

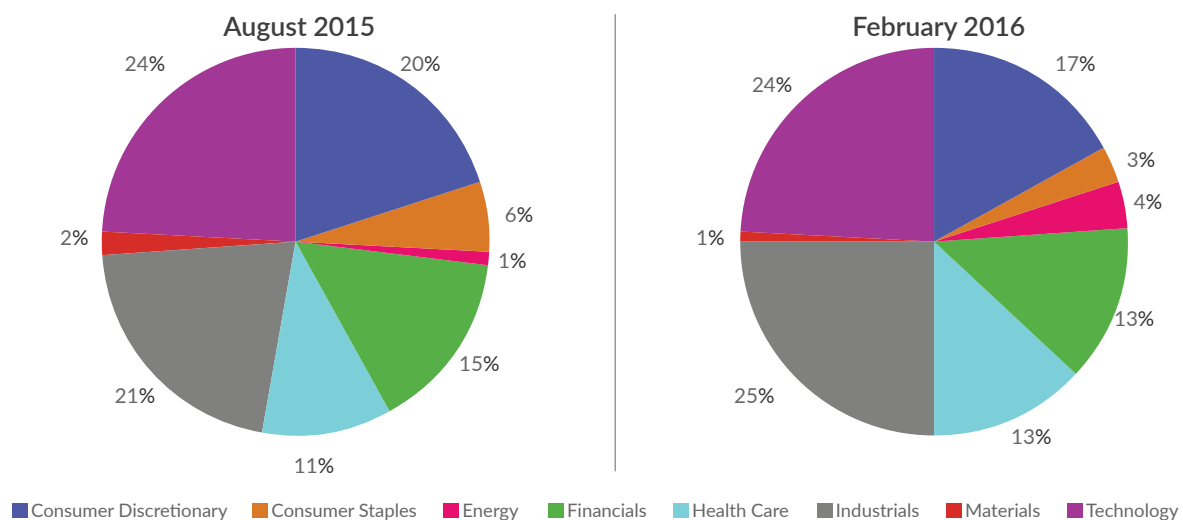
MarketGrader U.S. 100 February 2016 Rebalance – Notes

February 2016

On Friday, Feb. 19, the MarketGrader 100 Index (MGONE) completed its most recent semi-annual rebalance, replacing 49 of its existing constituents, well below its average semi-annual turnover of 60%. This was the lowest semi-annual turnover rate in three years, since the February 2013 rebalance, when only 44 names were replaced (which was also the lowest turnover rate in the 13-year history of the index), suggesting plenty of value remained in the August selection based on MarketGrader's fundamental overall grade. In fact, the average grade (on our 100-point scale) improved by five points, from 71 to 76, while the median grade improved from 72 to 75. The new crop of constituents now sports average and median market capitalizations of \$31.65 billion and \$2.60 billion respectively, up from \$24.46 billion and \$2.54 billion for the August group, based on Feb. 19 closing stock prices.

Sector allocations were little changed with Consumer Discretionary and Consumer Staples losing three constituents each, followed by Financials, which lost two and Materials, which lost one. Dow Chemical (DOW) is now the lone standard-bearer for the beleaguered Materials sector in the newly reconstituted MGONE. The sector with the biggest net gain was Industrials, which picked up four extra constituents, reaching the sector max, based on the index's rules, of 25%. Energy, surprisingly, picked up three names, but still represents only 4% of MGONE, while Health Care gained two extra spots. And although technology's allocation remained unchanged, the sector still represents a hefty 24% of MGONE. Figure 1 illustrates the sector changes.

Figure 1. Sector changes in MGONE from August 2015 selection to February 2016 selection.

