

# Ranking Model: Modules, Weight Ranges & Factor Basics

\*Module weights differ by universe/model\*

## Characteristics:

- Mispriced cash flows
- Favors businesses that have been stable, durable, posting solid returns and cash flows
- Management appears to be managing/investing those cash flows appropriately and to the benefit of shareholders with high integrity to their accounting

## Balance Sheet (25-35% weight):

- Assesses the balance sheet's capacity to fund internal needs.
- Looking for surplus capital that can be returned to shareholders efficiently
- Favors firms investing in defending competitive moats (i.e. R&D)
- Stable to declining capex trends – not a forecast

**Summary:** Efficient Capital Allocators that can fund their business and manage their capital through internally generated capital and allocate excess capital through shareholder friendly initiatives

## Earnings Quality (20-30% weight):

- Classic accruals scoring
- Healthy evolution of working capital
- Stable to improving margins (subject to cyclical re-ranking engine)<sup>1</sup>

**Summary:** Looking for high levels of managerial integrity through traditional and proprietary research from the field of behavioral finance.

## Valuation (10-15% weight):

- Persistent and consistent FCF & OCF
- Dividend Initiators or Growers with available FCF
- Stocks with low P/E ratios

**Summary:** In many ways, we feel like valuation is heavily trafficked and are module has only one proprietary metric. For those who like seeing lots of factors, we would love to discuss. Not just in valuation but across the entire model.

## Market Quality (10-15% weight):

- Long term reversals (broken/break-out charts), see our stock specific CFTCs
- Momentum
- Consistency, as measured by “batting average”

**Summary:** Looking for firms with outsized negative and positive trailing returns that are showing signs of strength or weakness respectively

## Indicator Module (5-10% weight):

**Summary:** The application of sophisticated quantitative factors that are completely devoid of any direct connection to fundamentals. In some instances, these are bimodal flags that indicate good or bad underlying market behavior.

## Analyst Quality (0-10% weight):

- Looking to exploit PAED
- Surprise scores including information relevance of analyst changes
- Looking to arb expectations vs. valuation module

**Summary:** Some of the common factors found in the anomalies literature around the interaction of analyst behavior and share price performance.

<sup>1</sup> Please contact us if you would like a detailed explanation of our Cyclical Re-ranking Process

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