Sabrient Systems

Baker's Dozen Commentary – September 2023

September 6, 2023

Scott Martindale, President & CEO

Key talking points this month include:

1. Sabrient Systems and subsidiary Gradient Analytics form a **unique collaboration of engineers and forensic accountants** who leverage quantitative models, a **process-driven approach** (led by founder and former NASA engineer David Brown), and **expertise in financial statement analysis** (through subsidiary Gradient Analytics, led by Brent Miller, CFA).

2. Our portfolios displayed **consistent performance** during 2009–2014, but then the market became narrow and news-driven, dominated by mega caps and passive index investing, leading to **historic divergences** in Growth versus Value factors and Large versus Small caps, which was challenging for our value-oriented *Growth at a Reasonable Price* (aka GARP) portfolio strategies.

3. In December 2019, we implemented **process enhancements to make our approach more all-weather**, including proprietary new alpha factors *Earnings Quality Rank v2* and *Growth Quality Rank*. Our GARP portfolios now provide diversified exposure to Value & Growth factors, cyclical & secular growers, and across market caps, leading to **significant improvement in performance** relative to the benchmarks for all Sabrient's portfolios … *while maintaining the potential for significant outperformance*.

4. 22 out of 27 live and recently terminated portfolios have outperformed their benchmarks. The **Q2 2022 *Baker's Dozen*** terminated on 7/20 with a gross total return of **+28.3% vs. +3.8%** for SPY. In addition, as of 9/1, the next-to-terminate Q3 2022 *Baker's Dozen* is up **+24.5% vs. +16.2%** for SPY, and Forward Looking Value 10 is up **+37.4% vs. 19.1%** for SPY.

5. Sabrient portfolios currently in primary market are **Q3 2023 *Baker's Dozen,* Forward Looking Value 11, Dividend 45, and Small Cap Growth 39.**

6. **Q3 2023 Baker's Dozen** holds 13 concentrated positions, a small-mid bias relative to the SPY benchmark, and a growth bias, which together offer the potential "rocket fuel" for outsized gains.

7. **Forward Looking Value 11** holds 34 stocks selected similarly to the Baker's Dozen but with a greater value bias. Some investors prefer its greater diversification while still leveraging the Baker's Dozen selection approach.

8. **Dividend 45** employs a GARP & Income strategy that seeks capital appreciation from quality companies with a solid growth history that distribute reliable dividends. It pays a ***current yield of 5.3%***.

9. **Small Cap Growth 39** provides an *alpha-seeking alternative* to a passive position in the Russell 2000 for small-cap exposure, as small caps may be poised to outperform as market breadth improves.

10. **Inflation continues to decline** as supply chains recover, money supply falls or stabilizes, interest rates remain elevated, consumer goods demand stays weak, and wage inflation slows. If the 2-year Treasury yield stays below 5%, I think the economy and stocks will be fine and the extreme yield curve inversion will reverse. I believe the Fed is (or should be) done raising rates.

11. **Market breadth has improved** since June 1, with small caps, value, quality, high dividend, and equal weight performing well, which bodes well for market health through year end (and beyond).

12. Elevated valuations on the major indexes were primarily driven by a handful of mega-cap Tech names (e.g., the AI-oriented "Magnificent Seven"). Minus those stocks, **valuations across the broader market are much more reasonable**. For example, as of 9/1, the forward P/E on SPY is 19.2x, but equal-weight S&P 500 (RSP) is 15.5x and S&P 600 small cap (SPSM) is 13.9x, as of 9/1.

13. Investors may be better served by active selection rather than the passive indexes, *which should continue to be **favorable for Sabrient's portfolios***—all of which combine Value, Quality, and Growth factors and provide exposure to both secular and cyclical growth trends.

Please let me know how I can better serve your needs, including speaking at your events (whether by video or in person)!

