

# Mossberg's Investor Digest

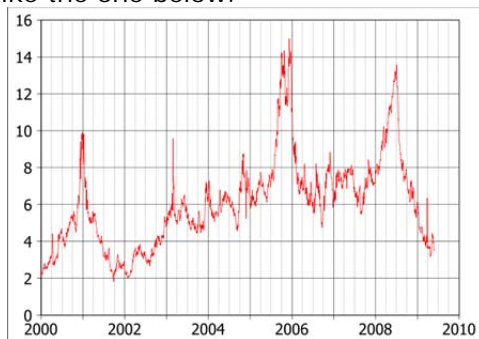
April 2011

Issue #34

## From the Editor...

Despite the fact that I've lived in Texas for more than half my life, and spent most of my professional career in capital markets here in Texas, I am not, by far, an expert on investing in energy. Nevertheless, I am starting to take a closer look at natural gas related stocks and wonder if they might be a good investment here? If the idea is to buy low and sell high. Gas at just over \$4 (per MMBtu) versus gas at \$14 a few years ago appears to be a bargain.

I understand that new technologies are allowing drillers to pull gas out of the ground more cheaply, which has dramatically increased the supply side of the equation. And that users have historically been reluctant to use natural gas because of its high price volatility. For example, electricity producers did not want to expose their cost structure to price chart that looked like the one below.



While new drilling technologies have affected the supply side, shouldn't they also reduce the volatility of the price and therefore encourage more users, such as electricity producers? With the recent run up in oil, it makes sense to me that at some point the substitute affect will drive more secular growth for cleaner, efficient and abundant sources of energy like natural gas.

In addition, with everyone worried about inflation, isn't natural gas a decent way to hedge again the declining value of the dollar?

Thank you for your interest in Mossberg's Investor Digest. I welcome your feedback.

Dave Mossberg

## April 2011 Issue

**Tetragon Financial Group (Euronext Amsterdam:TFG.AS)**- \$7.60, April 29, 2011, Page 3 - Tetragon has a unique offering that's provides investors a \$USD based vehicle to play the Global Credit Markets. Should credit spread continue tightening, the fund should continue to see improving results. Investors looking for such exposure should give Tetragon a close look.

**AdCare Health Systems, Inc. (NYSE-AMEX:ADK)** – \$4.97, April 29, 2011, Page 4 – AdCare is a contrarian play, as there is some uncertainty about medicare funding. Yet AdCare's management team has seized on the current buyers market to build a larger company. Long-term the company may also be a take-out candidate. Investors looking for exposure in this segment of the healthcare industry should take a hard look at AdCare.

**Interphase Corporation (NASDAQ:INPH)**- \$5.41, April 29, 2011, Page 5 – Interphase appears to be making headway on repositioning itself and expanding into potentially much larger and diverse end markets. The company has turned the corner on profitability and shares are likely to appreciate as more detail is provided on end market opportunities.

**Nokia (NYSE: NOK)** – \$9.23, April 29, 2011, Page 6 – For a dominant player in the mobile communications space, 4x EV/EBITDA appears to be a bargain. While it may be a while before the positive results from the new Microsoft alliance are realized, expense reduction efforts should be apparent relatively soon. In addition, the company pays an attractive 5% yield, which should provide a nice return while investors wait to see signs that the new strategic alliance is working. Based on historical returns in excess of 20% and net profit levels north of 10%, the company has \$2.00 per share in earnings power and should easily be able to command a multiple in the high teens.

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## Mossberg's Investor Digest Idea Performance

The table below shows the relative change in the value of the ideas published since August 2010 and the Russell 3000. **Performance data quoted represents past performance and does not guarantee future results.** Current performance of ideas may be lower or higher than the performance quoted.

