

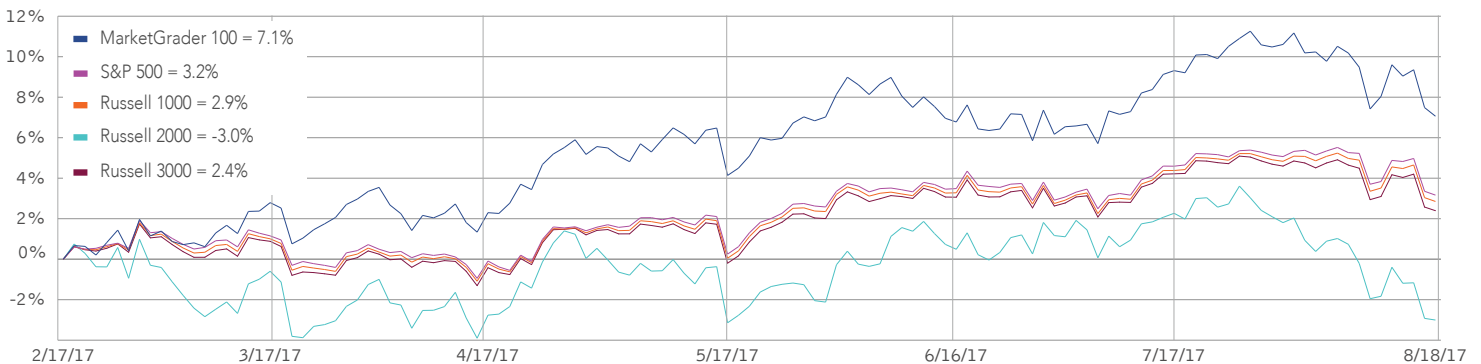
The MarketGrader 100 Index Rebalance Notes

August 2017

The MarketGrader 100 Index (NYSE: MGONE) completed its customary semi-annual rebalance on Friday, August 18th, replacing 82 constituents and surpassing the 80 companies it replaced six months ago, which at the time was the highest ever turnover in the index's history, dating back to 2002. Such high turnover in back-to-back selections affords us the opportunity to explain in some detail the drivers behind the methodology that re-selects the index every six months, which is also largely responsible for its strong long-term performance track record. Its analysis is also a useful illustration of the underlying fundamental changes across a large swath of the U.S. corporate landscape, especially at a time when the current bull market is entering its 102nd month, making it the second longest in U.S. history.

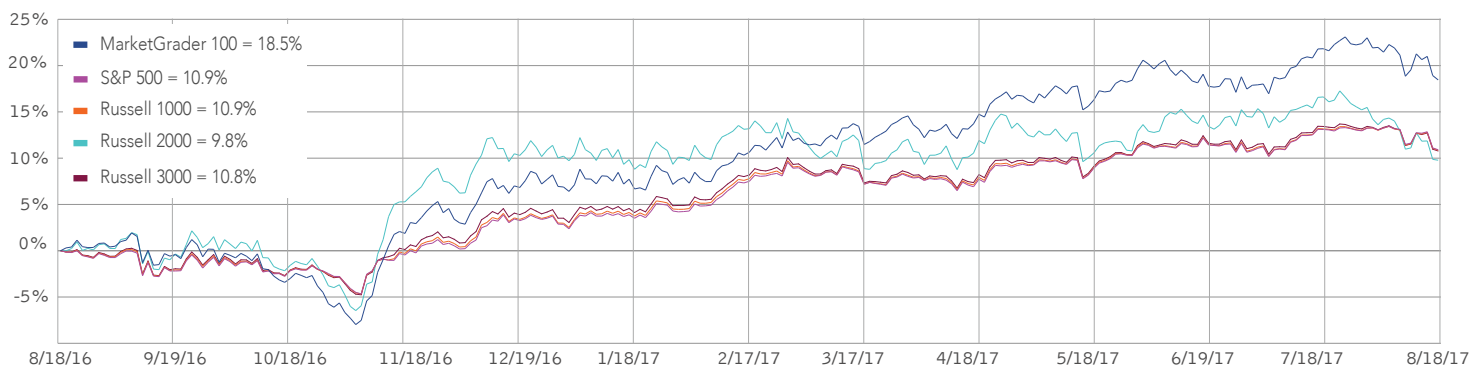
First, let's get to the basics. The six-month period ended on August 18th was a strong one for MGONE, having returned 7.1% on a price-only basis, almost three times the price return of 2.4% for the Russell 3000, a good proxy for the overall U.S. market (accounting for 96% of its aggregate market cap). Such performance was particularly impressive given that market returns were largely driven, once more, by large caps, echoing the type of market we had experienced for the better part of two years until the presidential election last November. In fact, during the six months ended on August 18th, the S&P 500 and the Russell 1000, both large cap benchmarks, gained 3.2% and 2.9%, respectively, while the Russell 2000, a widely followed small cap proxy, lost 3.0% (Figure 1). The fact that during this period only 36 of MGONE's constituents had a market cap greater than \$10 billion serves to underscore our point.

