

Equal-Librium

Stabilization in the performance of quality signals suggests that investors are looking for more than low prices. This report serves as a November 2009 performance review of QSG's 'alpha' factor library and select style models.

Investment Research | QSG Analyst Team

Librium[®] is the trademarked name of a popular anti-anxiety drug used in detox. It's appropriate that the rotation in factor returns that we highlighted last month has righted the performance of many popular factors across a broad range of anomalies in November. Last month's performance seems to signal a collective sigh of relief, equalizing the signal performance across our global factor library since the March lows. This is a welcome gift to the many equity managers who have been concerned that their favorite earnings and price momentum factors were going to drive them to drink. Quality, both management and asset, was rewarded adding to an increased sense of well-being, suggesting that we may soon be off the low price/liquidity juice.

Russell 1000

Recent performance of the factors in QSG's library for the Russell 1000 universe reinforce the existence of a transitional period that we detected in our analysis last month as the new market drivers attempt to gain traction. A comparison of the November decile spread return with that from the lows of the current market cycle is displayed in the Heatmap in Figure 1. The color, with bright green denoting the highest positive 1-month return spreads, is contrasted with the size of the box, with the largest boxes denoting the highest positive return spread over the price months. The sharp underperformance last month of the key drivers of

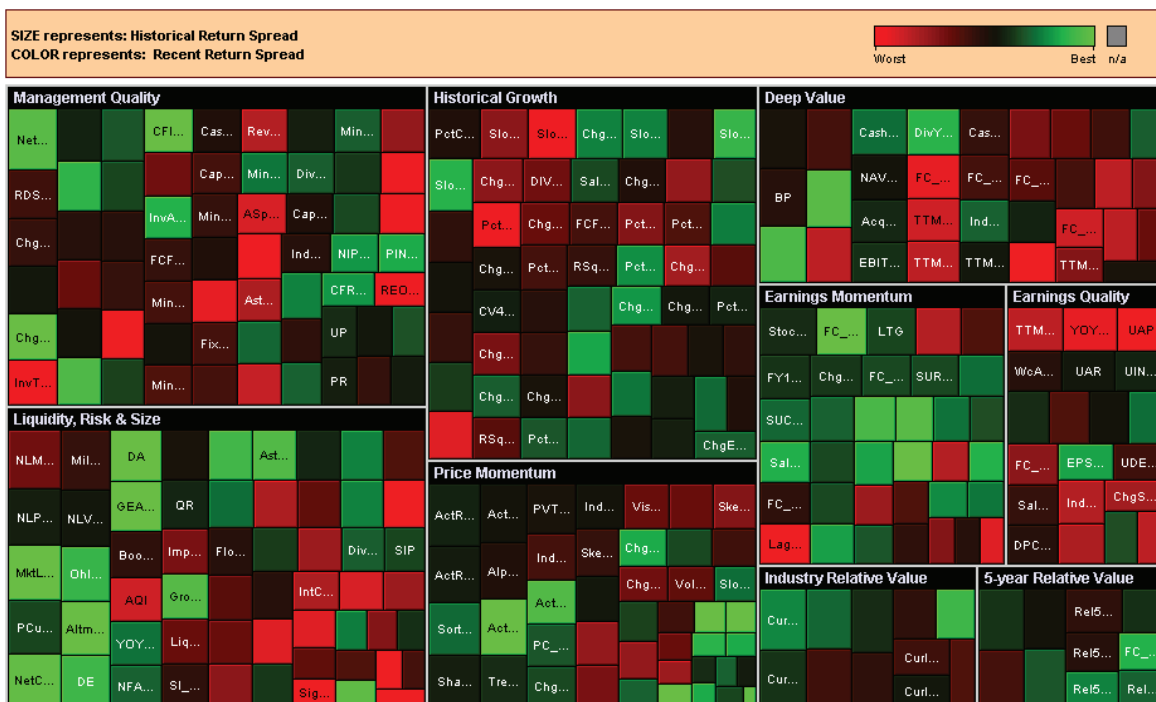


Figure 1

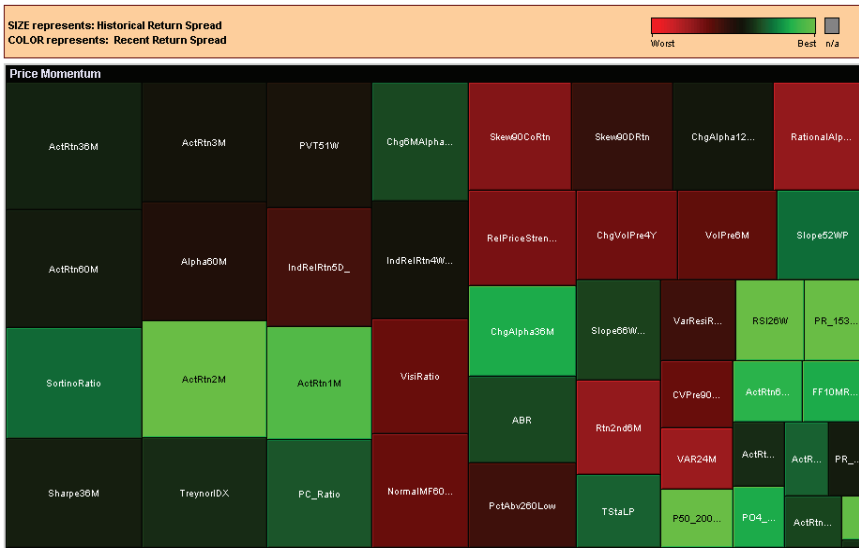


Figure 2

<input type="checkbox"/> Factor/Model	AVG Decile Spread 11/1/09 - 11/1/09
<input type="checkbox"/> 15/36 Week Stock Price Ratio [no]	3.9290
<input type="checkbox"/> 50-200 Day Stock Price Ratio [no]	3.5070
<input type="checkbox"/> 2-Month Active Return [no]	3.2930
<input type="checkbox"/> 26-Week Relative Price Strength [no]	3.2750
<input type="checkbox"/> 39-Week Return with 4-week Lag [no]	2.8990
<input type="checkbox"/> 1-Month Active Return [no]	2.6190
<input type="checkbox"/> 6-Month Active Return with 1-Month Lag [no]	2.0910
<input type="checkbox"/> 4-52 Week Price Oscillator [no]	1.9100
<input type="checkbox"/> Fama-French Momentum [no]	1.9080
<input type="checkbox"/> 6-Month Nominal Change in 36-Month Alpha [no]	1.9070

Table 1

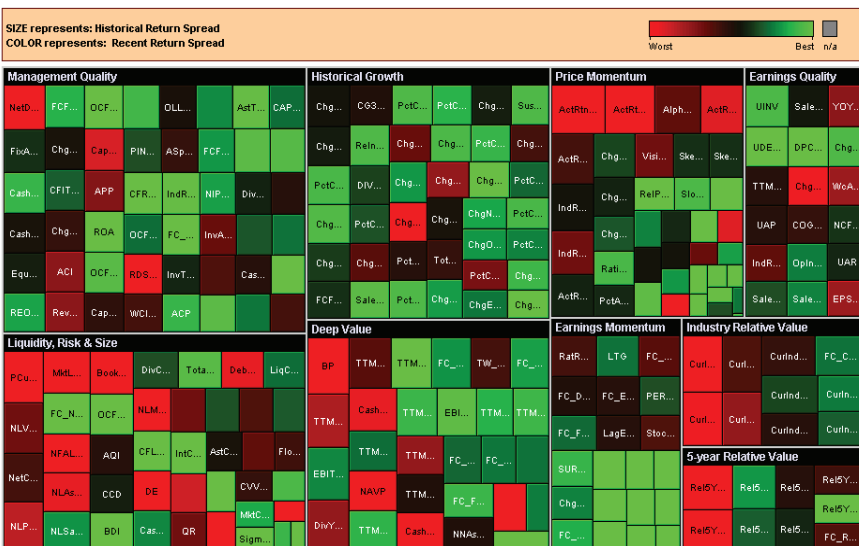


Figure 3

the current market cycle has leveled off as a more random splash of colors has unveiled itself on the Heatmap. Welcome outperformers (bright green coloration) stand out in quality indicators in the Management Quality and Liquidity, Risk & Size categories. Investors anxiously await the direction of the move from the current thematic inflection point.

