STOCK SUPERSTARS REPORT

Investing Like a Stock Superstar

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Stock Superstars Report
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Stock Superstar

An investor with a systematic approach to investing who has outperformed the market over the long term.

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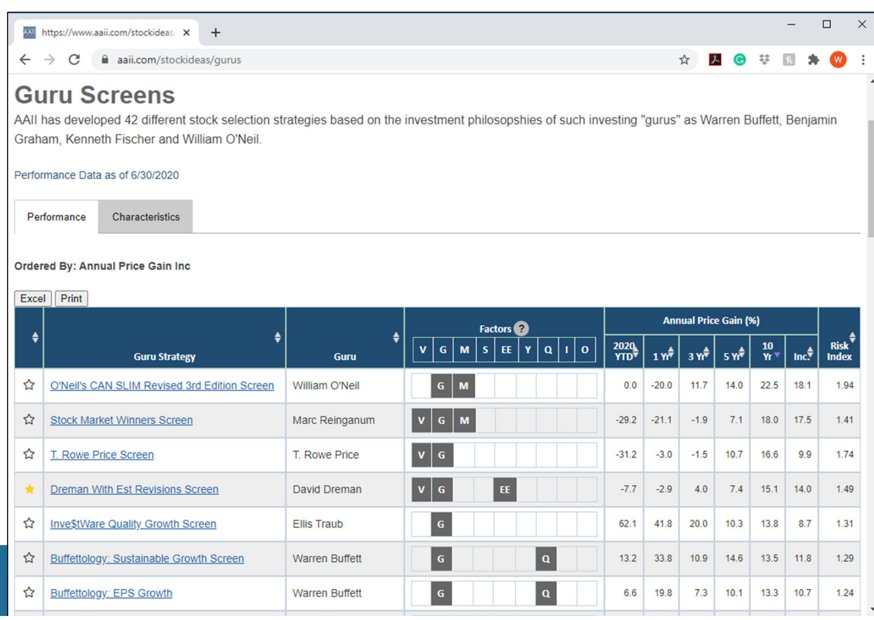
AAII Stock Screens



https://www.aaii.com/stockideas/gurus

Guru Screens

AAII has developed 42 different stock selection strategies based on the investment philosopshies of such investing "gurus" as Warren Buffett, Benjamin Graham, Kenneth Fischer and William O'Neil.

Performance Data as of 6/30/2020

Performance | Characteristics

Ordered By: Annual Price Gain Inc

Excel | Print

	Guru Strategy	Guru	Factors V	G	M	S	EE	Y	Q	I	O	Annual Price Gain (%) 2020 YTD	1 Yr	3 Yr	5 Yr	10 Yr	Inc.	Risk Index
☆	O'Neil's CAN SLIM Revised 3rd Edition Screen	William O'Neil		G	M							0.0	-20.0	11.7	14.0	22.5	18.1	1.94
☆	Stock Market Winners Screen	Marc Reinganum	V	G	M							-29.2	-21.1	-1.9	7.1	18.0	17.5	1.41
☆	T. Rowe Price Screen	T. Rowe Price	V	G								-31.2	-3.0	-1.5	10.7	16.6	9.9	1.74
★	Dreman With Est Revisions Screen	David Dreman	V	G			EE					-7.7	-2.9	4.0	7.4	15.1	14.0	1.49
☆	Inve$tWare Quality Growth Screen	Ellis Traub		G								62.1	41.8	20.0	10.3	13.8	8.7	1.31
☆	Buffettology: Sustainable Growth Screen	Warren Buffett		G					Q			13.2	33.8	10.9	14.6	13.5	11.8	1.29
☆	Buffettology: EPS Growth	Warren Buffett		G					Q			6.6	19.8	7.3	10.1	13.3	10.7	1.24

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The Stock Superstars Report

- Take the "best of the best" from AAII stock screens
- Approaches that have performed well over the long-term and various market environments
- Differing investment styles that perform better at different points in the market cycle
- Quantitative (rules-based) buy and sell decisions
- Combine into a diversified portfolio
  - Style diversification
  - Sector/industry diversification
  - Size diversification

Meet the Stock Superstars

- William O'Neil
  - Fundamental & technical approach for identifying promising growth stocks
- David Dreman
  - Value investing with an earnings revision & surprise twist
- James O'Shaughnessy
  - Factor-based approach for value, financial strength & earning quality
- John Neff
  - A contrarian "total return" approach

Featured Stock Superstar: William O'Neil

William O'Neil's Story

- Started his career as a stockbroker in 1958
- In 1963, O'Neil bought a seat on the NYSE (the youngest at the time ever to do so) and founded William O'Neil Co.
  - The company developed the first computerized daily securities database
- In 1972, Daily Graphs was created by O'Neil as a printed book of stock charts delivered weekly to subscribers (now called MarketSmith)
- Pioneered the use of historical precedent to analyze equities in tandem with fundamental and technical analysis
- O'Neil identified seven basic factors that occurred over and over again and in 1971, he summarized, adapted, and published his findings as "The Model Book of Greatest Stock Market Winners"
  - The approach eventually became known as CAN SLIM
- Realizing the need to deliver his time-sensitive information ahead of the competition, in 1973 O'Neil founded O'Neil Data Systems, a high-speed printing facility that pioneered the field of database publishing using state-of-the-art computer technology
- In 1984, O'Neil designed and launched Investor's Daily (later renamed Investor's Business Daily)
- Author of the book "How to Make Money in Stocks: A Winning System in Good Times or Bad," which is in its fourth edition

The 3 “Big Rocks” of CAN SLIM

- Big Rock #1
  - Only buy stocks when the market is in an uptrend
  - Take defensive action as a downtrend begins
- Big Rock #2
  - Focus on companies with big earnings growth and a new, innovative product or service
- Big Rock #3
  - Buy stocks being heavily bought by institutional investors
  - Avoid stocks institutional investors are heavily selling

Big Rock #1

- Only buy stocks in a market uptrend & take defensive action as a downturn begins
- **M: Market Direction**
  - The “M” in CAN SLIM stands for market direction
    - Stay in sync with the direction of the overall market—Nasdaq composite, S&P 500 index, etc.
  - Although it is the last letter, it is the starting point when buying and selling stocks
  - History shows that 3 of 4 stocks follow the direction of the overall market—up and down
  - O’Neil is a strong believer in learning to read stock charts

Identifying Changes in Market Trend

- Learn to identify the two main signals of a shift in market direction
  - "Follow-through days" and "distribution days"

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Sign of Weakening Market

- All uptrends eventually end
  - Distribution days—days of heavy selling—alert you that a shift may be taking place
- Distribution day is when the market (S&P 500, Nasdaq Composite) falls 0.2% or more on increasing volume
  - Flat, heavy-volume days are also considered distribution days
- An increase in the number of distribution days signals that institutional owners are selling more aggressively
- 4 or 5 distribution days over a few weeks is an indication that the uptrend is failing

