



“Quantamental” GARP approach with a forensic accounting overlay*

* **Quantamental** = Quantitative screen + Fundamental review & selection
GARP = Growth At a Reasonable Price (growth/value hybrid)

We leverage a unique collaboration of engineers and forensic accountants:

- Our engineers bring a process-driven methodology employing a scientific hypothesis-testing approach to build robust quantitative models
- Our forensic accountants bring unique insights into financial statement analysis to evaluate balance sheets and sustainability of earnings growth
- Together we offer quantitative and fundamental equity research, reports, rankings, tools, strategies, portfolios, indexes, and commentaries



Scott Martindale
President & CEO



Brent Miller
President of Gradient



David Brown
Founder & Chief Market Strategist

Sabrient Systems LLC

Quantitative equity research, rankings, strategies

Gradient Analytics LLC

Fundamental forensic accounting research

Sabrient[®]

- **Quantitative** fundamentals-based multifactor models since 2000
- Diverse team of engineers & analysts, led by former NASA engineer (Apollo 11 moon landing) **David Brown**
- Numbers-driven; Bottom-up rather than top-down
- Process-driven methodology employs a scientific hypothesis-testing approach to build robust quantitative models
- Focused on ***Growth At a Reasonable Price*** (GARP)
- Relies on database of sell-side analyst estimates
- In 2009, introduced *quantamental* GARP approach to create the *Baker's Dozen* annual portfolio of 13 top picks

- **Fundamental** in-depth forensic accounting analysis since 2002
- Team of CFAs, CPAs – finance & accounting backgrounds, led by President & Director of Research **Brent Miller**, CFA
- Institutional clientele (mostly long/short hedge funds)
- Financial statement analysis to evaluate balance sheet strength, accounting practices, and earnings quality/sustainability
- Also, anomalous insider trading, governance, and audit & control
- Acquired by Sabrient in 2011
 - ➔ Long vetting helps to “play defense”
 - ➔ Built **Earnings Quality Rank (EQR)** for use in GARP model
[EQR is also licensed to hedge funds and to the ***First Trust Long-Short ETF (FTLS)***]

Gradient Vetting Process

- Identify aggressive accounting practices (“financial engineering”)
- Examine 10-K, 10-Q, earnings releases, conference call transcripts
- Review accruals, working capital, cash flow, GAAP/non-GAAP adjustments
- Identify overstating assets & revenue, understating liabilities & expenses
- Corporate integrity and governance
- Insider behavior (anomalous buying/selling)
- Sell-side reports, regulatory review, any circulating short thesis
- Involves only *publicly available* information

Sabrient's “Quantamental” Approach

1. **Quantitative screen** to narrow large eligible universe

(Forward P/E, Forward EPS growth, dynamics of analyst estimates, EQR, GQR)

2. **Fundamental analysis** to identify top candidates

(Still mainly numbers-driven, but not algorithmic)

3. **Forensic accounting review** of top candidates

(Performed by Sabrient subsidiary Gradient Analytics)

4. **Final Stock Selection**

(Manual process, adhering to sector concentration limits)

Enhancements to Sabrient's GARP process

Starting with December 2019 *Baker's Dozen*

1. Add sector constraints relative to benchmark to reduce relative volatility
 - Still maintains the long-standing overall 30% sector maximum allocation
 - Limits extreme sector "tilts" away from S&P 500 allocations (15-30% range)
2. Add new proprietary **Growth Quality Rank (GQR)** to the model
 - Measures:
 - a) *Consistency* of past and expected earnings growth
 - b) Historical *reliability* of meeting forward estimates (i.e., "surprises")
 - c) Probability that consensus earnings estimates will be achieved
 - Puts *secular* growth on more equal footing with *cyclical* growth in rankings
 - a) Secular growth stocks tend to have higher valuations but more consistent EPS growth
 - b) Cyclical growth stocks tend to have lower valuations but more volatile EPS growth

History of *Baker's Dozen*

- During Financial Crisis of 2008, we sought to broaden Sabrient's brand beyond just 100% rules-based quantitative models
- Posted annual list of Top Picks for the year, starting in January 2009
- To do this, we introduced a "Quantamental" approach combining our quantitative GARP model with fundamental review & selection
- Could not decide who to cut beyond 13, thus "*Baker's Dozen*" moniker
- Acquisition of Gradient Analytics in 2011 added important forensic accounting expertise to help identify improprieties in reported financials
- Today, we select and publish a new *Baker's Dozen* top picks list every quarter, plus larger portfolios for other themes (all use GARP approach)

Various GARP Portfolios

- 1. Baker's Dozen** – Sabrient's 13 top GARP picks (all caps), published quarterly
- 2. Forward Looking Value** – mid-year GARP portfolio of 30-35 stocks (all caps)
- 3. Dividend** – 50 stocks, GARP with solid dividends, 4-5% yield, quarterly
- 4. Small Cap Growth** – 50-stock GARP portfolio, all under \$3.7B cap, quarterly

Resources

Be sure to sign up for:

1. Monthly *Baker's Dozen* "talking points" tear sheet

- 2-pager with details on each pick (e.g., EQR, GQR, forward P/E, EPS growth, forward PEG)
- Send email request to: **support@Sabrient.com**

2. Monthly *Sector Detector* newsletter

- Market commentary and SectorCast ETF rankings, written by Scott Martindale
- Go to sign-up box on **Sabrient.com** home page

Also, visit <http://BakersDozen.Sabrient.com> to find performance information and (on Marketing Materials tab) an updated slide deck and commentary

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