

Agnostic Fundamental

MBA Student Investment Management Fund
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Agnostic Fundamental

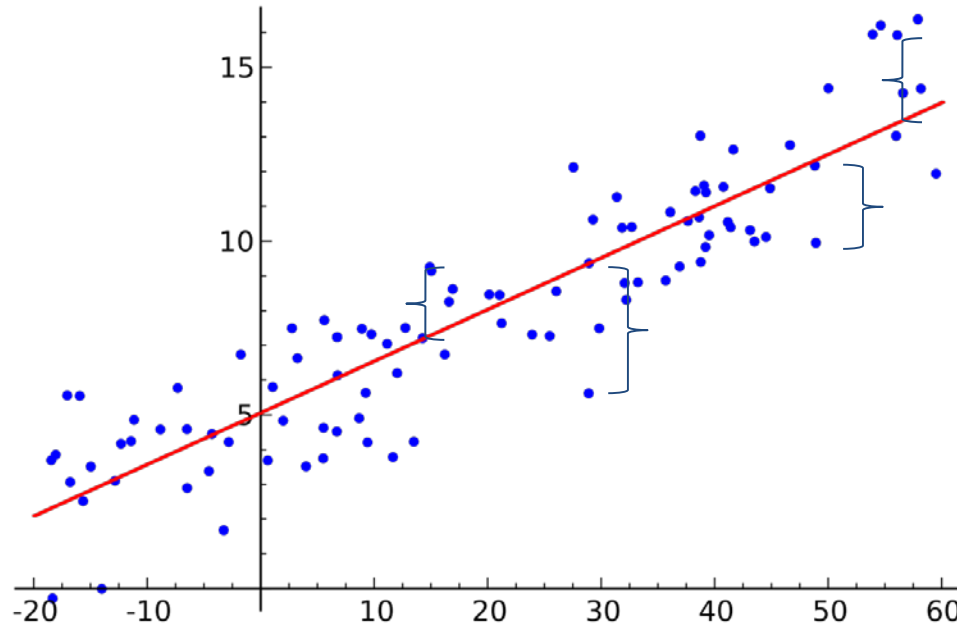
Agnostic Fundamental is a statistical approach to traditional fundamental analysis.

It uses the statistician's viewpoint to determine mispricings.

Background Research

- The Original Paper by Söhnke M. Bartram and Mark Grinblatt sought to “assess stock market informational efficiency with minimal data snooping.”
- By using Statistical Methods, they found companies’ peer-implied values, and ranked the divergences from the peer-implied values
- They found risk-adjusted returns of “up to 10% per year.”
- Fundamental analysis using statistics.
- More agnostic and less discretionary approach to fundamental-based equity valuation.

Regression Analysis



$$Y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \dots + \beta_nx_n$$

Backtesting Returns

	OLS						
	All	Correlation	Signal Quintiles				
			Q1 (Overvalued)	Q2	Q3	Q4	Q5 (Undervalued)
Panel A: Equally-weighted Portfolios							
Return in Month $t+1$	0.9224	0.0050	0.6309	0.9166	0.9713	1.0420	1.0502
Return in Month $t+1$ (1987-1999)	1.0575	0.0071	0.7122	1.1522	1.1609	1.1850	1.0763
Return in Month $t+1$ (2000-2012)	0.7889	0.0030	0.5507	0.6840	0.7841	0.9009	1.0244
Panel B: Value-weighted Portfolios							
Return in Month $t+1$	0.8669	0.0091	0.4753	0.8964	0.8971	1.0519	1.0217
Return in Month $t+1$ (1987-1999)	1.4113	0.0013	1.0979	1.4080	1.4248	1.3505	1.2417
Return in Month $t+1$ (2000-2012)	0.3294	0.0168	-0.1394	0.3914	0.3763	0.7571	0.8046