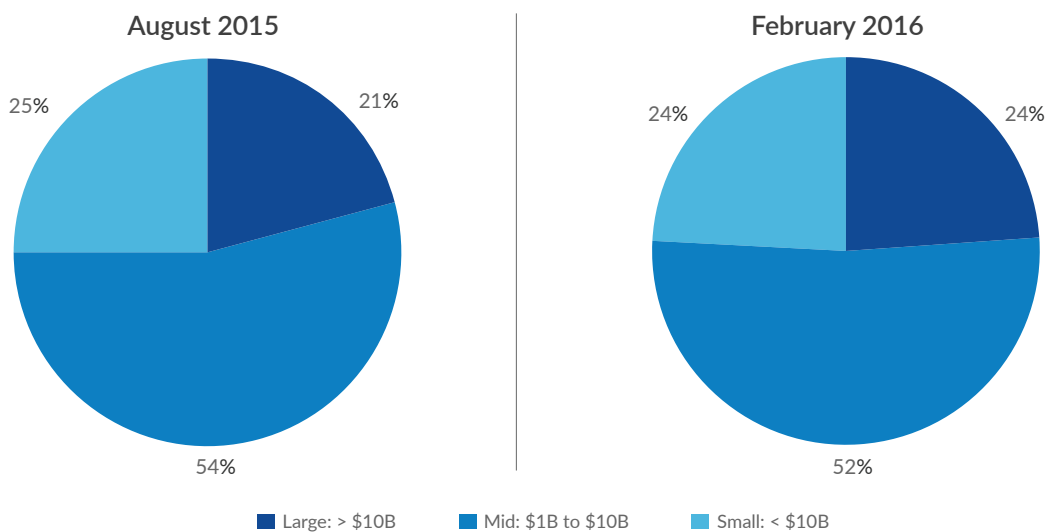


Source: MarketGrader.com

From a market capitalization perspective, the component breakdown was little changed from the August selection, with mid caps (\$1 billion to \$10 billion) still accounting for more than half of the index; 52%, in fact, although the category lost two names. Small caps (below \$1 billion) lost one spot and now, based on the number of constituents, represents 24% of the index. All three spots given up by the mid cap and small cap segments of MGONE were picked up by the large cap segment (above \$10 billion), which now represents 24% of the index. Figure 2 shows the changes in market cap segment allocations.

Among the large cap names, some notable deletions include Comcast (CMCSA), Boeing (BA) and Union Pacific (UNP); some notable additions include Berkshire Hathaway (BRK.B), Facebook (FB) and Cisco Systems (CSCO). Please refer to Appendix A for a complete breakdown of all additions and deletions by market capitalization.

Figure 2. Market capitalization segment changes in MGONE from August 2015 selections to February 2016 selections.



Source: MarketGrader.com

Fundamentally speaking, as is customary, the profile of the new constituents in the MarketGrader 100 Index improved from the outgoing crop of companies, particularly from the perspective of growth, while average and median valuations are now marginally higher. This is not unusual at all, as an improved growth profile (sales, operating and net income and earnings per share) in MarketGrader’s system of growth at a reasonable price, or GARP, often co-exists with valuations that are slightly higher than rock bottom pure value plays. Nevertheless, overall valuations in MGONE look compelling, with the new constituents having a median trailing P/E of 16.4 and a median forward P/E of 14.5. Lastly, from a quality perspective, the new index also offers an improvement from the outgoing class, with average and median returns on equity slightly better than before the rebalance and average long-term debt relative to capital lower by four percentage points (while median LT Debt to Capital remained unchanged). Figure 3 summarizes the key fundamental attributes of the incoming and outgoing class of MGONE.

Figure 3. Fundamental attributes of MGONE constituents from August 2015 and February 2016 selections.

	New Selection (Feb. 2016)	Prior Selection (Aug. 2015)
Market Capitalization		
Mean	\$31.65 billion	\$24.46 billion
Median	\$2.60 billion	\$2.54 billion
Trailing P/E Ratio		
Mean	17.6	16.3
Median	16.4	14.8
Forward P/E Ratio		
Mean	15.1	13.8
Median	14.5	13.4
3Yr. EPS Growth Rate		
Mean	46%	35%
Median	28%	20%
Operating Margin		
Mean	26%	25%
Median	24%	23%
LT Debt to Capital		
Mean	22%	26%
Median	25%	25%
Return on Equity		
Mean	31%	30%
Median	25%	26%
3 Yr. Sales Growth		
Mean	34%	32%
3 Yr. Operating Income Growth		
Mean	51%	45%
Overall MarketGrader Grade (0-100)		
Mean	76.0	71.0
Median	75.1	72.2

