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"GO TO THE HEAD OF THE CLASS" -

The Best Winning Stock Picking System

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We're human. It's natural to constantly look up to a higher ideal. It's motivating, positive, and ultimately, it inspires us to do better.

For instance, think of when you were in school.

The one who sits at the top of the class is always looked at with the highest regard. To get there offers an extreme advantage in life. "Number 1" is always sought after by colleges and employers. But I'm sure we all agree, it is no easy feat… there's only room for one number one. For those of you lucky enough to have held the coveted title of *valedictorian*, your moms were surely proud.

Being top dog is no easy achievement. Let's use sports as an example. According to Game Day Culture, of the top high-school basketball players in the nation, approximately 44 will make it to an NBA roster each year. That's 1 in 3,545 or less than a 0.03% chance! And once they actually make it to the league, only 6% of these *ballers* can say they've made the all-star team. Naturally, only one can be named MVP: the top of the basketball class. All NBA scouts are eternally looking for a future MVP.

In terms of the stock market, though, *we* are the scouts. But shouldn't we always be looking for the best? Given how the media treats stock investing, one would think that it's so easy, even a toddler could do it. Remember that eTrade ad with the diapered mogul?

[1]

If you're reading this, real world experience likely told you otherwise. In the real world, finding top-of-the-class stocks is only slightly easier than making the NBA. According to research performed by Professor Hendrick Bessembinder, only 4% of all listed stocks provided 100% of the stock market's gains (above Treasury bills) for the past 90 years, at the time of the study. In other words, he believes 96% of stocks were basically a waste of time. You were better off in bonds.

[1]Source: YouTube

Key findings

"The results also help to explain why active strategies, which tend to be poorly diversified, most often underperform," says Bessembinder, who found that the largest returns come from very few stocks overall — just 86 stocks have accounted for $16 trillion in wealth creation, half of the stock market total, over the past 90 years. All of the wealth creation can be attributed to the thousand top-performing stocks, while the remaining 96 percent of stocks collectively matched one-month T-bills. [2]

So how do we find those 4% winners? The obsession with outperforming the major index averages has driven the investment industry for decades. And it has led to countless strategies attempting that very goal.

In this paper, we examine a few popular strategies. We look at their effectiveness, and most importantly their practicality. We investigate:

- Day Trading
- Mean Reversion
- Index Arbitrage
- High frequency Trading
- Growth Investing

What we find is that most strategies require significant resources, are unwieldy, difficult to deploy, are impractical for the average investor, and are not necessarily that effective, all things considered. All but one strategy, I would argue that a Growth Investing strategy that only focus on the top 4%, will likely see better results over a long term than the other four strategies and , is also easy to employ for the average investor.

Navellier's methods focus on finding the same top 4% of stocks, the top of the class, the MVPs. These stocks are what Mr. Navellier refers to as "A-rated" stocks or the crème de la crème. By investing in A-rated stocks long-term, investors can feel confident they are investing in securities that have passed through a screening process backed by over 30 years of experience in building long-term growth portfolios. Many traders are mistaken by thinking there are better, faster, and easier methods. Chasing these might end up wasting valuables resources, like time and money.

Let's learn about some of these five strategies…

[2] https://wpcarey.asu.edu/department-finance/faculty-research/do-stocks-outperform-treasury-bills

I. DAY TRADING

For decades, Day trading was often perceived as a quick and easy method to riches. Day trading rose to prominence in the 1990s. It was so popular that books came out touting easy money-making schemes such as The SOES Bandit (Short Order Execution System). Firms like Datek and Schoenfeld sprang up offering traders systems with which to trade. The promise of Ferraris and lavish lifestyles were a foregone conclusion for many.

Of course, it's not that simple.

Investopedia defines Day trading as the shortest time frame used in trading. Trades may last a few minutes to a few hours. Day Trading draws in new would-be champions, daily. New eager traders are often misled by the definition, being that riches can come fast. They confuse short duration hold-times with instant wealth. Truth be told, it requires a brutal amount of time researching, analyzing, and of course trading to make short-term riches. Having one's eyes glued to each tick in the movement of stocks and indexes is grueling – and it hurts your eyes!

Execution costs have a big impact, too. If a trader is vying for a few cents of profit many times a day, the cost of executing trades can impact profitability significantly. In the age of commission-free brokers, the effect of slippage (getting worse execution prices) comes heavily into play.

Day trading is also highly competitive, as day traders must compete with each other and with professional firms. Don't forget the biggest drawback: the unpredictable nature of the market.

As we learn in basic statistics class, the smaller the sample size, the more subject it is to luck and randomness. This is the case with day trading, as it often involves high risk, and thus high chance of failure. According to multiple sources[3], Day Trading has a high failure rate: 90% or more of day traders end up losing money. The extreme fail rate associated with day trading has shown that an astonishingly small number (approximately 1% to 3%), actually beat the market.

Despite those miserable odds, the lure of high-risk/high-reward can be tough to resist. Many believe they have the key to overcome this high chance of failure and the proverbial pot of gold.

It's important to mention that day trading often employs the heavy use of intraday leverage to allow traders to control significantly more money than their account is worth. This shouldn't be confused with regular margin (Reg T). Intraday margin offers a significantly higher ratio of leverage. Oftentimes brokers will offer multiple-fold leverage to those holding positions overnight. Provided positions are "flattened" by the

[3]Investopedia, Motley Fool, https://www.experian.com/blogs/ask-experian/what-is-day-trading/#:~:text=Day%20trading%20is%20an%20extremely,than%20other%20approaches%20to%20investing.

end of the day, traders can take on huge risk relative to their account size. (Flattening positions means the trader goes to sleep with no carry over positions, just the cash in the account.) But leverage can also spell failure. According to one source[4] day traders who use margin for leverage suffer an average return of -4.53%, and over 85% of active day traders fail in their first year due to poor risk management.

