

Large Cap U.S. Core Pick List

August 2012

Lauren Migliore
Equity Analyst

As of July 31, the market-capitalization-weighted average, uncertainty-adjusted price/fair value ratio for stocks in the S&P 500 Index that are under active Morningstar research coverage stood at 99%.

As the market edges closer to matching our estimate of its intrinsic value, all sectors are now reading "Fully Valued" across the board. At 109% price/fair value, Communication Services is approaching Overvalued territory, and Consumer Defensive, Utilities, and Real Estate are also trading above the 100% mark. The average valuations of the remaining seven sectors are between 90% and 100% of intrinsic value, with Energy trading at the steepest discount of 91%.

In contrast, the US Large Cap Pick List for August is trading at a market-capitalization-weighted average, uncertainty-adjusted P/FV ratio of 89%--10 percentage points cheaper than the S&P 500. The sectors with the highest and lowest valuations on our List are Real Estate (followed closely by Consumer Defense) and Basic Materials, with weighted average uncertainty-adjusted P/FV ratios of 100% and 76%, respectively.

Please refer to the table later in the report for details.

Market Trends

The S&P 500 finished July at 1,379.32, ending up 1.3% from June after a month of largely sideways performance. The European debt crisis continued to weigh on the U.S. market, headlined by heightened concerns regarding Spanish and Italian debt and Moody's downgrading its outlook for Germany due to its exposure to its weaker eurozone neighbors. However, stocks rallied at month end as the market cheered a statement by the European Central Bank that it would do whatever it took to save the euro. Similarly, bleak economic data at home fueled hopes of a new round of quantitative easing by the Fed. The bad-news-is-good-news paradox continues to drive market volatility as investors speculate on additional central bank stimulus.

Corporate earnings also remain at the forefront of market action. So far, we've seen impressive performances from tech

stocks like **Microsoft (MSFT)**, **Google (GOOG)**, **IBM (IBM)**, and **Intel (INTC)**, as well as industrial names like **Caterpillar (CAT)**, **Terex (TEX)**, and **Boeing (BA)**, while the market appeared to shrug off disappointments from high-profile names like **Apple (AAPL)**, **Facebook (FB)**, and **Zynga (ZNGA)**. However, the eurozone slowdown remained a pervasive theme during second quarter. Slow European demand and currency headwinds are taking a bite out earnings, and concerns about weak demand in Europe and China are also spreading to India and Brazil.

The VIX measure of index volatility ticked up by 10.8% during July to close at 18.9 over June's month-end level of 17.1. The lowest close for the VIX--15.5--was recorded on July 19 as the strong earnings from tech leaders buoyed markets. The high value of 20.5 was recorded on July 24, which saw an onslaught of negative news for the eurozone (including Moody's outlook downgrade for Germany, Netherlands, and Luxembourg, poor manufacturing data in France and Germany, and reports that Greece may need to further restructure its debt).

Our only change to the List this month is within the Real Estate sector. We are removing alternate **AvalonBay Communities (AVB)** from the List due to valuation reasons. According to analyst Philip Martin, "Shares of AvalonBay currently trade at a pricey 27 and 28.7 times our 2012 fund from operations and adjusted funds from operations estimates, respectively, and a 24% premium to our \$118 fair value estimate. We feel the share price premium reflects unsustainable long-term operating performance, growth assumptions, and optimism despite strong multifamily sector supply demand fundamentals, a still-struggling, single-family housing market, competitive advantages associated with the AvalonBay business model, and a very healthy balance sheet."

