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Last month was not our best performance in terms of absolute returns – a very respectable 4% - but a ways away from some of the better months we've enjoyed. Nonetheless, we are especially pleased because a similar investment in the S&P 500 would have returned much less. While the S&P ended on a positive note, it's easy to forget that for much of the last 30 days the index was in the red. We note that there wasn't any day during that time when our model portfolio ended in negative territory. That's the sort of statistic that doesn't show up in the final numbers but

gives our subscribers a better night's sleep.

What worked? Well, quite a few of our stocks were strong but leading the pack was Expedia, which announced two days after our newsletter came out that it was buying back as much as 40% of its own stock, Dutch auction-style. Huaneng Power also came back nicely and more than recovered from a dip the previous month. GM, which has been on a tear the last couple of months, also continued its winning ways. But we will say goodbye after a 28% gain since we

added it in December.

Not much to say about the down side. FPL Group dropped a bit further but we will continue to demonstrate a bit more patience with this holding. Ditto for Brocade. InterActive also declined slightly and it too will remain in the portfolio. Perhaps CEO Barry Diller will work some of his magic there like he did with Expedia.

The table below summarizes the gains and losses for all of the positions we held in June.

June Results

Company Name	Symbol	Opening Price	Closing Price	%Gain/Loss
American Eagle	AEO	\$25.91	\$27.62	+6.6
Albemarle	ALB	\$39.87	\$42.56	+6.7
Acuity Brands	AYI	\$61.95	\$63.64	+2.7
Brocade	BRCD	\$8.51	\$7.94	-6.7
Dean Foods	DF	\$31.23	\$31.59	+1.1
Expedia	EXPE	\$25.37	\$29.64	+16.8
FPL Group	FPL	\$61.30	\$57.46	-6.3
General Motors	GM	\$34.66	\$37.03	+6.8
Health Management	HMA	\$11.36	\$11.48	+1.0
Huaneng Power	HNP	\$43.27	\$47.95	+10.8
Holly Corp.	HOC	\$74.55	\$79.13	+6.1
InterActive Corp	IACI	\$34.35	\$33.53	-2.4
Lennox Int'l.	LII	\$32.11	\$33.97	+5.8
Dr. Reddy's Lab.	RDY	\$15.27	\$16.85	+10.3
Vivo Participacoes	VIV	\$5.17	\$5.19	+0.3
Portfolio Average				+4.0%
S&P 500				+1.3%

The model is retaining five stocks and replacing ten. The ten new holdings' descriptions are listed first, followed by the five we are keeping from June. The entire July portfolio is summarized in a table at the end of the newsletter.

New Buy

Abercrombie & Fitch (ANF)

We are taking our profits this month from American Eagle and instead purchasing what could almost be its twin: **Abercrombie & Fitch (ANF)**. Both firms target the teen market, have similar numbers of retail stores, and have comparable fundamentals. There are a couple of differences worth noting. The price-to-sales ratio is a bit lower at ANF, meaning investors are getting more revenue generation per investment dollar. And over the past month, while American Eagle shares were up almost 7%, ANF shares were actually down about 4%. If the model is right, ANF shares may have a little more upside in them just as a function of catching up. One of the reasons for ANF's poorer relative performance was a downgrade by a Lehman analyst last month. Among the analyst's worries was a higher trend in inventories. But just last week ANF announced June sales results that should help put that concern to rest. Net sales rose 21% over the year-ago 5 week period, surpassing expectations. With that sort of sales momentum it is surprising that, among clothing retailers, ANF has the third lowest forward PE using this year's estimates. And the same is true using next year's projections. The dividend yield is 1%.



New Buy

Miller (MLHR)

The fallout from the decline in residential housing has been widespread, impacting a subset of retailers like furniture makers Ethan Allen, Furniture Brands and Lazy Boy, many of whom are at or near 52-week lows. Fewer new home sales means fewer coffee tables and sofas being sold. But another type of furniture maker has held up quite well over the past year and that's the office furniture manufacturers. Because even as home-builders complain about excess inventory, commercial real estate has been very