Figure 1. MarketGrader 100 Index Price Returns vs. Benchmarks - Feb. to Aug. 2017 Rebalance Period



Source: MarketGrader Research.

Figure 2. MarketGrader 100 Index Price Returns vs. Benchmarks - 1 Year



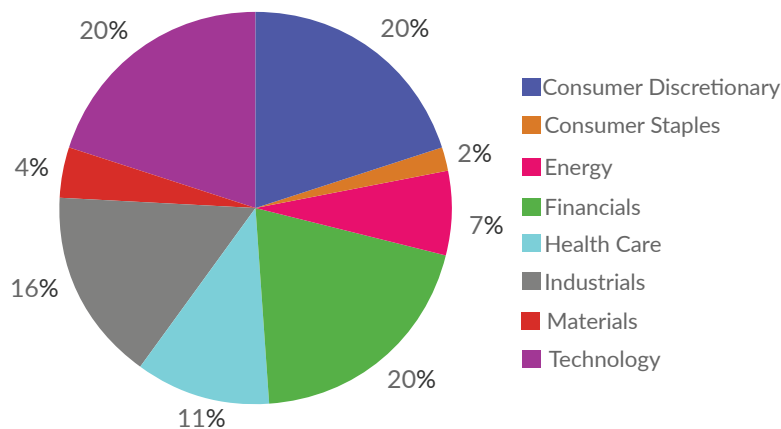
Source: MarketGrader Research.

What Changed?

The two sectors with the largest representation in MGONE in the February selection, Consumer Discretionary and Technology, with 25 names apiece (the maximum allowed by the index's methodology), each had a net loss of five stocks. They still account for 20% of the index each, a pretty hefty allocation. The biggest gainer was the Financials sector, with a net gain of five stocks, going from 15 to 20 names. Thus, 60% of all MGONE constituents belong in these three sectors. The fourth largest sector is now Industrials (demoted from third last period), after a net loss of one stock. It has 16 names representing it in the index. The top five sectors are rounded out by Health Care with 11 companies after having gained a net of four stocks from February. Worth mentioning too is Energy, which more than doubled its exposure, going from three to seven stocks, which, despite still being pretty moderate might be suggestive of a profit recovery among names in that beaten-down sector. Figure 3 illustrates the complete sector breakdown for MGONE following its most recent rebalance.

