Earnings Revision Strategy
Presentation #4
Group: D
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Overview

We are taking the Current Year EPS 1-month revision to identify the top 10 stocks with strong current earnings, positive recent earnings trends, and favorable overall analyst recommendations. Bloomberg is our method of backtesting. Utilizing this strategy, we reviewed the historical performance and the results were very good. To pursue our strategy, we recommend selling $100k of our SPY holdings to purchase our 10 recommended stocks and adding them to The School Fund. Some of the effects on our portfolio will be a higher standard deviation and a higher return.

EPS – Revisions

An Earnings Per Share (EPS) represents a company's profitability by displaying the net earnings allocated to each outstanding share of common stock. By tracking the change in consensus EPS, we can identify stocks that analysts are more bullish on. Analysts will increase the EPS forecast way before they upgrade the recommendation. EPS is a key financial metric that investors often analyze to assess a company's financial health and performance, providing insights into its ability to generate profits and distribute them to shareholders.

Analysts are able to make these forecasts from the financial data given to them at their brokerage firm. Firms work with clients and get their financial data and then they employ analysts to publish reports on upcoming reports for different companies. When you hear the phrase, "Beat the street," this is referring to the earnings forecasts on Wall Street.

Analyst Stocks and Data

We are recommending to purchase 10 stocks for strategy. Morgan Stanley recommends buying American Airlines Mizuho Securities recommends buying Affirm Holdings. RBC Capital, Baird, and Goldman Sachs recommend buying Azek. JMP Securities recommends buying Robinhood. Wells Fargo, JP Morgan, and Goldman Sachs recommend buying Micron Technology. Wedbush recommends buying Coinbase Global. Morningstar recommends buying Sofi Technologies. Wells Fargo and Morningstar recommend buying Ventas. Morgan Stanly, JP Morgan, and Goldman Sachs recommend buying Sarepta Therapeutics. Wells Fargo and JP Morgan recommend buying Wayfair. Our strategy is to purchase $10K worth of value for each stock for a grand total of $100K.

We are using the Russell1000 in Bloomberg for our strategy. We are backtesting 10 years, with 10 positions, using equal weighting, rebalancing monthly, and we didn't use a minimum stock market cap. The sectors of our stocks are diverse representing these different sectors: consumer discretionary, financials, health care, industrials, information technology, and real estate.

Results

Our strategy yields great results. The earnings estimates and EPS for quintile 1 were several scores higher than the universe. Our back-tested returns are also much higher for 10 years and 1 year compared to the SPY 10 years and 1 year. For the 5-year returns, the SPY was higher

overall, but this seemed to have been attributed to the pandemic in 2020. As far as our portfolio is concerned, the sector breakdown for the new portfolio remains very similar to the original portfolio with only slight percentage changes. Our standard deviation and return is higher in our new portfolio though.

Recommendation – Recap

We recommend selling $100k of our SPY holdings to purchase our 10 recommended stocks and adding them to The School Fund, resulting in a higher standard deviation and a higher return in our new portfolio. This recommendation is based upon the current 1-year EPS where we analyzed earnings forecasts. We were able to identify the top 10 stocks with strong current earnings, positive recent earnings trends, and favorable overall analyst recommendations using Bloomberg. The results displayed returns much higher than the overall market while adding only a small amount of risk. Based on our research, this strategy should be adopted by the Student Investment Fund in the spring of 2024.