ValuEngine

Research Recap

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May 6, 2013

VE Forecast 16 MNS Newsletter
Performance Report Summary

ValuEngine has created and tracked a variety of investment newsletters which reflect varying investment objectives. These newsletters are based on our proven quantitative stock investment strategies.

This performance report covers the VE Forecast 16 Market Neutral Strategy Newsletter. The ValuEngine Forecast 16 Market Neutral Strategy Newsletter is based on one of our most tested and researched portfolio strategies. It uses our Forecast Model to provide the same sort of long-short equity portfolio utilized by major hedge funds and institutions without the hefty management and performance fees.

A research team of Ivy League academics and Wall St. investment professionals created ValuEngine's proprietary financial models and investment tools. This four-year effort required a team of 12 PhDs and a budget of more than $4 million. Each ValuEngine model takes a view of the market from a different perspective and then the various outputs are combined in order to rate and rank each ticker in our universe of 5000 stocks--of which @ 500 are ADRs and foreign companies that trade on US exchanges. The two main models utilize complex mathematical modeling formulas as well as computer simulation techniques to compute what stock prices should be if the market were totally rational and efficient and what stock prices will be given the actual state of the market today.[1]

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[1] For additional information on the academic research that serves as the basis for ValuEngine's equity research and investment tools, please see the following papers: Stock Valuation in Dynamic Economies, Bakshi, Chen, 2001; A Generalized Earnings-Based Stock Valuation Model, Dong, Hirshleifer, 2004; Stock Valuation and Investment Strategies, Chen, Dong, 2001; Investing With a Stock Valuation Model, Chang, Chen and Dong, 1999.

The research effort resulted in the publication of a variety of theoretical research in leading academic journals. The cutting-edge theoretical financial research behind ValuEngine is often cited by other academics working in the field of quantitative finance. Because ValuEngine is an independent research provider, conflicts of interest are avoided and the attempts of investor relations people and others to garner "optimistic" coverage are mitigated. These models are fast, efficient, systematic, and--above all--*objective*.

One must always remember that despite the proven robustness and performance of the ValuEngine models and the scientific rigor of our research and back testing program, there is no foolproof manner of predicting market performance. ValuEngine provides an avenue to better than average returns because it applies cutting-edge financial theory to a very large universe of stocks in a manner that human beings simply cannot replicate.

ValuEngine systems evaluate fundamental data 24 hours a day, 7 days a week. However, they do have limitations. No research provider can quantify an unannounced M&A deal, an SEC action, a crooked CFO, an Enron, an accident, storm, or any other act of god. They certainly cannot factor the fanaticism that so many users have vis-a-vis their Macs or their iPods. They are also dependent on the quality of the financial data on which they rely--"garbage in, garbage out!"

The best way to utilize ValuEngine research is to take the data and combine it with your own analysis and read of market conditions.   ValuEngine's research and tools are not meant to be utilized as a "black box," they demand human oversight and decision making. Always take model recommendations into account, but make sure you consider the sorts of qualitative data that they cannot quantify.

Strategy Description

Market neutral strategy (MNS) portfolios offer the potential of decent, steady returns in both good markets and bad. The ValuEngine Forecast 16 Market Neutral Strategy Newsletter offers the investor capable of running a short side access to increased performance with lower overall volatility and hedged risk. You can run an equally allocated MNS portfolio, or customize it to your needs by adjusting your capital allocation between the long and short sides.

The ValuEngine Forecast 16 Market Neutral Strategy Newsletter is based on our VE Diversified Growth Strategy. This strategy relies on the stock-return forecast calculations of the VE Forecast Model. The ValuEngine Forecast model analyzes stock prices from a different perspective. Unlike the Stock Valuation model--which merely states what a stock's price *should be* assuming a totally efficient market, the VE Forecast Model predicts what a stock's price *will be* at a specified future time period given current market conditions. The Forecast Model builds upon the output of the Stock Valuation Model by combining it with econometric and simulation techniques to output target prices for one, three, and six-month and one, two, and three-year time horizons, as well as a percentage probability for gains and losses.