Even with the best intentions and strategies, day traders can still fail if they do not properly manage their risk. This statistic serves as a warning to those considering day trading: Be aware of the risks and take the necessary steps to mitigate those risks.

The net result is that day trading can be a successful endeavor for a very select few, but that success requires patience, long hours glued to a screen, the stress of leverage and market unpredictability, and (I'm guessing here) – a lot of TUMS.

DAY TRADING

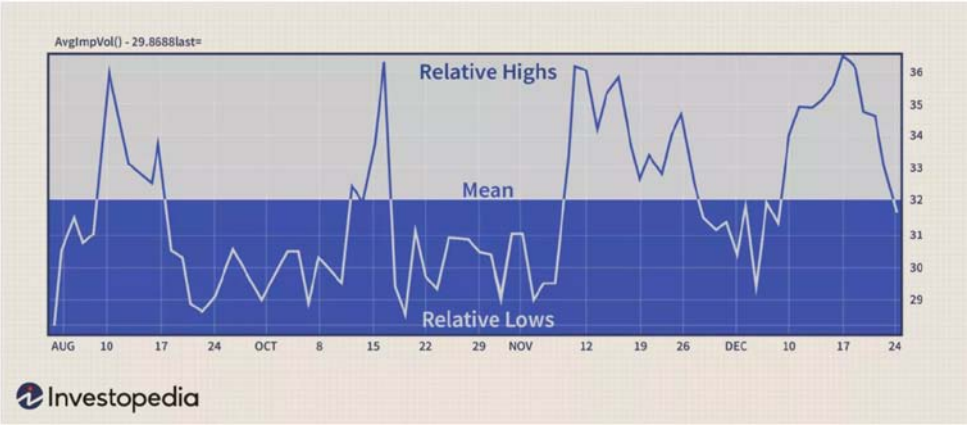
RESOURCE REQUIREMENTS: HEAVY
COSTS: HIGH
VERDICT: UNSUITABLE FOR AVERAGE INVESTOR

II. MEAN REVERSION

What is Mean Reversion? Reversion to the mean is the theory that asset prices, volatility, and even returns will eventually revert to the long-term average level (or "mean") of the dataset being considered.

The mean level usually refers to the average price of a stock. For example, if a stock trades abnormally lower for a few days, absent some outside cause, one might expect it to come back to the mean. A logical trade would be to buy in hopes of a mean reversion to sell it for a profit.

In the chart below we can see the mean as the boundary at which light blue and dark blue meet:



[4]https://blog.gitnux.com/day-trading-statistics/#:~:text=Over%2085%25%20of%20active%20day,due%20to%20poor%20risk%20management.

The basic strategy tries to capitalize on the extreme changes in the price of a security (whether it be a stock, bond, option, etc.) assuming an eventual reversion to its previous state (mean).

The hopes that an asset will return to its assumed average state, or the resumption of a secular trend, lures many mean-reversion traders to seek profit.

Statistically, this makes sense. Practically, however, if a recent price differs greatly from its historical averages, it could indicate the company no longer has the same business setup. In this case, the likelihood of mean reversion diminishes.

According to CMC Markets[5], mean reversion "doesn't assure profitable trading." Prices may revert over time (nothing is guaranteed) but waiting for a reversion can bring further dislocation and intensified risks. As John Maynard Keynes once said: "The market can stay irrational longer than you can stay solvent." In other words, prices can keep going in the "wrong direction."

Perhaps the single greatest example of this is the case of Long-Term Capital Management. The fascinating story of LTCM is captured masterfully in Roger Lowenstein's book, "When Genius Failed: The Rise and Fall of Long-Term Capital Management." In short, Nobel prize winners Myron Scholes and Robert C. Merton used the ubiquitous Black and Scholes equation for pricing options, with theoretically no risk, to start a hedge fund. They joined forces with famed bond king, John Merriwether. Their idea was to use mean-reversion with massive leverage. In a simplified example, when the spread between a pair of bonds got out of alignment, they would sell the high one and buy the low one, waiting for the spread to revert back to the mean.

It worked great, for a while. Returns were phenomenal, which caused their assets to grow. Then phenomenal returns turned into unbelievable returns, which in turn grew more assets. Between 1994 and 1998, returns were in excess of 40% per year and assets peaked near $100 billion![6]

Like I said, it worked great, until it didn't. In 1998, Russia did the unthinkable and defaulted on its ruble debt. Spreads that were supposed to revert to the mean blew out even wider. LTCM had leveraged its capital up to 50-to-1, to an exposure of over $1 trillion. With its huge reliance on leverage, margin calls came fast and hard. It wasn't long before LTCM was wiped out and insolvent, losing $1.9 billion. One of the first high profile multi-billion dollar bailouts was required to stave off a contagion and possible collapse of the financial system.