By zooming in on the Price Momentum category, a finer resolution of this theme can be viewed. First, Figure 2 displays the Heatmap depicting the continued rotation away from the factors that launched the current market cycle. A screening of the top 10 factors is displayed in Table 1 specifically listing the top factors. A higher focus on short-term momentum factors has continued its recent trumping of longer-term momentum factors.

International

Expanding the market analysis internationally, Figures 3 and 4 probe into the QSG Developed Europe and QSG Asia-Pacific universes, respectively, in the Global Factor Analyst®. A contrasting picture emerges. For the most part the Heatmap in Figure 3, covering all factor themes, lines up with its US counterpart in Figure 1. Yet, contrast this with the Heatmap in Figure 4 (see page 3). The factors that prevailed for the duration of the current market cycle were reinforced in the month of November. The rotation of the domestic market is not spilling over into the Asia-Pacific region. In particular, Historical Growth indicators held up exceptionally well across the board.

One noteworthy gap in the QSG Developed Europe universe is the Price Momentum category. Investors have moved their attention away from long- and short-term momentum indicators that drove the current market cycle. Instead, they have shifted their focus to middle range momentum indicators which were underperformers as depicted in Figure 5 by the bright green coloration of the smaller sized boxes.

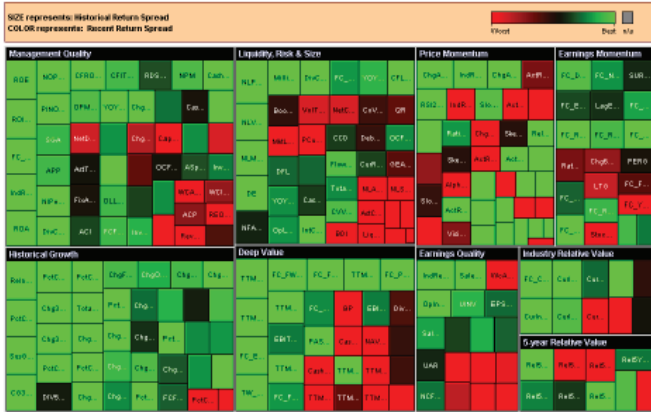


Figure 4

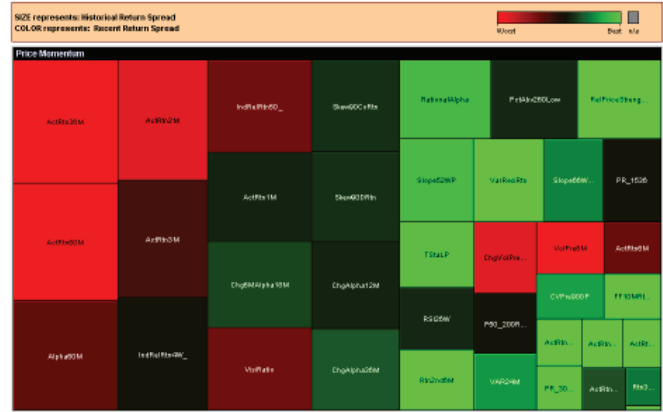


Figure 5

Russell 2000

In November, small capitalization stocks continued to temper their lead since the market bottom in early March. Figure 6 displays the Heatmap for the Russell 2000 universe contrasting 1-month performance versus the eight-month market cycle. The Price Momentum factors that drove performance over the current market cycle have underperformed in a way that is similar to what we witnessed in October for large capitalization stocks.