Market commentary:

Stocks and bonds both sold off in August before finishing the month with a flourish, as signs that the jobs market is weakening suggest an end to Fed rate hikes is nigh. The summer correction in equities was entirely expected after the market's extraordinary display of strength for the first seven months of the year in the face of a relentlessly hawkish Federal Reserve, even as CPI and PPI have fallen precipitously. State Street's Institutional Investor Risk Appetite Indicator moved dramatically from bearish in May to highly bullish at the end of July, and technical conditions were overbought. And although the depth of the correction took the bulls by surprise, it was quite orderly with the CBOE Volatility Index (VIX) staying tame (i.e., never even approaching the 20 handle). In fact, a 5% pullback in the S&P 500 is not unusual given the robust 20% YTD return it had attained in those seven months. Weakness in bonds, gold, and commodity prices also reversed.

Moreover, IG, BBB, and HY bond spreads barely moved during this market pullback despite rising real rates, which signals that the correction in stocks is more about valuations in the face of the sudden spike in interest rates (and fears of "higher for longer") rather than the health of the economy, earnings, or fundamentals. Certainly, the US economy looks much stronger than any of our trading partners, with the Atlanta Fed's GDPNow model estimating a robust 5.6% growth for Q3 (as of 9/6) and the dollar surging in a flight to safety [in fact, the US Dollar Index Fund (UUP) is at a YTD high].

However, the normal August weakness in stocks seemed to have been worsened not just by both those overbought technical conditions but also with the sudden and rapid weakness in bond markets and the resultant rise in *real* interest rates (as nominal rates spiked while inflation remained stable). Admittedly, the surge in yields took me by surprise, particularly given the steep drop in inflation and restored supply chains. Catalysts for the selloff in bonds (and the commensurate rise in both nominal and real yields) included:

1. **"Higher for longer"** expectation for interest rates due to persistently hawkish Fed language (e.g., July FOMC minutes suggesting "significant upside risks to inflation, which could require further tightening of monetary policy")
2. Fed QT (**quantitative tightening**), as it allows maturing bonds to roll off the balance sheet—and not replace them (which reduces demand for Treasuries)
3. The so-called **"bond vigilantes"** protesting the massive bond auctions this month (by selling their holdings or boycotting the auction), out of disdain for our federal government's fiscal profligacy and expanding deficit during a time of positive GDP growth
4. **Lower demand from foreign buyers** of US Treasuries like China and Saudi Arabia, who have shrunk holdings to multi-year lows
5. The escalating **"dollar revolt" by the BRICS+ countries** who are pushing for an alternative reserve currency (and perhaps a gold standard)
6. The worsening economic situation in **China's economy and its descent into deflation**, which threatens a slowdown of the global economy (despite the short-term benefit of reducing inflation in the rest of the world)

In aggregate, these catalysts created a climate of increasing supply of bonds in the face of falling demand.

Nevertheless, investors have generally retained their enthusiasm about stocks despite elevated valuations, rising real interest rates (creating a viable alternative to stocks), a small equity risk premium, and a Fed seemingly hell-bent on inducing recession in order to crush sticky core inflation. Perhaps stock investors have been emboldened by the unstoppable secular force of artificial intelligence (AI) and its immediate benefits to productivity and profitability (not just "hope")—as evidenced by Nvidia's (NVDA) remarkable earnings release.

However, keep in mind, the US is not an island unto itself but part of a complex global economy and thus not immune to contagion, so the strong GDP growth rate expected for Q3 will likely come down in future quarters. I have discussed in recent blog posts about how the Bull case seems to outweigh the (highly credible) Bear case. But the key tenets of the Bull case—and avoidance of recession—include a stable China. Since 2015, I have been talking about a key risk to the global economy being the so-called "China Miracle" gradually being exposed as a House of Cards, and perhaps never before has it seemed so close to implosion, as it tests the limits of debt-fueled growth—and a creeping desperation coupled with an inability (or unwillingness) to pivot sharply from its longstanding policies makes it even more dangerous. Notably, US imports from China are down 25% YTD versus last year, as our consumer goods demand falls and China dumps discounted goods on the global market.

Yet despite all the significant challenges and uncertainties, I still believe stocks have been in a normal/predictable summer consolidation—particularly after this year's surprisingly strong market performance through July—with more upside to come. My only caveat has been that the 2-year Treasury yield needs to remain below 5%—a critical "line in the sand," so to speak. Although I (and many others) often cite the 10-year yield because of its link to mortgage rates, I think the 2-year is important because it reflects a broad expectation of inflation and the duration of the Fed's "higher for longer" policy. Notably, during this latest spike in rates, the 2-year again eclipsed that critical 5-handle for the third time this year and challenged the 7/5 intraday high of 5.12%, before pulling back sharply to close the month below 4.9%.