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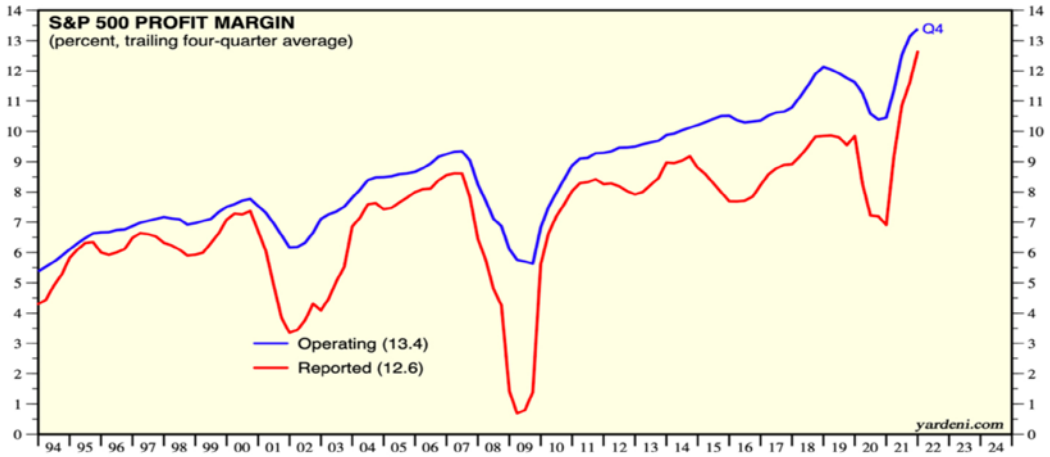
[5]https://www.cmcmarkets.com/en/trading-guides/mean-reversion#:~:text=an%20MT4%20account.-,Summary,mean%20for%20longer%20than%20expected.

[6]When Genius Failed: The Rise and Fall of Long-Term Capital Management. Roger Lowenstein – Random House October 2000

While prices usually tend to revert to the mean over time, we can't know for sure, in advance, when that will happen. Prices can continue moving away from the mean for longer than anyone expects, so let the LTCM debacle be a lesson on leverage: *caveat emptor* (buyer beware).

Mean Reversion has become a major strategy employed by the Masters-of-the-Universe type hedge funds out there. But there are signs, with so many people chasing returns employing the strategy, returns are flagging. Market makers are notorious for trying to sell high or buy low and close their risk back at the mean when prices revert. But Citadel, perhaps the biggest market maker out there, posted a 35% decline in trading revenue during the first half of 2023[7].

Other examples suggest that reversion to the mean isn't happening the way it used to. In the following chart, we see profitability margins failing to do what they are "supposed" to do. In prior slowing cycles, companies bore the brunt of lower spending, absorbing weaker margins, and when things got better, margins did, too. But recent cycles show companies responded to lower spending by slashing costs so aggressively that profits *rose to record highs* instead of falling:[8]



[9]Source: Standard & Poor's (revenues and reported EPS) and I/B/E/S data by Reginitiv (operating EPS) Graphs are for illustrative and discussion purposes only. Please read important disclosures at the end of this commentary.

When considering if Mean Reversion is right for you, consider this: the Journal of Portfolio Management offers another reason why the average long-term investor may want to pass:

"*Contrarian value timing of factors is, generally, a weak addition for long-term investors holding well-diversified factors including value and, specifically, not sending a strong signal on stretched valuations today*[10]."

[7]https://www.thestreet.com/memestocks/reddit-trends/citadel-securities-revenue-drops-35-amid-lower-market-volatility-ken-griffin-braces-for-u-s-recession

[8]https://www.bloomberg.com/news/newsletters/2022-06-14/the-risk-of-mean-reversion-has-stocks-staring-at-a-profit-squeeze

[9]Yardeni Research

[10]https://www.iijournalseprint.com/JPM/AQR/Quant17ContrarianFactorTiming3gy/index.html

MEAN REVERSION

RESOURCE REQUIREMENTS: HEAVY
COSTS: HIGH
VERDICT: UNSUITABLE FOR AVERAGE INVESTOR

III. INDEX ARBITRAGE

Index arbitrage involves trying to profit from differences in prices between two or more market indexes. A trader can try to "arb" an index using futures trading on different exchanges. A trader can also try to "arb" two separate indexes that have a standard relative value. If they deviate from one another, an arbitrage opportunity arises, awaiting a reversion to the mean. Traders can also "arb" an index against its tracking ETF. For instance, trading discrepancies in S&P 500 futures vs. the SPY ETF. There is also arbitrage using options on indexes vs. the index itself.

Here's how analystprep.com describes the rebalancing process in various versions of indexes:

> *Rebalancing refers to adjusting the weights of the constituent securities in the index on a regularly scheduled basis – usually quarterly. Price-weighted indices are not rebalanced, and rebalancing is a minor concern for market capitalization indices as they mostly rebalance themselves.*
>
> *Reconstitution is the process of changing the constituent securities in an index. Since many indices base their portfolio allocation on a set of criteria, the securities that meet the criteria tend to change over time. Securities that no longer meet the criteria are excluded on the reconstitution date, and new securities are included.*
>
> *Oftentimes, the reconstitution will require further rebalancing as the turnover of securities changes the targeted allocations. Expected inclusion of certain securities in a widely-tracked index tends to drive prices up, while expected exclusion tends to drive prices down in anticipation of future purchases or sales of related index funds.*[11]

Great examples of index arbitrage pop up whenever an index needs to rebalance. Rebalancing is arranging the weights of the constituents (stocks) in order to adhere to the requirements laid out by the charter of the index publisher. These usually take place at regular intervals throughout the year, most often quarterly. There are no firm rules, however. For instance, the Russell 2000 completely rebalances by doing a "reconstitution" once annually.

