum weight for any asset class is 5%

Mean-Variance Efficiency Analysis

Mean-variance efficiency analysis is part of modern portfolio theory. Although not a widely used guide to constructing portfolios, this analysis can identify where the proposed portfolio might be improved. To conduct this analysis we assembled historical data for the ten equity sectors and constructed the efficient frontier shown in the chart below. Along with the efficient frontier of the highest return portfolios of the ten sectors with the lowest amount of risk (standard deviation), the chart plots the individual sectors and the proposed portfolio.



Of most interest in this analysis are the two portfolios: proposed (in green) and mean-variance optimal (MVO) (in red on the efficient frontier). The proposed portfolio offers an expected return of 10.9% with a standard deviation of 16.5%. The corresponding MVO portfolio has the same risk but a higher expected return, 12.9%. Unfortunately, this increase in return requires a sector allocation that places 56% in the energy sector, 25% in consumer staples, 15% in IT and 4% in Health Care (shown in the chart below).



This portfolio, while more efficient, is inconsistent with our short-term economic expectations strategy and undesirable from a diversification perspective. We only use the mean-variance efficient portfolio as a check on our allocations because the MVO portfolio is poorly diversified and would not be acceptable under the IPS. We do observe, however, that the proposed portfolio is nearly efficient in providing a reasonable return for the risk assumed.

Technical Analysis Tools

Although fundamental value-based analysis was the primary method for stock recommendations, we also used some technical analysis tools to determine whether the timing of the trade is right. Within the portfolio management group, we hold the belief that fundamental analysis answers the question of, “What securities do we buy and sell?” while technical analysis provides the answer to, “Is this a bad time to buy or sell the securities identified?” The three tools that each analyst used after conducting fundamental research were Bollinger Bands, Money Flow Index and RSI.

Bollinger Bands

Bollinger Bands were created by John Bollinger in the 1980s to measure the peaks and troughs of the price relative to previous trades. The bands are as follows:

- Middle band – a simple moving average (SMA)
- Upper band – shows a standard deviation above the middle band
- Lower band – shows a standard deviation below the middle band

When the price is at the lower band, it is expected to revert upward toward the middle band. When the price is at the upper band, it is indicating a reversion downward to the middle band. However, the Bollinger Bands can also indicate price breaks to the upside and downside if the price goes outside of either band with strong volume.

Money Flow Index

The Money Flow Index is an oscillator that uses both price and volume to determine if money is flowing in or out of a security. Money flow is positive when there is buying pressure and negative when there is selling pressure. This number is multiplied with the RSI and gives a range from 0 to 100. This indicator tells whether a stock is overbought (80 or above) or oversold (20 or below).

RSI

The RSI, developed by J. Welles Wilder, is the Relative Strength Index. The RSI is a momentum oscillator that monitors both the speed and change of price movements. The indicator ranges from 0 to 100 and indicates overbought (above 70) and oversold (below 30) conditions.

Value at Risk

“Value at risk (VaR) measures the worst expected loss under normal market conditions over a specified time interval at a given confidence level.”- Financial Modeling, Simon Beninga. VaR is another technical tool that helps us evaluate the changes we propose. VaR is widely used in investment banking and as is required for commercial banks under Basel III.

One way to interpret this concept is that VaR answers the question: how much can the Rollins SunTrust Portfolio lose with 1% of probability over next year. The idea is not to drive the VaR to zero and riskless portfolios earn the risk-free rate of return. Rather we want to compare the VaR between alternative portfolios. Our VaR calculations used the historical returns for each sector and assumed no trading during the next year. We calculate VaR for the portfolio with current, market, and proposed sector weights to determine whether we are risking more money by carrying out our proposed allocations.

Our Findings:

- VaR with our proposed sector weights at 1% confidence level: \$54,410
- VaR with current portfolio sector weights at 1% confidence level: \$56,124
- VaR with market weights at 1% confidence level: \$49,415

Our VaR analysis suggests our proposed sector allocation exposes the portfolio to less risk (\$54,410) than the current sector allocation (\$56,124) and more risk than the market sector weights (\$49,415) at the 1% confidence level. These results make sense, as our goal was to improve the portfolio without undue risk. VaR decreases as we move to the proposed sector allocations. The proposed VaR is higher than the market portfolio, as we expect when tilting the portfolio away from market weights to take advantage of our forecast economic recovery.