PRIVATE
CLIENT
GROUP

THE POWER OF PEG

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1987-2017 30 YEARS NAVELLIER

Power of PEG

Fellow Investor,

As part of our continuing commitment to better serve investors, we've formed a new Private Client Group here at Navellier & Associates whose sole goal is to offer high-net-worth investors customized investment solutions.

We're excited about this new service, as it will allow us to work directly with you to create an asset allocation strategy mix designed to fit your specific investment goals.

To introduce you to this new service, along with our proprietary approaches to balanced portfolio management, we're offering you, as a qualified investor, a personal review of your current holdings.

That way you'll get our personal take on your current assets and allocations along with our best ideas for this current economic environment.

There's no cost for the portfolio review or obligation whatsoever to invest with us.

It's simply our way of introducing you to our Private Client Group and our customized solutions so that you can get the benefit of our 30 years of investment experience and get our take on your current holdings and how we might work together in the future.

With market uncertainty high, our personal portfolio review can bring you customized solutions appropriate to your net worth, investment objectives, level of risk, and growth and income goals.

Accordingly, your free review will include not only an evaluation of your current portfolio, but also our ideas on how we might help your portfolio in this current economic environment and continue to help you meet your growth and income goals.

To schedule your free appointment, just email info@navellier.com or call 800-887-8671 and we'll get you started.

My office will call you within the next 48 hours to schedule your review and assessment. Again, it's yours **free**, from Navellier's Private Client Group, with no obligation to invest with us.

Sincerely,

Louis Navellier, Chief Investment Officer, Navellier & Associates, Inc.

To schedule your free review email info@navellier.com or call 800-887-8671.

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THE POWER OF PEG

Do you really think you stand a chance in the market trading and investing against high powered computers and mathematicians armed with PhDs from the world's finest academic institutions? The answer is you probably don't. When one also considers the current environment of rich valuations, average GDP growth, and an economic recovery approaching 94 months, the odds against investment success are astronomical. Furthermore, layers of costs at many networks of financial advisors can be so high that it may be virtually guaranteed that you will trail the major indexes. No wonder Warren Buffett favors index funds for individual investors.

If you can't beat the market, why not accept what the market gives?

The only problem is the market is not much in a giving mood. I would go further and argue that the market is more likely, in my opinion, going to take away over the next decade. The risk/reward equation for stocks at the moment is entirely out of whack. Investors in equities today are taking maximum risk with minimal reward. Some suggest that reward at best will be less than 5% per annum over the next decade. The returns will be even less if there is some sort of accident in the market capable of wiping out 25-50% . Such events have happened twice since the year 2000, chances are good it will happen again. What then should an investor do? Less than 5% per annum is no way to build wealth. Losing 25-50% doesn't sound so good either.

They say the market can't be beat, but that is rather simplistic. Even in the last few years, a time when some 80% of professional investors failed to exceed market returns, there were plenty of fund managers that did beat the market. Some of those funds beat the market by a large margin. How did they do it? If we knew the answer to that question, we'd all be beating the market on a regular basis. Outperforming the market is no easy task, but clearly it can be done.

Look past the simplistic comment by Warren Buffet regarding index funds and you will find a surprising revelation. When Buffett speaks of investors not being able to beat the market he does so mainly from the perspective of largesse. In other words, managing too large of a portfolio results in returns that track closely to the major indexes at best. Smaller is infinitely better when it comes to generating outsized gains. But how small?

In a recent interview, Buffett acknowledged that managers with $250,000,000 or less could indeed beat the market. Since most individuals have portfolios far smaller than the professional manager one can conclude that such an individual investor should be able to beat the market. The only thing missing is a strategy and game plan for doing so.

The absence thereof is the leading cause of investor angst and failure in terms of returns versus the market. Fortunately, there is a remarkably simple pathway that individual investors can follow to beat the market time and time again. The answer can be found in one simple number - Price to Earnings Growth rate or PEG.

