

VOLUME 3
ISSUE 8
JUNE 6, 2014

INSIDE

questperspective

questperspective

By Matarin Capital

High Flying Stocks

A Fall From Momentum Requires A Safety Net

You'll frequently hear nowadays that momentum stocks have been under a lot of pressure. But when you look more deeply among high momentum names, you'll see that there are some very clear types of winners and losers. Today and in the long run, investors should emphasize balance in stock selection to be able to ride the wave of momentum and changing sentiment without getting crushed underneath it.

At Matarin, we look at March 19th as a kind of turning point in the market, when momentum began to move out of favor. (This was the day when Janet Yellen was testifying before Congress and indicated that the Fed might start raising rates sooner than expected.) It can often be quite difficult to pinpoint any precise reasons for shifts in investor sentiment, but it's plain to see that one occurred around this time.

In order to get a better understanding of this shift, we put together a portfolio of the Top 100 Momentum stocks coming into mid-March (based upon 12-month total return) and took a look among those stocks to see what is driving performance within the group. The results are quite revealing.

- From March 19th to the end of last week, the top 100 momentum stocks coming into mid-March have underperformed the broad market by nearly 10%.

But it's an oversimplification to suggest that all high momentum stocks are selling off equally. As a matter of fact:

- When you break down those 100 top momentum stocks into those that have been generating positive free cash flow and those which have been burning cash, the cash-generative high momentum stocks have been outperforming the cash-burning ones by nearly 9% since the March 19th turning point.

- When you break down the top 100 momentum stocks into the 50 cheapest and the 50 most expensive (for the purposes of our study, we focused on price-to-sales although other metrics will yield similar results), the cheaper stocks coming into mid-March are now outperforming the most expensive by over 16% since the turning point.

Most recently, the market has been shifting from day to day in what it will reward. On some days more expensive, more spec-

Published exclusively
for institutional investors
by

Welling on Wall St. LLC
ISSN 2332-161X

Kathryn M. Welling
Editor, Publisher & CEO
Kate@WellingtonWallSt.com
Office: (631)315-5076
Cell: (973)650-2722

Stuart Schwartz
Marketing Consultant
Stu@WellingtonWallSt.com
(914)768-3133

Donald R. Boyle
Chief Financial Officer
Don@WellingtonWallSt.com
Office: (631)315-5077
Cell: (201)394-1548

Distributed biweekly,
usually on Fridays,
20 times a year, by

Welling on Wall St. LLC
PO Box 620
Mattituck, NY 11952

Office: (631)315-5076
Fax: (631)315-5077

Copyright Warning and Notice:

It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. The Copyright Act imposes liability of up to \$150,000 per issue for such infringement.

Welling on Wall St. LLC does not license or authorize redistribution in any form by clients or anyone else.

However, clients may print one personal copy and limited reprint/publication permission may be made available, in writing, upon specific request.

Copyright 2014,
K.M. Welling and
Welling on Wall St. LLC
All rights reserved and
vigorously enforced.

ulative, higher momentum names will be rewarded and on other days we see them continuing their recent selloff. Particularly in this type of environment, investors should try to “hedge their bets” by finding really well-balanced stocks. If buying momentum, try to find a company that also has a demonstrably good business and is available at an affordable price. Such stocks may indeed be high flying, but if shifts in sentiment lead to a fall for momentum, these fliers will have a safety net to land on.

Matarin Capital, co-founded by Stuart Kaye, Nili Gilbert, and Valerie Malter, is an investment company that takes advantage of a unique combination of fundamental and quantitative investing techniques. This piece reprinted with permission from the Matarin Capital Commentary of May 27, 2014

Why Subscribe To *WellingtonWallSt*?

Many of our institutional clients of every imaginable size and asset class tell us they subscribe to *WellingtonWallSt*. because it makes them *think*. In today's world of too much information, most of it with no value-added, an independent portfolio strategy journal that “makes you think” is worth a very close look because...it actually might help you make money.

Kate's skeptical and irreverent journal is published 18 times a year,
almost always on Friday afternoons.

