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Guru Stock Report

HOME CAPITAL GROUP INC. (T: HCG)

Based on 2/12/2013 Close Price of $60.00

INDUSTRY: FINANCE AND LEASING | SECTOR: Finance and Leasing

Current Rating: Buy

Reiterate A on 2/13/2013.

VALIDEA RATING (OVERALL STRENGTH GRADE): A : B : C : D : F :

OVERVIEW

- This stock receives a fundamental grade of "A" based on Validea's Guru Analysis system. "A" rated stocks pass the strict fundamental tests of at least one of our top performing guru strategies. Stocks that receive this grade typically currently display desirable attributes that would be looked for by both growth and value investors. For further details on our scoring system, please see the FAQ section at the end of this report.

- Validea's Guru System classifies this stock as both a growth and value stock given its PE Ratio of 9.7 and its historical EPS growth rate of 20.9%.

- This stock passes Validea's P/E Growth Investor strategy based on our interpretation of the published criteria of Peter Lynch with a score of 93%. The strategy looks for stocks that trade at a discount to their long-term earnings growth rates, which also show signs of financial strength.

ANALYSIS SUMMARY

Strategy Name	Based On Book By/About	Score
Contrarian Investor	David Dreman	57%
Book/Market Investor	Joseph Piotroski	0%
Growth Investor	Martin Zweig	83%
Growth/Value Investor	James O'Shaughnessy	50%
Low PE Investor	John Neff	42%
P/E Growth Investor	Peter Lynch	93%
Value Investor	Benjamin Graham	43%
Price/Sales Investor	Kenneth Fisher	58%
Patient Investor	Warren Buffett	99%
Momentum Investor	Validea	67%

* Overall fundamental grade is based on a weighted scoring system in which the strategies at the top of the table are more significant than those at the bottom (the strategies used to determine our "A" rated stocks are above the dividing line in the table and the strategies used to determine the "B" rated stocks are below). Although all the strategies used in this report have exhibited market

outperformance on a risk-adjusted basis, strategies at the top of the table have displayed superior historical risk-adjusted performance in our testing to those at the bottom.

COMPANY PROFILE

HOME CAPITAL GROUP INC. operates through one subsidiary, Home Trust Company, to provide mortgage lending, deposit, retail credit and credit card issuing services.

RATING HISTORY

Date	Action	Old Rating	New Rating
11/9/2012	Initiate		B
11/23/2012	Upgrade	B	A

METHODOLOGY

This report provides a detailed analysis of HCG based on the publicly disclosed methodologies of Wall Street legends. Validea is a premier online independent research provider. The firm's Guru Stock Report unites the quantitative strategies of the world's most successful investors, including names like Peter Lynch, Warren Buffett, Ben Graham, Martin Zweig and many others. Rooted in fundamental analysis and built on core investing principles, each report contains an in-depth description of the guru methodologies, as interpreted by Validea, and examines the stock using multiple approaches (i.e. value, growth, momentum).

Using these strategies, Validea has created a ratings scale that is dynamic and weights more heavily the best performing approaches as identified and tracked by Validea. Each stock is scored using a five point rating system that assesses the security's investment prospects. Ratings range from A to F (correlates to Strong Buy to Sell), with A and B stocks having the best potential for long-term market outperformance. Stocks that score highly based on the best performing risk-adjusted guru strategies or are favored by multiple top performing guru strategies are given a higher rating versus their counterparts. Validea's ratings are limited to companies that exhibit profitability. Reports are updated every two weeks, or sooner in the event of an earnings report, other significant news, or a major stock price change, in an effort to provide timely and valuable analysis and coverage.