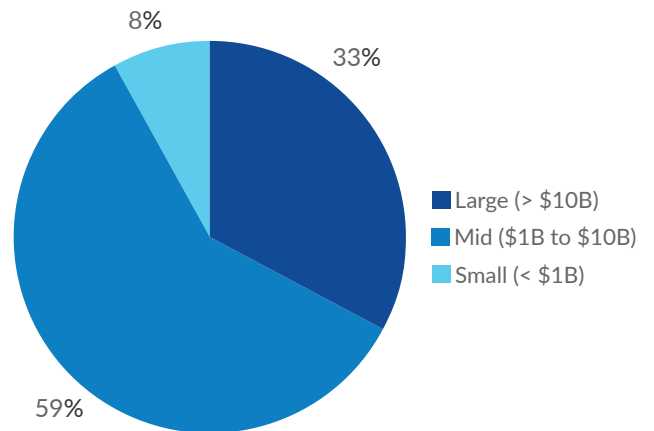
From the perspective of size, unsurprisingly mid caps continue to account for the lion's share of MGONE, represented by 59 companies, after posting a net gain of seven stocks. Three of these were 'taken' from the large cap segment, which now has 33 names and four from the small cap segment, which was left with a mere eight companies in the index. Figure 4 illustrates MGONE's new market cap breakdown.

Figure 3. MGONE Sector Breakdown, August 2017



Source: MarketGrader Research.

Figure 4. MGONE Market Cap Breakdown, August 2017



Source: MarketGrader Research.

The index welcomed to its ranks 41 companies that had never been selected in its 15-year history (Figure 5), with Marriott International, Electronic Arts and Paychex being the three largest by market cap and Xcerra Corp., Federal Agricultural Mortgage Corp. and Guaranty Bancorp. the three smallest; despite size differences, though, each one now represents, as is customary, an equal 1% of the weight of the index, another of MGONE's key attributes. Notably only one company among current index constituents has been a member of MGONE for at least two years: Apple Inc. In fact, it has been selected to the index for five consecutive years. This, however, does not make it the company with the most overall (not consecutive) selections to MGONE. That honor, among current constituents, belongs to Cognizant Technology Solutions, which has been selected a grand total of 22 times, underscoring what has been a symbol of fundamental excellence (and great management) among all companies followed by MarketGrader for the last decade and a half. Apple, by the way, ranks second in this category, with 16 total selections. Figure 6 showcases the 'honor roll' of companies with the most selections to MGONE among current constituents.

Figure 5. First Time Selections to MGONE, August 2017

Ticker	Company Name	Market Cap	Sector	Overall Grade
EA	Electronic Arts Inc.	36,155.10	Consumer Discretionary	76.3
ACIA	Acacia Communications, Inc.	1,713.48	Technology	72.7
OSUR	OraSure Technologies, Inc.	1,232.59	Health Care	72.2
PLAY	Dave & Buster's Entertainment, Inc.	2,593.85	Consumer Discretionary	71.9
PAHC	Phibro Animal Health Corporation Class A	1,575.76	Consumer Staples	71.1
HII	Huntington Ingalls Industries, Inc.	9,763.17	Industrials	68.9
BNCL	Beneficial Bancorp Inc	1,152.08	Financials	68.1
AFG	American Financial Group, Inc.	9,193.12	Financials	68.0
FANG	Diamondback Energy, Inc.	8,905.57	Energy	67.9
EXPO	Exponent, Inc.	1,675.26	Industrials	67.9
GBNK	Guaranty Bancorp	745.63	Financials	67.7
SSD	Simpson Manufacturing Co., Inc.	2,075.28	Industrials	67.3
SHAK	Shake Shack, Inc. Class A	843.86	Consumer Discretionary	66.9
ANDX	Andeavor Logistics LP	5,144.14	Energy	66.1
COO	Cooper Companies, Inc.	11,885.90	Health Care	66.0
JKHY	Jack Henry & Associates, Inc.	8,258.29	Technology	65.7
PAYX	Paychex, Inc.	19,738.00	Technology	65.4
SNA	Snap-on Incorporated	8,854.12	Consumer Discretionary	65.0
BWXT	BWX Technologies, Inc.	5,357.43	Industrials	64.5
XCRA	Xcerra Corporation	501.97	Technology	64.5
LZB	LaZBoy Incorporated	1,586.04	Consumer Discretionary	63.9
OLLI	Ollie's Bargain Outlet Holdings Inc	2,749.08	Consumer Discretionary	63.8
CBF	Capital Bank Financial Corp. Class A	1,990.30	Financials	63.7
HLI	Houlihan Lokey, Inc. Class A	2,483.31	Financials	63.7
AGM	Federal Agricultural Mortgage Corporation Class C	713.56	Financials	63.7
NYT	New York Times Company Class A	2,964.14	Consumer Discretionary	63.0
CRL	Charles River Laboratories International, Inc.	4,671.35	Industrials	62.9
MXIM	Maxim Integrated Products, Inc.	12,838.80	Technology	62.7
MDP	Meredith Corporation	2,532.71	Consumer Discretionary	62.5
NFG	National Fuel Gas Company	5,015.90	Energy	62.1
MAR	Marriott International, Inc. Class A	37,268.10	Consumer Discretionary	61.8
UNM	Unum Group	11,252.60	Financials	61.3
GNRC	Generac Holdings Inc.	2,340.61	Industrials	61.3
CE	Celanese Corporation Class A	13,423.30	Materials	61.1
KSU	Kansas City Southern	11,068.20	Industrials	60.9
INGR	Ingredion Incorporated	8,833.23	Consumer Staples	60.8
PRTY	Party City Holdco, Inc.	1,696.09	Consumer Discretionary	60.6
OC	Owens Corning	7,564.46	Materials	60.1
CSRA	CSRA, Inc.	5,355.44	Technology	60.1
HLS	HealthSouth Corporation	4,352.24	Health Care	60.0
PRI	Primerica, Inc.	3,669.43	Financials	60.0

