


4-9-2015

# Firm Characteristics, Concentrated Portfolio Strategies and Industrial Sector Price Movements in 2014

Follow this and additional works at: [https://ecommons.udayton.edu/stander\\_posters](https://ecommons.udayton.edu/stander_posters)

 Part of the [Arts and Humanities Commons](#), [Business Commons](#), [Education Commons](#), [Engineering Commons](#), [Life Sciences Commons](#), [Medicine and Health Sciences Commons](#), [Physical Sciences and Mathematics Commons](#), and the [Social and Behavioral Sciences Commons](#)

---

## Recommended Citation

"Firm Characteristics, Concentrated Portfolio Strategies and Industrial Sector Price Movements in 2014" (2015). *Stander Symposium Posters*. 626.

[https://ecommons.udayton.edu/stander\\_posters/626](https://ecommons.udayton.edu/stander_posters/626)

This Book is brought to you for free and open access by the Stander Symposium at eCommons. It has been accepted for inclusion in Stander Symposium Posters by an authorized administrator of eCommons. For more information, please contact [frice1@udayton.edu](mailto:frice1@udayton.edu), [mschlangen1@udayton.edu](mailto:mschlangen1@udayton.edu).

# Firm Characteristics, Concentrated Portfolio Strategies and Industrial Sector Price Movements in 2014

K.C. Scudder and Matthew Fazio

Advisors: Dr. Robert Dean, Dr. Trevor Collier



## Study Objectives

- Determine if stocks in the industrial sector weighted by fundamental characteristics can outperform the market
- Determine if a concentrated portfolio can outperform the market

## Research Approach

- Determine portfolio weights based on relative value
- Use the following firm characteristics to determine portfolio weights:
  - Price to Earnings (P/E)
  - Price to Book (P/B)
  - Price to Sales (P/S)
  - Price to Cash Flow (P/CFL)
  - Expected Earnings Growth (EG)
- Use the Top 10 holdings in the industrial sector ETF (XLI) as the concentrated portfolio
- Original Investment: \$5,000,000

## Portfolio Weighting Model

$$(1) r_{ij} = \frac{\sum (P_i/E_i)}{P_i/E_i}$$

$$(5) \frac{S_{it} = DVI_{it}}{P_{it}}$$

$$(2) R_{ij} = \sum r_{ij}$$

$$(6) DVI_{i(t+1)} = S_{it} \times P_{i(t+1)}$$

$$(3) W_{ij} = \frac{R_{ij}}{\sum R_{ij}}$$

$$(7) PV_{t+1} = \sum_{i=1}^N DVI_{i(t+1)}$$

$$(4) DVI_{it} = W_{ij} \times 5,000,000$$

Table 1: Portfolio Weighs

Table 1 Portfolio Weights	P/B	P/E	P/S	P/Cash Flow	EG	Sum of Weight Weights
<b>Bloomberg</b>						
GE US Equity	5.38%	11.93%	10.62%	8.75%	10.44%	47.12%
UNP US Equity	8.99%	10.53%	20.39%	10.07%	20.27%	70.26%
MMM US Equity	13.24%	12.28%	16.21%	14.49%	10.87%	67.09%
UTX US Equity	8.15%	10.75%	10.24%	13.18%	-6.23%	36.10%
BA US Equity	17.08%	12.77%	5.89%	11.24%	16.65%	63.62%
HON US Equity	10.21%	10.14%	9.80%	14.65%	6.03%	50.84%
DHR US Equity	6.00%	13.29%	15.02%	13.25%	12.70%	60.25%
LMT US Equity	24.02%	8.77%	5.94%	9.28%	15.04%	63.04%
CAT US Equity	6.93%	9.53%	5.90%	5.07%	14.23%	41.68%
	100.00%	100.00%	100.00%	100.00%	100.00%	500.00%

Table 2: 2014 Performance

Portfolio	Return	Alpha vs. XLI	Alpha vs. DOW
CLXI	12.79%	2.90%	5.59%
XLI	9.89%		
DOW	7.20%		

## Findings

- CXLI generates positive alpha
- CXLI moderately outperforms XLI
- CXLI significantly outperforms DOW