Company	Pub. Date	Original Price	Recent Price	Change	Russell 3000 Change Since Pub. Date	Relative Perf. vs. Russell 3000
Reddy Ice Holdings Holdings (NYSE: FRZ)	7-Aug-10	2.91	3.24	11.3%	23.7%	-12.3%
FARO Technologies (Nasdaq: FARO)	16-Aug-10	18.83	43.17	129.3%	28.8%	100.5%
BluePhoenix Solutions (Nasdaq: BPHX)	18-Aug-10	1.45	1.84	26.9%	26.9%	0.0%
Apache Corporation (NYSE: APA)	27-Aug-10	89.96	133.37	48.3%	30.2%	18.0%
Imperial Sugar (Nasdaq: IPSU)	10-Sep-10	13.87	13.68	-1.4%	25.1%	-26.5%
ART Technology Group (Nasdaq: ARTG)	24-Sep-10	3.80	5.99	57.6%	20.5%	37.1%
Unifi (NYSE: UFI)	24-Sep-10	13.80	16.32	18.3%	20.5%	-2.2%
Safeguard Scientifics (NYSE: SFE)	30-Sep-10	12.53	19.55	56.0%	21.0%	35.0%
Global Traffic Network (Nasdaq: GNET)	8-Oct-10	5.93	13.43	126.5%	18.5%	107.9%
Pure Cycle Corp. (Nasdaq: PCYO)	19-Oct-10	3.34	3.49	4.5%	18.5%	-14.0%
Triple-S Management Corp. (NYSE: GTS)	29-Oct-10	16.87	20.94	24.1%	16.6%	7.5%
SureWest Communications (Nasdaq: SURW)	29-Oct-10	7.89	14.57	84.7%	16.6%	68.1%
Arden Group	5-Nov-10	93.80	82.79	-11.7%	12.5%	-24.2%
Body Central	5-Nov-10	13.65	24.18	77.1%	12.5%	64.7%
LaserCard	17-Nov-10	4.56	6.25	37.1%	16.8%	20.2%
Mitek (OTCBB: MITK)	24-Nov-10	3.99	5.65	41.6%	14.5%	27.1%
Luby's (NYSE: LUB)	6-Dec-10	6.59	5.00	-24.1%	12.0%	-36.1%
Datalink (Nasdaq: DTLK)	20-Dec-10	4.50	7.97	77.1%	9.8%	67.3%
Ebix (Nasdaq: EBIX)	30-Dec-10	23.74	22.85	-3.7%	8.7%	-12.5%
Liberator Medical Holdings (OTCBB: LBMH)	31-Dec-10	1.20	1.42	18.3%	8.8%	9.5%
ENGlobal (Nasdaq: ENG)	14-Jan-11	4.18	4.08	-2.4%	6.0%	-8.4%
Intersections (Nasdaq: INTX)	16-Jan-11	9.98	15.03	50.6%	6.0%	44.6%
Reis (Nasdaq: REIS)	24-Jan-11	6.71	9.75	45.3%	6.5%	38.8%
MicroFinancial (Nasdaq: MFI)	27-Jan-11	4.11	4.92	19.7%	5.6%	14.1%
Cirrus Logic (Nasdaq: CRUS)	19-Feb-11	24.58	16.56	-32.6%	1.9%	-34.5%
G-III Apparel (Nasdaq: GIII)	21-Feb-11	37.25	44.86	20.4%	4.2%	16.3%
Harding Incorporated (Nasdaq: HDNG)	28-Feb-11	12.35	12.94	4.8%	2.2%	2.6%
Patient Safety Technologies (OTCBB: PTSX)	28-Feb-11	0.90	1.21	34.4%	2.2%	32.3%
Six Flags Entertainment (NYSE: SIX)	18-Mar-11	70.22	68.53	-2.4%	7.0%	-9.4%
Naturally Advanced Technologies (OTCBB: NAD)	21-Mar-11	1.94	3.40	75.3%	5.3%	69.9%
Electsys (Nasdaq: ESYS)	25-Mar-11	5.09	5.09	0.0%	4.0%	-4.0%
World Entry Solutions (Nasdaq: XWES)	28-Mar-11	4.40	4.95	12.5%	4.4%	8.1%
Tetragon Financial Group (Euronext: TFG.AS)	29-Apr-11	7.60	7.60	0.0%	0.0%	0.0%
AdCare (Amex: ADK)	29-Apr-11	4.97	4.97	0.0%	0.0%	0.0%
Interphase (Nasdaq: INPH)	29-Apr-11	5.41	5.41	0.0%	0.0%	0.0%
Nokia (NYSE: NOK)	29-Apr-11	9.23	9.23	0.0%	0.0%	0.0%
			<b>Average</b>	<b>28.4%</b>	<b>11.6%</b>	<b>16.8%</b>

