

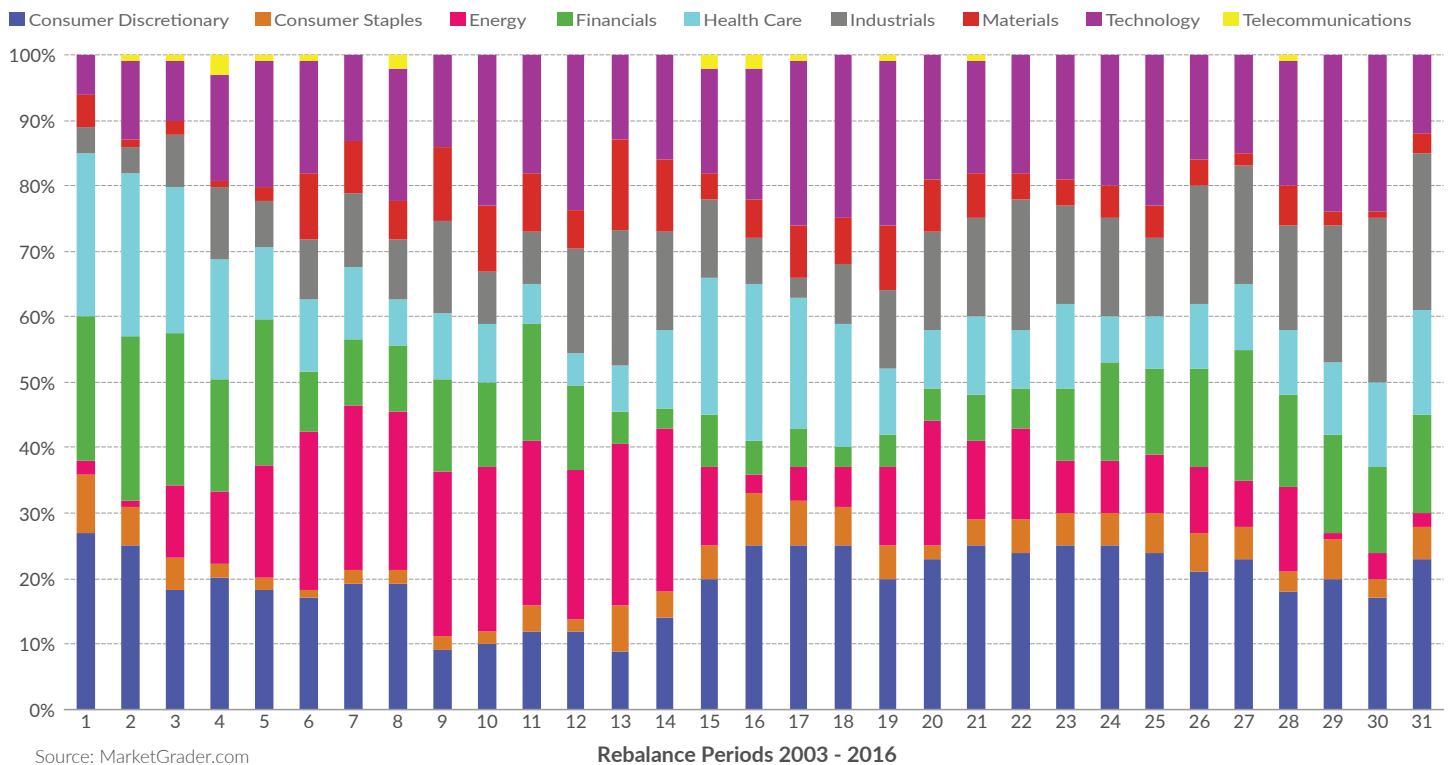
MarketGrader U.S. 100

August 2016 Rebalance – Notes

August 2016

The MarketGrader 100 Index (NYSE: MGONE) closed a very strong quarter, during which it gained 13%, on Friday, August 19 in busy fashion, replacing 60 of its constituents, a much higher level of activity than the previous rebalance in February, when it had only turned over 44 names. The latest turnover was right in line with the historical average of 60.6% dating back to its inception in the first semester of 2003. Notably, among the 60 names it removed from its roster, 18 belong in the Technology sector, which, when offset against six new selections, resulted in a net loss of 12 names for the sector. Thus, Technology went from being the second largest sector in the index in the February selection to the fifth largest, a pretty remarkable decline. The top five sectors represented in the MarketGrader 100 Index are now Industrials (24%), Consumer Discretionary (23%), Health Care (16%), Financials (15%) and Technology (12%). Figure 1 illustrates the sector rotation trends in MG100 since its inception in 2003.

Figure 1. Historical Sector Allocation Among MG100 Constituents Since 2003



The index's current allocation to Technology stocks is not only half of what it was during the semester just ended but also the lowest exposure to the sector since its third rebalance period, dating back to the first semester of 2004, when only nine Technology names were selected to it. Interestingly enough, though, among the six new Technology stocks selected to MG100 during this latest rebalance, four are first-time selections to the index. So, while MarketGrader's methodology seems to be finding better growth-at-a-reasonable price opportunities in other sectors of the U.S. economy, it is still finding interesting new ideas within Technology that complement sector heavyweights Apple (AAPL), Alphabet (GOOGL) and Facebook (FB), which were once again selected to the index this time around.

