



# Income and Small Cap Weekly

Analysis of Oil & Gas Stocks

November 9, 2012

## Halcón Resources (HK) Growing at Hawk Speed

<i>Symbol</i>	HK	<i>Ebitda Next Twelve Months ending 9/30/13 (US\$mm)</i>	534
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	7
<i>Price (\$/sh)</i>	5.48	<i>Natural Gas and Oil Production/Ebitda (%)</i>	100
<i>Pricing Date</i>	11/8/12	<i>Adjusted Reserves/Production NTM</i>	6.7
<i>Shares (mm)</i>	436	<i>EV/Ebitda</i>	7.0
<i>Market Capitalization (\$mm)</i>	2,400	<i>PV/Ebitda</i>	10.7
<i>Debt (\$mm)</i>	1,370	<i>Undeveloped Reserves (%)</i>	50
<i>Enterprise Value (EV) (\$mm)</i>	3,800	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	41.00
<i>Present Value (PV) (\$mm)</i>	5,700	<i>Present Value Proven Reserves(\$/boe)</i>	50.00
<i>Net Present Value (\$/share)</i>	10	<i>Oil and Gas Ebitda Margin (%)</i>	60
<i>Debt/Present Value</i>	0.24	<i>Earnings Next Twelve Months (US\$/sh)</i>	0.29
<i>McDep Ratio - EV/PV</i>	0.66	<i>Price/Earnings Next Twelve Months</i>	19
<i>Dividend Yield (%/year)</i>	0.0	<i>Indicated Annual Dividend (US\$/sh)</i>	0.00

Note: Estimated cash flow and earnings tied to one-year futures prices for oil and natural gas.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

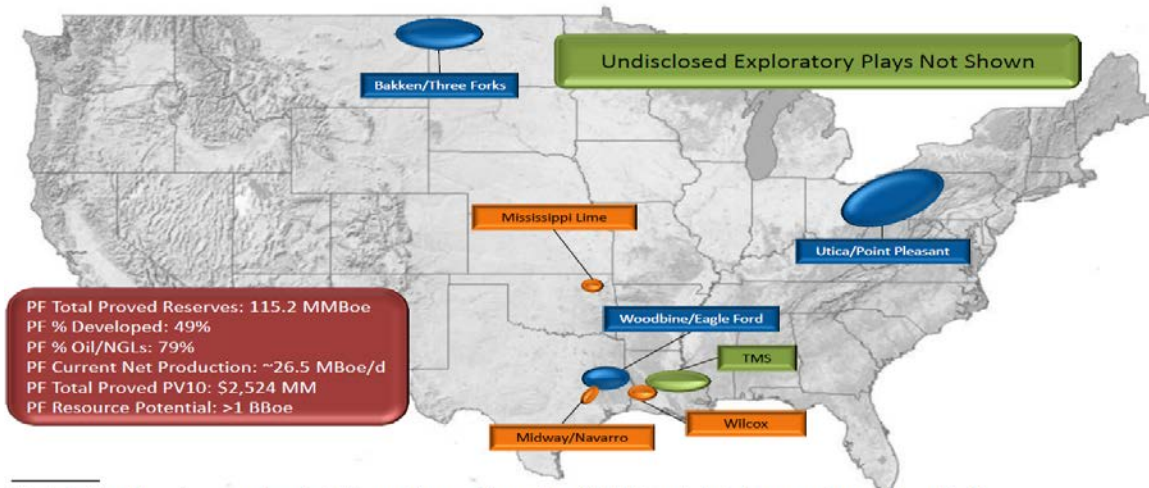
Estimated present value presumes a long-term price for oil of US\$100 a barrel and natural gas, \$8 a million btu

### Summary and Recommendation

Unlevered appreciation potential of 52% to a McDep Ratio of 1.0 can only be an approximate measure of oil resource player **Halcón Resources (HK)** as it grows at hawk speed. Translated from Spanish, the company name refers to the fast bird that can fly at more than 100 miles an hour. Serial energy entrepreneur Floyd Wilson and his team in less than a year have grown their new company from a shell to \$5 billion of Present Value when the latest transaction closes in December. In its rapid evolution, the new HK has acquired and developed reserves of a hundred million barrels and production of thirty thousand barrels a day to underpin the rapid development of further shale oil opportunities. Three core areas providing most of the growth in the next year are the Bakken in North Dakota and Montana, the Woodbine/Eagleford in East Texas and the Utica/Pt. Pleasant in Ohio and Pennsylvania (see slides [Liquids-Rich Asset Base](#) and [Building Oil Company](#) on page 2). Estimated Net Present Value (NPV) of \$10 a share includes some \$4 for success beyond that which we can tie to current reserves and year-ahead cash flow (see tables [Functional Cash Flow and Present Value](#) and [Next Twelve Months Operating and Financial Results](#) on page 3). With the disclosure of third quarter results on November 8, management described active drilling in the three core plays as well as the Tuscaloosa Marine Shale in Louisiana and Midway/Navarro in Texas. In its short life, the stock has already demonstrated volatility that may provide opportunity for those investors wanting to participate in higher risk shale oil growth with a proven innovator.