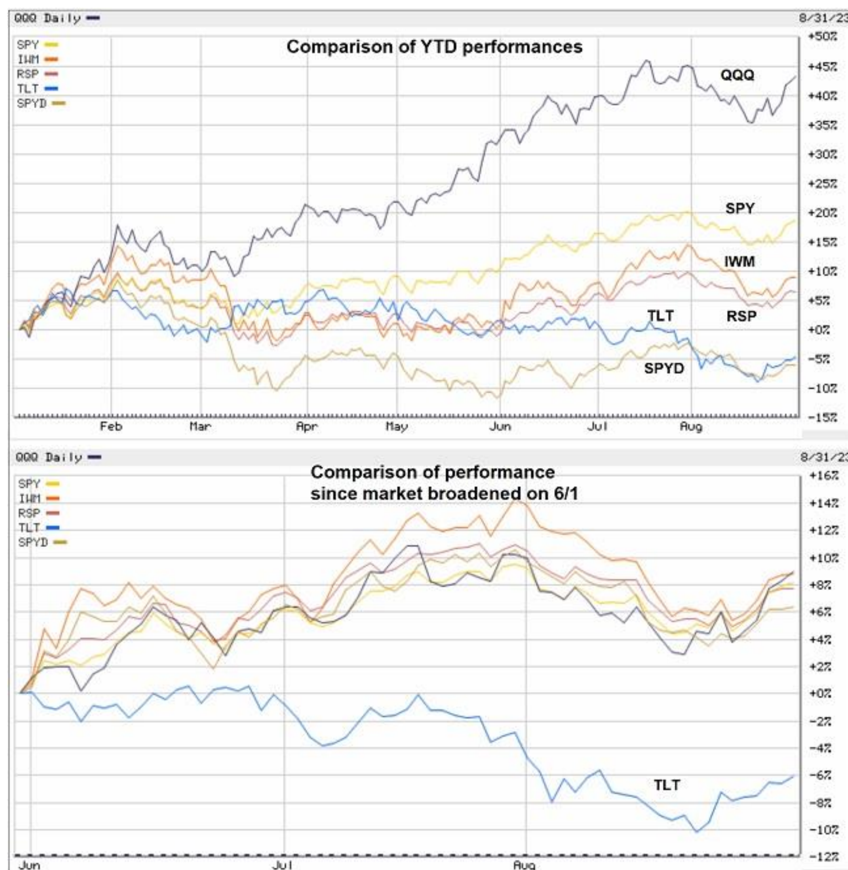
If the 2-year reverses again and surges to new highs, I think it threatens a greater impact on our economy (as well as our trading partners') as businesses, consumers, and governments manage their maturing lower-rate debt—and ultimately impacts the housing market and risk assets, like stocks. But instead, I see it as just another short-term rate spike like we saw in March and July, as investors sort out the uncertainties. Indeed, August finished with a big fall in rates in concert with a big jump in stocks, gold, crypto, and other risk assets across the board, as cracks in the jobs and housing markets are showing up, leading to a growing belief that the Fed is finished with its rate hikes—as I think they should be, particularly given the resumption of *disinflationary* secular trends and a *deflationary* impulse from China.

As I have written about frequently in the past, the Fed will be constrained in raising rates by the unintended impacts outside of its focus on US inflation and unemployment—particularly as *real* rates rise. These include the critical banking sector and housing market, as well as emerging markets and our primary international trading partners. But it's not the height of interest rates that matters as much as how long they stay high.

The average 30-year mortgage rate has surpassed 7.5% for the first time since 2000, and the National Association of Realtors (NAR) reported that existing-home sales were down -16.6% year over year. For the moment, it may seem that mortgage rates and their impact on the all-important housing market (for consumer "wealth effect") seem to be the only part of the economy significantly impacted by rising rates, as businesses and consumers remain surprisingly resilient. But the lag effects—once they arrive in earnest—may be onerous. As Powell said in his Jackson Hole speech, the Fed's job is *"complicated by uncertainty about the duration of the lags with which monetary tightening affects economic activity and especially inflation."*

Once the economy fully reflects those lag effects, it might finally allow the Fed to pronounce its war on inflation done, leading to a policy pivot that would be expected to spark a market rally across risk assets.