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Distribution Days

Nasdaq Composite

Date	High	Low	Close	Daily Index Chg	% off Daily Low	% off All-Time High	Index Volume	Daily Vol Chg
4/27/2021	14,171.24	14,064.28	14,090.22	(0.34%)	0.18%	0.60%	4,626,882,560	3.62%
4/28/2021	14,133.65	14,034.70	14,051.03	(0.28%)	0.12%	0.88%	4,449,247,744	(3.84%)
4/29/2021	14,211.57	13,952.80	14,082.55	0.22%	0.93%	0.91%	4,808,663,552	8.08%
4/30/2021	14,084.76	13,941.63	13,962.68	(0.85%)	0.15%	1.75%	4,758,256,128	(1.05%)
5/3/2021	14,042.12	13,881.51	13,895.12	(0.48%)	0.10%	2.23%	4,655,101,440	(2.17%)
5/4/2021	13,795.57	13,485.59	13,633.50	(1.88%)	1.10%	4.07%	5,855,920,640	25.80%
5/5/2021	13,753.05	13,533.93	13,582.42	(0.37%)	0.36%	4.43%	4,502,825,984	(23.11%)
5/6/2021	13,635.73	13,439.39	13,632.84	0.37%	1.44%	4.07%	4,961,793,024	10.19%
5/7/2021	13,828.62	13,690.75	13,752.24	0.88%	0.45%	3.23%	4,427,543,040	(10.77%)
5/10/2021	13,687.93	13,401.75	13,401.86	(2.55%)	0.00%	5.70%	4,814,102,016	8.73%
5/11/2021	13,423.31	13,107.67	13,389.43	(0.09%)	2.15%	5.79%	4,705,499,136	(2.26%)
5/12/2021	13,288.61	13,002.54	13,031.68	(2.67%)	0.22%	8.30%	4,713,954,304	0.18%
5/13/2021	13,247.87	13,007.24	13,124.99	0.72%	0.91%	7.65%	4,697,403,904	(0.35%)
5/14/2021	13,460.88	13,242.97	13,429.98	2.32%	1.41%	5.50%	4,025,633,792	(14.30%)
5/17/2021	13,399.17	13,265.40	13,379.05	(0.38%)	0.86%	5.86%	3,987,541,248	(0.95%)
5/18/2021	13,485.34	13,299.92	13,303.64	(0.56%)	0.03%	6.39%	4,284,114,176	7.44%
5/19/2021	13,304.61	13,072.23	13,299.74	(0.03%)	1.74%	6.42%	4,307,002,880	0.53%
5/20/2021	13,563.52	13,355.71	13,535.74	1.77%	1.35%	4.76%	3,969,330,432	(7.84%)
5/21/2021	13,616.58	13,463.26	13,470.99	(0.48%)	0.06%	5.21%	3,656,632,320	(7.88%)
5/24/2021	13,708.85	13,551.01	13,661.17	1.41%	0.81%	3.87%	3,487,874,560	(4.62%)
5/25/2021	13,751.14	13,631.80	13,657.17	(0.03%)	0.19%	3.90%	4,076,568,320	16.88%
5/26/2021	13,750.16	13,679.59	13,738.00	0.59%	0.43%	3.33%	4,204,645,632	3.14%
5/27/2021	13,776.52	13,701.63	13,736.28	(0.01%)	0.25%	3.34%	5,138,211,328	22.20%
5/28/2021	13,820.87	13,747.61	13,748.74	0.09%	0.01%	3.26%	4,408,174,592	(14.21%)
6/1/2021	13,836.17	13,678.77	13,736.48	(0.09%)	0.42%	3.34%	4,164,462,848	(5.53%)

S&P 500

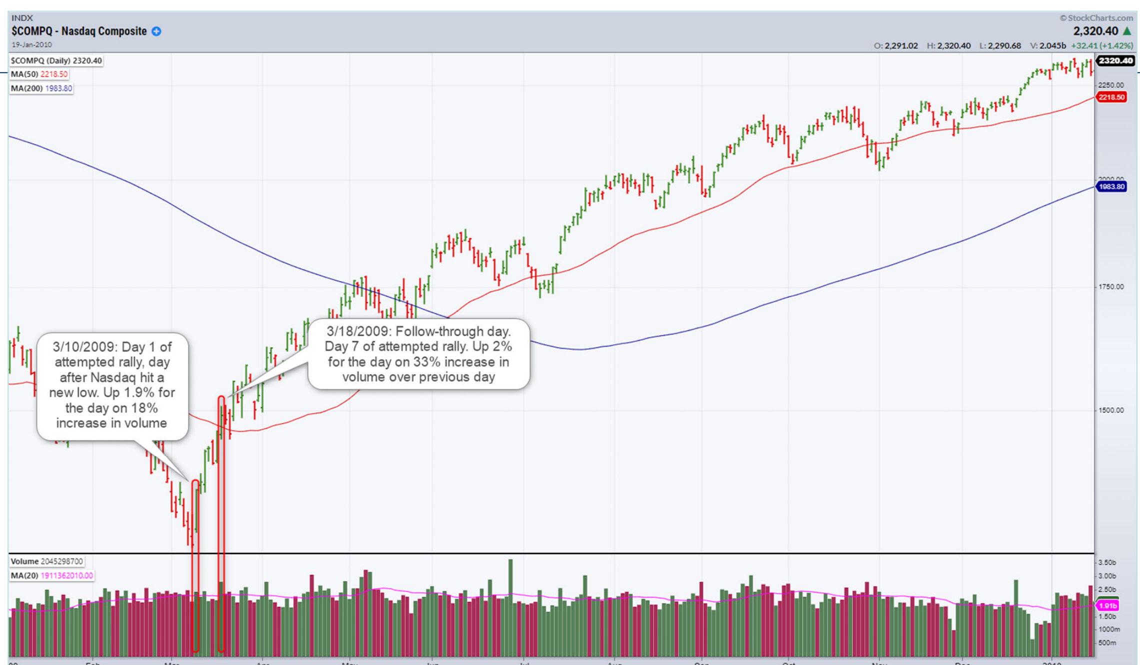
Date	High	Low	Close	Daily Index Chg	% off Daily Low	% off All-Time High	NYSE Volume (000s)	Daily NYSE Vol Chg
4/27/2021	4,193.35	4,176.22	4,186.72	(0.02%)	0.25%	0.18%	37,417.64	(0.01%)
4/28/2021	4,201.53	4,181.78	4,183.18	(0.08%)	0.03%	0.44%	34,649.84	(7.40%)
4/29/2021	4,218.78	4,176.81	4,211.47	0.68%	0.83%	0.17%	43,070.37	24.30%
4/30/2021	4,198.10	4,174.85	4,181.17	(0.72%)	0.15%	0.89%	43,675.77	1.41%
5/3/2021	4,209.39	4,188.03	4,192.66	0.27%	0.11%	0.62%	41,110.58	(5.87%)
5/4/2021	4,179.04	4,128.59	4,164.66	(0.67%)	0.87%	1.28%	44,704.32	8.74%
5/5/2021	4,179.04	4,128.59	4,164.66	0.00%	0.87%	1.28%	42,475.12	(4.99%)
5/6/2021	4,202.70	4,147.33	4,201.62	0.89%	1.31%	0.41%	45,271.44	6.58%
5/7/2021	4,238.04	4,201.64	4,232.60	0.74%	0.74%	0.13%	40,679.38	(10.14%)
5/10/2021	4,236.39	4,188.13	4,188.43	(1.04%)	0.01%	1.17%	45,832.39	12.67%
5/11/2021	4,162.04	4,111.53	4,152.10	(0.87%)	0.99%	2.03%	48,654.86	6.16%
5/12/2021	4,134.73	4,056.88	4,063.04	(2.14%)	0.15%	4.13%	47,391.01	(2.60%)
5/13/2021	4,131.58	4,074.99	4,112.50	1.22%	0.92%	2.96%	48,148.71	1.60%
5/14/2021	4,183.13	4,129.58	4,173.85	1.49%	1.07%	1.51%	40,392.68	(16.11%)
5/17/2021	4,171.92	4,142.69	4,163.29	(0.25%)	0.50%	1.76%	41,888.85	3.70%
5/18/2021	4,169.15	4,125.99	4,127.83	(0.85%)	0.04%	2.60%	44,006.55	5.06%
5/19/2021	4,116.93	4,061.41	4,115.68	(0.29%)	1.34%	2.89%	42,819.46	(2.70%)
5/20/2021	4,172.80	4,121.97	4,159.12	1.06%	0.90%	1.86%	39,890.19	(6.84%)
5/21/2021	4,188.72	4,151.72	4,155.86	(0.08%)	0.10%	1.94%	39,945.91	0.14%
5/24/2021	4,209.52	4,170.86	4,197.05	0.99%	0.63%	0.97%	37,116.79	(7.08%)
5/25/2021	4,213.42	4,182.52	4,188.13	(0.21%)	0.13%	1.18%	41,867.38	12.80%
5/26/2021	4,202.00	4,184.11	4,195.99	0.19%	0.28%	0.99%	44,194.14	5.56%
5/27/2021	4,213.38	4,197.78	4,200.88	0.12%	0.07%	0.88%	65,878.95	49.07%
5/28/2021	4,218.36	4,203.57	4,204.11	0.08%	0.01%	0.80%	47,037.03	(28.60%)
6/1/2021	4,234.12	4,197.59	4,202.04	(0.05%)	0.11%	0.85%	50,672.05	7.73%

