

## Argus Performance Review

JANUARY 2017

**A**rgus Research is a firm that produces independent research for investors. Since 1934, our business has been to produce, distribute and market high-quality investment and economic research. Our recommendations – BUY, HOLD and SELL – reflect the judgment of an Argus analyst about a company’s prospects as an investment in terms of value, expected growth and risks.

Argus Research does not bring companies public, advise companies on mergers and acquisitions, broker trades or make markets in stocks. This independence allows us to make critical judgments about companies that we might not be so free to make were we competing for a firm’s underwriting business. Because we’re not a broker/dealer, we don’t have “inventory” of a stock that we have to move with a possibly tainted recommendation. Our interests are aligned with our investing customers.

We have developed a six-point system for analyzing stocks over the 80-plus years we have been in business. The system involves rigorous quantitative analysis of a company’s growth prospects, financial strength and valuation. But it is not a black box. The framework also requires in-depth qualitative analysis into the company’s industry, the risks it faces and, most importantly, the quality and integrity of its management team. We host numerous meetings with senior management teams in our offices, in Manhattan and on location at corporate headquarters.

We believe that the Argus Research Six-Point System, combined with our independence and access to information, gives us an edge as we develop our ideas, forecasts and ratings.

In this semi-annual performance report, we provide some measurement of the success and or effectiveness of our proprietary investment approach. It is not easy to define either “quality” or “performance” in investment research. For some clients, the focus is on stock picks. For others, timeliness is critical. Still others are interested in differentiated industry insights and perspectives. Buysiders value relationships and access.

We approach performance from six angles:

- 1 Our Stock Recommendations**
- 2 Our Universe of Coverage to the S&P 500**
- 3 Analyst Awards**
- 4 Our Model Portfolios**
- 5 Our Focus List**
- 6 Our Ratings vs. Our Peers**

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# ARGUS RATINGS VS. THE BENCHMARK

**W**e quantify the performance of our ratings against the benchmark S&P 500 as an important part of our quality control program. For this review, we rely on data from Investars ([www.investars.com](http://www.investars.com)).

Investars uses a “SmartIndex” methodology to quantify the performance of stock ratings provided by research firms. In the SmartIndex method, stocks with buy, neutral and sell ratings in each firm are classified into three indices. At the initial day of the indices, stocks covered by each firm are classified into the above three indices according to their ratings. An initial value (e.g. 100) is assigned to each index. The value distributed to each stock is determined by either a market-cap or equal-weight method.

The outcome of the SmartIndex method is a date-value series representing the performance of a firm’s positive, neutral and negative rating indices.

In the table below, under the qualitative heading, we report the performance of a SmartIndex comprised of our analyst-followed BUYs on stocks in the S&P 500 and of another SmartIndex comprised of our analyst-followed BUYs in the total Argus Universe. The SmartIndexes are compared against the benchmark S&P 500 for one-year, two-year, three-year, four-year and five-year periods.

We also have Investars monitor the performance of our quantitative model, which we call our A6 model. The Argus A6 rating system quantifies our six-point approach through a proprietary algorithm and rates more than 1,500 stocks BUY, HOLD or SELL. In the table under the quantitative heading, we compare the performance of our S&P 500 BUYs and full-universe BUYs against the S&P 500 for one-year, two-year, three-year and four-year periods.

Investors should understand that the methodologies employed by firms such as Investars might show biases (depending on recent market performance) toward companies that focus their coverage on large-cap or small-cap stocks, or by sector. Further, in a bull market, firms that tend to have more stocks on the BUY list often outperform their peers, while in a bear market, firms that tend to have more stocks on the SELL list often outperform.

