



Validea Factor Report User Guide

The Validea Factor Report looks at the 3000 stocks in our investable universe through the lens of the major investing factors that academic research has shown to produce an excess return over the market over time. The report rates each stock using the five major investing factors (size, value, quality, momentum and low volatility) and the individual metrics that make up each factor.

This guide will explain the data provided in our factor report in more detail and how it can be valuable to you as you analyze individual stocks.

Fundamental Data Chart

The fundamental data chart at the top of the page provides an overview of some key fundamental data points for the stock. They look at its price, its valuation, and its fundamental strength. You can click on any of the lesser known terms to get their definitions.

Factor Exposure Bar Chart

The factor exposure chart graphically displays the stock's exposure to each investing factor and the metrics that go into that factor score. All the factor exposures displayed in the chart are presented on a 1-99 scale with 99 indicating the highest factor exposure.

You can see any stock's factor exposures on its own or use the comparison tool to compare it to any other stock in our database.

The chart covers six major factor exposures and includes an overall score that combines all the factor scores together.

Here are the factors covered:

Size: Our size exposure calculation looks at the stock's market capitalization and ranks it relative to all other stocks in our database. Smaller stocks will have the highest size exposures.

Value: The value exposure indicates how cheap the stock is relative to all other stocks using a series of value metrics. Each stock is evaluated using the PE Ratio, Price/Sales, Price/Book, Price/Cash Flow, EV/EBITDA and Shareholder Yield. The combined score is calculated using a combination of all the metrics.

Quality: Quality exposure attempts to measure the quality of the company's business. To do this, we use return on equity, return on total capital, gross and net profit margin, and earnings and sales consistency.

Negative Quality: Negative quality attempts to measure some potential red flags with the stock. To calculate this, we look for high debt, earnings that are declining, cash flows that are not keeping up with earnings, and poor price performance. All of these factors are combined to produce our negative quality exposure score. **It is important to note that this is the one factor exposure where higher values are not**

a good thing. The stocks with the highest negative quality exposures will have the highest scores for this factor.

Momentum: Momentum exposure measures how well a stock has performed. We measure both price momentum (how much the stock has gone up relative to its peers) and fundamental momentum (how fast its underlying business has been growing). To measure price momentum, we use the 12-1 return, which is a stock's return in the past 12 months, excluding the most recent month. The most recent month is excluded because short-term momentum often tends to reverse, so excluding it provides a better momentum signal. Fundamental momentum is measured using a variety of income statement and balance sheet variables that indicate how much a company's business has been improving.

Low Volatility: It can seem counterintuitive to many investors, but stocks that are less volatile than their counterparts have historically produced comparable or better returns. This means that on a risk-adjusted basis, low volatility stocks have been superior investments. We measure low volatility in two ways. The standard deviation measures the volatility of each stocks on a standalone basis. Beta also accounts for a stock's correlation with other stocks. The combined score uses both metrics. Since we are measuring low volatility, stocks with high scores for this factor will be the least volatile.

Comparable Stocks

The bottom chart looks for other stocks that have similar factor exposures to the one you are looking at. To compare stocks, we look at each stock's exposures across all the metrics we track and find the other stocks that most closely match that. Comparable stocks will likely have similar valuations, momentum, quality and volatility. You can click on each ticker in the report to view the factor report for that stock or the company name to view our guru analysis for that stock.