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Avoiding the Guillotine: The Need for Balance and Purpose in Determining Fundamental Rights under the Fourteenth Amendment

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Return on Invested Capital (ROIC) and S&P 500 Stock Returns: An Empirical Analysis 2010-2014

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Study Purpose:

Determine if stock returns covary with ROIC.

Research Design:

Create portfolios of S&P 500 stocks based on ROIC levels

Models:

$$R(t+1) = f(\text{ROIC/WACC}(t))$$

$$R(t+1) = f(\text{ROIC}(t))$$

Period of Analysis:

2010-2014

Hypotheses:

(1) Returns covary directly with ROIC/WACC

(2) Returns covary directly with ROIC

Table 1: ROIC/WACC

(1) Returns do not progressively increase as ROIC levels increase

(2) In rebound year 2010 and market peaking year 2014 the highest cohort 5-12 outperforms

Table 2: ROIC/WACC Alpha

Cohorts 3-4 and 5-12 consistently outperform S&P 500

Table 3: ROIC Performance

Percent of stocks outperforming S&P 500 covaries directly with the level of ROIC

Table 1

ROIC/WACC Returns by Time Period				
	5-12	4-5	3-4	3-12
2009-2010	36%	25%	28%	29%
2010-2011	22%	16%	24%	21%
2011-2012	18%	13%	25%	20%
2012-2013	18%	43%	28%	29%
2013-2014	17%	9%	16%	14%
2009-2014	106%	121%	99%	109%

Table 2

ROIC/WACC Alpha vs. S&P 500 by Time Period				
	5-12	4-5	3-4	3-12
2009-2010	23%	12%	15%	16%
2010-2011	22%	16%	24%	21%
2011-2012	5%	0%	12%	7%
2012-2013	-12%	13%	-2%	-1%
2013-2014	6%	-2%	5%	3%

Table 3

% of Stock with a Return Higher than S&P 500					
	2010-2014	2011-2014	2012-2014	2013-2014	2014
1-4	38%	34%	39%	35%	40%
4-7	49%	38%	39%	37%	52%
7-10	64%	55%	56%	51%	64%
20-25	83%	74%	66%	53%	47%
25-30	88%	88%	75%	79%	58%
30-88	82%	74%	71%	88%	65%