## ARGUS RESEARCH PERFORMANCE COMPARISON

Qualitative	Investars SmartIndex Returns (%)				
	1-Year	2-Year	3-Year	4-Year	5-Year
<b>ARGUS S&amp;P 500 BUYS</b>	<b>24.7</b>	<b>16.9</b>	<b>34.1</b>	<b>72.7</b>	<b>95.9</b>
<b>ALL ARGUS BUYS</b>	<b>25.4</b>	<b>16.4</b>	<b>31.6</b>	<b>73.1</b>	<b>96.8</b>
<b>S&amp;P 500</b>	<b>18.4</b>	<b>13.1</b>	<b>23.7</b>	<b>54.7</b>	<b>75.8</b>
Quantitative					
<b>ARGUS S&amp;P 500 BUYS</b>	<b>22.2</b>	<b>20.7</b>	<b>35.2</b>	<b>81.7</b>	
<b>ALL ARGUS BUYS</b>	<b>28.7</b>	<b>25.0</b>	<b>35.1</b>	<b>78.7</b>	
<b>S&amp;P 500</b>	<b>18.4</b>	<b>13.1</b>	<b>23.7</b>	<b>54.7</b>	

\* For the period ending 1/13/2017

# ARGUS UNIVERSE VS THE S&P 500

In addition to measuring the performance of our BUY, HOLD and SELL ratings, we also measure the performance of our entire Universe of Coverage against the S&P 500. We do this for one important reason: we want to be allocating the important resource of our analysts' time on coverage of companies that are going to perform for investors over the long term.

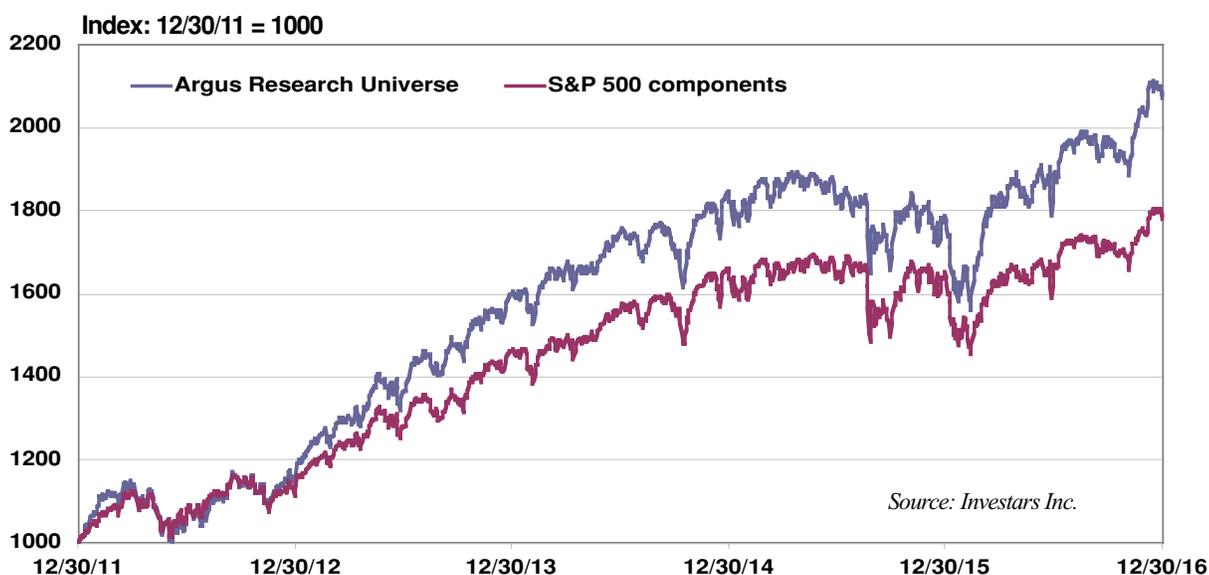
The Argus Universe of Coverage currently includes approximately 450 stocks. It starts with the Top 200 stocks owned by institutions, and also includes the next generation of companies that are poised to succeed them.

The universe is dynamic (with new companies coming in every year) and it is growing. The universe includes representation of all 11 GICS sectors, as well as a growing number of international companies.

For this review, we also rely on data from Investars ([www.investars.com](http://www.investars.com)) and their "SmartIndex" methodology.

Our chart measures the performance of the Argus universe against the S&P 500 for the past five years. The Argus universe has outperformed in four of the five years (2012, 2013, 2014 and 2016) and performed in line with the broad index in 2015.