Portfolio Commentary: Fair Value Changes

The List saw one very significant fair value change during the month following the release of **Advanced Micro Devices' (AMD)** second-quarter results, which saw a slowdown in processor demand towards the end of the period. Market disappointment in the semiconductor company's soft results

The Large Cap U.S. Core Pick List surfaces our best picks for new core equity investments in large-cap stocks within each Morningstar sector. We also provide our take on the relative attractiveness of each pick and sector weighting recommendations. We limit the list to stocks of U.S. companies that are part of the S&P 500 Index.

also made it our largest laggard in July. Morningstar analyst Andy Ng provides his thoughts on the quarter:

"For the quarter, revenue was \$1.41 billion, down 11% sequentially, and a decline from sales of \$1.57 billion in the year-ago quarter. AMD noted that uncertain macro-economic conditions took a toll on chip demand toward the end of the quarter, as the firm saw lower channel sales in Europe and China and was also affected by a weaker consumer PC market. The economy appears to have had a bigger effect on AMD than its rival Intel (INTC), as Intel reported sequential sales growth of 5% for the second quarter... We believe that AMD's Fusion processors, which combine a CPU and high-end graphics capabilities on a single piece of silicon, are solid products, but Intel appears to have countered successfully with its latest Ivy Bridge chips."

Although we have consequently lowered our growth and profitability forecasts for AMD, shares appear to be overpunished. AMD continues to trade at a discount to our revised fair value estimate, and we believe the stock provides an attractive opportunity for investors with a high risk tolerance.

Index Changes

Standards & Poor's announced that oil and gas drilling firm **Enscopl** (ESV) will replace aerospace and defense company **Goodrich Corp.** (GR) in the S&P 500 index after the close of trading on July 30 following the completion of its acquisition by **United Technologies Corp.** (UTX). This change has no effect on our Pick List.

Adjusted Price/Fair Value Ratio

Attractiveness	Lower Bound	Upper Bound	Notes
Cheap	0.000	0.800	Assets are trading at or below Morningstar's "Consider Buying" price.
Undervalued	0.801	0.900	Assets are trading above Morningstar's "Consider Buying" price, but are still at a discount to our fair value estimate.
Fully Valued	0.901	1.100	Assets are trading within a band that is not materially different from Morningstar's fair value estimate.
Overvalued	1.101	1.250	Assets are trading above Morningstar's fair value estimate, but are still below our "Consider Selling" price.
Expensive	1.251	—	Assets are trading at or above Morningstar's "Consider Selling" price.

Fair Value Per Sector

Morningstar Sector	S&P Sector Weight (%)	Sector P/V (%)	Pick List P/V (%)
Basic Materials	3	97	76
Communication Services	5	109	85
Consumer Cyclical	9	96	89
Consumer Defensive	12	105	99
Energy	10	91	91
Financial Services	12	92	87
Health Care	11	95	91
Industrials	10	94	87
Real Estate	2	108	100
Technology	17	93	88
Utilities	4	106	87

Largest Negative and Positive Price Movements During July

Company	Ticker	Beg. Price Per Share (USD)	End Price Per Share (USD)	Return (%)
Advanced Micro Devices	AMD	5.73	4.06	-29
Apollo Group Inc Class A	APOL	36.19	27.2	-25
WellPoint	WLP	63.79	53.29	-16
Peabody Energy	BTU	24.52	20.88	-15
Xerox	XRX	7.87	6.93	-12
Johnson Controls	JCI	27.71	24.65	-11
Lowe's Companies	LOW	28.44	25.37	-11
Hewlett-Packard	HPQ	20.11	18.24	-9
Zimmer Holdings	ZMH	64.36	58.93	-8
Expeditors International of Washington	EXPD	38.75	35.57	-8
Health Care REIT	HCN	58.3	62.23	7
Thermo Fisher Scientific	TMO	51.91	55.67	7
Google Class A	GOOG	580.07	632.97	9
Kohl's	KSS	45.49	49.72	9
Republic Services Class A	RSG	26.46	28.93	9
Baxter International	BAX	53.15	58.51	10
National Oilwell Varco	NOV	64.44	72.3	12
Baker Hughes	BHI	41.1	46.32	13
NRG Energy	NRG	17.36	19.82	14
Halliburton	HAL	28.39	33.13	17

Large Cap U.S. Core Picks (Data as of July 31, 2012)

