



“Quantamental” GARP approach with a forensic accounting overlay*

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

Baker’s Dozen monthly portfolios
Dividend Opportunity
Rising Rate
Defensive Equity
Small Cap Growth
Forward Looking Value



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Sabrient Systems LLC

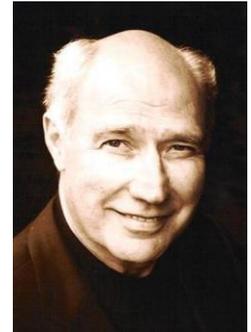
Quantitative equity research, rankings, strategies

Gradient Analytics LLC

Fundamental forensic accounting research

Sabrient[®]

- **Quantitative** fundamentals-based multifactor models since 2000
- Diverse team of engineers/analysts/programmers, led by former NASA engineer (Apollo 11 moon landing) **David Brown**
- Numbers-driven; Bottom-up rather than top-down
- Focused on ***Growth At a Reasonable Price*** (GARP)
- Relies on database of sell-side analyst estimates
=> Key metric: Forward PEG ratio (next 12 months)
- 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)
- Earnings quality and anomalous insider activity
- Acquired by Sabrient in 2011
 - ➔ Long vetting helps to “play defense”
 - ➔ Built **Earnings Quality Rank (EQR)** for use in GARP model
[Also, it is 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 “Quantamental” Approach

- 1. Quantitative screen** to narrow large eligible universe
(Forward P/E, Forward EPS growth, dynamics of analyst estimates, EQR)
- 2. Fundamental analysis** to identify top candidates
(Still mainly numbers-driven, but not algorithmic)
- 3. Forensic accounting review** of top candidates
- 4. Final Stock Selection**, with sector limits

We target average Forward PEG of < 0.5, while S&P 500 is > 1.5

History of *Baker's Dozen*

- During Financial Crisis of 2008, we sought to broaden Sabrient 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 month, plus 50-stock portfolios for other themes (all use GARP approach)

Various GARP Portfolios

- 1. Baker's Dozen** – Sabrient's 13 top GARP picks (all caps), published monthly
- 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. Defensive Equity** – 50 stocks, GARP with defensive behavior, quarterly
- 5. Rising Rate** – 50 GARP stocks, tend to thrive when interest rates rise, quarterly
- 6. 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 (including fwd P/E, Growth Rate, fwd PEG)
- Send email request to: **support@Sabrient.com**

2. *Sector Detector* periodic newsletter

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

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