But special situations also occur. For instance, the NASDAQ 100 scheduled a special rebalance in July of 2023. This was only the second time this has happened in 25 years. Basically, the seven largest stocks in the index, at that time, accounted for more than half the weight of the index. According to the NASDAQ, that's a *no-no*. So, the seven stocks with the heaviest weightings in the Nasdaq 100 were collectively reduced to 44% from 56%.

[11]https://analystprep.com/cfa-level-1-exam/equity/rebalancing-reconstitution-index/

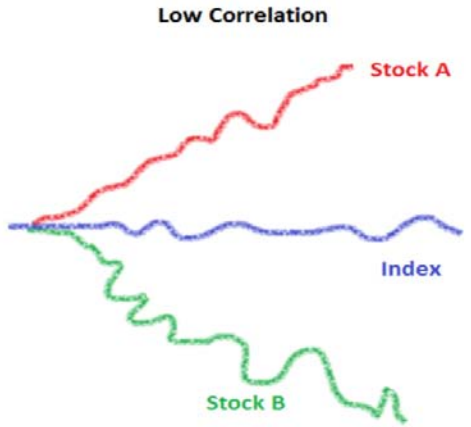
If you fancy yourself plundering the battle fields of index arbitrage, be warned: It takes a lot of research, a lot of capital, a lot of energy, time, and resources. There are many firms out there dedicated specifically to index arbitrage, with a particular focus on these often quarterly rebalances. They spend thousands of person-hours researching an effort to exploit a perceived edge of speculating on which changes are necessary in the pipeline.

Regular rebalances might entail hundreds of securities leaving or joining an index. But don't confuse a known set of upcoming circumstances for an easy way of making money. A common property of many of these rebalanced securities means that they are thin and difficult to trade, especially if your theoretical values are instrumental in capturing your perceived profit. In other words, most of the profit potential comes from trading names that are tough to trade. They may take a lot of time, patience, and expertise to execute close to their theoretical value.

Tracking errors also contribute to slippage of executed trades. And if those perils aren't enough to dissuade you, costs of executing a rebalance strategy are significant to the average investor. Commissions – or other costs caused by trading around the designated timepoint of the rebalance – can cause a difference in performance between the actual portfolio and the index. That difference in performance is usually negative.[12]

You can see why Index Rebalance manipulation can have a drastic impact on stock prices near when the rebalance is scheduled to take place. But there are a lot of people using a lot of leverage and volume to try to exploit the perceived "free money" offered by an arbitrage opportunity. And even they don't get it right all the time.

Arbitrageurs are hoping for reversion to the mean to exploit the temporary dislocation. But stocks that are normally highly correlated (right) could go through protracted periods of dislocation (left), which can spell trouble.



[13]Graphs are for illustrative and discussion purposes only. Please read important disclosures at the end of this commentary.

[12]https://www.ryedale.com/insights/thought-leadership/planning-and-executing-index-rebalance-trades
[13]https://blog.quantinsti.com/index-arbitrage-automated-options-trading-strategy/

Of course, an average investor can try to game the Index Rebalance Arb landscape, but there are high barriers to entry. The math-heads say that, assuming no market friction, stable interest rates, and certainty of stock dividends, professional arbitrageurs can lock in profit.[14] But, one still needs fast execution, economies of scale to lower transaction costs, minimal slippage of trade execution, big leverage to amplify small gains, and a ton of know-how.

The truth is that it's too impractical and expensive and risky for the average investor, who would probably be much happier just being a passive index investor. If you are in index investor, why not just buy the index and relax… but you definitely won't "beat the market" that way.

INDEX ARBITRAGE

RESOURCE REQUIREMENTS: HEAVY
COSTS: HIGH
VERDICT: UNSUITABLE FOR AVERAGE INVESTOR

IV. HIGH FREQUENCY TRADING

It goes without saying, that High-Frequency Trading (HFT) is out of reach for us mere mortals. It is a method of trading that uses computers running high-powered programs executing algorithms to transact a huge amount of buy and sell orders in only fractions of a second.

If you thought day-trading was fast, compared to HFT it's like waiting for an acorn to turn into a large oak tree. HFT employs sophisticated algorithms to analyze many markets at once. The programs then send orders to be executed based on market conditions that meet the program's criteria. High Frequency Traders who have the fastest execution speeds generally make bigger profits than their slower counterparts. The main characteristic of HFT is super-high turnover. They try to make fractions of a penny many thousands of times per day – if not per hour.

To minimize time for analysis and trade orders to be sent and executed, HFT firms will pay handsomely to store their servers as close to the premises of the exchange's computer. The nanoseconds of speed by that proximity can make multi-million-dollar differences.

It quickly becomes obvious that it's not practical for the average investor to try to profit from these strategies on their own. It's also difficult to even invest in them. There are many HFT firms managing money, but they are typically not accessible to the average investor. Leading firms include Citadel, Jane Street, AQR, Jump Trading, and countless others. If some of those are names you've never heard of, I'm not surprised, but they are powerful.

[14]https://www.math.hkust.edu.hk/~maykwok/piblications/Opt_arb.pdf

For instance, Jane Street, is likely the biggest firm you've never heard of. It reportedly has $71.1 trillion of assets under management.[15] That total is likely skewed by huge, levered positions in large notional indexes. But that's still a lot of money. And they have over 2,000 employees across five global offices, trading a broad range of asset classes on more than 200 venues in 45 countries.[16] But it's unlikely they accept account sizes under the tens or hundreds of millions of dollars, so it's mostly institutional money that HFT firms usually manage.