The chart below shows YTD performances of various segments of the equities market, as well as the improving market breadth since June 1. It compares the cap-weighted QQQ and SPY versus equal-weight S&P 500 (RSP), Russell 2000 small caps (IWM), S&P 500 High Dividend (SPYD), and iShares 20+ Year Treasury (TLT).



It illustrates how the stock market displayed an extreme investor preference for the mega-cap Tech juggernauts (which counterintuitively serve as a *defensive* play due to their market dominance and "wide moats"), but over the past 3 months has rotated into much better breadth across all segments, including smaller caps and high dividend payers. Also, you can see that SPYD and TLT are badly trailing YTD, but since 6/1 SPYD has kept up with the other equity indexes while TLT continued to sell off—until surging with the others during the last two weeks of August.

Regarding elevated valuations in the major indexes, my observation is that they are primarily driven by a handful of mega-cap Tech names. Minus those stocks, valuations across the broader market are much more reasonable, as I discuss in detail in my latest blog post. For example, the forward P/E on SPY is 19.2x, but on equal-weight S&P 500 (RSP) it is only 15.5x, and for S&P 600 small caps (SPSM) it is 13.9x. So, perhaps stock valuations in general—outside of the Big Tech juggernauts—may not be so bad after all.

Indeed, rather than passive positions in the broad market indexes, investors may be better served by strategies that seek to exploit improving market breadth and the performance dispersion among individual stocks. Sabrient's portfolios include ***Baker's Dozen, Forward Looking Value, Small Cap Growth, and Dividend***, each of which provides exposure to market segments and individual companies that our models suggest may outperform.

Many market commentators expect mean reversion in the large/small valuation divergence and are suggesting increased small cap exposure. *The new **Sabrient Small Cap Growth (SCG 39)** portfolio provides an alpha-seeking alternative to the passive Russell 2000 index for gaining such exposure.* The table below shows gross active returns of all our SCG portfolios since December 2019—when Sabrient introduced the enhanced version of our process-driven *Growth at a Reasonable Price* (GARP) selection approach, which targets a *balance between cyclical and secular-growth* sectors:

Small Cap Growth - Gross return thru: 9/1/2023

Portfolio	Launch	Close	Gross Return	IWM Return	Active
SCG 25 **	12/12/19	3/12/21	30.7%	45.0%	-14.4%
SCG 26	3/11/20	6/11/21	108.9%	87.3%	21.6%
SCG 27	6/9/20	9/9/21	53.0%	51.0%	1.9%
SCG 28	9/4/20	12/6/21	64.2%	45.3%	18.9%
SCG 29	3/15/21	6/15/22	-15.7%	-25.7%	10.0%
SCG 30	6/11/21	9/12/22	-9.6%	-17.3%	7.7%
SCG 31	9/8/21	12/8/22	9.2%	-18.0%	27.1%
SCG 32	12/6/21	3/6/23	3.5%	-12.3%	15.8%
SCG 33	3/4/22	6/5/23	0.4%	-8.0%	8.3%
SCG 34	6/1/22	9/1/23	12.4%	5.5%	6.9%
SCG 35	8/29/22		10.6%	3.6%	7.0%
SCG 36	11/14/22		2.2%	4.4%	-2.2%
SCG 37	2/10/23		-6.6%	0.9%	-7.5%
SCG 38	5/8/23		13.9%	10.0%	3.9%
SCG 39	8/7/23		NEW!		

** SCG 25 outperformed IWM (+146% vs. +137%) after pandemic low on 3/23/20

As shown, 11 of the 14 portfolios have outperformed on a gross total return basis. The only underperformers have been:

- SCG 25, which launched in December 2019 right before the COVID meltdown (However, post-COVID it *outperformed* IWM +146% to +137%, from 3/23/2020 through 3/12/2021 termination).
- The more recent SCG 36 (launched November 2022) and SCG 37 (launched February 2023), which both hold much higher allocations to the Energy and Financial sectors (averaging roughly 40% total weight vs. 20% in IWM) that took a hit in Q1 from recession fears and the banking crisis but have been finding their footing again.

