Evolution Managed Equity Fund
Research, Flexible Plan Investments, Ltd.

“Market Mavens” portfolio baskets:

AllSeason: Martin Zweig, chairman of the Zweig Funds, seeks companies with strong growth in earnings and sales, a reasonable price-earnings ratio given the company's growth rate, buying by insiders, and relatively strong price action. This “all-season” approach helps reveal a collection of companies that run the gamut from value to growth and small-cap to large-cap.

CANSLIM: William O’Neil, publisher of Investors Business Daily, seeks companies with a proven record of earnings and sales growth showing strong relative price strength and support from leading institutions (the factors spell out the acronym CANSLIM). He sees most low price-earnings focused strategies as flawed because they ignore the price trend determining the price-earnings ratio, as well as the quality of the underlying earnings within the ratio.

Capture: Screen that was featured in James O’Shaughnessy best selling “What Works on Wall Street”. The best time to buy growth stocks is when they are cheap, not when the investment herd is clamoring to buy. As such, this screen seeks stocks that the market has overlooked. Using relative strength as an additional factor enables the investor to “capture” the gains of the stock before the market discovers it.

Champion: This screen is modeled after T. Rowe Price, who is best known for developing the growth stock style of investing. He would screen firms based on growth, but would not pay any price for growth. When looking at PE ratios, he would prefer not to buy stocks selling at high levels relative to their historical average. This screen also looks at return on assets and margins to identify “champion” firms within the market.

Contrarian: Screen based on David Dreman’s "New Contrarian Investment Strategy", and his columns for Forbes. He finds the "best" companies often seem to make the worst investments, while the "worst" companies can be the best investments. This basket, thus, avoids high PE ratio stocks and is careful about overpaying for stocks in rising markets when the speculative fever is also rising.

Element: While serving as portfolio manager of the Vanguard Windsor Fund, John Neff employed a value investing approach using a contrarian viewpoint. This screen seeks undervalued, out-of-favor stocks with a combination of low price-earnings ratios, solid growth forecasts in earnings and sales growth, and an increasing dividend yield. Neff believed these factors to be “elemental” in the successful picking of value stocks.

Endeavor: Developed by David and Tom Gardner, founders of the Motley Fool, who utilize a strategy based on fundamental factors targeted at profitable and rapidly growing firms with strong price momentum. Insider buying is also a key factor since it allows investors to see whether the interests of "insiders" are aligned with those of "outsider" shareholders.

Excel: This screen focuses on Richard Driehaus’ methodology, which is discussed in the book "Investment Gurus". Driehaus is the founder of Driehaus Capital Management, where his approach identifies firms that have strong earnings growth, earnings that exceed analysts’ estimates and upward-moving prices. The screen aims to find those stocks that will continue to excel and provide above-normal returns.

GARP: Philip Fisher’s “Common Stocks and Uncommon Profits" is the basis for this screen, which seeks to invest in industry leaders at a reasonable price. This focus is companies that grow sales and profits faster than the entire industry. Key individual features include: long-term growth in profits, products or services that have sizable potential sales, reasonable valuations, and a history of consistent dividend payouts.

Global Recession: The “Global Recession” stock basket is comprised of 16 large-cap stocks that are blue chip names representing the relatively recession-resistant industry sectors of consumer staples, health care, biotech/pharmaceutical and technology, etc. Following the sharp stock market decline in October 2008, J. P. Morgan released the list of stocks it believed would outperform the US markets during a global recession to play out over the next two years. The list was compiled with input from each of J. P. Morgan's 78 stock analysts worldwide and equal weights of each are held: 3M Company (MMM); Baxter International (BAX); Colgate-Palmolive (CL); CA Inc. (CA); Devon Energy (DVN); General Mills (GIS); Gilead Sciences (GILD); Google (GOOG); Hewlett-Packard (HPQ); McDonald's (MCD); Merck & Co. (MRK); Monsanto (MON;) Nucor (NUE); Philip Morris International (PM); Union Pacific (UNP); Visa (V)

Harbor: From the book "Investment Titans", this screen is based on professor-turned-money manager Josef Lakonishok. It looks for firms that are a safe harbor for investors seeking stable value-based firms. The methodology seeks stocks that are priced attractively relative to various measures of worth. For instance, stocks selling at low multiples of price relative to book value, cash flow, earnings, or sales. The idea is while these stocks may have fallen off of Wall Street's radar, eventually the market will realize the worth in these firms and prices will rise.

Harvest: Screen featured in James O'Shaughnessy's "What Works on Wall Street". Market leading companies are much better investments when they have value characteristics like low PE ratios, favorable cash-flow and high dividend yields. By harvesting many different value measures together, this screen is able to select those stocks that are not only "cheap", but also show promising growth potential.

Omaha: A screen taken from the book "Buffettology". Warren Buffett's approach identifies businesses based on the prospects for the industry and the ability of management to exploit opportunities for the benefit of shareholders. He then waits for the price to reach a level that would provide him with a desired rate of return. This screen targets stocks with expanding intrinsic values, and at a price that makes economic sense, defined as earning an annual rate of return of at least 15% for the next several years.

Peerless: Peter Lynch's book, "One Up on Wall Street" forms the basis of this screen. The former manager of Fidelity Magellan, Lynch believes finding a good company is only half of the battle in making a successful investment. Buying at a reasonable price is the other. Lynch looks toward both earnings and assets when it comes to valuing stocks. The greater the earnings prospects, the more valuable the company.

