



Model Portfolio Monthly Update: January 31, 2017

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 2-9 contain brief commentary and highlights of a few stocks that seem particularly attractive.

Page 10 contains rebalancing actions for our long-only model portfolio.

Page 11 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](#). This report is a follow-up to our [January 31, 2017 abbreviated report](#) and [last month's full report](#).

Commentary

The theoretical **Core Long Model** increased +2.83% in January 2017 versus a +1.79% increase in the S&P 500. Stocks in the theoretical **Core Short Model** increased by +2.91% for the equivalent inverse short sale loss of -2.91%. The **Core Long/Short Model** declined by -0.08% for the month (+2.83% -2.91% = -0.08%).

The theoretical **Opportunistic Long Model** also increased +2.83% for the month. Stocks in the theoretical **Opportunistic Short Model** increased +5.56% through January 4, 2017 and were assumed to have been replaced with 100% cash just prior to the close that day.

(Both the theoretical "Core" and "Opportunistic" 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 best model and worst portfolio stocks for January 2017

The best performing stock in the theoretical long model was **MarketAxess Holdings Inc. (MKTX)** up +22.79% through January 26 when the position was assumed closed after reaching a price target the day prior. MKTX finished the month up +27.45%. The worst performing stock in the long model was **AK Steel Holding Corp. (AKS)**, down -20.86%. Unfortunately AKS was our favorite long idea last month -- it took a hit after a sell side rating downgrade.

In the theoretical short model, the best performing stock was **Under Armour, Inc. (UA)**, which declined -23.64% for the month for the assumed short sale gain of +23.64%. The worst performing short idea was **Acadia Pharmaceuticals (ACAD)**, which rose +19.94% for the month for the assumed short sale loss of -19.94%.

Performance of our favorite idea in January

As previously mentioned, our favorite long idea was **AK Steel Corp (AKS)**, which declined -20.86% for the month. Our favorite short idea was **CarMax Inc. (KMX)**, which increased +3.86% for the month for an assumed short sale loss of -3.86%.

Notes

Except for extremely unusual circumstances, our long model portfolios are composed of high-quality stocks and our short model portfolios are composed of low-quality stocks.

As a simple quantitative model based on fundamental rankings, the portfolio models do not take into account rumors or pending M&A transactions.

The models are created just prior to the market close each month, but we usually do not publish until after the close due to time constraints.

Looking ahead to February 2017

Long Rebalancing Actions

As noted in our [abbreviated report](#), as of the January 31, 2017 close 12 stocks have left the long-only model, 16 have been added, and 17 have been rebalanced. This 33-stock theoretical long model portfolio assumes a 3.03% weight for each stock. The long model portfolios are composed of high-quality stocks.

Short Rebalancing Actions

As of the January 31, 2017 close, 7 stocks have left the short sale model portfolios, 6 have been added, and 17 have been rebalanced. This 22-stock theoretical model portfolio assumes an equal 4.35% weight for each stock.

This short sale model is composed of low-quality stocks, and only tends to work well during periods of high uncertainty or volatility in the market. Low-quality stocks do tend to outperform high-quality stocks during market rallies as the market prices in expectations for a sharp recovery in fundamentals.

Our favorite long idea for February 2017

Our favorite long idea is for January 2017 is **Maxim Integrated Products, Inc (MXIM)**. The stock is on the edge of acceptable relative value, with strong operating momentum, and strong consensus estimate revision trends. Stocks ranked 3, 4, 5 on these respective metrics seem to have a higher chance of transforming into a pure growth stock from a growth-at-a-reasonable-price stock. Nvidia (NVDA) is the latest example of a stock ranked 3, 4, 5 that has moved into growth territory.

Ranking Data as of January 31, 2017

Maxim Integrated Products, Inc.
NasdaqGS:MXIM

Information Technology
Semiconductors

Ascendere Ranking	Price 01/31/17	44.48	Cash	(2,087)	EV/LTM EBITDA	15.3
	Shares	283	Debt	991	Price/Book	5.9
	Market Cap	12,750	Other	0		
5 = Best	Rank		Enterprise Value	11,655		
Relative Value	3					
Operating Momentum	4	CY1 Consensus EPS Est. \$	2.21	CY1 PE	20.1	Total Capital \$
Analyst Revisions Mom	5	CY2 Consensus EPS Est. \$	2.40	CY2 PE	18.5	Debt/Capital
Fundamental Quality	5	Latest Annualized Dividend \$	1.32	Div Yield	2.9%	Debt/Enterprise Value
						9%

