Screening for Different Investing Goals

Webinar — 8/18/15

Screeners help you quickly sift through thousands of stocks to locate a handful of promising candidates. In this session, we'll review different screening tools and techniques to meet a variety of investing goals.

Disclaimer: Nothing in this presentation is intended as a recommendation to buy, sell, or hold particular stocks. Always do your own research before investing your own money.

Screening is…

- A set of rules to narrow down a population of stocks to a (theoretically) promising group
- A way to discover good investments you otherwise might not have known about
- A place to implement your investment philosophy for finding sound investments
- A place for experimentation and testing
- A place to *start* your research

Screening tools in Stock Rover:

- Filtering on 275+ metrics
- Filtering on historical data
- Freeform equations to construct highly specific criteria
- "Quant" screening—weight criteria to score and rank stocks
- Applying screeners to watchlists and portfolios

All of the screeners discussed in this presentation are available in the Stock Rover Library. Advanced screeners are denoted by a yellow star and they are only available to Premium subscribers.

Mix & Match Screening Criteria

Here are a variety of screening goals you may have, many of which we'll be exploring in the webinar. You can mix screening criteria to home in on stocks that meet your goals and preferences as an investor. See www.stockrover.com/metrics.html to see all the metrics we carry in Stock Rover.

In general, it's helpful to use metrics or create equations that show you the *change* over time. For example, use metrics like 1-year EPS change or create an equation like EPS [now] > EPS [1 year ago].

Screening Goal	Examples of Metrics to Use
Growth stocks	EPS, sales, and operating income, and any metrics that show the change in these over time
Value stocks	P/E*, P/S*, P/B*, Price / Tangible Book*, earnings yield, and EV/EBITDA * Look at current valuation as well as valuation relative to 5 year range
Growth at a reasonable price	a mix of value and growth metrics, PEG
Capital efficiency	return on equity (ROE), return on assets (ROA), return on invested capital (ROIC)
Profitability	operating margin, net margin, gross margin, EBITDA margin, margins vs. industry
Momentum	technical metrics like price vs. 52-week range, MFI, and simple moving average
Outperformance vs. industry, sector, or market	return vs. industry, return vs. sector, return vs. S&P 500
Dividends	dividend yield, payout ratio, dividend per share, dividend growth
Financial health	debt metrics, cash flow, free cash flow, current ratio, and other metrics from the balance sheet
Low/high volatility or risk	beta, volatility, market cap (smaller cap stocks are generally riskier)
Short candidates	short % of float, financials, growth metrics, momentum metrics

Basic Screeners

These screeners use a set of simple filtering criteria.

Growth at a Reasonable Price (GARP)

Find companies with strong EPS, sales, and operating income growth, with modest or low valuations.

- EPS 5-Year Average > 15%
- EPS Next Year Change (Estimate) > 15%
- Operating Income 5-Year Average > 15%
- Sales 5-Year Average > 8%
- Earnings Yield > 5%
- PEG Forward < 1.2
- PEG Trailing < 1.2

Tip: View the results of this screener in the Growth and Valuation tabs in Stock Rover's table. Use column sorting to help you identify the fastest growers and the most reasonably priced.

Dividend Growth

Find companies that have grown their dividend in the past 5 years but still have room for further dividend growth. The company must be growing earnings and sales.

- Dividend Yield between 1.5% and 3.75%
- Dividend 1-Year Change > 8%
- Dividend 3-Year Average > 8%
- Dividend 5-Year Average > 8%
- EPS 5-Year Average > 8%
- Sales 5-Year Average > 4%
- Payout Ratio between 10 and 40

Tip: Explore the dividend safety (i.e. likelihood that the company will not cut dividends) of these companies by looking at earnings, cash, and debt. For our "Dividend Safety Checklist" see: http://www.stockrover.com/blog-dividend-portfolio-3-dividend-safety.html

Out of Favor

Find stocks that are out of favor based on technical factors.

- Money Flow Index (MFI) < 30
- Relative Strength Index < 30
- 5-Year Price Range < 40%

- 5-Year Price/Book Range < 40%
- 5-Year Price/Sales Range < 50%
- 52-Week Range < 20 %
- Short % of Float > 10

Notes: This is a strict screener. The theory is that you may be able to buy good companies at an affordable price. Of course, you need to first determine that these companies are fundamentally strong and that they aren't just bad investments.

Momentum & S&P 500 Outperformance

Find stocks with strong price momentum and consistent outperformance vs. the S&P 500.

- Price vs. 52-week High > 90%
- 5-Day Return vs. S&P 500 > 1
- 1-Month Return vs. S&P 500 > 2
- 3-Month Return vs. S&P 500 > 5
- 6-Month Return vs. S&P 500 > 10
- 1-Year Return vs. S&P 500 >12
- 3-Year Return vs. S&P 500 > 25
- 5-Year Return vs. S&P 500 > 40

Tip: You can also find momentum stocks by incorporating technical metrics such as Bollinger Percent 20 or SMA (simple moving average) 20 into your screener. See the Momentum Screener for an example of how.