## ARGUS UNIVERSE VS S&P 500



# ARGUS ANALYST PERFORMANCE

As part of our performance-measurement process, we look at the accuracy of the individual analysts. Our sources for this review in the past have included Starmine/Financial Times, Factset/The Wall Street Journal and Bloomberg. These organizations measure the accuracy of individual analyst stock recommendations and earnings estimates.

For our review this time, we are using data from Bloomberg, which measures the performance of stock recommendations according to its proprietary Bloomberg Absolute Return Rank (BARR) methodology.

According to Bloomberg, analysts are measured by calculating the total return generated by their recommendation(s) for each individual security they cover. A score is assigned to the analyst based on the analyst's percentile rank compared with all analysts for the security. An average score for the analyst's portfolio is then calculated.

For Table 1, we have tabulated the number of times our analysts' BARR ratings placed in the Top 5 among their company-coverage peers for their individual stock recommendations over the 12-month period ending January 12, 2017. Table 1 lists the analysts that achieved this level of performance accuracy at least 10 times.

We have also calculated a "batting average" which demonstrates the percentage of the time an analyst placed in the Top 5 for the companies in their full coverage universe. Table 2 lists the analysts that achieved a "batting average" of at least .300, or 30%.

**Table 1**  
**BLOOMBERG PERFORMANCE RANKINGS**  
**NUMBER OF TOP 5 FINISHES**

Analyst	Sector	#
John Eade	Industrial	32
Bill Selesky	Energy	27
Jim Kelleher, CFA	Technology	27
Chris Graja, CFA	Consumer	25
Jacob Kilstein, CFA	Financial	25
Joe Bonner, CFA	TM&T	24
Steve Biggar	Financial	24
John Staszak, CFA	Consumer	22
David Toung	Healthcare	17
Gary Hovis	Utilities	15
David Coleman	Materials	14

**Table 2**  
**BLOOMBERG BATTING AVERAGE**  
**PERCENTAGE OF TOP 5 RANKINGS**

Analyst	Sector	%
Gary Hovis	Utilities	94%
John Eade	Industrial	86%
Chris Graja, CFA	Consumer	71%
David Coleman	Materials	70%
Steve Biggar	Financial	69%
Jacob Kilstein, CFA	Financial	68%
Jim Kelleher, CFA	Technology	66%
Bill Selesky	Energy	66%
David Toung	Healthcare	65%
Joe Bonner, CFA	TM&T	56%
John Staszak, CFA	Consumer	45%

*Bloomberg data as of January 12, 2017.*

# ARGUS MODEL PORTFOLIOS

Since 1997, Argus has managed model portfolios including the Equity Income, Growth & Income and Institutional models. Our Model Portfolio report includes Investment Policy Statements for each of the hypothetical models, including objectives, portfolio constraints and risks.

The objective of the Equity Income Model Portfolio is to seek an above-average level of current income.

The objective of the Growth & Income Model Portfolio is to seek current income and long-term growth of capital.

The objective of the Institutional Model Portfolio is to seek capital growth and income.

The following table shows the returns of the model portfolios through 2016. Net of fee results include direct trading costs of \$9 per trade and an annual management fee of 100 basis points. All returns reflect the reinvestment of dividends and other earnings. Performance results do not address tax considerations. For comparison purposes, returns of the model portfolios are compared to returns for the S&P 500 index. This benchmark was chosen because it is aligned with the Argus Universe of Coverage.

## ARGUS MODEL PORTFOLIOS

Portfolio	YTD*	1-Year	3-Year	5-Year
Equity Income (net of fees)	12.7%	12.7%	5.1%	9.5%
Equity Income (gross of fees)	13.8%	13.8%	6.1%	10.6%
Growth & Income (net of fees)	15.0%	15.0%	5.9%	10.9%
Growth & Income (gross of fees)	16.2%	16.2%	7.0%	12.0%
Institutional (net of fees)	5.8%	5.8%	4.4%	11.5%
Institutional (gross of fees)	6.9%	6.9%	5.4%	12.6%
S&P 500	12.0%	12.0%	8.9%	14.7%

\* For the period ending 12/31/16.