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

	>-----Estimated-----<									
	12/25/2017	9/24/2017	6/25/2017	3/26/2017	12/24/2016	9/24/2016	6/25/2016	3/26/2016	12/26/2015	
NasdaqGS:MXIM	LTM+4Q	LTM+3Q	LTM+2Q	LTM+1Q	Last LTM	LTM-1	LTM-2	LTM-3	LTM-4	
NOPLAT	658	629	555	488	539	459	227	267	215	
Economic Charge	381	383	384	386	388	344	340	377	403	
Economic Profit	277	246	171	102	151	116	(113)	(110)	(188)	
Y/Y change	12.8%	43.9%	67.3%	-32.3%	30.2%	-202.1%	2.9%	-41.3%	-38.4%	
NOPLAT	658	629	555	488	539	459	227	267	215	
Operating Capital	4,311	4,331	4,349	4,367	4,389	4,433	4,452	4,636	4,742	
ROIC (NOPLAT / Operating Capital)	15.3%	14.5%	12.8%	11.2%	12.3%	10.4%	5.1%	5.8%	4.5%	
NOPLAT	658	629	555	488	539	459	227	267	215	
5 Qtr Average Operating Capital	4,339	4,359	4,385	4,410	4,530	4,640	4,792	4,979	5,147	
ROIC (NOPLAT / Operating Capital)	15.2%	14.4%	12.7%	11.1%	11.9%	9.9%	4.7%	5.4%	4.2%	

Source: Ascendere Associates assumptions and 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

01/31/2017 Rebalancing					
Core and Opportunistic Long Portfolio:					
33 stocks in the model portfolio = 3.03% weight per position					
Close Position		Hold/Rebalance		Open Position	
TC PipeLines, LP	TCP	LCI Industries	LCII	D.R. Horton, Inc.	DHI
Evercore Partners Inc.	EVR	Ulta Beauty, Inc.	ULTA	Unum Group	UNM
Fifth Third Bancorp	FITB	Burlington Stores, Inc.	BURL	The Blackstone Group L.P.	BX
Western Alliance Bancorporation	WAL	Apollo Global Management, LL	APO	Discover Financial Services	DFS
PrivateBancorp, Inc.	PVTB	Essent Group Ltd.	ESNT	Bank of America Corporation	BAC
JetBlue Airways Corporation	JBLU	MarketAxess Holdings Inc.	MKTX	E*TRADE Financial Corporation	ETFC
ManpowerGroup Inc.	MAN	Home Bancshares, Inc. (Conw	HOMB	Banco Santander, S.A.	SAN
Northrop Grumman Corporation	NOC	Cathay General Bancorp	CATY	East West Bancorp, Inc.	EWBC
EMCOR Group, Inc.	EME	TD Ameritrade Holding Corpora	AMTD	Raymond James Financial, Inc.	RJD
Cirrus Logic, Inc.	CRUS	United Therapeutics Corporatio	UTHR	Washington Federal, Inc.	WAFD
AK Steel Holding Corporation	AKS	Hawaiian Holdings, Inc.	HA	Cullen/Frost Bankers, Inc.	CFR
Medical Properties Trust, Inc.	MPW	Copart, Inc.	CPRT	First Republic Bank	FRC
		HP Inc.	HPQ	Abbott Laboratories	ABT
		InterDigital, Inc.	IDCC	Maxim Integrated Products, Inc.	MXIM
		Applied Materials, Inc.	AMAT	Corning Incorporated	GLW
		Teradyne, Inc.	TER	Steel Dynamics, Inc.	STLD
Source: Ascendere Associates LLC		Facebook, Inc.	FB		

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.

1/31/2017 Rebalancing					
Core and Opportunistic Short Portfolio:					
23 stocks in the model portfolio = 4.35% weight per position					
Close Position		Hold/Rebalance		Open Short Sale	
Tribune Media Company	TRCO	CarMax Inc.	KMX	Hess Corporation	HES
Credit Suisse Group AG	CS	Honda Motor Co., Ltd.	HMC	Golar LNG Limited	GLNG
Endo International plc	ENDP	Under Armour, Inc.	UA	Tesaro, Inc.	TSRO
Navistar International Corporation	NAV	Superior Energy Services, Inc.	SPN	Stericycle, Inc.	SRCL
Cimpress N.V.	CMPR	CIT Group Inc.	CIT	Joy Global Inc.	JOY
Baidu, Inc.	BIDU	Legg Mason, Inc.	LM	Potash Corporation of Saskatchewan Inc.	POT
Pandora Media, Inc.	P	Ultragenyx Pharmaceutical Inc	RARE		
		ACADIA Pharmaceuticals Inc.	ACAD		
		Jacobs Engineering Group Inc.	JEC		
		Terex Corporation	TEX		
		IAC/InterActiveCorp	IAC		
		Qorvo, Inc.	QRVO		
		Workday, Inc.	WDAY		
		Autodesk, Inc.	ADSK		
		Tableau Software, Inc.	DATA		
		CF Industries Holdings, Inc.	CF		
Source: Ascendere Associates LLC		United States Steel Corporation	X		