*We believe today is a great buying opportunity, particularly for the **Sabrient Small Cap Growth** portfolio*, but also for:

- ***Q3 2023 Baker's Dozen***, which is concentrated (13 positions) and small-mid-biased relative to the SPY benchmark (5/4/4 in large/mid/small holdings) and offers potential "rocket fuel" for outsized gains.
- The annual ***Forward Looking Value (FLV 11)*** portfolio, which holds 34 stocks selected similarly to the Baker's Dozen process but with a slightly greater value bias.

In addition, as dividend strategies gain traction again, the ***Sabrient Dividend*** portfolio seems like a good bet. It seeks both capital appreciation and reliable income by identifying quality companies selling at an attractive price with a solid growth forecast, a history of raising dividends, a good coverage ratio, and a target yield of 4-5% or more. ***Dividend 45** offers a current yield of **5.3%***.

Portfolio performance update:

Sabrient's GARP model combines growth, value, and quality factors while searching across all market caps to find opportunities. As I have explained in the past, market divergences in 2018-19 (especially due to the trade war with China) were different from anything we had seen in developing our longstanding high-performing model and portfolio selection process, and it severely impacted our performance as well as most other value-biased strategies.

In response, we implemented new process enhancements in December 2019 to produce portfolios displaying a better balance between cyclical and secular growth companies and across market caps, lower volatility relative to the benchmarks, and greater portfolio resiliency (i.e., "all weather"). Indeed, the enhanced process has improved relative performance, particularly when the market rotates away from speculative growth toward a preference for value and quality.

Baker's Dozen & FLV - Gross return thru: 9/1/2023

Portfolio	Launch	Close	Gross Return (FTP website)	SPY Return	Active Return
Q4 2021 BD	10/20/21	1/20/23	9.1%	-10.8%	19.9%
Q1 2022 BD	1/20/22	4/20/23	4.5%	-6.0%	10.5%
Q2 2022 BD	4/20/22	7/20/23	28.3%	3.8%	24.5%
FLV 10	7/15/22		37.4%	19.1%	18.4%
Q3 2022 BD	7/20/22		24.5%	16.2%	8.3%
Q4 2022 BD	10/20/22		0.0%	25.0%	-25.0%
Q1 2023 BD	1/20/23		4.3%	14.8%	-10.5%
Q2 2023 BD	4/20/23		21.2%	10.0%	11.2%
Q3 2023 BD	7/20/23		0.8%	-0.2%	1.0%
FLV 11	7/24/23		-0.5%	-0.7%	0.1%

Sabrient Dividend - Gross return thru: 9/1/2023

Portfolio	Launch	Close	Gross Return	SPY Return	Active	SPYD Return	Active
Div 35	3/19/21	3/17/23	-3.3%	3.2%	-6.5%	1.9%	-5.2%
Div 36	6/22/21	6/22/23	7.0%	6.3%	0.6%	-1.9%	8.9%
Div 37	9/20/21		23.3%	6.8%	16.5%	4.5%	18.9%
Div 38	12/20/21		13.3%	1.5%	11.7%	-0.5%	13.7%
Div 39	3/18/22		-1.5%	3.6%	-5.1%	-7.5%	6.0%
Div 40	6/15/22		4.3%	21.5%	-17.1%	-2.0%	6.3%
Div 41	9/12/22		-3.0%	11.6%	-14.5%	-6.5%	3.6%
Div 42	12/9/22		-1.6%	16.1%	-17.7%	-3.7%	2.1%
Div 43	3/8/23		-1.1%	14.0%	-15.1%	-3.2%	2.1%
Div 44	6/5/23		7.3%	6.0%	1.2%	4.9%	2.4%
Div 45	9/1/23		NEW!				

Small Cap Growth - Gross return thru: 9/1/2023

Portfolio	Launch	Close	Gross Return	IWM Return	Active
SCG 32	12/6/21	3/6/23	3.5%	-12.3%	15.8%
SCG 33	3/4/22	6/5/23	0.4%	-8.0%	8.3%
SCG 34	6/1/22	9/1/23	12.4%	5.5%	6.9%
SCG 35	8/29/22		10.6%	3.6%	7.0%
SCG 36	11/14/22		2.2%	4.4%	-2.2%
SCG 37	2/10/23		-6.6%	0.9%	-7.5%
SCG 38	5/8/23		13.9%	10.0%	3.9%
SCG 39	8/7/23		NEW!		