The VE Forecast Model uses a distinct forecasting model for the six forecast time horizons for every industry. It considers--among other things, short-term price reversals, intermediate-term momentum continuation, and long-term price reversals. As with the ValuEngine Stock Valuation Model, parameters are updated in real time. While the dynamic environment of the financial markets precludes forecasting with absolute certainty, the ValuEngine Forecast Model's inclusion of micro/macro, short term/long term parameters and the use of probability statistics, results in forecasts that are robust and actionable. Remember that while it is impossible for anyone to predict the markets with absolute certainty, the forecast figures are especially useful for comparing tickers to each other in order to determine the best investment targets for a given time frame.

For the ValuEngine Forecast 16 Market Neutral Strategy Newsletter, stocks predicted to provide the highest returns for each sector serve as the initial stock basket. All picks are subjected to an additional human "sanity check." By selecting two stocks from each of the 16 sectors—one long pick and one short pick-- diversity is achieved. This typically provides reduced volatility and may allow for newsletter gains even when the overall market trend may be down. Rebalancing occurred once per month. An equal amount of capital was allocated to all stocks.

Report Parameters

VE Forecast 16 MNS	
Report Date	April, 2013
Time Frame	December 2008-March 2013
Strategy	VE Diversified Growth
Size Ranking	Market Cap > $500 Million
Rebalancing	Monthly
Portfolio Size	32 Stocks—16 Long, 16 Short
Market Price	> $5.00

Return and Volatility Table

	VE Forecast 16 MNS	S&P 500
Last 1-Yr Return	16.29%	14.97%
Last 3-Yr Return	32.63%	27.26%
Since Inception	75.45%	72.36%
Avg Monthly Return	1.14%	1.14%
Avg Annual Return	14.62%	14.64%
Annual Volatility	11.83%	15.01%
Max Drawdown	-14.68%	-12.90%
Sharpe Ratio	1.23	0.98
Sortino Ratio	2.56	1.46
Correlation with S&P500	0.01	1.00

Annual Return Table

Year	VE Forecast 16 MNS	S&P 500
2009	26.84%	32.15%
2010	19.87%	12.80%
2011	1.97%	0.04%
2012	20.75%	11.26%
2013 YTD	-2.33%	6.94%

Wealth Accumulation Charts

December 2008-March 2013 Since Inception

Legend: ValuEngine Forecast — S&P 500
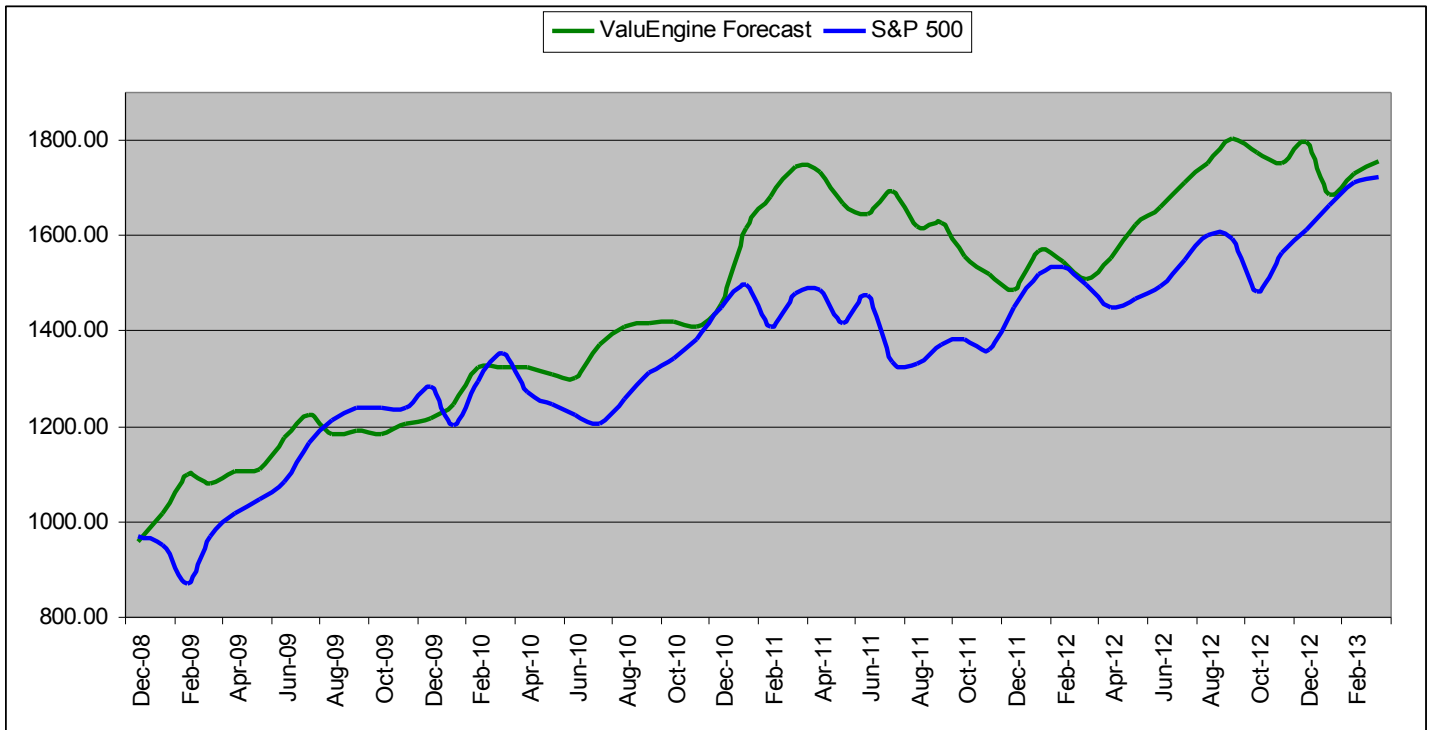
April 2010-March 2013 Last Three Years