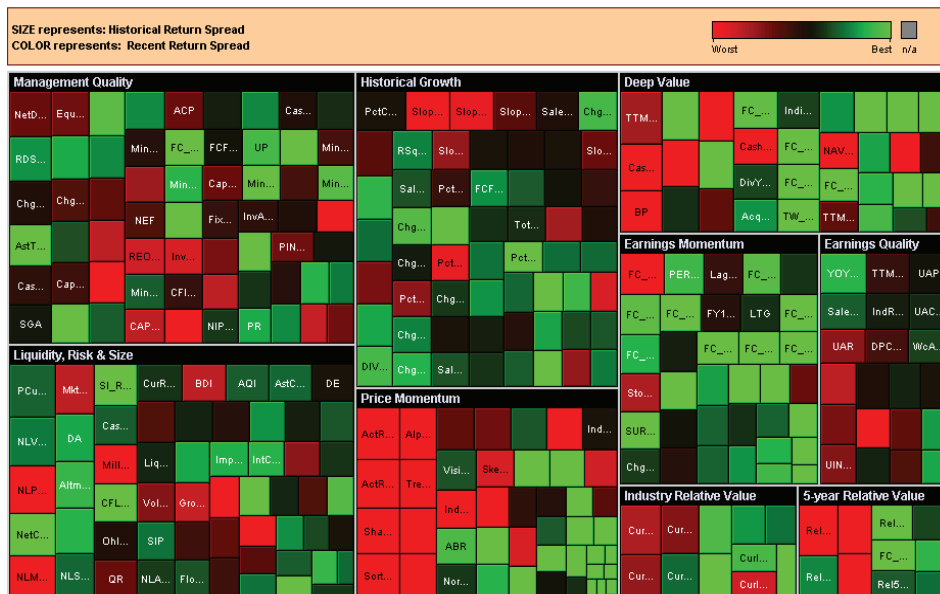


Figure 6

The risk aversion of the small capitalization universe may be waning. Table 2 lists the top factor performers for the month of November. Analyst forecast data shows up as the key drivers of performance. The systematic payoff at the tails of one such estimate-based indicator, Street Revision Confidence, is demonstrated in Figure 7.

Factor/Model	AVG Decile Spread 11/1/09 - 11/1/09
26-Week Relative Price Strength	7.9310
Street Revision Confidence	7.9160
Prior Fiscal Quarter Forecast Error	7.6070
3-M Revision in FY1 EPS Forecasts	7.4460
3-M Revision in FY2 EPS Forecasts	7.2350
52-Week High	6.9310
Market Cap per Analyst	6.8310
20-Day Average of Bid-Ask Spread-to-Price	6.6540
6-Month Nominal Change in 36-Month Alpha	6.4830
Revision in Fiscal QTR 1 EPS Forecasts	6.0590

Table 2

Street Revision Confidence [WATCHLIST](#) [FACTOR BUNDLE](#)

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It is defined as the sum of the 3-month change in a stock's First Call® analysts' highest earnings forecast and change in analysts' lowest earnings estimates for fiscal year 1 by its month-end trading price. This factor is ranked in descending order.

Universe: Return Type:
 Sector: Holding Periods:
 Test Period: To Neutrality:
 Include: Overlapping Data CUSUM

