



The Performance of Concentrated Portfolios Of High Quality (HQ) Stocks In Highly Volatile Markets: The 2008 – 2013 Experience



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Study Objective

- Determine if concentrated HQ portfolios outperform the S&P 500 in a period of high market volatility

Research Approach

- S&P 500 stocks are ranked by S&P quality rankings
- S&P 500 stocks with A+, A, & A- rankings are included in the analysis
- A+, A, A- ranked stocks are further sorted by size
- 3 concentrated portfolios of 30 stocks each established
 - (1) Mega Cap (MMC)
 - (2) Large Cap (LC)
 - (3) Mid Cap (MC)
- Portfolio weighting strategy
 - Revision to the mean

Hypothesis

Yearly and overall period concentrated HQ portfolio returns generate positive alpha vs. S&P 500

Findings

- Only MC portfolio generated positive alpha 08-13
- All portfolios generated positive alpha when rebalanced in 09
- MMC and LC portfolios generated positive alpha in 2008 recession year
- Only the MC portfolio showed consistent outperformance on a yearly basis

Investment Portfolio Strategy 2008-2013			
Buy and Hold **			
	Portfolio***	SPY	Alpha
Cum. Mega (MMC)	43.35%	43.77%	-0.42%
Cum. Large (LC)	39.24%	43.77%	-4.53%
Cum. Mid (MC)	86.85%	43.77%	43.08%
** No Rebalancing			
*** Initial Investment of \$10,000,000 for each portfolio			

Annual Alpha Performance 2008 -2013				
Buy and Hold				
	Alpha MMC	Alpha LC	Alpha MC	Market Phase
2008	7.88%	3.48%	-2.40%	Recession
2009	-8.71%	-3.93%	8.34%	Rebound
2010	-1.50%	1.94%	16.96%	Upswing
2011	8.81%	-7.54%	4.76%	Trading Range
2012	-7.05%	-4.64%	-3.49%	Upswing
2013	-7.26%	6.33%	11.69%	Upswing
Cum. Alpha	-0.42%	-4.53%	43.08%	

Investment Portfolio Strategy 2008-2013			
Rebalanced *			
	Portfolio	SPY	Alpha
Cum. Mega (MMC)	127.10%	43.77%	83.33%
Cum. Large (LC)	79.73%	43.77%	35.96%
Cum. Mid (MC)	403.93%	43.77%	360.16%
Cum. Mid (Max 10%)	177.92%	43.77%	134.15%
* Successive quarters starting in 2009, 2nd Q.			