Legend: ValuEngine Forecast — S&P 500
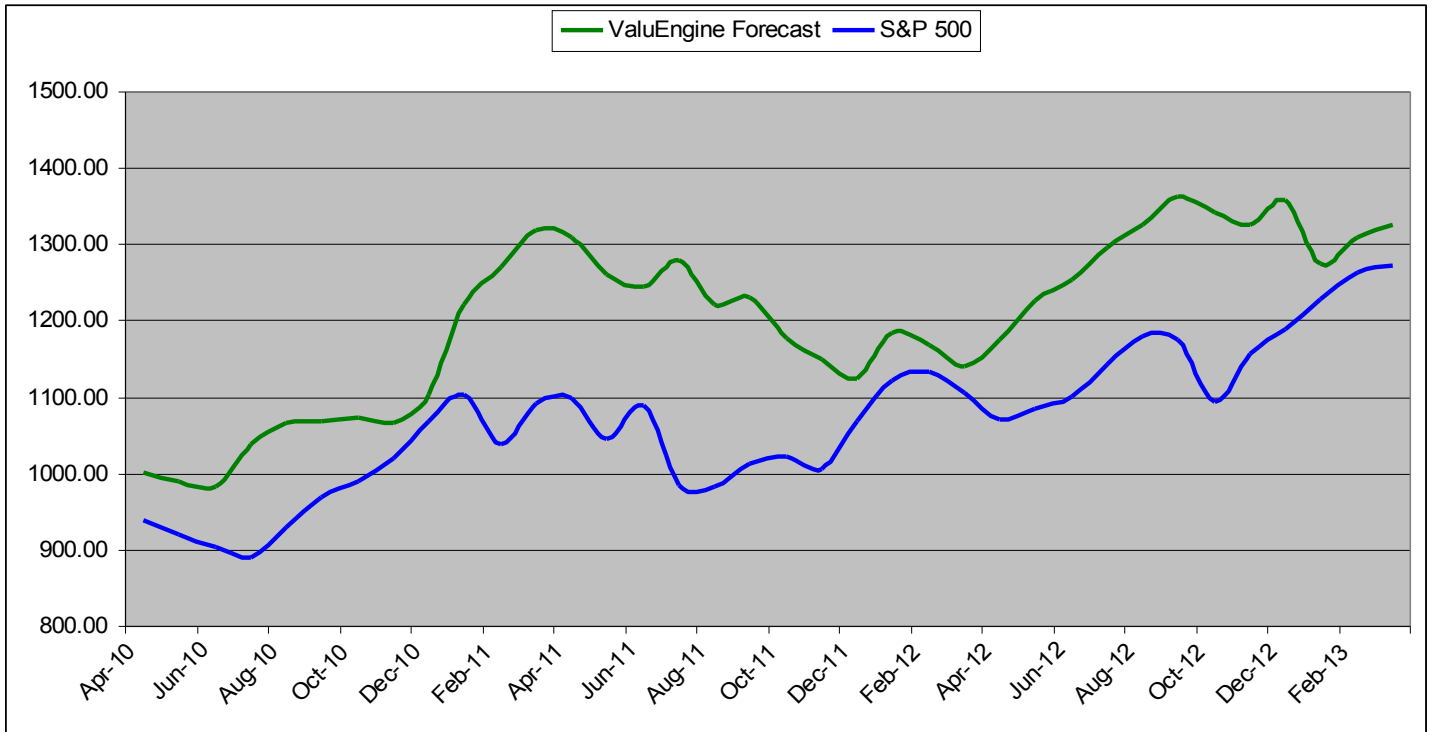
April 2012-March 2013 Last Twelve Months
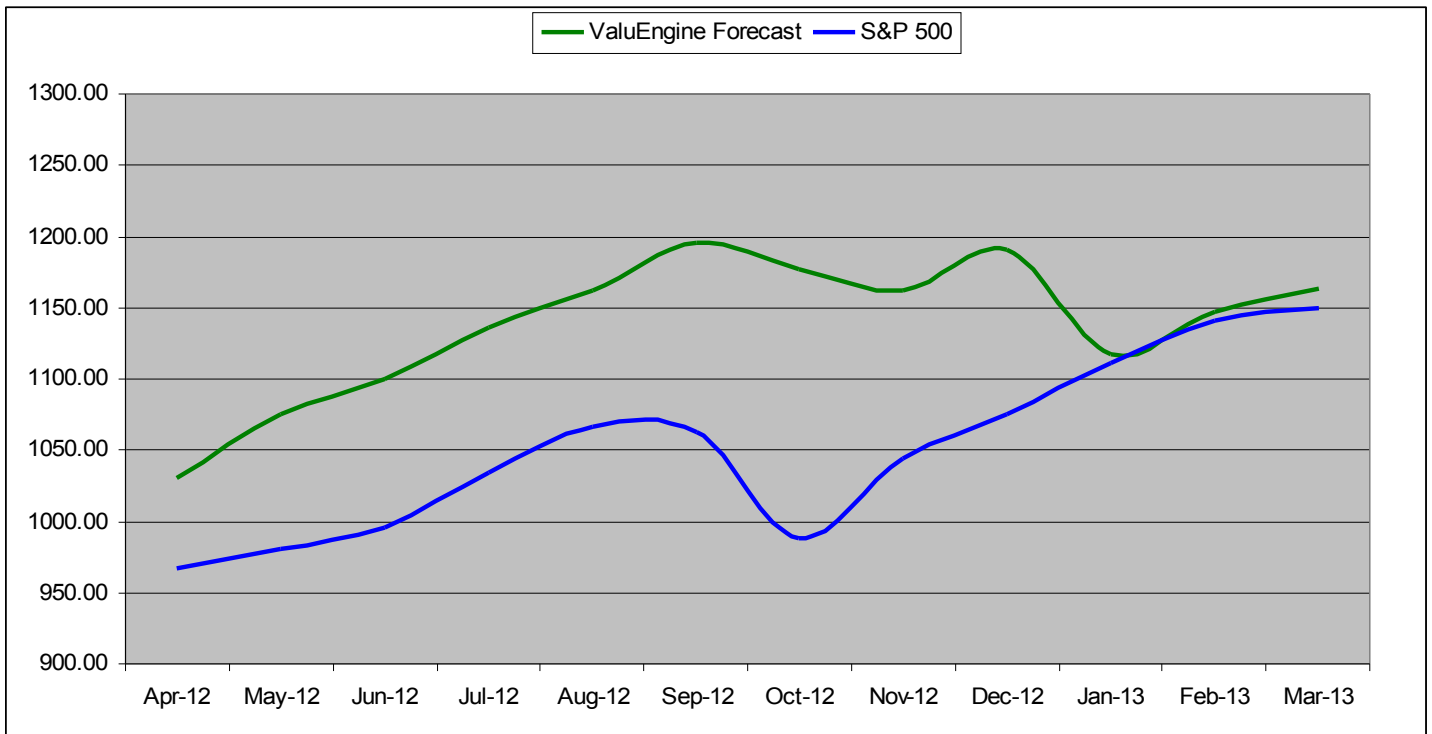
Monthly Return Table