Capital Efficiency Screener

Find companies with excellent capital efficiency—that is, companies that use their assets and investments well.

- Gross Proft/Total Assets > 0.6
- Return on Invested Capital (ROIC) > 20
- Return on Assets (ROA) > 15
- Return on Equity (ROE) > 35
- ROA vs. Industry > 20
- ROE vs. Industry > 20

Notes: Many of the results from this screener are small, micro, or even nano cap, which are inherently riskier investments. If you don't want to see small caps, filter them out. If you want to learn more about investing in small caps intelligently, see our Discovering Great Small Caps webinar in the video library and view the notes at http://www.stockrover.com/library/pdf/discovering-great-small-cap-stocks.pdf

Advanced Screeners

These screeners use a mix of simple filtering, freeform equations, and quant weights.

Piotroski High F-Score (Equation)
This screener uses 9 criteria that look for companies that have solid & improving financials. The original 9-point system was developed by Joseph Piotroski, a professor of accounting. All passing stocks will have a perfect score of 9.

- Return on Assets > 0
- Return on Assets > Return on Assets (1 Year Ago)
- Cash Flow > Income After Tax
- Cash Flow > 0
- Long Term Debt/Total Assets < Long Term Debt/Total Assets (1 Year Ago)
- Current Ratio > Current Ratio (1 Year Ago)
- Gross Margin > Gross Margin (1 Year Ago)
- Sales/Total Assets > Sales/Total Assets (1 Year Ago)
- Number of Shares <= Number of Shares (1 Year Ago)

Tip: Learn the theory behind each of these criteria—and get a crash course in basic accounting—in this in-depth blog post on the Piotroski F-Score: http://www.stockrover.com/blog-piotroski-high-f-score-screener.html

Buffetology Inspired (Equation)
This screener is based on criteria described in the bestselling Buffetology book. The company should have a 10-year track record of generally increasing EPS with no negative earnings years; long-term debt not more than 5 times annual earnings; average ROE over the past ten years at least 15%, average ROIC over the last 10 years at least 12%, and earnings yield should be higher than the long term Treasury yield.

- Earnings Yield > 3%
- EPS > EPS (2 Years Ago) > EPS (5 Years Ago) > EPS (9 Years Ago)
- EPS for every year in the last 10 years is >=0
- Average ROE Over 10 Years >= 15%
- Average ROIC Over 10 Years > 12%
- Long Term Debt <= 5*Net Income

Tip: The stipulation for "generally increasing EPS" can be expressed in different ways. Try modifying the time periods on the second criterion above to see if changes your results.

Short Candidates—Deteriorating Fundamentals (Equation)
This screen looks for stocks with negative and decreasing cash flow, increasing debt, and decreasing margins; these stocks should still be liquid. Stocks that pass this screen could be candidates to short.

- Average 3-Month Volume > 200,000

- Cash Flow < 0
- Cash Flow < Cash Flow (1 Year Ago)
- Long Term Debt/ Total Capital > Long Term Debt/Total Capital (1 Year Ago)
- Operating Margin < Operating Margin (1 Year Ago)
- Market Cap > 300M
- Price > 20
- Short % of Float < 15

Notes: You can make short screeners simply by flipping the criteria of other screeners, essentially using the theory that if that is criteria for stocks you might want to buy, the inverse will find stocks you might want to short. Just as with buy candidates, conduct follow-up research on short candidates. Short selling is risky and is not for everyone, but if it interests you, Investopedia has a useful simulation of the short selling process at http://www.investopedia.com/university/simulator/short-selling.asp.

Revert to Mean (Quant)
S&P 500 stocks that have performed as well or better than the S&P 500 over a 5 year period. However in the last year, they have underperformed the S&P 500 as well as their sector and industry. In the last month they seemed to be re-establishing some good momentum.

- Highest 1-Month Return vs. Industry at 10% weight and > 1
- Highest 1-Month Return vs. Sector at 10% weight and > 1
- Highest 1-Month Return vs. S&P 500 at 10% weight and > 2
- Lowest 1-Year Return vs. Industry at 10% weight
- Lowest 1-Year Return vs. Sector at 10% weight
- Lowest 1-Year Return vs. S&P 500 at 10% weight and < -3
- Highest 10-Day Return vs. S&P 500 at 10% weight and > 0.5
- Highest 5-Year Return vs. Industry at 10% weight
- Highest 5-Year Return vs. Sector at 10% weight
- Highest 5-Year Return vs. S&P 500 at 10% weight and > 0
- Membership to S&P 500

Notes: The assumption underlying this screener is that the company is a solid long term performer that has hit a rough patch, but is now recovering.

EPS & Sales Growth (Quant/Equation)
Seeking stocks with at least a 10% expected increase in EPS next year, at least a 7% increase in EPS over the last year, and at least a 5% increase in sales from last year. This indicates growth and potentially increased efficiency (earnings growing faster than sales).