HFT is responsible for a vast share of daily volume, causing much of the intraday gyrations that can turn your stomach. According to NASDAQ, 50% of daily trades or more are HFT-driven.

So, HFT is not only impractical for the average investor, but even if you get into the game, it could be too volatile for your risk profile. HFT firms can spin out of control. That often happens when you mix greed with a proven way to make money. For example, South Korea slapped an 11.8 billion won ($9.66 million) fine on Citadel Securities because they said Citadel disturbed their local market with heavy volatility due to HFT. Korea's Financial Services Commission (FSC) said in a statement that the firm had "distorted stock prices with artificial factors, such as orders on the condition of 'immediate or cancel' and by filling gaps in bid prices."[17]

Here's the other catch: This disruptive volatility-inducing trading is not only harmful to markets, but it takes complete advantage of average investors, too. Did you ever notice many brokers now offer "commission-free trading"? Fidelity, Robin-Hood, and many others offer trading for free, with no monthly maintenance fee or any sort of commission. Pretty great right? But did you ever wonder, why or how they can offer such service for nothing? I mean brokers aren't benevolent do-gooders – they work for a living, don't they? Well, how do you make money when your main service is free?

There's an old saying: *if you can't see the con, you're the mark*.

The answer lies in the orders you give them. Your order flow (as it is called) is a valuable commodity. The information about what orders you placed, what you intend to buy or sell, at what price, what type of order (market or limit),is tremendously valuable to those who want it.

And who wants it? You guessed it: High Frequency Traders. Because they can then trade in and around your order and quickly (and legally) front-run your buy order to buy shares, and quickly sell it back to you. It's like the Matrix, when eventually Neo is so fast that everything around him seems to move at ultraslow speed. The HFT firms can dance circles around the retail trader with the advantage of lightning speed. This advantage

[15]https://wallmine.com/fund/3rx/jane-street-group-llc

[16]https://www.janestreet.com/who-we-are/#:~:text=Today%2C%20we%20have%20more%20than,functional%20programming%20to%20programmable%20hardware.

[17]https://www.reuters.com/business/finance/skorea-fines-citadel-securities-stock-algorithm-trading-breaches-2023-01-27/

isn't free, though… They pay brokers for their order flow information. The broker doesn't need to charge you if your information is a more valuable commodity than any commission. It's like Facebook: Sure, it's free, but at what true cost? Remember that the next time you trade on a "free" platform.

HFT will not like us for exposing the dark side of their industry. In fact, one of the algorithmic quant funds' biggest players specifically put out an article trying to debunk claims that HFT is bad for markets and investors. Cliff Asness, founder of quant-titan AQR, took the time to write a blog entry defending the actions of the HFT community.[18] He seems upset with the accusation that HFT amps up volatility. It was in response to this MarketWatch article:

Market Extra

How trading at the speed of light exacerbates market drops[19]

Published: Feb. 8, 2018 at 10:42 a.m. ET

By Anora M. Gaudiano

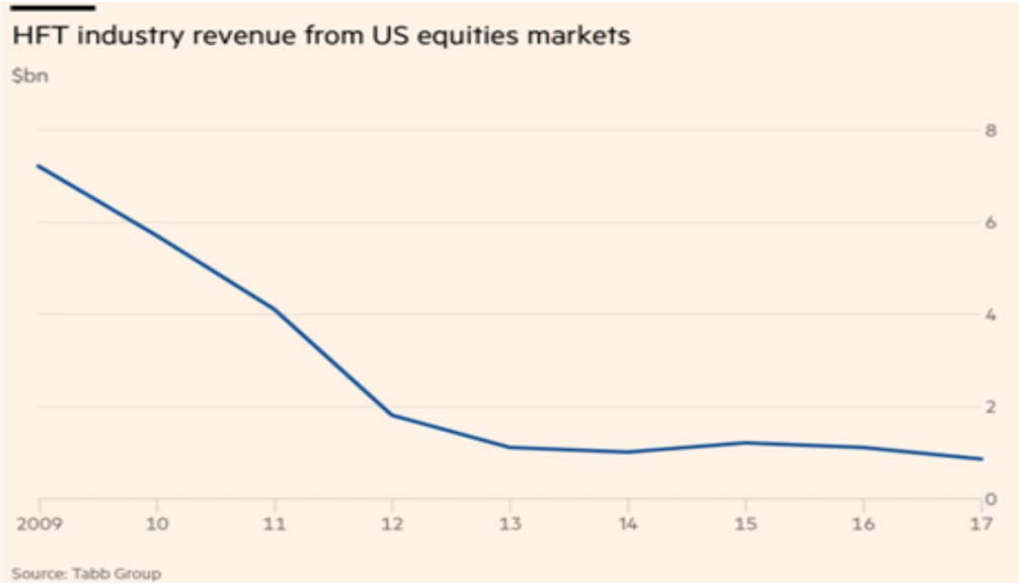
I spoke to a friend of mine who was involved with the start of HFT for hedge fund titan, Citadel. He started research for HFT in 2001 at Citadel, for on-the-run bonds trading at eSpeed.

