

IQS Commentary for June 2017

Markets/Economy

Quick summary - markets keep rising, FANG stocks roaring (See Chart of the Month), Amazon buying Whole Foods, retail as we knew it will not exist again, VIX staying low, tight job market, Fed raising rates, and geopolitical risks remain high.

The S&P 500 achieved its' sixth consecutive month of positive returns to start the year. The last time this was achieved was in 1996, and only one year was there more than six, and that was in 1995 where the first nine months all had positive returns.

The S&P 500 has returned 9.3% year to date, with the technology heavy NASDAQ returning 14.1% year to date. Small caps continue to lag, but had a strong month in June with 3.4% return. Growth continues to dominate over value.

US Market Summary 2017

**June - Small over Large, Value over Growth, Technology on the Decline
2017 - Large over Small, Growth over Value, Technology Leads**

	<u>YTD</u>	<u>June</u>
S&P 500	9.3%	0.6%
DOW	8.0%	1.6%
NASDAQ	14.1%	-0.9%
Russell 1000	9.2%	0.7%
Russell 2000	4.8%	3.4%
Russell 1000 Growth	13.8%	-0.3%
Russell 1000 Value	4.5%	1.7%

Chart of the Month: The Every Other Year FANGAS

FANGAS: Facebook, Amazon, Netflix, Google, Apple, S&P 500

Over the past couple of years, we have heard a lot about the FANG stocks. These include FB, AMZN, NFLX and GOOG. In this analysis we will add “AS” to the end of “FANG” or “FANGAS,” by including both AAPL and the S&P 500.

Why are the FANG stocks so important? See Chart 1. The reason is simple – returns! These stocks are all situated in a new social paradigm that didn’t exist previously. Without noteworthy historical comparatives, it is not clear to investors what will be the ultimate value of each of these companies. In 2013, Netflix returned over 300% and Facebook returned over 100%, while Amazon and Google each returned around 60%. In 2014, only Facebook had a positive return, while the market was up 13.7%. But, in 2015, the FANG stocks roared back with an average return of 82.7% for the 4 stocks. 2016 saw a subpar year once again for the FANG stocks. In the case of the “every other year” FANG returns, 2017 is off to a very strong start, averaging over 24% through June, 2017.

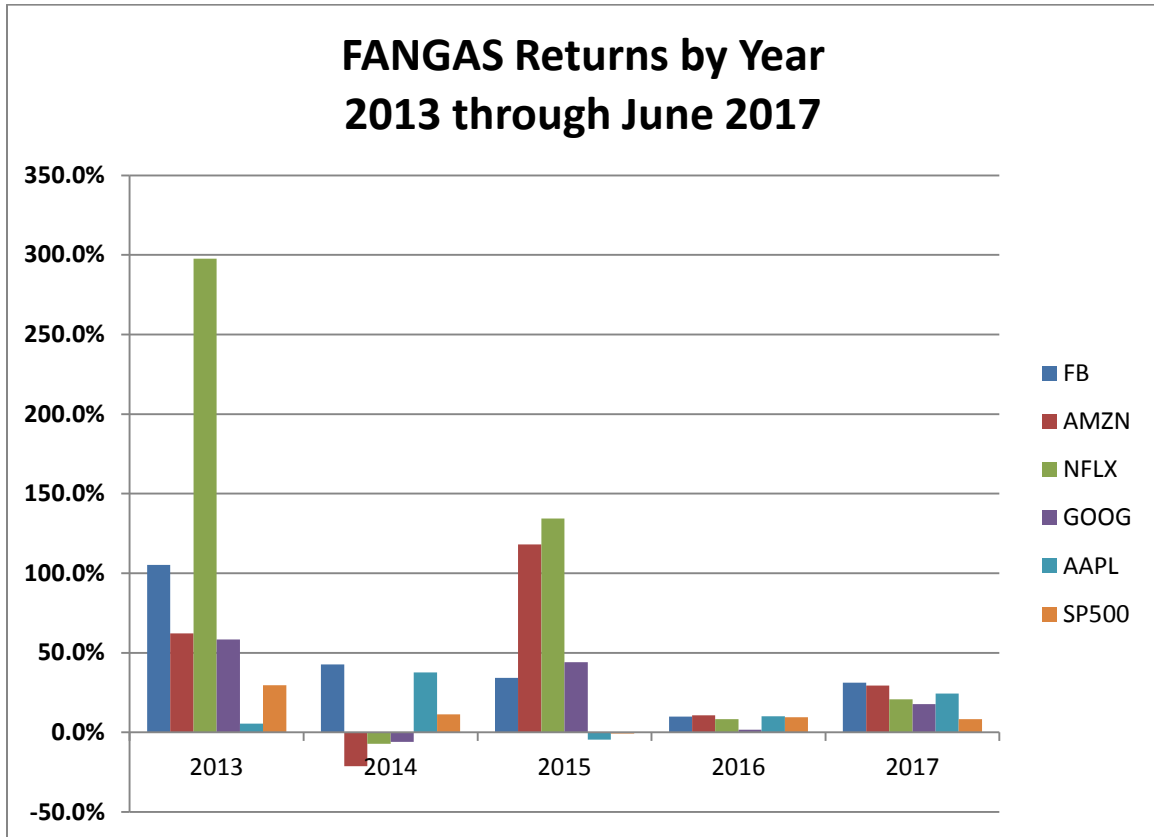
Chart 1: Returns by Year for FANGAS 2013- 6/2017

	2013	2014	2015	2016	2017
FB	106.5%	44.4%	34.4%	9.7%	30.7%
AMZN	62.2%	-21.3%	118.0%	10.7%	29.3%
NFLX	308.4%	-6.1%	134.2%	8.2%	20.1%
GOOG	58.9%	-4.8%	44.2%	1.6%	17.9%
FANG Average	134.0%	3.1%	82.7%	7.5%	24.5%
AAPL	8.8%	39.3%	-4.9%	10.1%	24.6%
SP500	32.4%	13.7%	1.4%	12.0%	9.3%



Below, in Graph 1, you can clearly view the enormous “every other year” return for the FANG stocks. While Apple is not part of FANG, we include it as part of FANGAS as it has had great growth and strong returns, and, as a result, is the largest stock by weight in the S&P 500.