Source: MarketGrader.com

Notable Mentions

The newly rebalanced MGONE welcomed 15 first-timers as well as 12 companies that had been selected in the past but had been absent for at least two years. Both of these groups are great illustrations of the dynamism inherent in MGONE's GARP-based selection methodology. As companies' fundamentals improve, they earn the right to be selected to the top 0.2% of the approximate 4,700 U.S.-listed companies covered by MarketGrader. Please see Figure 4 for the complete list of these two sub-sets of companies.

Figure 4. First time selections and companies returning to MGONE after at least two-year absence.

First time selections

Ticker	Company Name	Market Cap (M)	Overall Grade
BRK.B	BERKSHIRE HATHAWAY INC	315,675.00	71.36
LUV	SOUTHWEST AIRLINES CO	23,123.70	75.69
JBLU	JETBLUE AIRWAYS CORP	6,695.05	74.14
MDVN	MEDIVATION INC	4,983.33	74.42
VLP	VALERO ENERGY PARTNERS LP	2,507.83	84.40
GMED	GLOBUS MEDICAL INC	2,153.05	72.98
KNX	KNIGHT TRANSPORTATION INC	2,010.08	72.77
MATX	MATSON INC	1,736.42	78.53
AHS	AMN HEALTHCARE SERVICES INC	1,104.59	76.23
AMWD	AMERICAN WOODMARK CORP	964.25	78.56
WNC	WABASH NATIONAL CORP	775.36	72.51
TREE	LENDINGTREE INC	733.69	78.17
ENTA	ENANTA PHARMACEUTICALS INC	505.30	78.82
TNK	TEEKAY TANKERS LTD	484.97	74.31
PLOW	DOUGLAS DYNAMICS INC	435.00	79.93

Source: MarketGrader.com

Returning companies after at least two-year absence

Ticker	Company Name	Sector	Last Selection Date	Overall Grade
CRI	CARTERS INC	Consumer Discretionary	9/21/15	72.28
CRUS	CIRRUS LOGIC INC	Technology	9/21/15	71.44
DOW	DOW CHEMICAL CO	Materials	9/21/15	70.63
EBIX	EBIX INC	Financials	3/18/13	72.13
FSLR	FIRST SOLAR INC	Technology	3/16/12	75.97
HIBB	HIBBETT SPORTS INC	Consumer Discretionary	3/23/15	74.27
IDCC	INTERDIGITAL INC	Technology	9/22/14	70.89
LRCX	LAM RESEARCH CORP	Technology	9/21/15	73.71
MSTR	MICROSTRATEGY INC	Technology	9/17/10	72.19
SYNA	SYNAPTICS INC	Technology	9/21/15	71.02
ZAGG	ZAGG INC	Industrials	9/16/11	75.61

Source: MarketGrader.com

Lastly, we have reserved a special mention for a group of 20 companies in the current MGONE that have made it into the index for at least four consecutive reconstitutions, or two consecutive years. Two of them, Grand Canyon Education (LOPE) and Syntel (SYNT) have been members of MGONE for five consecutive years, with Nike (NKE), Apple (AAPL) and Universal Insurance Holdings (UVE) having made it for three consecutive years. Kudos to them and to the entire list of companies that have made such a stringent list at least two years in a row. Their names appear in Figure 5.

Figure 5. Companies selected to MGONE for at least two consecutive years.

