Stock Assessments

INTRODUCTION AND PURPOSE

Stock Assessments provides information on approximately 1650 stocks. The purpose of Stock Assessments is to provide key, useable information on each stock to help investors and investment managers identify attractive stocks for purchase, identify unattractive stocks for sale, and monitor fund and portfolio holdings. Stock Assessments can be used as the sole basis for your stock investment decisions or it can be used in combination with your own investment research and analysis. Stock Assessments is provided in an Excel worksheet file that is updated and distributed weekly with end of week prices.

PROPRIETARY, PROVEN MODELS AND RANKINGS

A key feature of Stock Assessments is the attractiveness rankings and ratings on stocks that are based on two proven, proprietary investment models. One model (Price Projector) assesses the past price behavior of each stock in terms of its recent price changes, trend and momentum, and volatility. This information is used to project the price at which the stock is expected to be trading twelve months ahead. Stocks are ranked on their appreciation potential, adjusted for the stock's degree of investment risk. Rankings range from 1 to 100, with the stock ranked 1 indicating the most attractive and the stock ranked 100 indicating the least attractive.

The second proprietary model (Stock Valuator) provides a fundamental valuation assessment for each stock. The fair value for each stock is calculated as the present value of the stock's estimated price four years ahead plus forecast dividends per share to be received over that period. Forecast earnings per share, the resulting rate of growth in earnings, and a measure of the stock's degree of risk are key inputs used to compute a stock's estimated fair value. Stocks are ranked based on the percentage difference between their current price and their estimated fair value. Again, rankings range from 1 (best) to 100 (worst).

An overall ranking for each stock is based on its rankings on the Price Projector and Stock Valuator models. As with the two component models, rankings range from 1 to 100.

RATINGS AND RECOMMENDED ACTION

To further help investors use the stock ranking information, stocks are assigned to one of five investment rating categories. These five rating categories are provided below and range from 1 (Strong Buy) to 5 (Strong Sell). Ratings are based on a stock's overall ranking.

Two ratings are provided for each stock – a Relative Rating and an Absolute Rating. The Relative Rating does not take into account our return expectation for the overall U.S. stock market, as represented by the Standard & Poor's 500 Index, over the next twelve months. The Relative Ratings will always have a fixed percentage of stocks in each of the 5 rating categories. The percentage of stocks in each of the five rating categories based on Relative Ratings is shown in the table at the top of the next page.

The Absolute Rating explicitly takes into account our twelve-month ahead total return forecast for the S&P 500 Index. When and to the extent that a higher rate of return is expected for the S&P 500 Index over the next twelve months, the percentage of stocks in the Strong Buy and Buy rating categories will exceed the percentage in the Strong Sell and Sell categories. Conversely, when and to the extent a low or negative rate of return is expected for the S&P 500 Index over the next twelve months, the percentage of stocks in the Strong Sell and Sell rating categories will exceed the percentage in the Strong Buy and Buy categories.

RATING	RECOMMENDATION	PERCENTAGE OF STOCKS
1	STRONG BUY	10%
2	BUY	20%
3	HOLD/NEUTRAL	40%
4	SELL	20%
5	STRONG SELL	10%
		100%

The relative and absolute ratings are both useful. However, investment objectives and performance evaluation criteria are important to determining which of the two is more important. Investors and investment managers whose investment objectives and performance evaluation criteria are more based on relative to market performance should place more emphasis placed on the Relative Rating. If investment objectives and performance evaluation criteria are more based on absolute performance, then there should be more emphasis placed on the Absolute Rating.

INVESTMENT INFORMATION AND DATA

The Stock Assessments Excel spreadsheet has 39 columns of information broken into four major categories: Descriptive Information, Rankings and Ratings, Basic Valuation and Growth Information, and Recent Price Change Information. These 39 columns of information are described below.

Descriptive Information

Col. A - Company Name

Col. B - Stock's Ticker Symbol

Col. C - Stock's Risk Index. The Risk Index is based on 7 company fundamental and stock price factors, such as financial risk, earnings predictability, market capitalization, and stock price volatility. The Risk Index ranges from approximately 0.60 (lowest risk) to approximately 1.90 (highest risk). A Risk Index of 1.00 is the median for all stocks covered.

Col. D - Industry Code. This is a 4-digit code that identifies the industry group to which the stock is assigned. Numerical industry codes enable sorting stocks by industry group. There are 91 industry groups.

Col. E - Sector Code. This is a 4-digit sector code that identifies the economic sector to which the stock is assigned. This enables sorting of stocks by economic sectors. There are 11 economic sectors, as specified by General Industrial Classification Standards (GICS).

Col. F - Size is measured by the current market capitalization of a company's common stock. Stocks are categorized into 3 size groups: 1) Large Capitalization, 2) Mid Capitalization, and 3) Small Capitalization. Market capitalization cutoffs are those determined by S&P Dow Jones Indices. These cutoffs are based on the market capitalizations of all stocks listed on the New York Stock Exchange, the Nasdaq stock market, and the American Stock Exchange.