Here is an excerpt of our chat:

> *True, HFT is based on market microstructure. Back then, we looked at order book dynamics to see if there was an imbalance of order flow. If so – we stepped in and exploited it for profit, using ultra-short duration: milliseconds. We did this for very small profit margin, half a tick on average in 2007. Back then I would trade 30,000 contracts a day. That's huge notional value: The S&P 500 at that time was around 1,600, so 1600 x 50 x 30,000 = $2.4 billion each day! The maximum risk per trade though was far less, say 50 contracts, which was about $4 million.*
>
> *The thing is, HFT is just not as profitable as it was 10 years ago because compared to then, there is simply no opportunity. It used to be that the top level order book was deep – thousands of contracts available at each price. Now it's less than 100: meaning liquidity dropped 90%. The market became completely saturated. So, these days, I moved to low frequency – trades lasting a matter of minutes.*

The following famous graphic easily corroborates what my friend said:

[18] https://www.aqr.com/Insights/Perspectives/High-Frequency-Derangement-Syndrome
[19] https://www.marketwatch.com/story/how-trading-at-the-speed-of-light-exacerbates-market-drops-2018-02-07



[20]Source: Tabb Group. Graphs are for illustrative and discussion purposes only. Please read important disclosures at the end of this commentary.

He continued:

> *HFT requires low-latency connectivity when trading futures vs cash. For example: stocks trade in NYC and New Jersey (server locations) – and futures trade in Chicago. It requires a big investment for low latency connectivity to multiple locations.*
>
> *HFT really involves trading futures or stocks on the bid/offer spread. The stock market used to be a rebate game: Exchanges would offer rebates for certain products on a system called "maker-taker fees." If you made markets and provided liquidity, you earned rebates. Citadel was earning huge rebates back then – but now Citadel actually pays fees against their bid offer spread for their margin. Now they pay for the order flow, and then they make profit on the bid offer spread that they are making a market on the very order flow they paid to have access to.*
>
> *Nowadays, some even define HFT as a holding of an hour or less. I think that's medium frequency and the technology requirements are not as strict. One could use an Application Programmers Interface platform like Interactive Brokers to trade. But you still need to be coding your own algos, developing your own strategies, and running them through the API, but all that stuff is expensive. I have personally invested over $5 million in technology, connectivity, development, staffing and other overhead.*

That brings us to a clear verdict, the least accessible system for average investors:

[20]https://www.tradersmagazine.com/news/hft-is-dead-long-live-hft/

HIGH FREQUENCY TRADING

RESOURCE REQUIREMENTS: HEAVY
COSTS: HIGH
VERDICT: UNSUITABLE FOR AVERAGE INVESTOR

V. GROWTH INVESTING

All of the prior methods have several things in common: they don't necessarily perform better than the index long-term, they are resource heavy, generally expensive, and are mostly impractical for the average investor. Despite that, it still leaves investors with some choices.

I'm referring to Growth Investing. Louis Navellier has been a growth investor for over 40 years. What is Growth Investing?

Growth Investing is an investment strategy that focuses on capital appreciation, which are usually businesses where earnings that are expected to increase at higher-than-average rates, compared to industry benchmarks, sectors, or the broad markets.

Louis Navellier has been a Growth Investor for over 40 years. He believes that disciplined, quantitative and fundamental analysis can select stocks that will outperform the overall market. Navellier employs a three-step, highly disciplined, bottom-up stock selection process focusing on quantitative analysis, fundamental analysis, and optimization of securities selected for his various growth portfolios.[21]

Louis Navellier

Navellier uses an approach in which he grades over 5,000 stocks using the proprietary research and analytical approach he developed over the years. The Navellier Stock Grader utilizes key fundamental metrics and weights them in an average to determine a grade of A to F. "A" being our highest-ranking model which, as a group, tends to outperform the lower rated stocks, as well as the market in general. The final grade a stock receives ("Total Stock Grade") is based on its Navellier Proprietary Quantitative

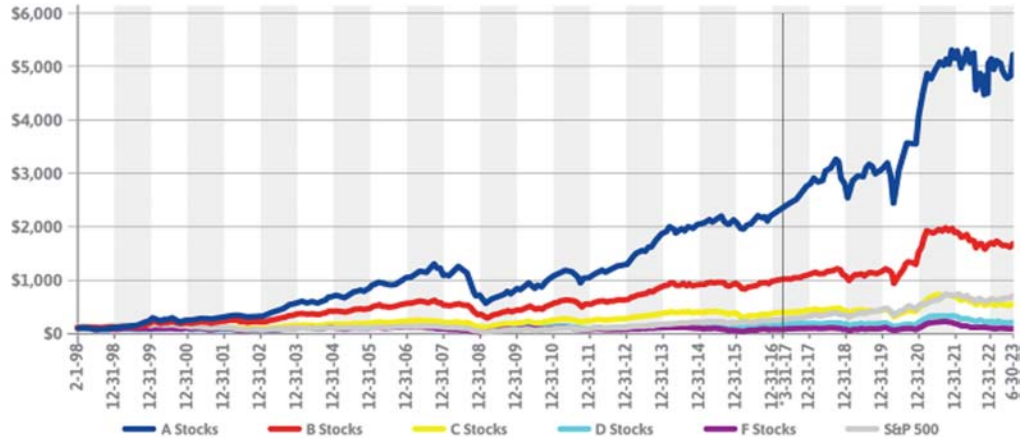
[21]https://navellier.com/meet-the-team/

Grade and its Overall Fundamental Grade. Only those stocks that received both a top Quantitative Grade and a top Overall Fundamental Grade receive an "A".[22]

The idea is elegantly simple – identify the best quality stocks. Stocks that grow their sales, their earnings, and, in some cases, their dividends. Companies should be profitable and should be moving their business forward in their industry.