As shown in the table, **22 of our 27** live and recently terminated portfolios have outperformed their benchmarks (based on gross total return as of 9/1). *[Note: In this case, benchmarks are the S&P 500 (SPY), S&P 500 High Dividend (SPYD), and Russell 2000 (IWM).] Gross total returns come from the ftportfolios.com website (without transactional sales charge).]* However, the more recent Baker's Dozen and SCG portfolios that launched in Q4 2022 and Q1 2023 are lagging early because they hold overweights in Energy and Financials, which pulled back significantly in Q1 due to fallout from the banking crisis and sudden fears of a severe recession—*but we remain confident in their positioning. Indeed, those sectors have firmed up.*

Notably, our **Sabrient Dividend Portfolio** is different from most higher-yielding dividend products in that it seeks both capital appreciation and reliable income by identifying quality companies selling at an attractive price with a solid growth forecast, a history of raising dividends, a good coverage ratio, and a target yield of 4-5% or more (Dividend 45 has a *current yield of 5.3%*). Although the more recent portfolios are lagging the S&P 500, this is typical of virtually all dividend-oriented portfolios today, and in fact *our recent Dividend portfolios continue to perform in line with or better than those products*, such as S&P 500 High Dividend ETF (SPYD) shown.

Performance of the next-to-terminate Q3 2022 *Baker's Dozen*:

The **Q2 2022 *Baker's Dozen*** terminated on 7/20/2023 after 15 months of life and returned **+28.3% vs. +3.8%** for the S&P 500—for an *active return of +24.5%*. Similarly, the **Q3 2022 *Baker's Dozen***, which launched on 7/20/2022 and terminates in October, is also outperforming **+24.5% vs. +16.2%** for SPY, and **Forward Looking Value 10**, which launched on 7/15/2022 and also terminates in October, is also well ahead of the SPY, **+37.4% vs. +19.1%**, for an *active return of +18.4%*, as of 9/1.

Q3 2022 Baker's Dozen Portfolio

Ticker	Company Name	Sector	Return	Fwd P/E at Launch	Current Fwd P/E	Est. NTM EPS Growth at Launch	Actual EPS Growth
TMHC	Taylor Morrison Home Corporation	Consumer Discretionary	79.5%	2.9	6.9	54.4%	31.4%
AVGO	Broadcom Inc.	Information Technology	75.5%	12.9	19.6	22.4%	19.0%
ON	ON Semiconductor Corporation	Information Technology	65.4%	12.2	18.3	26.2%	17.0%
HRI	Herc Holdings Inc.	Industrials	34.0%	8.2	9.1	46.8%	28.5%
VLO	Valero Energy Corporation	Energy	27.2%	4.6	7.2	261.9%	68.5%
PGR	The Progressive Corporation	Financials	22.1%	19.5	18.5	81.4%	-1.5%
MRO	Marathon Oil Corporation	Energy	20.4%	4.3	9.4	118.2%	-6.6%
CHDN	Churchill Downs Incorporated	Consumer Discretionary	18.1%	19.8	22.4	48.7%	19.6%
PLAB	Photronics, Inc.	Information Technology	12.2%	9.9	11.2	41.0%	38.5%
DVN	Devon Energy Corporation	Energy	-0.9%	5.8	8.8	101.0%	-6.6%
BOX	Box, Inc.	Information Technology	-4.1%	22.2	16.0	36.6%	40.2%
CF	CF Industries Holdings, Inc.	Materials	-5.3%	4.9	13.5	86.2%	-13.0%
LNTH	Lantheus Holdings, Inc.	Health Care	-9.3%	24.3	11.6	108.2%	145.2%
		Average =	**24.5%**	**11.7**	**13.3**	**79.5%**	**29.2%**
SPY	SPDR S&P 500 ETF Trust		16.2%				
RSP	Invesco S&P 500 Equal Weight		9.4%				
MDY	SPDR S&P MidCap 400 ETF Trust		13.2%				
IWM	iShares Russell 2000 ETF		6.9%				

