



Update to the March 2016 Rally

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.

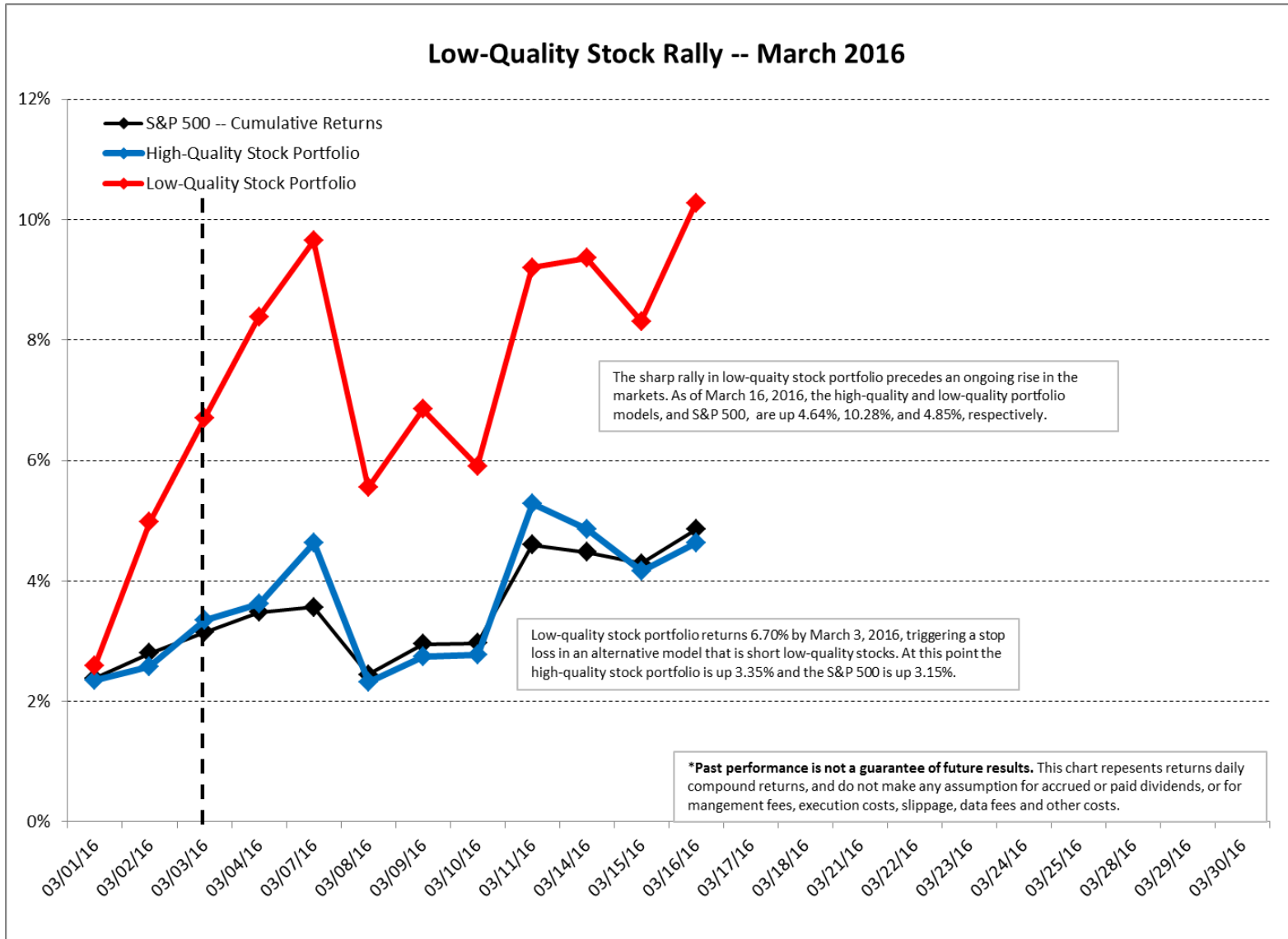
On March 6, 2016 we noted that our theoretical model portfolio composed of low-quality stock returns had already surged by 8.39%, setting up what we thought was a strong likelihood of an ongoing market rally through month's end. (For a primer of how we define low-quality stocks, see the introduction of our [September 2015 report](#).)

As of this March 16 writing, the theoretical low-quality stock portfolio has moved up another 1.89% for a MTD return of 10.28% and the theoretical high-quality stock portfolio has moved up another 1.01% to 4.64%. The S&P 500 is now at 4.64%, up 1.01% from the 3.63% posted on March 6. So far, it appears the sudden appreciation of low-quality stocks continues to augur well for an ongoing market rally.

