

Model Portfolio Monthly Update: February 29, 2016

There are limitations inherent in our theoretical model results, particularly with the fact that such results do not represent actual trading and they may not reflect the impact material economic and market factors might have had on our decision making if we were actually managing client money. Please see additional disclaimers and disclosures at the back of this report.

We highlight stocks that demonstrate solid growth at a reasonable price (GARP). Stocks selected for our model portfolio strategies all rank highly for the following metrics, with an emphasis on proxies for cash flow growth and ROIC:

- Relative Value
- Operating Momentum
- Analyst Revision Momentum
- Fundamental Quality

Pages 2-6 contain brief commentary and highlights of a few stocks that seem particularly attractive.

Page 7 contains rebalancing actions for our long-only model portfolio.

Page 8 contains rebalancing actions for our short-only model portfolio.

Target and stop prices, as well as updated return data, to be provided in our daily reports that will follow.

Notes:

Readers that would like to follow our daily price target changes can follow us on our Seeking Alpha [instablog](#) or on [Tumblr](#). To see how we manage real-time derivations of this model visit us on [InvestFeed](#), [StockViews](#), Marketocracy ([non-tax](#) and [tax-efficient](#)) and [Harvest Exchange](#).

Commentary

Theoretical Core Long/Short Model Portfolio Outperforms Again in February 2016

Both our long only and long/short theoretical models performed well in February 2016.

Both the theoretical **Core Long Model** and **Opportunistic Long Model** increased 0.51% in February versus a -0.28% decline in the S&P 500.

(Both portfolios use the same basket of stocks but the Opportunistic model moves to 70% and 100% cash allocations during periods of high volatility or when portfolio return targets are met.)

The theoretical **Core Short Model** posted a gain of +7.16% and the theoretical **Opportunistic Short Model** posted a gain of +11.86% for the month. The Opportunistic Short Model assumed a 100% cash position just prior to the close on February 8 while the Core Short Model continued to assume short sale positions in stocks.

The theoretical **Core Long/Short Model** improved by +7.67% (0.51% + 7.16%), and the **Opportunistic Long/Short Model** improved by +12.37% (0.51% + 11.86%).

For the year to date, the theoretical Core Long Model is down -0.97% and the theoretical Opportunistic Long Model is up +0.56%, versus the -5.27% YTD decline in the S&P 500. YTD, the theoretical Core Long/Short Model is up +12.80% and the Opportunistic Long/Short Model is up +10.75%.

The best model portfolio stocks in February 2016

The best performing stock in the long model was **Sprouts Farmers Market, Inc. (SFM)**, which was assumed closed on February 26 for a 22.37% gain. The worst performing stock was **Jones Lang Lasalle Inc. (JLL)**, down -27.47%.

The best performing stock in the short model portfolio was **Williams Partners L.P. (WPZ)**, down -39.78% (for the assumed equivalent short sale gain) when the position was assumed closed at the end of trading on February 8, 2016. The worst performing stock in the short model was **Freeport-McMoRan Copper & Gold (FCX)** which was assumed closed for on February 17 for a short sale loss of -55.65%.

Looking ahead to March 2016

As of the February 29, 2016 close, 15 stocks have left the long-only model, 13 have been added, and 8 were assumed to have been rebalanced.

Our favorite new long idea is Lowe's Companies, Inc.

Our favorite long stock idea at the moment is Lowe's Companies (LOW). Consensus estimates imply that ROIC should accelerate in the quarters ahead, yet the company still trades at a decent relative value. This is an idea we would like to explore in more detail.

Ranking Data as of February 29, 2016

**Lowe's Companies, Inc.
NYSE:LOW**

**Consumer Discretionary
Home Improvement Retail**

Ascendere Ranking	Price 02/29/16	67.53	Cash	(712)	EV/LTM EBITDA	11.2	
	Shares	910	Debt	12,649	Price/Book	8.0	
	Market Cap	61,452	Other	-			
5 = Best	Rank		Enterprise Value	73,389			
Relative Value	3						
Operating Momentum	4	CY1 Consensus EPS Est. \$	4.03	CY1 PE	16.7	Total Capital \$	20,303
Analyst Revisions Mom	5	CY2 Consensus EPS Est. \$	4.66	CY2 PE	14.5	Debt/Capital	59%
Fundamental Quality	5	Latest Annualized Dividend \$	1.12	Div Yield	1.6%	Debt/Enterprise Value	17%

Source: Capital IQ data and estimates, and Ascendere Associates LLC data and estimates.