Despite the net loss of one name, Industrials retained the distinction of being the sector with the largest number of constituents (24) in MG100. The last time a different sector had the biggest representation in the index was a year ago, during the August 2015 reconstitution, when Technology, with 24 names had the most constituents. This goes to show the dynamism and competitiveness of the U.S. economy and the uniqueness in the methodology of the index as it seeks the best pockets of GARP anywhere in the U.S. market.

The sector with the biggest net gain in names from last period was Consumer Discretionary, which gained six new constituents and is once again the second largest sector in MG100 with 23 names. Among its new members, five make their appearance in the index for the very first time, two of which are Homebuilders: LGI Homes (LGIH) and TRI Pointe Group (TPH). We specifically highlight these two because, when combined with the rest of the names in the index that operate in areas directly associated with the country's housing market, it becomes very clear that this is currently one of the strongest areas of the U.S. economy. When combining these two Homebuilders with companies in industries such as Home Furnishings, Home Improvement Chains, Tools and Hardware, Finance/Rental/Leasing, Property and Casualty Insurance, Regional Banks, Building Products, Building Machinery and Engineering & Construction, by our count, we arrive at a minimum of 23 names that ply their trade in industries that are dependent or highly correlated with the health of the U.S. housing and real estate market. In other words, almost a quarter of the companies in MG100, which itself picks every six months the top 2% of all public companies in the U.S. based on MarketGrader's rigorous fundamental analysis, is showing significant strength and broad economic activity in the U.S. housing sector, a bellwether of the U.S. economy. Readers that may want to arrive at their own conclusions about this may view the complete list of MG100 constituents along with their overall MarketGrader score and sector and industry classification in Figure 2.