If your curiosity is piqued, drop a line directly to Stuart Schwartz at:
Stu@WellingtonWallSt.com
or
(914)768-3133

WOWS Research Contributor Disclosure: Reprinted with permission from The Matarin Capital Commentary, May 27, 2014. No part of this Guest Perspective may be reproduced in any other publication, without express written permission of Welling on Wall St., LLC. This report was prepared mainly for distribution to market professionals and institutional investors. This piece and all information and opinions discussed herein is being distributed for informational purposes only and should not be considered as investment advice or a recommendation to purchase or sell any particular security, strategy or investment product. References to specific securities and issuers are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Past performance is not indicative of future results. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Past performance is no guarantee of future results. For further information, see www.matarin.com.

Research Disclosure

Welling on Wall St. LLC believes that its reputation for journalistic enterprise, intellectual independence and absolute integrity are essential to its mission. Our readers must be able to assume that we have no hidden agendas; that our facts are thoroughly researched and fairly presented and that when published our analyses and opinions reflect our best judgments - and not the vested pocketbook interests of our sources, our colleagues, our clients or ourselves.

WOWS's mission is to provide our readers with thoroughly independent research, trenchant analysis and opinions that are as considered as they are provocative. We work tirelessly to fulfill that mission. That said, you must also consider that no one, and no organization is perfect, and be assured that our lawyers advise that we tell you so. So here it is, in plain language, not the usual lawyer-ese.

All the material in this publication is based on data from sources that we have every reason to believe are accurate and reliable. But we can't (nor can anyone else) *guarantee* it to be utterly accurate. And there's always a chance, though we strive to avoid it, that we've missed something. So we make no claim that it is complete; the end-all and be-all. Opinions and projections found in this report reflect either our opinion or that of our interviewees or guest authors (all of whom are clearly identified) as of the original interview/publication date and are subject to change without notice. When an unaffiliated interviewee's opinions and projections are reported, *WOWS* is relying on the accuracy and completeness of that individual/firm's own research and research disclosures and assumes no liability for that research or those disclosures, beyond summarizing their disclosures in an adjacent box.

This report is the product of journalistic enterprise and research. It is NOT a sales tool. It is not intended to be - and should NOT be mistaken for - an offer to sell anything. It is NOT a solicitation for any sort of investment or speculation. It should NOT form the basis for any decision to enter into any contract or to purchase any security or financial product. It is entirely beyond the scope and, bluntly, competence of this publication to determine if any particular security is suitable for any specific subscriber. In other words, we don't give investment advice. Don't mistake anything you read in *WOWS* for investment advice. This publication does not provide sufficient information upon which to base an investment decision. *WOWS* does advise all readers to consult their brokers or other financial advisors or professionals as appropriate to verify pricing and all other information. *WOWS*, its affiliates, officers, owners and associates do not assume any liability for losses that may result if anyone, despite our warnings, relies on any information, analysis, or opinions in the publication. And, of course, past performance of securities or any financial instruments is not indicative of future performance. Confidentiality and Trading Disclosure: All information gathered by *WOWS* staff or affiliates in connection with her/his job is strictly the property of *WOWS*. It is never to be disclosed prior to publication to anyone outside of *WOWS* and is never to be used, prior to publication and for two weeks thereafter as the basis for any personal investment decision by staff, affiliates and/or members of their immediate households. All staff and affiliates of *WOWS* will avoid not only speculation but the appearance of speculation and may not engage in short-term trading, the short selling of securities, or the purchase or sale of options, futures, or other derivatives, including ETFs reliant on derivatives. Any equity or fixed-income investments entered into by *WOWS* staff or affiliates will be held for a minimum of six months unless dispensation is received, under extraordinary circumstances, from *WOWS's* legal counsel. Any pre-existing direct investment interest in any stock, mutual fund, ETF or partnership portfolio covered in an issue of *WOWS* will be specifically disclosed in that edition and that position will be frozen for at least a month. Internet disclosure: Electronic Communications Disclosure: The websites and *WOWS's* electronic communications can, alas, fall prey of all manner of malicious activity. While *WOWS* takes reasonable and prudent steps to try to prevent its website, journals and communications from interception, corruption, infection, contamination and other electronic malefactors, there are even fewer guarantees in the realms of software and the web than in finance—where there are none. *WOWS* disclaims and cannot accept liability for any damages to computer systems as a result of downloading or opening contaminated versions its website, journals or communications.