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## Best Idea Profile:

## Tetragon Financial Group (Euronext Amsterdam:TFG.AS)

### DESCRIPTION:

Headquartered in Guernsey, United Kingdom; Tetragon Financial Group Limited is a closed-end investment company that currently invests in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG invests substantially all its capital through the Master Fund, in which it holds a 100% share. Investments are typically floating-rate, senior-secured obligations that generally arise from leveraged buyouts and merger activity. These investments usually are rated B/BB. They also tend to include restrictive covenants. These types of investments have historically stable returns due to senior position in the capital structure and first lien on collateral. Tetragon's managers have significant experience in the credit and structured credit markets. Collectively they have structured in excess of \$40B of transactions across multiple asset types.

### KEY INVESTMENT CONSIDERATIONS:

**Unique Offering** – Tetragon offers investors a pure play in a diversified portfolio of securitized asset classes. The fund also offers greater geographic and sector diversification than many bank loan portfolios. Also, management has a hedge fund style performance incentive (1.5% per annum plus 25% of NAV increase) for the manager to outperform traditional fixed income investment vehicles.

**An Improving Market** – In contrast to the volatility and uncertainty which characterized the prior two years, 2010 witnessed a gradual stabilization of macroeconomic conditions and improvements in corporate credit quality, particularly in the United States. Numerous indicators reflected these positive trends, including: declines in leveraged loan defaults and fewer downgrades to Caa1/CCC+ and below, gains in leveraged loan prices, robust activity in the new issue high yield bond and leveraged loan markets, and a rally in secondary CLO debt and equity prices. In the context of these conditions, TFG's CLO investment portfolio outperformed average market default and Caa1/CCC+ holdings.

**Activist Posture Yields Results** – The Company realized value from its majority (or significant) positions in seven CLO investments during 2010, by positively affecting the outcome of certain corporate governance actions within those transactions, and by increasing the economics via upfront consent fees or long-term fee sharing arrangements.

**Strategic Acquisition** – 2010 was a year of strategic expansion of TFG's asset management platform. The integration of LCM into TFG's platform appears to have gone well. LCM's assets under management grew from approximately \$2.5 billion at the end of 2009 to approximately \$3.0 billion at the end 2010. This growth was a result of the assumption of collateral management duties of a U.S. CLO and the issuance of LCM VIII, a new U.S. CLO, in which the Company acquired a majority stake in the equity tranche.

**Capital Appreciation and Payout** –The fund could experience significant capital gains if the credit spreads continue to tighten in its portfolio. Tetragon is currently targeting a pay-out of 30%-50% of net income.

**US Dollars** – The fund is denominated is \$USD which means investors get access to a globally diversified fund without taking a currency exchange haircut on their investment due to a sinking dollar.

### VALUATION:

Tetragon has a unique offering that's provides investors a \$USD based vehicle to play the Global Credit Markets. Should credit spread continue tightening, the fund should continue to see improving results. Investors looking for such exposure should give Tetragon a close look.