We are posting this note today to update our readers of the latest changes to price targets in our model portfolio, as well as to provide charts studies of other recent low-quality stock rallies and their impact on monthly returns. We had previously published tables, but perhaps the charts will communicate the theme more readily.

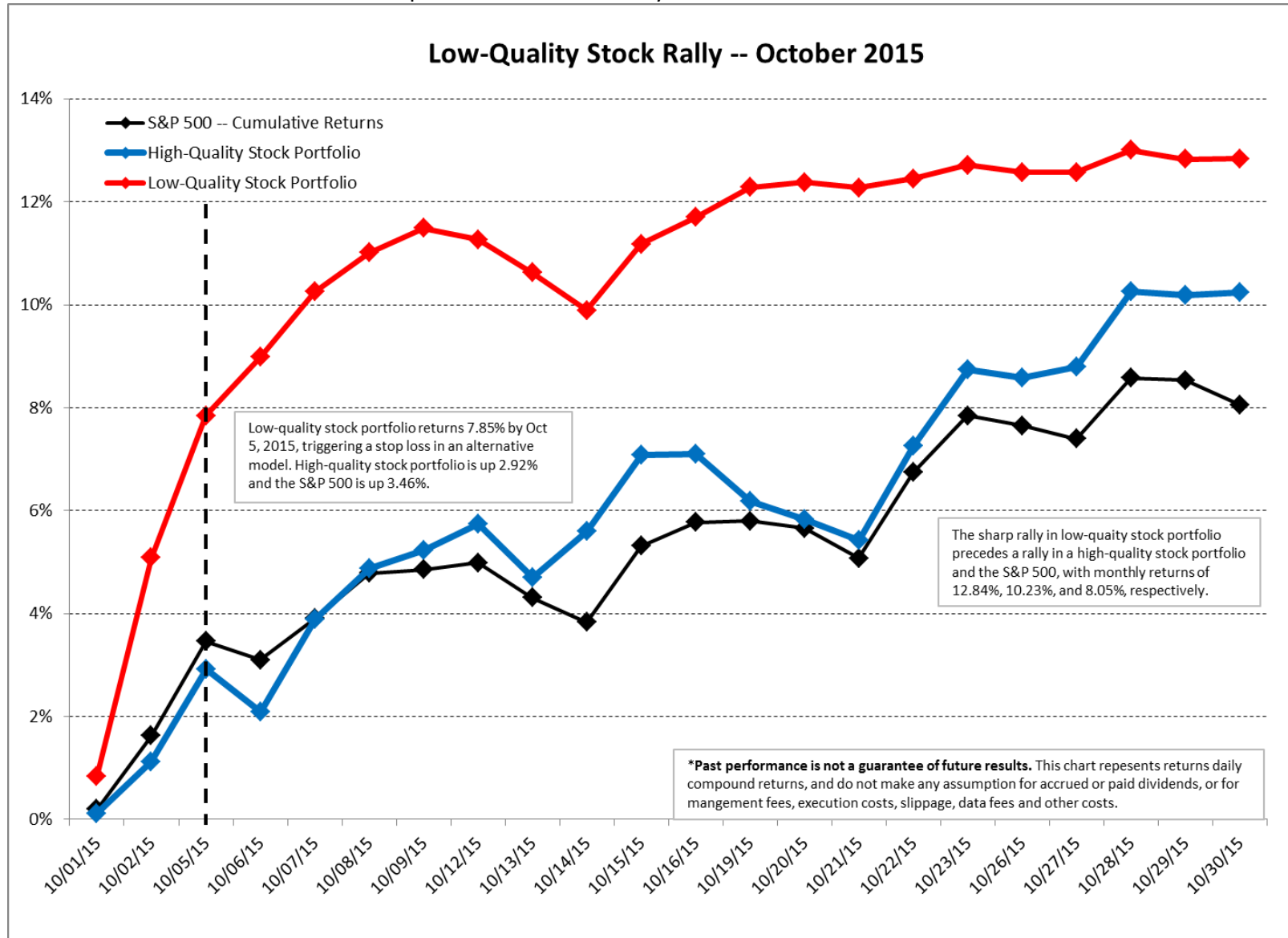
March 2016 Low-Quality Market Rally

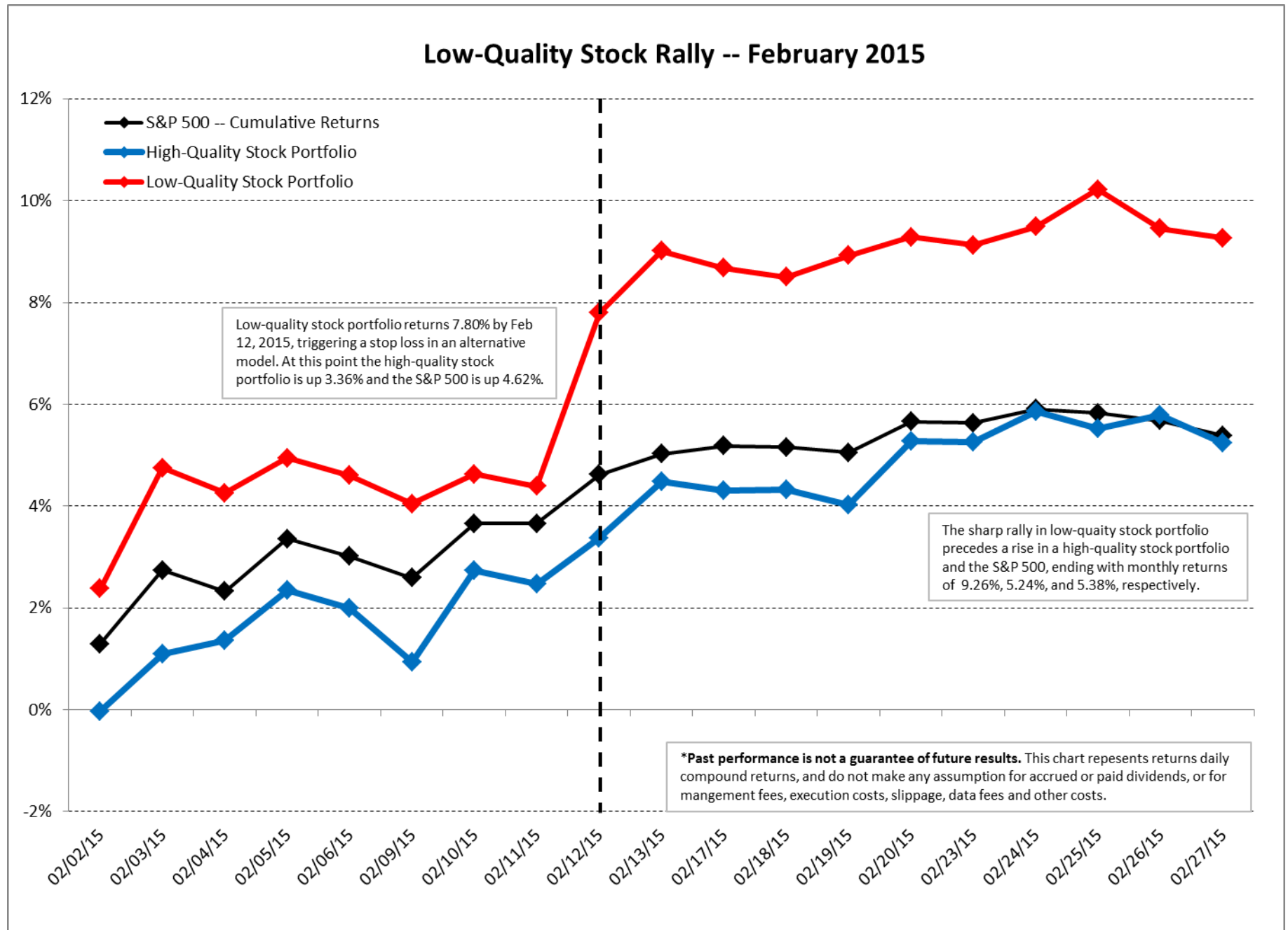
The chart below shows theoretical returns for a long/short model portfolio that does not use a cash allocation model. This is our Core Long/Short Model portfolio. The chart indicates that low-quality stocks in our short model portfolio have drastically outperformed the high-quality stocks in our long model portfolio, as well as the S&P 500. In the recent past, a surge in low-quality stock returns has preceded an ongoing rise in high-quality stock returns and the overall market.