GURU ANALYSIS OF: HOME CAPITAL GROUP INC. (HCG)

PATIENT INVESTOR

SCORE: 99%

BASED ON: Warren Buffett

STYLE: Long Term Value

Strategy Overview

The Patient Investor strategy is based on the book "Buffettology" written by Mary Buffett, former daughter-in-law of Warren Buffett. Warren Buffett is considered by many to be the greatest investor of all time. As the chairman of Berkshire Hathaway, Buffett has consistently outperformed the S&P 500 for decades. This strategy is the only one of our strategies that is not taken directly from the writings of the guru himself, as Buffett has yet to write about his investment strategies. The Buffett strategy looks for stocks for an extremely long term horizon. In fact, he has held some of his investments for decades. Only stocks with consistent long term track records can pass this methodology.

Detailed Analysis

STAGE 1: "Is this a Buffett type company?"

A bedrock principle for Buffett is that his type of company has a "durable competitive advantage" as compared to being a "price competitive" or "commodity" type of business. Companies with a "durable competitive advantage" are more likely to be found in these sub-industries: Brand Name Fast Food Restaurants, Brand Name Beverages, Brand Name Foods, Brand Name Toiletries and Household Products, Brand Name Clothing, Brand Name Prescription Drugs, Advertising, Advertising Agencies, TV, Newspapers, Magazines, Direct Mail, Repetitive Services for Businesses, Low Cost Producers of Insurance, furniture, or Low Cost Retailers. While you should be easily able to explain where the company's pricing power comes from (i.e. a strong regional brand image, a business tollgate, its main products are #1 or # 2 in its field and has been on the market for years and hasn't changed at all, a consumer or business ends up buying the same product many times in a year, etc. or having the lowest production cost among its competition), there are certain figures that one can look at that can qualify the company as having a durable competitive advantage.

LOOK FOR EARNINGS PREDICTABILITY: [PASS]

Buffett likes companies to have solid, stable earnings that are continually expanding. This allows him to accurately predict future earnings. Annual earnings per share from earliest to most recent were **0.62, 0.88, 1.33, 1.80, 1.99, 2.62, 3.15, 4.19, 4.46, 5.48**. Buffett would consider **HCG's** earnings predictable. In fact EPS have increased every year. **HCG**'s long term historical EPS growth rate is **20.9%**, based on the average of the 3, 4 and 5 year historical eps growth rates.

LOOK FOR CONSISTENTLY HIGHER THAN AVERAGE RETURN ON EQUITY: [PASS]

Buffett likes companies with above average return on equity of at least 15% or better, as this is an indicator that the company has a durable competitive advantage. US corporations have, on average, returned about 12% on equity over the last 30 years. The average ROE for **HCG**, over the last ten years, is **28.0%**, which is high enough to pass. It is not enough that the average be at least 15%. For each of the last 10 years, with the possible exception of the last fiscal year, the ROE must be at least 10% for Buffett to feel comfortable that the ROE is consistent. In addition, the average ROE over the last 3 years must also exceed 15%. The ROE for the last 10 years, from earliest to latest, is **24.3%, 27.4%, 31.4%, 31.9%, 27.4%, 28.9%, 27.8%, 28.3%, 25.4%, 27.1%**, and the average ROE over the last 3 years is **26.9%**, thus passing this criterion.

LOOK FOR CONSISTENTLY HIGHER THAN AVERAGE RETURN ON ASSETS: [PASS]

Buffett also requires, for financial companies, that the average Return On Assets (ROA) be at least 1% and consistent. Return On Assets is defined as the net earnings of the business divided by the total assets of the business. The average ROA for **HCG**, over the last ten years, is **2.9%**, which is high enough to pass. It is not enough that the average be at least 1%. For each of the last 10 years, with the possible exception of the last fiscal year, the ROA must be at least 1% for Buffett to feel comfortable that the ROA is consistent. The ROA for the last 10 years, from earliest to latest, is **2.3%, 2.7%, 2.9%, 3.2%, 2.8%, 3.0%, 2.9%, 3.0%, 3.4%, 2.9%**, thus passing this criterion.

LOOK AT CAPITAL EXPENDITURES: [PASS]

Buffett likes companies that do not have major capital expenditures. That is, he looks for companies that do not need to spend a ton of money on major upgrades of plant and equipment or on research and development to stay competitive. **HCG's** free cash flow per share of **$6.37** is positive, indicating that the company is generating more cash that it is consuming. This is a favorable sign, and so the company passes this criterion.