### (Euronext Amsterdam:TFG.AS) Investment Data (as of 4/29/11)

<b>Recent NAV</b>	<b>\$7.60</b>
52-Week NAV Range	\$3.87 - \$8.25
Fiscal Year End	Dec
Dividend (FY2010)	\$0.36
Yield	4.7%
Shares Outstanding	131MM
Average Trading Volume (3 mos)	65k
Estimated NAV	\$996MM
Cash	\$156MM
Long Term Debt	NA
Enterprise Value (EV)	NA
LT Debt/ Equity	NA
BV/ Share	10.85
TTM Revenue	NA
P/ Revenue	NA
TTM EPS	\$4.04
P/ EPS	2x

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## Best Idea Profile:

## AdCare Health Systems, Inc. (NYSE-AMEX:ADK)

### DESCRIPTION:

Headquartered in Springfield, Ohio; AdCare Health Systems, Inc. owns and manages retirement communities, assisted living facilities and nursing homes. ADK also provides home health care services to individuals. AdCare currently manages twenty-nine facilities, comprised of 20 skilled nursing centers, 8 assisted living residences and one independent living/senior housing facility, which total to over 2,400 units. ADK's communities are located in Ohio, Georgia and Alabama. Through its subsidiaries, ADK provides a full complement of administrative services as well as consultative services that permit its local facility leadership teams to better focus on the delivery of healthcare services. AdCare also provides these services to four unaffiliated third party long term care operators and/or owners on a long-term basis. ADK has an ownership interest in ten of the facilities that they manage, comprised of 100% ownership of four of the skilled nursing centers and six assisted living facilities. The company owned assisted living facilities are operated under the name Hearth & Home, with the tag line "Home is where the hearth is..." AdCare also maintains a development/consulting initiative which provides potential management opportunities to its core long-term care business.

### KEY INVESTMENT CONSIDERATIONS:

**Increased Demand and Cash Flows** – Assisted Living and Nursing Care facilities are reliable generators of cash flow with occupancy rate routinely above 80. An aging population of "Baby Boomers" should provide strong long-term demand trends for AdCare's services.

**Geographic Focus** – The assisted living market is large and highly fragmented. AdCare's strategic focus is on secondary markets. These markets offer ample opportunity and may be somewhat less competitive.

**Key Acquisitions** – The Company's intends to actively look for suitable acquisitions that fit strategically on both a business line and geographic basis. Several key acquisitions occurred during FY10. AdCare has taken advantage of a buyers' market to transform the size of the company. AdCare continues to evaluate new companies for more opportunities.

**Growth** - AdCare has put more than 25 facilities under contract since it began an M&A program at the end of 2009. When you include the transactions that the company has announced, or is in the process of closing, AdCare's annualized revenue run-rate exceeds \$175 million. This represents an increase of more than 229% over 2010 and more than 556% over revenues in 2009.

**Tangible Assets** - AdCare has \$37.6 million in Property and Equipment on its balance sheet. A substantial portion of the company's assets are in real estate.

**Insider Ownership** – Management beneficially owns 29.4% of the company's common shares. Therefore management and shareholder interest should be aligned.

### VALUATION:

AdCare is a contrarian play as there is some uncertainty about Medicare funding. Yet AdCare's management team has seized on the current buyers market to build a larger company. Long-term the company may also be a take-out candidate. Investors looking for exposure in this segment of the healthcare industry should take a hard look at AdCare.

#### (NYSE-AMEX:ADK)

Investment Data (as of 4/29/11)

<b>Recent Price</b>	<b>\$4.97</b>
52-Week Range	\$2.86 - \$5.48
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	8.4MM
Average Trading Volume (3 mos)	25,602
Market Capitalization	\$41MM
Cash	\$8MM
Long Term Debt	\$47MM
Enterprise Value (EV)	\$80MM
LT Debt/ Equity	3.2x
BV/ Share	\$1.68
TTM Revenue	\$53MM
P/ Revenue	0.8x
TTM EPS	\$(0.40)
P/ EPS	NA
TTM EBITDA	\$(375)K
EV/ EBITDA	NA

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## Best Idea Profile:

## Interphase Corporation (NASDAQ:INPH)

### DESCRIPTION:

Headquartered in Plano, Texas; Interphase provides electronic systems and subsystems for use in communications and electronic aerospace/defense equipment. The company's solutions are used in next generation wireless 4G (LTE and WiMAX), cloud computing, voice/video/data convergence applications. Interphase has sales offices in the United States and Europe. In addition, the company also provides design and manufacturing services (approximately 5% of revenue). Clients include Alcatel-Lucent, Emerson Network Power, Fujitsu Ltd., Genband, Hewlett Packard, ip.access, Nokia Siemens Networks, Samsung, and Sun Microsystems.