Return Data

Core & Opportunistic Long Model					MTD			
12/31/2016 to 1/31/2017								
Sector	Company	Ticker	12/31/2016	1/31/2017	Performance	Target/ Stop Date	Date+1 Sell Price	Return
Financials	MarketAxess Holdings Inc.	MKTX	146.92	187.25	27.45%	1/25/2017	\$ 180.41	22.79%
Health Care	United Therapeutics Corp.	UTHR	143.43	163.63	14.08%			
Information Technology	Facebook, Inc.	FB	115.05	130.32	13.27%	1/13/2017	\$ 128.34	11.55%
Financials	Evercore Partners Inc.	EVR	68.70	77.45	12.74%	1/26/2017	\$ 77.50	12.81%
Information Technology	Teradyne Inc.	TER	25.40	28.38	11.73%	1/27/2017	\$ 28.80	13.39%
Financials	Apollo Global Management, LLC	APO	19.36	21.24	9.71%	1/26/2017	\$ 21.18	9.40%
Industrials	Manpower Inc.	MAN	88.87	95.46	7.42%			
Consumer Discretionary	Ulta Salon, Cosmetics & Fragrance, I	ULTA	254.94	272.28	6.80%			
Financials	Essent Group Ltd.	ESNT	32.37	34.57	6.80%			
Information Technology	Cirrus Logic Inc.	CRUS	56.54	60.32	6.69%			
Financials	TD AMERITRADE Holding Corporation	AMTD	43.43	46.15	6.26%			
Information Technology	Applied Materials Inc.	AMAT	32.27	34.25	6.14%			
Financials	Medical Properties Trust Inc.	MPW	12.30	12.75	3.66%			
Information Technology	InterDigital, Inc.	IDCC	91.04	93.40	2.59%			
Industrials	Copart Inc.	CPRT	55.41	56.74	2.40%			
Energy	TC Pipelines LP	TCP	58.84	60.08	2.11%			
Consumer Discretionary	LCI Industries	LCII	107.75	109.75	1.86%			
Information Technology	Hewlett-Packard Co.	HPQ	14.84	15.05	1.42%			
Financials	Western Alliance Bancorporation	WAL	48.71	49.38	1.38%			
Financials	Privatebancorp Inc.	PVTB	54.19	54.66	0.87%			
Consumer Discretionary	Burlington Stores, Inc.	BURL	84.75	83.70	-1.24%			
Industrials	EMCOR Group Inc.	EME	70.68	69.69	-1.40%			
Industrials	Northrop Grumman Corp.	NOC	232.58	229.08	-1.50%			
Financials	Home Bancshares, Inc.	HOMB	27.77	26.94	-2.99%			
Financials	Fifth Third Bancorp	FITB	26.97	26.10	-3.23%			
Financials	Cathay General Bancorp	CATY	38.03	36.44	-4.18%			
Industrials	Hawaiian Holdings Inc.	HA	57.00	50.95	-10.61%			
Industrials	JetBlue Airways Corporation	JBLU	22.42	19.61	-12.53%			
Materials	AK Steel Holding Corp.	AKS	10.21	8.08	-20.86%			