A WORTHWHILE END RESULT

I've been in the stock picking and money management business for decades. During that time period I've had much success identifying stocks that greatly outperform the market using a fundamental Graham/Dodd value approach.

In 2012 during a period of self-reflection I was curious to better understand what made my approach to value investing work for me. With the benefit of hindsight were there any common traits of my winning stock picks before they became winning stocks?

After completing an analysis utilizing various value metrics, I discovered that there indeed was one factor that was present on nearly all winning stock picks before they were selected. It turns out that stocks with the strongest performance, in general, traded for low price-to-earnings-growth rates prior to being identified as buy candidates.

Logically, this makes sense. The value of a stock is said to be a discounted value of future cash flows also known as profits. To the extent the equity market is truly efficient, generally-speaking, participants crawl over one another in pursuit of earnings growth at the lowest price possible.

Earnings growth is one of the most certain ways for stocks to appreciate. Over time, low-priced stocks will be bid up in price as long as earnings growth follows suit. Here's Morgan Stanley's take in 2015 on beating the market at the end of a bull market with rich valuations: "*…look for stocks with reasonably robust long-term earnings growth forecasts that trade at a discount to the market.*"

Can it really be that simple? What are the details and subtleties necessary to perfect the use of PEG that could beat the market? Of course there is much more to the story, but yes it can be as simple as focusing on PEG.

PUTTING PEG TO USE

Armed with the knowledge of the power of PEG in identifying undervalued stocks, the next step was to put that knowledge to use. From a formulaic perspective, I started with the simple premise of evaluating the entire market of publicly traded stocks on a monthly basis. At the end of each month, I rank from top to bottom according to PEG ratio with the lowest PEG stocks at the top and the highest PEG stocks at the bottom.

Break points are established by dividing the results into 20 equal segments of approximately 100-150 stocks. In order to test my theory on PEG, I built a portfolio using the first segment of stocks and reassembling each and every month. If a stock drops out of the first segment it is sold. Looking back over 10 years we see that such a portfolio beats the S&P 500, but the margin of victory is small. Something more was needed here.

THE ROAD TO SUCCESS

My own application of PEG performs better than using a simple formula. While PEG alone is a powerful tool, experience tells us that there are pitfalls to avoid depending on market conditions. For starters, on occasion there are very good reasons for a stock to be trading at a discounted value. Business conditions on a macro or micro level can change dramatically. Wall Street analysts - those responsible for determining long-term profit growth estimates - are often slow to see those changes coming. The market reacts much quicker. Sometimes those changing conditions become worse meaning a discounted stock can fall even further as lower profits equate to lower valuations.

Annualized Return 1/2007 to 12/2016

Time period	Multi-Factor PEG	S&P 500
1 Month	4.69	1.98
QTD	12.19	3.82
1 Quarter	12.19	3.82
2 Quarter	22.15	7.82
3 Quarter	22.82	10.47
YTD	25.31	11.96
1 Year	25.31	11.96
2 Year	10.40	6.54
3 Year	15.48	8.87
4 Year	29.14	14.33
5 Year	29.60	14.66
6 Year	25.95	12.47
7 Year	27.82	12.83
8 Year	34.04	14.45
9 Year	21.45	7.11
10 Year	19.51	6.95
Entire Period	19.51	6.95