LOOK AT MANAGEMENT'S USE OF RETAINED EARNINGS: [PASS]

Buffett likes to see if management has spent retained earnings in a way that benefits shareholders. To figure this out, Buffett takes the total amount of retained earnings over the previous ten years of **$22.74** and compares it to the gain in EPS over the same period of **$4.86**. **HCG's** management has proven it can earn shareholders a **21.4%** return on the earnings they kept. This return is more than acceptable to Buffett. Essentially, management is doing a great job putting the retained earnings to work.

HAS THE COMPANY BEEN BUYING BACK SHARES: [NEUTRAL]

Buffett likes to see falling shares outstanding, which indicates that the company has been repurchasing shares. This indicates that management has been using excess capital to increase shareholder value. **HCG's** shares outstanding have not fallen in either the current year or the last 3 or 5 years and so it fails this criterion. This is a bonus criterion and will not adversely affect the ability of a stock to pass the strategy as a whole if it is failed.

The preceding concludes Buffett's qualitative analysis. If and when he gets positive responses to all the above criteria, he would then proceed with a price analysis. The price analysis will determine whether or not the stock should be bought. The following is how he would evaluate HCG quantitatively.

STAGE 2: "Should I buy at this price?" Although a firm may be a Buffett type company, he won't invest in it unless he can get a favorable price that allows him a great long term return.

CALCULATE THE INITIAL RATE OF RETURN: [No Pass/Fail]

Buffett compares his type of stocks to bonds, and likes to see what a company's initial rate of return is. To calculate the initial rate of return, take the trailing 12-month EPS of $**6.16** and divide it by the current market price of $**60.00**. An investor, purchasing **HCG**, could expect to receive a **10.27%** initial rate of return. Furthermore, he or she could expect the rate to increase **20.9% per year**, based on the average of the 3, 4 and 5 year historical eps growth rates, as this is how fast earnings are growing.

COMPARE THE INITIAL RATE OF RETURN WITH THE LONG-TERM TREASURY YIELD: [PASS]

Buffett favors companies in which the initial rate of return is around the long-term treasury yield. Nonetheless, he has invested in companies with low initial rates of return, as long as the yield is expected to expand rapidly. Currently, the long-term treasury yield is about **3.47%**. Compare this with **HCG's** initial yield of **10.27%**, which will expand at an annual rate of **20.9%**, based on the average of the 3, 4 and 5 year historical eps growth rates. The company is the better choice, as the initial rate of return is close to or above the long term bond yield and is expanding.

CALCULATE THE FUTURE EPS: [No Pass/Fail]

HCG currently has a book value of **$26.55**. It is safe to say that if **HCG** can preserve its average rate of return on equity of **26.9%** and continues to retain **86.34%** of its earnings, it will be able to sustain an earnings growth rate of

23.2% and it will have a book value of **$214.44** in ten years. If it can still earn **26.9%** on equity in ten years, then expected EPS will be **$57.71**.

CALCULATE THE FUTURE STOCK PRICE BASED ON THE AVERAGE ROE METHOD: [No Pass/Fail]

Now take the expected future EPS of **$57.71** and multiply them by the lower of the 5 year average P/E ratio (10.6) or current P/E ratio (current P/E in this case), which is **9.7** and you get **HCG's** projected future stock price of **$562.05.**

CALCULATE THE EXPECTED RATE OF RETURN BASED ON THE AVERAGE ROE METHOD: [No Pass/Fail]

Now add in the total expected dividend pool to be paid over the next ten years, which is **$27.66**. This gives you a total dollar amount of **$589.71**. These numbers indicate that one could expect to make a **25.7%** average annual return on **HCG's** stock at the present time. Buffett would consider this an absolutely fantastic expected return.