	>-----Estimated-----<								
NYSE:LOW	LTM+4Q	LTM+3Q	LTM +2Q	LTM +1Q	Last LTM	LTM-1	LTM-2	LTM -3	LTM -4
NOPLAT	4,287	3,777	3,657	3,531	3,454	3,469	3,431	3,420	3,398
Economic Charge	1,858	1,849	1,844	1,838	1,835	1,928	1,933	1,945	1,988
Economic Profit	2,429	1,927	1,813	1,693	1,618	1,541	1,498	1,475	1,409
Y/Y change	26.0%	6.3%	7.1%	4.6%	5.0%	2.8%	1.6%	4.7%	29.5%
NOPLAT	4,287	3,777	3,657	3,531	3,454	3,469	3,431	3,420	3,398
Operating Capital	24,839	24,730	24,657	24,576	24,545	24,927	24,686	24,937	26,752
ROIC (NOPLAT / Operating Capital)	17.3%	15.3%	14.8%	14.4%	14.1%	13.9%	13.9%	13.7%	12.7%
NOPLAT	4,287	3,777	3,657	3,531	3,454	3,469	3,431	3,420	3,398
5 Qtr Average Operating Capital	24,701	24,627	24,676	24,684	25,169	25,513	25,782	26,222	26,738
ROIC (NOPLAT / Operating Capital)	17.4%	15.3%	14.8%	14.3%	13.7%	13.6%	13.3%	13.0%	12.7%

Source: Ascendere Associates assumptions, estimates and data, XBRLAnalyst data and consensus estimates, and S&P Capital IQ data and consensus estimates.

Our favorite short idea is Autodesk, Inc.

Autodesk (ADSK) is the only company in our theoretical short sale portfolio in which consensus does not imply a recovery in ROIC over the next year. This looks like a solid short sale, and deserves to be studied in further detail.

Ranking Data as of February 29, 2016

Autodesk, Inc.
NasdaqGS:ADSK

Information Technology
Application Software

Ascendere Ranking		Price 02/29/16	51.74	Cash	(2,251)	EV/LTM EBITDA	74.7
		Shares	227	Debt	1,488	Price/Book	7.1
		Market Cap	11,745	Other	-		
5 = Best	Rank			Enterprise Value	10,982		
Relative Value	1						
Operating Momentum	1	CY1 Consensus EPS Est.	\$ (0.71)	CY1 PE	(72.4)	Total Capital	\$ 3,112
Analyst Revisions Momentum	1	CY2 Consensus EPS Est.	\$ 0.09	CY2 PE	599.3	Debt/Capital	-25%
Fundamental Quality	2	Latest Annualized Dividend	\$ -	Div Yield	0.0%	Debt/Enterprise Value	14%

Source: Capital IQ data and estimates, and Ascendere Associates LLC data and estimates.

NasdaqGS:ADSK	>-----Estimated-----<				Last LTM	LTM-1	LTM-2	LTM -3	LTM -4
	LTM+4Q	LTM+3Q	LTM +2Q	LTM +1Q					
NOPLAT	(114)	(3)	100	142	228	279	201	349	349
Economic Charge	822	829	834	837	842	845	821	867	809
Economic Profit	(936)	(831)	(734)	(695)	(614)	(566)	(620)	(519)	(459)
Y/Y change	12.6%	13.3%	5.5%	13.2%	8.5%	-8.7%	19.5%	13.0%	-0.1%
NOPLAT	(114)	(3)	100	142	228	279	201	349	349
Operating Capital	6,283	6,331	6,371	6,395	6,434	6,331	6,249	6,184	5,922
ROIC (NOPLAT / Operating Capital)	-1.8%	0.0%	1.6%	2.2%	3.5%	4.4%	3.2%	5.6%	5.9%
NOPLAT	(114)	(3)	100	142	228	279	201	349	349
5 Qtr Average Operating Capital	6,345	6,383	6,383	6,352	6,224	6,113	5,998	5,844	5,632
ROIC (NOPLAT / Operating Capital)	-1.8%	0.0%	1.6%	2.2%	3.7%	4.6%	3.4%	6.0%	6.2%