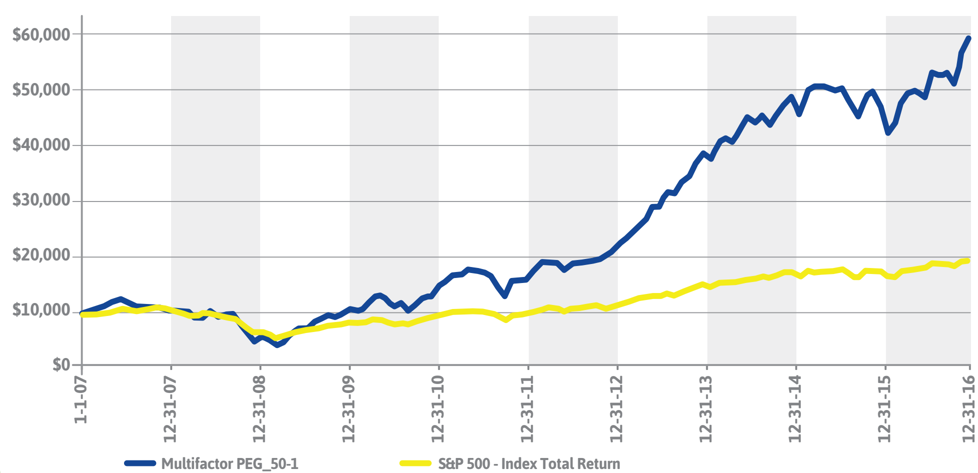
Investors need a way to avoid the falling knives, also known as "value traps," that result in a stock being highly rated according to PEG. The secret sauce, no matter what type or size of portfolio I am managing, involves applying qualitative measures to the highest rated PEG stocks generated by the monthly ranking. Ranking by PEG takes me 80% of the way there.

Further culling down the list of 100-150 stocks using subjectivity brings me home. Over the last 2 years, I have done just that with a model portfolio of 50 PEG stocks. At a time when the market churned and burned many professional and individual investors, the star of PEG shone brightly.

MORE WORK FOR THE NAVELLIER QUANTITATIVE TEAM

What is the secret sauce that essentially turbo charges PEG in your portfolio? Understand that the market is far from efficient. When stocks move sharply, they often do so far more than is justified by the data. Running a ranking of PEG stocks on a monthly basis identifies these inefficiencies.

CUMULATIVE RETURN CHART
1/2007 TO 12/2016



SOURCE *Navellier & Associates*

We ran back tests on our PEG models with all multi-factor criteria going back 10 years and we got some encouraging results. No back test is perfect and market conditions do change significantly over a 10 year period. No, the PEG model does not outperform all the time, but it does outperform in enough periods to show we have something here.

Let's drill down to some specific examples. Shares of Chemours (NYSE: CC), the Dupont spin-off, plummeted last summer in the wake of a short seller targeting the company on a thesis of litigation liabilities transferred from Dupont to Chemours. Nothing fundamentally had changed with the company thus Chemours shot up in the rankings on a PEG basis. The single-digit price for Chemours that resulted from the short exposure created a once in a lifetime buying opportunity. Putting your faith in PEG at that time would have been well rewarded as Chemours trades for over $30 per share today.

Such fascinating PEG discounts like Chemours are almost impossible to quantify, but that didn't prevent us from trying. Through a process of trial and error, the quant team at Navellier & Associates was able to come close to replicating my PEG plus subjectivity approach. By adding a few key factors to the model including changes in analyst estimates and price to sales, the PEG model was vastly improved. For investors looking for not just an edge but a powerful tool to help build wealth in a challenging market, PEG may be the answer.

A NUMBER THAT CAN HELP YOU BEAT THE MARKET

On April 3, I began using the power of PEG combined with the Navellier & Associates multi-factors for the purpose of managing a live portfolio. So far we are off to a good start, tracking closely to the S&P in what is a down market for the month.

Many individual investors do not have the luxury of computer power and data to produce the returns we expect to generate with our multi-factor PEG model, but that shouldn't be a barrier to using PEG in your own search for undervalued stocks.

My suggestion to those interested in using PEG at home would be to break down the metric to its base components. With PEG we have PE ratio and earnings growth rate. Compare those two on a nominal basis and you have an immediate snapshot of whether or not a stock is under or overvalued.