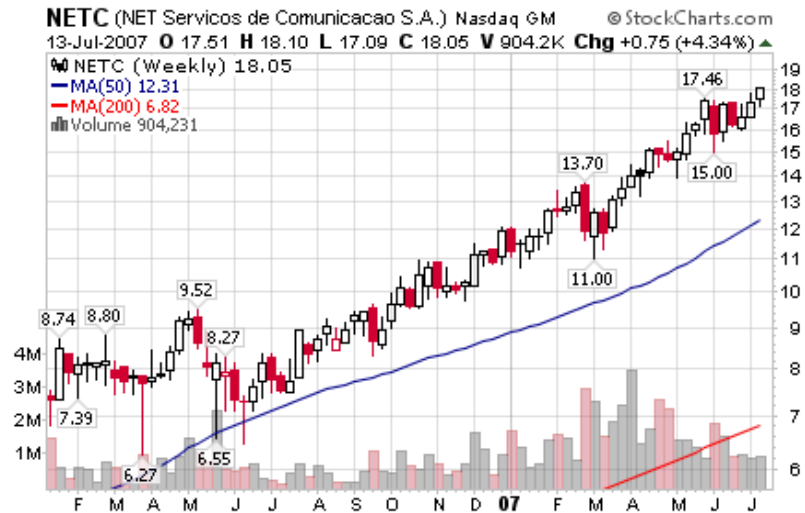
strong and all those new and rehabbed offices need chairs and desks. Enter **Herman Miller (MLHR)**. With a forward PE of 15, it's not exactly carrying a lofty valuation and it's well below the average forward PE of 18 of the furniture/fixture industry group (which includes residential). Sales growth over the past 12 months has been a steady, if not spectacular, 10% versus the industry average of 3%. In its latest quarterly report MLHR cited modest US demand but strong overseas sales growth. While not the first name that comes to mind as a beneficiary of a weaker US dollar, it is true that MLHR products become cheaper when priced in another currency. Finally, in a sign that demand remains strong, order backlog grew 20% in the last quarter. The stock pays a 1% dividend.

New Buy

Net Servicos de Comunicacao (NETC)

Our model continues to find favor among international telecommunications firms and in Brazilian firms in particular. After basically breaking even on VIV last month, we are switching to **Net Servicos de Comunicacao (NETC)**. This is a large cable/internet provider that also has added telephone access to its portfolio of products and serves approximately 2M customers throughout Brazil. Investors who own this stock do so on the basis of extraordinary growth, not because of its deep discount valuation.

The current consensus view on earnings growth this year is 123% followed by 76% in 2008. As the chart below illustrates, shares have been on the move, having more than doubled in the past year. That, along with forward multiples that are high may make more conservative investors nervous. But, in its defense, NETC has a PEG ratio (PE divided by growth) that is quite low at 0.79. That compares favorably to higher profile companies like Time Warner Cable (PEG is 1.01) or Viacom (PEG is 1.34). So even though the forward PE for NETC is 60 using 2007 estimates, it comes with a growth rate that is remarkably strong. Perhaps the biggest worry is the impact of a pull back by the overall Brazilian market, which has been on fire all this year.



New Buy

New Zealand Telecom (NZT)

And here's another one: **New Zealand Telecom (NZT)**. This is a story we've heard before with just about every other major telephone company. The plot goes like this – a monopoly position is established by a dominant national player with the government's either explicit or tacit approval. Then the government changes policy and requires either a break-up or competitive

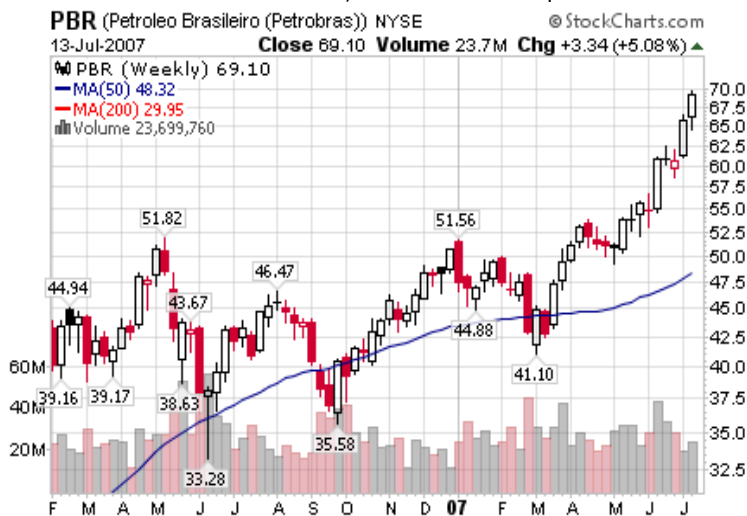


access to the monopolist's installed wire or both. Finally, the formerly dominant operator struggles to compete but still retains some inherent advantages and begins offering new services. In the case of NZT the increased competition is just around the corner. But this year's earnings are still expected to climb by 18%, something many incumbent telephone companies can't lay claim to. The forward PE of 12 is about the lowest among international telecoms. And one of the retained advantages held by NZT is a slug of cash it received by selling off its Yellow Pages business in March. Half of that \$2B windfall is going to be used to buy back shares in September as a way to return capital to shareholders. There is also a 5% dividend yield on the stock that ought to provide additional support to the share price. Earnings are out August 2.