### KEY INVESTMENT CONSIDERATIONS:

**Companywide Restructuring & Repositioning** – Over the past two years, Interphase has taken several steps to lower its cost base and diversify into new markets. Much of the restructuring effort, (> \$5 million in annual savings) has already been completed and now that revenue growth has resumed, the company has returned to profitability in first quarter. In addition, INPH is diversifying its product portfolio by adding new telecom/IO building blocks, new engineering and design services and aero defense solutions and components. Interphase is leveraging its reputation and market leadership in legacy T-1 based products to penetrate new markets.

**Expansion of 4G Networks** – Interphase is moving into 4G mobile base stations at a time when the new network is the early stages of build out. To provide high density coverage to meet the bandwidth demand of 4G networks, more base stations are required. Instead of building out large (and unsightly) towers, small base stations, such as those that sit on top of light or utility poles, are being developed. These smaller base stations, which use INPH solutions, are so small that they can be deployed in small and even mobile footprint, such military vehicles and defense networks, utility companies, ships and airport vans.

**Engineering Design Services** – The emerging market build out (especially Asia) is expanding the market for contract engineering. The contract manufacturing market for computers and telecom products is estimated to grow from just over \$200mm in 1999 to nearly \$350MM in 2013 (source BCC Research). Interphase has the design and manufacturing capabilities to pursue these expanding markets.

**Aero Defense Communications Systems** – This is a new market which is value added and has higher margins. Due to the nature of the offerings needed this market is unlikely to draw intense competition from Asian Competitors.

**Mystery Market** – The company has entered a new technology in the embedded computer vision market and is being tight lipped about giving any specific details. The new market will diversify the company and provide a potential growth opportunity. The market initially targeted is expected to be \$1.2 billion

**Risks** - On April 7th, 2011 MOSAID Technologies announced that it has initiated patent infringement litigation against NVIDIA Corporation, Freescale Semiconductor, Inc. and Interphase Corporation. In its complaint, MOSAID asserts that Freescale infringement on a chip that is used by Interphase. Freescale has agreed to indemnify INPH against any damages, which should mitigate this as a significant issue.

### VALUATION:

Interphase appears to be making headway on repositioning itself and expanding into potentially much larger and diverse end markets. The company has turned the corner on profitability and shares are likely to appreciate as more detail is provided on end market opportunities.

### (NASDAQ:INPH)

Investment Data (as of 4/29/11)

<b>Recent Price</b>	<b>\$5.41</b>
52-Week Range	\$1.17 - \$7.59
Fiscal Year End	Dec
Shares Outstanding	6.8MM
Average Trading Volume (3 mos)	400k
Market Capitalization	\$37MM
Cash	\$9.6MM
Long Term Debt	N/A
Enterprise Value (EV)	\$27MM
LT Debt/ Equity	N/A
BV/ Share	\$1.70
TTM Revenue	\$21.1M
P/ Revenue	1.8x
TTM EPS	(\$0.86)
P/ EPS	NA
TTM EBITDA	(\$5MM)
EV/ EBITDA	NA

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## Best Idea Profile: Nokia Corporation (NYSE:NOK)

### DESCRIPTION:

Headquartered in Espoo, Finland; Nokia Corporation manufactures mobile devices and provides Internet, digital mapping and navigation services internationally. Nokia also offers Internet services focusing on music, navigation, media, and messaging along with tools that enable developers to create applications under the Ovi brand name. NOK's NAVTEQ segment provides various digital map information and related location-based content and services to mobile device and handset manufacturers, automobile manufacturers, navigation systems manufacturers, software developers, Internet portals, parcel and overnight delivery services companies, and governmental entities. The company has facilities in 9 countries and sells products in over 160 countries.