Figure 2. MarketGrader 100 Constituents by Sector and Industry – August 2016

Ticker	Company Name	Market Cap	Overall Grade	Industry
Consumer Discretionary				
NKE	NIKE INC	96,790.40	71.16	Apparel/Footwear
AEO	AMERICAN EAGLE OUTFITTERS INC	3,429.77	75.93	Apparel/Footwear Retail
TJX	TJX COS INC	51,544.60	78.07	Apparel/Footwear Retail
CTB	COOPER TIRE & RUBBER CO	1,823.60	72.66	Automotive Aftermarket
SBGI	SINCLAIR BROADCAST GROUP INC	2,747.93	78.35	Broadcasting
FIVE	FIVE BELOW INC	2,604.91	72.80	Discount Stores
MHK	MOHAWK INDUSTRIES INC	15,606.20	76.62	Home Furnishings
TPX	TEMPUR SEALY INTERNATIONAL INC	4,629.81	70.90	Home Furnishings
HD	HOME DEPOT INC	169,471.00	75.19	Home Improvement Ch.
LOW	LOWES COS INC	72,199.80	70.31	Home Improvement Ch.
LGIH	LGI HOMES INC	714.57	73.16	Homebuilding
TPH	TRI POINTE GROUP INC	2,197.58	70.53	Homebuilding
DIS	WALT DISNEY CO	155,696.00	77.99	Media Conglomerates
LOPE	GRAND CANYON EDUCATION INC	1,995.78	79.82	Other Consumer Services
NTRI	NUTRISYSTEM INC	862.87	76.03	Other Consumer Services
PCLN	PRICELINE GROUP INC	69,625.80	72.29	Other Consumer Services
FOXF	FOX FACTORY HOLDING CORP	687.58	70.96	Recreational Products
NLS	NAUTILUS INC	670.02	71.40	Recreational Products
PII	POLARIS INDUSTRIES INC	6,075.19	72.55	Recreational Products
THO	THOR INDUSTRIES INC	4,071.63	75.06	Recreational Products
HIBB	HIBBETT SPORTS INC	894.27	72.58	Specialty Stores
ULTA	ULTA SALON COSMETICS & FRAGRANCE	16,606.80	74.69	Specialty Stores
SWK	STANLEY BLACK & DECKER INC	18,339.90	74.69	Tools & Hardware
Consumer Staples				
KR	KROGER CO	30,462.60	74.41	Food Retail
BGS	B&G FOODS INC	3,144.32	74.23	Food: Major Diversified
CALM	CAL MAINE FOODS INC	2,030.22	72.17	Food: Specialty/Candy
NHTC	NATURAL HEALTH TRENDS CORP	383.65	74.62	Household/Personal Care
USNA	USANA HEALTH SCIENCES INC	1,576.50	83.20	Household/Personal Care
Energy				
EQM	EQT MIDSTREAM PARTNERS LP	6,303.12	80.30	Oil & Gas Pipelines
VLP	VALERO ENERGY PARTNERS LP	2,761.68	82.80	Oil & Gas Pipelines
Financials				
CACC	CREDIT ACCEPTANCE CORP	4,122.52	76.98	Finance/Rental/Leasing
MA	MASTERCARD INC	104,938.00	73.84	Finance/Rental/Leasing
TREE	LENDINGTREE INC	1,251.93	75.13	Finance/Rental/Leasing
WD	WALKER & DUNLOP INC	814.64	74.86	Finance/Rental/Leasing
AXP	AMERICAN EXPRESS CO	60,322.90	72.93	Financial Conglomerates
FDS	FACTSET RESEARCH SYSTEMS INC	7,048.65	72.37	Financial Publishing/Sv
CBOE	CBOE HOLDINGS INC	5,463.98	70.36	Investment Banks/Brokers
ICE	INTERCONTINENTAL EXCHANGE INC	33,132.40	71.91	Investment Banks/Brokers
FII	FEDERATED INVESTORS INC	3,311.28	74.76	Investment Managers
HRTG	HERITAGE INSURANCE HOLDINGS INC	375.45	72.77	Property/Casualty Ins
UVE	UNIVERSAL INSURANCE HOLDINGS INC	773.12	86.35	Property/Casualty Ins
HAFC	HANMI FINANCIAL CORP	803.67	72.83	Regional Banks
HOMB	HOME BANCSHARES INC /AR/	3,021.13	71.51	Regional Banks
OZRK	BANK OF THE OZARKS INC	4,576.67	78.18	Regional Banks
SFBS	SERVISFIRST BANCSHARES INC	1,336.49	72.41	Regional Banks
Health Care				
AMGN	AMGEN INC	128,838.00	71.62	Biotechnology
BIIB	BIOGEN INC	68,676.90	78.97	Biotechnology
CELG	CELGENE CORP	86,944.70	74.18	Biotechnology
FPRX	FIVE PRIME THERAPEUTICS INC	1,310.06	81.66	Biotechnology

