

The Little Screen that Beats the Market



Presented by:

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A little over 2 years ago, I made a video titled 'The Little Screen that Beats the Market':



The Little Screen That Beats the Market.

831 views • 2 years ago



Zacks Pro

This week, Zacks Analyst and Senior Relationship Manager Mayur Thaker, CFA discusses

5 chapters Introduction | The Screener | Current Companies | Backtesting |

This is an update to that video with commentary and updated performance figures.



Background: companies with high growth and high return on invested capital outperform similar high-growth companies with lower ROIC.

This is because high ROIC means the company is generating more free cash flow, which gives company additional options not available to the low ROIC business, such as debt paydown, strategic M&A, share buybacks, or greater ability to reinvest capital back into the business.

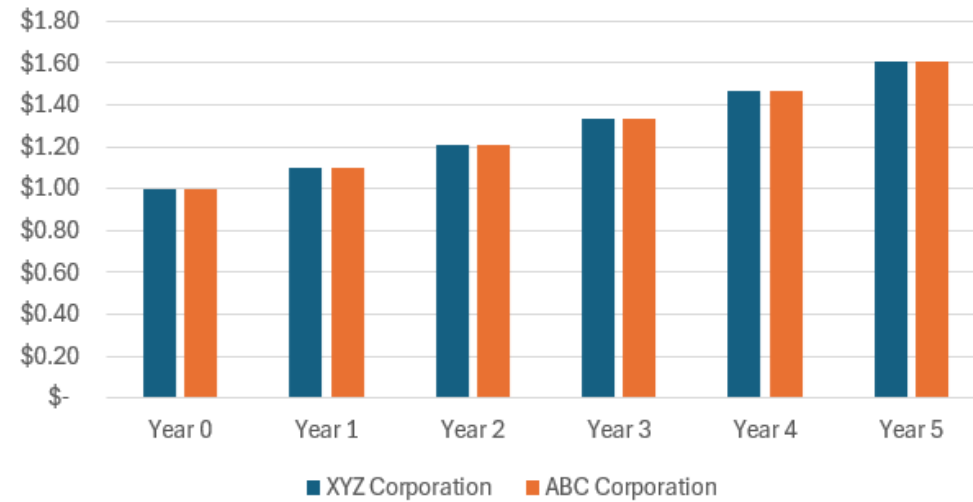
Example: Impact of ROIC on Two Businesses Growing At the Same Rate



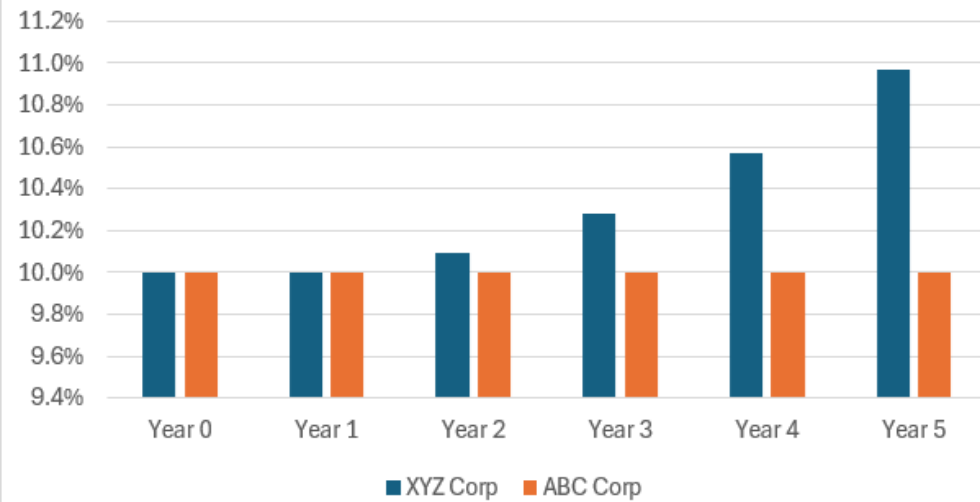
Earnings Growth @ 10%	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
XYZ Corporation	\$ 1.00	\$ 1.10	\$ 1.21	\$ 1.33	\$ 1.46	\$ 1.61
ABC Corporation	\$ 1.00	\$ 1.10	\$ 1.21	\$ 1.33	\$ 1.46	\$ 1.61
Capital Base	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
XYZ Corp	\$ 10.00	\$ 11.00	\$ 11.99	\$ 12.95	\$ 13.86	\$ 14.69
ABC Corp	\$ 10.00	\$ 11.00	\$ 12.10	\$ 13.31	\$ 14.64	\$ 16.11
ROIC	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
XYZ Corp	10.0%	10.0%	10.1%	10.3%	10.6%	11.0%
ABC Corp	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Cash & Equiv	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
XYZ Corp	100	100.1	100.32	100.692	101.249	102.029
ABC Corp	100	100.1	100.21	100.331	100.464	100.611