Col. G - Style identifies whether a stock is:
1) a Growth stock,
2) a Value stock, or
3) a Blend stock that fall between the two. Style assignments are based on two measures:
- 1) the stock's current price/earnings ratio, using our estimate of normalized, or base, earnings per share, and
- 2) a forecast rate of growth in earnings per share over the next five years. Stocks trading at higher price/earnings ratios and having higher estimated growth in earnings are categorized as growth stocks. Stocks trading at lower price/earnings ratios and having lower estimated growth in earnings are categorized as value stocks.

Col. H - Size and Style category. This combines a stock's size and style categories. The first digit is the Size category. The second digit is the Style category. For example, a stock with a Size/Style Code of 1.1 is a Large Cap Growth stock and a stock with a Size/Style Code of 3.3 is a small Cap Value stock. These numerical codes enable sorting stocks by market capitalization category, style category, or a combination of the two.

Col. I - The current market capitalization of the company's common stock, in millions of U.S. dollars.

Col. J - The price of the stock at the close on the date indicated in this column's heading.

Attractiveness Rating and Ranking Information

Col. K - The stock's <u>Relative Rating</u>, based on the 5 rating categories. This is the relative to market rating for the stock.

Col. L - The stock's <u>Absolute Rating</u>, which takes into account an expected total rate of return for the overall U.S. stock market (S&P 500 Index) over the next twelve months.

Col. M - The stock's overall attractiveness ranking (1 = Most Attractive; 100 = Least Attractive).

Col. N - The expected total rate of return on the stock over the next twelve months.

Col. O - The expected rate of return for the stock less the expected rate of return for the S&P 500 Index over the next twelve months. (The expected rate of return for the S&P is shown at the top of heading of this column.

Col. P - The stock's ranking from our Price Projector model, as described above.
(1 = Most Attractive ; 100 = Least Attractive)

Col. Q - The stock's ranking from our Stock Valuator model, as described above.
(1 = Most Attractive ; 100 = Least Attractive)

Col. R - The price at which the stock is projected to be trading 12 months ahead. This comes from the Price Projector model.

Col. S - The estimated current fair value of the stock, from the Stock Valuator model.

Col. T - The twelve month ahead price target for the stock.

Col. U - Target Buy Price: The price at or below which the stock is assessed to be attractive for purchase.

Col. V - Target Sell Price: The price at or above which the stock is assessed to be unattractive and sold.

Col. W - The 5 year ahead potential for the stock, reflecting both a target price and forecast dividends.
This information is used in the Stock Valuator model.

Valuation and Growth Information

Col. X - The current annual dividend paid on the stock.

Col. Y - The current dividend yield on the stock.

Col. Z - The current Price/Earnings ratio on the stock, using base earnings per share through the company's last completed fiscal year. Base earnings measure the company's estimated earning power, based on earnings over the past 10 years. Using base earnings helps remove the distortion to earnings caused by the cyclicality of the company's earnings.

Col. AA - The current Price/Earnings ratio on the stock, based on forecast earnings per share for the company's current fiscal year.

Col. AB - The forecast annualized rate of growth in the company's earnings per share. Base earnings per share are used as the starting point for this calculation. Forecast earnings five years ahead are used as the ending point.

Recent Price Change and Price Information

Cols. AC through AI - The percentage change in the stock's price over the following prior periods: 1 week, 1 month, 3 months, 6 months, 9 months, 12 months, and calendar year to date.

Cols. AJ and AK - The 52 week High and Low prices of the stock.

Cols. AL and AM - Industry and Sector names to which the stock is assigned.

Draft of website narrative for consideration:

We have added new content to Mast's website - Stock Assessments. It is aimed at investors and investment advisors and managers who invest in individual stocks for their own portfolios or for client portfolios.

Managing portfolios of individual stocks requires considerable time, effort, and information to be successful. It requires assessing the comparative investment attraction of many stocks to identify those that are attractive for purchase, to monitor portfolio holdings, and to set buy and sell target prices. It is important and necessary to use a sound and well defined investment approach and process that can be consistently applied across a broad population of stocks.

Stock Assessments was created to accomplish this. The process and approach is driven by two proprietary models - one that focuses in the price behavior of stocks and a second that focuses on stock valuation. Stock Assessments was developed in the late 1990's and has been used primarily by institutional investors since.

To learn more about Stock Assessments, a more complete description can be accessed below. Stock Assessments is provided in an Excel spreadsheet that is produced and posted on Mast's website weekly. A listing and description of information that is included in the spreadsheet is provided in the write up.

We hope you will take some time to look at Stock Assessments. We look forward to receiving your comments and questions. You can contact us at 847-501-3148 or via email to jhenderson@mastinvestment.com