Source: Ascendere Associates assumptions, estimates and data, XBRLAnalyst data and consensus estimates, and S&P Capital IQ data and consensus estimates.

Long running advice regarding the use of our model portfolio report

Wayne Gretzky said it best – “skate to where the puck is going to be, not where it has been.” Quantitative screens like the one in this report show where a stock has been and assume the trajectory is fixed. Of course, this is not always the case. The best investors will use this model portfolio as guidance, and not the end all. At the same time, the model does well enough on its own, often beating the indices with ease (though not this past month). With a little effort, we hope that active fundamental portfolio managers will do even better.

Long Model Portfolio -- Rebalancing Actions

2/29/2015 Rebalancing					
Core and Opportunistic Long Portfolio:					
21 stocks in the model portfolio = 4.76% weight per position					
Close Position		Hold/Rebalance		Open Position	
O'Reilly Automotive Inc.	ORLY	PrivateBancorp, Inc.	PVTB	American Eagle Outfitters, Inc.	AEO
The Walt Disney Company	DIS	Signature Bank	SBNY	Skechers U.S.A., Inc.	SKX
Sprouts Farmers Market, Inc.	SFM	United Therapeutics Corporatio	UTHR	Cracker Barrel Old Country Store, Inc.	CBRL
Jones Lang LaSalle Incorporated	JLL	Amgen Inc.	AMGN	Lowe's Companies, Inc.	LOW
Cincinnati Financial Corp.	CINF	Manhattan Associates, Inc.	MANH	Boardwalk Pipeline Partners, LP	BWP
Gilead Sciences Inc.	GILD	Linear Technology Corporation	LLTC	First Citizens Bancshares Inc.	FCNC.A
Centene Corp.	CNC	NVIDIA Corporation	NVDA	VCA Inc.	WOOF
DENTSPLY International Inc.	XRAY	NetEase, Inc.	NTES	Sirona Dental Systems Inc.	SIRO
Spirit AeroSystems Holdings, Inc	SPR			JetBlue Airways Corporation	JBLU
VeriSign, Inc.	VRSN			Deluxe Corp.	DLX
Automatic Data Processing, Inc.	ADP			Canadian Pacific Railway Limited	CP
IPG Photonics Corporation	IPGP			Lam Research Corporation	LRCX
CDW Corporation	CDW			Cisco Systems, Inc.	CSCO
NXP Semiconductors NV	NXPI				
FEI Company	FEIC				

Source: Ascendere Associates LLC

Short Model Portfolio -- Rebalancing Actions

When the market anticipates an improving economy from low price levels, low-quality stocks will at times out-perform high-quality stocks as the expected improvements in fundamentals are discounted from a relatively more depressed price level.

2/29/2015 Rebalancing					
Core and Opportunistic Short Portfolio:					
25 stocks in the model portfolio = 4.00% weight per position					
Close Position		Hold/Rebalance		Open Short Sale	
Weatherford International plc	WFT	TripAdvisor Inc.	TRIP	Tesla Motors, Inc.	TSLA
Williams Partners L.P.	WPZ	Melco Crown Entertainment Lir	MPEL	Concho Resources, Inc.	CXO
EnLink Midstream Partners, LP	ENLK	Apache Corp.	APA	Targa Resources Corp.	TRGP
Williams Companies, Inc.	WMB	Noble Energy, Inc.	NBL	Vermilion Energy Inc.	VET
Sunoco Logistics Partners L.P.	SXL	Royal Dutch Shell plc	RDS.B	National Oilwell Varco, Inc.	NOV
ConocoPhillips	COP	Hess Corporation	HES	Devon Energy Corporation	DVN
Deutsche Bank AG	DB	RPC Inc.	RES	Legg Mason Inc.	LM
Avis Budget Group, Inc.	CAR	Yandex N.V.	YNDX	Ionis Pharmaceuticals, Inc.	IONS
Cavium, Inc.	CAVM	Albemarle Corporation	ALB	Sensata Technologies Holding NV	ST
Steel Dynamics Inc.	STLD			Qorvo, Inc.	QRVO
Freeport-McMoRan Inc.	FCX			NCR Corporation	NCR
				LinkedIn Corporation	LNKD
				Autodesk, Inc.	ADSK
				Yahoo! Inc.	YHOO
				Tableau Software, Inc.	DATA
				Methanex Corporation	MEOH
Source: Ascendere Associates LLC					