Using easily accessed data from any financial portal, individual investors need only three pieces of data: current share price, current year estimate of earnings, and next year estimate of earnings. PE ratio is simply the price of the stock divided by current year estimate of earnings. The earnings growth rate is simply next year's estimate of earnings divided by the current year estimate of earnings.

If the PE ratio is lower than its earnings growth rate, the stock is a buy candidate. If the PE ratio is higher than its earnings growth rate, the stock is a sell candidate. More times than not, this simple application of PEG is all you need to get an edge on the market.

Why settle for infinitesimally small returns in an overvalued market when the power of PEG offers the potential for so much more?

IMPORTANT DISCLOSURE

The PEG (Price/Earnings/Growth) portfolio is based on a broad universe of stocks which includes the constitu-ents of the Russell 3000 with a market cap greater than 500 million. This universe is ranked by each stock's PEG ratio (lowest to highest) and four other Quantitative factors which include free-cash flow/ market value, standardized earnings estimates, price/sales, and quarterly earnings change. These factors are scored using a weighted average scoring process which weights the PEG ratio at 60% with the other four factors receiving 10% weight each. The test of the PEG portfolio broke the universe into 50 baskets of stocks using a monthly rebalance. Each monthly basket contains roughly 35-45 names per month and results of these tests are pre-sented above.

This PEG is based on a universe of R3000, greater than 500 million mkt cap, using a multi factor model with PEG being an overweight factor (50% weight in the overall model). The universe was broken into 50 fractiles which would yield about 35-45 names per month

As a matter of normal and important disclosures to you, as a potential investor, please consider the following: The PEG returns presented reflect hypothetical performance an investor would have obtained had it invested in the manner shown and does not represent returns that an investor actually obtained.

Hypothetical back tested performance has many limitations. The PEG performance is not based on any actual securities trading, portfolio, or accounts, and should be considered mere "paper" or proforma performance re-sults based on Navellier's research. The hypothetical portfolio and the research results (1) may contain securi-ties that are illiquid and difficult to trade; (2) may contain securities materially different from actual funded Na-vellier portfolios; (3) do not include transaction costs, commissions; and, (4) may not reflect prices obtained in an actual funded Portfolio. For these and other reasons, the reported performance of hypothetical portfolios pre-sented in the accompanying charts and graphs may not reflect the performance results of Navellier's PEG port-folio's actually funded and traded portfolio.

As a matter of important disclosure regarding the hypothetical results presented in the accompanying charts and graphs, the following factors must be considered when evaluating the performance figures presented:

> ***(1)*** *Historical or illustrated results presented herein do not necessarily indicate future performance; Investment in securities involves significant risk and has the potential for partial or complete loss of funds invested.*
>
> ***(2)*** *The results presented were generated during a period of mixed economic conditions in the U.S. and positive market performance. There can be no assurance that these favorable market condi-tions will occur again in the future. Navellier has no data regarding actual performance in differ-ent economic or market cycles or conditions.*
>
> ***(3)*** *The results portrayed reflect the reinvestment of dividends and other income.*
>
> ***(4)*** *The results portrayed do not include investment advisory fees, administrative fees, or transaction expenses, or other expenses that a client would have paid or actually paid.*

(5) *LIMITATIONS INHERENT IN HYPOTHETICAL RESULTS: The performance results pre-sented are from a hypothetical portfolio, not an actually funded portfolio, and may not reflect the impact that material economic and market factors might have had on the adviser's decision mak-ing if the adviser were actually managing clients' money, and thus present returns which are greater than what a potential investor would have experienced for the time period. The results are presented for informational purposes only. No real money has been invested in this investment strategy. The investment strategy performance results should be considered mere 'paper' or pro forma performance results. The hypothetical results do not represent actual funded trades and may not reflect actual prices paid or received for actual funded trades.*

(6) *In most cases, the adviser's clients had investment results materially lower than the results por-trayed in the model.*

(7) *The performance results may or may not relate, or only partially relate, to the type of advisory services currently offered by Navellier & Associates, Inc.*