GILAX: Fundamental Valuation and Predictive Rating Report

**Description:** Predictive rating report based on bottoms-up analysis of the fund's holdings. Unlike other fund ratings, ours are not backward-looking or based on past price performance. Our ratings are based on aggregating our top-ranked stock ratings on each fund's holdings - along with - the total, all-in costs of the fund.

The valuation models that drive our stock ratings (and, in turn, mutual fund ratings) deliver the whole truth by incorporating critical data from the Financial Footnotes and MD&A that other firms miss.

This report offers fund research that is as rigorous as individual stock research.

>>> COMPANY PROFILE - NEW CONSTRUCTS

Incorporated in July 2002, New Constructs® is an independent publisher of investment research firm that provides clients with consulting, advisory and research services. The firm specializes in quality-of-earnings, forensic accounting and discounted cash flow valuation analyses for all U.S. public companies. To support its proprietary database of financial data, the company leverages expertise in analyzing the Notes to the Financial Statements and MD&A and extracting data directly from SEC filings. New Constructs® translates accounting data from 10Ks and Annual Reports into economic financial statements, i.e. NOPAT, Invested Capital, and WACC, to create economic earnings models, which are necessary to understand the true profitability and valuation of companies. All data, calculations and adjustments are available for review and modification by clients. In addition to its unique economic analysis of financial data, New Constructs® performs all traditional accounting analyses.

New Constructs® is a long-time member of the Investorside® Research Association, a non-profit trade association of investment research providers that do not engage in investment banking, company consulting or research-for-hire.

New Constructs, LLC has been a Better Business Bureau Accredited business since December 2009.

>>> OUR MISSION

New Constructs® aims to help restore the integrity of our capital markets to ensure that the United States remains the most prosperous country in the world (see our blog for more detail on "Why Integrity Matters" and "Why The US Capital Markets Are Important"). The original business plan for New Constructs was titled: "Bringing Integrity to the Capital Markets". We have lived up to that commitment every day since New Constructs was incorporated in July of 2002.

Our comprehensive research holds companies accountable and arms investors with tools for identifying companies that try to exploit the accounting system.

>>> OUR RESEARCH PHILOSOPHY

Accounting data was not designed for equity investors, but for debt investors. Accordingly, accounting data must be translated into economic earnings in order to understand the profitability and valuation relevant to equity investors. Respected investors (e.g. Adam Smith, Warren Buffett and Ben Graham) have repeatedly emphasized that accounting results should not be used to value stocks. Economic earnings are what matter because they are:

1. Based on the complete set of financial information available
2. Standard for all companies
3. A more accurate representation of the true underlying cash flows of the business

Why Doesn't Everyone Share our Philosophy?

1. Economic translation of accounting data is very difficult and time consuming. It requires gathering all the relevant financial information, much of which is buried deep in the Notes to the Financial Statements and Management Discussion & Analysis of 300-plus page annual reports and 10Ks.
2. Complacency: Many professional managers are happy with the status quo because they are too rich to care about making changes. They do not see a need for the extra work.

3. Picking stocks in a rising market is easy. As interest rates have declined for most of the past 20 years, the prosperous economic and political environment has given rise to a valuation tide that lifted almost all stocks. Over time, investors have given less weight to the importance of profitability and valuation in our opinion. Until recently, the market has proven them right.

4. Most professional investors are closet indexers (see our blog for more detail). They do not care much about performance nearly as much as the amount of assets they have under management. Because they are content to live off their management fees, performance is not so important. They see no need to invest much time in picking stocks that are not part of a predefined index.

5. The media (and Wall Street via the media) constantly bombard investors with short-term speculative stock recommendations. Constant sensationalism of often trivial data distracts investors from more important analytical work. Many investors become addicted to the news (i.e. multiple TVs blaring constantly in their offices) and believe that they need to watch, read or listen as often as possible. They fear missing important information that could drive them to take investment action every day. "People do not realize that the media is paid to get your attention. For a journalist, silence rarely surpasses [the value of] any word." - Nassim Taleb on page 53 of his book Fooled By Randomness (Texere 2001).

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