Return Data

Core & Opportunistic Long Model					MTD			
1/29/2016 to 2/29/2016								
Sector	Company	Ticker	1/29/2016	2/29/2016	Performance	Target/ Stop Date	Date+1 Sell Price	Return
Consumer Staples	Sprouts Farmers Market, Inc.	SFM	22.80	28.48	24.91%	2/25/2016	\$ 27.90	22.37%
Information Technology	FEI Co.	FEIC	72.45	81.24	12.13%			
Information Technology	VeriSign Inc.	VRSN	75.60	84.49	11.76%			
Financials	Cincinnati Financial Corp.	CINF	57.63	63.14	9.56%	2/25/2016	\$ 63.57	10.31%
Industrials	Spirit AeroSystems Holdings Inc	SPR	42.40	46.00	8.49%			
Information Technology	NVIDIA Corporation	NVDA	29.29	31.36	7.07%			
Health Care	Gilead Sciences Inc.	GILD	83.00	87.25	5.12%			
Health Care	DENTSPLY International Inc.	XRAY	58.89	60.96	3.52%			
Information Technology	CDW Corporation	CDW	38.45	39.58	2.94%			
Information Technology	Linear Technology Corp.	LLTC	42.73	43.62	2.08%			
Information Technology	IPG Photonics Corporation	IPGP	80.83	82.46	2.02%			
Information Technology	Automatic Data Processing, Inc.	ADP	83.09	84.69	1.93%			
Consumer Discretionary	O'Reilly Automotive Inc.	ORLY	260.90	260.32	-0.22%			
Consumer Discretionary	Walt Disney Co.	DIS	95.82	95.52	-0.31%			
Health Care	United Therapeutics Corp.	UTHR	123.18	121.94	-1.01%			
Information Technology	Manhattan Associates, Inc.	MANH	57.65	55.26	-4.15%			
Information Technology	NXP Semiconductors NV	NXPI	74.78	71.24	-4.73%			
Health Care	Amgen Inc.	AMGN	152.73	142.28	-6.84%			
Financials	Signature Bank	SBNY	139.34	129.55	-7.03%			
Health Care	Centene Corp.	CNC	62.06	56.96	-8.22%			
Financials	Privatebancorp Inc.	PVTB	37.63	34.36	-8.69%			
Information Technology	Netease.com Inc.	NTES	156.14	134.61	-13.79%			
Financials	Jones Lang Lasalle Inc.	JLL	140.72	102.07	-27.47%			