Source: MarketGrader Research.

Figure 6. Companies with Most Selections Among Current Components

Ticker	Company Name	Times Selected	Overall Grade
CTSH	Cognizant Technology Solutions Corporation Class A	22 Times	71.6
AAPL	Apple Inc.	16 Times	68.3
COH	Coach, Inc.	14 Times	57.4
INTC	Intel Corporation	14 Times	70.9
AMGN	Amgen Inc.	12 Times	65.9
CACC	Credit Acceptance Corporation	11 Times	70.7
MANH	Manhattan Associates, Inc.	11 Times	64.2
HD	Home Depot, Inc.	10 Times	63.8
BIIB	Biogen Inc.	10 Times	70.2
FDS	FactSet Research Systems Inc.	8 Times	68.0

Source: MarketGrader Research.

GARP in Action

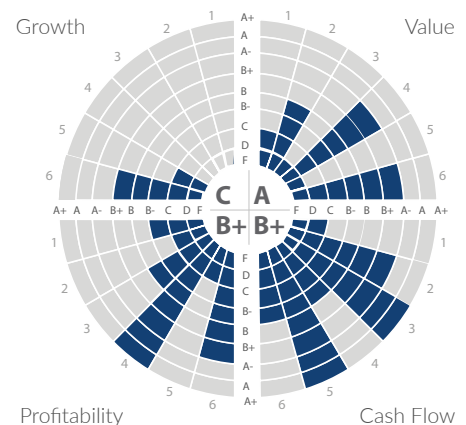
From the crop of companies selected in February, 39 saw their stock price decline over the most recent six-month period, by an average of 13.4%. The remaining 61 had a price gain that averaged 20.2%. In other words, for every company that had a negative price return, one and a half (1.56 precisely) had a positive price return. This illustrates MGONE's focus on combining diversification (100 names) with a strong batting average. In other words, rather than focusing on hitting home runs within a concentrated portfolio, the index was designed to hit singles and doubles provided that they exceed the number of strikeouts. Over time this adds up to superior returns. A deeper dive into the fundamentals, though, is needed to help explain how MGONE really works. Remember that MarketGrader's fundamental grading methodology focuses on identifying growth companies that can be bought at a reasonable price (GARP). This is done by grading, for each company, six growth and six value indicators. That isn't all, however. MarketGrader also grades every company across six profitability and six cash flow indicators; you may call this the 'quality' component of the analysis. Simply put, it helps investors identify companies that are not just growing, but doing so profitably as well as to avoid companies that look cheap, where the valuation may indeed be justified. These 24 indicators add up to a score that ranges from zero to 100; put differently, a company with perfect grades (A+ being our highest indicator grade) in all 24 indicators would earn a '100'. This standardized grade allows us to rank all companies in the U.S., regardless of size, sector or business model, in order to pick the very best to MGONE. Changes in the underlying fundamental indicators thus affect the ranking of all stocks, leading to a reshuffle of the index's constituents every six months. A good way to illustrate how this works is by looking at specific companies that have been or are members of MGONE.

