

# Screen Count Forecasts Return

November 12, 2012

This is a brief report of a serendipitous finding that the number of stocks selected by a specific screen anticipates returns for the next year. Since almost every screen or set of criteria that one might construct will also correlate with market returns, this has some interesting implications.

The screen is for stocks that have declined significantly and consistently over the past three years but still have cash relative to the price of the stock. This is a volatile but promising screen.

As shown in the first table below, the screen was tested on 107 months for returns one year later. Because exceptionally high and low returns distort the averages, and because such exceptional or outlier returns are statistically unreliable, the returns in the 450,000 or so records were capped at the five and ninety-five percentile levels.

When the screen produced 33 or fewer stocks, the average percent change the next year was a negative -23.5%. Returns were mixed when the counts were between 34 and 149, averaging 7.9%. For the 29% of the months when the counts selected were 150 or more, all of the returns for the next twelve months were positive, averaging 63%.

The current count is 64, which is about midway in the 40% of the time that we have mixed returns.

		Counts	Count	Count %	% Change	RUA % Chg
Total months	107	< 34	33	31%	-23.5	0.2%
Average monthly percent change	14.2	34 - 149	43	40%	7.9	-0.3%
Average monthly market % change	0.5	> 149	31	29%	63.0	1.9%
Count as of 11/9/12	64					

In the data tables below showing each of the 107 months, the columns on the left are sorted chronologically, and the ones on the right are sorted by the count of records matching the screen criteria. RUA is the symbol for the Russell 3000, a common market benchmark.

Note that the returns from the screen are much more extreme than market returns, which combined with the fact that these are rolling returns for twelve months into the future, probably explains the fact that returns show much more consistent positive or negative trends than do market returns. The effect of a spike in either direction carries for several months.

Of course in the implementation of such a screen, I would not buy all the positions matching the screen criteria, but would evaluate each position on traditional technical criteria plus the use of a fractal dimension indicator. I would also want to diversify by industry, as well as balance such a high-risk portfolio with other portfolio allocations.

Comments are welcome.

*An alternative to mutual funds.*

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Monthly Screen Results Sorted by Date and Count

Sort Field	Sort Field		
	Count	Avg % chg 52w	RUA
12/31/02	115	104.1	-1.8%
1/31/03	194	136.5	0.9%
2/28/03	212	137.6	8.0%
3/31/03	200	135.2	5.9%
4/30/03	187	73.4	1.2%
5/31/03	152	50.4	2.2%
6/30/03	160	46.7	2.1%
7/31/03	184	27.8	-1.2%
8/31/03	163	4.6	5.9%
9/30/03	161	8.9	1.2%
10/31/03	127	9.8	4.4%
11/30/03	95	36.4	2.0%
12/31/03	81	12.6	1.2%
1/31/04	87	-3.4	-1.3%
2/28/04	84	-9.1	-2.2%
3/31/04	64	-11.2	1.3%
4/30/04	98	-15.7	1.8%
5/31/04	88	-6.6	-3.9%
6/30/04	91	-4.1	0.2%
7/31/04	91	22.2	1.4%
8/31/04	79	27.3	1.5%
9/30/04	41	13.9	4.5%
10/31/04	54	10.3	3.4%
11/30/04	43	14.1	-2.8%
12/31/04	49	-0.9	2.0%
1/31/05	68	24.0	-1.8%
2/28/05	53	28.6	-2.3%
3/31/05	60	48.6	3.6%
4/30/05	60	56.9	0.5%
5/31/05	34	26.1	4.0%
6/30/05	22	10.6	-1.1%
7/31/05	15	-6.8	0.8%
8/31/05	10	-9.2	-2.0%
9/30/05	5	-28.8	3.6%
10/31/05	8	-5.4	0.0%
11/30/05	10	5.9	3.2%
12/31/05	13	14.8	0.0%
1/31/06	12	3.8	1.6%
2/28/06	8	4.0	1.0%
3/31/06	14	-6.3	-3.4%
4/30/06	13	9.9	0.0%
5/31/06	20	-7.8	-0.2%
6/30/06	17	0.1	2.2%
7/31/06	29	2.6	2.1%
8/31/06	26	-7.0	3.5%
9/30/06	22	-11.2	1.9%
10/31/06	24	-2.3	1.1%
11/30/06	30	-34.6	1.8%
12/31/06	31	-43.2	-1.8%
1/31/07	30	-47.8	0.9%
2/28/07	35	-43.2	3.9%
3/31/07	30	-41.0	3.4%
4/30/07	28	-54.5	-2.0%
5/31/07	25	-47.9	-3.4%