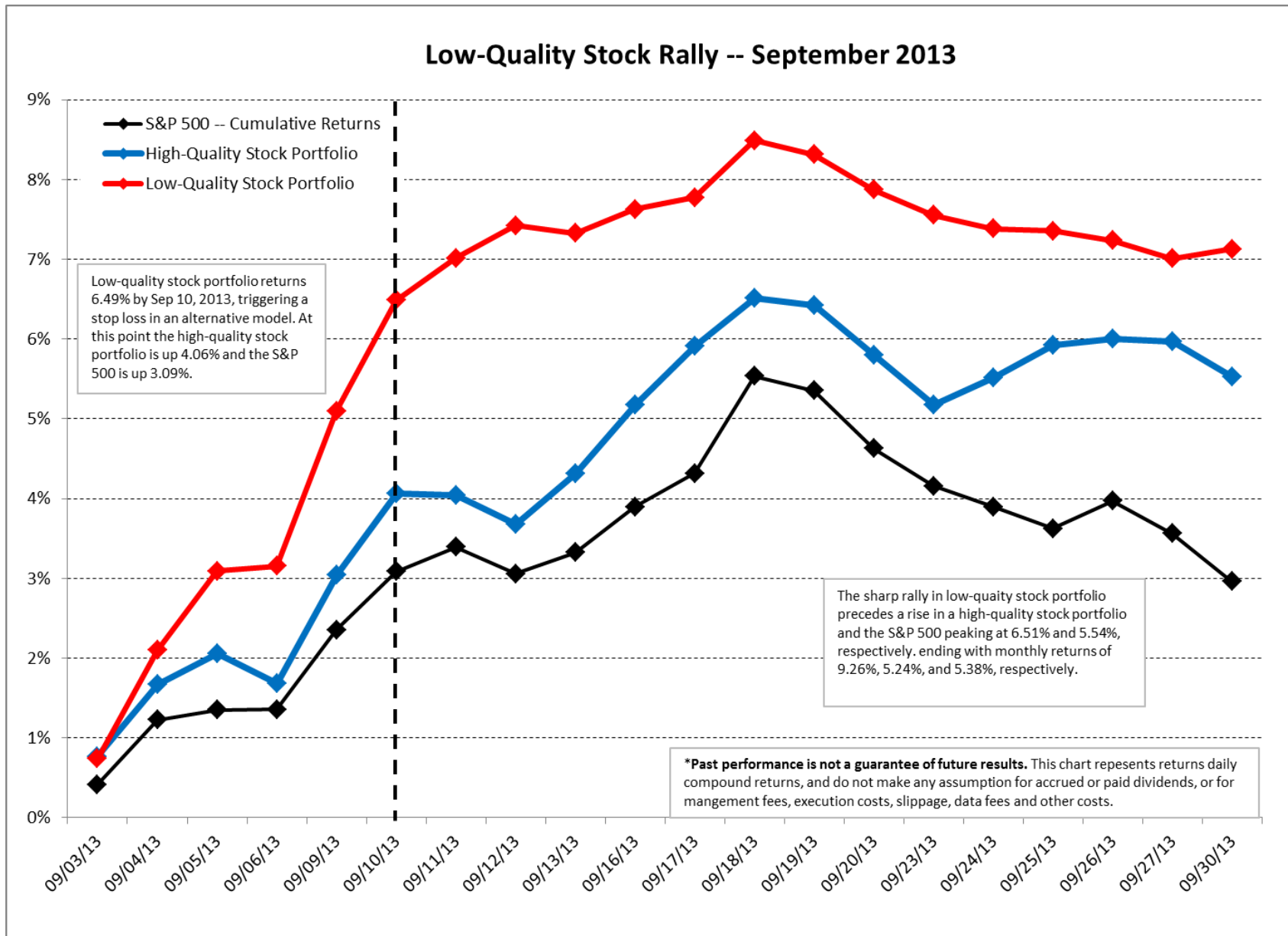
October 2015 Low-Quality Stock Rally and Subsequent Returns

