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Mitchell V. Schleyer
University of Dayton, stander@udayton.edu

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Weighting Strategies for Healthcare Sector Stocks
By: Mitch Schleyer
Advisor: Dr. Robert Dean & Dr. Trevor Collier

Study Purpose:
• Develop Capture Ratio Weighting Strategies for XLV Sector (Healthcare)

Weighting Model:
\[ W_i = \frac{U_i/D_i}{\sum U_i/D_i} \]

\[ W_{Ui} = \frac{U_i}{\sum U_i} \]
\[ W_{Di} = \frac{D_i}{\sum D_i} \]

Where:
• \( W_i \) = % invested in \( i \)th stock
• \( U_i/D_i \) Upside Downside Capture Ratio
• \( U_i = \) Upside Capture Ratio
• \( D_i = \) Downside Capture Ratio


Sectors Analyzed:
• XLV = Healthcare Sector
• Number of stocks per sector = 9

Table 1: XLV Cumulative Return

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Up/Down Capture Ratio</td>
<td>178%</td>
<td>192%</td>
</tr>
<tr>
<td>Upside</td>
<td>209%</td>
<td>231%</td>
</tr>
<tr>
<td>Downside</td>
<td>138%</td>
<td>144%</td>
</tr>
<tr>
<td>XLV US Equity</td>
<td>139%</td>
<td>156%</td>
</tr>
<tr>
<td>SPY US Equity</td>
<td>81%</td>
<td>77%</td>
</tr>
</tbody>
</table>

Conclusions:
• XLV Up Down Capture Ratio outperforms both the XLV Sector and SPY for both time periods
• Upside Capture Ratio outperforms both XLV and SPY
• Downside Capture Ratio outperformance is mixed
• Upside Ratio provides maximum performance