In the following example of a model portfolio made of only "A" rated stocks we see that $100 invested February 1, 1998, would be theoretically worth approximately $5,000 today. That's a 50-fold return:

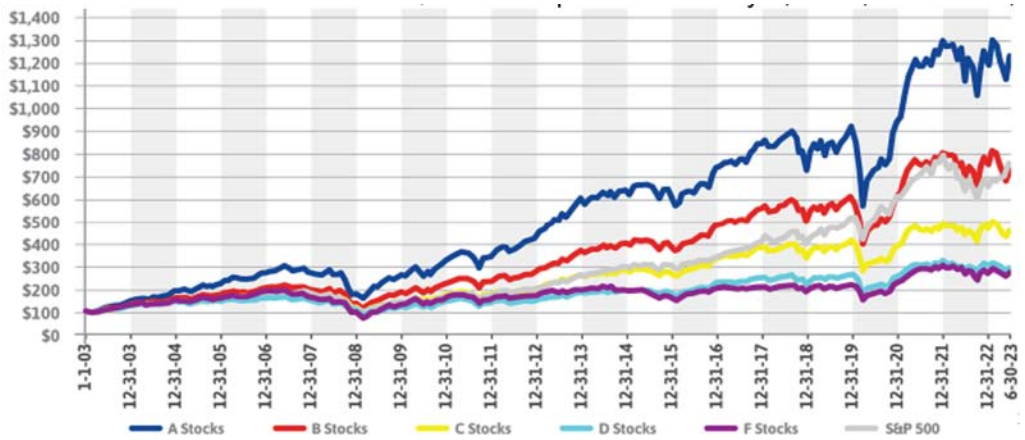
Navellier Stock Grader Growth of $100 Example: Net February 1, 1998 to June 30, 2023



[23]Source: Navellier. Graphs are for illustrative and discussion purposes only. Please read important disclosures at the end of this commentary.

We see a similar strong profile for investors who seek dividend income properties of a portfolio composed of dividend stocks. By assembling high ranking stocks, we see that $100 invested January 1, 2003, would theoretically be worth over $1200 today, for a 12-fold return:

Navellier Dividend Grader Growth of $100 Example: Net January 1, 2003, to June 30, 2023



[24]Source: Navellier. Graphs are for illustrative and discussion purposes only. Please read important disclosures at the end of this commentary.

[22]https://www.navelliergrader.com/nsd/
[23]https://www.navelliergrader.com/nsd/
[24]https://www.navelliergrader.com/nsd/

The joy of a completely quantitative method is that there is no room for emotion to betray your logic. All too often, the novice or even average investor reacts emotionally to market conditions that can cause damage to their portfolio. By employing a quantitative method, emotion is eliminated. Navellier's strategies also have the welcome characteristic of being far easier and far less expensive than the strategies above. You simply invest and go about your life.

I sat down with Mr. Navellier to discuss his time-testing winning approach.

Jason Bodner: Any comments on Day Trading?

Louis Navellier: *For Day Trading, I'd say: beware of spreads. Most people don't know what they're paying half the time, as there can be big fluctuations in the last price posted price and the spread between bid and offer. Also, if you're going to dive into Day Trading, the stock market is most liquid at the open and during the last 90 minutes of the day. I've found that the analyst community all copies each other. All you're doing is trying to be ahead of the herd.*

JB: Any comments on Index Rebalancing as a strategy?

LN: *Index arbitrage and rebalancing is a tough game to play if you're not on the inside. Most indexes rebalance periodically. For instance: at the end of each quarter, passive ETFs rebalance to adhere to the indexes they track. The Russell 1000, 2000, and 3000 however, have an annual rebalance every 4th Friday in June. Large firms that specialize in gaming rebalances study the released lists religiously. There is a preliminary list, then a refined list, and then a final list. So, there are multiple opportunities to witness the impact of these lists on the volatility of the stocks contained in them. It's a strategy that requires a lot of know-how in index constitution and trading execution.*

JB: Any comments on High Frequency Trading?

LN: *I'm no expert on High Frequency Trading. I usually defer to experts inside or outside of my organization for trading prowess. What is clear is that HFT is done by big institutions. That said, they thrive on liquidity to be able to execute so many transactions so frequently. But the market can be very illiquid. That is usually why we don't see HFT messing with small cap stocks, just big stocks. I do know that it's not for me. A silver lining path is critical. It is hard to find the types of stocks we look for and when we do find them, it's very special and we want to ride them as long as they last. So, if I trade my stocks looking for small gains, I won't have any long-lasting large meaningful gains.*

JB: What makes your model special?

LN: *Competition does arrive in theory. Any quant or data scientist knows that if you are using something successfully now, it might not work in the future. That said, I don't really have any serious competition because no one can really do the quant stuff the right way and a lot of people run their strategies along the wrong benchmarks. We regress against different indices, and we use the index with the highest correlation. This eliminates being slaves to just the broad market as a comparison. It allows us to really determine the most appropriate comparisons to the stocks we look at. As far as I know, I'm the only one that does that.*

Also, we run a multifactor quantitative stock analysis model which has been highly effective for decades. Regarding factor models, factors are degrees of freedom up to a certain point. What I mean is, when you identify successful factors, they become degrees of freedom from the herd. But there is a point when you add more variables and factors, you derive less and less benefit.