Ascendere Associates LLC

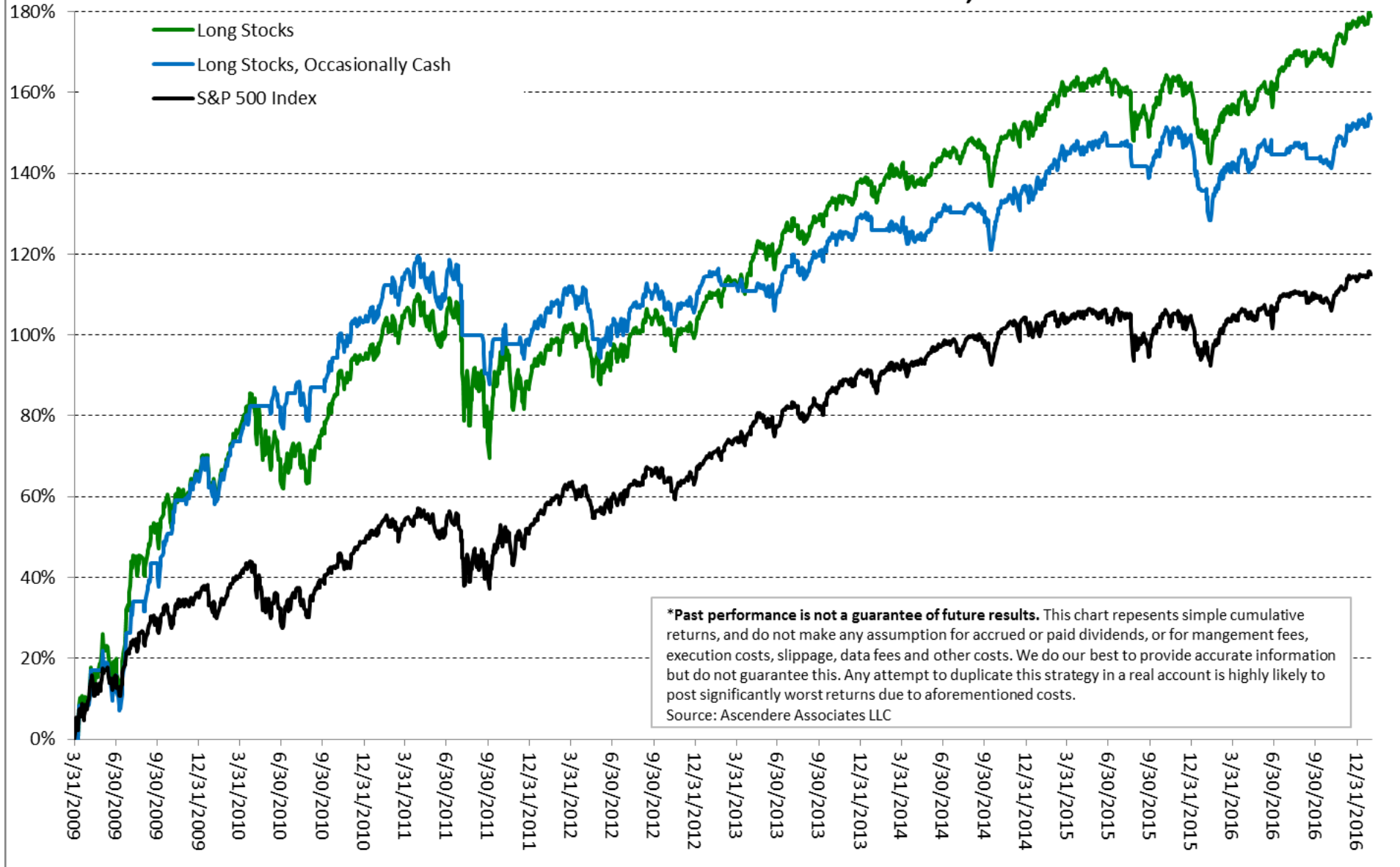
Core & Opportunistic Short Model					MTD			
12/31/2016 to 1/31/2017								
Sector	Company	Ticker	12/31/2016	1/31/2017	Performance	Target/ Stop Date	Date+1 Sell Price	Return
Health Care	Endo Pharmaceuticals Holdings Inc.	ENDP	16.47	12.24	-25.68%	1/17/2017	\$ 13.17	-20.04%
Consumer Discretionary	Under Armour, Inc.	UA	25.17	19.22	-23.64%	1/31/2017	NA	
Industrials	Navistar International Corp.	NAV	31.37	27.27	-13.07%	1/20/2017	\$ 27.07	-13.71%
Information Technology	Cimpress NV	CMPR	91.61	84.39	-7.88%			
Financials	CIT Group, Inc.	CIT	42.68	41.19	-3.49%			
Consumer Discretionary	Tribune Media Company	TRCO	29.37	28.84	-1.80%			
Materials	United States Steel Corp.	X	33.01	32.71	-0.91%			
Information Technology	Pandora Media, Inc.	P	13.04	13.00	-0.31%			
Industrials	Terex Corp.	TEX	31.53	31.80	0.86%			
Consumer Discretionary	Honda Motor Co. Ltd.	HMC	29.19	29.72	1.82%	1/25/2017	\$ 30.73	5.28%
Industrials	Jacobs Engineering Group, Inc.	JEC	57.00	58.55	2.72%			
Consumer Discretionary	CarMax Inc.	KMX	64.39	66.71	3.60%			
Energy	Superior Energy Services Inc.	SPN	16.88	17.67	4.68%			
Financials	Legg Mason Inc.	LM	29.91	31.69	5.95%	1/23/2017	\$ 33.20	11.00%
Information Technology	IAC/InterActiveCorp	IAC	64.79	68.81	6.20%	1/5/2017	\$ 69.65	7.50%
Financials	Credit Suisse Group	CS	14.31	15.20	6.22%			
Information Technology	Baidu, Inc.	BIDU	164.41	175.07	6.48%	1/5/2017	\$ 176.38	7.28%
Healthcare	Ultragenyx Pharmaceutical Inc.	RARE	70.31	75.01	6.68%			
Information Technology	Autodesk, Inc.	ADSK	74.01	81.34	9.90%	1/13/2017	\$ 81.32	9.88%
Materials	CF Industries Holdings, Inc.	CF	31.48	35.29	12.10%	1/24/2017	\$ 36.54	16.07%
Information Technology	Tableau Software, Inc.	DATA	42.15	47.84	13.50%	1/24/2017	\$ 47.84	13.50%
Health Care	Acadia Pharmaceuticals Inc.	ACAD	28.84	34.59	19.94%	1/31/2017	NA	
Information Technology	Qorvo, Inc.	QRVO	52.73	64.21	21.77%	1/18/2017	\$ 58.31	10.58%
Information Technology	Workday, Inc.	WDAY	66.09	83.09	25.72%	1/6/2017	\$ 74.76	13.12%