When a company's end markets are growing at a healthy pace it usually offers investors considerable comfort, as they conclude that a rising tide lifts all boats. That hasn't been the case with **NBTY, Inc. (NTY)** this year, as the stock has fallen over 20% despite being the largest player in the growing nutritional supplements business. All those homeopathic herbs, vitamins, and extracts that consumers seem to increasingly want have to come from somewhere; often it's from NTY. Some of the share price decline came after the latest monthly sales report showed that May revenues were up 1%, an increase, but less than what many were anticipating. Checking the earnings outlook it is still quite bright. This year (ending in Sept.) is expected to see growth of 65% over 2006 and then an additional 6% in 2008. As recently as three months ago this year's EPS growth was pegged at 50%, so the stock price has dropped significantly while projected short term earnings growth has accelerated. Indeed, at the end of March, the forward PE for NTY was 20 and now it's 15. The forward PEG at the end of March was 0.38 and now it is 0.23. And while sales growth is not as strong as it was a year ago, operating margins have improved. Taking those elements together it appears that NTY has some fundamental support that can make it an attractive holding.



We have held shares of **Petro Brasileiro (PBR)** in the past, way back in 2005. We might have done worse than just holding onto them, as the stock has done remarkably well over that time. The company is a large (72B market cap) oil/gas producer that operates in Brazil. What was true back in 2005 is true today: in a world of pretty low valuations among energy stocks PBR stands out as one of the lowest. Price-to-book, a measure of share price relative to all the assets held by the company is the lowest, at



1.5, among the biggest integrated oil/gas concerns. Price-to-cash flow is also the lowest in the group at 4.4. Operating margins over the past 12 months are the highest, averaging 25%. And the current PE of 6.1 is exactly one-half that of the industry average of 12.2. PBR's forward PE of 11, using 2007 estimates, isn't the lowest, but it's well below average. What's not to like? Ongoing negotiations with its unionized work force could prove mettlesome. A work stoppage would certainly hurt revenues and earnings but there were modest signs of progress in the talks last week. In the near term the stock may be due for a rest after a fevered rise. Finally, there is also always some political risk in Latin American firms but PBR has managed to avoid the nationalization issues that have plagued Venezuela and Bolivia. Shares are paying a 2% dividend.

New Buy

Rhodia (RHA)

It's unlikely you have ever come across a company by the name of **Rhodia (RHA)**, partly because it has a relatively short corporate history and partly because, like the Coneheads of Saturday Night Live fame, "they are from France". RHA was spun out of Rhône-Poulenc in 1998 as a way to separate the industrial chemicals business into a single unit. The bad news was that there were environmental and pension liabilities not indemnified by Rhône-Poulenc and RHA teetered on the edge of bankruptcy in 2003. But over the last several years the company has largely put those troubles behind and turned a profit in 2006. From an admittedly low base, earnings are expected to climb this year by almost 100% and then triple again in 2008. But only one company in the industry group has a lower forward PE using 2008 estimates, so RHA looks positively cheap. The 2008 earnings multiple is 11 versus an industry average of 17. One flaw in that calculus is that there is only one analyst offering earnings estimates, so there cannot be a high degree of confidence in the numbers. So, we turn instead to the price-to-sales ratio as a way to seek confirmation that shares are being discounted. Only two companies in the industry have a lower P/S ratio (one of them is Huntsman Chemical, currently in the process of being acquired). That suggests that RHA's valuation is quite reasonable. An interim earnings release is due July 31.