DJIA

Date	High	Low	Close	Daily Index Chg	% off Daily Low	% off All-Time High	Index Volume	Daily Vol Chg
4/27/2021	34,043.98	33,870.46	33,984.93	0.01%	0.34%	0.79%	297,933,888	4.03%
4/28/2021	33,946.60	33,805.56	33,820.38	(0.48%)	0.04%	1.27%	358,844,192	20.44%
4/29/2021	34,087.21	33,744.28	34,060.36	0.71%	0.94%	0.57%	410,902,784	14.51%
4/30/2021	33,988.75	33,784.96	33,874.85	(0.54%)	0.27%	1.11%	378,036,896	(8.00%)
5/3/2021	34,221.06	33,904.89	34,113.23	0.70%	0.61%	0.42%	292,326,688	(22.67%)
5/4/2021	34,147.78	33,765.68	34,133.03	0.06%	1.09%	0.36%	407,710,304	39.47%
5/5/2021	34,147.78	33,765.68	34,133.03	0.00%	1.09%	0.36%	411,114,592	0.83%
5/6/2021	34,561.29	34,185.06	34,548.53	1.22%	1.06%	0.04%	317,600,288	(22.75%)
5/7/2021	34,811.39	34,464.31	34,777.76	0.66%	0.91%	0.10%	311,883,808	(1.80%)
5/10/2021	35,091.56	34,741.57	34,742.82	(0.10%)	0.00%	0.99%	370,692,192	18.86%
5/11/2021	34,572.74	34,075.31	34,269.16	(1.36%)	0.57%	2.34%	413,453,408	11.54%
5/12/2021	34,207.87	33,555.22	33,587.66	(1.99%)	0.10%	4.29%	386,744,896	(6.46%)
5/13/2021	34,181.77	33,623.49	34,021.45	1.29%	1.18%	3.05%	350,782,016	(9.30%)
5/14/2021	34,454.05	34,050.86	34,382.13	1.06%	0.97%	2.02%	307,934,912	(12.21%)
5/17/2021	34,383.84	34,176.65	34,327.79	(0.16%)	0.44%	2.18%	295,394,816	(4.07%)
5/18/2021	34,408.99	34,044.10	34,060.66	(0.78%)	0.05%	2.94%	302,450,816	2.39%
5/19/2021	33,945.81	33,473.80	33,896.04	(0.48%)	1.26%	3.41%	359,230,592	18.77%
5/20/2021	34,233.40	33,872.41	34,084.15	0.55%	0.63%	2.87%	324,801,792	(9.58%)
5/21/2021	34,415.48	34,121.91	34,207.84	0.36%	0.25%	2.52%	309,700,608	(4.65%)
5/24/2021	34,472.51	34,253.87	34,393.98	0.54%	0.41%	1.99%	252,338,208	(18.52%)
5/25/2021	34,511.35	34,266.03	34,312.46	(0.24%)	0.14%	2.22%	291,285,088	15.43%
5/26/2021	34,409.59	34,271.44	34,323.05	0.03%	0.15%	2.19%	267,028,704	(8.33%)
5/27/2021	34,608.82	34,389.24	34,464.64	0.41%	0.22%	1.79%	525,548,000	96.81%
5/28/2021	34,631.11	34,520.09	34,529.45	0.19%	0.03%	1.60%	291,421,312	(44.55%)
6/1/2021	34,849.32	34,542.87	34,575.31	0.13%	0.09%	1.47%	287,707,904	(1.27%)

Start of a New Uptrend

- New Low: Look for a new low in one of the major market indexes—Nasdaq, S&P 500, etc.—when the market is in a downtrend.
- Attempted Rally: After hitting a new low, look for a day when the index closes higher on above-average trading volume (day 1 of attempted rally).
- Follow-Through Day: Confirmation that a new uptrend has started
  - Typically occurs sometime after day 4 of attempted rally, with many occurring on days 4–7
  - The index makes a big one-day price gain, usually 1.5% or more, on heavier volume



Big Rock #2

- Focus on companies with big earnings growth & a new, innovative product or service
  - Big, accelerating earnings growth is O'Neil's #1 factor to look for in a stock
- **C: Current quarterly EPS**
- **A: Annual EPS**
- **N: New company, product/service, industry trend or management**

Big Rock #3

- Buy stocks being heavily bought by institutional investors & avoid those they're heavily selling
  - Institutional investors are primarily mutual funds, but also hedge funds, banks, pension funds, insurance companies and other large institutions
  - "Ride their coattails"
- **S: Supply & demand**
- **L: Leader or laggard**
- **I: Institutional sponsorship**

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When to Sell

- O'Neil believes that the stock price will reflect changes in fundamentals long before a company reports them
- When buying a stock, focus on both fundamentals and the chart action
- When selling, focus on the chart action
- Decelerating YoY EPS growth over multiple quarters is O'Neil's primary fundamental sell rule

Featured Stock Superstar: David Dreman

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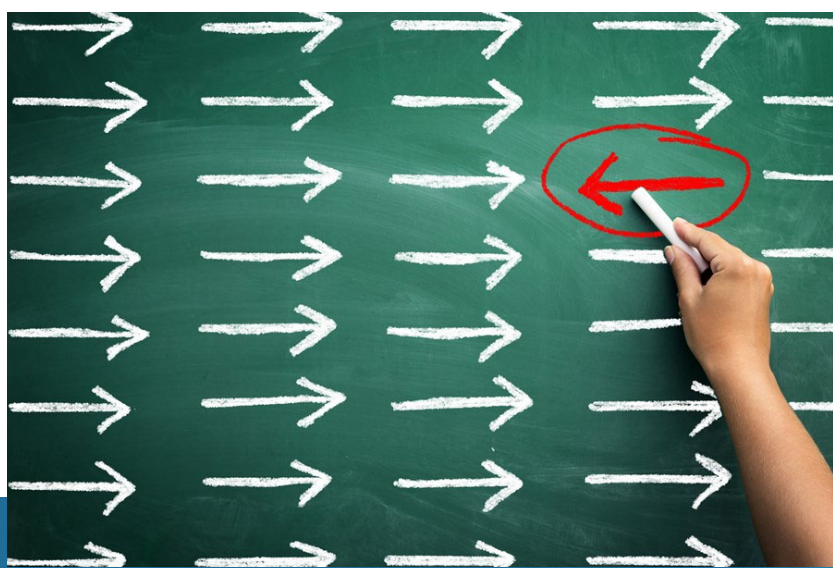
David Dreman