Company	Ticker	Economic Moat™	Uncertainty Rating	Current Price (USD)	Fair Value (USD)	Adj. Price/Fair Value	Morningstar Rating	Market Cap (USD Mil)	Industry	Relative Attractiveness
Basic Materials—Cheap										
Alcoa	AA	Narrow	High	8.47	19	72%	★★★★★	9036.58	Aluminum	Cheap
Vulcan Materials	VMC	Wide	Medium	38.74	63	74%	★★★★★	5012.54	Building Materials	Cheap
Peabody Energy	BTU	Narrow	High	20.88	40	76%	★★★★★	5687.55	Coal	Cheap
Nucor	NUE	Narrow	High	39.2	57	84%	★★★★	12428.44	Steel	Undervalued
Masco	MAS	None	High	12.03	16	88%	★★★★	4295.91	Building Materials	Alternate
Communication Services—Undervalued										
Frontier Communications Corp Class B	FTR	Narrow	High	3.92	6.5	80%	★★★★★	3913.92	Telecom Services	Alternate
Crown Castle International Corp	CCI	None	Medium	61.88	70	92%	★★★★	18131.51	Telecom Services	Alternate
American Tower Corp Class A	AMT	Narrow	Medium	72.31	79	94%	★★★	28532.46	Telecom Services	Fully Valued
CenturyLink Inc	CTL	Narrow	High	41.54	43	98%	★★★	25806.21	Telecom Services	Alternate
Sprint Nextel Corp	S	None	Very High	4.36	4.5	99%	★★★	13074.97	Telecom Services	Alternate
Consumer Cyclical—Undervalued										
Staples	SPLS	None	Medium	12.74	25	67%	★★★★★	8780.08	Specialty Retail	Cheap
Ford Motor	F	None	High	9.24	23	70%	★★★★★	35263.24	Auto Manufacturers	Cheap
Johnson Controls	JCI	Narrow	Medium	24.65	42	72%	★★★★★	16766.95	Auto Parts	Cheap
Lowe's Companies	LOW	Wide	Medium	25.37	34	83%	★★★★	29853.42	Home Improvement Stores	Undervalued
Kohl's	KSS	Narrow	Medium	49.72	61	88%	★★★★	11922.23	Department Stores	Undervalued
Time Warner	TWX	Narrow	Medium	39.12	45	91%	★★★★	37551.91	Media - Diversified	Fully Valued
eBay	EBAY	Wide	Medium	44.3	48	95%	★★★	57088.08	Specialty Retail	Fully Valued
Walt Disney	DIS	Wide	Medium	49.14	50	99%	★★★	87831.10	Media - Diversified	Fully Valued
Consumer Defensive—Fully Valued										
Apollo Group Inc Class A	APOL	Narrow	High	27.2	59	73%	★★★★★	3083.80	Education & Training Services	Cheap
Kroger	KR	None	Medium	22.17	30	83%	★★★★	12075.56	Grocery Stores	Alternate
Molson Coors Brewing Company	TAP	Narrow	Medium	42.32	55	85%	★★★★	7645.50	Beverages - Brewers	Undervalued
Sysco	SYYS	Wide	Medium	29.39	36	88%	★★★★	17215.62	Food Distribution	Undervalued
Campbell Soup	CPB	Wide	Medium	33.11	36	95%	★★★	10462.77	Packaged Foods	Fully Valued
Procter & Gamble	PG	Wide	Low	64.54	64	101%	★★★	176846.44	Household & Personal Products	Fully Valued
PepsiCo	PEP	Wide	Low	72.73	72	101%	★★★	113187.86	Beverages - Soft Drinks	Fully Valued
Energy—Fully Valued										
Devon Energy	DVN	Narrow	High	59.12	110	77%	★★★★★	23908.13	Oil & Gas E&P	Cheap
Halliburton	HAL	Narrow	Medium	33.13	50	78%	★★★★★	30736.37	Oil & Gas Equipment & Services	Cheap
National Oilwell Varco	NOV	Wide	Medium	72.3	105	79%	★★★★★	30815.26	Oil & Gas Equipment & Services	Cheap
Baker Hughes	BHI	None	Medium	46.32	58	87%	★★★★	20360.33	Oil & Gas Equipment & Services	Undervalued
Range Resources	RRC	Narrow	Medium	62.6	78	87%	★★★★	10171.59	Oil & Gas E&P	Undervalued
Chevron	CVX	Narrow	Low	109.58	125	88%	★★★★	216165.64	Oil & Gas Integrated	Undervalued
Exxon Mobil	XOM	Wide	Low	86.85	91	95%	★★★	406124.96	Oil & Gas Integrated	Fully Valued
Spectra Energy	SE	Wide	Low	30.69	32	96%	★★★	20032.54	Oil & Gas Midstream	Fully Valued