Graph 1: FANGAS Returns by Year





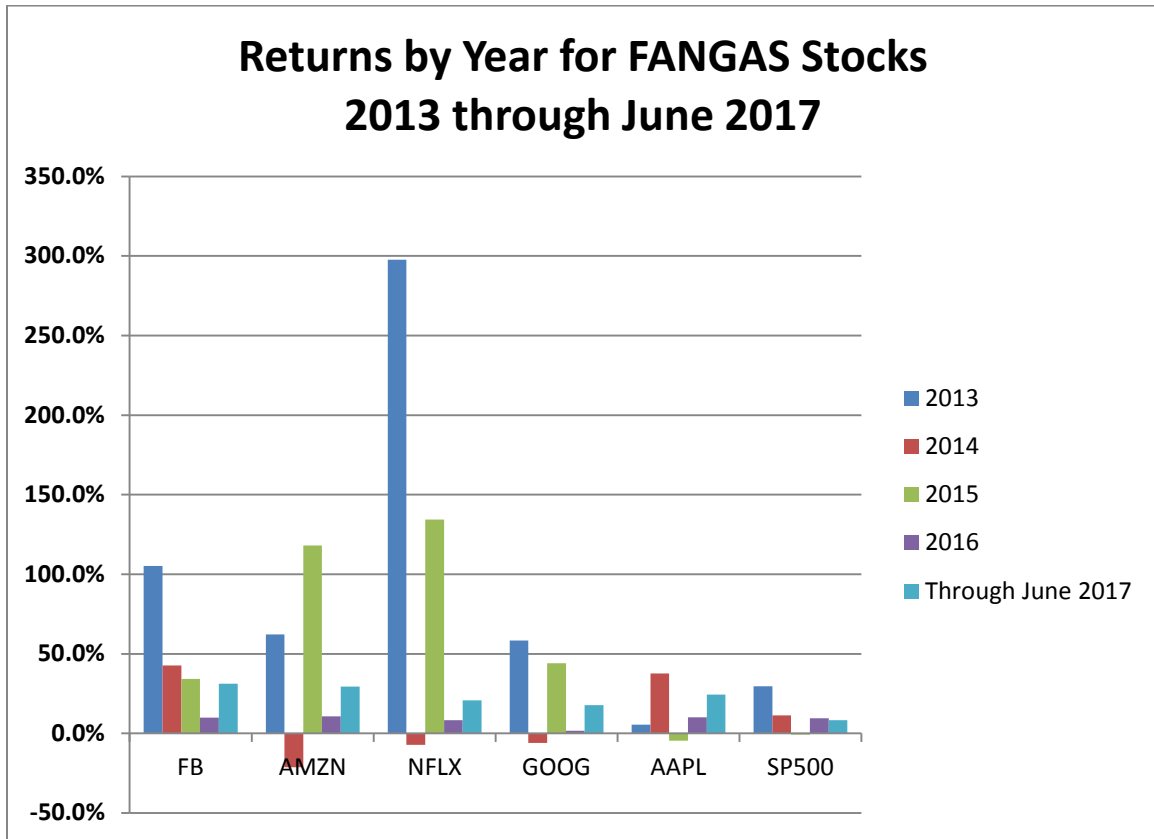
Sometimes a graph paints a striking picture of the investment landscape, but other times it can create a visual bias due to the magnitude of the columns. Below, we show the annualized returns and volatility to the FANGAS stocks for the 4-1/2 year period from 2013 through June 2017 using monthly returns, and calculate a simple Information Ratio as the ratio of the Return to the Risk. You can see that while the returns to all the FANGA stocks were higher than the S&P 500, the standard deviation (volatility) to the S&P 500 was much lower than all of the stocks over this period.

Chart 2: Return and Standard Deviation for FANGAS 2013- 6/2017

	Annualized Return	Annualized Standard Deviation	Information Ratio
FB	47.1%	32.8%	1.44
AMZN	36.0%	27.5%	1.31
NFLX	71.4%	54.1%	1.32
GOOG	23.4%	20.1%	1.16
AAPL	15.3%	23.9%	0.64
SP500	12.5%	9.8%	1.27



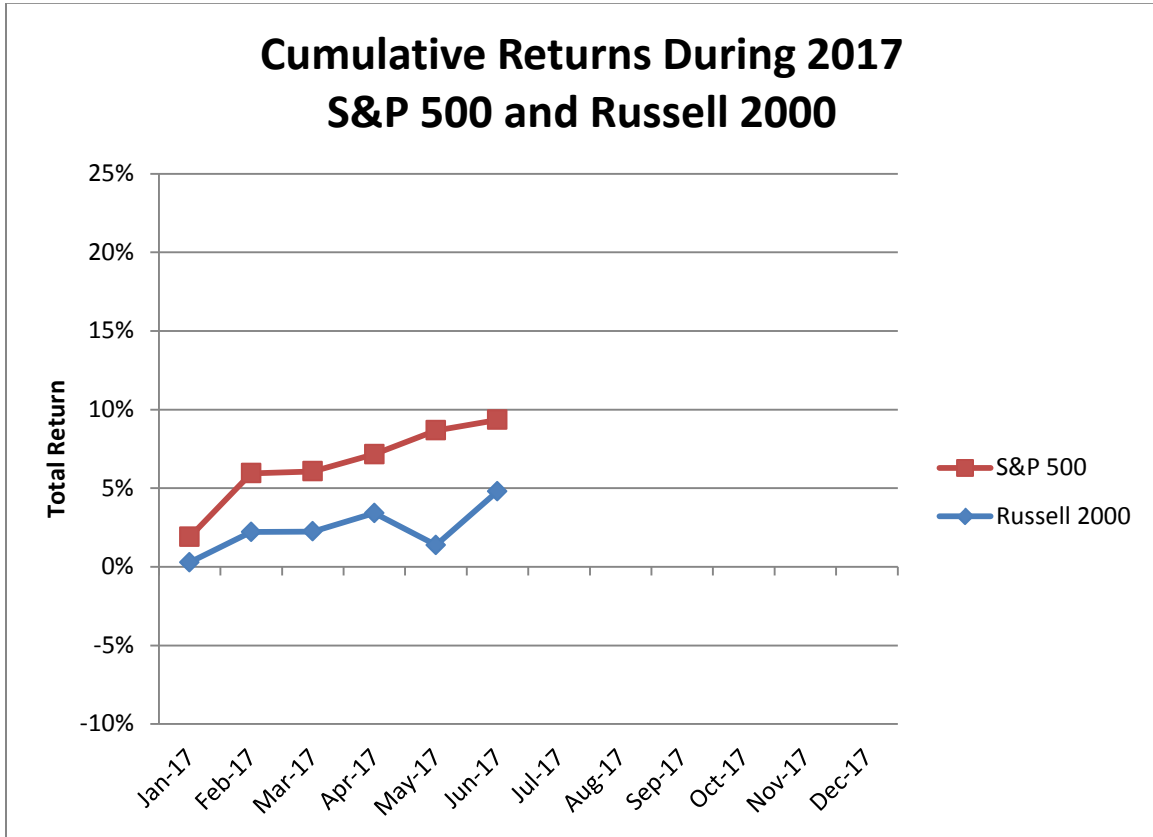
Graph 3: Returns by Year for FANGAS Stocks





S&P 500 vs Russell 2000

The Winning Streak Continues for S&P 500, Small Caps Leap Forward





Model Results

IQS

- The IQS model returned .2% for the 4 weeks ending July 1. The Top Decile returned 10.4% YTD, the Bottom Decile returned -.3%, and the Universe returned 7.6% YTD.
- The sector-neutral IQS model returned .3% for the 4 weeks ending July 1. The Top Decile returned 9.9% YTD, the Bottom Decile returned 3.1%, and the Universe returned 7.6% YTD.
- During June, only Improving Financials top/bottom decile spread had a positive return.