Ascendere Associates LLC

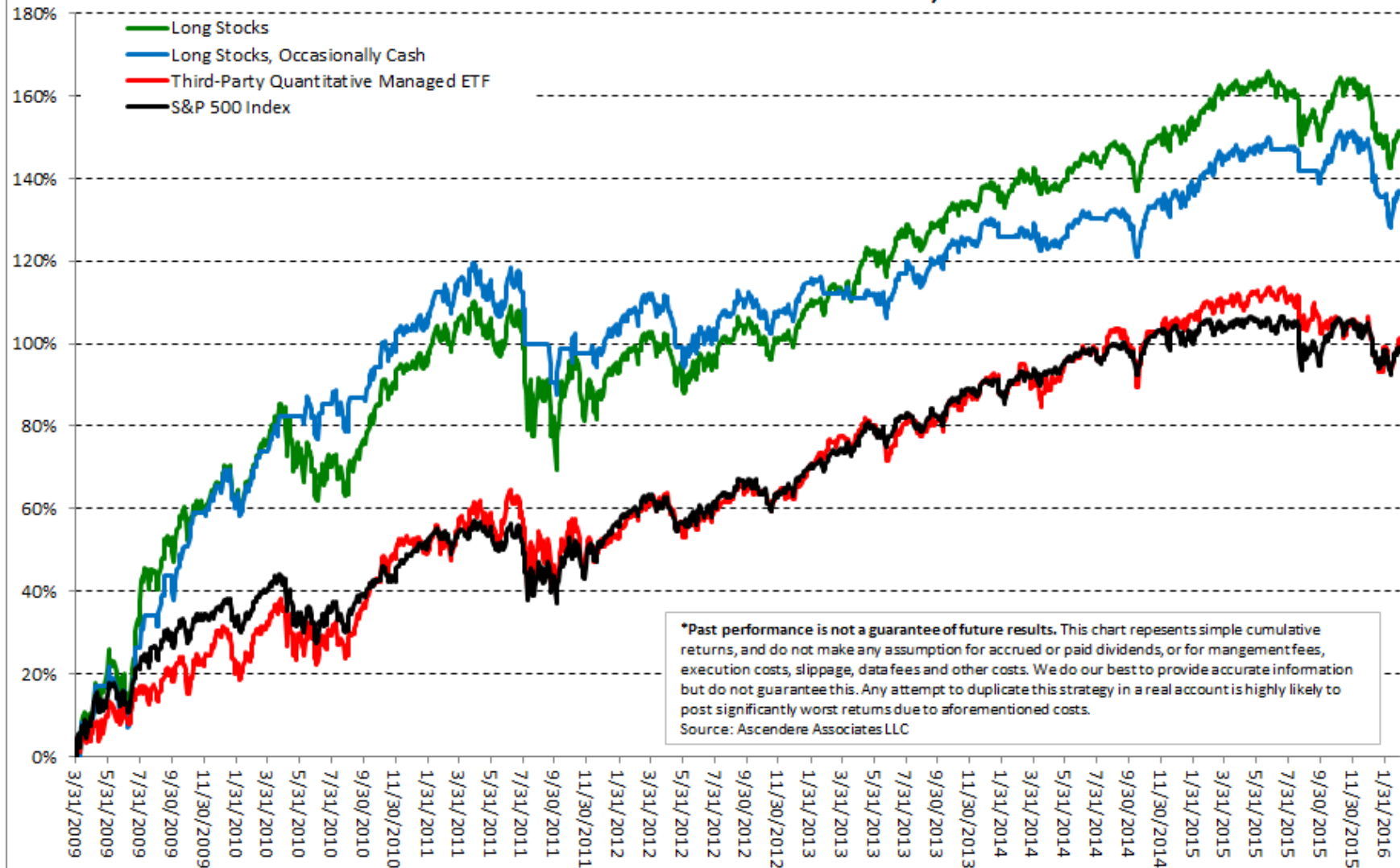
Core & Opportunistic Short Model				MTD				
1/29/2016 to 2/29/2016								
Sector	Company	Ticker	1/29/2016	2/29/2016	Performance	Target/ Stop Date	Date+1 Sell Price	Return
Energy	EnLink Midstream Partners, LP	ELNK	11.99	9.18	-23.44%	2/8/2016	\$ 8.64	-27.94%
Energy	Williams Companies, Inc.	WMB	19.30	15.99	-17.15%			
Energy	ConocoPhillips	COP	39.08	33.83	-13.43%	2/10/2016	\$ 31.88	-18.42%
Energy	Williams Partners L.P.	WPZ	22.02	19.72	-10.45%	2/8/2016	\$ 13.26	-39.78%
Energy	Apache Corp.	APA	42.54	38.28	-10.01%	2/10/2016	\$ 34.38	-19.18%
Energy	Noble Energy, Inc.	NBL	32.37	29.50	-8.87%			
Consumer Discretionary	TripAdvisor LLC	TRIP	66.76	62.60	-6.23%	2/5/2016	\$ 55.88	-16.30%
Energy	Weatherford International Ltd.	WFT	6.74	6.40	-5.04%			