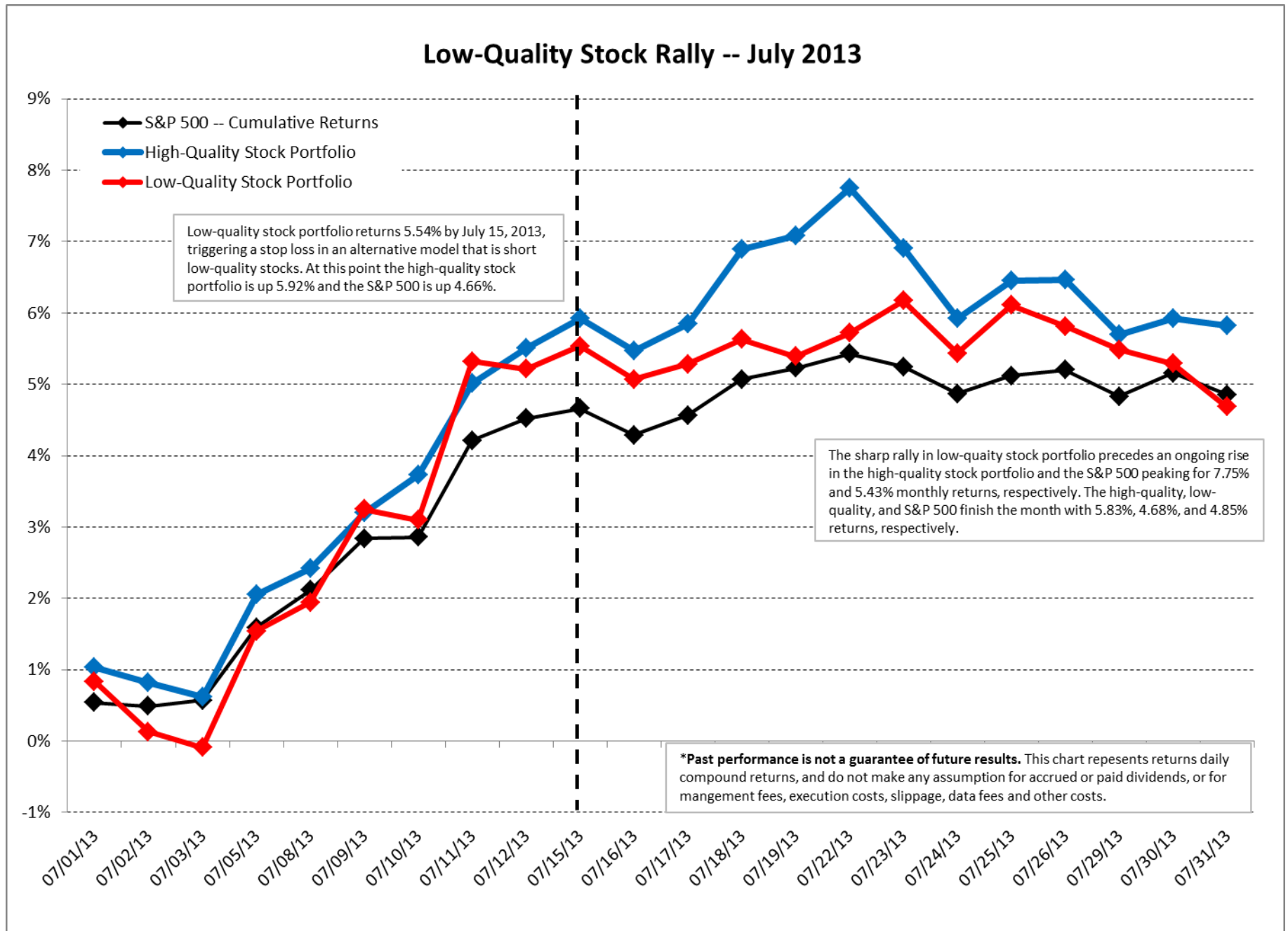
Our theoretical low-quality stock portfolio increased 7.85% by October 5, 2015, and finished the month up another 4.99% to 12.84%. The early surge in low-quality stocks preceded a subsequent rise in our theoretical high-quality model portfolio by 7.31% to finish at 10.23%, and preceded another 4.59% rise in the S&P 500 to an 8.05% simple cumulative return by the end of the month.