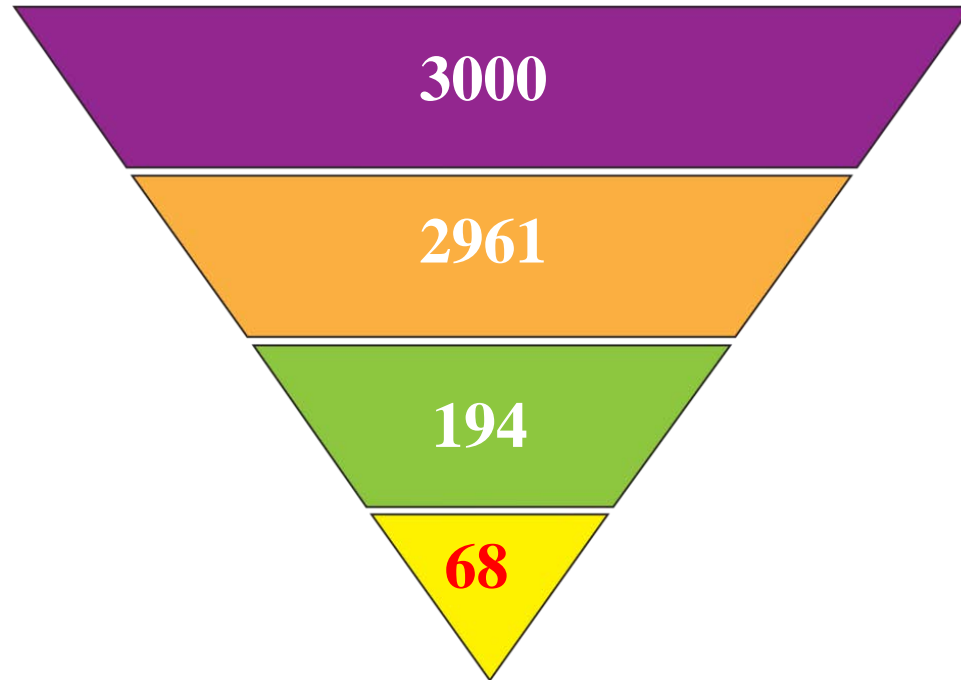
Process

1. Accounting information obtained from WRDS
2. Market Caps obtained from Bloomberg Terminals
3. Ran regressions using Python
 - Two teams ran independent regressions to validate process
4. Narrowed down universe using constraints in charter

Constraints

- Long only, no shorting
- 90% of firms must have a market capitalization greater than \$1B
- Investment in each sector must be 25% or less
- Investment in each firm must be 4% or less

Investable Universe

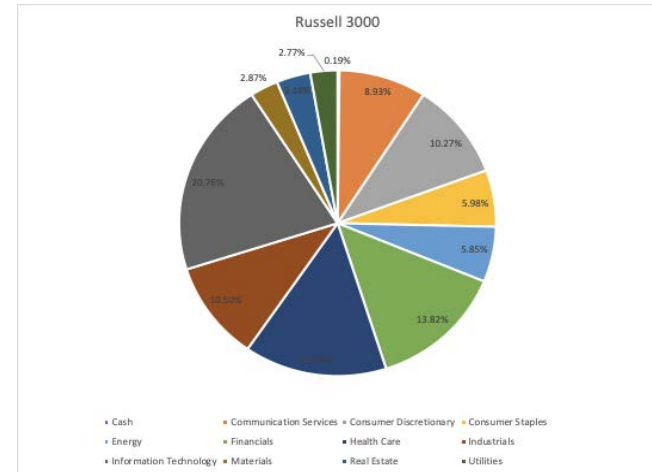
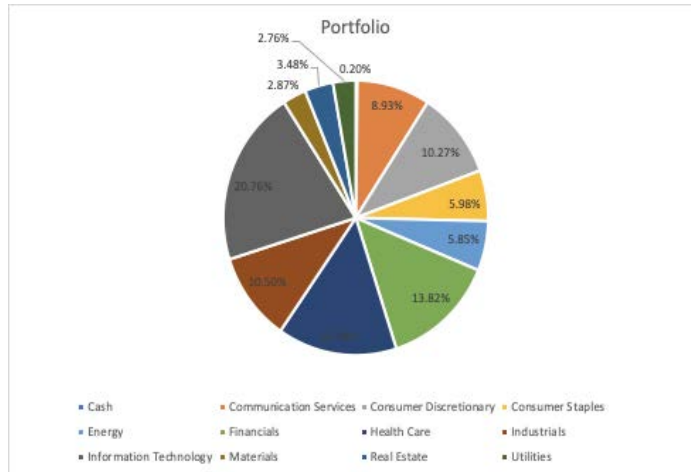