Ascendere Associates LLC

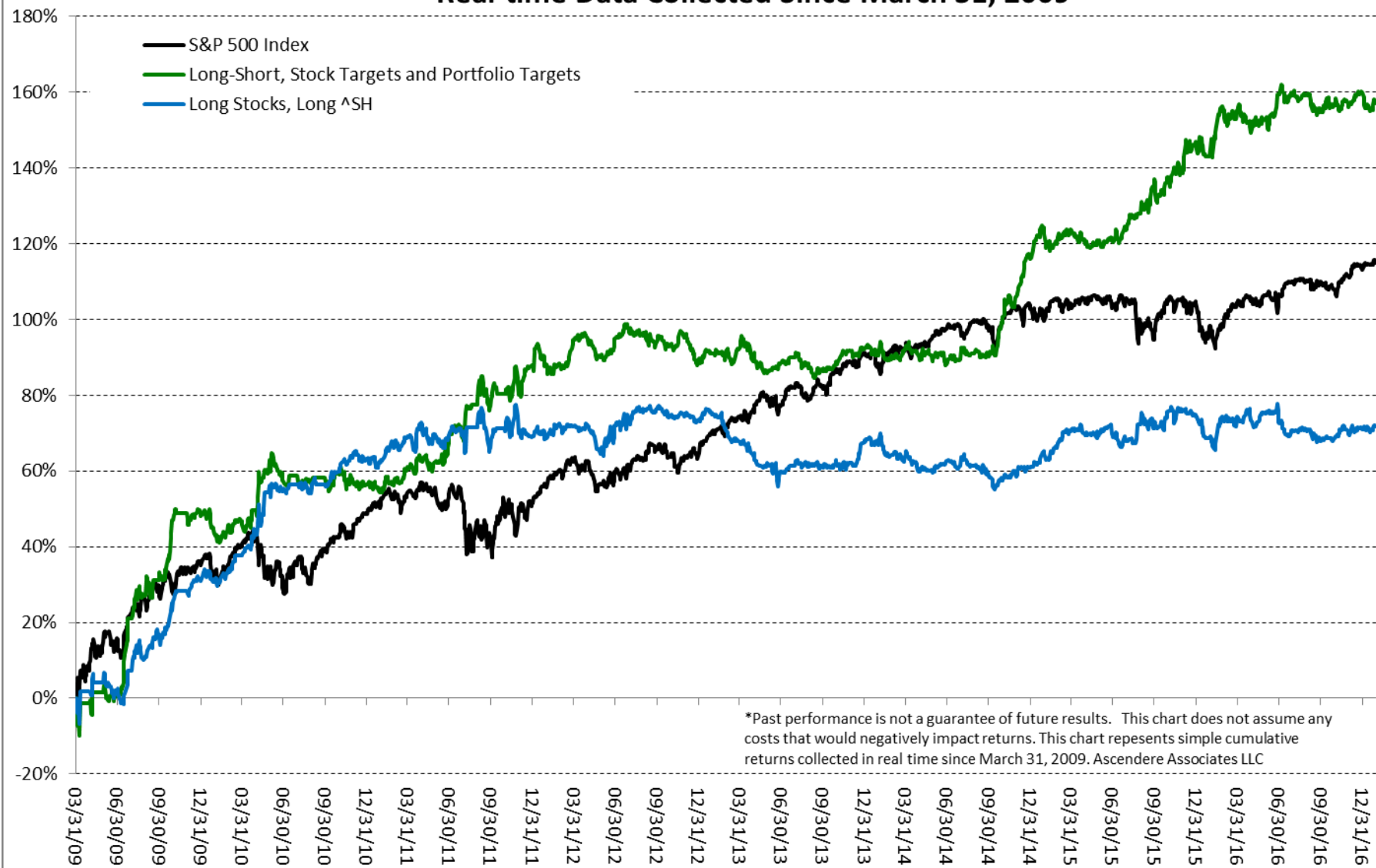
	Theoretical Model Portfolio* 01/31/17	MTD	YTD	Since 03/31/09	Sharpe
	Simple Returns (No Compounding)				
Stock Targets	Core Model				
	Long	2.83%	18.86%	178.9%	1.02
	Short	2.91%	3.14%	67.4%	0.42
	Core Long/Short	-0.08%	15.72%	111.5%	0.90
Stock Targets and Portfolio Targets	Opportunistic Model				
	Long	2.83%	6.49%	153.7%	1.12
	Short	5.56%	-6.03%	-3.6%	(0.03)
	Opportunistic Long/Short	-2.73%	12.52%	157.3%	1.32
Stock Targets and Portfolio Targets	Opportunistic Model III				
	Long Stocks	2.83%	6.49%	153.7%	1.12
	Long Inverse ETF ^SH	-1.78%	-8.79%	-81.8%	(0.77)
	Opportunistic Long/Short III	1.05%	-2.30%	72.0%	0.71
	S&P 500 Index	1.79%	1.79%	114.99%	0.91