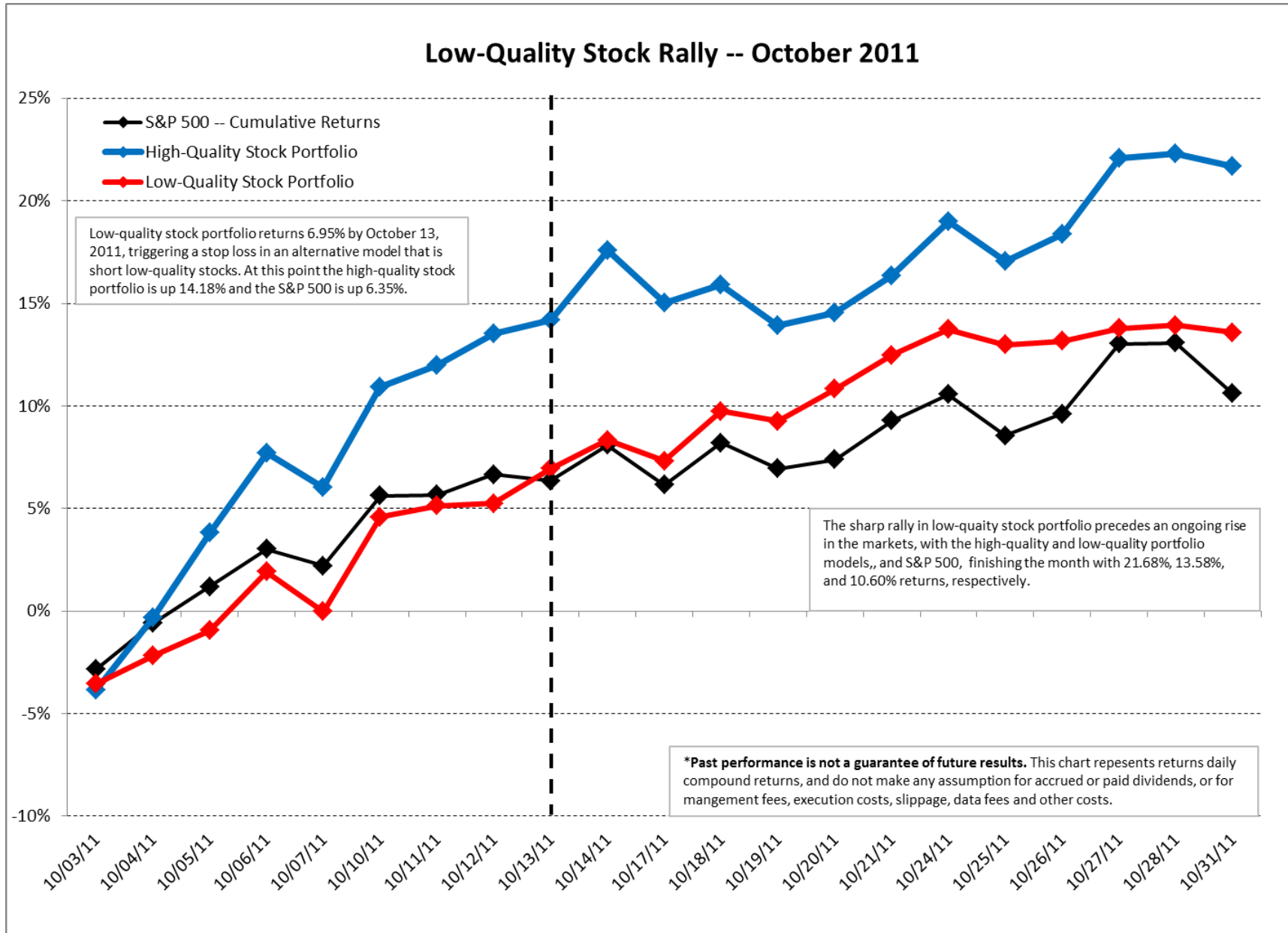


September 2013 Low-Quality Stock Rally





October 2011 Low-Quality Stock Rally



We continue to believe that high-quality companies such as **Cisco Systems Inc. (CSC)**, **NVIDIA Corp. (NVDA)**, **Lowe's Companies (LOW)**, and **American Eagle Outfitters (AEO)** offer compelling opportunity for upside for the balance of the month. Recent reports from Home Depot and Urban Outfitters, in our opinion, augur well in the near-term for high-quality stocks like Lowe's Companies and American Eagle Outfitters. We believe CSCO, in particular, has strong upside potential both in the short-term and long-term as it trades an attractive relative valuation and consensus implies ROIC will continue to improve.

| NasdaqGS:CSCO | LTM+4Q | LTM+3Q | LTM +2Q | LTM +1Q | Last LTM | LTM-1 | LTM-2 | LTM -3 | LTM -4 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| NOPLAT | 13,041 | 12,853 | 12,477 | 11,858 | 11,162 | 11,106 | 10,906 | 9,995 | 10,314 |
| Economic Charge | 5,248 | 5,259 | 5,269 | 5,278 | 5,293 | 5,338 | 5,329 | 5,387 | 5,371 |
| Economic Profit | 7,793 | 7,594 | 7,209 | 6,580 | 5,869 | 5,769 | 5,577 | 4,608 | 4,943 |
| Y/Y change | 2.6% | 5.3% | 9.6% | 12.1% | 1.7% | 3.4% | 21.0% | -6.8% | 33.5% |
| NOPLAT | 13,041 | 12,853 | 12,477 | 11,858 | 11,162 | 11,106 | 10,906 | 9,995 | 10,314 |
| Operating Capital | 64,074 | 64,209 | 64,330 | 64,448 | 64,623 | 64,596 | 64,053 | 64,079 | 64,128 |
| ROIC (NOPLAT / Operating Capital) | 20.4% | 20.0% | 19.4% | 18.4% | 17.3% | 17.2% | 17.0% | 15.6% | 16.1% |
| NOPLAT | 13,041 | 12,853 | 12,477 | 11,858 | 11,162 | 11,106 | 10,906 | 9,995 | 10,314 |
| 5 Qtr Average Operating Capital | 64,265 | 64,402 | 64,499 | 64,430 | 64,296 | 64,211 | 64,144 | 64,114 | 64,079 |
| ROIC (NOPLAT / Operating Capital) | 20.3% | 20.0% | 19.3% | 18.4% | 17.4% | 17.3% | 17.0% | 15.6% | 16.1% |