Large Cap U.S. Core Picks (Data as of July 31, 2012)

Company	Ticker	52 Week High	52 Week Low	Total Return YTD (Daily)	Total Return 1-Yr (Daily)	Div. Per Share TTM	Div. Yield % Current	Div. Yield % Forward	EPS Est. Growth % Mean 5-Yr	Forward EPS Est.
Basic Materials										
Alcoa	AA	15.15	7.97	-1.39	-41.68	0.12	1.42	1.42	9.15	0.78
Vulcan Materials	VMC	48.09	25.06	-1.50	13.79	0.52	0.72	0.10	11.33	0.34
Peabody Energy	BTU	58.78	18.78	-36.17	-62.93	0.34	1.63	1.63	8.80	2.74
Nucor	NUE	45.75	29.82	0.91	4.54	1.46	3.72	3.72	6.35	3.27
Masco	MAS	14.68	6.60	16.94	16.87	0.30	2.49	2.49	15.00	0.62
Communication Services										
Frontier Communications Class B	FTR	7.62	3.06	-20.00	-39.99	0.66	14.67	10.20	28.80	0.21
Crown Castle International	CCI	63.19	37.53	38.13	42.58	—	—	—	35.35	1.04
American Tower Class A	AMT	73.04	46.04	21.21	39.14	—	0.59	1.22	20.82	2.04
CenturyLink	CTL	41.84	31.16	15.56	19.75	2.90	6.98	6.98	4.24	2.37
Sprint Nextel	S	4.60	2.10	86.32	3.07	0.00	—	—	5.00	-1.16
Consumer Cyclical										
Staples	SPLS	16.93	11.94	-6.70	-18.06	0.41	3.30	3.45	9.96	1.59
Ford Motor	F	13.05	8.83	-13.20	-23.51	0.05	1.08	2.16	5.76	1.53
Johnson Controls	JCI	39.75	23.37	-19.99	-31.39	0.68	2.84	2.92	18.44	2.96
Lowe's Companies	LOW	32.29	18.07	1.69	20.25	0.56	2.29	2.52	12.25	2.21
Kohl's	KSS	56.66	42.14	2.05	-7.04	1.07	2.29	2.57	11.05	5.23
Time Warner	TWX	39.49	27.62	9.68	14.08	0.97	2.53	2.66	11.42	3.64
eBay	EBAY	46.15	26.86	46.06	35.27	—	—	—	12.39	2.37
Walt Disney	DIS	50.54	28.19	31.04	28.79	0.60	1.22	1.22	12.63	3.47
Consumer Defensive										
Apollo Group Inc Class A	APOL	58.29	26.28	-49.51	-46.49	—	—	—	6.29	3.11
Kroger	KR	25.08	20.98	-7.51	-9.05	0.43	2.03	2.07	9.07	2.52
Molson Coors Brewing Company	TAP	45.99	37.96	-1.33	-3.22	1.28	3.02	3.02	2.10	3.77
Sysco	SY	31.18	25.09	2.97	-0.42	1.06	3.64	3.67	6.33	2.02
Campbell Soup	CPB	34.58	29.69	1.35	3.69	1.16	3.50	3.50	4.74	2.50
Procter & Gamble	PG	67.95	57.56	-0.78	8.50	2.10	3.37	3.48	7.30	3.90
PepsiCo	PEP	72.94	58.50	11.20	16.82	2.08	2.86	2.96	4.79	4.42
Energy										
Devon Energy	DVN	80.25	50.74	-4.00	-23.94	0.71	1.25	1.35	9.55	5.50
Halliburton	HAL	56.00	26.28	-3.48	-38.81	0.36	1.09	1.09	13.00	3.63
National Oilwell Varco	NOV	87.72	47.97	6.69	-9.68	0.46	0.65	0.66	10.00	6.68
Baker Hughes	BHI	78.92	37.08	-4.15	-39.36	0.60	1.30	1.30	19.30	4.36
Range Resources	RRC	77.24	51.56	1.19	-3.68	0.16	0.26	0.26	-1.90	0.75
Chevron	CVX	112.28	86.68	4.60	8.52	3.18	3.01	3.29	1.25	12.58
Exxon Mobil	XOM	87.94	67.03	3.69	11.33	1.88	2.28	2.63	1.69	8.25
Spectra Energy	SE	32.27	22.80	1.63	17.65	1.08	3.58	3.65	5.80	1.90