* 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.

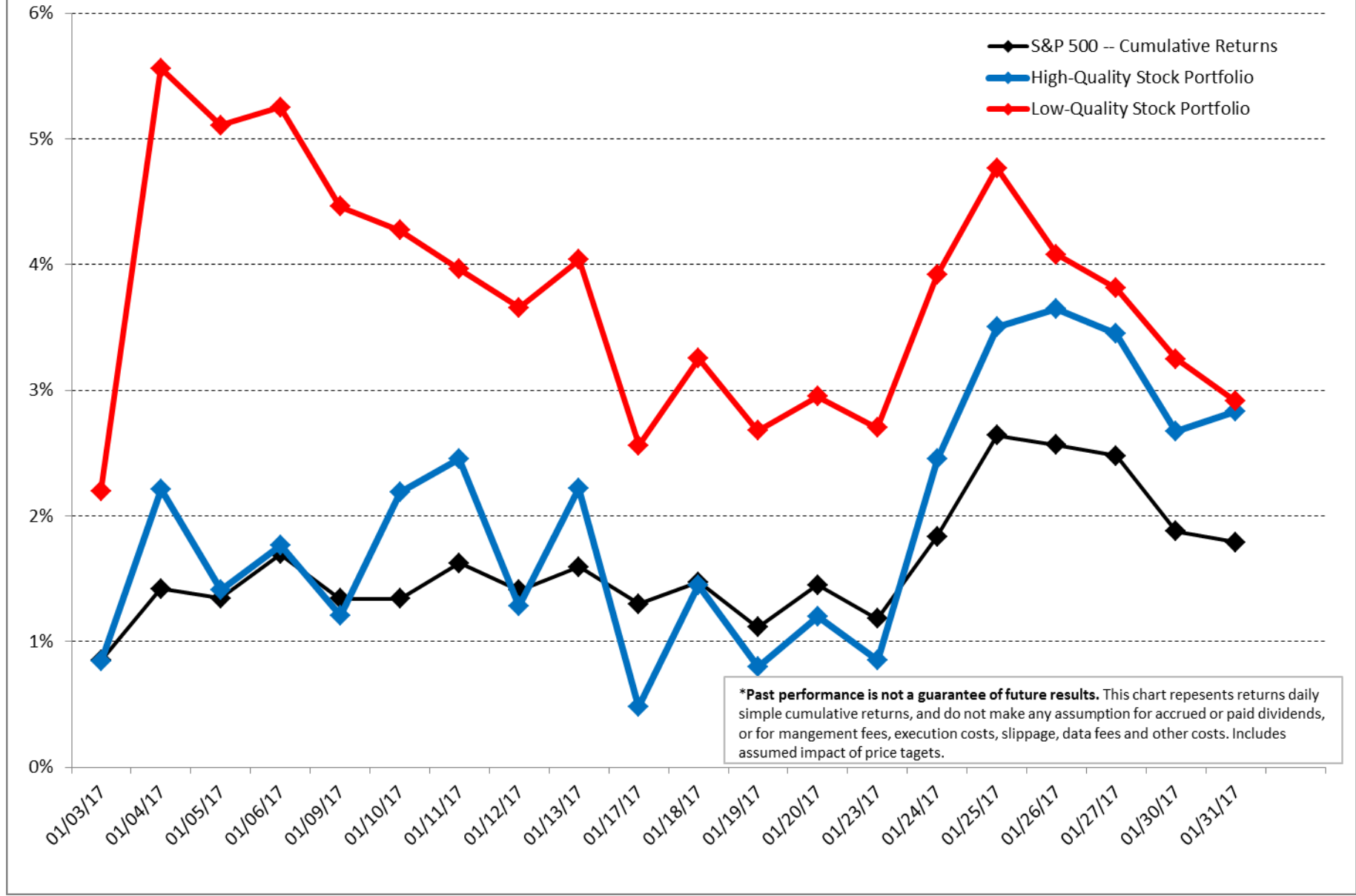
Simple Returns -- Long Theoretical Model Portfolios vs S&P 500 Total Return Index Real-time Data Collected Since March 31, 2009