- Highest EPS 1-Year Change at 50% weight
- Highest Sales 1-Year Change at 50% weight
- EPS Next-Year (Estimated) > 1.1* Current EPS
- EPS > 1.07*EPS (1 Year Ago)
- Sales > 1.05*Sales (1 Year Ago)

Notes: Because the filtering equations are not highly restrictive (about 700 stocks pass at the time of writing), the quant weights are what guide you to the strongest earnings growers. In fact, you can get very similar results by eliminating the last two criteria and modifying the weights so that EPS 1-Year Change is at 60% and Sales 1-Year Change is at 40%.

Tip: Use multiplication as a way to set specific change levels for a wide variety of metrics. For example, you could search for a spike in volume by filtering for 5-day average volume > (2* average 3-month volume).

17 Factor Growth Stock Ranker (Quant)
Ranks stocks according to 17 factors that are focused on growth (35%), valuation (30%), efficiency (20%) and price performance and momentum (15%). Selects stocks that are mid cap and above (market cap > 2 billion).

- Highest 2-Year Return vs. Industry at 2% weight
- Highest 2-Year Return vs. S&P 500 at 2% weight
- Highest 3-Month Return vs. Industry at 2% weight
- Highest 3-Month Return vs. S&P 500 at 2% weight
- Highest 5-Year Return vs. Industry at 2% weight
- Highest 5-Year Return vs. S&P 500 at 2% weight
- Highest EPS 5-Year Average at 15% weight
- Highest EPS Next-Year Change (Estimated) at 5%
- Lowest EV/EBITDA at 20%
- Highest Gross Profit/Total Assets at 5%
- Market Cap > 2000M
- Highest Operating Margin vs. Industry at 4% weight
- Lowest PEG Forward at 10% weight
- Highest Price vs. 52-Week High at 3% weight
- Highest ROIC at 5% weight
- Highest ROA vs. Industry at 3% weight
- Highest ROE vs. Industry at 3% weight
- Highest Sales 5-Year Average at 15% weight

Notes: This is the whole kitchen sink screener, as it concerns itself with four major factors that investors should care about: growth, valuation, capital efficiency, and good stock price action. Momentum tends to continue for stocks over surprising long periods.

Tip: Apply this quant screener to your portfolios or watchlists to see how the stocks stack up according to these many criteria. To do so, right-click this quant in the Navigation panel and select “Apply Quant to Portfolio/Watchlist.”

Growth Ranker (Quant) — in Library as “March Midness – Growth”
Ranks stocks for earnings, sales, and operating income growth. Recent and expected future growth is weighted slightly more heavily.

- Highest Sales 5-Year Average at 8% weight
- Highest Sales 3-Year Average at 8% weight
- Highest Sales 1-Year Change at 10% weight
- Highest EPS 5-Year Average at 8% weight
- Highest EPS 3-Year Average at 8% weight
- Highest EPS 1-Year Change at 10% weight
- Highest Operating Income 5-Year Average at 8% weight
- Highest Operating Income 3-Year Average at 8% weight
- Highest Operating Income 1-Year Change at 10% weight
- Highest EPS Next-Year Change at 11% weight
- Highest EPS Current-Year Change at 11% weight

Tip: Apply this screener to an existing population of stocks (watchlist or portfolio) to see how the stocks stack up in terms of these key growth indicators. You can use pure quant screeners like this for ranking watchlists and portfolios in other categories, such as valuation, profitability, and vs. industry.

Tools for Testing a Screener

- When modifying the screener, look at how many stocks pass. If it's very restrictive, how does it change if you loosen criteria? If it's not very restrictive, you could use quant weights to help you prioritize.
- Chart the screener (right-click: Chart) – does this chart express what you expected?
- In the Table, look at the summary row – is the screener performing well on the whole?
- Table Actions: Group by Sector. Does this tell you anything?

Ideas for follow-up research after a screener

- Save as a watchlist and include details about when the screener was run. Use this as a base list from which to eliminate stocks.
- Run through charts; compare with industry, sector, and S&P 500.
- Add fundamentals to the chart over a 5+ year period to see the trend.
- Use different Table views to explore categories such as growth, efficiency, and financial health; expand table rows for historical data.
- Color and tag rows as a way to catalog and group.
- Use a quant screener (or series of quant screeners) to rank the population according to other factors that were not included in the original screener. For example, if your original screener was focused on growth, run a financial health quant on the passing stock. See the March Midness tournament for an example of this: www.stockrover.com/blog-march-midness-round-1.html
- Look at company news—what is happening lately?
- View insider transactions—anything unusual here? (Some selling is normal, lots of selling might be a bad sign)
- Check the company's homepage and explore the investor relations page, including presentations.
- Explore the most promising looking stocks in a trade planning window – how do they affect portfolio stats?
- If you still like what you see, read the latest 10K and 10Q.