Ticker	Company Name	Consecutive Years	Overall Grade
LOPE	GRAND CANYON EDUCATION INC	5	81.37
SYNT	SYNTEL INC	5	77.98
NKE	NIKE INC	3	73.99
AAPL	APPLE INC	3	80.19
UVE	UNIVERSAL INSURANCE HOLDINGS INC	3	83.15
ALK	ALASKA AIR GROUP INC	2	80.22
BIIB	BIOGEN INC	2	74.12
DIS	WALT DISNEY CO	2	77.64
FNHC	FEDERATED NATIONAL HOLDING CO	2	87.59
GBX	GREENBRIER COS INC	2	82.19
GILD	GILEAD SCIENCES INC	2	89.77
INTC	INTEL CORP	2	72.12
NLS	NAUTILUS INC	2	80.66
SAVE	SPIRIT AIRLINES INC	2	77.68
SWKS	SKYWORKS SOLUTIONS INC	2	82.33
THRM	GENTHERM INC	2	77.87
TRN	TRINITY INDUSTRIES INC	2	73.19
TROW	T ROWE PRICE GROUP INC	2	74.21
UBNT	UBIQUITI NETWORKS INC	2	78.51
ULTA	ULTA SALON COSMETICS & FRAGRANCE INC	2	78.71

Source: MarketGrader.com

Appendix A: Breakdown of all additions and deletions to MGONE in Feb. 2016 rebalance by market capitalization.

Additions			
Ticker	Company Name	Market Cap (M)	Overall Grade
LARGE CAP			
BRK.B	BERKSHIRE HATHAWAY INC	323,020	71.18
FB	FACEBOOK INC	297,705	70.89
HD	HOME DEPOT INC	154,288	78.65
CSCO	CISCO SYSTEMS INC	133,603	76.71
AMGN	AMGEN INC	112,904	71.63
DOW	DOW CHEMICAL CO	52,593.5	71.52
ORLY	OREILLY AUTOMOTIVE INC	25,200.5	71.15
LUV	SOUTHWEST AIRLINES CO	25,082.5	75.69
ROST	ROSS STORES INC	22,149.7	74.23
MMP	MAGELLAN MIDSTREAM PARTNERS LP	14,503	71.17
SEP	SPECTRA ENERGY PARTNERS LP	13,749	72.19
LRCX	LAM RESEARCH CORP	11,086	73.09
MID CAP			
JBLU	JETBLUE AIRWAYS CORP	6,858.25	74.44
FSLR	FIRST SOLAR INC	6,333.74	75.98
NVR	NVR INC	6,177.08	74.86
UTHR	UNITED THERAPEUTICS CORP	5,809.48	81.79
MDVN	MEDIVATION INC	5,363.14	73.83
CBOE	CBOE HOLDINGS INC	5,182.64	76.56
EQM	EQT MIDSTREAM PARTNERS LP	5,158.46	84.90
WSM	WILLIAMS SONOMA INC	5,043.84	70.81
CRI	CARTERS INC	4,569.82	72.29
MKTX	MARKETAXESS HOLDINGS INC	4,256.85	70.29
GNTX	GENTEX CORP	4,244.59	74.07
SYNA	SYNAPTICS INC	2,913.93	70.40
VLP	VALERO ENERGY PARTNERS LP	2,636.94	84.41
CALM	CAL MAINE FOODS INC	2,393.37	84.92
GMED	GLOBUS MEDICAL INC	2,235.90	72.98
CRUS	CIRRUS LOGIC INC	2,093.76	71.44
KNX	KNIGHT TRANSPORTATION INC	1,993.08	72.78
MATX	MATSON INC	1,790.86	78.17
MSTR	MICROSTRATEGY INC	1,747.20	72.19
IDCC	INTERDIGITAL INC	1,672.81	69.64
PLKI	POPEYES LOUISIANA KITCHEN INC	1,376.41	71.21
AHS	AMN HEALTHCARE SERVICES INC	1,331.62	73.56
INSY	INSYS THERAPEUTICS INC	1,235.33	84.42
EBIX	EBIX INC	1,122.75	70.65
AMWD	AMERICAN WOODMARK CORP	1,030.99	77.66
SMALL CAP			
HF	HFF INC	914.49	78.03
WNC	WABASH NATIONAL CORP	785.33	72.51
TREE	LENDINGTREE INC	781.28	77.13
HIBB	HIBBETT SPORTS INC	766.98	74.27
ORIT	ORITANI FINANCIAL CORP	727.31	80.22
ATRO	ASTRONICS CORP	631.95	73.17
ANIK	ANIKA THERAPEUTICS INC	572.64	75.79
ENTA	ENANTA PHARMACEUTICALS INC	542.58	76.89
TNK	TEEKAY TANKERS LTD	530.70	74.31
OME	OMEGA PROTEIN CORP	484.07	79.77
PLOW	DOUGLAS DYNAMICS INC	436.34	79.94
ZAGG	ZAGG INC	276.81	75.62