Constructing Our Portfolio

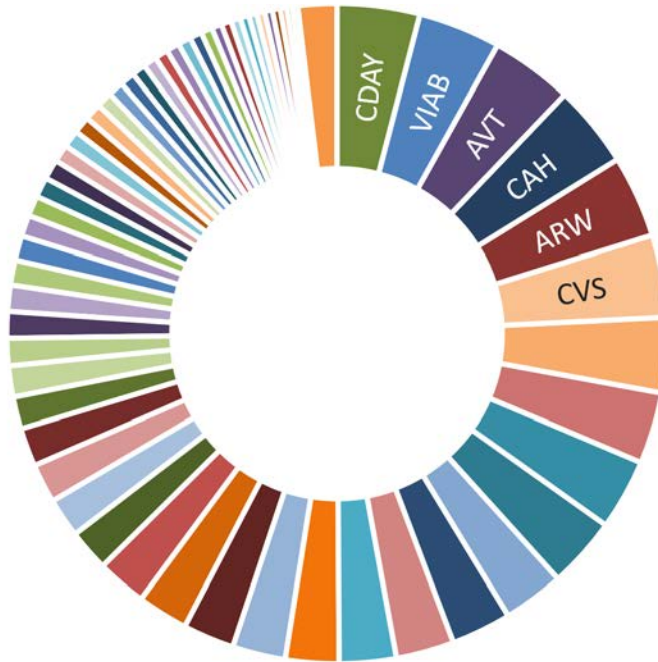
Achieving Sector Neutrality whilst conforming to our constraints.



Sector Neutrality

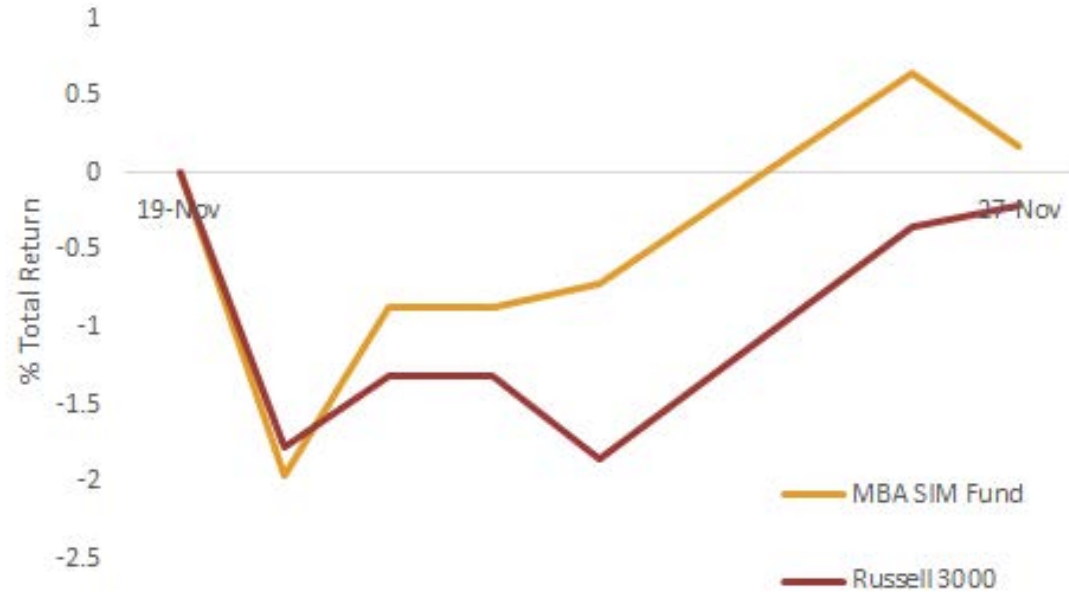


Composition of Our Portfolio



- 68 stocks
- each holding $\leq 4\%$
- all came from most underpriced decile

Portfolio Returns



Thank You!