Let's take a closer look at the next-to-terminate **Q3 2022 *Baker's Dozen***. Like all our portfolios, it was selected based on Sabrient's *forward-looking* GARP selection approach that relies upon the consensus EPS growth estimates of the sell-side analyst community. It launched on 7/20/2022 with a diverse mix across market caps, with 5 large caps, 4 mid-caps, and 4 small caps, which gave it a small-mid bias relative to the benchmark S&P 500. It had an overweight in attractively valued "deep cyclical" sectors (Energy, Industrials, Materials), i.e., 5 positions out of 13, plus 2 from Consumer Discretionary, 1 Healthcare, and 4 Technology names. As for Value vs. Growth exposure, the portfolio launched with 54% allocation (7 positions) to the Growth factor, which was close to the benchmark's 60% weight (as the cap-weighted index is dominated by mega-cap Growth stocks).

As shown in the table above, almost all the names failed to meet EPS estimates as the economy weakened significantly, but the portfolio still did well on the strength of forward expectations plus some P/E multiple expansion. Regardless, the overall portfolio has outperformed all relevant large cap, mid-cap, and small-cap benchmarks (including both cap-weight and equal-weight), led by a diverse group including homebuilder Taylor Morrison Home (TMHC), specialty semiconductor makers Broadcom (AVGO) and ON Semiconductor (ON), and construction equipment rental company Herc Holdings (HRI). They offset laggards like medical diagnostics firm Lantheus Holdings (LNTH), fertilizer maker CF Industries (CF), content management software firm Box Inc. (BOX), and independent oil & gas producer Devon Energy (DVN).

Overview of the latest Q3 2023 *Baker's Dozen* Portfolio:

The **Q3 2023 *Baker's Dozen*** launched on 7/20. Its 13 holdings are shown in table below, along with statistics on forward valuation, consensus next-12-months (NTM) EPS growth expectations, forward PEG ratio (P/E divided by EPS growth) and two key scores: Earnings Quality Rank (EQR, 1-5 scale, with 5 the best) and Growth Quality Rank (GQR, 1-10 scale, with 10 the best).

The portfolio has a diverse, small-mid biased mix across market caps, with 5 large caps, 4 mid-caps, and 4 small caps; a 4/9 split between value/growth stocks; and a 7/6 split between secular and cyclical growers. As for sectors, there are 4 from InfoTech, 3 Financials, 2 Energy, 1 Healthcare, 1 Industrials, 1 Materials, and 1 from Consumer Discretionary.

Ticker	Company Name	Sector	Industry	Mkt Cap ($B)	NTM EPS Growth	Fwd PE	Fwd PEG	Div Yield	EQR	GQR
BKNG	Booking Holdings	Consumer Discretionary	Hotels, Resorts and Cruise Lines	108.1	28.9%	20.9	0.73	0.0%	5	10
CHX	ChampionX Corp	Energy	Oil and Gas Equipment and Services	6.8	44.0%	17.0	0.39	1.0%	5	8
COOP	Mr. Cooper Group	Financials	Mortgage Finance	3.7	133.5%	9.1	0.07	0.0%	NA	9
CSTM	Constellium SE	Materials	Aluminum	2.6	68.7%	9.0	0.13	0.0%	4	9
DAL	Delta Air Lines	Industrials	Airlines	31.1	23.1%	6.7	0.29	0.8%	4	6
EG	Everest Group	Financials	Reinsurance	15.5	70.7%	7.5	0.11	1.8%	4	7
EVBG	Everbridge	Information Technology	Application Software	1.3	68.6%	20.1	0.29	0.0%	4	10
EXTR	Extreme Networks	Information Technology	Communications Equipment	3.6	53.0%	19.9	0.37	0.0%	5	9
MET	MetLife	Financials	Life and Health Insurance	46.1	31.5%	7.3	0.23	3.5%	3	8
NVDA	NVIDIA Corp	Information Technology	Semiconductors	1164.3	200.2%	51.2	0.26	0.0%	5	7
PCRX	Pacira BioSciences	Health Care	Pharmaceuticals	1.7	48.9%	10.0	0.20	0.0%	5	3
PSTG	Pure Storage	Information Technology	Technology Hardware and Storage	11.9	23.6%	25.2	1.07	0.0%	5	10
WFRD	Weatherford International	Energy	Oil and Gas Equipment and Services	5.3	102.3%	16.2	0.16	0.0%	3	7
			Average:	107.8	69.0%	16.9	0.25	0.6%	4.3	7.9