IQS 1000

- The IQS 1000 model returned 2.8% for the 4 weeks ending July 1. The Top Decile returned 13.0% YTD, the Bottom Decile returned 2.0%, and the Universe returned 10.0% YTD.

IQS No Momentum Model

- The IQS Nomom model (IQS model without Momentum Category) model returned 1.9% for the 4 weeks ending July 1. The Top Decile returned 11.2% YTD, the Bottom Decile returned -2.0%, and the Universe returned 8.5% YTD.

Factor Weights

The IQS Adaptive/Dynamic Weighting Scheme:

As of July:

IQS dynamic factor model continues to provide a balanced, diversified set of weights across the five main categories. While there was some tweaking within factor categories, in aggregate, there was low turnover in the weights for July. Our systematic weighting scheme did not identify any new trends in the market environment or factor categories as whole, and therefore resisted the temptation of turnover, since it comes at a cost.

Notes:

- IQS model includes the IQS top 3000 stocks by capitalization.
- IQS 1000 includes the IQS top 1000 stocks by capitalization.
- IQS No Momentum includes all IQS factor categories except Momentum. The results for this model are based on the IQS 3000 stock universe.

Note: Results are specific to the IQS analysis. Real time results will vary depending on universe, frequency of trading, and other manager specific strategies.

Summary of IQS Results for 4 Weeks Ending 7/1/2017

All returns are equal-weighted
The results below are from paper portfolios, and are not based on actual trading.
No transaction costs are included.

Weekly Top and Bottom Decile Returns for IQS Composite Model

Week Ending	IQS Universe		Net
	Top Decile	Bottom Decile	
10-Jun	0.38%	-0.60%	0.98%
17-Jun	-0.92%	-0.80%	-0.12%
24-Jun	0.70%	1.20%	-0.50%
1-Jul	0.25%	0.43%	-0.18%
MTD	0.40%	0.22%	0.19%
YTD	10.38%	-0.33%	10.71%

Weekly Top and Bottom Decile Returns for IQS Composite Model, Sector Neutral

Week Ending	Sector Neutral		Net
	Top Decile	Bottom Decile	
10-Jun	0.48%	-0.01%	0.49%
17-Jun	-0.88%	-0.76%	-0.12%
24-Jun	0.51%	0.59%	-0.08%
1-Jul	0.40%	0.37%	0.03%
MTD	0.50%	0.18%	0.32%
YTD	9.91%	3.05%	6.86%

Weekly IC for IQS Composite Model and Components

Week Ending	IQS	BAL	VAL	MOM	IMP	SEN
10-Jun	0.069	-0.050	0.175	-0.012	0.016	0.018
17-Jun	-0.027	-0.050	-0.003	-0.023	0.007	-0.029
24-Jun	0.055	0.095	-0.204	0.070	0.114	0.051
1-Jul	-0.020	-0.057	0.216	-0.140	-0.009	-0.093
MTD	0.019	-0.016	0.046	-0.026	0.032	-0.013
YTD	0.042	0.029	0.004	-0.018	0.046	0.010

Weekly Top and Bottom Decile Returns for IQS Component Models

Week Ending	BALANCE SHEET			VALUE		
	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
10-Jun	0.02%	0.32%	-0.30%	0.57%	-2.19%	2.76%
17-Jun	-0.72%	-0.40%	-0.32%	-0.56%	0.39%	-0.95%
24-Jun	0.64%	-0.34%	0.98%	-0.19%	5.72%	-5.91%
1-Jul	-0.10%	0.71%	-0.81%	1.30%	-1.72%	3.02%
MTD	-0.16%	0.29%	-0.45%	1.11%	2.02%	-0.91%
YTD	7.66%	-0.59%	8.25%	6.38%	13.26%	-6.88%

Week Ending	MOMENTUM			IMPROVING FINANCIALS		
	Top Decile	Bottom Decile	Net	Top Decile	Bottom Decile	Net
10-Jun	-0.09%	0.02%	-0.11%	0.22%	0.02%	0.20%
17-Jun	-1.04%	-0.82%	-0.22%	-0.55%	-1.17%	0.62%
24-Jun	1.66%	0.78%	0.88%	1.31%	0.06%	1.25%
1-Jul	-0.96%	1.55%	-2.51%	0.15%	0.21%	-0.06%
MTD	-0.45%	1.52%	-1.98%	1.13%	-0.88%	2.01%
YTD	6.28%	8.06%	-1.77%	11.23%	-2.01%	13.24%

Week Ending	SENTIMENT		
	Top Decile	Bottom Decile	Net
10-Jun	-0.39%	-0.11%	-0.28%
17-Jun	-0.94%	-0.32%	-0.62%
24-Jun	1.03%	-0.02%	1.05%
1-Jul	-0.30%	1.67%	-1.97%
MTD	-0.61%	1.21%	-1.82%
YTD	7.93%	3.61%	4.32%

Notes:

IQS represents the IQS composite model.
IC or Information Coefficient is calculated as the Spearman rank correlation between the forecasted returns and actual returns.
IQS Universe includes approximately the largest 4000 stocks by market capitalization
Sector definition is determined by Zacks Information Research

Summary of IQS Results (Top 1000 Stocks) for 4 Weeks Ending 7/1/2017

All returns are equal-weighted

The results below are from paper portfolios, and are not based on actual trading.

No transaction costs are included.

Weekly Top and Bottom Decile Returns for IQS Composite Model

Week Ending	IQS Universe		Net
	Top Decile	Bottom Decile	
10-Jun	0.13%	-0.84%	0.97%
17-Jun	-0.47%	-0.18%	-0.29%
24-Jun	0.71%	-1.08%	1.79%
1-Jul	0.33%	0.01%	0.32%
MTD	0.70%	-2.08%	2.78%
YTD	13.01%	2.03%	10.98%

Weekly IC for IQS Composite Model

Week Ending	IQS
10-Jun	0.078
17-Jun	-0.060
24-Jun	0.227
1-Jul	0.030
MTD	0.069
YTD	0.037

Notes:

IQS represents the IQS composite model.

