

Top 20 Trading Strategy

Presentation #5

Group: A

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Overview:

Our trading strategy targets the top 20% of stocks considering growth variables. These criteria include quarterly basis EPS minus five year average, quarterly revenue growth year over year, and return on common equity. Using the top 20% limitations allowed our equity screening to narrow in on securities that are high in growth. We also restricted our screening to 500 million dollar market cap, and a PEG ratio greater than or equal to 2. This brought our screening to 8 securities. We backtested quarterly and semi-annually, while both returned well above the S&P 500, we believe our strategy is most effective being rebalanced semi-annually. Backtesting for 10 years gave our strategy returns of 411.18% compared to SPY returning 227.18%. Over 1 year our strategy returned 81.45% while SPY returned 20.75%. While our strategies beta would decrease the fund using the ten year beta of 1.10, it will increase funds beta using the one year of 1.43. The fund beta will increase from 1.26 to 1.2657.

Recommended Purchases

Our strategy returned eight securities that we believe should be invested in. We would like to make purchases using \$50,000 of the School Fund. We believe the securities should be equally weighted with around \$6,300 each. The eight securities are Axcelis Tech (ACLS), Goosehead (GSHD), H&E Equipment (HEES), Herc Holdings (HRI), Interdigital (IDCC), Nvidia Corp (NVDA), and Valvoline (VVV).

Security Earnings and Analyst Forecasting

We extended our research outside of the equity screening and backtesting. We found that five out of eight recommended stocks have outperformed EPS forecasts over each of the last three quarters. All eight securities have positive 12-month forecasts. Also, four of the eight stock prices are considered "undervalued". Taking a look at analyst forecasts shows that seven of the eight recommended purchases have "strong to moderate buy" outlooks.

What to Sell

Due to the fact that we invested the entire Student Investment Fund into SPY at the beginning of the year, we believe that we should continue to sell remaining SPY to fund our strategy. We also do not want to take away from any of this year's active strategies.