IMPLEMENTATION CONFERENCE

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HABITS OF BAD INSTITUTE TRADERS DURING THE QUANTITATIVE PHASE

Process = Macro + Systematic (box ticking) sector relative, stocks that are of interest relative to the sector as outliers, then investigate the qualitative elements of the company i.e.

- Why do they have superior earnings and / or revenue growth?
- What are the drivers of the growth?
- What is their relative advantage to the sector?
- What are the future catalysts?
- Will it continue?
- Do you agree with the market?
- Will you have conviction medium to longer term if it goes against you in the short term?
- Are you willing to buy / short more and back your idea?
- What are the risks to the idea?
- What changes the story?
- What changes your mind if it goes wrong?

Systematic processes = Macro' then ???? Numbers! Numbers! Numbers!

All you need to get all numbers right is the stock price, reported EPS and forward-looking EPS. The rest you can work out yourself in a Spreadsheet and you should.

Once you have this it is about Qualitative elements. Something is interesting if it passes the Quant phase as an outlier.

It is not then automatically a Watchlist idea that is now actionable for a position.

A Watchlist position you must do both the Quantitative & Qualitative assessment. Position conviction!

Something should not go on your Watchlist just because it ticked few boxes and looks decent compared to its peers.

You must make sure the numbers are right; PLUS understand story and agree with it by doing the Qualitative analysis.

Quant Ratios	
EPS0	Last year EPS (2020)
EPS1	Current year EPS (2021)
EPS2	Next year EPS (2022)
PE1	PE forward 2021 (current year - Price/EPS)
PE2	PE forward 2022 (next year)
EG1	Earnings growth 2021 (current year) = (EPS1-EPS0)/EPS0
EG2	Earnings growth 2022 (next year) = (EPS2-EPS1)/EPS1
PEG1	Earnings growth 2021 (current year) = PE1/EG1
PEG2	Earnings growth 2022 (next year) = PE2/EG2

First, we must erase the mistakes of process.

We are trying to get to a point where the sector that YOU create represents as close to reality as possible.

No spoon feeding. You must do this yourself otherwise you will never appreciate the numbers:

- Trusting numbers from third party sources
- Make all cells in excel sheets live formulas (not a paste special) — Double check, triple check
- Eyeballing numbers / using common sense.
- Rogue cells
- Contributions to the mean (averages)
- The laws of small numbers creating wild percentages EG and numbers for PE
- The laws of positive EPS moving to negative EPS and vice versa. Common sense!

Bad Habit > Only Box Ticking — 'fit has high earnings growth relative to its peers so it goes on my Watchlist." WRONG! What else do you know about the stock? Nothing! Therefore, no conviction.

Bad Habit > Only looking at comfortable blue-chip names with low volatility Risk / Opportunity i.e. invested in Market Cap space which is too high. Risk Reward is not skewed in their favor.

- Think of earnings growth as Mega Cap, Large Cap, Mid Cap, Small Cap.
- A Large Cap stock may be outperforming its peers with 6% earnings growth. But on an absolute basis its only **6% earnings growth. Its boring**!
- It might be an "Investment" for the long term but its not a TRADE!
- It is not a trade with a 1-3 month time horizon.
- You need high earnings growth with catalysts that will move price in 1-3 months
- This is more likely in the mid cap space.
- This is where we can find volatile outperformers relative to the sector with say 30%+ earnings growth and they can beat to upside with multiple catalysts in between.

A mid cap $5Bln stock has more potential to double and double quickly than a Mega Cap $30bln+ stock.

Long Ideas	**you need to concentrate on the $3bln - $10 bln space.**
Short ideas	you need to concentrate on the $20Bln+ space.

- Micro Caps in U.S. less than $1 bln
- Small Caps in U.S. between $1 bln-$3bln
- Mid-Caps in U.S. between $3Bln-$10Bln
- Large cap in U.S. $10B1n-$30B1n
- Mega Cap = $30Bln +

So you need to use Market Cap as a filter as well as PE, EG and PEG!

Really what you are doing here is using Volatility as a filter.

Earnings Growth is the most Important factor and will drive high PE and PEG i.e. when EG is high, this USUALLY means the market is willing to pay a premium for this growth via PE and PEG

LONG IDEAS EARNINGS GROWTH PROFILES EGI + EG2:

1. Positive (above Sector Average), More Positive (earnings growth Momentum) -- Ideal Scenario

2. Positive (above Sector Average), Positive (same).

3. Positive (above Sector average), Less Positive (above sector average),

4. Positive (at Sector average) = Opportunity cost to simply own the sector

5. Positive (below Sector Average), Positive (at or above sector average) — Could be worth looking at Vs Sector Positive (below Sector average), Positive (below sector average) — Opportunity cost to simply own the sector.

6. Negative (below sector average), Positive (below sector average), - Opportunity cost to simply owning the sector.

7. Negative (below sector average), Positive (at sector average) — Worth looking at (turnaround story)

8. Negative — Loss Making (below sector average), Positive (above sector average) — definitely worth looking at (turnaround story).

9. Negative (below sector average), negative (below sector average) — not worth looking at all. Could provide a good hedge to a high-quality long idea in same sector. Have to decide which is a better hedge i.e. this stock or the sector Of the market.

10. Hedges to longs — Market, Sector, Negative (negative) Of Negative (below average), Of classic shorts (low correlation from intra sector)

Red30 Tech was founded by Oliver McNeil, a mechanical engineer passionate about building appliances and machinery from spare parts in his garage. Oliver teamed up with other like-minded creators, educators, students, and explorers, and Red30 Tech was born. Today, Red30 Tech is proud to support a staff of 300 employees who celebrate learning is a journey for life, and they really want to share their knowledge with you.