



## Move to Inactive

**MULTI  
TICKER**

11 SEPTEMBER 2009

### Performance

In this review, we are moving 21 firms with negative (D and F) grades and 10 firms with positive (A and B) grades to our Inactive Library. Overall, the share-price performance for both groups of firms was consistent with expectations. The median stock-price change (percentage of stocks declining) for negatively rated stocks was -14.3% (76.2%), -19.2% (78.9%), -21.7% (88.2%), and -20.8% (75.0%) over the three-, six-, nine-, and 12-month periods following coverage initiation. In contrast, the median stock-price change (percentage of stocks increasing) for positively rated stocks was 3.8% (60.0%), 3.4% (70.0%), 14.3% (55.6%), and 6.6% (75.0%) over the three, six, nine, and 12 months following our initiation.<sup>1</sup>

#### SUCSESSES AND FAILURES

Among the negatively rated firms we are removing from coverage, two are particularly noteworthy in our view. TRN stands out as a case where there was significant overlap with our quality-of-earnings coverage. MYGN is noteworthy because of the overwhelming quantity of both “price-trigger-induced” 10b5-1 sales and early-exercise and sale decisions. And while the majority of negatively rated firms performed consistent with expectations, one name stands out as a particularly “bad” call: STEC. The executive activity at STEC looked particularly compelling at the time of initiation because of the track record of the executives involved. However, the success of a new product launch appears to have caught us (and quite possibly the executives who divested such large amounts) by surprise. Because this particular call turned against us early on, we have removed it from coverage earlier than normal.

Among the positively rated names that are being moved to inactive status, LKQX, UNH, and VLO all stand out as large winners during a period in which most stocks performed abysmally. Though none of the positively rated stocks stand out as particularly “bad” calls, APEI was somewhat underwhelming in our view. While it was selected primarily as pair for an *Earnings Quality* negative view on CECO, it hasn’t performed as well as we had expected. With executives now selling shares rather than exercising options and holding the acquired shares, we have decided to remove the firm from coverage somewhat earlier than usual.

<sup>1</sup> Stock-specific returns were measured over the three-, six-, nine-, and 12-month interval beginning on the first date of publication with a positive or negative letter grade. In most cases below, we initiated coverage with a positive letter grade (A or B) or a negative letter grade (D or F). For these firms, returns measurement begins with the initial date of publication. In a smaller number of instances, returns measurement begins after a significant change in the firm’s grade. We define a “significant change” in the firm’s grade as either (1) a change to a positive grade (A or B) from a negative (D or F), neutral (C), or non-letter (pos, neg, --) grade or (2) a change to a negative grade (D or F) from a positive (A or B), neutral (C), or non-letter (pos, neg, --) grade.



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**Table 1. Negatively Rated (D- and F-graded) Firms Moving to the Inactive Library**

Symbol	Company	Publish Date	3M Return	6M Return	9M Return	12M Return
BDX	Becton, Dickinson & Co.	05/12/08	-0.6%	-19.2%	-15.0%	-26.0%
CEC	CEC Entertainment Inc.	06/30/08	23.7%	-16.3%	-11.7%	5.2%
CELG	Celgene Corp.	10/14/08	-14.1%	-29.4%	-18.4%	NA
CNQR	Concur Technologies Inc.	01/08/09	-24.1%	2.0%	NA	NA
FMC	FMC Corp.	09/24/08	-31.7%	-27.2%	-23.2%	NA
FOSL	Fossil Inc.	11/01/07	-7.8%	3.0%	-21.7%	-48.6%
GWR	Genesee & Wyoming Inc.	02/05/09	11.6%	-2.8%	NA	NA
GYMB	Gymboree Corp.	07/07/08	-21.5%	-30.1%	-42.3%	-13.2%
HAE	Haemonetics Corp	09/25/08	-10.8%	-10.7%	-8.4%	NA
ILMN	Illumina Inc.	10/06/08	-16.3%	9.1%	4.3%	NA
JBHT	JB Hunt Transport Services Inc.	08/25/08	-32.9%	-39.0%	-24.9%	-15.6%
LMT	Lockheed Martin Corp.	10/09/08	-10.4%	-19.1%	-12.9%	NA
MYGN	Myriad Genetics Inc.	04/20/09	-23.0%	-33.6%	NA	NA
OSIP	OSI Pharmaceuticals Inc.	09/04/08	-27.8%	-29.6%	-33.9%	NA
ROST	Ross Stores Inc.	05/05/08	12.6%	-2.2%	-11.6%	15.1%
SKIL	Skillsoft PLC.	06/19/08	9.4%	-33.1%	-31.7%	NA
STEC	STEC Inc.	05/06/09	289.6%	NA	NA	NA
SWKS	Skyworks Solutions Inc.	09/29/08	-35.9%	0.6%	NA	NA
TDY	Teledyne Technologies Inc.	08/27/08	-38.0%	-62.7%	-45.2%	-43.7%
TOL	Toll Brothers Inc.	09/11/08	-14.3%	-35.6%	-28.5%	NA
TRN	Trinity Industries Inc.	07/12/07	-15.7%	-46.3%	-44.0%	-31.8%
<b>Median</b>			<b>-14.3%</b>	<b>-19.1%</b>	<b>-21.7%</b>	<b>-20.8%</b>
<b>% Down</b>			<b>76.2%</b>	<b>78.9%</b>	<b>88.2%</b>	<b>75.0%</b>

**Table 2. Positively Rated (A- and B-graded) Firms Moving to the Inactive Library**

Symbol	Company	Publish Date	3M Return	6M Return	9M Return	12M Return
ABT	Abbott Laboratories	08/26/05	-12.2%	-0.6%	-17.2%	-7.9%
APEI	American Public Education Inc.	03/09/09	-6.0%	-3.4%	NA	NA
AVY	Avery Dennison Corp.	10/03/05	7.4%	14.3%	5.6%	8.8%
BMY	Bristol Myers Squibb Co.	01/03/05	0.3%	2.4%	2.7%	3.0%
KEX	Kirby Corporation	11/11/08	-15.2%	17.0%	-11.9%	13.7%
KFT	Kraft Foods Inc.	05/08/07	0.9%	2.1%	3.5%	2.0%
LKQX	LKQ Corp.	11/06/08	8.8%	55.3%	16.8%	55.4%
MDT	Medtronic Inc.	08/09/07	-14.5%	-11.6%	-16.1%	-3.6%
UAM	Universal American Corp. NY	11/17/08	14.9%	0.1%	17.8%	-3.7%
UNH	Unitedhealth Group Inc.	11/05/08	30.6%	4.3%	42.6%	9.1%
VLO	Valero Energy Corp.	11/20/08	52.3%	54.4%	47.5%	33.7%
<b>Median</b>			<b>3.8%</b>	<b>3.4%</b>	<b>14.3%</b>	<b>6.6%</b>
<b>% Up</b>			<b>60.0%</b>	<b>70.0%</b>	<b>55.6%</b>	<b>75.0%</b>



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