“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

Scott Martindale
President, Sabrient Systems
smartindale@sabrient.com

Sabrient Systems LLC
Quantitative equity research, rankings, strategies

Gradient Analytics LLC
Fundamental forensic accounting research
- **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)
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
Disclaimer

© Copyright 2019 by Sabrient Systems LLC. Unauthorized reproduction or redistribution of this document in full or in part is strictly prohibited by law and a violation of the Copyright Act.

Information contained herein may not be reproduced in whole or in part, including photocopying of printed copy or e-mail forwarding, without the express written consent of Sabrient Systems LLC (“SABRIENT”).

This information is neither a solicitation to buy nor an offer to sell securities, and it is not intended as investment advice. Information contained herein reflects our judgment or interpretation at the time of publication and is subject to change without notice.

The information contained herein is based on sources believed to be reliable, but no warranty or representation of any kind, expressed or implied, is made as to its accuracy, completeness, or correctness. This document is for information purposes only and should not be used as the basis for any investment decision. SABRIENT disclaims liability for damages of any sort (including lost profits) arising out of the use of or inability to use this document.

Past performance is no guarantee of future results. Investment returns will fluctuate and principal value may either rise or fall.

The information contained herein reflects only the opinions of SABRIENT and includes forward-looking statements subject to a number of uncertainties that could cause actual results to differ materially from the statements made.