CALCULATE THE EXPECTED FUTURE STOCK PRICE BASED ON AVERAGE EPS GROWTH: [No Pass/Fail]

If you take the EPS growth of **20.9%**, based on the average of the 3, 4 and 5 year historical eps growth rates, you can project EPS in ten years to be **$41.18**. Now multiply EPS in 10 years by the lower of the 5 year average P/E ratio (10.6) or current P/E ratio (current P/E in this case), which is **9.7**. This equals the future stock price of **$401.09**. Add in the total expected dividend pool of **$27.66** to get a total dollar amount of **$428.74**.

CALCULATE THE EXPECTED RETURN USING THE AVERAGE EPS GROWTH METHOD: [No Pass/Fail]

Now you can figure out your expected return based on a current price of **$60.00** and the future expected stock price, including the dividend pool, of **$428.74**. If you were to invest in **HCG** at this time, you could expect a **21.7%** average annual return on your money. Buffett would consider this a great return.

LOOK AT THE RANGE OF EXPECTED RATE OF RETURN: [PASS]

Based on the two different methods, you could expect an annual compounding rate of return somewhere between **21.7%** and **25.7%**. To pinpoint the average return a little better, we have taken an average of the two different methods. Investors could expect an average return of **23.7%** on **HCG** stock for the next ten years, based on the current fundamentals. Buffett would consider this an exceptional return, thus passing the criterion.

P/E GROWTH INVESTOR

SCORE: 93%

BASED ON: Peter Lynch

STYLE: Growth/Value

Strategy Overview

Perhaps the greatest mutual fund manager of all-time, Lynch guided Fidelity Investment's Magellan Fund to a 29.2 percent average annual return from 1977 until his retirement in 1990, almost doubling the S&P 500's 15.8 percent yearly return over that time. Lynch's common sense approach and quick wit made him one of the most quoted investors on Wall Street. ("Go for a business that any idiot can run -- because sooner or later, any idiot probably is going to run it," is one of his many pearls of wisdom.) Lynch's bestseller One Up on Wall Street is something of a "stocks for the everyman/everywoman", breaking his approach down into easy-to-understand concepts.

Investment Strategy

Lynch's approach centers on a variable that he is famous for developing: The price/earnings/growth ratio, or "PEG". The PEG divides a stock's price/earnings ratio by its historic growth rate to find growth stocks selling on the cheap. Lynch's rationale: The faster a firm is growing, the higher the P/E multiple you should be willing to pay for its stock. Lynch is known for saying that investors can get a leg up on Wall Street by "buying what they know", but that's really just a starting point for him; his strategy goes far beyond investing in a restaurant chain you like or a retailer whose clothes you buy. Along with the PEG, he focused on fundamental variables like the debt/equity ratio, earnings per share growth rate, inventory/sales ratio, and free cash flow. It's important to note that Lynch used different criteria for different categories of stocks, with the three main categories being "fast-growers" (stocks with EPS growth rates of at least 20 percent per year); "stalwarts" (stocks with growth rates between 10 and 20 percent and multi-billion-dollar sales); and "slow-growers" (those with single-digit growth rates and high dividend payouts). He also used special criteria for financial stocks.

Detailed Analysis

DETERMINE THE CLASSIFICATION:

This methodology would consider **HCG** a "fast-grower".

P/E/GROWTH RATIO: [PASS]

The investor should examine the P/E **(9.74)** relative to the growth rate **(20.92%)**, based on the average of the 3, 4 and 5 year historical eps growth rates, for a company. This is a quick way of determining the fairness of the price. In this particular case, the P/E/G ratio for **HCG** (0.47) is very favorable.

SALES AND P/E RATIO: [PASS]

For companies with sales greater than $300 million, this methodology likes to see that the P/E ratio remain below 40. Large companies can have a difficult time maintaining a growth high enough to support a P/E above this threshold. **HCG**, whose sales are **$867.0 million**, needs to have a P/E below 40 to pass this criterion. **HCG's** P/E of **(9.74)** is considered acceptable.