Month	ValuEngine Forecast	S&P 500
Dec-08	-4.05%	-2.86%
Jan-09	6.03%	-2.00%
Feb-09	7.85%	-8.50%
Mar-09	-1.65%	11.23%
Apr-09	2.57%	4.92%
May-09	0.24%	3.15%
Jun-09	6.11%	3.30%
Jul-09	4.15%	7.65%
Aug-09	-3.50%	3.94%
Sep-09	0.68%	2.18%
Oct-09	-0.46%	0.13%
Nov-09	1.67%	-0.12%
Dec-09	0.97%	3.66%
Jan-10	2.49%	-6.35%
Feb-10	6.07%	7.81%
Mar-10	-0.02%	4.50%
Apr-10	0.22%	-6.17%
May-10	-1.27%	-1.96%
Jun-10	-0.59%	-1.73%
Jul-10	5.58%	-1.44%
Aug-10	2.67%	4.23%
Sep-10	0.32%	4.37%
Oct-10	0.34%	2.16%
Nov-10	-0.70%	3.13%
Dec-10	3.49%	4.70%
Jan-11	10.82%	3.33%
Feb-11	4.01%	-5.94%
Mar-11	3.69%	5.00%
Apr-11	-0.62%	0.70%
May-11	-3.67%	-4.78%

