HQ Asset Management

Stock selection
HQAM factor of the month: value
May 2021

Value is not always the same
Different value metrics: Which is the "right one"?

- Value investing involves investing in the securities that appear cheapest compared to their fundamental value.
- The value investment strategies available on the market are based on various key figures such as price / earnings, price / book value or enterprise value / cash flow ratio.

The problem

Which value metric is the "right one"? Which metric would investors have done best in the past ten years?

- price / earnings ratio;
- price / book ratio;
- Enterprise value / operating cash flow;
- Enterprise value / free cash flow

The answer: The value figure company value / free cash flow is ahead by a large margin.

The result is not optimal for investors who have pursued a value strategy in which one of the three other value indicators - or a combination of them - was used.

The solution

- Investment processes should be structured according to dynamic rules, in which a continuous systematic check is carried out to determine which is the best value indicator or strategy.
- A statically selected set of factors that is rigid and based on past performance has a high probability of not bringing good results in the future.
- Artificial intelligence (AI) methods use value indicators (and all other factors such as the level of debt, price momentum and profitability) to consider the company in a holistic analysis.
- In a dynamic process, a monthly check is carried out to determine which factors or which key figures are currently the best for the respective factors in order to select stocks.

Selected Factors from the Factorgroup "Value"
Investmentstrategy: Top Portfolio vs. Benchmark
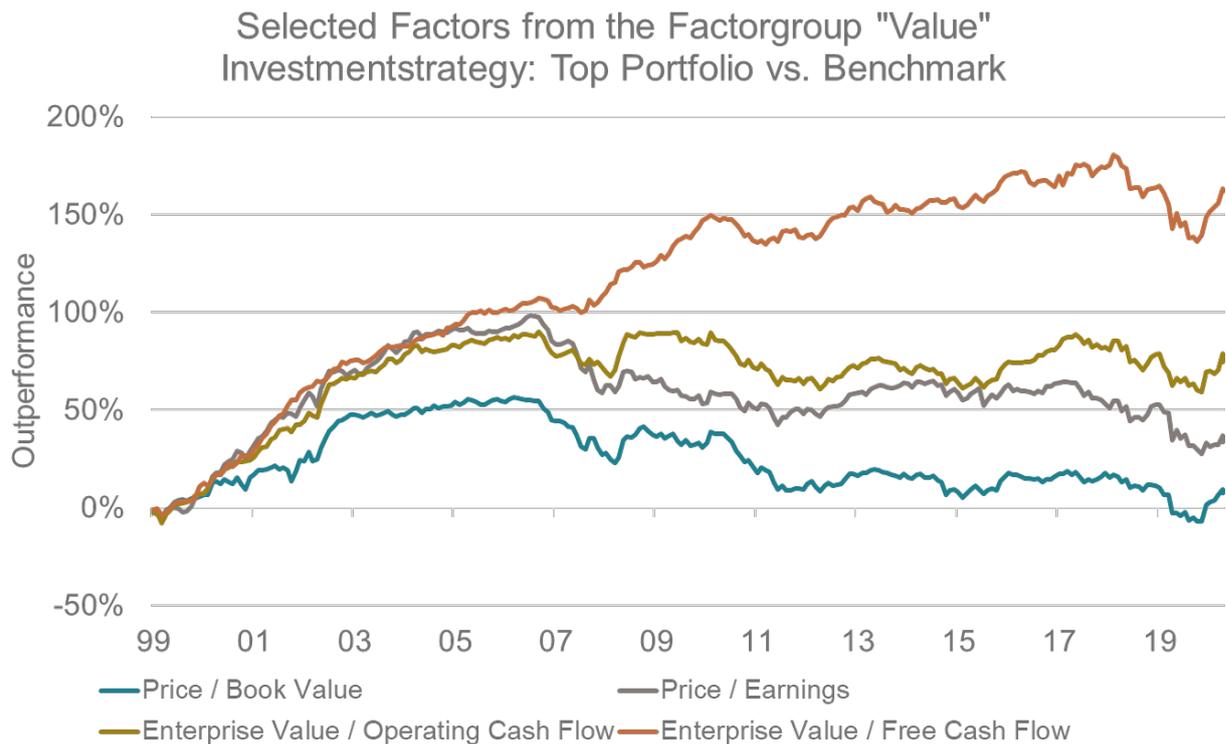
Sources: HQAM, Refinitive. The analysis refers to the European equity universe (MSCI Europe excluding financials); The factors are calculated monthly based on the values of each company; The top portfolio is defined as the 20% companies with the highest growth; The factor is calculated on a monthly basis, adjusted for sector effects; The calculation period runs from November 30, 1999 to April 30, 2021. The companies in the portfolios are equally weighted; The excess return is calculated against the equally weighted universe of stocks.

To the background:
It's no secret that favorites change on the stock exchange - sometimes stocks with a low P / E ratio are in demand, sometimes with high dividends, sometimes small and sometimes large caps. HQ Asset Management (HQAM) deals very intensively with such factors. As part of the research process, HQAM uses artificial intelligence to analyze around 200 factors every month and determine which have been able to best explain the price development of the individual stocks recently - and should continue to do so.

The research team analyzes one of these factors under the heading "HQAM factor of the month". The experts at HQ Asset Management explain the background and context and point out special features that can support investors in putting their portfolio together.

To HQAM:
HQAM is one of the financial service providers of the Harald Quandt family. The company offers a clear focus on quantitative asset management for institutional and semi-institutional investors. As the next generation asset manager, HQAM relies on the use of modern technology, alternative data and methods of artificial intelligence when making investment decisions.

Christian Maschner, CFA
Executive Partner
HQ Asset Management
christian.maschner@hqam.com

Dr. Benjamin Moritz
Executive Partner
HQ Asset Management
benjamin.moritz@hqam.com

Martin Schmitz, CFDS
Executive Partner
HQ Asset Management
martin.schmitz@hqam.com