EPS GROWTH RATE: [PASS]

This methodology favors companies that have several years of fast earnings growth, as these companies have a proven formula for growth that in many cases can continue many more years. This methodology likes to see earnings growth in the range of 20% to 50%, as earnings growth over 50% may be unsustainable. The EPS growth rate for **HCG** is **20.9%**, based on the average of the 3, 4 and 5 year historical eps growth rates, which is considered very good.

TOTAL DEBT/EQUITY RATIO: [NEUTRAL]

HCG is a financial company so debt to equity rules are not applied to determine the company's financial soundness.

EQUITY/ASSETS RATIO: [PASS]

This methodology uses the Equity/Assets Ratio as a way to determine a financial intermediary's health, as it is a better measure than the Debt/Equity Ratio. **HCG's** Equity/Assets ratio **(5.00%)** is healthy and above the minimum 5% this methodology looks for, thus passing the criterion.

RETURN ON ASSETS: [PASS]

This methodology uses Return on Assets as a way to measure a financial intermediary's profitability. **HCG's** ROA **(1.11%)** is above the minimum 1% that this methodology looks for, thus passing the criterion.

FREE CASH FLOW: [NEUTRAL]

The Free Cash Flow/Price ratio, though not a requirement, is considered a bonus if it is above 35%. A positive Cash Flow (the higher the better) separates a wonderfully reliable investment from a shaky one. This methodology prefers not to invest in companies that rely heavily on capital spending. This ratio for **HCG (10.62%)** is too low to add to the attractiveness of the stock. Keep in mind, however, that it does not adversely affect the company as it is a bonus criteria.

NET CASH POSITION: [NEUTRAL]

Another bonus for a company is having a Net Cash/Price ratio above 30%. Lynch defines net cash as cash and marketable securities minus long term debt. According to this methodology, a high value for this ratio dramatically cuts down on the risk of the security. The Net Cash/Price ratio for **HCG (-366.10%)** is too low to add to the attractiveness of this company. Keep in mind, however, that it does not adversely affect the company as it is a bonus criteria.

GROWTH INVESTOR

SCORE: 83%

BASED ON: Martin Zweig

STYLE: Growth

Strategy Overview

The Growth Investor strategy is based on the book "Winning on Wall Street", by Martin Zweig. Zweig is a renowned money manager, newsletter writer and frequent guest on the PBS television series "Wall Street Week." The strategy searches for stocks that meet a long host of earnings criteria. Quarterly earnings, for example, should be positive and growing faster than they were (a) a year ago, (b) in the preceding three quarters, and (c) over the preceding three years. Annual earnings should be up for at least the past five years. And sales should be growing as fast as or faster than earnings, since cost-cutting and other non-revenue-producing measures alone can't support earnings growth forever.

Detailed Analysis

P/E RATIO: [PASS]

The P/E of a company must be greater than 5 to eliminate weak companies, but not more than 3 times the current Market P/E because the situation is much too risky, and never greater than 43. **HCG's** P/E is **9.74**, based on trailing 12 month earnings, while the current market PE is **13.00**. Therefore, it passes the first test.

REVENUE GROWTH IN RELATION TO EPS GROWTH: [PASS]

Revenue Growth must not be substantially less than earnings growth. For earnings to continue to grow over time they must be supported by a comparable or better sales growth rate and not just by cost cutting or other non-sales measures. **HCG's** revenue growth is **21.28%**, while it's earnings growth rate is **20.92%**, based on the average of the 3, 4 and 5 year historical eps growth rates. Therefore, **HCG** passes this criterion.

SALES GROWTH RATE: [PASS]

Another important issue regarding sales growth is that the rate of quarterly sales growth is rising. To evaluate this, the change from this quarter last year to the present quarter (**14.1**%) must be examined, and then compared to the previous quarter last year compared to the previous quarter (**9.5**%) of the current year. Sales growth for the prior must be greater than the latter. For **HCG** this criterion has been met.

The earnings numbers of a company should be examined from various different angles. Three of these angles are stability in the trend of earnings, earnings persistence, and earnings acceleration. To evaluate stability, the stock has to pass the following four criteria.