Sort Field	Sort Field		
	Count	Average_chg_52w	RUA
9/30/05	5	-28.8	3.6%
10/31/05	8	-5.4	0.0%
2/28/06	8	4.0	1.0%
8/31/05	10	-9.2	-2.0%
11/30/05	10	-5.9	3.2%
1/31/06	12	3.8	1.6%
12/31/05	13	14.8	0.0%
4/30/06	13	9.9	0.0%
3/31/06	14	-6.3	-3.4%
7/31/05	15	-6.8	0.8%
6/30/06	17	0.1	2.2%
5/31/06	20	-7.8	-0.2%
6/30/05	22	10.6	-1.1%
9/30/06	22	-11.2	1.9%
9/30/07	22	-44.1	-4.7%
10/31/07	22	-48.3	-0.8%
7/31/07	23	-40.6	3.5%
10/31/06	24	-2.3	1.1%
8/31/07	24	-19.5	1.7%
5/31/08	24	-29.7	-0.9%
5/31/07	25	-47.9	-3.4%
8/31/06	26	-7.0	3.5%
1/31/08	27	-54.0	-0.8%
4/30/07	28	-54.5	-2.0%
7/31/06	29	2.6	2.1%
6/30/07	29	-54.3	1.1%
11/30/06	30	-34.6	1.8%
1/31/07	30	-47.8	0.9%
3/31/07	30	-41.0	3.4%
12/31/06	31	-43.2	-1.8%
11/30/07	31	-63.3	-6.2%
12/31/07	32	-57.0	-3.3%
2/29/08	33	-62.6	4.9%
5/31/05	34	26.1	4.0%
2/28/07	35	-43.2	3.9%
6/30/08	35	2.4	1.4%
4/30/08	40	-68.1	-8.4%
9/30/04	41	13.9	4.5%
3/31/08	41	-40.2	1.8%
11/30/04	43	14.1	-2.8%
8/31/08	45	1.8	-17.8%
10/31/11	47	60.2	0.7%
7/31/08	48	4.8	-9.7%
12/31/04	49	-0.9	2.0%
2/28/05	53	28.6	-2.3%
10/31/04	54	10.3	3.4%
3/31/11	57	-12.1	-1.3%
2/28/11	58	-17.1	2.9%
3/31/05	60	48.6	3.6%
4/30/05	60	56.9	0.5%
3/31/04	64	-11.2	1.3%
4/30/11	65	-20.2	-2.0%
6/30/11	66	-7.7	-6.2%
7/29/11	66	3.9	-7.9%