Let's start with Cooper Tire & Rubber Company (CTB), selected to MGONE in February. When selected, the company had an overall grade of 69, pretty solid by MarketGrader standards. During the six months in which MGONE 'owned' it, the stock lost 10.9%. It was excluded at the last rebalance, not because of the decline in the stock price but as a result of the decline in its overall grade to 52, a 24.5% drop. More specifically, the company's growth grades fell by 36% during this six-month period, which explains the stock's poor performance. Furthermore, its value grades also fell by 11%. In other words, a company doesn't get downgraded or excluded from the index simply because the stock drops. If such drop is accompanied by an improvement in valuation along with sustained growth indicators, MarketGrader is likely to identify this as an opportunity and rate the company highly, which wasn't the case here as illustrated in Figure 7.

Another company selected in February was Cognizant Technology Solutions (CTSH), based on an overall grade of 62. Despite the stock's 16.6% gain through the following rebalance date in August, the company's grade rose to 72 based on an improvement of 18% in its growth grades and 14% in its value grades. This is illustrated in Figure 8.

Figure 7. Fundamental Quadrant

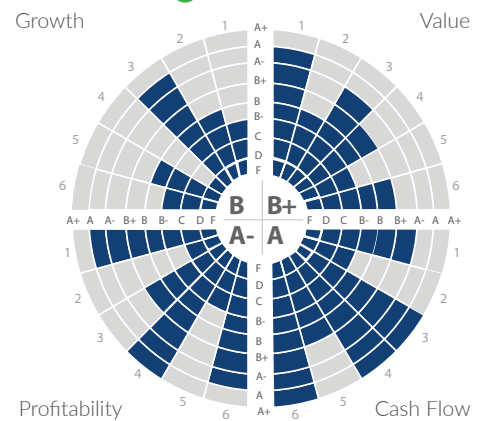
CTB: 52.0 ●



Source: MarketGrader Research.

Figure 8. Fundamental Quadrant

CTSH: 72.0 ●



Source: MarketGrader Research.

The third example of GARP and how MGONE harnesses it when selecting the best stocks in the U.S. is illustrated in Figure 9, which shows the grades for Argan, Inc. (AGX), selected to MGONE during its latest rebalance based on an overall grade of 88. The company's high grades are evenly distributed across all four fundamental categories, most importantly straddling the divide many investors think should exist between growth and value.

Figure 10 displays the list of indicators graded by MarketGrader when analyzing the three companies depicted in Figures 7, 8 and 9. Each indicator is mapped to a 'slice' within the quadrant, depicting its grade graphically. Thus, the higher the grade, the larger the portion of each 'slice' colored in blue.