CURRENT QUARTER EARNINGS: [PASS]

The first of these criteria is that the current EPS be positive. **HCG's** EPS (**$1.65**) pass this test.

QUARTERLY EARNINGS ONE YEAR AGO: [PASS]

The EPS for the quarter one year ago must be positive. **HCG's** EPS for this quarter last year (**$1.40**) pass this test.

POSITIVE EARNINGS GROWTH RATE FOR CURRENT QUARTER: [PASS]

The growth rate of the current quarter's earnings compared to the same quarter a year ago must also be positive. **HCG's** growth rate of **17.86%** passes this test.

EARNINGS GROWTH RATE FOR THE PAST SEVERAL QUARTERS: [PASS]

Compare the earnings growth rate of the previous three quarters with long-term EPS growth rate. Earnings growth in the previous 3 quarters should be at least half of the long-term EPS growth rate. Half of the long-term EPS growth rate for **HCG** is **10.46%**. This should be less than the growth rates for the 3 previous quarters, which are **66.67%**, **22.58%**, and **10.79%**. **HCG** passes this test, which means that it has good, reasonably steady earnings.

This strategy looks at the rate which earnings grow and evaluates this rate of growth from different angles. The 4 tests immediately following are detailed below.

EPS GROWTH FOR CURRENT QUARTER MUST BE GREATER THAN PRIOR 3 QUARTERS: [FAIL]

If the growth rate of the prior three quarter's earnings, **28.86%**, (versus the same three quarters a year earlier) is greater than the growth rate of the current quarter earnings, **17.86%**, (versus the same quarter one year ago) then the stock fails, with one exception: if the growth rate in earnings between the current quarter and the same quarter one year ago is greater than 30%, then the stock would pass. The growth rate over this period for **HCG** is **17.9%**, and it would therefore fail this test.

EPS GROWTH FOR CURRENT QUARTER MUST BE GREATER THAN THE HISTORICAL GROWTH RATE: [FAIL]

The EPS growth rate for the current quarter, **17.86%** must be greater than or equal to the historical growth which is **20.92%**. Since this is not the case **HCG** would therefore fail this test.

EARNINGS PERSISTENCE: [PASS]

Companies must show persistent yearly earnings growth. To fulfill this requirement a company's earnings must increase each year for a five year period. **HCG**, whose annual EPS growth before extraordinary items for the previous 5 years (from the earliest to the most recent fiscal year) were **2.62, 3.15, 4.19, 4.46 and 5.48**, passes this test.

LONG-TERM EPS GROWTH: [PASS]

One final earnings test required is that the long-term earnings growth rate must be at least 15% per year. **HCG's** long-term growth rate of **20.92%**, based on the average of the 3, 4 and 5 year historical eps growth rates, passes this test.

MOMENTUM INVESTOR

SCORE: 67%

BASED ON: Validea | STYLE: Growth/Momentum

Strategy Overview

The Momentum Investor strategy is based on the book "How To Make Money In Stocks". In that book, a massive study was described that identified the common fundamental, technical and chart pattern characteristics of the 500 best growth stocks over the past 30 years. The Momentum Investor strategy seeks to identify the "very best" companies that have high Relative Strength and buy them at the "right" time. This methodology is based on the general principal that stocks are priced at what they are worth at the time. Low priced stocks and stocks selling at their low are low for a reason, and you want to avoid them. Instead, you want to pick stocks that are selling near or at their high.

Detailed Analysis

QUARTERLY EPS CHANGE (THIS QUARTER VS. SAME QUARTER LAST YEAR): [FAIL]

The EPS growth for this quarter relative to the same quarter a year earlier for **HCG** (**17.86%**) is below the minimum 18% that this methodology likes to see for a "good" growth company. **HCG** fails the first requirement.

ANNUAL EARNINGS GROWTH: [PASS]

This methodology looks for annual earnings growth above 18%, but prefers higher than 25%. **HCG's** annual earnings growth rate over the past five years of **22.46%** passes this test.