### KEY INVESTMENT CONSIDERATIONS:

**New Strategic Alliance** – The emergence of the smartphone and platform driven services, along with new innovative competitors (iPhone & Google), has left Nokia lagging in market share in recent years. However, Nokia still has a major worldwide telecom franchise. NOK sells more than 1-in-3 smart phones globally and more than 1.3 billion people connect to one another with a Nokia device. To address its market share loss, NOK has established a broad-based partnership with Microsoft. The agreement pairs Microsoft's operating systems and browser with Nokia's installed device and service base. NOK intends to ramp up its capacity for the development of Nokia smartphones based on the Windows Phone platform, combined with NOK's broad range of mobile phones and its services portfolio. By combining NAVTEQ's capabilities with Microsoft's BING browser, Nokia may have some new and unique monetization possibilities on the horizon. The new alliance will also allow Nokia to leverage Microsoft's applications such as office solutions, gaming and productivity tools. Therefore, Nokia will now have a bundled solution that can compete with Google (Gmail and navigation) and Apple (iPhone and iTunes).

**Restructuring efforts to restore returns** – Nokia has announced plans to consolidate site operations, reduce its global workforce and more clearly delineate its global R&D efforts. Over the next couple of years, these measures will save the company more than \$1 billion in annual operating expenses. The alliance with Microsoft, will also allow the company to jettison its own costly operating system development efforts. These combined moves will lower costs significantly, position the company to more effectively compete and, return the company to its history profitability/ return levels.

**New Leadership** – Nokia appointed Stephen Elop as the Company's new CEO last September. A veteran of Silicon Valley as a technology executive his last position was as President of Microsoft's Business Division. His intimate knowledge of Nokia's new partner should prove most helpful and the company develops and expands a new smartphone platform.

**Transitioning to Smartphones** – For the First Quarter of FY2011 the company reported total mobile device volumes of 108.5 million units in Q1 2011, up 1% year-on-year basis. Yet the company reported converged mobile device (smartphone and mobile computer) volume of 24.2 million units in Q1 2011, an increase of 13% on a year-over-year basis.

### VALUATION:

For a dominant player in the mobile communications space, 4x EV/EBITDA appears to be a bargain. While it may be a while before the positive results from the new Microsoft alliance are realized, expense reduction efforts should be apparent relatively soon. In addition, the company pays an attractive 5% yield, which should provide a nice return while investors wait to see signs that the new strategic alliance is working. Based on historical returns in excess of 20% and net profit levels north of 10%, the company has \$2.00 per share in earnings power and should easily be able to command a multiple in the high teens.

#### (Nokia Corp: NYSE)

Investment Data (as of 4/29/11)

<b>Recent Price</b>	<b>\$9.23</b>
52-Week Range	\$7.73 - \$12.28
Fiscal Year End	Dec
Dividend	\$0.46
Yield	5.0%
Shares Outstanding	3.7B
Average Trading Volume (3 mos)	30MM
Market Capitalization	\$34B
Cash	\$17B
Long Term Debt	\$7B
Enterprise Value (EV)	\$24B
BV/ Share	\$5.67
TTM Revenue	\$64B
P/ Revenue	0.5x
TTM EPS	\$0.74
P/ EPS	12x
TTM EBITDA	\$5.7B
EV/ EBITDA	4x

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The value proposition of the digest is essentially an "Idea Generator". During the course of my 15-year career in capital markets, I've had the chance to meet and work closely with some very smart professional investors who have consistent track records of outperforming the market indexes. Some of these investors, which include mutual fund managers, hedge fund managers, and other professional investors, are kind enough to share their best ideas with me. I conduct my own analysis of their ideas and publish summaries of those ideas I think represent timely investment opportunities. Over time, I trust the majority of these ideas will pan out and help subscribers generate index-beating returns.

The goal of the Best Idea Profiles in this newsletter is to describe all of relevant investment merits and risks of a company in one page. It is not intended to be an exhaustive report including every detail of a company. With limited space available, I am forced to include only those data points that I feel are most important for subscribers to know before they begin their own due diligence. Thank you for your interest in Mossberg's Investor Digest.

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