

Untangling the confusion about the movement of stock prices

How Do You Reconcile Two Seemingly Conflicting Observations?

- Stocks follow earnings over time
- Stocks anticipate changes in company fundamentals

Both are Correct if the Right Factors are Isolated

- **Money Flow** measures the degree of buy or sell pressure exerted on a stock which often identifies emerging changes in its fundamentals.
- **Earnings and Valuation** quantify the return potential of a stock relative to its current price. Persistent strength or weakness in a stock usually reflects the dominant influence of fundamental factors.

THE KEY TO SUCCESS IS KNOWING WHEN A STOCK PRICE RUNS OUT OF, OR DOES NOT REFLECT, FUNDAMENTAL SUPPORT. THAT IS THE JOB OF **MONEY FLOW**.

- **Core Research Philosophy**
Strong Money Flow + Earnings Growth + Valuation = **ALPHA**

Four Research Beliefs

- The best indicator of the future of a company is the stock price.
- Measuring money flow and price movements identifies sectors and stocks that should have improving or deteriorating fundamentals.
- 80% of relative performance is explained by sector mix.
- Conventional equity research is backward-looking and lacks a sell discipline.

The Alpha Score

AER Advisors' proprietary measure of money flow.

- Measures whether trades are being executed on the bid or offer side of the market.
- Trades executed on the offer side indicate demand for stocks.
- Identifies stocks with buy pressure or sell pressure among 2,600 companies with market caps over \$400 million.
- The Alpha Score ranges from 1 to 109. An Alpha Score greater than 60 represents buy pressure, and a score below 60 represents sell pressure.

The Five Screens

1) Sector Money Flow

- Aggregated from the Alpha Score of individual stocks
- Unique and proprietary discipline for identifying changes in money flow and price movements across 36 sectors covering the entire S&P 500.

2) Stock Money Flow

- Looking for greater than 50% of trades on the offer side of the market.

3) Earnings

- Looks at the latest trend (last 3 quarters) in earnings and the consensus forward year EPS estimate.
- Need to see at least 12% growth potential to pass this screen.

4) Valuation

- ROE relative to the P/E multiple = Growth with value
- Target Price should be > 15% above today's price

5) View

- Earnings Value – proprietary measurement of earnings/value persistency

The NOW Rank

- A multiple of the Alpha Score and the 5 screens, forming the basis of our equity ranking system.
- Our research focus is on the highest rated NOW ranks in leading sectors for long only investing and the lowest rated stocks in the worst sectors for short opportunities. The “NOW” Ranks form the research basis for our internal investment management strategies.

100% - 80% = Strong Buy

79% - 60% = Buy

59% - 40% = Hold

39% - 20% = Sell

20% - 1% = Strong Sell

- A “NOW” Rank of 100% means a stock has the maximum Alpha Score and passes all five screens, an indication of excellent technical and fundamental conditions.

Research Approach in Action

Strong stock in strong sector

COMPANY	SECTOR		SYMBOL	ALPHA SCORE	SCREENS					EARNINGS VALUE	NOW RANK
	SECTOR	RANK			Sector	Flow	Eam	Value	View		
Apple Inc.	COMP	2	AAPL	107	*	*	*	*	*	506	98%
A T & T Inc	TELECOM	12	T	91	*	*	*	*	*	10	67%
Int'l Business Machines	COMP	2	IBM	84	*	*	*	*	*	28	62%
Chevron Corp	ENERGY	6	CVX	76	*	*	*	*	*	203	70%
Google Inc.	TECH	10	GOOG	73	*	*	*	*	*	281	67%
Wal - Mart Stores	RETAIL	24	WMT	71	*	*	*	*	*	13	52%
Petrochina Ltd ADR	ENERGY	6	PTR	67	*	*	*	*	*	395	49%
General Electric	CONST	26	GE	57	*	*	*	*	*	5	31%
Monsanto Co	FOOD	27	MON	47	*	*	*	*	*	5	26%

Weak stock in weak sector

Daily Sector Ranking Reports

Our nightly large, mid, and small cap sector reports rank 36 sectors and identify leadership stocks. Our belief is that 80% of performance is explained by sector mix and 20% by individual stock picking.