Past performance of the model portfolios is not indicative of future performance.

# ARGUS FOCUS LIST REVIEW

**W**e measure the performance of our Focus List recommendations and compare the individual-stock results against the S&P 500, as part of our continuous review and Quality Control processes.

The Focus List is featured in the Argus Portfolio Selector report, which is published monthly. The Portfolio Selector is typically used by clients to guide asset-allocation decisions, adjust industry weightings and identify stocks that are potential candidates for portfolios. To determine the Focus List stocks, Argus' Director of Research surveys our analysts for their top ideas. The DOR then adjusts the list for industry diversification. Turnover is not a concern.

The Focus List differs from our Model Portfolios in several respects. For example, it is more short-term oriented, with higher turnover. In addition, it is simply a list of 30 stocks, as compared to our Model Portfolios — in which each stock is weighted as part of the portfolio. Third, our Focus List does not have an Investment Policy Statement, which is a key component of the Model Portfolios.

To measure performance of the Focus List, we calculate the return of each stock while it is a featured recommendation. Below are highlights of our analysis:

- Total number of stocks on Focus List since 12/31/2011: 240
- Median stock return while on the Focus List: 10.2%
- S&P 500 median return, by comparison: 7.6%
- Average stock return while on the Focus List: 9.2%
- S&P 500 average return, by comparison: 8.4%
- Percentage of stocks that outperformed the S&P 500 while on the Focus List: 56%
- Percentage of stocks with positive returns while on the Focus List: 66%
- Highest return while on the Focus List: 70%
- Steepest loss while on the Focus List: 41%
- Average number of days for a stock on the Focus List: 213

For more information, please see our Portfolio Selector report on [www.argusresearch.com](http://www.argusresearch.com).

# ARGUS RESEARCH FIRM RANKINGS

**W**e quantify the accuracy of our target prices and the performance of our ratings against other research firms as part of our benchmarking program. For this review, we rely on data from Analyst Ratings Network ([www.analystratings.net](http://www.analystratings.net)).

Analyst Ratings Network determines brokerage rankings on numerous criteria, including the average 12-month ROI of “buy” and “strong buy” recommendations and the accuracy of each brokerage’s price target predictions.

According to ARN, the 12-month ROI is a calculation of the average rate of return for stocks that have been given a buy or strong buy rating by that brokerage (or independent research firm) over the 12 months from the date of the research note.

To calculate target price accuracy, Analyst Ratings Network keeps track of research notes that brokerages issue and compares the price target issued with the stock’s actual price 12 months from the date the research note was issued. Brokerages that have the lowest average variance issue the most-accurate price targets.

Analyst Ratings Network publishes rankings on approximately 130 research firms. The below sample of 20 large firms includes numerous Argus peers and competitors.

Research Group	Average 12-Month ROI %	Average Variance %
UBS AG	25.5	55.1
Deutsche Bank	21.5	31.0
Raymond James Financial	21.0	48.2
Evercore	4.6	26.8
Sanford Bernstein	4.3	23.0
Jefferies Group	2.3	31.6
Wells Fargo	0.9	26.3
Barclays PLC	0.6	29.0
<b>Argus Research</b>	<b>0.3</b>	<b>25.0</b>
Credit Suisse	-0.9	30.1
Bank of America	-1.4	33.6
Stifel Nicolas	-2.3	31.6
JPMorgan Chase	-2.7	30.7
Citigroup	-2.9	31.1
Morgan Stanley	-3.7	30.9
Goldman Sachs	-4.2	28.5
S&P Equity Research	-4.3	22.5
Piper Jaffray	-8.0	33.7
Cantor Fitzgerald	-10.1	36.3
Janney Montgomery Scott	-11.5	33.4

*\* For the period ending 1/20/2017*

*Source: Analyst Ratings Network ([www.analystratings.net](http://www.analystratings.net))*

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