EARNINGS CONSISTENCY: [PASS]

According to this methodology, each year's EPS numbers should be better than the previous year's. One dip is allowed, but the following year's earnings should be a new high. **HCG**, whose annual EPS before extraordinary items for the last 5 years (from earliest to the most recent fiscal year) were **2.62, 3.15, 4.19, 4.46, 5.48**, passes this criterion, as EPS have continually increased.

CURRENT PRICE LEVEL: [PASS]

Investors should keep an eye open for stocks that are trading within 15% of their 52-week highs, as the stock price is potentially close to breaking out to a new high on above average volume. **HCG's** current stock price **($60)** is within 15% of the 52-week high **($61.5)**. This a positive sign.

4 MONTH S&P RELATIVE STRENGTH LINE: [PASS]

This methodology likes to see confirmation from this indicator when buying as a sign of a company's recently strong momentum. It shows a company's weekly performance in comparison to the overall market, as measured by the S&P 500. Look for a general upward trend in weekly relative strength, as the best stocks usually act better than the overall market. **HCG's** relative strength trend has been increasing over the last 4 months. This type of price action is favorable.

PRICE PERFORMANCE COMPARED TO ALL OTHER STOCKS: [FAIL]

A company's weighted relative strength, which is the stock's price performance compared with the overall market over the past year, should be no less than 80, although above 90 is preferred. As long as all the other numbers are in check, these companies should continue to perform well over the next 3 months. **HCG's** relative strength of **39** is too low to pass the test.

CONFIRM AT LEAST ONE OTHER LEADING STOCK IN THE INDUSTRY: [PASS]

Make sure that a company's industry is attractive by confirming that at least one other company in the industry has a relative strength above 80. There is confirmation in **HCG's** industry **(FINANCE AND LEASING)**, as there are **4** companies that have a relative strength at or above 80.

LOOK FOR LEADING INDUSTRIES: [PASS]

Investors should consider stocks in top performing industries. Look at the number of companies within an industry that have a weighted relative strength above 80, and choose only the top 30% of those industries from which to select stocks. In another method, look for industries with the most stocks making new 52-week highs. **HCG's** industry **(FINANCE AND LEASING)** is currently one of the top performing industries, thus passing the criterion.

DECREASING LONG-TERM DEBT/EQUITY:

RETURN ON EQUITY: [PASS]

Preferred companies must have a ROE of at least 17%. **HCG's** ROE of **23.8%** is above the minimum 17% that this methodology likes to see, and therefore passes the criterion.

SHARES OUTSTANDING: [NEUTRAL]

Shares outstanding should be less than 30 million, as fewer shares mean bigger price jumps when demand surges. However, there is no penalty for a large number of shares outstanding as long as all the other parameters are met. Although **HCG** exceeds the preferred level with shares outstanding of **35** million, the stock still passes the test.

PRICE/SALES INVESTOR

SCORE: 58%

BASED ON: Kenneth Fisher | STYLE: Growth/Value

Strategy Overview

The Price/Sales Investor strategy is based on the book "Super Stocks" written by Kenneth Fisher. Fisher is a money manager, best-selling author and long-time Forbes columnist who wowed Wall Street in the early 1980s when his book first popularized the idea of analyzing price-to-sales ratios (PSR) as a means of identifying attractive stocks. The strategy looks for stocks whose low price-to-sales ratios are accompanied by strong earnings growth, little debt, and positive free cash flow.

Detailed Analysis

PRICE/SALES RATIO: [FAIL]

The prospective company should have a low Price/Sales ratio. Non-cyclical companies with Price/Sales ratios greater than 1.5 and less than 3 should not be purchased. **HCG's** P/S ratio of **2.40** based on trailing 12 month sales, is above 1.5. If you are currently holding this stock, the P/S ratio is O.K., but if you are thinking about purchasing it, the stock would fail this methodology's first criterion.

PRICE/RESEARCH RATIO: [PASS]

This methodology considers companies in the Technology and Medical sectors to be attractive if they have low Price/Research ratios. **HCG** is neither a Technology nor Medical company. Therefore the Price/Research ratio is not available and, hence, not much emphasis should be placed on this particular variable.