Ticker	Company Name	Market Cap	Overall Grade	Industry
Health Care				
GILD	GILEAD SCIENCES INC	104,583.00	74.64	Biotechnology
INSY	INSYS THERAPEUTICS INC	1,282.27	71.08	Biotechnology
XNCR	XENCOR INC	892.30	78.17	Biotechnology
UNH	UNITEDHEALTH GROUP INC	134,363.00	74.93	Managed Health Care
AKRX	AKORN INC	3,756.95	72.34	Medical Distributors
MCK	MCKESSON CORP	44,014.20	70.41	Medical Distributors
ALGN	ALIGN TECHNOLOGY INC	7,581.25	74.50	Medical Specialties
MASI	MASIMO CORP	2,900.85	75.84	Medical Specialties
ABBV	ABBVIE INC	108,689.00	71.85	Pharmaceuticals: Major
ANIK	ANIKA THERAPEUTICS INC	729.00	73.69	Pharmaceuticals: Other
SCLN	SCICLONE PHARMACEUTICALS INC	527.86	78.76	Pharmaceuticals: Other
UTHR	UNITED THERAPEUTICS CORP	5,443.06	92.03	Pharmaceuticals: Other
Industrials				
HXL	HEXCEL CORP	4,122.41	72.51	Aerospace & Defense
SPR	SPIRIT AEROSYSTEMS HOLDINGS INC	5,778.86	71.62	Aerospace & Defense
UPS	UNITED PARCEL SERVICE INC	96,662.70	74.22	Air Freight/Couriers
ALGT	ALLEGiant TRAVEL CO	2,136.53	74.56	Airlines
ALK	ALASKA AIR GROUP INC	8,123.94	75.14	Airlines
HA	HAWAIIAN HOLDINGS INC	2,363.75	73.31	Airlines
JBLU	JETBLUE AIRWAYS CORP	5,440.30	76.70	Airlines
GNTX	GENTEX CORP	5,179.45	75.47	Auto Parts: O.E.M.
AAON	AAON INC	1,431.09	73.72	Building Products
PATK	PATRICK INDUSTRIES INC	912.30	73.06	Building Products
TREX	TREX CO INC	1,758.53	75.56	Building Products
DY	DYCOM INDUSTRIES INC	2,670.91	73.65	Engineering & Cons.
AGX	ARGAN INC	687.78	80.23	Industrial Specialties
CPRT	COPART INC	5,550.04	71.98	Miscellaneous Commercial
MMI	MARCUS & MILLICHAP INC	1,038.73	76.93	Miscellaneous Commercial
DW	DREW INDUSTRIES INC	2,388.14	76.44	Miscellaneous Manuf.
SWHC	SMITH & WESSON HOLDING CORP	1,618.86	82.16	Miscellaneous Manuf.
MLHR	MILLER HERMAN INC	2,022.24	70.34	Office Equipment/Supplies
AHS	AMN HEALTHCARE SERVICES INC	1,650.48	71.52	Personnel Services
GBX	GREENBRIER COS INC	908.17	74.90	Trucks/Construction/Farm
PLOW	DOUGLAS DYNAMICS INC	716.91	75.40	Trucks/Construction/Farm
STS	SUPREME INDUSTRIES INC	283.25	72.02	Trucks/Construction/Farm
WNC	WABASH NATIONAL CORP	859.71	70.98	Trucks/Construction/Farm
POOL	POOL CORP	4,192.09	70.97	Wholesale Distributors
Materials				
DOW	DOW CHEMICAL CO	59,000.80	72.46	Chemicals: Major Diversif.
CBM	CAMBREX CORP	1,486.16	70.84	Chemicals: Specialty
BERY	BERRY PLASTICS GROUP INC	5,214.21	72.24	Containers/Packaging
Technology				
ANET	ARISTA NETWORKS INC	5,373.33	72.53	Computer Comm.
AMAT	APPLIED MATERIALS INC	29,646.40	70.71	Electronic Production Eq
KLAC	KLA TENCOR CORP	10,793.30	71.41	Electronic Production Eq
EGOV	NIC INC	1,505.57	71.52	Internet Software/Services
FB	FACEBOOK INC	353,989.00	70.66	Internet Software/Services
GOOGL	ALPHABET INC	550,713.00	81.59	Internet Software/Services
MEET	MEETME INC	263.47	78.08	Internet Software/Services
FICO	FAIR ISAAC CORP	3,875.70	70.29	Packaged Software
IDTI	INTEGRATED DEVICE TECHNOLOGY INC	2,604.56	71.31	Semiconductors
MXL	MAXLINEAR INC	1,190.79	76.85	Semiconductors
AAPL	APPLE INC	589,388.00	76.88	Telecommunications Eq
UBNT	UBIQUITI NETWORKS INC	4,165.17	78.15	Telecommunications Eq