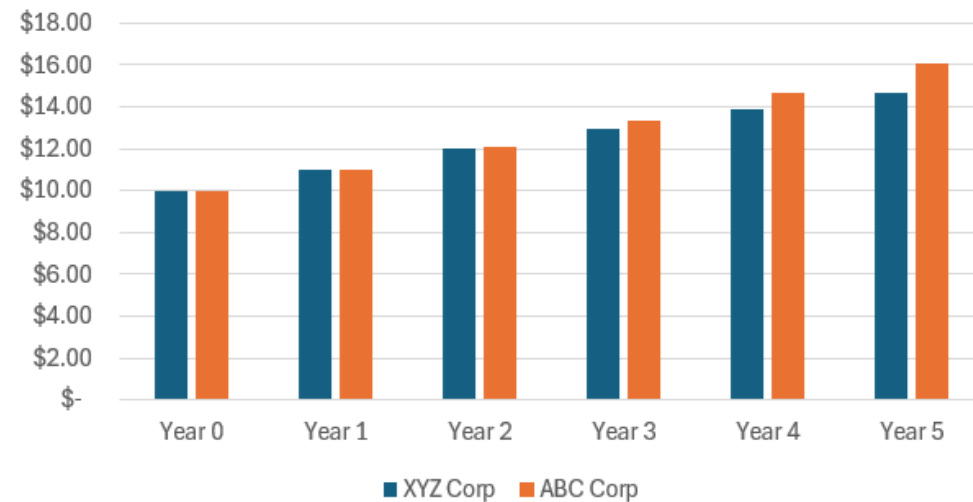
Earnings Growth



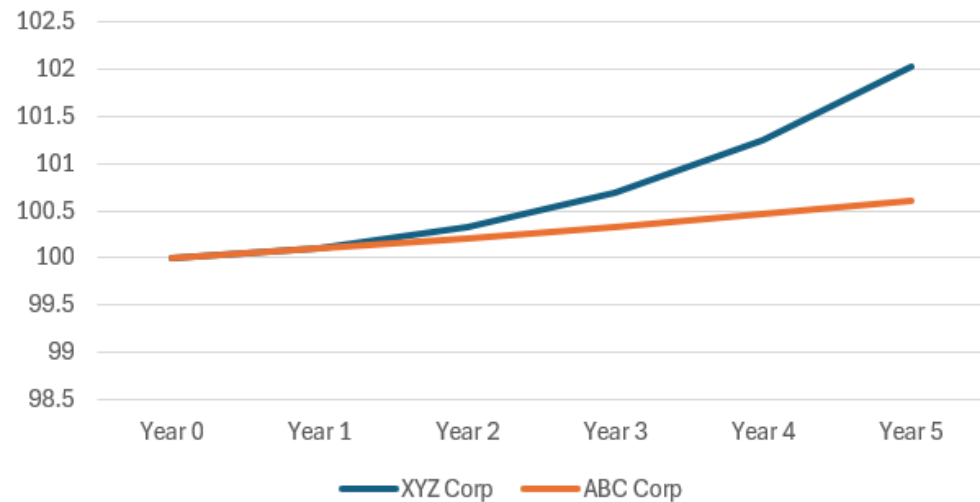
Return on Invested Capital



Capital Deployed



Cash Balance





Two businesses growing at the exact same rate can have very different outcomes in 5, 10 and 15 years.

Takeaway: growth is important, but ROIC is equally as important as it tells you how much capital is required to generate said growth.

'The Little Screen that Beats the Market' uses just three criteria:



