
How we select investment ideas
for the Quant Value newsletter
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Agenda

- What investment strategies we use
- What happens after we have a list of companies
- How to make sure a company is not wrongly included in the screener
- 22-point checklist to find bad companies
- Why you must always check the latest company news
- How to not let your biases (we all have them) let you ignore great investments
- Questions and answers

What strategies do we use?

A combination of three indicators:

- Qi Value = to find undervalued companies
- Piotroski F-Score = find high quality companies
- Price Index 6 month = to find companies with an upward moving share price (avoid value traps)

OR

- Adjusted Slope 125/250 days = A second price momentum indicator

How we get rid of bad companies

22 point checklist – the 80/20 principle of identifying bad companies

Any financial values outliers?	Quick ratio greater than 1
Share price and AR currency same?	Management shareholding (> 10%)
Operating cash flow > Net Income	Daily volume enough to invest (EUR avg 20 days)
FCF/Share higher than dividends per share	Tax rate plausible (around 35%)
Debt to equity below 30%	Flow ratio (Good < 1.25 Bad > 3 = Meltdown)
Debt less than book value	What the management has done with the cash?
Tot Debt / FCF < 5	Is there heavy insider buying?
Does the cash belong to the company?	Is there heavy insider selling?
EBIT / Assets > 20%	Is AR and Inventory growing faster than sales?
Sales growth? / Margin growth?	Net share buybacks?
Current asset ratio greater than 1.5	Any spin-off, special div or M&A in past year?

Make sure a company is not included in the screen by mistake

- Make sure no unusual profits are included - Record earnings

- Once off large sale – Olympics
- Sale of a property or business

Why always check the latest news

- Events have already taken place but not yet reflected in the financial statements

- Sale of a business
- Spin off
- Special dividend

How to avoid your biases

- We ALL have them - for example:
  - I love asset managers and software companies
  - I hate gold miners / miners in general
- Good reason to exclude companies
- Why?
  - Second guessing a good system leads to lower returns
  - 136 studies system better or same as expert 94% of the time (Source: Grove, Zald, Lebow, Snitz, Nelson (2000) Clinical Versus Mechanical Prediction: A meta-analysis)

Summary

- Follow a good strategy
- Make sure the company is correctly included in the screen
- Look at the latest news
- Keep your opinion (bias) out of the decision making process
- You will definitely have very good returns

Questions and answers

There is no such thing as a stupid question

Contact information:
info@quant-investing.com