Financials	Deutsche Bank AG	DB	17.89	17.19	-3.91%	2/8/2016	\$ 15.38	-14.03%
Information Technology	Yandex N.V.	YNDX	13.42	12.92	-3.73%			
Industrials	Avis Budget Group, Inc.	CAR	26.27	25.64	-2.40%			
Materials	Steel Dynamics Inc.	STLD	18.35	18.19	-0.87%			
Energy	Hess Corporation	HES	42.50	43.60	2.59%			
Information Technology	Cavium Networks, Inc.	CAVM	57.77	59.49	2.98%	2/8/2016	\$ 47.12	-18.44%
Energy	Royal Dutch Shell plc	RDS.B	44.13	45.71	3.58%			
Consumer Discretionary	Melco Crown Entertainment Ltd.	MPEL	15.24	15.79	3.61%	2/8/2016	\$ 12.32	-19.16%
Materials	Albemarle Corp.	ALB	52.64	56.22	6.80%			
Energy	RPC Inc.	RES	12.47	13.57	8.82%			
Energy	Sunoco Logistics Partners LP	SXL	22.27	24.64	10.64%	2/11/2016	\$ 18.53	-16.79%
Materials	Freeport-McMoRan Copper & Gold Ir	FCX	4.60	7.63	65.87%	2/16/2016	\$ 7.16	55.65%