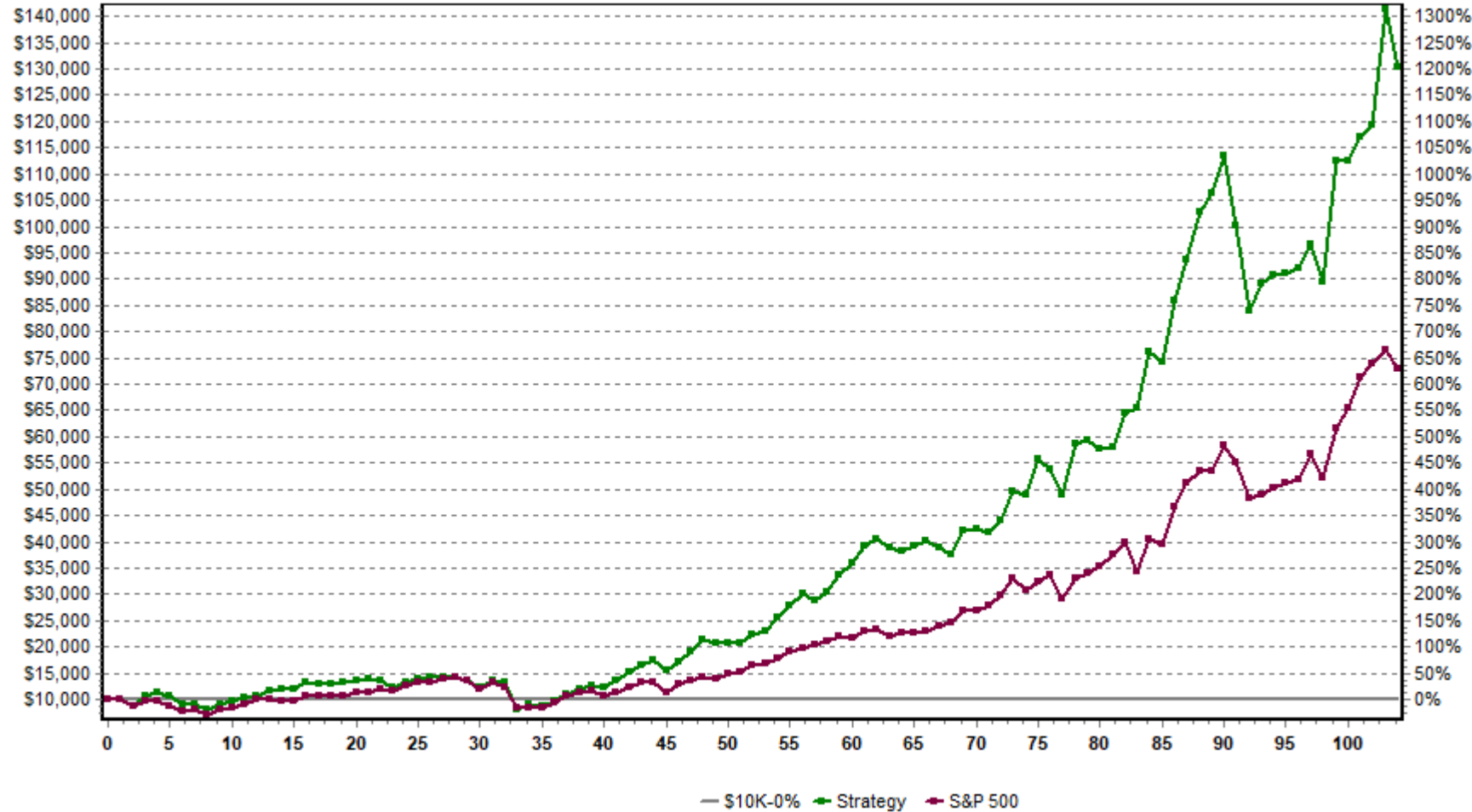
1. S&P 500 Member
2. Top 30 percentile in terms of Change in ROIC (current ROIC minus 5-year average ROIC)
3. Top 10 percentile in terms of revenue growth predictability

This criteria results in exactly 15 stocks.