- Founder and chairman of Dreman Value Management LLC
- Was at the forefront of research that has come to be known as behavioral finance
- Author of five books on contrarian investing and behavioral finance, including "Contrarian Investment Strategies: The Psychological Edge" and "Psychology and the Stock Market"
- Senior columnist for Forbes and author of "The Contrarian" column for over 30 years

Dreman's Contrarian Value Investment Approach



Dreman's Contrarian Value Investment Approach

- Try to identify investment opportunities that are not necessarily recognized by the majority of other investors
  - Go against the crowd by seeking out-of-favor stocks and avoid high-flying "fashionable" stocks
- Look for financially solid companies that may be temporarily out of favor with the market
- Seek stocks that are priced low relative to their earnings, sales, cash flows or dividends

"Contrarian" Investing & "Value" Investing Aren't Necessarily the Same Thing

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Dreman's Contrarian Definition of Value

- Contrarian value investors look for "value" at the extreme
  - Low P/E
  - Low P/B
  - Low P/CF
  - High Dividend Yield
- "Deep value"

The Erroneous Earnings Estimate

The Erroneous Earnings Estimate

- Earnings drive stock prices, so there is much emphasis placed on earnings projections
  - To be valuable, earnings forecasts must be very accurate and projected far into the future
- Analysts, and the market, believe they can forecast earnings within pennies of actual results
  - But they fall prey to psychological biases
  - As a result, the average forecast error was 40% quarterly over the last 30+ years
- Contrarian investors can use this to their advantage
  - Forecasting errors lead to persistent over- or undervaluing of stocks
  - Also leads to earnings surprises
    - Low P/E stocks perform better than high P/E stocks for both positive and negative earnings surprises
      - The market isn't surprised by negative surprises and positive surprises are unexpected
    - Positive earnings surprises for high P/E stocks are far less significant, since they are expected, and negative surprises can lead to large price declines for this group

Effects of Earnings Surprises

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Dreman’s Contrarian Value Investment Selection Process

- Screen mid- and large-cap stock universe
  - These firms are more in the public eye
    - Less chance of “accounting gimmickry”
  - These firms have more staying power and are less likely to go out of business than smaller companies or start-ups
- Screen value universe
  - Low P/E by industry
  - Above-market dividend yield
  - Visible earnings
- Conduct fundamental research
  - Bottom-up analysis of individual stocks
  - Financial strength & value metrics
    - High ratios of current assets relative to current liabilities; low debt as a percentage of equity; and low payout ratios
    - Favorable operating conditions, such as high returns on equity and high pretax profit margins relative to others in the industry.
  - Proven record of earnings growth that is also sustainable
- Portfolio construction & management
  - Diversify across numerous industry groups

Sell Discipline

- P/E rises above that of the market
- Multiples exceed that of its sector or industry
- Deterioration in fundamental outlook
- “Extremely poor” price performance
- Mergers or acquisitions
- Market cap moves out of a distinct range

Featured Stock Superstar: James O’Shaughnessy

James O’Shaughnessy

- Founder & co-chief investment officer of O’Shaughnessy Asset Management (OSAM)
- Prior to founding OSAM, director of systematic equity at Bear Stearns Asset Management and a senior managing director of the firm
- Long recognized as one of America’s leading financial experts and a pioneer in quantitative equity analysis
- In February 2009, Forbes.com included Jim in a series on “Legendary Investors” along with Benjamin Graham, Warren Buffett and Peter Lynch
- Author of four books on investing, including “What Works on Wall Street”
- 2019 recipient of AAII’s Cloonan Award for Excellence in Investment Education

O'Shaughnessy's Keys for Successful Investing

- Find a great strategy
- Stick with it

Discipline Is Key

- Even the best stock selection strategies will go through periods where they underperform the market
- Having the discipline and perseverance to stay the course through these periods is essential to profiting from these strategies
- Majority of investors fail to beat market averages because they do not follow a disciplined approach

Factor Investing

- O'Shaughnessy is a proponent of "factor investing"
  - Factors are characteristics of stocks that are most indicative of strong total and risk-adjusted returns
  - Calls his methodology "fundamental quant"
- Common investment factors
  - Value
  - Quality
  - Financial Strength
  - Momentum
  - Growth
  - Estimate Revisions

Buy Cheap Stocks

- There is a wealth of academic research and real-world performance that shows value investing outperforms the overall market in the long term
- There are numerous metrics for measuring value, and some fall into and out of favor while others have become less effective over time
  - Initially, O'Shaughnessy found that the price-to-sales ratio was the best single factor for value investors
    - Admits that one of his biggest mistakes was ever labeling a single value factor "king"
  - Accounting rules and structural changes in the market have reduced the efficacy of book value and, thus, price to book
- However, he has since discovered that using multiple factors to build a value "composite" delivers higher, less volatile and more consistent returns

Factor Composites

- By some estimates, there are hundreds or more investment factors
- Individually, these factors fall into and out of favor and have their strengths and weaknesses
- O’Shaughnessy’s research revealed that combining similar factors into a single composite offers better results than any one factor

Value Composite

- O’Shaughnessy put together a Value Composite Score using these factors
  - Price-to-sales ratio
  - Price-earnings ratio
  - Enterprise-value-to-EBITDA ratio
  - Price-to-free-cash-flow ratio
  - Shareholder yield (dividend yield + rate of share repurchases)
- Average the percentile rankings for each factor to arrive at score from 1 to 100
  - Lower the score the better
- AAII added price-to-book-value ratio to its Value Composite
- AAII’s Value Composite takes the average of the percentile rankings for these six value factors and then re-ranks the average

Single-Factor vs Value Composite

U.S. LARGE CAP (Value: Cheapest Quintile) (1963 - 2018)	Arithmetic Average of Excess Total Returns by Period					
	1963-1975	1976-1985	1986-1995	1996-2005	2006-2012	2013-2018
EV/FCF	2.76%	3.28%	5.03%	6.88%	-0.71%	0.74%
P/FCF	2.69%	3.33%	4.87%	6.17%	0.22%	0.66%
P/OCF	3.03%	3.01%	2.28%	5.03%	0.80%	-0.42%
EV/EBITDA	2.29%	3.59%	2.10%	4.12%	0.61%	0.08%
P/E	2.93%	4.76%	0.58%	3.36%	1.09%	0.49%
P/EBITDA	2.06%	2.66%	1.24%	2.96%	1.41%	0.03%
P/S	1.40%	2.70%	0.54%	3.10%	-0.13%	0.44%
P/B	4.29%	1.50%	1.24%	0.94%	-0.35%	-1.71%
AVERAGE: 8 METRICS	2.68%	3.10%	2.23%	4.07%	0.37%	0.04%
COMPOSITE (EW)*	3.69%	4.73%	2.88%	3.90%	0.66%	0.41%

Source: OSAM Calculations.