Figure 9. Fundamental Quadrant
AGX: 88.0 ●

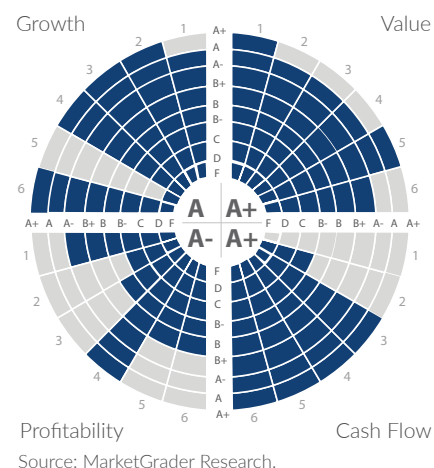


Figure 10. Fundamental Indicators

Growth	Value	Profitability	Cash Flow
1. Market Growth Long Term	1. Capital Structure	1. Asset Utilization	1. Cash Flow Growth
2. Market Growth Short Term	2. PE Analysis	2. Capital Utilization	2. EBITDA Margin
3. EPS Weighted Growth	3. Price To Book Ratio	3. Operating Margins	3. Debt To Cash Flow Ratio
4. Growth Potential	4. Price To Cash Flow Ratio	4. Relative Margin	4. Interest Coverage Ratio
5. Earnings Impact	5. Price To Sales Ratio	5. Return On Equity	5. Economic Value Added
6. Earnings Surprise	6. Market Value	6. Gross Profitability	6. Working Capital Ratio

Source: MarketGrader Research.

From Individual Stock Selection to Index Construction

Having illustrated a few examples of how GARP works in grading and selecting (or removing) individual companies, it's worth examining how the process works in the context of a large and diversified portfolio such as the MarketGrader 100 index. A good place to start is by looking at what happened to the grades of all companies selected to the index in February, which resulted in the replacement of 82 of them in August. For starters, the index did well in its selections as it achieved an average six-month price return across all constituents of 7.1%. During this time, the companies' average overall grade fell by 2.1% in large part as a result of an average 4% decline in the companies' growth indicators and despite an average improvement of 3.3% in their value indicators. In other words, a deterioration of growth overrode a modest improvement in value resulting in a relatively large portfolio reshuffle. Said differently, for GARP to work, there has to be growth to begin with.

When we break up the February selections into those who were removed from the index and those that remained during the August rebalance, an even clearer picture of the GARP process employed by MarketGrader emerges. The companies that were excluded contributed to the index's overall performance by posting an average return of 9.8%, actually higher than the average return for all companies in the index. Their grade, however, fell by 3.8%, on average, compared to a 2.1% average grade drop for the index as a whole. Furthermore, their growth indicators fell by 6.3% compared to a drop of 4% for the index overall. These companies' value grades, on the other hand, improved by only 2.9% on average. In other words, their valuations didn't remain compelling enough to justify somewhat lower growth grades.

Lastly, looking at the 18 companies that remained in the index following the August rebalance helps complete the picture of GARP at work. Despite gaining, on average, 9.6% during the February-August period, these companies saw an average improvement in their overall grade of 3.4%. Interestingly, of all the groups in Figure 11, this is the only one that saw an improvement in both its growth and its value grades. A closer look at the 15 stocks in this group whose price increased during the semester (by an average of 14%, whereas the other three had an average decline of 13%) during MGONE's last rebalance period is perhaps the most telling sign of how GARP is actively remaking the index as companies report quarterly financials and market conditions change. Despite all of them gaining significantly in a six-month period, their valuations, as measured by our value grades, improved by 4.7 % while their growth grades improved by 4.9%. This, in fact, may be the definition of GARP itself.

Figure 11. Selection Changes in the MarketGrader 100 Index, February to August 2017 Rebalances

All Companies in February Selection				
	Price Return	Overall Grade Change	Growth Grade Change	Value Grade Change
All Companies (100)	7.1%	-2.1%	-4.0%	3.3%
Companies Removed in August (82)	9.8%	-3.3%	-6.3%	2.9%
Companies Re-selected in August (18)	9.6%	3.4%	3.2%	4.7%
	Price Return	Overall Grade Change	Growth Grade Change	Value Grade Change
All Companies (100)	7.1%	-2.1%	-4.0%	3.3%
Companies with Negative Return (39)	-13.4%	-7.7%	-13.2%	3.9%
Companies with Positive Return (61)	20.2%	1.5%	2.0%	2.9%
	Price Return	Overall Grade Change	Growth Grade Change	Value Grade Change
Companies Removed in August (82)	9.8%	-3.3%	-6.3%	2.9%
Companies with Negative Return (30)	-14.4%	-8.0%	-15.2%	3.4%
Companies with Positive Return (52)	23.8%	-0.6%	-1.2%	2.7%
	Price Return	Overall Grade Change	Growth Grade Change	Value Grade Change
Companies Re-selected in August (18)	9.6%	3.4%	3.2%	4.7%
Companies with Negative Return (3)	-12.6%	-1.6%	-5.0%	4.8%
Companies with Positive Return (15)	14.0%	4.4%	4.9%	4.7%