Month	ValuEngine Forecast	S&P 500
Jun-11	-1.37%	4.13%
Jul-11	2.87%	-9.48%
Aug-11	-4.47%	-0.34%
Sep-11	0.65%	3.02%
Oct-11	-4.34%	1.01%
Nov-11	-2.42%	-1.71%
Dec-11	-2.13%	6.41%
Jan-12	5.40%	4.98%
Feb-12	-1.35%	0.96%
Mar-12	-2.46%	-2.35%
Apr-12	3.05%	-3.27%
May-12	4.29%	1.36%
Jun-12	2.35%	1.55%
Jul-12	3.23%	3.80%
Aug-12	2.35%	3.23%
Sep-12	2.91%	-0.43%
Oct-12	-1.63%	-6.98%
Nov-12	-1.22%	5.69%
Dec-12	2.46%	2.93%
Jan-13	-6.15%	3.33%
Feb-13	2.72%	2.75%
Mar-13	1.31%	0.73%

VALUENGINE'S METHODOLOGY

ValuEngine's research combines the most advanced academic concepts with real world Wall Street practice. The result is state-of-the-art fair market valuation and price forecasting technologies.

ValuEngine's stock valuation employs a sophisticated, three-factor approach. Fundamental variables, such as a company's trailing 12-month Earnings-Per-Share (EPS), the analyst consensus estimate of the company's future 12-month EPS, and the 30-year Treasury yield, are all used to create a more accurate reflection of a company's fair value. Together with eleven additional variables, ValuEngine paints a detailed picture of a company's fair value, represented by the model price.

ValuEngine's stock forecasts examine, among other things, short-term price reversals, intermediate-term momentum continuation, and long-term price reversals over six time horizons for every industry to ensure forecasts are established relative to a stock's proper peer groups. Advanced statistical/econometric techniques are used to run thousands of simulations estimating the probability of a double in stock price, as well as the probability of meeting and exceeding any given portfolio or stock investment target.

The stock's engine rating is an assessment of its overall attractiveness. It combines valuation, risk-return trade-off, momentum, market capitalization and forecasted future returns. Only two percent of the stock universe receives the highest 5-engine rating. The lowest rating is a single engine.

For more information on ValuEngine, its models and performance, go to www.ValuEngine.com

Engine Rating and Average Annual Return
(Jan 1990 - Jul 2008)

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ValuEngine offers equity recommendations and related return estimates to investors and their advisors. It uses a three-class Buy-Hold-Sell rating system. This is a consolidated version of the firm's five class rating system: most favorable and favorable ratings are buys; neutral ratings are holds and the categories unfavorable and most unfavorable are sells.

STOCK RATINGS: The terms below are used to rate a stock's 12-month performance:
1. Buy: Expected to outperform the SP500 producing above average returns.
2. Hold: Expected to perform in line with the SP500 with average returns.
3. Sell: Expected to underperform the SP500 producing below-average returns.

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