SECTOR	TODAY	PREV		FLOW 1	FLOW 3	TOP 10 STOCKS WITHIN SECTOR
		RANK	FLOW 1			
DEFENSE	1	9	0.98	1.06	NOC, ROK, GR, BA, GD, TXT, UTX, ERJ, COL, PCP	
UTILITIES	2	34	0.98	1.05	OKE, WEC, AEP, EQT, AES, SCG, DUK, EIX, SO, NFG	
HOME FINANCE	3	33	0.97	1.05	TROW, COF, TFSL, TCB, EWBC, NYB, VLY, GDOT, HCBK, PBCT	
CONST. & HOUSING	4	24	0.96	1.05	JEC, HD, BAM, SWK, CBG, LOW, BXP, EQR, SPG, GWW	
MEDICAL DELIVERY	5	3	0.95	1.04	MCK, CI, UNH, CAH, WLP, LH, AET, DVA, HUM, MHS	

FLOW 1 measures distance from moving average; indicator of sector direction and money flow
FLOW 3 reading of 1.05 is a major buy signal and .95 is a major sell signal

SECTOR	TODAY	PREV		FLOW 1	FLOW 3	TOP 10 STOCKS WITHIN SECTOR
		RANK	FLOW 1			
TRANSPORTATION	32	17	0.98	0.98	CSX, CNI, PCAR, UPS, CMI, NSC, UNP, CHRW, FDX, EXPD	
CONSUMER	33	23	0.98	0.95	PCLN, COH, EXPE, SBUX, APOL, NWL, EL, BFB, RAI, ENR	
RETAIL	34	14	0.97	0.95	BBBY, TJX, WAG, CVS, COST, ROST, EBAY, THI, TIF, JWN	
GOLD	35	36	0.96	0.94	LAG, IVN, VALE, AEM, AUY, RIO, GFI, HMY, AU, GG	
AIR TRANSPORT	36	4	0.95	0.92	LUV, AMR, GOL, RYAAY, UAL, JBLU, LFL, CEA, DAL, ZNH	

Actionable Recommendations

- Weekly sector evaluations and actionable stock ideas are presented in the *Alpha Sector Inflection Chartbook* and *Current Market Monitor*, our weekend piece.
- All recommendations are objectively derived from our proprietary research model.
- Our research continually points out rapidly improving stocks and sectors. Further, our sell discipline identifies deteriorating areas of the market.
- Traditional backward looking Wall Street research is often slow to identify trend shifts and lacks a sell discipline. Our unique approach has provided our clients with timely information and a steady stream of new ideas for over 15 years.

Research Product Offerings

- Custom screens based on your own unique portfolio holdings, sector mix, or primary primary selection criteria.
- Monthly report with our *Alpha Sector Focus* recommendations. This method utilizes our proprietary portfolio selection model to select a small subset of recommendations from the Sector SPDR ETFs. This method has been tested to produce strong out performance over time.
- Password access to our website, which includes our nightly reports, market breadth analysis and the *NOW Rank PortfolioChecker*. The *PortfolioChecker* allows clients to check the NOW Ranks for any basket of stocks and provides a list of the strongest stocks in similar sectors.
- Nightly large, mid and small cap sector ranking reports, along with the top 10 leaders per each sector, and our comprehensive 855 ETF ranking report updated each night.
- The weekly *Current Market Monitor*, including market breadth data, sector and stock ideas, market commentary and insights into the utilization of our research data.
- The *Alpha Sector Inflection Chartbook*, a weekly evaluation which rates over 25 sectors as “Buy” or “Sell”, identifies trend shifts, and provides a list of stocks that are driving the trend.

For More Information...

- To receive more information, obtain a free trial of our service, or to schedule a conference call with our CIO, contact:

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