New Buy

Symantec (SYMC)

Symantec (SYMC) has been disappointing investors for quite some time, really ever since acquiring data storage giant Veritas in late 2004. To be sure, that acquisition was a big pill to swallow and it is only recently that some have come to believe the indigestion has passed. The product and sales force integration has not gone very well but several weeks ago a Baird analyst

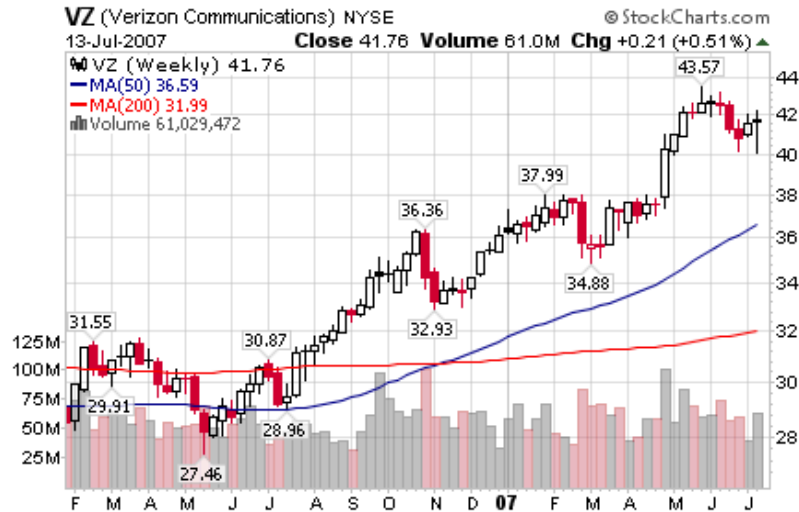


upgraded the stock to "Outperform" on the belief that the effort is now largely complete. The consensus view, however, is firmly in the "Hold" position – good news for contrarians. Compared to similar companies, like McAfee or EMC Storage, SYMC looks inexpensive using 2007 estimates. The forward PE for SYMC is 18 versus multiples in the low-to-mid 20's for the others. But SYMC also isn't projecting the same sort of growth that the other guys are; 11% for SYMC versus 17% at McAfee and 25% at EMC Storage. What is impressive though is the price-to-cash flow ratio SYMC sports: a little less than 15. McAfee's is 37. At the moment it appears SYMC is getting very little credit for its data storage business and when that happens the share price ought to improve. Another feather in the company's cap is its history of using cash to buy back shares – a \$2B buyback was announced just last month. Earnings are scheduled for July 25.

New Buy

Verizon (VZ)

Verizon (VZ) is a company familiar to many, as it is the second largest of the US-based telecoms (market cap of \$120B) and a Dow component. VZ has an interesting strategic story because of its decision to invest billions in laying optical fiber to the home. That was a tough decision a couple of years ago but in hindsight it looks like it may pay ample rewards. As video-on-demand becomes a staple of US consumers, any company that controls the pipeline stands to reap benefits. It will be quite some time before the full financial picture is clear – it's a big, long term investment – but early indications suggest customers are signing up for internet, cable TV, and phone service at a healthy rate. While VZ shares have performed well over the past year, the valuation is still quite reasonable. Earnings growth estimates aren't all that remarkable at 12% for next year, largely because of all the money being poured into fiber construction. But the price-to-sales ratio is the lowest of all US telecom firms and the third lowest among worldwide telecoms. The price-to-cash flow is the fourth lowest. And VZ adds stability to its share price by paying a 4% dividend. Earnings will be out on July 30.



New Buy

WellCare Health (WCG)

Our portfolio has so far had little success in owning health care stocks in the past couple of months. But we are trying again this month by buying shares in insurer **WellCare Health (WCG)**. Several of these firms have been in the news lately because of accusations of predatory marketing to seniors. Seven of the largest insurers have voluntarily ceased to promote their private fee-for-service plans until given the OK by Medicare on how it's done. That's unfortunate but it hasn't caused even a blip on the



earnings front for WCG. Estimates for 2007 have risen ever-so-slightly in the last couple of months and anticipate a 38% increase over 2006 earnings per share. That is expected to be followed by another 15% in 2008. WCG's forward PE of 20 is high among health insurers when the others trade for 15 X 2007 earnings. But the others are also only growing 15% this year and have a PEG ratio of about 1. WCG has a PEG ratio of 0.53, meaning that investors are buying a lot more growth for a relatively small premium. Another important element is WCG's balance sheet which is pretty impressive. Net of debt WCG has about \$32/share in cash and operating cash flow is quite strong. Such a little bit of leverage and considerable cash gives investors hope that management will find a way to return some of that money. An earnings announcement is due August 2.