Some of the constituents are familiar names, like **Delta Airlines (DAL)**, insurer **MetLife (MET)**, and today's most prominent name in semiconductors for AI applications, **NVIDIA (NVDA)**. But most are relatively "under the radar" stocks, like mid-cap oil & gas services firm **ChampionX Corp (CHX)**, small-cap mortgage servicer **Mr. Cooper Group (COOP)**, and **Pacira BioSciences (PCRX)**, which is creating important *non-opioid* drugs for post-surgical pain management.

You can find more details on this portfolio by downloading the full Holdings Report on the *Baker's Dozen* website: https://bakersdozen.sabrient.com/bakers-dozen-marketing-materials. The report describes each of the 13 stock picks in greater detail, including a brief description of each company and what makes them attractive. You also can download my latest slide deck and market commentary.

Also, the new ***Forward Looking Value 11*** portfolio just launched on 7/24 with 34 stocks, diversely mixed with a small-mid bias across market caps, with 7 large, 18 mid, and 9 small caps; a value-bias with a 20/14 split between value/growth; and 23% international exposure. Financials/Insurance lead the sector allocations at 29%, followed by InfoTech 20%, Industrials 18%, and Healthcare 15%.

Final Comments:

I go into greater detail on market conditions and outlook in my periodic **Sector Detector newsletter and blog post**, which you can find (and subscribe to for free) on the **https://www.sabrientsystems.com** homepage. In my latest post, I step through in greater detail some of the key variables that will impact the market through year-end and beyond, including the economy, valuations, inflation, Fed policy, the dollar, and China—and why I remain bullish. I also review Sabrient's latest fundamentals based SectorCast quant rankings of the ten U.S. business sectors (topped by Technology and Energy) and serve up some actionable ETF trading ideas. Your feedback is always welcome!

Overall, I expect inflation will resume its decline, even with positive GDP growth, particularly given stagnant money supply growth, mended supply chains (encompassing manufacturing, transport, logistics, energy, and labor), falling or stabilizing home prices and rents, slowing wage inflation, slower consumer spending on goods, and a deflationary impulse from China (note that US imports from China are down 25% YTD versus last year). This eventually will give the Fed license to cut rates—perhaps in early 2024 (or possibly sooner)—both to head off crises in banking and housing and to mitigate growing strains on businesses, consumers, and our heavily leveraged trading partners of an ultra-strong dollar and high interest rates when rolling maturing debt.

As a reminder, Sabrient implemented **process enhancements** in December 2019 to our *Growth-at-a-Reasonable Price* (GARP) model and *"quantamental"* portfolio selection methodology (which uses the quantitative model as a prescreen and then uses a fundamental review and final selection approach that includes forensic accounting analysis by our Gradient Analytics subsidiary).

This has made our portfolios more "all weather" by reducing volatility relative to the benchmark and allowing companies that display *consistent and reliable earnings growth* to score more competitively in our value biased GARP model, even if they display somewhat higher valuations. The enhanced process seeks to provide exposure to both the *longer-term secular* growth trends and the *shorter-term cyclical* growth opportunities … *without sacrificing the potential for significant outperformance.*

Indeed, we believe Sabrient's portfolios—including the new **Q3 2023 *Baker's Dozen*** (launched on 7/20), **Forward Looking Value 11** (launched on 7/24), **Small Cap Growth 39** (launched on 8/7), and **Sabrient Dividend 45** (launched on 9/1 with a **5.3%** dividend yield)—are each positioned to outperform their passive benchmarks.

As a reminder, you can check out Sabrient's simple new **stock and ETF screening/scoring tools** called ***SmartSheets***, which are available for *free download for a limited time*. SmartSheets comprise two simple downloadable spreadsheets—one displays 9 of our proprietary quant scores for stocks, and the other displays 3 of our proprietary scores for ETFs. Each is posted weekly with the latest scores.

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