Kurt H. Wulff, CFA

## Liquids-Rich Asset Base and Significant Drilling Inventory



Note: Production and proved reserves pro forma for GeoResources Merger and the acquisition of the East Texas Assets. Pro forma proved reserves data consist of (i) proved reserves for Halcón as of 12.31.11, as estimated by Halcón's independent reserve engineers, (ii) proved reserves of GeoResources as of 12.31.11 as estimated by GeoResources' independent reserve engineers (except for certain Austin Chalk reserves acquired in the first quarter of 2012, which were estimated by GeoResources' internal reserve engineers) (iii) proved reserves attributable to the East Texas Assets as of 4.1.12, as estimated by Halcón's internal reserve engineers using unweighted average first-day-of-the-month commodity prices for the year ended 12.31.11 and otherwise in accordance with SEC rules relating to reporting of reserves and (iv) proved reserves attributable to the Williston Basin Assets as of 8.1.12 as estimated by W.D. Von Gonten using unweighted average first-day-of-the-month commodity prices for the year ended 12.31.11. See "Cautionary Statement Regarding Hydrocarbon Quantities" on page 3 for a description of resource potential.

## Building An Oil Company

- Halcón has assembled a premier acreage position in liquids-rich resource style plays in the U.S

	Targeted Areas	Targeted Net Acres	Progress <sup>(1)</sup>	First Spud
RESOURCE	Woodbine/Eagle Ford	150,000 - 250,000	~100%	May <input checked="" type="checkbox"/>
	Bakken/Three Forks	55,000 - 125,000	~100%	2010 <input checked="" type="checkbox"/>
	Utica/Point Pleasant	150,000 - 250,000	~65%	October
	TMS	150,000 - 200,000	~40%	September <input checked="" type="checkbox"/>
	Undisclosed Exploratory Plays	200,000 - 350,000		
	Midway/Navarro	25,000 - 75,000	~50%	May <input checked="" type="checkbox"/>
	Wilcox	50,000 - 100,000	~100%	August <input checked="" type="checkbox"/>
	Mississippi Lime	50,000 - 100,000	~60%	April <input checked="" type="checkbox"/>
	Other Conventional		~100%	<input checked="" type="checkbox"/>

(1) Percentage leased, optioned or under contract compared to midpoint of target acreage range as of 10.18.12; approximately 200,000 net acres leased, optioned or under contract in the Woodbine/Eagle Ford, approximately 135,000 net acres leased or under contract in the Bakken/Three Forks pro forma for the Williston Basin Assets acquisition; approximately 95,000 net acres leased, optioned or under contract in the Wilcox.



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Halcón Resources					
Functional Cash Flow and Present Value					
	NTM Ebitda	Adjusted	PV/	Present	
	(US\$mm)	R/P	Ebitda	Value	
				(US\$mm)	
North American Natural Gas	37	6.9	19.6	730	13%
Oil	496	6.6	10.1	5,000	87%
	534	6.7	10.7	5,730	100%
Debt (US\$mm)					1,370
Net Present Value (US\$mm)					4,360
Shares (mm)					436
Net Present Value - Standard Estimate (US\$/sh)					10
NPV Approximation by Cash Flow Multiple Depending on Reserve Life (US\$/sh)					6