Quality Matters

- Some stocks are cheap for a reason
- O'Shaughnessy also found that factors can help investors avoid potential traps
  - Avoiding stocks with questionable quality can help you pick better stocks to own
- Created composite scores for earnings quality and financial strength
- Value identifies what to potentially own and "quality" filters out stocks to avoid

Earnings Quality

- Identifies companies that are aggressively reporting or misrepresenting their earnings
- Accounting choices can inflate earnings by delaying expenses or recognizing earnings early
  - Permitted under GAAP but could signal problems with the company
- Companies that are aggressively manipulating their earnings cannot sustain it forever and tend to underperform in the future

Earnings Quality Composite

- O'Shaughnessy put together an Earnings Quality Composite Score using these factors:
  - Current accruals to total assets
  - Change in operating assets
  - Total accruals to total assets
  - Depreciation to capital expenditures
- To make things easier, O'Shaughnessy created a single field
  - (Cash From Operations – Net Income) ÷ Market Cap
- Score from 1 to 100
  - Lower the score the better

Financial Strength

- Whereas Earnings Quality focused on earnings and cash flow, Financial Strength shifts focus to the balance sheet
- If a company cannot meet its (debt) obligations, it will fail, wiping out owners' equity

Financial Strength Composite

- O'Shaughnessy put together a Financial Strength Composite Score using these factors
  - Debt-to-equity ratio
  - Cash-flow-to-debt ratio
  - External financing
  - 1-year change in long-term debt
- As a proxy for cash flow to debt (debt coverage), AAII's uses times interest earned
- Average the percentile rankings for each factor to arrive at score from 1 to 100
  - Higher the score the better

Featured Stock Superstar: John Neff

John Neff

- Manager of the Vanguard Windsor Fund from 1964 through 1995
  - Total assets grew from $75 million to $13.7 billion at his retirement
  - Over his 31-year tenure, Neff outperformed the S&P 500 for 23 of the years
  - The average annual rate of return was 13.7% versus the 10.6% average for the index
  - $10,000 invested over those 31 years would have grown to $537,271 versus $227,200 invested in the index (2.4x higher)
- His 1999 book “John Neff on Investing” outlines his investment approach
- Lifelong Detroit Tigers fan

Neff’s Investment Principles

- Low price-earnings (P/E) ratio
- Fundamental growth in excess of 7%
- Yield protection (and enhancement, in most cases)
- Superior relationship of total return to P/E paid
- No cyclical exposure without compensating P/E multiple
- Solid companies in growing fields
- Strong fundamental case

Using P/E Ratios as Yardsticks

- Price alone discloses nothing about the relative value of two or more stocks
- The P/E ratio supplies a yardstick
  - P/E ratios express stock prices per dollar of earnings

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Fundamental Growth

- Low P/E companies growing faster than 7% a year indicate underappreciated signs of life
  - Particularly if accompanied by an attention-getting dividend
- Neff also wanted companies that were growing at a sustainable level
  - Usually capped growth at 20% a year

Yield: Return Shareholders Can Pocket

- A low P/E strategy often results in a superior dividend yield
- Per Graham & Dodd, yield is the more assured part of growth
- Companies usually only lower their dividend under extraordinary duress
- Since stock prices usually sell on the basis of expected earnings growth, shareholders collect the dividend income for free

Relationship of Total Return to P/E Paid

- Neff's definition of "total return" described growth expectations
  - Annual earnings growth + Yield
- Total return supplied half of the ratio that summarizes Neff's competitive edge
  - The other half is P/E, which measures what is paid to secure the total return
- Total return ratio: Total return ÷ P/E
- Neff hunted for stocks with a "cheapo profile"
  - Total return ratio was notably out of line with industry or market benchmarks

Strong Fundamental Support

- Neff did not feel there was a solitary fundamental measure that should dictate whether to buy a stock
- His research team analyzed a variety of data to confirm or contradict growth expectations

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Strong Fundamental Support

- Neff's security analysis included earnings and sales
  - Earnings growth drives the P/E, and dividends come from earnings
  - Ultimately, however, growing sales create growing earnings
    - While margin expansion can boost earnings, ultimately, attractive companies must demonstrate sales growth

Strong Fundamental Support

- Neff placed emphasis on cash flow, especially as companies became more creative with their definition of "earnings"
- Neff's definition of cash flow
  - Retained earnings (net profits not distributed through dividends or other means) + depreciation
- Reconcile cash flow with measures that indicate how much cash a company requires to feed its capital requirements
  - Working capital (current assets – current liabilities)
  - Capital expenditures
- Excess cash flow can provide capital for additional dividends, stock buybacks, acquisitions or reinvestment

Strong Fundamental Support

- Neff felt that return on equity (ROE) was the best single yardstick of what management accomplished with money that belongs to shareholders
  - Net income ÷ shareholders' equity

Strong Fundamental Support

- Lastly, Neff looked at operating margin as an indication of a company's "earnings margin of error"
  - (Sales – Operating Expenses) ÷ Sales
- Among low P/E stocks, a robust operating margin supplies protection against negative surprises

Reasons to Sell

- Neff sold shares for either of two reasons:
  - Fundamentals deteriorated
  - The price approached his expectations
- Sell when you make a mistake
- Failure of fundamentals becomes obvious using two measures:
  - Estimates of earnings
  - Five-year growth rates
- Calculated appreciation potential based on earnings expectations and projected P/E expansion
- “When you feel like bragging about a stock, it’s probably time to sell.”

THE STOCK SUPERSTARS REPORT

What SSR Offers

- 40-stock portfolio
  - Four 10-stock portfolios following the different "stock superstar" approaches
  - Vetted watchlists for each portfolio for additional ideas
- Weekly e-mail alerts with commentary and meaningful news on portfolio holdings
- Monthly newsletter
- Dedicated website

Annual Return	SSR*	Group 1 O'Neil*	Group 2 Dreman**	Group 3 O'Shaugh***	Group 4 Neff*	IYY (G1 & G4)*	IYY G2**	IYY G3***
1 Month	1.35%	(4.03%)	1.13%	4.45%	2.05%	0.43%	0.43%	0.43%
YTD	18.85%	(1.28%)	17.10%	28.83%	27.57%	12.18%	12.18%	12.18%
1 Yr	53.21%	16.59%	40.46%	96.61%	57.78%	42.37%	42.37%	42.37%
2 Yr	27.67%	19.13%	26.84%		23.82%	26.13%	26.13%	
3 Yr	15.59%	11.39%	16.77%		12.47%	17.89%	17.89%	
5 Yr	15.90%	17.21%	16.85%		15.17%	17.07%	17.07%	
10 Yr	13.00%	14.76%	15.83%		9.44%	14.01%	14.01%	
15 Yr	9.36%	11.03%			7.90%	10.10%		
20 Yr								
25 Yr								
Inception (ann'l)	9.63%	10.82%	10.86%	99.46%	12.60%	9.22%	10.50%	45.24%
Inception Age	19.42	19.42	14.75	1.08	18.33	19.42	14.75	1.08
Inception Total	495.88%	634.97%	357.51%	111.28%	780.42%	454.15%	336.10%	49.83%