Large Cap U.S. Core Picks (Data as of July 31, 2012)

Company	Ticker	Economic Moat™	Uncertainty Rating	Current Price (USD)	Fair Value (USD)	Adj. Price/Fair Value	Morningstar Rating	Market Cap (USD Mil)	Industry	Relative Attractiveness
Financial Services—Undervalued										
Western Union	WU	Wide	Medium	17.43	29	73%	★★★★★	10683.74	Specialty Finance	Cheap
Charles Schwab	SCHW	Narrow	High	12.63	23	77%	★★★★★	16078.36	Capital Markets	Cheap
Bank of New York Mellon	BK	Wide	High	21.28	35	80%	★★★★	25381.01	Asset Management	Undervalued
JPMorgan Chase & Co	JPM	Narrow	High	36	51	85%	★★★★	137039.99	Banks - Global	Undervalued
Invesco	IVZ	Narrow	Medium	22.13	28	86%	★★★★	9919.12	Asset Management	Undervalued
BlackRock	BLK	Wide	Medium	170.26	210	87%	★★★★	30571.01	Asset Management	Undervalued
Wells Fargo & Co	WFC	Narrow	Medium	33.81	41	88%	★★★★	179663.62	Banks - Regional - US	Undervalued
Allstate	ALL	Narrow	High	34.3	44	89%	★★★★	16824.91	Insurance - Property & Casualty	Undervalued
PNC Financial Services Group	PNC	Narrow	Medium	59.1	68	91%	★★★★	31251.11	Banks - Regional - US	Fully Valued
BB&T	BBT	Narrow	Medium	31.37	33	97%	★★★	21916.32	Banks - Regional - US	Fully Valued
Discover Financial Services	DFS	Narrow	High	35.96	34	103%	★★★	18516.23	Credit Services	Fully Valued
Health Care—Fully Valued										
WellPoint	WLP	Narrow	Medium	53.29	91	72%	★★★★★	17329.20	Health Care Plans	Cheap
Becton Dickinson & Co	BDX	Narrow	Low	75.71	89	85%	★★★★	15346.43	Medical Instruments & Supplies	Undervalued
Thermo Fisher Scientific	TMO	Narrow	Medium	55.67	70	86%	★★★★	20447.78	Medical Instruments & Supplies	Undervalued
Zimmer Holdings	ZMH	Wide	Medium	58.93	71	89%	★★★★	10379.81	Medical Devices	Undervalued
Baxter International	BAX	Narrow	Medium	58.51	70	88%	★★★★	32550.74	Medical Instruments & Supplies	Undervalued
Johnson & Johnson	JNJ	Wide	Low	69.22	77	90%	★★★★	190103.87	Drug Manufacturers - Major	Fully Valued
Medtronic	MDT	Wide	Medium	39.42	46	90%	★★★★	40407.26	Medical Devices	Fully Valued
Abbott Laboratories	ABT	Wide	Low	66.31	70	95%	★★★★	104331.59	Drug Manufacturers - Major	Fully Valued
Merck & Co	MRK	Wide	Medium	44.17	46	97%	★★★	134345.91	Drug Manufacturers - Major	Fully Valued
Industrials—Fully Valued										
Xerox	XRX	Narrow	Medium	6.93	11	75%	★★★★★	9339.89	Business Equipment	Cheap
Expeditors International of Washington	EXPD	Wide	Medium	35.57	51	80%	★★★★	7555.26	Integrated Shipping & Logistics	Undervalued
CSX	CSX	Narrow	Medium	22.94	31	83%	★★★★	23857.34	Railroads	Undervalued
United Technologies	UTX	Wide	Medium	74.44	100	83%	★★★★	67873.44	Diversified Industrials	Undervalued
FedEx	FDX	Narrow	Medium	90.3	112	87%	★★★★	28588.96	Integrated Shipping & Logistics	Undervalued
Republic Services Inc Class A	RSG	Narrow	Medium	28.93	35	88%	★★★★	10567.45	Waste Management	Undervalued
General Electric	GE	Wide	Medium	20.75	25	89%	★★★★	219096.01	Diversified Industrials	Undervalued
General Dynamics	GD	Wide	Medium	63.44	75	90%	★★★★	22876.89	Aerospace & Defense	Fully Valued
Paychex	PAYX	Wide	Medium	32.69	38	91%	★★★★	11858.58	Staffing & Outsourcing Services	Fully Valued
3M	MMM	Wide	Low	91.23	100	91%	★★★★	63301.95	Diversified Industrials	Fully Valued
Real Estate—Fully Valued										
Weyerhaeuser	WY	None	High	23.35	28	92%	★★★★	12549.50	REIT - Industrial	Fully Valued
Ventas	VTR	Narrow	Medium	67.25	64	104%	★★★	19863.97	REIT - Healthcare Facilities	Alternate
Health Care REIT	HCN	Narrow	Medium	62.23	59	104%	★★★	13305.92	REIT - Healthcare Facilities	Fully Valued
Apartment Investment & Management	AIV	None	High	27.43	25	104%	★★★	3652.35	REIT - Residential	Alternate