Information Coefficient

Quantile Performance

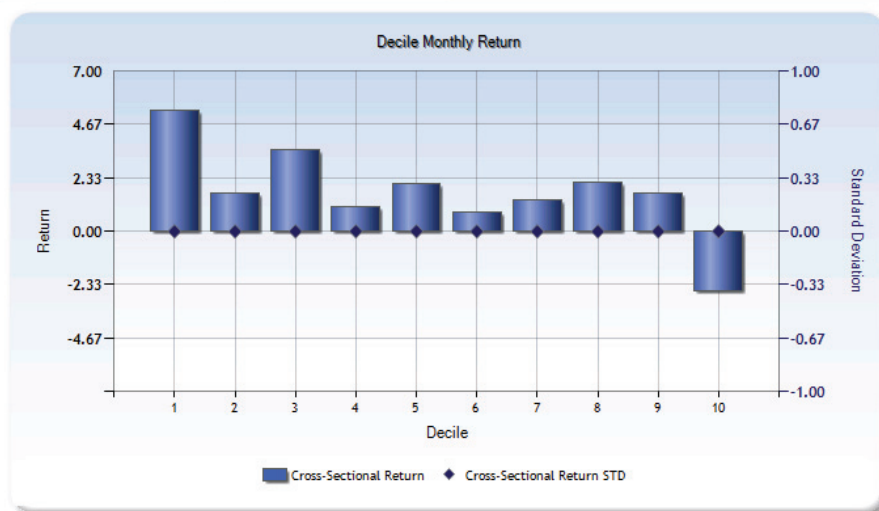


Figure 7

Sector Analysis

Investors wait with bated breath to determine the results of consumer spending this holiday season. Turning to the Cyclical Goods & Services sector in Figure 8, the rotation that we detected last month is showing some signs of stabilization. More recent outperforming indicators are still driving returns. Yet, the almost perfectly inverse relationship between prior outperformers over the market cycle and November's outperformers is not as vivid based on the shades of green in the lower right of each quadrant.

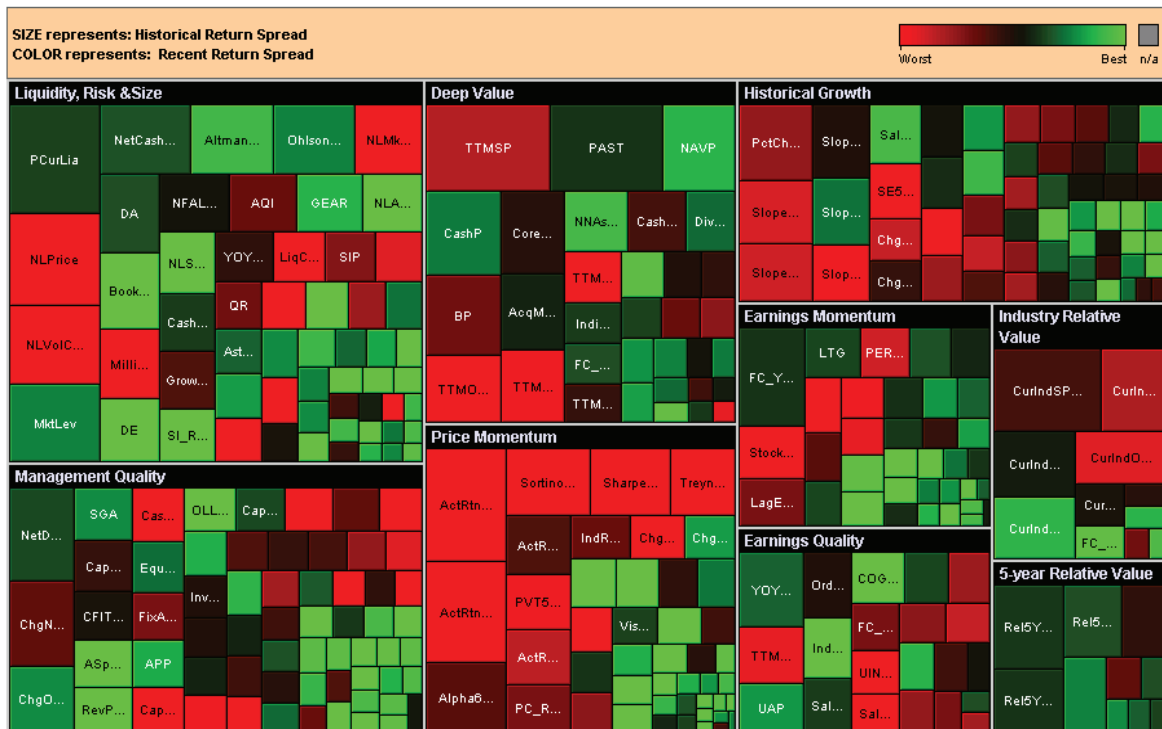


Figure 8

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