**SSR portfolio, G1 & G4 portfolios inception 1/1/2002*
**G2 portfolio inception 9/1/2006*
**G3 inception 4/30/2020*
Data through of 5/28/2021

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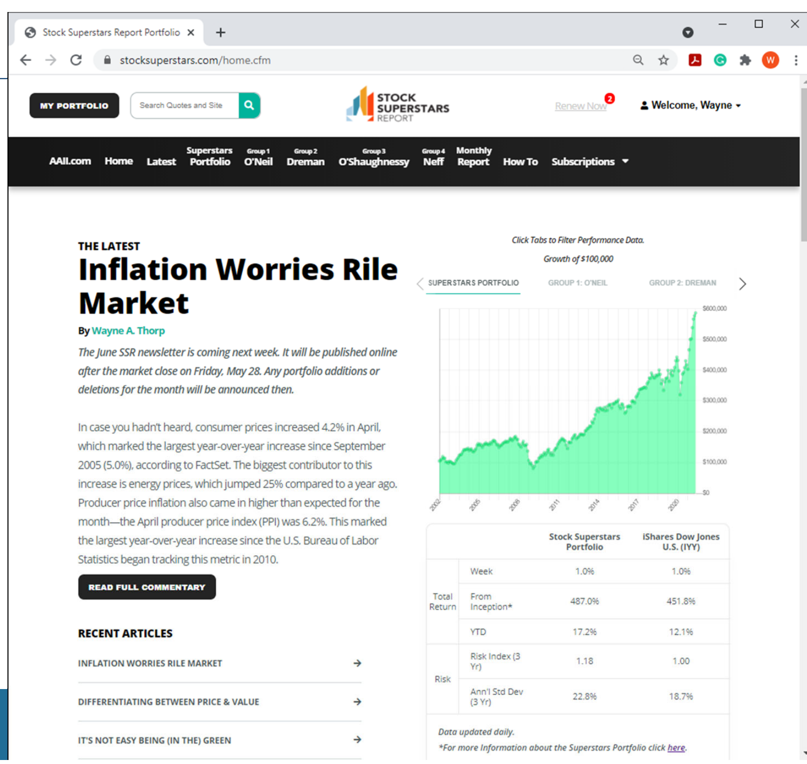

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Portfolio Holdings | Portfolio News

Data as of 5/146/2021. Delayed up to 15 mins.

Company	Ticker	Guru	Portfolio Addition Date	Portfolio Addition Price	Current Price	Gain Since Purchase	Relative Strength Since Purchase	Risk Index	Sector: Industry	Notes
UnitedHealth Group Inc	UNH	Dreman	09/05/2012	$54.296	$411.465	657.8%	2.533	1.24	Managed Health care: Healthcare	News Archive for UNH
Tetra Tech, Inc.	TTEK	O'Shaughnessy	01/13/2014	$28.315	$119.915	323.5%	1.844	1.33	Environmental Services & Equipment: Industrials	News Archive for TTEK
Applied Materials, Inc.	AMAT	Neff	05/04/2020	$46.500	$137.890	196.5%	1.956	2.12	Semiconductor Equipment & Testing: Technology	05/21/2021 Applied Materials reported fiscal second-quarter
D R Horton Inc	DHI	Neff	12/10/2015	$33.453	$95.220	184.6%	1.385	2.16	Homebuilding: Consumer Cyclicals	News Archive for DHI
Alliance Data Systems Corporation	ADS	O'Shaughnessy	08/03/2020	$44.360	$121.090	173.0%	2.108	3.55	Business Support Services: Industrials	05/18/2021 Alliance Data Systems announced that
Skyworks Solutions Inc	SWKS	Dreman	08/01/2016	$66.038	$172.020	160.5%	1.337	1.82	Semiconductors: Technology	News Archive for SWKS
Navient Corp	NAVI	O'Shaughnessy	07/01/2020	$6.980	$18.105	159.4%	1.889	2.23	Consumer Lending: Financials	News Archive for NAVI
JPMorgan Chase & Co.	JPM	Dreman	03/04/2015	$66.720	$163.460	145.0%	1.230	1.43	Banks: Financials	05/20/2021 JPMorgan Chase & Co. announced
Cisco Systems Inc	CSCO	Dreman	02/02/2016	$23.237	$52.685	126.7%	1.014	1.43	Communications & Networking: Technology	05/19/2021 Cisco Systems reported fiscal third-quarter
Gentex Corporation	GNTX	O'Shaughnessy	11/04/2015	$16.568	$35.450	114.0%	1.068	1.31	Auto, Truck & Motorcycle Parts: Consumer Cyclicals	05/20/2021 Gentex announced that it recently
Reinsurance Group of America Inc	RGA	Neff	06/29/2011	$61.734	$125.000	102.5%	0.634	1.76	Insurance - Reinsurance: Financials	News Archive for RGA

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Group 1: O'Neil Portfolio

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Group 1: William O'Neil Strategy

William O'Neil founded the stock brokerage firm William O'Neil & Co. and the business newspaper Investor's Business Daily. He is the author of How to Make Money in Stocks, where he introduced the CAN SLIM investment strategy. CAN SLIM represents the seven characteristics that top-performing stocks often share before making their biggest price gains.

O'NEIL STRATEGY

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Data as of 5/26/2021. Delayed up to 15 mins.

Company	Ticker	Guru	Portfolio Addition Date	Portfolio Addition Price	Current Price	Gain Since Purchase	Relative Strength Since Purchase	Risk Index	Sector: Industry	Notes
Adobe Inc	ADBE	O'Neil	09/05/2018	$259.837	$502.780	93.5%	1.328	1.22	Software: Technology	News Archive for ADBE
Advanced Micro Devices, Inc.	AMD	O'Neil	05/04/2020	$49.750	$78.035	56.9%	1.035	2.87	Semiconductors: Technology	05/19/2021 Advanced Micro Devices announced that
O'Reilly Automotive Inc	ORLY	O'Neil	01/07/2019	$342.641	$531.125	55.0%	0.931	1.44	Retailers - Auto Vehicles, Parts & Service: Consumer Cyclicals	News Archive for ORLY
Monster Beverage Corp	MNST	O'Neil	06/06/2019	$63.389	$94.030	48.3%	0.997	1.53	Non-Alcoholic Beverages: Consumer Non-Cyclicals	News Archive for MNST
Microsoft Corporation	MSFT	O'Neil	05/04/2020	$173.650	$250.700	44.4%	0.952	0.95	Software: Technology	News Archive for MSFT

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Group 2: Dreman Portfolio

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Group 2: David Dreman Strategy

David Dreman is the chairman and founder of Dreman Value Management. Over the past 30 years, he has been at the forefront of research into contrarian value investing and behavioral finance. This research has led to five books on the topic. These works include Dreman's most recent book, Contrarian Investment Strategies: The Psychological Edge, which was published on January 12, 2012 by Simon & Schuster. Additionally, he is a senior columnist for Forbes , where he has been writing a regularly published column, titled "The Contrarian," for over 30 years.

DREMAN STRATEGY

Portfolio Holdings | Portfolio Analysis | Portfolio Watchlist | Portfolio News

Data as of 5/146/2021. Delayed up to 15 mins.