Source: MarketGrader.com

From the perspective of size the biggest change during the recent reconstitution took place among small caps (\$100 million to \$1 billion in total market capitalization), which lost six net names. With a total of 19 names, this makes it the smallest segment by size in the index, perhaps at least in part a reflection of the strong run of performance this overall group has had since the market bottomed in February. Mid Caps (\$1 billion to \$10 billion), or the market's sweet spot as we like to call it, gained one net constituent and is, once again and by far the largest segment by size of MG100 with 55 names. Companies with a market cap above \$10 billion round out the size breakdown of MG100 with 26 names. The index's average market cap is now \$34.55 billion and the median is \$3.37 billion.

Fundamentally speaking, perhaps the biggest surprise in the latest rebalance group is how little the index's overall fundamental profile changed from the selection picked during the February rebalance. In fact, most valuation indicators look almost the same for both groups of companies based on the average and median trailing P/E ratios, forward P/E ratios and price to tangible book ratios. Bigger differences can be found in growth metrics, also based on averages and medians, with the August group looking better than its predecessor in most categories, although the differences are, frankly, almost negligible. The biggest improvement, as is always the case, from semester to semester, was the average and median return on equity with the August group showing a distinct advantage over the February group. Lastly, the average MarketGrader overall grade improved from 67.8 to 73.4 while the median improved from 69.9 to 73.0. Figure 3 displays select fundamental metrics for both groups of companies in MG100.

Figure 3. Select Fundamental Metrics for February and August 2016 MG100 Selections

	August 2016 Selection	February 2016 Selection*
Market Capitalization		
Mean	34,400.39	35,279.76
Median	3,348.84	2,759.11
Trailing P/E Ratio		
Mean	19.36	19.05
Median	18.66	17.45
Forward P/E Ratio		
Mean	17.58	17.26
Median	15.55	15.25
Price to Tangible Book Ratio		
Mean	10.52	9.16
Median	7.25	5.31
3-Year Sales Growth		
Mean	130.89%	116.50%
Median	42.65%	48.20%
3-Year Operating Income Growth		
Mean	121.14%	113.68%
Median	74.09%	79.04%

	August 2016 Selection	February 2016 Selection*
4-Year EPS Growth Rate		
Mean	28.12%	29.11%
Median	20.11%	21.75%
3-Year EPS Growth Rate		
Mean	39.23%	38.17%
Median	21.14%	20.35%
Operating Margin		
Mean	24.69%	22.52%
Median	19.94%	21.30%
LT Debt to Total Capital		
Mean	29.87%	23.37%
Median	27.95%	15.89%
Return on Equity		
Mean	34.91%	28.00%
Median	25.96%	22.62%
MarketGrader Overall Grade		
Mean	73.4	67.8
Median	73.0	69.9

Source: MarketGrader.com

In closing we would be remiss if we did not bring to the reader's attention two special groups of companies that were selected to MG100 during this latest rebalance. The first is a group of 24 companies that have made the list for the first time ever (at least in their current corporate form). That number in itself is remarkable as almost one quarter of all selections are brand new companies never before selected to MG100; more impressive, perhaps, is that these accounted for 40% of all total turnover for the period. Please refer to Figure 4 for the complete list.