Ascendere Associates LLC

	Theoretical Model Portfolio*	02/29/16	MTD	YTD	Since 03/31/09	Sharpe
	Simple Returns (No Compounding)					
Stock Targets	Core Model					
	Long	0.51%	-9.64%	150.4%	0.93	
	Short	-7.16%	-22.44%	41.8%	0.29	
	Core Long/Short	7.67%	12.80%	108.6%	0.98	
Stock Targets and Portfolio Targets	Opportunistic Model					
	Long	0.51%	-11.07%	136.2%	1.10	
	Short	-11.86%	-21.82%	-19.4%	(0.15)	
	Opportunistic Long/Short	12.37%	10.75%	155.5%	1.47	
Stock Targets and Portfolio Targets	Opportunistic Model III					
	Long Stocks	0.51%	-11.07%	136.2%	1.10	
	Long Inverse ETF ^SH	4.29%	10.34%	-66.3%	(0.69)	
	Opportunistic Long/Short III	4.80%	-0.73%	69.9%	0.77	
	S&P 500 Index	-0.28%	-5.27%	97.96%	0.85	

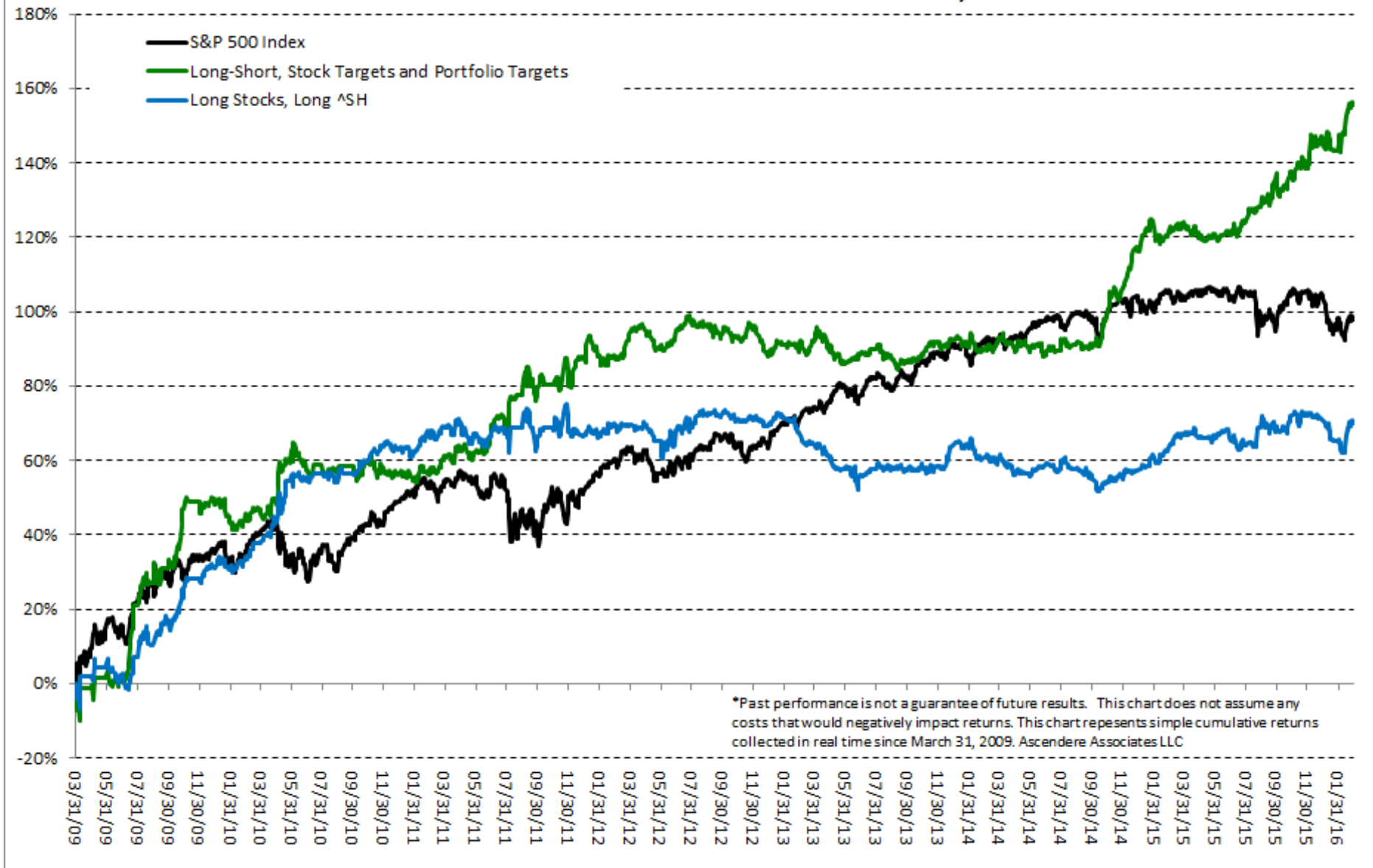
* Return figures are calculated using cumulative simple returns. This table represents returns of several theoretical portfolios that do not assume any costs. This table is not to be construed as advertising for any investment service. Real portfolios that attempt to exactly replicate these theoretical strategies will generate lower returns relative to these models due to slippage, transaction costs, tax expenses and other costs. There are limitations inherent in our theoretical results, particularly with the fact that such results do not represent actual trading and they may not reflect the impact material economic and market factors might have had on our decision making if we were actually managing client money. We do our best to provide accurate information, but do not guarantee this. Please see additional disclosures and disclaimers.

**Simple Returns -- Long Theoretical Model Portfolios vs
Actual Third-Party Quantitative ETF vs S&P 500 Total Return Index
Real-time Data Collected Since March 31, 2009**



*Past performance is not a guarantee of future results. This chart represents simple cumulative returns, and do not make any assumption for accrued or paid dividends, or for mangement fees, execution costs, slippage, data fees and other costs. We do our best to provide accurate information but do not guarantee this. Any attempt to duplicate this strategy in a real account is highly likely to post significantly worst returns due to aforementioned costs.
Source: Ascendere Associates LLC

"Theoretical Dollar Neutral" Strategies Simple Cumulative Returns Real-time Data Collected Since March 31, 2009