Company	Ticker	Sector: Industry	Portfolio Addition		Current Price	Market Cap (Mil)	% Rank-Market Cap	PE	% Rank-PE	EPS Est % Rev-Last Month		Liabilities / Assets Q1	
			Date	Price						Y0	Y1	Company	Industry
Amdocs Limited	DOX	Technology: IT Services & Consulting	11/19/2020	$63.330	$77.950	$10,168.9	85%	na	na	1.1%	1.9%	45.4%	55.4%
Mdu Resources Group Inc	MDU	Utilities: Utilities - Multiline	07/01/2020	$22.170	$33.660	$6,764.2	82%	16.2	39%	2.7%	1.1%	61.8%	72.1%
CNO Financial Group Inc	CNO	Financials: Insurance - Life & Health	06/01/2020	$14.350	$26.655	$3,439.2	73%	7.9	11%	1.4%	(0.6%)	86.0%	87.6%
Kemper Corp	KMPR	Financials: Insurance - Multiline & Brokers	09/03/2019	$69.954	$74.325	$4,814.1	78%	10.5	20%	(5.3%)	(1.4%)	69.5%	71.7%

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Group 3: O'Shaughnessy Portfoli

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Group 3: James O'Shaughnessy Strategy

James O'Shaughnessy is the founder, chairman and chief investment officer of O'Shaughnessy Asset Management, LLC. O'Shaughnessy is considered a pioneer in quantitative equity analysis. O'Shaughnessy has authored several books, including What Works on Wall Street (1997), for which he backtested 44 years of stock market data to find out which quantitative strategies have worked over the years and which haven't.

O'SHAUGHNESSY STRATEGY

Portfolio Holdings | Portfolio Analysis | Portfolio Watchlist | Portfolio News

Data as of 5/146/2021. Delayed up to 15 mins.

Company	Ticker	Sector: Industry	Watchlist Alert		Current Price	Value Score	P/B	P/FCF	P/E	P/S	EV/EBITDA	Shareholder Yield	Financial Strength Score	Earnings Quality Score
			Date	Price										
Enstar Group Ltd.	ESGR	Financials: Insurance - Multiline & Brokers	05/14/2021	$246.540	$252.030	3	0.80	1.5	2.2	1.68	2.8	(0.1%)	81	86
Dorel Industries Inc (USA)	DIIBF	Consumer Cyclicals: Home Furnishings	05/14/2021	$10.064	$9.820	4	0.63	2.9	19.0	0.11	3.7	(0.1%)	82	91
World Fuel Services Corp	INT	Energy: Oil & Gas - Refining and Marketing	05/14/2021	$31.970	$31.600	6	1.02	3.1	23.0	0.11	8.9	4.5%	86	90
Community Health Systems Inc	CYH	Healthcare: Healthcare Facilities & Services	01/29/2021	$9.320	$14.410	10	na	0.9	3.8	0.15	10.4	(10.0%)	95	97

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Posted on: May 21, 2021

Inflation Worries Rile Market

2 Comments

The June SSR newsletter is coming next week. It will be published online after the market close on Friday, May 28. Any portfolio additions or deletions for the month will be announced then.

In case you hadn't heard, consumer prices increased 4.2% in April, which marked the largest year-over-year increase since September 2005 (5.0%), according to FactSet. The biggest contributor to this increase is energy prices, which jumped 25% compared to a year ago. Producer price inflation also came in higher than expected for the month—the April producer price index (PPI) was 6.2%. This marked the largest year-over-year increase since the U.S. Bureau of Labor Statistics began tracking this metric in 2010.

Even before this data was released, inflation was becoming a buzzword in the financial press. This was in stark contrast to the last several years, where numerous articles had been written about the death of rising prices.

To paraphrase Mark Twain, the report of inflation's death was an exaggeration.

Inflation Talk Spikes in Earnings Calls

The talk of inflation has made its way into corporate earnings calls this quarter as well. FactSet searched for the term "inflation" in the conference call transcripts of all the S&P 500 index companies that conducted earnings conference calls between March 15 and May 14, 2021.

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Differentiating Between Price & Value
Posted on: 5/14/2021 Full Article

It's Not Easy Being (in the) Green
Posted on: 5/7/2021 Full Article

One Portfolio Deletion & Two Additions for May
Posted on: 4/30/2021 Full Article

Look for Strong First-Quarter Earnings Growth
Posted on: 4/23/2021 Full Article

Using Factors to Identify and Evaluate Stock Opportunities
Posted on: 4/16/2021 Full Article

View All Past Updates

Posted on: May 21, 2021

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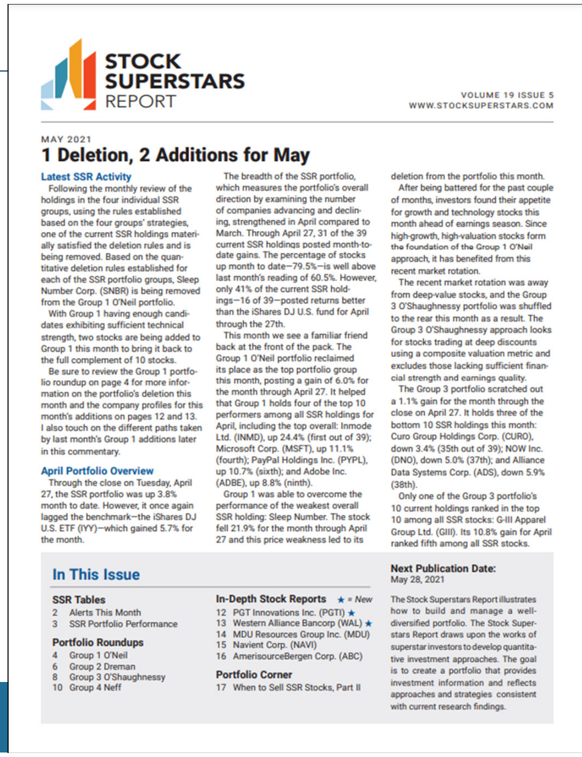


STOCK SUPERSTARS REPORT

VOLUME 19 ISSUE 5
WWW.STOCKSUPERSTARS.COM

MAY 2021

1 Deletion, 2 Additions for May

Latest SSR Activity

Following the monthly review of the holdings in the four individual SSR groups, using the rules established based on the four groups' strategies, one of the current SSR holdings materially satisfied the deletion rules and is being removed. Based on the quantitative deletion rules established for each of the SSR portfolio groups, Sleep Number Corp. (SNBR) is being removed from the Group 1 O'Neil portfolio.

With Group 1 having enough candidates exhibiting sufficient technical strength, two stocks are being added to Group 1 this month to bring it back to the full complement of 10 stocks.

Be sure to review the Group 1 portfolio roundup on page 4 for more information on the portfolio's deletion this month and the company profiles for this month's additions on pages 12 and 13. I also touch on the different paths taken by last month's Group 1 additions later in this commentary.

April Portfolio Overview

Through the close on Tuesday, April 27, the SSR portfolio was up 3.8% month to date. However, it once again lagged the benchmark—the iShares DJ U.S. ETF (IYY)—which gained 5.7% for the month.

The breadth of the SSR portfolio, which measures the portfolio's overall direction by examining the number of companies advancing and declining, strengthened in April compared to March. Through April 27, 31 of the 39 current SSR holdings posted month-to-date gains. The percentage of stocks up month to date—79.5%—is well above last month's reading of 60.5%. However, only 41% of the current SSR holdings—16 of 39—posted returns better than the iShares DJ U.S. fund for April through the 27th.