Progress: The editor of the California Technology Stock Letter, Michael Murphy believes investors should focus on "progressive" firms with rapid growth and excellent financial ratios, which will be leaders in their industries. He then waits for them to get knocked down by Wall Street to the point where they are cheap based on their price/growth ratio.

Prudent: From Benjamin Graham's "Intelligent Investor", this screen focuses on intrinsic value that is justified by a firm's assets, earnings, dividends, and financial strength. Focusing on value, Graham felt, would prevent an investor from being misled by the misjudgments often made by the market during periods of pessimism or "irrational exuberance", and instead focus on more prudent and stable investments.

Vision: John Templeton, founder of Templeton Mutual Funds, seeks out companies with competitive advantages, or "vision". This is detected by comparing a stock's forecasted growth figures with the industry's. Firms with earnings estimates greater than the industry median are more likely have a competitive advantage. The screen also looks for low price-earnings, reasonable debt levels, and attractive margins.

"Fundamentals" baskets:

Buyback: When a firm chooses to buy back its own stock, it is seen as a positive sign by the market. After all, who better to know the firm's future prospects than the firm itself? This screen ranks stocks based on the ratio of stock bought to market capitalization. It also requires that this ratio be greater than the average firm's ratio within the same sector.

CashFlow: Free cash flow (FCF) is cash from operations less capital expenditures and dividends. FCF is considered the excess cash flow that the company can use as it deems most beneficial. Since FCF is based on cash accounting, much like a personal checkbook, instead of earnings based on accrual accounting, it overcomes the inherent weakness of the traditional cash flow measure.

Earnings: A stock's PE ratio is found by dividing the price by earnings per share. The higher the PE, the more investors will pay for earnings. The PE ratio is the most common measure of how cheap or expensive a stock is relative to other stocks. Investors believe the prices of low PE stocks are unduly discounted and when earnings recover, the price of the stock will follow. Strong relative strength is also required in this screen.

HighFlier: When a stock hits a 52-week high it begins to show up on many investors' "radar". Academic research has shown that after a stock
reaches a new high it will continue to outperform in the weeks and months ahead. In protracted bear markets it is possible that this screen will not find 10 stocks that have made new highs.

LowDebt: Firm's that take positive steps to reduce their debt burdens are often rewarded by the market. As such, this screen seeks to identify those firms with reduced absolute debt levels, improved debt to equity ratios versus industry peers and, perhaps most importantly, that strengthened their interest coverage. A heavy debt burden, especially in a rising-rates environment, can be very detrimental to a company's financial well-being.

Margin: Net profit margins are an excellent gauge of a firm's operating efficiency and the ability to compete successfully with other firms in its field. Firms with high profit margins can make better investments, since they tend to be leaders in their industries. Net profit margins are found by dividing income before extraordinary items by net sales. Strong relative strength is also required in this screen.

PriceBook: Many experts believe the price-to-book (PB) ratio is the "truest" value ratio for stocks. They argue that earnings can be manipulated, and thus the PE ratio not always trustworthy. The PB ratio is found by divided the price of the stock by the book value of the firm. Investors who buy stocks with low PB ratios believe they are getting stocks at a price close to their liquidating value.

PriceSales: The price-to-sales (PS) ratio measures the price of a company's shares against annual sales. Investors who buy low PS stocks believe they are getting a bargain, and research has found that stocks with low PS ratios outperform the market more than any other value ratio.

Recall: This screen groups together stocks that passed individual hurdles but were too small as a group to merit a basket.

ROE: High return on equity (ROE) is a hallmark of a growth stock. It is found by dividing stock equity into income. Many believe that a high ROE is an excellent gauge of how effectively a company invests shareholders money. The higher the ROE the better the firm's ability to invest your money and presumably the better an investment the stock will be. Strong relative strength is also required in this screen.

ShortInt: The short interest ratio is the number of days it would take to cover the short interest (number of shares "short" the stock) if trading continued at the average daily volume. High ratios indicate strong negative sentiment against the stock. . If a large number of short sellers are forced to cover their short positions through the purchase of shares, they can actually push the stock price even higher. This is known as a "short-squeeze".

Strength: A screen created by Zacks Investment Research that seeks to identify stocks with strong balance sheets and a history of profitability. Must have low debt ratios, high ROA and strong future earnings potential.

Synergy: A basket of all the stocks that are currently appearing in multiple existing baskets. A "best-of-the-best".

Takeover: Screens for stocks that have the financial characteristics of firms that are often takeover targets.

TrueValue: A screen created by Zacks Investment Research that seeks to identify stocks with value characteristics such as low price/book ratios and high dividend yields. Also requires that passing firms have strong earnings potential going forward.

TrueYield: This screen looks at several measures of value and yield to find stocks with high growth potential and high dividends all at a bargain price. Earnings yield, dividend yield, and retained-earnings to book value ratio are all cumulated to arrive at a "true" yield. Stocks with the highest total are then screened to ensure their debt levels are reasonable relative to their industry.

Upside: Behavioral Finance approach that seeks to identify stocks which have underperformed the market for a sustained period, but which have recently exhibited positive signs which may point to a significant move to the upside. Research has shown that investors often project past, negative information into the future and ignore signs of recovery. This screen is limited to small and mid-cap stocks only.

Usharpe: Basket based on a proprietary performance indicator that, like the Sharpe ratio, measures risk-adjusted returns. However, Usharpe does not penalize upside volatility, but instead equates risk solely with downside volatility relative to the market. Stocks chosen for this basket have exhibited high returns relative to their downside risk.