Large Cap U.S. Core Picks (Data as of July 31, 2012)

Company	Ticker	52 Week High	52 Week Low	Total Return YTD (Daily)	Total Return 1-Yr (Daily)	Div. Per Share TTM	Div. Yield % Current	Div. Yield % Forward	EPS Est. Growth % Mean 5-Yr	Forward EPS Est.
Financial Services										
Western Union	WU	19.82	14.55	-3.45	-8.35	0.34	2.07	2.29	10.65	1.92
Charles Schwab	SCHW	15.53	10.56	13.23	-13.80	0.24	1.9	1.9	13.67	0.75
Bank of New York Mellon	BK	25.53	17.10	8.84	-13.18	0.52	2.44	2.44	7.97	2.39
JPMorgan Chase & Co	JPM	46.49	27.85	10.83	-8.28	1.05	3.06	3.33	5.98	5.2
Invesco	IVZ	26.94	14.52	11.62	2.21	0.49	2.44	3.12	11.5	1.5747
BlackRock	BLK	209.37	137.00	-2.79	-1.10	5.625	3.38	3.52	13.95	14.64
Wells Fargo & Co	WFC	34.59	22.58	24.27	23.44	0.48	1.72	2.6	9.92	3.64
Allstate	ALL	35.42	22.27	26.74	26.84	0.85	2.51	2.57	8.6	4.25
PNC Financial Services Group	PNC	67.89	42.70	4.47	11.62	1.4	2.54	2.71	5.36	6.77
BB&T	BBT	32.74	18.92	26.86	24.96	0.68	2.3	2.55	11.37	3.04
Discover Financial Services	DFS	36.61	20.51	50.67	41.82	0.32	1	1.11	8.99	4.01
Health Care										
WellPoint	WLP	74.73	52.52	-18.69	-19.52	1.075	2.02	2.16	10.6	8.08
Becton Dickinson & Co	BDX	84.16	69.59	2.53	-7.34	1.72	2.32	2.38	7.58	6.1
Thermo Fisher Scientific	TMO	60.72	43.06	24.37	-6.92	0.13	0.47	0.93	12.13	5.3
Zimmer Holdings	ZMH	66.41	47.00	10.99	-1.22	0.18	0.61	1.22	9.54	5.7
Baxter International	BAX	60.54	47.55	19.60	2.85	1.29	2.25	3.08	8.43	4.9
Johnson & Johnson	JNJ	69.70	59.08	7.35	10.42	2.28	3.35	3.52	6.74	5.46
Medtronic	MDT	40.78	30.18	5.01	12.09	0.97	2.51	2.64	6.99	3.84
Abbott Laboratories	ABT	66.88	46.29	20.59	33.07	1.92	2.99	3.08	7.91	5.39
Merck & Co	MRK	45.17	29.47	19.39	34.22	1.6	3.71	3.8	2.7	3.77
Industrials										
Xerox	XRX	9.53	6.36	-11.87	-23.90	0.17	2.45	2.45	4	1.18
Expeditors International of Washington	EXPD	48.14	35.49	-12.48	-24.35	0.5	1.49	1.57	10.74	2.1
CSX	CSX	24.96	17.69	10.16	-4.60	0.5	2.18	2.44	11.9	2.08
United Technologies	UTX	87.50	66.87	3.16	-7.82	1.92	2.58	2.87	11.98	6.41
FedEx	FDX	97.19	64.07	8.45	4.55	0.52	0.59	0.62	13.13	8.55
Republic Services Inc Class A	RSG	31.32	24.72	6.61	2.69	0.88	3.04	3.25		2.07
General Electric	GE	21.00	14.02	17.76	19.54	0.64	3.18	3.28	11.3	1.74
General Dynamics	GD	74.54	53.95	-2.23	-4.02	1.41	3.09	3.22	6.12	7.57