Halcón Resources									
Next Twelve Months Operating and Financial Estimates									
	Q1	Q2	Q3	Q4E	Year	Q1E	Q2E	Q3E	Next
	3/31/12	6/30/12	9/30/12	12/31/12	2012E	3/31/13	6/30/13	9/30/13	Twelve
									Months
									9/30/13
<b>Volume</b>									
Natural Gas (mmcf)	7	6	16	28	14	47	56	68	50
Oil (mbd)	2.9	2.8	8.6	13.9	7.1	26	31	37	27
Total (mb)	0.4	0.4	1.0	1.7	3.5	3.0	3.7	4.5	12.9
Total (mbd)	4.0	3.9	11.2	18.5	57	34	41	49	35
<b>Price</b>									
Henry Hub (\$/mmbtu)	2.73	2.21	2.80	3.34	2.77	3.67	3.68	3.77	3.61
Differential (\$/mmbtu)	0.02	0.09	0.18	0.22	(0.05)	0.24	0.24	0.25	0.19
Company (\$/mcf)	2.71	2.12	2.62	3.12	2.82	3.43	3.44	3.53	3.42
WTI Cushing (\$/bbl)	102.93	93.32	92.22	88.54	94.25	86.73	88.36	89.18	88.20
Differential	8.32	8.36	4.92	4.73	8.15	4.63	4.72	4.76	4.63
Company (\$/bbl)	94.61	84.96	87.30	83.81	86.10	82.10	83.64	84.42	83.57
Total (\$/bbl)	72.82	65.23	70.59	67.54	68.77	67.86	69.05	69.77	68.82
<b>Revenue (\$mm)</b>									
Natural Gas	2	1	4	8	15	15	18	22	62
Oil	25	22	69	107	223	192	237	291	827
Total	27	23	73	115	238	207	255	313	889
<b>Expense</b>									
Lease operating	9	9	16						
Production taxes	2	1	4						
General and administrative	20	13	33						
Total	31	24	53	46	154	83	102	125	356
<b>Ebitda</b>	(4)	(0)	20	69	84	124	153	188	534
Deprec., Deplet., & Amort.	6	6	23	39	74	70	85	103	297
Other	(19)	(15)	(5)		(39)				-
<b>Ebit</b>	9	8	2	30	49	54	68	85	236
Interest	13	4	5	10	32	10	10	10	40
<b>Ebt</b>	(4)	4	(3)	20	17	44	58	75	196
Income Tax	(1)	1	(1)	7	6	15	20	26	69
<b>Net Income (\$mm)</b>	(3)	3	(2)	13	11	29	38	48	128
Per Share (\$)	(0.04)	0.02	(0.01)	0.03	(0.00)	0.07	0.09	0.11	0.29
<b>Shares (millions)</b>	69	136	192	436		436	436	436	436
Ebitda Margin	-16%	-2%	27%	60%	35%	60%	60%	60%	60%
Tax rate	35%	35%	35%	35%	35%	35%	35%	35%	35%



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Table ISC-1										
McDep Income and Small Cap Energy Portfolio										
Debt, Segments, Cash Flow, Income and McDep Ratio										
		Price								
Symbol/Rating	(US\$/sh)	EV/	Enterprise	PV(%)	EV/	Dist.	Dist.			
B = Buy	8-Nov	Market	Value	Nat	Ebitda	NTM	Yield	McDep		
CB (see below)	2012	Cap	(\$mm)	Gas	Oil	NTM	(\$/un)	(%)	Ratio	
<b>Small Cap Independent Producers</b>										
Peyto Exploration and Development	PEYUF	23.91	1.18	4,030	77	23	10.4	0.72	3.0	1.00
Range Resources	RRC B	65.75	1.33	13,950	75	25	17.8	0.16	0.2	0.95
PDC Energy	PDCE	27.17	1.86	1,530	54	46	11.9	-	-	0.95
Continental Resources (32%)	CLR CB	69.85	1.24	5,050	24	76	7.4	-	-	0.74
Birchcliff Energy Ltd.	BIREF CB	7.88	1.43	1,670	63	37	10.5	-	-	0.73
Halcón Resources	HK	5.48	1.57	3,760	13	87	7.0	-	-	0.66
Denbury Resources Inc.	DNR	14.78	1.54	8,920	6	94	5.9	-	-	0.63
Berry Petroleum Company	BRY	32.64	1.98	3,560	12	88	5.5	-	-	0.63
Cimarex Energy Company	XEC CB	58.98	1.27	6,520	41	59	5.3	0.48	0.8	0.60
Whiting Petroleum Corporation	WLL CB	43.52	1.41	7,310	9	91	4.9	-	-	0.58
<i>Total or Median</i>				56,300			7.2			0.69
<b>Top Line Cash Payers</b>										
Freehold Royalties Ltd.	FRHLF	20.19	1.04	1,360	16	84		1.69	8.3	0.96
Dorchester Minerals, L.P.	DMLP CB	21.70	1.00	670	57	43		1.74	8.0	0.80
Sabine Royalty Trust	SBR	47.92	1.00	700	55	45		3.77	7.9	0.74
Permian Basin RT	PBT	13.52	1.00	630	37	63		1.04	7.7	0.68
Cross Timbers Royalty Trust	CRT	27.12	1.00	160	70	30		2.58	9.5	0.62
<i>Total or Median</i>				3,500					8.0	0.74
<b>Bottom Line Cash Payers</b>										
Linn Energy, LLC	LINE	39.93	1.62	15,100	43	57	13.6	2.90	7.3	1.18
Vanguard Natural Resources, LLC	VNR	27.98	1.62	2,400	33	67	12.1	2.40	8.6	1.07
Legacy Reserves L.P.	LGCY	24.80	1.49	1,760	25	75	9.4	2.26	9.1	0.88
Enduro Royalty Trust (40%)	NDRO	18.02	1.00	240	39	61	8.1	1.73	9.6	0.86
Enerplus Corporation	ERF CB	15.01	1.62	4,800	30	70	6.6	1.08	7.2	0.80
San Juan Basin Royalty Trust	SJT CB	13.98	1.00	650	100	-	9.2	1.12	8.0	0.67
Mesa Royalty Trust	MTR	23.71	1.00	44	75	25	8.2	2.11	8.9	0.59
Hugoton Royalty Trust	HGT	7.07	1.00	280	88	13	6.6	0.30	4.3	0.51
<i>Total or Median</i>				25,300			8.7		8.3	0.83
<b>Composite</b>										
<i>Enterprise Value Weighting</i>				85,100	39	61				0.79
<i>Equal Weighting</i>					45	55				0.77
<i>Equal Weighted Buys</i>					49	51				0.73

CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.

McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses.

Present Value (PV) presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.

Dist. = Income distribution. NTM = Next Twelve Months Ended September 30, 2013. Enterprise Value = Market Cap and Debt.



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**Table ISC-2**

**McDep Income and Small Cap Energy Portfolio**  
**Net Present Value and McDep Ratio**

			<i>Price</i>			<i>Net</i>		
			<i>(\$/sh)</i>		<i>Market</i>	<i>Present</i>	<i>Debt/</i>	
	<i>Symbol/</i>		<i>8-Nov</i>	<i>Shares</i>	<i>Cap</i>	<i>Value</i>	<i>Present</i>	<i>McDep</i>
	<i>Rating</i>		<i>2012</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>(\$/un)</i>	<i>Value</i>	<i>Ratio</i>
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development Cor	PEYUF		23.91	143.1	3,420	24.00	0.15	1.00
Range Resources	RRC	B	65.75	160.0	10,520	70.00	0.23	0.95
PDC Energy	PDCE		27.17	30.2	820	30.00	0.44	0.95
Continental Resources (32%)	CLR	CB	69.85	58.6	4,090	100.00	0.14	0.74
Birchcliff Energy Ltd.	BIREF	CB	7.88	148.3	1,170	12.00	0.22	0.73
Halcón Resources	HK		5.48	436.0	2,390	10.00	0.24	0.66
Denbury Resources Inc.	DNR		14.78	391.0	5,780	28.00	0.22	0.63
Berry Petroleum Company	BRY		32.64	55.3	1,800	70.00	0.31	0.63
Cimarex Energy Company	XEC	CB	58.98	86.9	5,130	110.00	0.13	0.60
Whiting Petroleum Corporation	WLL	CB	43.52	119.0	5,180	88.00	0.17	0.58
	<i>Total or Median</i>				<i>40,300</i>		<i>0.22</i>	<i>0.69</i>
<b>Top Line Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		20.19	64.7	1,310	21.00	0.04	0.96
Dorchester Minerals, L.P.	DMLP	CB	21.70	30.7	670	27.00	-	0.80
Sabine Royalty Trust	SBR		47.92	14.6	700	65.00	-	0.74
Permian Basin RT	PBT		13.52	46.6	630	20.00	-	0.68
Cross Timbers Royalty Trust	CRT		27.12	6.0	160	44.00	-	0.62
	<i>Total or Median</i>				<i>3,470</i>			<i>0.74</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		39.93	233.0	9,300	30.00	0.45	1.18
Vanguard Natural Resources, LLC	VNR		27.98	53.1	1,490	25.00	0.41	1.07
Legacy Reserves L.P.	LGCY		24.80	47.5	1,180	30.00	0.29	0.88
Enduro Royalty Trust (40%)	NDRO		18.02	13.2	240	21.00	-	0.86
Enerplus Corporation	ERF	CB	15.01	196.0	2,940	21.00	0.31	0.80
San Juan Basin Royalty Trust	SJT	CB	13.98	46.6	650	21.00	-	0.67
Mesa RoyaltyTrust	MTR		23.71	1.9	44	40.00	-	0.59
Hugoton RoyaltyTrust	HGT		7.07	40.0	280	14.00	-	0.51
	<i>Total or Median</i>				<i>16,120</i>			<i>0.83</i>
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average. McDep Ratio = Market cap and Debt to present value of oil and gas and other businesses Present Value presumes long-term prices of \$100 a barrel for oil and \$6 a million btu for natural gas.								