All returns are price-only average returns for the period between February 17, 2017 and August 18, 2017. All grade percentage changes are based on simple average calculations.

Source: MarketGrader Research.

Appendix

Figure A1. The MarketGrader 100 Components – August 2017 Rebalance

Ticker	Company Name	Overall Grade	Market Cap
Consumer Discretionary			
COH	Coach, Inc.	61.7	13,471.70
CRI	Carter's, Inc.	66.7	4,154.86
DIS	Walt Disney Company	62.4	156,509.00
EA	Electronic Arts Inc.	76.3	36,155.10
FOXF	Fox Factory Holding Corp.	77.3	1,403.59
HD	Home Depot, Inc.	64.1	184,427.00
LZB	LaZBoy Incorporated	63.9	1,586.04
MAR	Marriott International, Inc. Class A	61.8	37,268.10
MDP	Meredith Corporation	62.5	2,532.71
MED	Medfast, Inc.	72.3	601.87
MHK	Mohawk Industries, Inc.	64.9	18,478.20
NXST	Nexstar Media Group, Inc. Class A	67.6	2,920.98
NYT	New York Times Company Class A	63.0	2,964.14
OLLI	Ollie's Bargain Outlet Holdings Inc	63.8	2,749.08
ORLY	O'Reilly Automotive, Inc.	68.5	17,466.10
PLAY	Dave & Buster's Entertainment, Inc	71.9	2,593.85
PRTY	Party City Holdco, Inc.	60.6	1,696.09
SHAK	Shake Shack, Inc. Class A	66.9	843.86
SNA	Snap-on Incorporated	65.0	8,854.12
WSM	Williams-Sonoma, Inc.	65.5	4,010.43
Consumer Staples			
INGR	Ingredion Incorporated	60.8	8,833.23
PAHC	Phibro Animal Health Corporation	71.1	1,575.76
Energy			
ANDX	Andeavor Logistics LP	66.1	5,144.14
DVN	Devon Energy Corporation	64.3	16,332.40
EQGP	EQT GP Holdings LP	63.4	7,141.21
FANG	Diamondback Energy, Inc.	67.9	8,905.57
MMP	Magellan Midstream Partners, L.P.	74.4	15,277.70
MTDR	Matador Resources Company	72.1	2,363.43
NFG	National Fuel Gas Company	62.1	5,015.90
Financials			
AFG	American Financial Group, Inc.	68.0	9,193.12
AGM	Federal Agricultural Mortgage C	63.7	713.56
APO	Apollo Global Management, LLC	65.1	5,768.91
BBT	BB&T Corporation	65.6	37,867.20
BNCL	Beneficial Bancorp Inc	68.1	1,152.08
CACC	Credit Acceptance Corporation	70.7	5,263.13
CBF	Capital Bank Financial Corp.	63.7	1,990.30
FDS	FactSet Research Systems Inc.	68.1	6,338.46
FII	Federated Investors, Inc. Class B	64.8	2,782.91
GBNK	Guaranty Bancorp	67.7	745.63
HLI	Houlihan Lokey, Inc. Class A	63.7	2,483.31
JPM	JPMorgan Chase & Co.	63.7	325,469.00
MAIN	Main Street Capital Corporation	61.1	2,287.78
NRZ	New Residential Investment Corp.	73.7	5,099.12
OAK	Oaktree Capital Group, LLC Class	69.4	2,974.97
PRI	Primerica, Inc.	60.0	3,669.43
SPGI	S&P Global, Inc.	67.2	38,688.80
UNM	Unum Group	61.3	11,252.60
V	Visa Inc. Class A	66.3	232,880.00
ZION	Zions Bancorporation	70.3	9,095.72

Source: MarketGrader Research.