Paychex	PAYX	33.40	25.12	11.76	20.33	1.27	3.92	3.92	8.95	1.71
3M	MMM	92.08	68.63	13.07	7.31	2.24	2.5	2.59	11.18	6.94
Real Estate										
Weyerhaeuser	WY	23.99	14.82	26.67	19.81	0.6	2.57	2.57	5	0.81
Ventas	VTR	67.68	43.25	24.23	28.42	2.2636	3.37	3.69	8.18	3.94
Health Care REIT	HCN	62.55	41.03	16.83	23.42	2.885	4.68	4.76	6.08	3.93
Apartment Investment & Management	AIV	28.30	20.08	21.30	2.67	0.54	2.19	2.62	13.52	1.99

Large Cap U.S. Core Picks (Data as of July 31, 2012)

Company	Ticker	Economic Moat™	Uncertainty Rating	Current Price (USD)	Fair Value (USD)	Adj. Price/Fair Value	Morningstar Rating	Market Cap (USD Mil)	Industry	Relative Attractiveness
Technology—Fully Valued										
Hewlett-Packard	HPQ	Narrow	Medium	18.24	40	64%	★★★★★	35966.23	Computer Systems	Cheap
Applied Materials	AMAT	Wide	Medium	10.89	17	76%	★★★★★	13957.85	Semiconductor Equipment & Materials	Cheap
Cisco Systems	CSCO	Wide	Medium	15.95	24	78%	★★★★★	85442.22	Communication Equipment	Cheap
Computer Sciences	CSC	None	High	24.62	38	82%	★★★★	3823.52	Information Technology Services	Undervalued
Advanced Micro Devices	AMD	None	High	4.06	6	84%	★★★★	2847.48	Semiconductors	Undervalued
Oracle	ORCL	Wide	Medium	30.2	38	86%	★★★★	147451.68	Software - Infrastructure	Undervalued
Analog Devices	ADI	Narrow	Medium	39.08	48	88%	★★★★	11659.05	Semiconductors	Undervalued
NetApp	NTAP	Narrow	Medium	32.67	39	89%	★★★★	11989.88	Data Storage	Undervalued
Microsoft	MSFT	Wide	Medium	29.47	35	89%	★★★★	247058.70	Software - Infrastructure	Undervalued
Google Class A	GOOG	Wide	High	632.97	780	91%	★★★★	207002.28	Internet Content & Information	Fully Valued
Apple	AAPL	Narrow	Medium	610.76	670	94%	★★★	572530.09	Computer Systems	Fully Valued
Utilities—Fully Valued										
NRG Energy	NRG	None	High	19.82	35	78%	★★★★★	4513.40	Utilities - Regulated Electric	Cheap
Exelon	EXC	Wide	Medium	39.12	54	82%	★★★★	33346.29	Utilities - Diversified	Undervalued
PPL	PPL	Narrow	Medium	28.9	37	85%	★★★★	16762.63	Utilities - Diversified	Undervalued
American Electric Power	AEP	Narrow	Low	42.24	47	90%	★★★★	20482.28	Utilities - Regulated Electric	Fully Valued
PG&E	PCG	Narrow	Medium	46.16	45	102%	★★★	19494.30	Utilities - Regulated Electric	Fully Valued