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Table ISC-3								
McDep Income and Small Cap Energy Portfolio								
Value Multiples - Rank by EV/Ebitda								
			Price (\$/sh)	Revenue	Dist/ Equity	Adjstd Resrvs/ Prod	PV/ Ebitda	EV/ Ebitda
	Symbol/ Rating		8-Nov 2012	Royalty (%)	Ebitda	NTM	NTM	NTM
<b>Small Cap Independent Producers</b>								
Range Resources	RRC	B	65.75		-	13.9	18.7	17.8
PDC Energy	PDCE		27.17		-	9.9	12.5	11.9
Birchcliff Energy Ltd.	BIREF	CB	7.88		-	20.9	14.3	10.5
Peyto Exploration and Development Corp	PEYUF		23.91		0.31	9.1	10.4	10.4
Continental Resources (32%)	CLR	CB	69.85		-	9.6	10.0	7.4
Halcón Resources	HK		5.48		-	6.7	10.7	7.0
Denbury Resources Inc.	DNR		14.78		-	13.2	9.4	5.9
Berry Petroleum Company	BRY		32.64		-	11.7	8.7	5.5
Cimarex Energy Company	XEC	CB	58.98		-	7.5	9.0	5.3
Whiting Petroleum Corporation	WLL	CB	43.52		-	9.3	8.5	4.9
	<i>Median</i>					9.7	10.2	7.2
<b>Top Line Cash Payers</b>								
Sabine Royalty Trust	SBR		47.92	100	1.00	7.9	17.2	12.7
Freehold Royalties Ltd.	FRHLF		20.19	71	1.01	5.6	12.6	12.2
Dorchester Minerals, L.P.	DMLP	CB	21.70	77	0.90	6.9	14.0	11.2
Cross Timbers Royalty Trust	CRT		27.12	78	0.96	16.5	16.4	10.1
Permian Basin RT	PBT		13.52	47	0.72	9.4	13.9	9.4
	<i>Median</i>					7.9	14.0	11.2
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		39.93		1.11	14.0	11.5	13.6
Vanguard Natural Resources, LLC	VNR		27.98		1.08	13.2	11.3	12.1
Legacy Reserves L.P.	LGCY		24.80		0.81	11.0	10.7	9.4
San Juan Basin Royalty Trust	SJT	CB	13.98		0.73	8.6	13.8	9.2
Mesa RoyaltyTrust	MTR		23.71		0.74	7.7	14.0	8.2
Enduro Royalty Trust (40%)	NDRO		18.02		0.78	7.2	9.4	8.1
Enerplus Corporation	ERF	CB	15.01		0.43	6.3	8.3	6.6
Hugoton RoyaltyTrust	HGT		7.07		0.28	13.5	13.0	6.6
	<i>Median</i>					9.8	11.4	8.7
B=Buy; CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.								
EV = Enterprise Value = Market Cap and Debt; Ebitda = Earnings before interest, tax, depreciation and amortization; NTM = Next Twelve Months Ended September 30, 2013; P/E = Stock Price to Earnings; PV = Present Value of oil and gas and other businesses								
Top Line Cash Payers defined as those having Revenue Royalty (see fifth column from right).								