Albemarle (ALB) is a specialty chemical manufacturer and it almost requires a chemistry degree to fully understand what the company produces. Everything from fire retardants to petroleum additives to ibuprofen (the pain reliever) comes out of ALB's factories. In some absolute sense the stock price is expensive at current levels. ALB has the highest PE in the industry using this year's estimates and the third highest using 2008 estimates. But that comparison belies the underlying earnings growth at ALB which is slated to come in around 18% this year and 17% next. That's far better than most of the industry, where some companies, like Dow Chemical and Eastman Chemical for example, will likely experience earnings shrinkage. Last quarter ALB soundly beat estimates through increased efficiency and firmer pricing across all its operating segments. The analysts that cover ALB however only raised estimates for the full year by the amount of the excess in Q1. That suggests a conservative view and if the recent trends continue, ALB is likely to offer more upside surprises. Last month the share price spiked higher on news of an increase in its ownership of two Chinese joint ventures and an upgrade by an analyst. ALB pays a 1% dividend. Earnings are out July 25.



No real changes to the fundamentals at **Brocade (BRCD)** last month. Share prices continued to drift a bit lower after a fairly sizeable decline in the prior month. The company operates in the super-competitive network storage market where Cisco has a strong presence and where many fear there is coming downward pressure on prices. Even though investors punished the stock



following a late May earnings report, the negatives had to do with BRCD guiding revenues a bit lower for the current quarter. As for earnings, the consensus view today is actually better than it was before the report. Analysts now project that the company will earn \$0.53/share for the year instead of \$0.50/share. That's because BRCD has already achieved the cost savings it anticipated when it bought competitor McData, doing so two quarters earlier than scheduled. And \$0.53/share gives BRCD a forward PE of 15 versus 18 just six weeks ago. Backing into the price, if the company traded at the same multiple as Cisco (presently 22), shares would be at \$11.50. And if operating margins continue to improve, as they have for quite some time, there could be additional upside beyond that.

FPL Group (FPL)

Judging from the stock price performance over the last few weeks one might conclude that **FPL Group (FPL)**, formerly Florida Power & Light, may never sell another kilowatt. Shares fell over 15% in the last few weeks, partly because of news that it would not be allowed to build a new coal power plant and partly because of a general meltdown in the utility sector. As the yields on Treasuries have risen, the dividend yields paid by utilities have become relatively less attractive. But dividends are no longer the only reason investors are interested in utilities. In some cases there is pretty good earnings growth and almost always very strong cash flow. Ever since the announcement that giant Texas utility TXU would be taken private, investors have begun to take a different view of these regulated behemoths, particularly those with plans for growth. FPL is certainly in that category and has a broad portfolio of nuclear power generation (including a plant in Iowa and one in New Hampshire), electric transmission lines, and a large number of power generation facilities using natural gas. Revenue growth is the second highest in the industry. Of the 30 largest US electric utilities only a couple have a higher projected earnings growth rate than FPL's 13% for this year and 9% for 2008. FPL pays a 3% dividend. Earnings are out on July 30.



Health Management Assoc. (HMA)

Health Management Assoc. (HMA) operates hospitals throughout the Southeast and mid-South. The company pulled off a bit of financial engineering last March that should generate some benefits in the future – HMA took on a considerable amount of debt in order to pay a one-time \$10/share dividend. The reasoning behind the move was sound. Since debt capital remains fairly inexpensive HMA can generate greater returns by increasing its leverage. A less laudatory rationale was that adding debt would



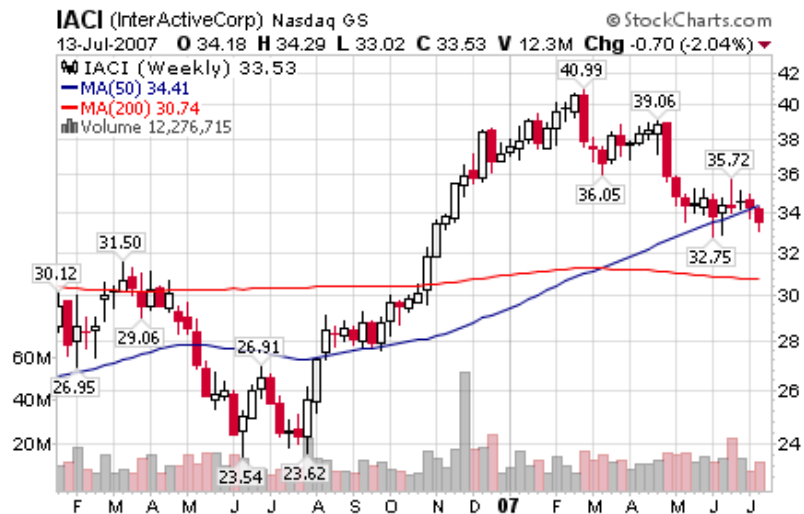
make HMA harder to acquire. In any case, looking ahead, HMA shares are trading at the lowest forward PE of any other hospital operator. 2007 estimates call for earnings of \$0.78/share, giving HMA a forward PE of 14. Competitors are currently trading at between 15 and 17 X 2007 earnings. Using cash flow as a barometer, health care facilities firms generally trade at 8 or 10 X cash flow. In the case of HMA that multiple is only 6. Even compared to its own historical multiples we can see that the valuation being accorded to HMA is quite low. Over the past few years shares have typically traded at a premium to the industry, maybe at 20 X cash flow versus the industry average of 11. In part that's due to the company's presence in high-growth geographic areas, which hasn't changed. The current dividend yield on the stock is 2.1%.