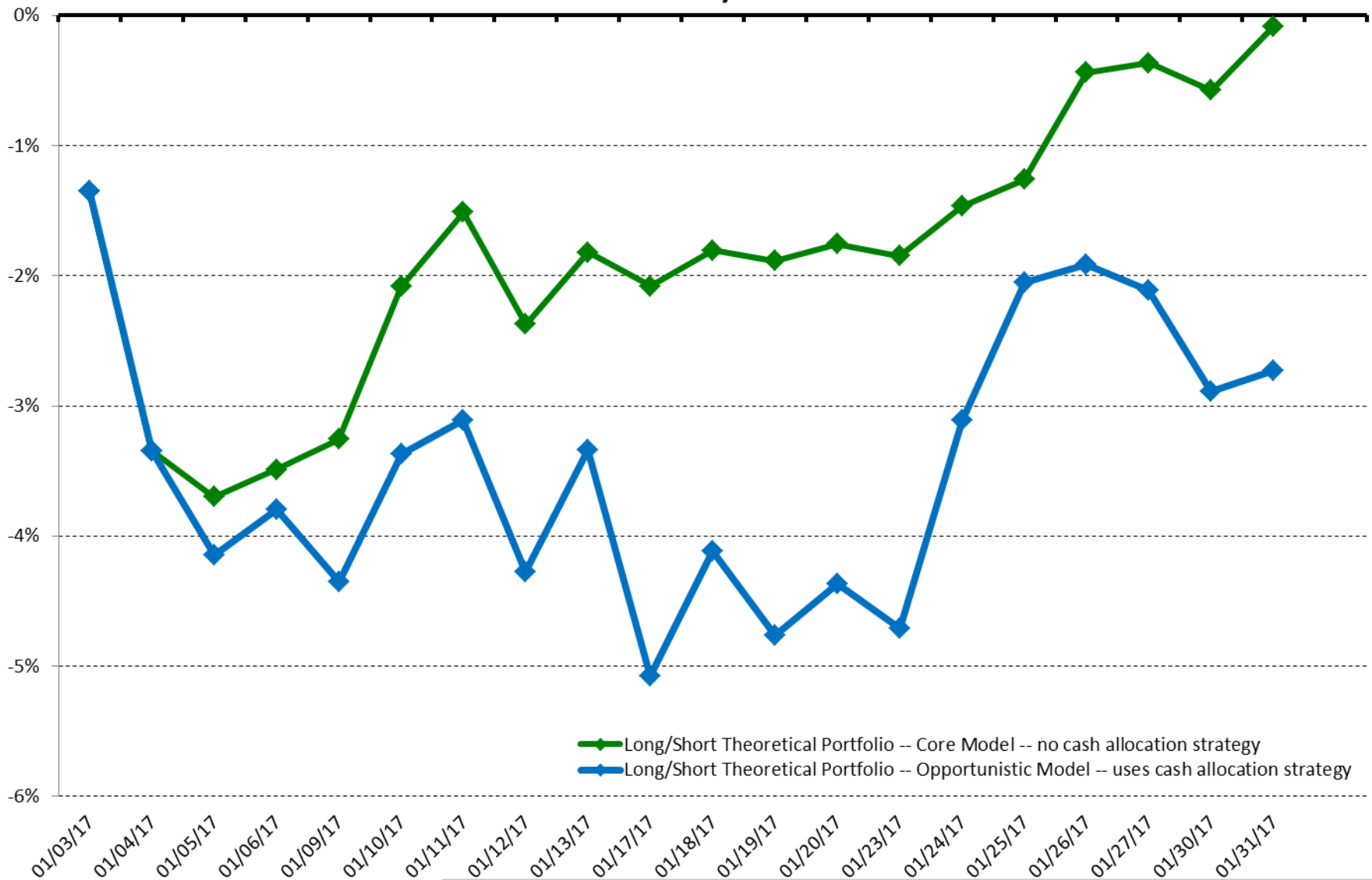
"Theoretical Dollar Neutral" Strategies Simple Cumulative Returns Real-time Data Collected Since March 31, 2009