IC or Information Coefficient is calculated as the Spearman rank correlation between the forecasted returns and actual returns.

IQS Universe includes approximately the largest 1000 stocks by market capitalization

Sector definition is determined by Zacks Information Research

Summary of IQS No Momentum Model Results for 4 Weeks Ending 7/1/2017

All returns are equal-weighted

The results below are from paper portfolios, and are not based on actual trading.

No transaction costs are included.

Weekly Top and Bottom Decile Returns for IQS Composite Model

Week Ending	IQS Universe		Net
	Top Decile	Bottom Decile	
10-Jun	0.37%	-0.34%	0.71%
17-Jun	-1.12%	-0.90%	-0.22%
24-Jun	0.71%	0.19%	0.52%
1-Jul	0.75%	-0.12%	0.87%
MTD	0.70%	-1.17%	1.87%
YTD	11.22%	-2.00%	13.23%

Weekly IC for IQS Composite Model

Week Ending	IQS
10-Jun	0.064
17-Jun	-0.008
24-Jun	0.071
1-Jul	0.070
MTD	0.049
YTD	0.047

Notes:

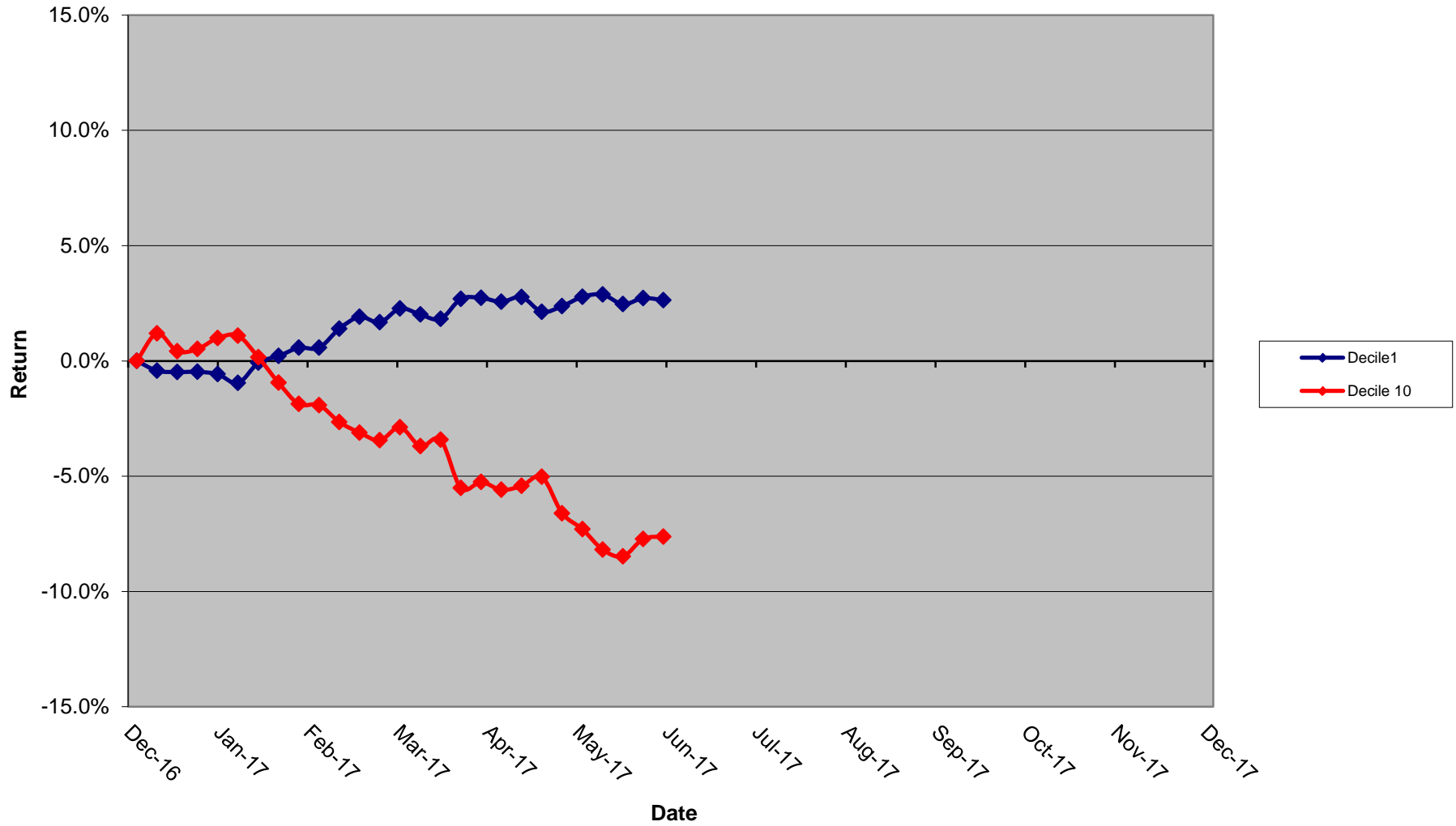
IQS represents the IQS financial sustainability model, which is essentially the IQS composite model without momentum.

IC or Information Coefficient is calculated as the Spearman rank correlation between the forecasted returns and actual returns.