Only one green or run of positive returns

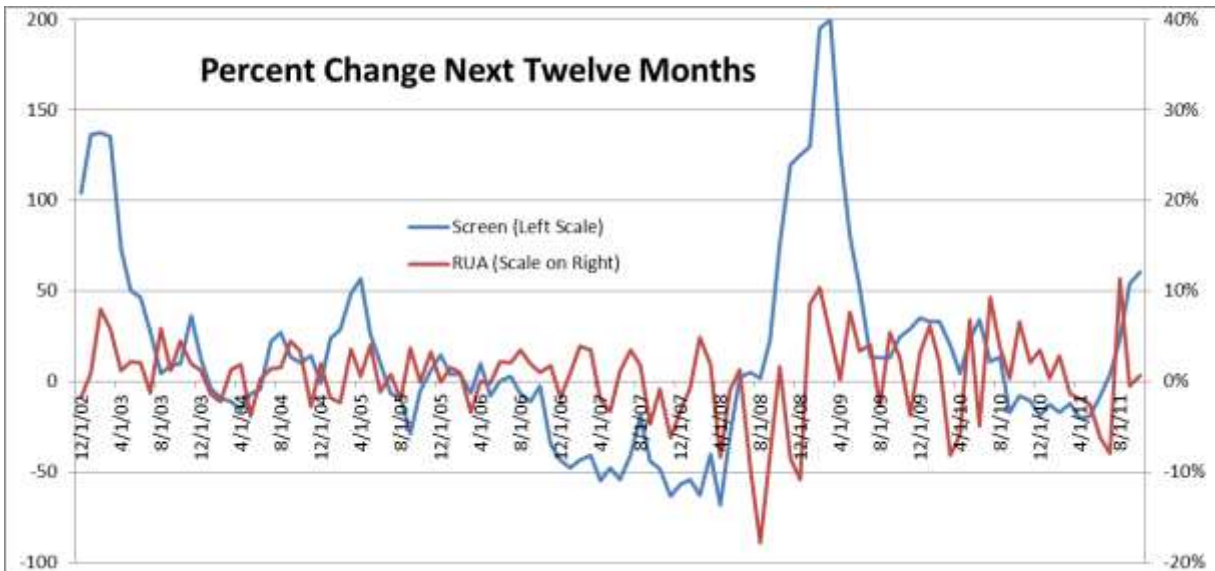
Mixed Results

Sort Field			
	Count	Avg % chg 52w	RUA
6/30/07	29	-54.3	1.1%
7/31/07	23	-40.6	3.5%
8/31/07	24	-19.5	1.7%
9/30/07	22	-44.1	-4.7%
10/31/07	22	-48.3	-0.8%
11/30/07	31	-63.3	-6.2%
12/31/07	32	-57.0	-3.3%
1/31/08	27	-54.0	-0.8%
2/29/08	33	-62.6	4.9%
3/31/08	41	-40.2	1.8%
4/30/08	40	-68.1	-8.4%
5/31/08	24	-29.7	-0.9%
6/30/08	35	2.4	1.4%
7/31/08	48	4.8	-9.7%
8/31/08	45	1.8	-17.8%
9/30/08	67	23.0	-8.2%
10/31/08	109	75.4	1.6%
11/30/08	161	119.9	-8.5%
12/31/08	167	125.2	-10.8%
1/31/09	189	130.1	8.5%
2/28/09	239	195.0	10.4%
3/31/09	264	200.0	5.1%
4/30/09	259	127.5	0.2%
5/31/09	242	80.5	7.6%
6/30/09	232	51.6	3.3%
7/31/09	185	13.4	4.0%
8/31/09	182	13.3	-2.7%
9/30/09	162	13.2	5.4%
10/30/09	212	24.6	2.7%
11/30/09	207	29.0	-3.7%
12/31/09	183	35.3	3.2%
1/31/10	207	32.7	6.1%
2/28/10	192	33.1	2.1%
3/31/10	183	19.8	-8.1%
4/30/10	162	4.5	-5.9%
5/31/10	213	23.2	6.8%
6/30/10	254	33.9	-4.9%
7/31/10	159	11.2	9.3%
8/31/10	219	13.6	3.8%
9/30/10	149	-17.2	0.4%
10/31/10	149	-8.1	6.6%
11/30/10	125	-10.8	2.1%
12/31/10	87	-18.6	3.4%
1/31/11	78	-12.8	0.3%
2/28/11	58	-17.1	2.9%
3/31/11	57	-12.1	-1.3%
4/30/11	65	-20.2	-2.0%
5/31/11	68	-19.1	-2.4%
6/30/11	66	-7.7	-6.2%
7/29/11	66	3.9	-7.9%
8/31/11	94	23.2	11.4%
9/30/11	95	54.1	-0.5%
10/31/11	47	60.2	0.7%