The second group we wish to highlight is comprised of 17 companies that have returned to MG100 after an absence of at least two years. Eight of them have been absent from the index for at least five years, while three had not been selected in over a decade. You may see the complete list in Figure 5. We welcome them all back!

Figure 4. Companies Selected to MG100 for the First Time During August 2016 Rebalance

Ticker	Company Name	Market Cap (M)	Overall Grade
ABBV	ABBVIE INC	108,689.00	71.85
MCK	MCKESSON CORP	44,014.20	70.41
ICE	INTERCONTINENTAL EXCHANGE INC	33,132.40	71.91
SWK	STANLEY BLACK & DECKER INC	18,339.90	74.69
ANET	ARISTA NETWORKS INC	5,373.33	72.53
BERY	BERRY PLASTICS GROUP INC	5,214.21	72.24
POOL	POOL CORP	4,192.09	70.97
FICO	FAIR ISAAC CORP	3,875.70	70.29
AEO	AMERICAN EAGLE OUTFITTERS INC	3,429.77	75.93
BGS	B&G FOODS INC	3,144.32	74.23
DY	DYCOM INDUSTRIES INC	2,670.91	73.65
DW	DREW INDUSTRIES INC	2,388.14	76.44
TPH	TRI POINTE GROUP INC	2,197.58	70.53
AAON	AAON INC	1,431.09	73.72
SFBS	SERVISFIRST BANCSHARES INC	1,336.49	72.41
FPRX	FIVE PRIME THERAPEUTICS INC	1,310.06	81.66
MXL	MAXLINEAR INC	1,190.79	76.85
XNCR	XENCOR INC	892.30	78.17
WD	WALKER & DUNLOP INC	814.64	74.86
HAFC	HANMI FINANCIAL CORP	803.67	72.83
LGIH	LGI HOMES INC	714.57	73.16
FOXF	FOX FACTORY HOLDING CORP	687.58	70.96
STS	SUPREME INDUSTRIES INC	283.25	72.02
MEET	MEETME INC	263.47	78.08

Source: MarketGrader.com

Figure 5. Companies Returning to MG100 After an Absence of at Least Two Years

Ticker	Company Name	Sector	Last Selection Date	Overall Grade
CELG	CELGENE CORP	Health Care	8/19/13	74.18
CTB	COOPER TIRE & RUBBER CO	Consumer Discretionary	2/25/13	72.66
HA	HAWAIIAN HOLDINGS INC	Industrials	8/25/12	73.31
THO	THOR INDUSTRIES INC	Consumer Discretionary	8/25/12	75.06
SCLN	SCICLONE PHARMACEUTICALS INC	Health Care	8/25/12	78.76
AKRX	AKORN INC	Health Care	2/20/12	72.34
TPX	TEMPUR SEALY INTERNATIONAL INC	Consumer Discretionary	2/20/12	70.9
KLAC	KLA TENCOR CORP	Technology	8/20/11	71.41
OZRK	BANK OF THE OZARKS INC	Financials	8/20/11	78.18
UPS	UNITED PARCEL SERVICE INC	Industrials	8/20/10	74.22
FDS	FACTSET RESEARCH SYSTEMS INC	Financials	8/21/09	72.37
MASI	MASIMO CORP	Health Care	2/20/09	75.84
NTRI	NUTRISYSTEM INC	Consumer Discretionary	2/22/08	76.03
LOW	LOWES COS INC	Consumer Discretionary	8/18/06	70.31
CPRT	COPART INC	Industrials	8/16/02	71.98
FII	FEDERATED INVESTORS INC	Financials	8/16/02	74.76
MHK	MOHAWK INDUSTRIES INC	Consumer Discretionary	8/16/02	76.62

Source: MarketGrader.com

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