A Fundamental Approach
To Portfolio Weighting
2008-2014
Jack Beebe
Advisors: Dr. Bob Dean & Dr. Trevor Collier

Study Objectives
1. Determine if stocks weighted by fundamentals can outperform the market
2. Determine if a concentrated portfolio of stocks can outperform the market

Research Approach
- Develop portfolio weights based on relative value
- Firm weighting characteristics:
  - Price to earnings (P/E)
  - Price to Books (P/B)
  - Price to sales (P/S)
  - Price to cash flow (P/CF)
  - Earnings growth (EG)
- Time Period: 2014
- Concentrated portfolio: Top nine holdings XLP ETF
- Original Investment 5,000,000

Portfolio Weighting Model

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\begin{align*}
(1) & \quad \text{Return} = \frac{\sum (P/E_i)}{P/E_i} \\
(2) & \quad R_i = \sum r_i \\
(3) & \quad W_i = \frac{R_i}{\sum R_i} \\
(4) & \quad DVL = W_i \times 5,000,000 \\
(5) & \quad S_i = DVL_i \\
(6) & \quad DVL_i(t+1) = S_i \times P_i(t+1) \\
(7) & \quad PV_t = \frac{1}{\lambda} DVL(t+1)
\end{align*}
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Findings
- CXLP slightly outperforms XLP
- CXLP significantly outperforms DOW

Conclusions
Fundamentally weighted concentrated portfolio generates positive alpha versus XLP and Dow