This month we see a familiar friend back at the front of the pack. The Group 1 O'Neil portfolio reclaimed its place as the top portfolio group this month, posting a gain of 6.0% for the month through April 27. It helped that Group 1 holds four of the top 10 performers among all SSR holdings for April, including the top overall: Inmode Ltd. (INMD), up 24.4% (first out of 39); Microsoft Corp. (MSFT), up 11.1% (fourth); PayPal Holdings Inc. (PYPL), up 10.7% (sixth); and Adobe Inc. (ADBE), up 8.8% (ninth).

Group 1 was able to overcome the performance of the weakest overall SSR holding: Sleep Number. The stock fell 21.9% for the month through April 27 and this price weakness led to its deletion from the portfolio this month.

After being battered for the past couple of months, investors found their appetite for growth and technology stocks this month ahead of earnings season. Since high-growth, high-valuation stocks form the foundation of the Group 1 O'Neil approach, it has benefited from this recent market rotation.

The recent market rotation was away from deep-value stocks, and the Group 3 O'Shaughnessy portfolio was shuffled to the rear this month as a result. The Group 3 O'Shaughnessy approach looks for stocks trading at deep discounts using a composite valuation metric and excludes those lacking sufficient financial strength and earnings quality.

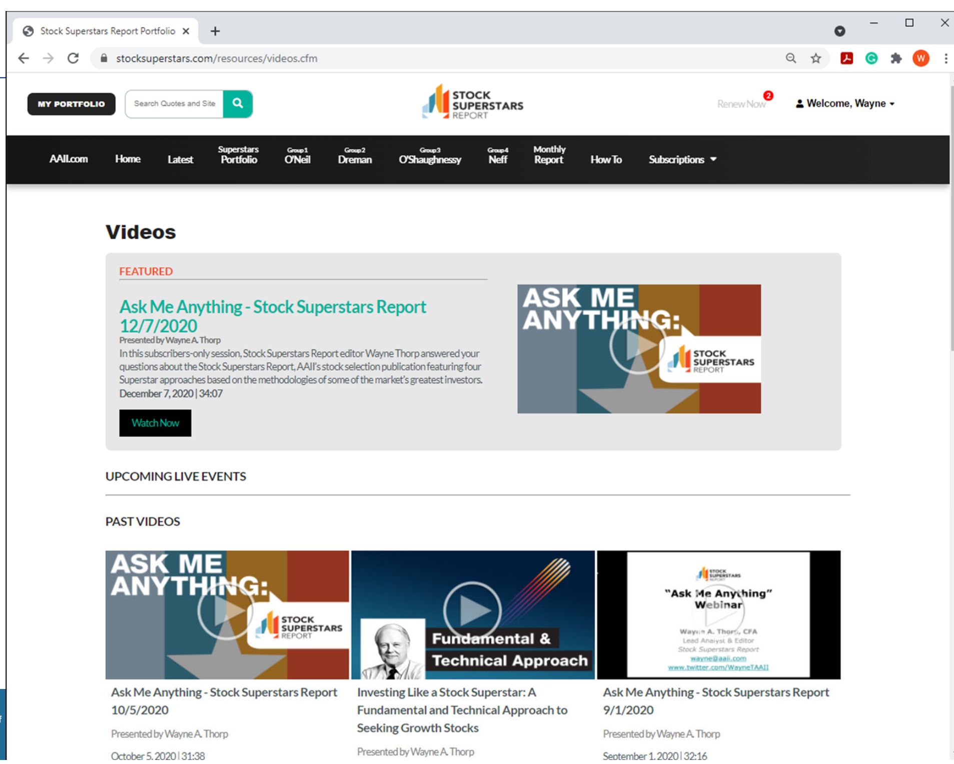
The Group 3 portfolio scratched out a 1.1% gain for the month through the close on April 27. It holds three of the bottom 10 SSR holdings this month: Curo Group Holdings Corp. (CURO), down 3.4% (35th out of 39); NOW Inc. (DNO), down 5.0% (37th); and Alliance Data Systems Corp. (ADS), down 5.9% (38th).

Only one of the Group 3 portfolio's 10 current holdings ranked in the top 10 among all SSR stocks: G-III Apparel Group Ltd. (GIII). Its 10.8% gain for April ranked fifth among all SSR stocks.

In This Issue

Next Publication Date:
May 28, 2021

The Stock Superstars Report illustrates how to build and manage a well-diversified portfolio. The Stock Superstars Report draws upon the works of superstar investors to develop quantitative investment approaches. The goal is to create a portfolio that provides investment information and reflects approaches and strategies consistent with current research findings.



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Learn More About the Four “Superstar” Approaches

- O’Neil’s Fundamental & Technical Approach to Seeking Growth Stocks
  - https://youtu.be/-JgnamVMAmE
- Dreman’s Valuing Investing With a Twist
  - https://youtu.be/EB8_fS8pEjg
- O’Shaughnessy’s Multi-Factor Selection Approach
  - https://youtu.be/xbwBuRyFPZY
- Neff’s Contrarian Approach to Seeing Fundamental Growth
  - https://youtu.be/-0sciVij7PI

Disclaimer

- AAII’s superstar guru screens are inspired by their works and philosophies
- However, the various superstars were not involved in the creation of these screens and the passing companies do not necessarily reflect stocks they would invest in

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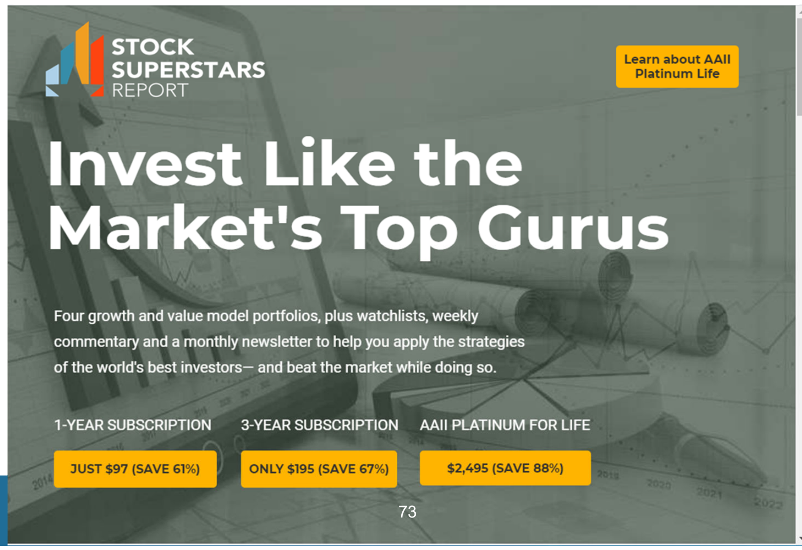

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AAII Individual Investor Show: Stock Splits, Robo Advisers and How to use "My Screens"
Wednesday, June 9, 2021, 7:30 p.m. (Central)

Achieving Investing Success With the Five PRISM Steps of the Wealth-Building Process
Wednesday, June 16, 2021, 7:30 p.m. (Central)
Presented by Charles Rotblut, AAII Journal Editor

AAII Individual Investor Show: Picking Right Investments, First Cut Large Growth Funds, and Convertibles
Wednesday, June 23, 2021, 7:30 p.m. (Central)

Unveiling AAII's Platinum Service (Rebroadcast)
Wednesday, June 30, 2021, 7:30 p.m. (Central)

Thank You!

Contact me at **wayne@aaii.com**
with questions or comments
about this presentation