PRELIMINARY GRADE: No Interest in HCG At this Point

Is HCG a "Super Stock"? NO

Price/Sales Ratio: [FAIL]

The Price/Sales ratio is the most important variable according to this methodology. The prospective company should have a low Price/Sales ratio. **HCG's** Price/Sales ratio of **2.40** does not pass this criterion.

LONG-TERM EPS GROWTH RATE: [PASS]

This methodology looks for companies that have an inflation adjusted EPS growth rate greater than 15%. **HCG's** inflation adjusted EPS growth rate of **18.60%** passes this test.

FREE CASH PER SHARE: [PASS]

This methodology looks for companies that have a positive free cash per share. Companies should have enough free cash available to sustain three years of losses. This is based on the premise that companies without cash will soon be out of business. **HCG's** free cash per share of **6.37** passes this criterion.

THREE YEAR AVERAGE NET PROFIT MARGIN: [PASS]

This methodology looks for companies that have an average net profit margin of 5% or greater over a three year period. **HCG's** three year net profit margin, which averages **27.96%**, passes this criterion.

Frequently Asked Questions

What is Validea's Guru Analysis?

Guru Analysis provides an in depth analysis of any stock using Validea's interpretation of published writings by or about 10 of history's best investors including Peter Lynch, Benjamin Graham, Warren Buffett, James P. O'Shaughnessy, the Motley Fool, David Dreman, John Neff, Kenneth Fisher and Martin Zweig. With Guru Analysis you can analyze any stock step by step using any one of these strategies and can see exactly why the stock passes or fails each methodology.

What type of investors can use Validea's Guru Stock Reports?

Validea's Guru Stock reports are geared toward long and medium-term investors. The vast majority of the investors that our guru strategies are based upon were long term investors. The reports can be utilized by both value and growth investors because there are multiple methodologies within the report that appeal to each investment style and several that combine both.

What does the Validea Rating overall letter grade indicate?

The Validea Rating indicates how well the stock meets the investment criteria of the 10 strategies in this report. The strategies with the best historical risk-adjusted performance are weighted more heavily in determining the letter grade. The letter grades are determined as follows.

> **A** - "A" rated stocks receive a score of 90% from at least one of our top tier guru strategies. Our top tier strategies are based on our interpretation of the published writings of David Dreman, Joseph Piotroski, James P. O'Shaughnessy, John Neff and Martin Zweig. Stocks in this category exhibit the fundamental criteria that have proven most predictive of future stock performance in our historical testing.
>
> **B** - "B" rated stocks receive a score of 90% from at least one of our second tier guru strategies. Our second tier strategies are based on our interpretation of the published writings of Peter Lynch, Warren Buffett, Kenneth Fisher and Benjamin Graham. Stocks in this category exhibit the fundamental criteria that is sought by these strategies. These strategies have all exhibited strong risk-adjusted performance in our historical testing.
>
> **C** - "C" rated stocks have an average score from all of our strategies of at least 25%. Stocks in this category typically exhibit elements of fundamental strength, but also have some noticeable weaknesses.
>
> **D** - "D" rated stocks have an average score from all of our strategies between 20% and 25%. Stocks in this grouping typically have several major fundamental weaknesses that would not be looked upon favorably by both value and growth investors.
>
> **F** - "F" rated stocks have an average guru score from all of our strategies below 20%. Stocks in this grouping typically have many major fundamental weaknesses that would eliminate them from any consideration by our guru strategies.

What do the individual guru scores mean?

The scores for each strategy represent a weighted percentage of how well a particular stock meets a guru's criteria. Not all criteria are weighted equally and some of our strategies have criteria that are important enough to automatically result in a 0% score if they are failed. For example, in the Patient Investor strategy based on Warren Buffett, a stock will automatically fail if it does not meet the requirement of consistent earnings over the past 10 years.

Is there any affiliation between Validea and the gurus that the strategies are based on?

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Fundamental data provided by the Globe & Mail.

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