Rebalance frequency: every 12 weeks

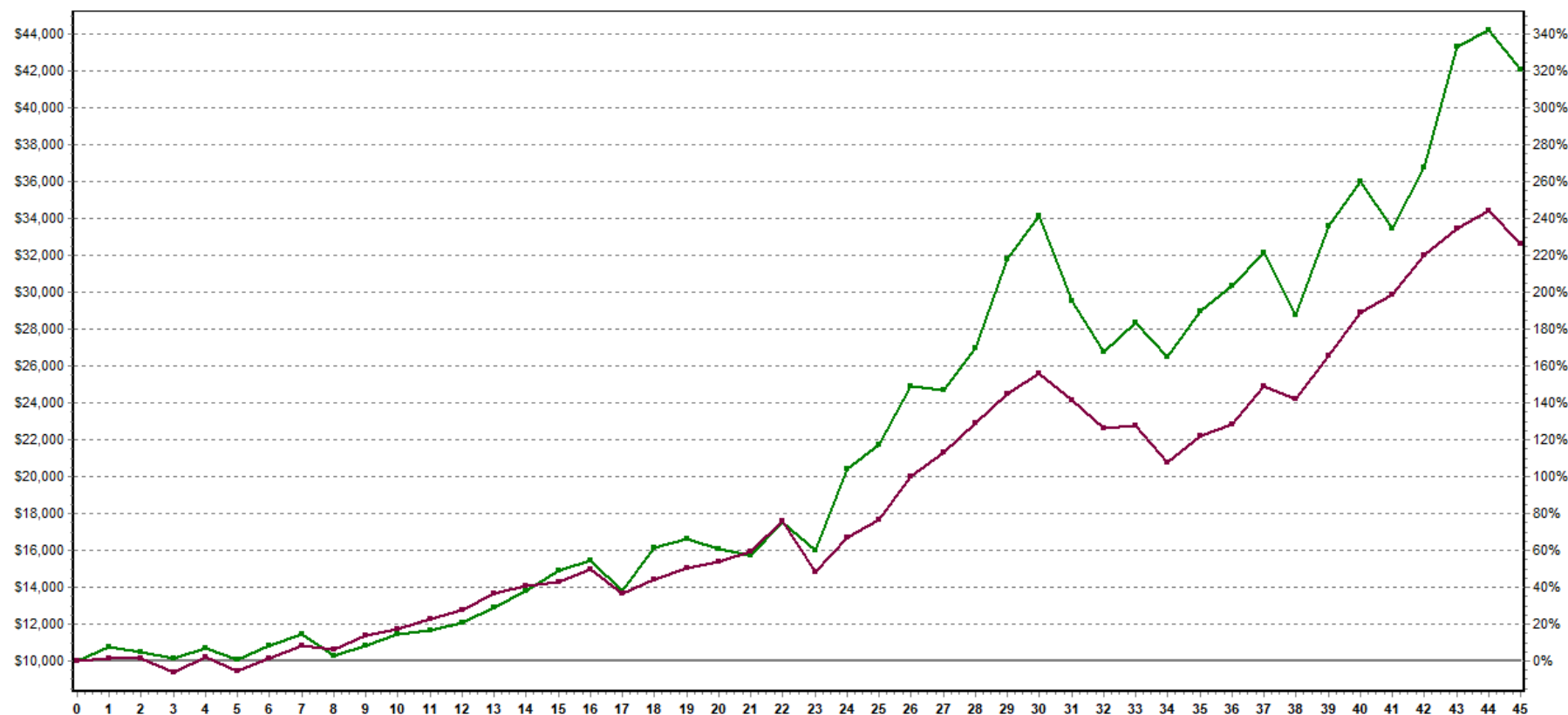


2000 - 2025 Performance



STATISTICS ex.: \$10,000 start	Strategy	S&P 500
Total Compounded Return %	1204.5%	629.8%
Total Compounded Return \$	\$130,453	\$72,982
Compounded Annual Growth Rate %	11.3%	8.6%
Win Ratio %	68%	77%
Winning Periods/Total Periods	71 of 104	80 of 104
Avg. # of Stocks Held	14.9	
Avg. Periodic Turnover %	20.2%	
Avg. Return per Period %	2.9%	2.2%
Avg. Winning Period %	7.3%	5.4%
Largest Winning Period %	26.1%	17.9%
Avg. Losing Period %	-6.6%	-8.4%
Largest Losing Period %	-38.3%	-31.9%
Max. Drawdown %	-42.5%	-41.3%
Avg. Winning Stretch (# of Periods)	2.8	4.2
Best Stretch (# of Periods)	7	10
Avg. Losing Stretch (# of Periods)	1.3	1.3
Worst Stretch (# of Periods)	2	2

2015-2025 Performance



STATISTICS ex.: \$10,000 start	Strategy	S&P 500
Total Compounded Return %	320.5%	225.7%
Total Compounded Return \$	\$42,054	\$32,575
Compounded Annual Growth Rate %	14.8%	12.0%
Win Ratio %	67%	76%
Winning Periods/Total Periods	30 of 45	34 of 45
Avg. # of Stocks Held	15.0	
Avg. Periodic Turnover %	20.8%	
Avg. Return per Period %	3.6%	2.9%
Avg. Winning Period %	8.8%	5.9%
Largest Winning Period %	27.7%	12.9%
Avg. Losing Period %	-6.7%	-6.5%
Largest Losing Period %	-13.6%	-15.8%
Max. Drawdown %	-22.5%	-19.0%
Avg. Winning Stretch (# of Periods)	2.5	3.8
Best Stretch (# of Periods)	8	8
Avg. Losing Stretch (# of Periods)	1.3	1.3
Worst Stretch (# of Periods)	2	2

Thank You for Attending!



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