Another thing that makes my model special is alpha over standard deviation. This is a metric designed to give investors as smooth a ride as possible. Alpha is return in excess of a benchmark –extra return. Standard deviation is the risk taken to get such a return – so think of it as volatility. How much volatility or risk are we taking in order to achieve that higher-than benchmark return? If the risk is too high for the extra return, we exit or simply don't make the investment. Everything is pattern recognition, meaning, we also look for big sweeping trends. Those tend to be driven by stocks with superior fundamentals. but you need to keep alpha over standard deviation as a safety check, as everything will eventually short circuits and get volatile.

For highest returns, high alpha and low deviation means high buying pressure. That's good!

JB: Any final comments?

LN: *Well, we focus on identifying the crème de la crème of the stock market. We have observed, over the decades, that earnings and sales growth are stronger than the market. Surprises we look for often come in margin expansion. Who wouldn't want to own a business whose margins are expanding? It's a lot like running a basketball team: Eventually the skills of your best players will degrade. That's when it is necessary to reduce the guy's playing time before you throw them off the team. When putting together a basketball team, you want the best of each statistic, for the best price. Also, you have to make sure they work well together. It's also important to know when to press and when not to. The stock market is a manic crowd and we're just trying to surf that crowd, but sometimes when you surf there are no waves.*

Time to wrap it up:

GROWTH INVESTING
RESOURCE REQUIREMENTS: LOW
COSTS: LOW
VERDICT: SUITABLE FOR AVERAGE INVESTOR

Louis Navellier strategies are focused on finding the crème-de-la-crème. His quantitative method was designed to identify those select few 4% of stocks that Bessembinder believes account for all of the "excess return" from the market.

For more information on Louis Navellier and his strategies please visit Navellier.com.

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Investment in stocks involves substantial risk and has the potential for partial or complete loss of funds invested. **The accompanying charts are for informational purposes only and are not to be construed as an offer to buy or sell any financial instrument or investment strategy and should not be relied upon in an investment making decision.** This is not an offer of investment advice and is not an investment strategy. It is simply a disclosure of the results of Navellier's proprietary analysis. The performance presented is not based on any actual securities trading, portfolio, or accounts, and the reported hypothetical performance of the A, B, C, D, and F stock groups graded should not be considered investment advice or an investment strategy.

The charts and other information presented here do not represent actual funded trades and are not actual funded portfolios. There are material differences between hypothetical and the research, and hypothetical performance figures presented here. The research results (1) may contain stocks that are illiquid and difficult to trade; (2) may contain stock holdings materially different from actual funded investments; (3) include the reinvestment of all dividends and other earnings, estimated trading costs, commissions, or management fees; and, (4) may not reflect prices obtained in an actual funded investment. For these and other reasons, the reported performances do not reflect the performance results of actually funded and traded Investment Products.

As a matter of important disclosure regarding the hypothetical results presented for Stock Grader and Dividend Grader, the following factors must be considered when evaluating the long- and short-term performance figures presented:

(1) Historical or illustrated results presented herein do not 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 (improving and deteriorating) economic conditions in the U.S. and positive and negative market performance. There can be no assurance that these same market conditions will occur again in the future. Navellier has no data regarding actual performance in different economic or market cycles or conditions.

(3) The back-tested historical look back performance was derived from the hypothetical application of a particular Navellier analysis applying investment criteria with the benefit of hindsight.

(4) The hypothetical results portrayed reflect the hypothetical reinvestment of dividends and other income.

(5) The hypothetical net performance results portrayed include the hypothetical reinvestment of all dividends and other earnings. Hypothetical net results also include our estimation of investment advisory fees, administrative fees, transaction expenses, or other expenses that

an investor might have paid. A 1.75% annualized advisory fee is built into the net return calculations although that fee is higher than actual advisory fees investors normally pay for investment advisory services.

(6) LIMITATIONS INHERENT IN HYPOTHETICAL RESULTS: The hypothetical performance results presented are not from actually funded investments, and may not reflect the impact that material economic and market factors might have had on adviser's or investors decision making if an adviser were actually managing a clients' money, and thus present returns which are greater than what an actual investor would have experienced for the time period. The results are presented for informational purposes only. No real money has been invested in this analysis of hypothetical performance. The hypothetical performance results should not be considered and are not actual performance.

In the interest of full disclosure, I want to disclose that a company I own and my family have invested personal accounts with Mr. Bodner that follows the BMI index on the short side. Neither Navellier & Associates, Inc. or I or any other Navellier owned entity is making a recommendation, solicitation, testimonial, or advising to invest in or with Mapsignals.com or its hedge fund, nor am I marketing or being compensated for this hedge fund or the BMI index.

Jason Bodner is a co-founder and co-owner of Mapsignals.com, a Developed Factor Model for isolating outlier stocks using its proprietary quantitative equity selection methodology. Mr. Bodner is an independent contractor who is occasionally hired by Navellier & Associates to write an article and or provide opinions for possible use in articles that appear in Navellier & Associates weekly Market Mail and as mentioned above, to manage personal accounts for compensation. Mr. Bodner is not employed or affiliated with Louis Navellier, Navellier & Associates, Inc., or any other Navellier owned entity. The opinions and statements made in his white paper are those of Mr. Bodner and not necessarily mine or those of any other persons or entities. This is not an endorsement, or solicitation or testimonial or investment advice regarding the BMI Index or any statements or recommendations or analysis in the white paper or the BMI Index or Mapsignals.com or their fund.

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