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

More risk-tolerant investors may want to keep an eye on the possibility for an ongoing surge in low-quality stocks as well. Low-quality stocks, which tend to discount ongoing economic prospects, tend to perform very well when they start discounting an improvement in fundamentals. This is what we are seeing now in the commodity sector, with a range of prices from oil, copper and steel have seemingly put in a bottom in prices.

Return Data

The long model portfolio is composed of high-quality stocks.

| Core & Opportunistic Long Model | | | | | MTD | | | | | | |
|---------------------------------|---------------------------------------|--------|-----------|-----------|-------------|--------------|-------------|--|----------------------|----------------------|--------|
| 2/29/2016 to 3/16/2016 | | | | | | | | | Target/ Stop Date | Date+1 Sell Price | Return |
| Sector | Company | Ticker | 2/29/2016 | 3/16/2016 | Performance | Price Target | Stop Target | | | | |
| Energy | Boardwalk Pipeline Partners, LP | BWP | 12.42 | 14.30 | 15.14% | \$ 15.63 | None | | | | |
| Information Technology | Netease.com Inc. | NTESS | 134.61 | 150.75 | 11.99% | \$ 168.26 | None | | | | |
| Financials | Privatebancorp Inc. | PVTB | 34.36 | 37.77 | 9.92% | \$ 40.46 | None | | | | |
| Consumer Discretionary | Lowe's Companies Inc. | LOW | 67.53 | 73.78 | 9.26% | \$ 76.53 | None | | | | |
| Financials | Signature Bank | SBNY | 129.55 | 140.30 | 8.30% | \$ 151.99 | None | | | | |
| Health Care | VCA Antech Inc. | WOOF | 51.03 | 55.25 | 8.27% | \$ 59.59 | None | | | | |
| Information Technology | Cisco Systems, Inc. | CSCO | 26.18 | 27.88 | 6.49% | \$ 30.17 | None | | | | |
| Consumer Discretionary | American Eagle Outfitters Inc. | AEO | 15.26 | 16.25 | 6.49% | \$ 18.76 | None | | | | |
| Financials | First Citizens Bancshares Inc. | FCNC.A | 234.13 | 248.58 | 6.17% | \$ 267.78 | None | | | | |
| Information Technology | LAM Research Corp. | LRCX | 73.30 | 77.81 | 6.15% | \$ 85.12 | None | | | | |
| Information Technology | NVIDIA Corporation | NVDA | 31.36 | 33.10 | 5.55% | \$ 37.02 | None | | | | |
| Industrials | Canadian Pacific Railway Limited | CP | 121.19 | 127.29 | 5.03% | \$ 148.27 | None | | | | |
| Industrials | Deluxe Corp. | DLX | 57.41 | 59.75 | 4.08% | \$ 66.13 | None | | | | |
| Information Technology | Manhattan Associates, Inc. | MANH | 55.26 | 57.07 | 3.28% | \$ 66.27 | None | | | | |
| Consumer Discretionary | Cracker Barrel Old Country Store, Inc | CBRL | 148.05 | 150.39 | 1.58% | \$ 164.51 | None | | | | |
| Health Care | Amgen Inc. | AMGN | 142.28 | 143.98 | 1.19% | \$ 161.36 | None | | | | |
| Health Care | DENTSPLY SIRONA, Inc. | XRAY | 60.96 | 61.29 | 0.54% | \$ 67.96 | None | | | | |
| Information Technology | Linear Technology Corp. | LLTC | 43.62 | 43.76 | 0.32% | \$ 48.70 | None | | | | |
| Health Care | United Therapeutics Corp. | UTHR | 121.94 | 121.44 | -0.41% | \$ 141.73 | None | | | | |
| Consumer Discretionary | Skechers USA Inc. | SKX | 32.92 | 31.39 | -4.65% | \$ 38.42 | None | | | | |
| Industrials | JetBlue Airways Corporation | JBLU | 22.00 | 20.26 | -7.91% | \$ 26.53 | None | | | | |

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The short model portfolio is composed of low-quality stocks

For the month to date 7 of 25 stocks in the low-quality stock portfolio, in which we assume theoretical short positions, have hit stop losses noted below.