Retained

InterActive Corp. (IACI)

Familiar with a roll-up strategy? That's where a company acquires a series of smaller players in an industry in order to wring efficiencies out of their operations and create economies of scale. It best describes what InterActive Corp. (IACI) has done with a long list of website brands, rolling up real estate (RealEstate.com), mortgages (Lending Tree), shopping (Home Shopping), ticketing (TicketMaster), and search (Ask.com) websites, among others, into a single company.

The idea is to tie these pieces together so that customers of one site will also be cross-sold other products/services. There is some evidence that the strategy is working. Certainly revenues at IACI are showing healthy growth, up 12% over the past year. Earnings for 2007 are expected to be flat and then followed by an 20% rise in 2008. In the rarified valuation world of Yahoo! and Google, IACI looks positively cheap. The forward PE is 20 (Yahoo's is over 50, Google's is 36). Even in an absolute sense 20 is not a terribly expensive earnings multiple. Looking at price-to-cash flow IACI trades at 18X and only slightly above book value, again reasonable ratios, particularly for what many would describe as a growth stock. Earnings are out July 31.



The table below summarizes all of the above holdings and reflects an equally weighted portfolio with \$1,000 invested in each stock using Friday's closing prices. Stocks in **bold** letters are new positions.

July Portfolio

Company Name	Symbol	Price	Number of Shares
Albemarle	ALB	\$42.56	23
Abercrombie & Fitch	ANF	\$74.34	13
Brocade	BRCD	\$7.94	126
FPL Group	FPL	\$57.46	17
Health Management	HMA	\$11.48	87
InterActive Corp	IACI	\$33.53	30
Herman Miller	MLHR	\$33.61	30
Net Servicos	NETC	\$18.05	55
New Zealand Tele.	NZT	\$29.31	34
NBTY, Inc.	NTY	\$42.23	24
Petroleo Brasileiro	PBR	\$69.10	14
Rhodia	RHA	\$49.60	20
Symantec	SYMC	\$19.80	51
Verizon	VZ	\$41.76	24
WellCare Group	WCG	\$93.79	11

To summarize, we are *selling*: AEO, AYI, DF, EXPE, GM, HNP, HOC, LII, RDY, and VIV
And, we are *purchasing*: ANF, MLHR, NETC, NZT, NTY, PBR, RHA, SYMC, VZ, and WCG

If you're impressed with The ValuEngine View model but have found it difficult to invest money and execute the necessary trades, then you'll be excited to know about a partnership we've entered into with Ariston Advisors (ARISTON), an investment advisor operating under the jurisdiction of the state of New York. ValuEngine will electronically upload the models to Ariston Advisors for the trading of the portfolio holdings. More importantly, Subscribers do not pay individual commissions for each of the stock trades. Everything is done automatically for you.

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The ValuEngine View newsletter is the product of a sophisticated stock valuation model that was first developed by Yale Professor of Finance Zhiwu Chen and his coauthors. It utilizes a three factor approach: fundamental variables such as a company's trailing 12-month Earnings-Per-Share (EPS); analyst consensus estimate of the company's future 12-month EPS; and the 30-year Treasury yield. These elements

are all combined to create a more accurate reflection of a company's fair value than is typically available. A total of eleven additional firm specific variables are also used.

The ValuEngine View portfolio is constructed by integrating this model along with some basic rules for market capitalization and industry diversification.

The portfolio has 15 stocks and is balanced once each month. Note that the newsletter is published in the middle of each calendar month. An equal amount of capital is allocated to each stock. The monthly returns are calculated from the closing prices on date of publication. The performance calculation does not include any transaction costs.