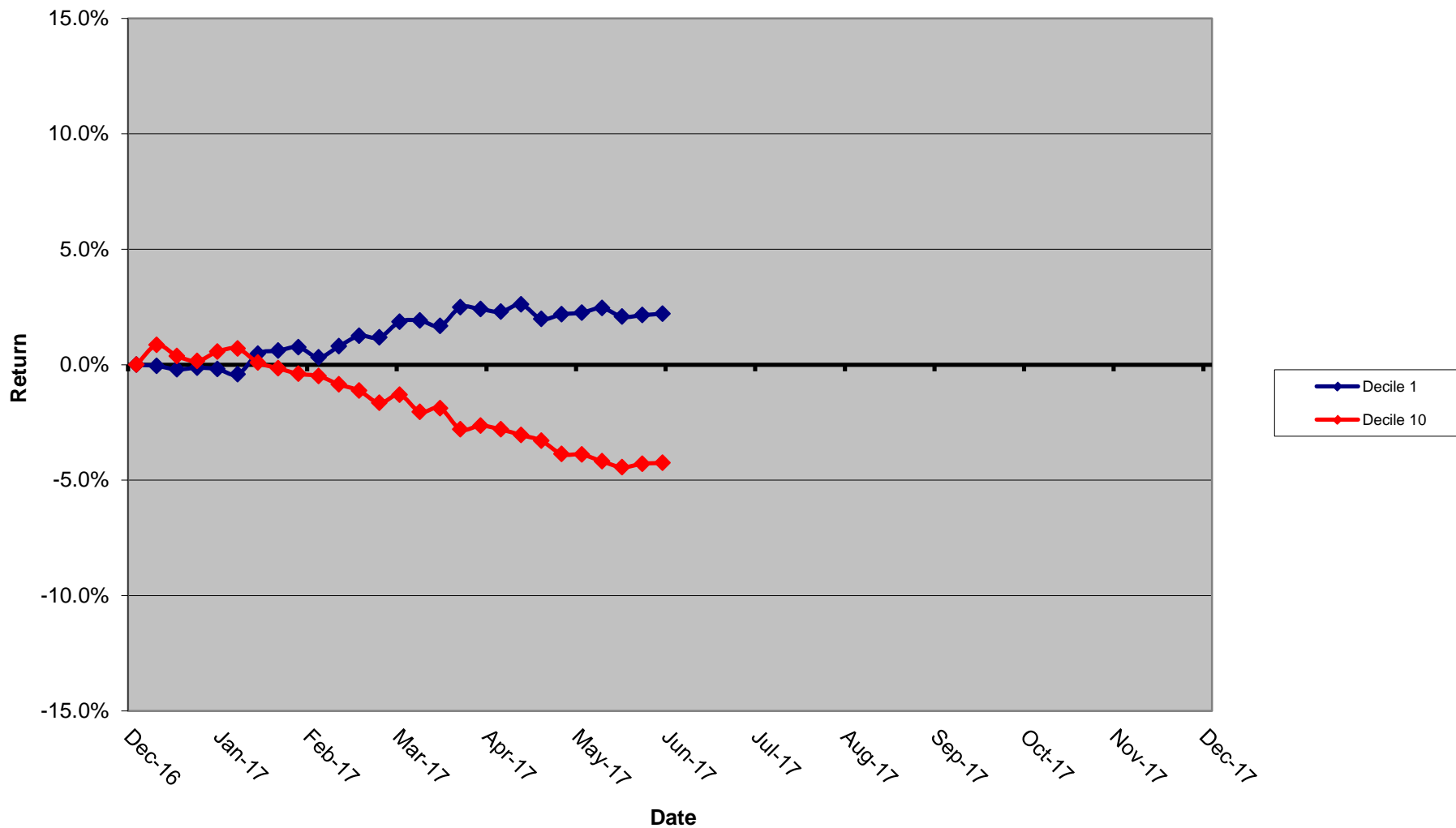
IQS Universe includes approximately the largest 3000 stocks by market capitalization

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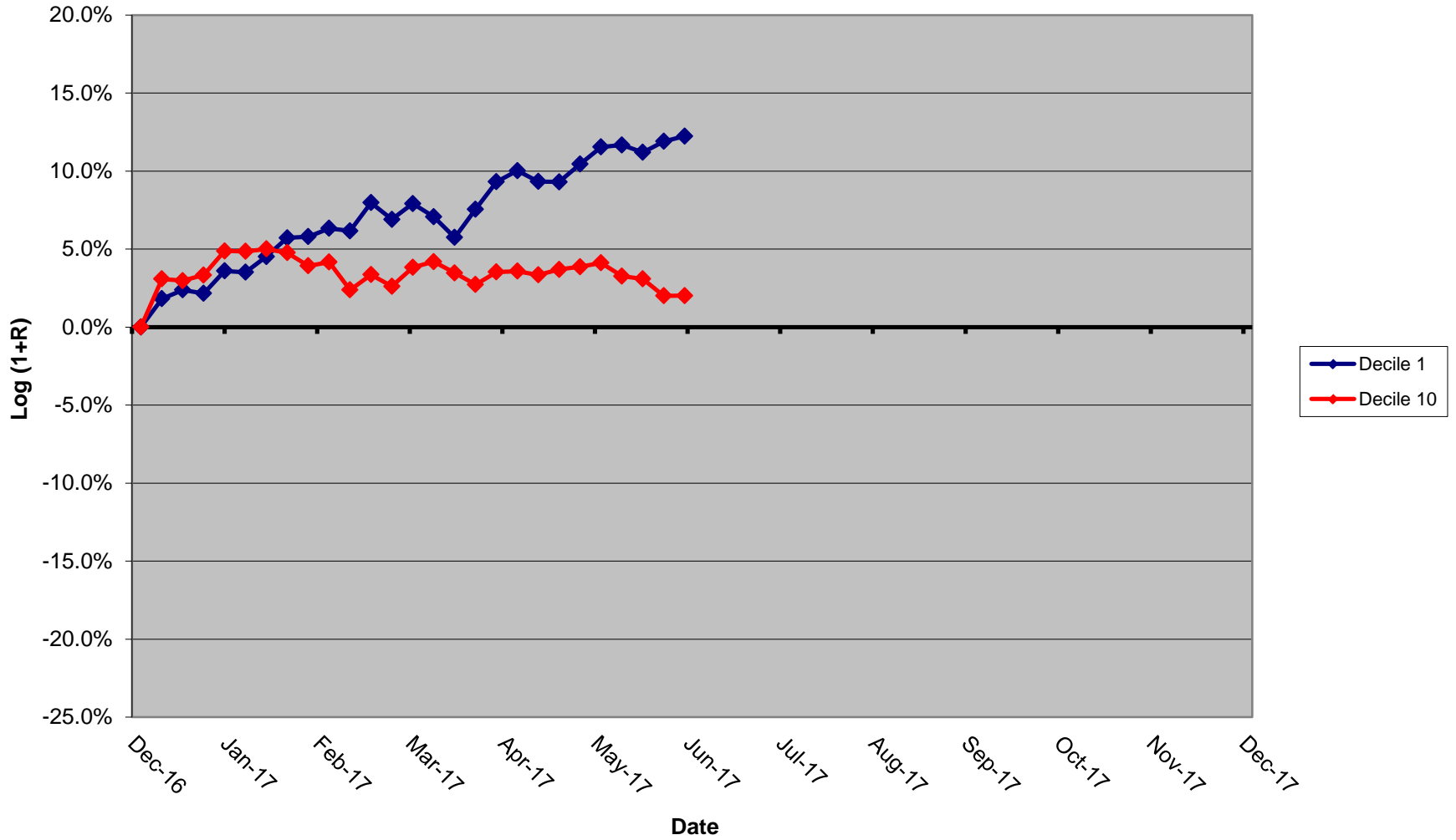
**Time Series of Excess Cumulative Return
IQS Composite DFM Model
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**