| Core & Opportunistic Short Model | | | | | MTD | | | | | |
|----------------------------------|--------------------------------------|--------|-----------|-----------|-------------|--------------|-------------|----------------------|----------------------|--------|
| 2/29/2016 to 3/16/2016 | | | | | | | | | | |
| Sector | Company | Ticker | 2/29/2016 | 3/16/2016 | Performance | Price Target | Stop Target | Target/ Stop Date | Date+1 Sell Price | Return |
| Information Technology | LinkedIn Corporation | LNKD | 117.19 | 109.81 | -6.30% | \$ 75.67 | \$ 158.71 | | | |
| Information Technology | Tableau Software, Inc. | DATA | 45.65 | 43.67 | -4.34% | \$ 26.16 | \$ 65.14 | | | |
| Consumer Discretionary | Melco Crown Entertainment Ltd. | MPEL | 15.79 | 16.00 | 1.33% | \$ 13.07 | \$ 18.51 | | | |
| Energy | RPC Inc. | RES | 13.57 | 14.24 | 4.94% | \$ 11.28 | \$ 15.86 | | | |
| Industrials | Sensata Technologies Holding NV | ST | 34.11 | 36.36 | 6.60% | \$ 29.77 | \$ 38.45 | | | |
| Health Care | Ionis Pharmaceuticals, Inc. | IONS | 34.56 | 36.88 | 6.71% | \$ 27.17 | \$ 41.95 | | | |
| Information Technology | Yahoo! Inc. | YHOO | 31.79 | 34.01 | 6.98% | \$ 27.95 | \$ 35.63 | | | |
| Energy | Cameco Corporation | CCJ | 12.11 | 12.98 | 7.18% | \$ 10.56 | \$ 13.66 | | | |
| Consumer Discretionary | TripAdvisor LLC | TRIP | 62.60 | 67.48 | 7.80% | \$ 53.88 | \$ 71.32 | | | |
| Energy | Royal Dutch Shell plc | RDS.B | 45.71 | 49.37 | 8.01% | \$ 39.93 | \$ 51.49 | | | |
| Information Technology | Qorvo, Inc. | QRVO | 45.08 | 48.99 | 8.67% | \$ 37.16 | \$ 53.00 | | | |
| Materials | Albemarle Corp. | ALB | 56.22 | 61.62 | 9.61% | \$ 49.69 | \$ 62.75 | | | |
| Information Technology | Autodesk, Inc. | ADSK | 51.74 | 56.97 | 10.11% | \$ 44.73 | \$ 58.75 | | | |
| Materials | Methanex Corp. | MEOH | 31.67 | 35.15 | 10.99% | \$ 25.57 | \$ 37.77 | | | |
| Energy | National Oilwell Varco, Incorporated | NOV | 29.27 | 33.06 | 12.95% | | | 3/7/2016 | \$ 31.50 | 7.62% |
| Energy | Vermilion Energy Inc. | VET | 27.16 | 30.96 | 13.99% | \$ 22.37 | \$ 31.95 | | | |
| Energy | Noble Energy, Inc. | NBL | 29.50 | 33.79 | 14.54% | \$ 24.39 | \$ 34.61 | | | |
| Consumer Discretionary | Tesla Motors, Inc. | TSLA | 191.93 | 221.93 | 15.63% | | | 3/16/2016 | \$ 221.93 | 15.63% |
| Information Technology | Yandex N.V. | YNDX | 12.92 | 15.06 | 16.56% | | | 3/16/2016 | \$ 15.06 | 16.56% |
| Information Technology | NCR Corp. | NCR | 23.36 | 27.23 | 16.57% | | | 3/11/2016 | \$ 26.63 | 14.00% |
| Energy | Concho Resources, Inc. | CXO | 90.24 | 105.37 | 16.77% | \$ 73.36 | \$ 107.12 | | | |
| Financials | Legg Mason Inc. | LM | 28.56 | 33.60 | 17.65% | | | 3/4/2016 | \$ 32.98 | 15.48% |
| Energy | Hess Corporation | HES | 43.60 | 51.83 | 18.88% | \$ 34.97 | \$ 52.23 | | | |
| Energy | Apache Corp. | APA | 38.28 | 49.25 | 28.66% | | | 3/4/2016 | \$ 51.02 | 33.28% |
| Energy | Devon Energy Corporation | DVN | 19.68 | 26.22 | 33.23% | | | 3/14/2016 | \$ 24.09 | 22.41% |

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J. Stephen Castellano – founded Ascendere Associates LLC to provide innovative equity research and investment advisory services that blends fundamental and quantitative approaches.

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 20 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)