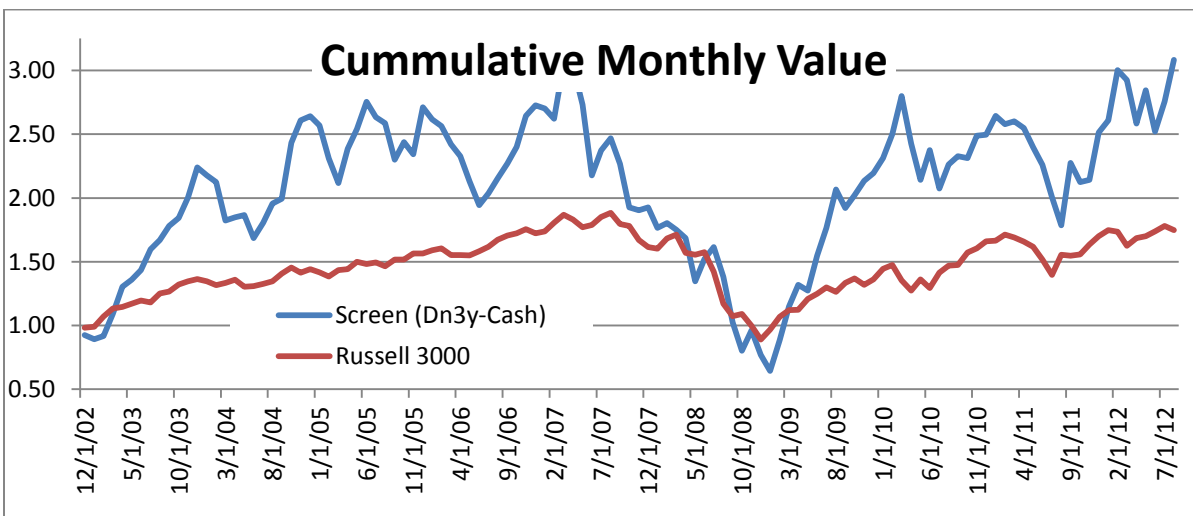
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9/30/08	67	23.0	-8.2%
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5/31/11	68	-19.1	-2.4%
1/31/11	78	-12.8	0.3%
8/31/04	79	27.3	1.5%
12/31/03	81	12.6	1.2%
2/28/04	84	-9.1	-2.2%
1/31/04	87	-3.4	-1.3%
12/31/10	87	-18.6	3.4%
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11/30/10	125	-10.8	2.1%
10/31/03	127	9.8	4.4%
9/30/10	149	-17.2	0.4%
10/31/10	149	-8.1	6.6%
5/31/03	152	50.4	2.2%
7/31/10	159	11.2	9.3%
6/30/03	160	46.7	2.1%
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11/30/08	161	119.9	-8.5%
9/30/09	162	13.2	5.4%
4/30/10	162	4.5	-5.9%
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8/31/10	219	13.6	3.8%
6/30/09	232	51.6	3.3%
2/28/09	239	195.0	10.4%
5/31/09	242	80.5	7.6%
6/30/10	254	33.9	-4.9%
4/30/09	259	127.5	0.2%
3/31/09	264	200.0	5.1%

All had green or positive run

The correlation between the screen and the Russell 3000 for results twelve months later was .218. Visually the relationship is shown in the chart below drawn with the screen represented by the blue line drawn five times as extreme as shown on the scale to the left, as the Russell 3000 shown on the scale to the right.



If we project returns one month out instead of twelve months out, the correlation to the RUA is .200. The cumulative returns are shown in the chart below.



While the value after ten years is almost double for the screen as for the market, the screen shows dramatically the importance of an exit strategy, such as provided by using counts as a signal to exit. In actual implementation, the discretion in buying and selling individual positions is probably of more import than signals to enter or exit the entire screen.