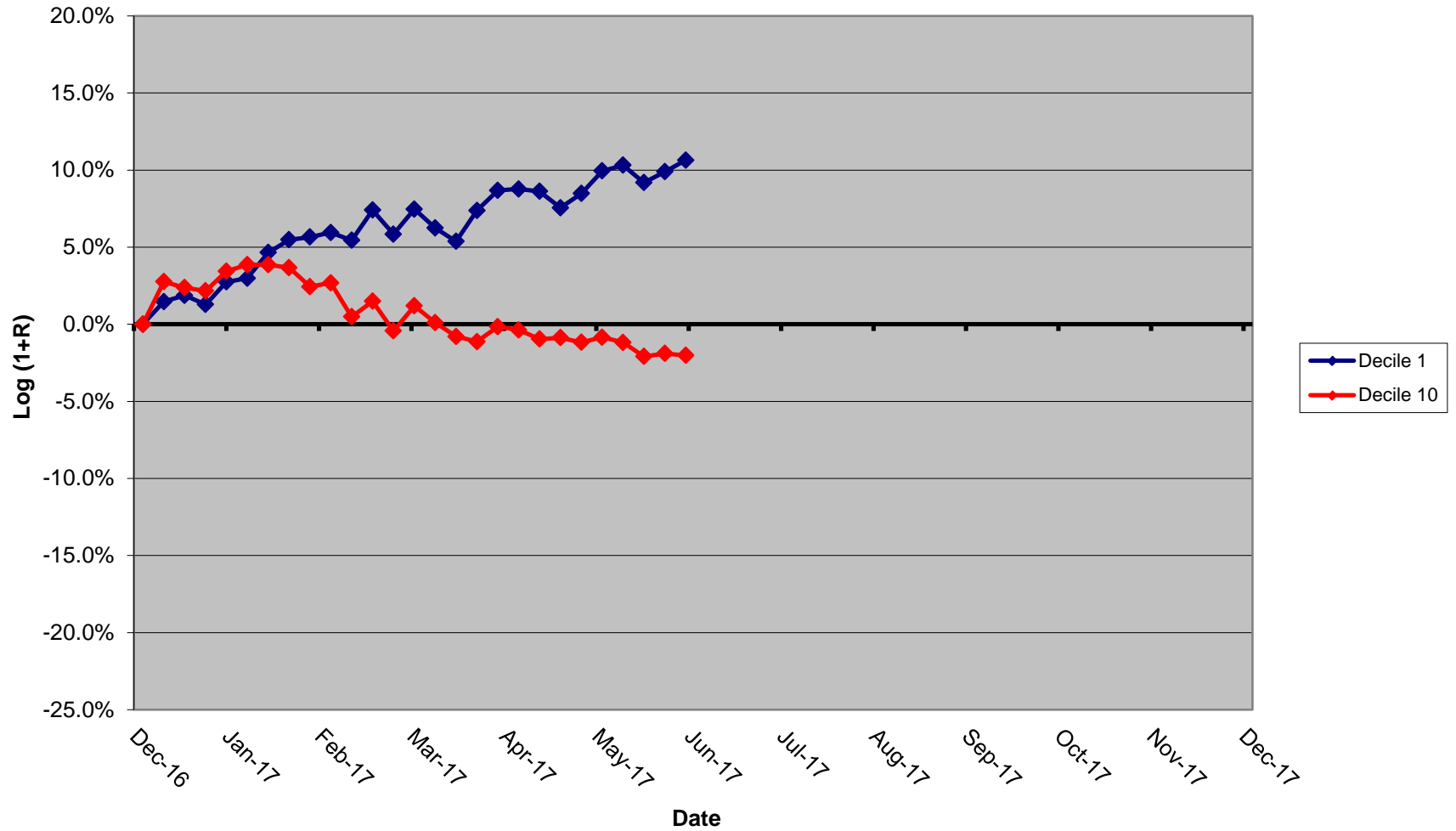
**Time Series of Excess Cumulative Return
IQS Composite - Sector Neutral DFM Model
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**



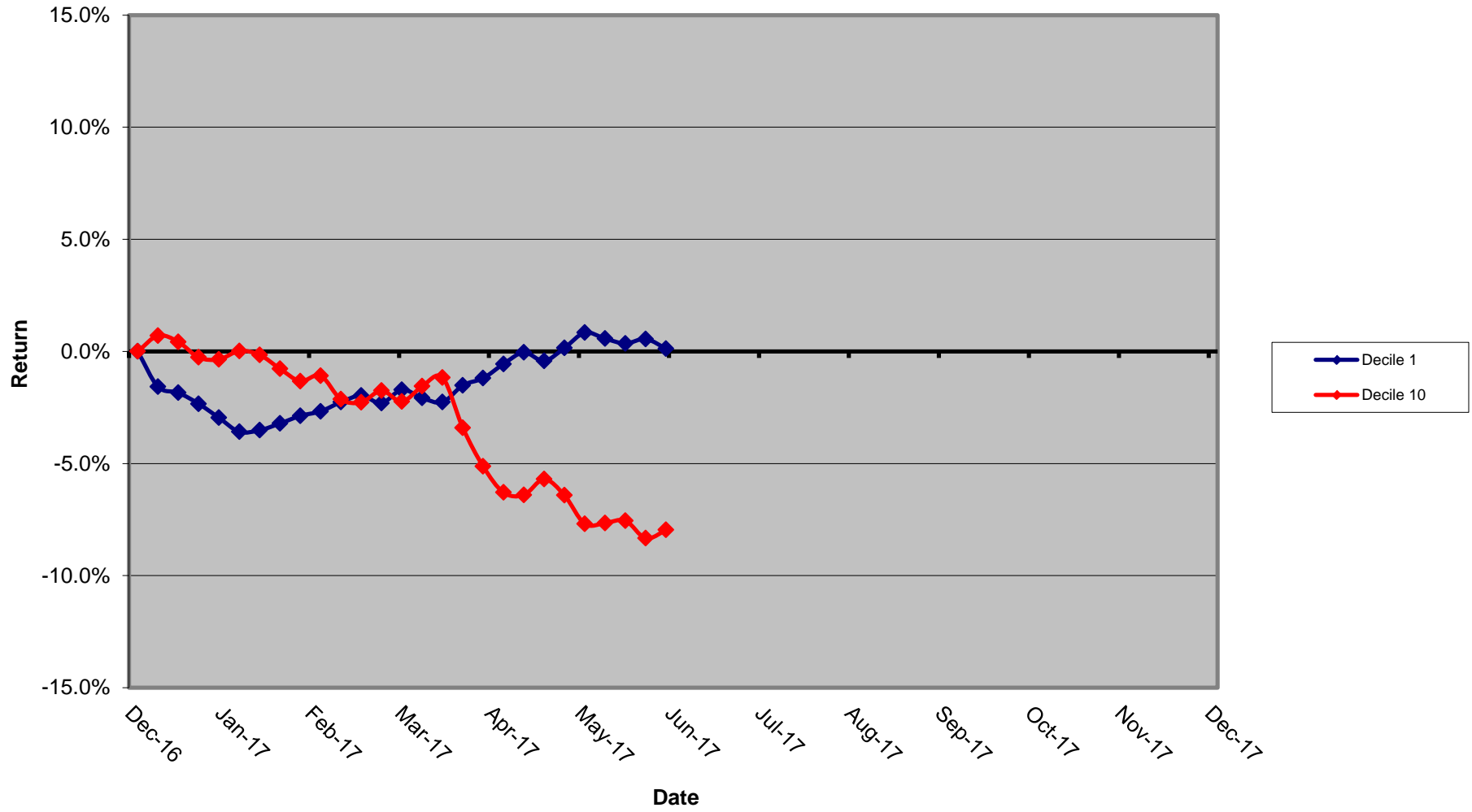
**Time Series of Cumulative Excess Return
IQS Composite Model
IQS Top 1000 Universe - Decile 1 vs 10
Year-to-Date 2016**



