

# Sector Allocation and Stock Selection for the Flyer Fund: A Study in Propagation and Attribution Analysis, 2014

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## Study Objectives

- 1) Develop Portfolio Weighting Models Based on Bloomberg Propagation Analysis
- 2) Determine if the alternative portfolio weighting models outperform the Flyer Fund and S&P 500

## Research Approach

- Develop Top-Down Sector and Stock Selection Models based on Bloomberg Propagation Analysis
- Time Period: 2014
- Data Frequency: Quarterly

## Portfolio Strategies

- 1) Momentum (MM) =  $\frac{P_i}{(\sum P_i)/N}$
- 2) Relative Value (RV) =  $\frac{(\sum P_i)/N}{P_i}$

Where:  $P_i$  = Price of  $i$ th stock

$(\sum P_i)/N$  = Mean Price of  $i$  (1 – n) stocks

## Propagation Analysis Assumptions

- 1) Oil Prices Falling
- 2) Volatility Falling
- 3) Interest Rates Falling

**Hypothesis:** Return to Momentum & Relative Value Strategies outperform Flyer Fund and S&P 500

Table 1: 2014 Returns

	Flyer Fund (FF)	Momentum (MM)	Relative Value (RV)
2014 Annual	11.52	19.50	19.22
4th Quarter	5.43	11.45	7.46
3rd Quarter	1.46	-0.87	1.01
2nd Quarter	3.94	3.33	6.04
1st Quarter	0.30	4.68	3.58

Table 2: 2014 Alpha vs. S&P 500

	Flyer Fund (FF)	Momentum (MM)	Relative Value (RV)
2014 Annual	-2.20	5.78	5.50
4th Quarter	0.50	6.51	2.52
3rd Quarter	0.33	-2.00	-0.12
2nd Quarter	-1.30	-1.91	0.80
1st Quarter	-1.52	2.86	1.76

Table 3: 2014 Alpha vs. Flyer Fund

	Momentum (MM)	Relative Value (RV)
2014 Annual	7.98	7.70
4th Quarter	6.01	2.02
3rd Quarter	-2.33	-0.45
2nd Quarter	-0.61	2.10
1st Quarter	4.38	3.28

## Findings

- Both MM and RV models have higher Total Return vs. Flyer Fund
- Both MM and RV outperformed the S&P 500, the Flyer Fund did not.
- MM and RV had Positive Alpha vs. Flyer Fund

**Conclusion:** In 2014 both MM and RV provided better weighting alternatives to the Flyer Fund



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