Deletions			
Ticker	Company Name	Market Cap (M)	Overall Grade
LARGE CAP			
CMCSA	COMCAST CORP	141,073	74.80
BA	BOEING CO	76,294	61.59
UNP	UNION PACIFIC CORP	67,628.5	67.72
TJX	TJX COS INC	47,931.6	68.38
KR	KROGER CO	36,864	66.05
LVS	LAS VEGAS SANDS CORP	36,500.4	71.63
EL	ESTEE LAUDER COS INC	33,772.6	66.18
MU	MICRON TECHNOLOGY INC	11,578.1	58.27
GPS	GAP INC	10,601	60.89
MID CAP			
FL	FOOT LOCKER INC	9,265.19	69.96
GT	GOODYEAR TIRE & RUBBER CO	7,907.11	51.73
SPR	SPIRIT AEROSYSTEMS HOLDINGS INC	6,064.61	74.93
PPC	PILGRIMS PRIDE CORP	5,789.58	62.26
PII	POLARIS INDUSTRIES INC	5,628.24	76.85
WLK	WESTLAKE CHEMICAL CORP	5,591.91	70.75
IPGP	IPG PHOTONICS CORP	4,315.33	76.36
FAF	FIRST AMERICAN FINANCIAL CORP	4,041.49	52.37
CACC	CREDIT ACCEPTANCE CORP	3,919.29	72.12
ABMD	ABIOMED INC	3,450.98	67.32
AGO	ASSURED GUARANTY LTD	3,386.12	66.46
CGNX	COGNEX CORP	3,118.67	51.43
MMS	MAXIMUS INC	3,117.51	60.95
HOMB	HOME BANCSHARES INC /AR/	2,771.18	67.25
DLX	DELUXE CORP	2,667.07	71.19
FOSL	FOSSIL GROUP INC	2,133.12	66.90
NTI	NORTHERN TIER ENERGY LP	2,101.75	67.56
SAFM	SANDERSON FARMS INC	1,935.32	67.40
WDR	WADDELL & REED FINANCIAL INC	1,837.89	64.76
MKSI	MKS INSTRUMENTS INC	1,785.71	67.33
PRLB	PROTO LABS INC	1,697.72	69.96
MLHR	MILLER HERMAN INC	1,510.60	66.58
USNA	USANA HEALTH SCIENCES INC	1,343.28	76.92
SWHC	SMITH & WESSON HOLDING CORP	1,288.11	68.70
PFS	PROVIDENT FINANCIAL SERVICES INC	1,222.68	64.81
EGOV	NIC INC	1,172.93	65.87
SNCR	SYNCHRONOSS TECHNOLOGIES INC	1,146.09	65.09
SMALL CAP			
LCI	LANNETT CO INC	908.33	71.61
AMAG	AMAG PHARMACEUTICALS INC	870.97	60.04
EVTC	EVERTEC INC	854.86	62.26
SCSS	SELECT COMFORT CORP	818.59	73.78
PATK	PATRICK INDUSTRIES INC	639.38	62.28
PDLI	PDL BIOPHARMA INC	508.72	68.90
WGO	WINNEBAGO INDUSTRIES INC	493.19	52.30
CNOB	CONNECTONE BANCORP INC	462.12	62.53
LION	FIDELITY SOUTHERN CORP	343.80	59.40
VNDA	VANDA PHARMACEUTICALS INC	338.79	30.60
AFOP	ALLIANCE FIBER OPTIC PRODUCTS	209.14	63.90
HCLP	HI CRUSH PARTNERS LP	155.23	58.17
CHKE	CHEROKEE INC	147.80	54.37

Source: MarketGrader.com

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