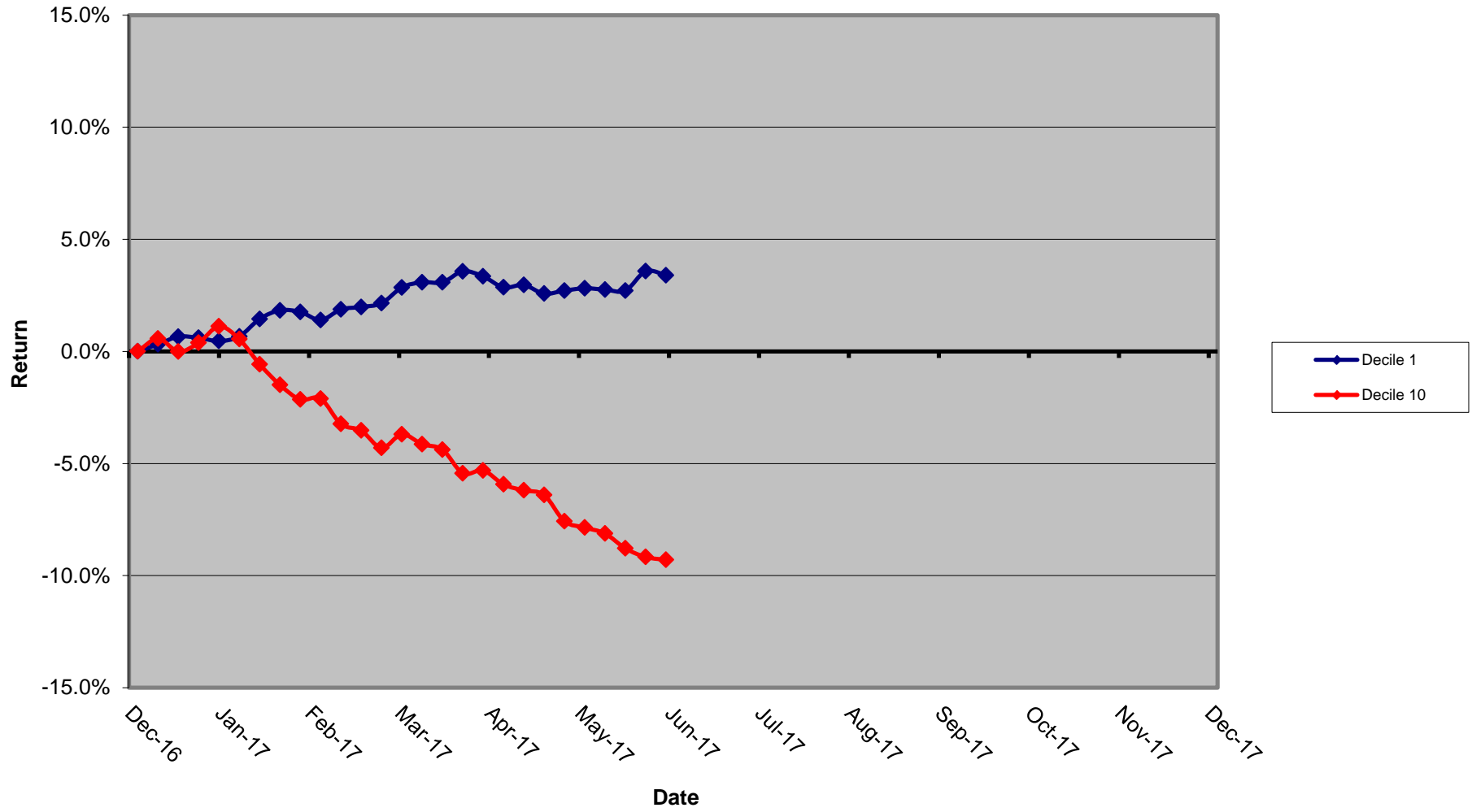
**Time Series of Cumulative Excess Return
IQS Composite No Momentum Model
IQS Universe - Decile 1 vs 10
Year-to-Date 2016**