	Core	Opportunistic	"Dollar Neutral" 1	"Dollar Neutral" 2	
Inception March 31, 2009	Long, Stock Targets	Long, Stock and Portfolio Targets	Long/Short, Stock Targets and Portfolio Targets	Long, Stock and Portfolio Targets / Long ^SH ETF	S&P 500
2/29/2016	Theoretical	Theoretical	Theoretical	Theoretical	
Simple Returns					
Today	-0.90%	-0.90%	-0.90%	-0.90%	-0.81%
MTD	0.51%	0.51%	12.37%	4.80%	-0.28%
YTD	-9.64%	-11.07%	10.75%	-0.73%	-5.27%
Cumulative from 3/31/2009	150.45%	136.15%	155.54%	69.86%	97.96%
Absolute Risk					
Daily Average	0.09%	0.08%	0.09%	0.04%	0.06%
Daily Range	16.86%	15.84%	11.84%	12.00%	11.40%
Daily Standard Deviation	1.46%	1.13%	0.96%	0.83%	1.04%
Daily Return/Standard Deviation	5.91%	6.94%	9.28%	4.87%	5.39%
Average 90-Day T-bill	1.27%	1.27%	1.27%	1.27%	1.27%
Annualized Daily Returns	21.79%	19.72%	22.53%	10.12%	14.19%
Annualized Standard Deviation	23.2%	17.9%	15.3%	13.1%	16.6%
Sharpe Ratio	0.88	1.03	1.39	0.68	0.78
Percentage Down Days	45.3%	34.8%	42.4%	43.9%	45.1%
Average Daily Downside Value	-1.05%	-0.92%	-0.65%	-0.55%	-0.76%
Daily Downside Deviation	-1.10%	-0.92%	-0.63%	-0.59%	-0.79%
Daily VAR of 1000 at 95% Conf	-23	-18	-15	-13	-17
Benchmark Relative Risk					
Correlation	0.91	0.70	(0.04)	0.05	
R-Squared	0.82	0.49	0.00	0.00	
Daily Tracking Error	0.68%	0.85%	1.45%	1.30%	
Regression					
Beta	1.27	0.75	-0.04	0.04	
Daily Alpha	0.030%	0.022%	0.033%	-0.016%	
Jensen's Daily Alpha	0.038%	0.017%	-0.001%	-0.001%	
Trading Days	1740	1740	1740	1740	
*Returns calculated by the simple return method (not compounded).					
* Portfolio models are theoretical and assume no costs.					
* Data collected in real time since 3/31/2009					
Source: Ascendere Associates LLC					

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In general, our approach is quite simple -- we believe that return on invested capital and long-term earnings growth are key to stock valuation. More specifically, we use powerful and unique financial models that combine publicly available data, consensus estimates and our own inputs to generate consistent and actionable stock recommendations.

Among the services that Ascendere provides are: 1) detailed custom equity research analysis; 2) valuation scenario analysis studies; 3) supply /demand studies; 4) long and short stock idea generation; 5) portfolio feedback; 6) detailed fundamental financial modeling services; and 7) additional analytical consulting services. Additional information is available at jstephencastellano.tumblr.com. Mr. Castellano is currently on the Board of Advisors to GovBrain, and is a consultant to two other financial technology startups.

Mr. Castellano has over 15 years of experience in equity research and related consulting work. At PaineWebber, Warburg Dillon Read and Credit Lyonnais Securities he developed fundamental equity valuation models and conducted in-depth research on the steel and telecom services industries. At Boston Private Value Investors, he developed quantitative models for stock idea generation and also provided general fundamental equity research coverage. Steve received a MBA from the F. W. Olin School of Business at Babson College (2005) and a BA from Oberlin College (1993).

Mr. Castellano's career history is highlighted below:

- Ascendere Associates, LLC (2009-Present)
- Boston Private Value Investors , Equity Research, Equity Research Analyst (2005-2009)
- Pyramid Research, Contract Consultant, Telecom Services (2002-2003)
- Credit Lyonnais Securities (USA), Equity Research, Telecom Services, Vice President (2000-2001)
- Warburg Dillon Read, Equity Research, Telecom Services, Research Associate (1999-2000)
- PaineWebber, Equity Research, Steel and Nonferrous Metals, Research Associate, Editor (1995-1999)