



The First Cut

New Edge Stocks

The First Cut is designed as a starting point for investors. Each issue we list the top stocks that pass relatively simple screens of interest to individual stock pickers. AAI's Stock Investor Pro screening software is used to generate the First Cut listing.

Christina Wise of Investor's Business Daily reveals which company traits make a story stock an attractive investment in her September 2012 AAI Journal article "The "New" Edge: Characteristics of Winning Stocks." These are the fundamental traits that past winning stocks possessed bull market after bull market, decade after decade. This issue's First Cut applies the key fundamentals highlighted in the article using AAI's stock screening and fundamental database—Stock Investor Pro.

The starting universe of 5,564 stocks for this issue's First Cut consisted of exchange-listed companies. The First Cut first looked for companies with positive current earnings per share that have been able to increase annual earnings at a 25% or higher rate for each of the last three years. Only 168 stocks meet that stringent test. The First Cut then required that earnings per share for the most recent quarter be at least 25% higher than same quarter last year. We also looked for companies that have had an accelerating rate of quarter over quarter earnings

grow. As a confirmation of the strength of earnings per share growth, the First Cut looked for quarter over quarter sales growth of at least 25%. Only 12 stocks possessed both strong historic year over year annual earnings growth and recent strong and accelerating quarterly growth.

To seek out companies with sustainable and improving profitability, the First Cut followed Wise's fundamental test that firms have a return on equity of at least 17% and a net profit margin is better than the company's average margin over the last three years. Since profit margins vary by industry, the First Cut also required that the company profit margin be higher than the industry norm. This type of filter helps to highlight companies that have a competitive advantage among their peers.

Only ten stocks passed all of these fundamental factors exhibited by typical market winners and they made the First Cut. The table ranks these stocks by the price change over the last 52 weeks to highlight recent stock market success.

—John Bajkowski, President of AAI

New Edge Companies With Strong Fundamentals

Company (Ticker)	Ann'l Sales	Ann'l EPS	EPS Growth:	Industry							52-Wk Price Change	Industry
	Growth	Growth	Last Yr to	Qtr Over	Qtr	Return	Net	Net	Share			
	Rate	Rate	Current	Growth	Sales	on	Profit	Profit	Price			
	3 Yr	3 Yr	Yr Est	EPS	Sales	Equity	Margin	Margin	(8/24)			
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(\$)	(%)		
Arctic Cat Inc (ACAT)	1.3	73.7	66.2	207.7	48.6	20.5	5.5	2.3	42.97	209.6	Auto & Truck Manufacturers	
Altisource Portfolio Solutions (ASPS)	38.2	93.9	na	117.3	54.6	55.0	18.3	13.3	84.10	157.5	Consumer Financial Services	
CalAmp Corp. (CAMP)	12.1	27.8	366.7	600.0	26.9	36.3	6.0	(4.1)	6.81	130.9	Communications Equipment	
SPS Commerce, Inc. (SPSC)	23.6	29.4	48.1	400.0	28.1	24.6	21.3	(1.8)	33.12	95.9	Software & Programming	
CAI International Inc. (CAP)	14.8	53.9	24.7	40.0	37.8	23.5	37.8	9.7	20.62	53.2	Rental & Leasing	
Lululemon Athletica inc. (LULU)	41.5	63.6	28.7	39.1	52.9	34.5	17.9	4.0	63.87	30.0	Retail (Apparel)	
Mercadolibre Inc (MELI)	29.7	60.6	30.1	67.6	28.0	40.9	27.3	(1.9)	80.50	28.3	Computer Services	
ACCO Brands Corporation (ACCO)	(5.8)	27.4	27.5	790.9	32.9	92.0	6.9	(4.7)	6.80	13.9	Office Equipment	
Michael Kors Holdings Ltd (KORS)	48.6	149.9	74.4	385.7	72.9	39.1	11.1	2.4	53.92	0.0	Apparel/Accessories	
Dr. Reddy's Laboratories (RDY)	11.7	68.0	10.3	28.6	28.4	30.5	14.7	(23.8)	29.94	(5.3)	Biotechnology & Drugs	

Data as of 8/24/2012