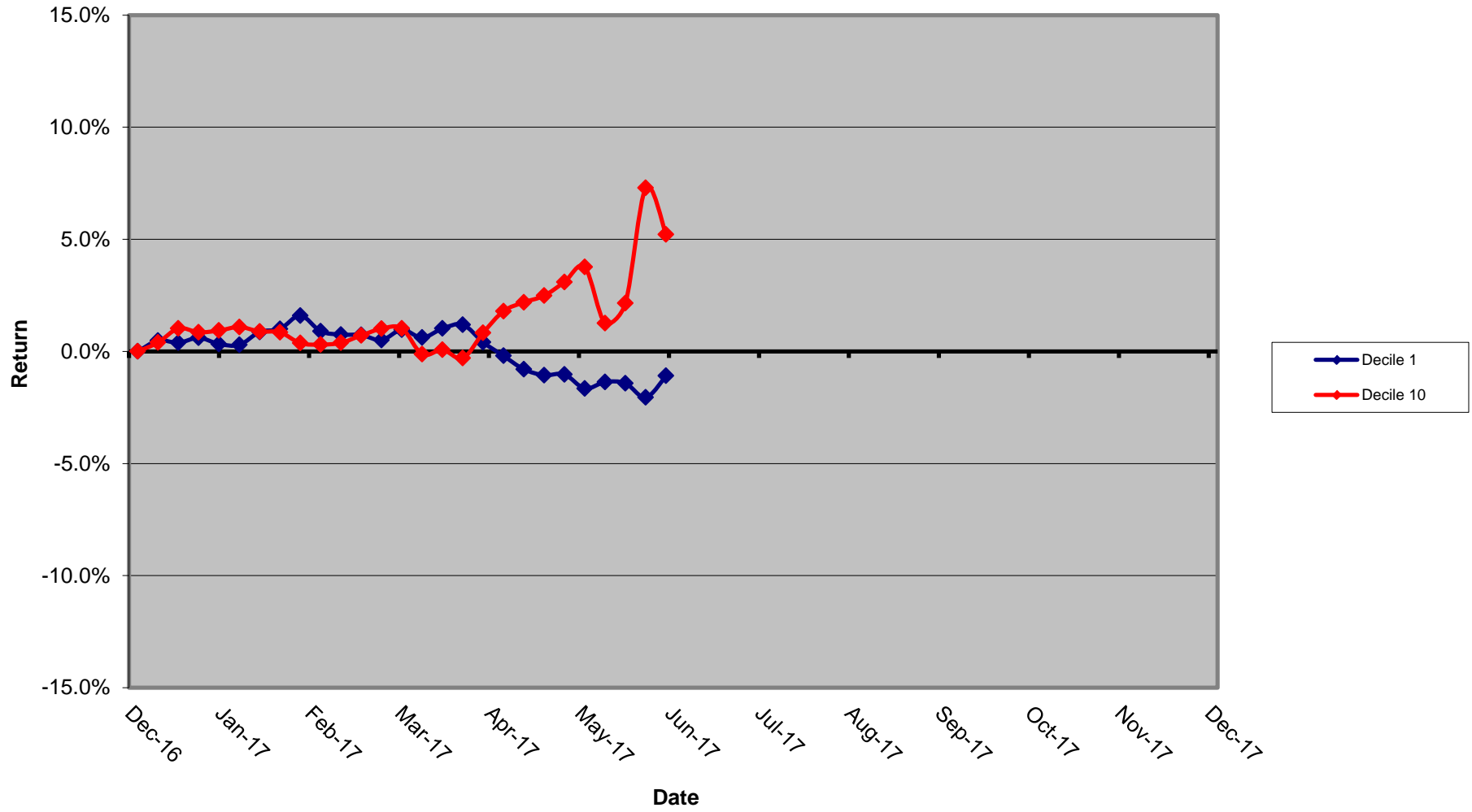
**Time Series of Excess Cumulative Return
IQS Component - Balance Sheet
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**



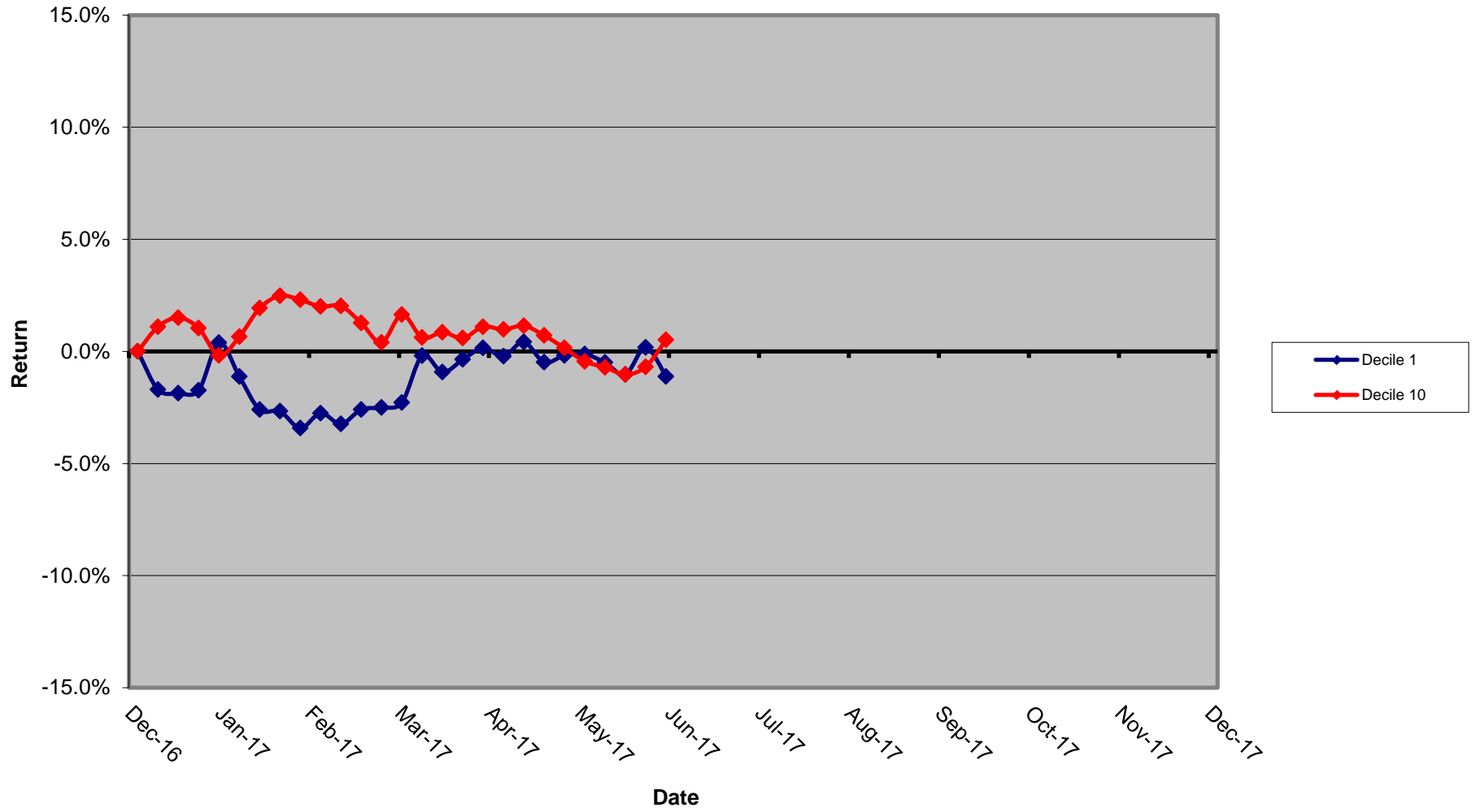
**Time Series of Excess Cumulative Return
IQS Component - Improving Financials
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**



**Time Series of Excess Cumulative Return
IQS Component - Value
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**



**Time Series of Excess Cumulative Return
IQS Component - Momentum
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**



**Time Series of Excess Cumulative Return
IQS Component - Sentiment
IQS Universe - Decile 1 vs 10
Year-to-Date 2017**