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Table ISC-4								
Oil and Gas Income and Small Cap Stocks								
Rank by Enterprise Value to 200 Day Average								
			Price (\$/sh)	Enterprise Value/				
	Symbol/ Rating		8-Nov 2012	52Wk High	52Wk Low	50 Day Avg.	200 Day Avg.	McDep Ratio
<b>Small Cap Independent Producers</b>								
Peyto Exploration and Development C	PEYUF		23.91	0.92	1.49	1.01	1.18	1.00
Range Resources	RRC	B	65.75	0.91	1.18	0.97	1.03	0.95
Birchcliff Energy Ltd.	BIREF	CB	7.88	0.60	1.35	1.04	0.99	0.73
Cimarex Energy Company	XEC	CB	58.98	0.72	1.21	0.99	0.95	0.60
PDC Energy	PDCE		27.17	0.79	1.18	0.93	0.94	0.95
Whiting Petroleum Corporation	WLL	CB	43.52	0.75	1.15	0.95	0.93	0.58
Continental Resources (32%)	CLR	CB	69.85	0.76	1.11	0.93	0.92	0.74
Denbury Resources Inc.	DNR		14.78	0.78	1.08	0.94	0.92	0.63
Berry Petroleum Company	BRY		32.64	0.72	1.01	0.91	0.87	0.63
Halcón Resources	HK		5.48	0.52		0.83		0.66
	<i>Median</i>			<i>0.75</i>	<i>1.18</i>	<i>0.95</i>	<i>0.94</i>	<i>0.69</i>
<b>Top Line Cash Payers</b>								
Freehold Royalties Ltd.	FRHLF		20.19	0.95	1.20	1.00	1.04	0.96
Dorchester Minerals, L.P.	DMLP	CB	21.70	0.82	1.09	0.97	0.95	0.80
Sabine Royalty Trust	SBR		47.92	0.71	1.05	0.94	0.87	0.74
Permian Basin RT	PBT		13.52	0.58	1.00	0.90	0.72	0.68
Cross Timbers Royalty Trust	CRT		27.12	0.53	1.01	0.87	0.71	0.62
	<i>Median</i>			<i>0.71</i>	<i>1.05</i>	<i>0.94</i>	<i>0.87</i>	<i>0.74</i>
<b>Bottom Line Cash Payers</b>								
Linn Energy, LLC	LINE		39.93	0.96	1.09	0.99	1.02	1.18
Vanguard Natural Resources, LLC	VNR		27.98	0.95	1.13	0.98	1.01	1.07
Legacy Reserves L.P.	LGCY		24.80	0.88	1.05	0.91	0.92	0.88
Enerplus Corporation	ERF	CB	15.01	0.64	1.18	0.95	0.91	0.80
San Juan Basin Royalty Trust	SJT	CB	13.98	0.56	1.16	0.99	0.87	0.67
Mesa RoyaltyTrust	MTR		23.71	0.52	1.03	0.93	0.73	0.59
Hugoton RoyaltyTrust	HGT		7.07	0.31	1.24	1.06	0.71	0.51
	<i>Median</i>			<i>0.64</i>	<i>1.13</i>	<i>0.98</i>	<i>0.91</i>	<i>0.80</i>

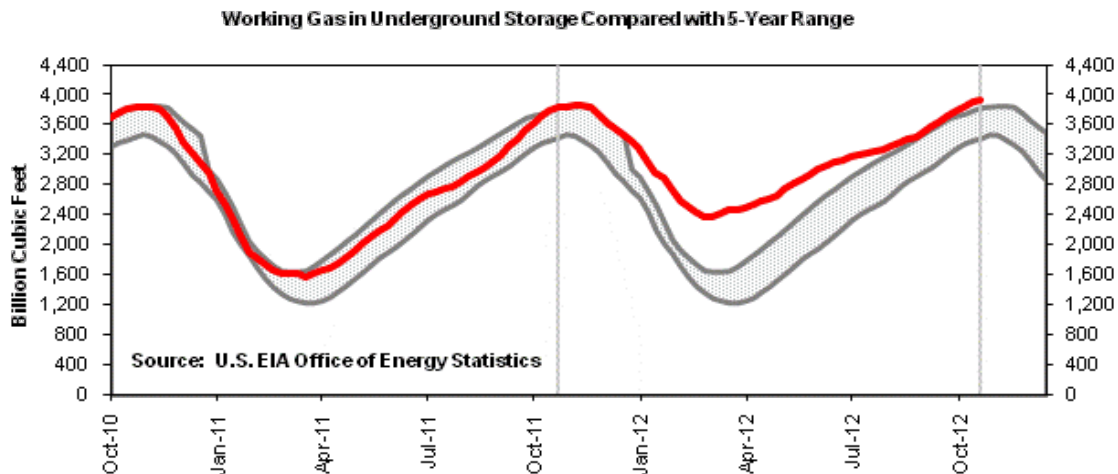
CB=Contrarian Buy, Stock Price apparently in downtrend compared to 200-day average.



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November 9, 2012



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