Ticker	Company Name	Overall Grade	Market Cap
Health Care			
ABMD	ABIOMED, Inc.	66.6	6,803.17
ALXN	Alexion Pharmaceuticals, Inc.	68.6	29,897.90
AMGN	Amgen Inc.	66.8	125,263.00
BIIB	Biogen Inc.	71.5	60,480.10
BYM	Bristol-Myers Squibb Company	70.1	94,492.80
CELG	Celgene Corporation	71.8	104,021.00
COO	Cooper Companies, Inc.	66.0	11,885.90
HLS	HealthSouth Corporation	60.0	4,352.24
LMAT	LeMaitre Vascular, Inc.	69.4	647.16
OSUR	OraSure Technologies, Inc.	72.2	1,232.59
PINC	Premier Inc. Class A	60.7	1,744.69
Industrials			
AGX	Argan, Inc.	88.5	962.24
ALGT	Allegiant Travel Company	61.4	1,995.89
BWXT	BWX Technologies, Inc.	64.5	5,357.43
CRL	Charles River Laboratories Int.	62.9	4,671.35
EXPO	Exponent, Inc.	67.9	1,675.26
GNRC	Generac Holdings Inc.	61.3	2,340.61
HEI.A	HEICO Corporation Class A	61.2	6,328.14
HII	Huntington Ingalls Industries, Inc.	68.9	9,763.17
JBLU	JetBlue Airways Corporation	61.8	7,127.33
KSU	Kansas City Southern	60.9	11,068.20
LSTR	Landstar System, Inc.	60.1	3,563.37
MMS	MAXIMUS, Inc.	70.9	3,973.23
NOC	Northrop Grumman Corporation	61.9	47,264.60
PGTI	PGT Innovations, Inc.	62.5	644.83
SAVE	Spirit Airlines, Inc.	60.9	2,651.28
SSD	Simpson Manufacturing Co., Inc.	67.3	2,075.28
Materials			
BERY	Berry Global Group Inc	67.9	7,595.80
CE	Celanese Corporation Class A	61.1	13,423.30
NP	Neenah Paper, Inc.	62.4	1,322.55
OC	Owens Corning	60.1	7,564.46
Technology			
AAPL	Apple Inc.	68.3	825,662.00
ACIA	Acacia Communications, Inc.	72.7	1,713.48
APH	Amphenol Corporation Class A	63.1	24,160.70
BR	Broadridge Financial Solutions, Inc.	67.2	8,820.65
CDNS	Cadence Design Systems, Inc.	66.2	10,370.20
CRUS	Cirrus Logic, Inc.	81.9	3,620.76
CSRA	CSRA, Inc.	60.1	5,355.44
CTSH	Cognizant Technology Solutions	71.6	42,430.40
EGOV	NIC Inc.	75.2	1,066.90
EXLS	ExlService Holdings, Inc.	65.1	1,917.45
FTV	Fortive Corp.	60.9	22,959.90
INTC	Intel Corporation	70.6	170,762.00
JKHY	Jack Henry & Associates, Inc.	65.7	8,258.29
MANH	Manhattan Associates, Inc.	63.8	3,045.88
MXIM	Maxim Integrated Products, Inc.	62.7	12,838.80
NVDA	NVIDIA Corporation	77.3	100,198.00
PAYX	Paychex, Inc.	65.4	19,738.00
SLAB	Silicon Laboratories Inc.	62.1	3,212.30
TXN	Texas Instruments Incorporated	72.2	81,232.70
XCRA	Xcerra Corporation	64.5	501.97

Source: MarketGrader Research.

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p | +1.888.529.1767
e | research@marketgrader.com
w | marketgrader.com



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