High-Quality vs. Low-Quality -- January 2017



Theoretical Long/Short Model Portfolio Returns January 2017



***Past performance is not a guarantee of future results.** This chart represents returns daily 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.

	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
1/31/2017	Theoretical	Theoretical	Theoretical	Theoretical	
Simple Returns					
Today	0.16%	0.16%	0.16%	0.16%	-0.09%
MTD	2.83%	2.83%	-2.73%	1.05%	1.79%
YTD	18.86%	6.49%	12.52%	-2.30%	1.79%
Cumulative from 3/31/2009	178.95%	153.71%	157.30%	71.96%	114.99%
Absolute Risk					
Daily Average	0.09%	0.08%	0.08%	0.04%	0.06%
Daily Range	16.86%	15.84%	11.84%	12.00%	11.40%
Daily Standard Deviation	1.41%	1.09%	0.96%	0.80%	1.01%
Daily Return/Standard Deviation	6.43%	7.12%	8.33%	4.55%	5.79%
Average 90-Day T-bill	1.20%	1.20%	1.20%	1.20%	1.20%
Annualized Daily Returns	22.86%	19.63%	20.09%	9.19%	14.69%
Annualized Standard Deviation	22.4%	17.4%	15.2%	12.7%	16.0%
Sharpe Ratio	0.97	1.06	1.24	0.63	0.84
Percentage Down Days	45.3%	35.3%	42.9%	45.1%	45.4%
Average Daily Downside Value	-1.00%	-0.88%	-0.66%	-0.53%	-0.72%
Daily Downside Deviation	-1.06%	-0.90%	-0.62%	-0.56%	-0.76%
Daily VAR of 1000 at 95% Conf	-22	-17	-15	-13	-16
Benchmark Relative Risk					
Correlation	0.90	0.70	(0.05)	0.05	
R-Squared	0.82	0.49	0.00	0.00	
Daily Tracking Error	0.66%	0.82%	1.42%	1.26%	
Regression					
Beta	1.27	0.76	-0.05	0.04	
Daily Alpha	0.032%	0.020%	0.021%	-0.022%	
Jensen's Daily Alpha	0.041%	0.015%	-0.001%	-0.001%	
Trading Days	1973	1973	1973	1973	
*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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- 5) Ascendere has not managed or co-managed a public offering for any of the Companies.
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J. Stephen Castellano – founded Ascendere Associates LLC in 2009 to provide innovative equity research and financial modeling consulting services.

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 has over 20 years of experience in equity research and related consulting positions. 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 built sophisticated screens for stock idea generation and also provided general fundamental equity research coverage. He received a MBA from the F. W. Olin School of Business at Babson College (2005) and a BA from Oberlin College (1993). He is a CFA Level 3 candidate, and is on the Board of Advisors of GovBrain, a political intelligence and government analytics company serving the hedge fund industry.

Mr. Castellano's sell side equity research experience includes consulting with investment banking teams on planned equity, debt, and M&A deals. Consulting projects have included the development of xml-based financial models as well as marketing strategies for a financial data provider, equity research reports for a family office equity portfolio, supply/demand models for a telecom consulting firm, cash burn rate scenarios for a key stakeholder in an iconic food manufacturing company, a budget forecast model for a 250,000 bpd oil refining company, a budget forecast and valuation for a risk management software startup, and due diligence of a potential acquisition of a fast-growing fashion apparel boutique, among others.

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)