SAMPLE

Large Cap U.S. Core Picks (Data as of July 31, 2012)

Company	Ticker	52 Week High	52 Week Low	Total Return YTD (Daily)	Total Return 1-Yr (Daily)	Div. Per Share TTM	Div. Yield % Current	Div. Yield % Forward	EPS Est. Growth % Mean 5-Yr	Forward EPS Est.
Technology										
Hewlett-Packard	HPQ	35.50	17.73	-28.21	-46.74	0.48	2.7	2.89	4	4.38
Applied Materials	AMAT	13.94	9.70	3.27	-8.93	0.32	3.03	3.48	8.5	1.03
Cisco Systems	CSCO	21.30	13.30	-10.56	1.63	0.26	1.76	2.01	7.86	1.7
Computer Sciences	CSC	35.68	22.19	5.57	-27.95	0.8	3.25	3.25	8	2.6
Advanced Micro Devices	AMD	8.35	3.98	-24.81	-44.69	—	—	—	7.5	0.43
Oracle	ORCL	33.81	24.72	18.44	-0.46	0.24	0.79	0.79	14.01	2.78
Analog Devices	ADI	40.83	29.23	10.90	16.80	1.05	2.81	3.07	10.67	2.63
NetApp	NTAP	48.24	27.79	-9.93	-31.25	—	—	—	12.84	1.92
Microsoft	MSFT	32.95	23.79	15.06	10.33	0.76	2.58	2.71	8.86	3.34
Google Class A	GOOG	670.25	480.60	-2.00	4.85	—	—	—	17.9	42.48
Apple	AAPL	644.00	353.02	50.80	56.41	0	—	1.74	22.68	52.75
Utilities										
NRG Energy	NRG	24.81	14.29	9.88	-18.80	0	0.45	1.82	5.21	0.33
Exelon	EXC	45.45	36.27	-7.38	-6.47	2.2458	4.03	5.37	-4.67	2.77
PPL	PPL	30.27	25.00	0.68	8.67	1.41	4.91	4.98	4.6	2.41
American Electric Power	AEP	42.71	33.09	4.53	19.67	1.87	4.43	4.45	3.6	3.11
PG&E	PCG	46.55	36.84	14.19	15.81	1.82	3.94	3.94	2.47	3.12

SAMPLE

Fair Value Changes

Company	Ticker	Old Fair Value (USD)	New Fair Value (USD)	Change (%)
Advanced Micro Devices	AMD	11	6	-45
Peabody Energy Corporation	BTU	53	40	-25
Expeditors International of Washington	EXPD	61	51	-16
WellPoint	WLP	105	91	-13
Applied Materials	AMAT	19	17	-11
BlackRock	BLK	220	210	-5
NRG Energy	NRG	31	35	13
Crown Castle International Corp	CCI	61	70	15

SAMPLE