

THE AGE OF THE ALPHA STOCK!

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The fourth quarter 2015 earnings season is now in full swing. From what I have seen of the outstanding earnings surprises and favourable future guidance in the Grail Portfolios, there is enough thrust to propel them higher, as these three examples show.

Under Armour beats by \$0.02, beats on revenue

Jan 28 2016, 07:03 ET | About: [Under Armour, Inc. \(UA\)](#) | By: [Niloofer Shaikh](#), SA News Editor

- Under Armour (NYSE:UA): Q4 EPS of \$0.48 **beats by \$0.02**.
- Revenue of \$1.17B (+30.7% Y/Y) **beats by \$50M**.

On 28 January Under Armour rose **22.6%**!

Cirrus Logic beats by \$0.01, beats on revenue

Jan 27 2016, 16:01 ET | About: [Cirrus Logic, Inc. \(CRUS\)](#) | By: [Jignesh Mehta](#), SA News Editor

- Cirrus Logic (NASDAQ:CRUS): FQ3 EPS of \$0.82 **beats by \$0.01**.
- Revenue of \$347.9M (+16.5% Y/Y) **beats by \$1.02M**.

On 27 and 28 January Cirrus Logic climbed **29%**!

Covenant Transportation beats by \$0.06, beats on revenue

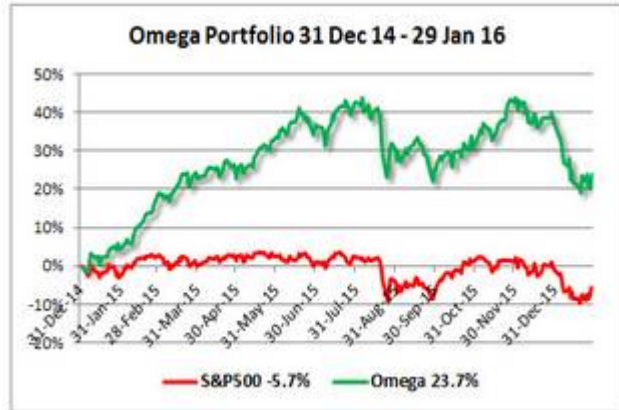
Jan 25 2016, 16:03 ET | About: [Covenant Transportation G... \(CVTI\)](#) | By: [Jignesh Mehta](#), SA News Editor

- Covenant Transportation (NASDAQ:CVTI): Q4 EPS of \$0.73 **beats by \$0.06**.
- Revenue of \$208.06M (+0.6% Y/Y) **beats by \$21.21M**.

From 25 January Covenant has risen **21.7%**!

As of 29 January 110 stocks, or 37.4%, of the 294 stocks listed in Grail's 5 principal portfolios have generated BUY? and only 31, or 10.4%, SELL? signals!

Stocks must have a +4% breakout to the upside to generate a BUY? signal and a -5% breakout to the downside to generate a SELL? signal. The reason for the ? is that any new momentum or trend needs to be confirmed before stocks are issued as recommendations.



These alpha-stock denominated portfolios establish large margins of safety, strong profits, and provide outstanding client retention and marketing advantages, which mediocre and passive strategies are unable to generate. As we have entered a new normal, those asset managers who do more of the same are likely to face client frustration and profit recession.

This is the era of the Alpha Stock; ignoring it, yes, most will, but at what cost? On page 140 of **‘THE BLACK SWAN THE IMPACT OF THE HIGHLY IMPROBABLE’**, Nassim Nicholas Taleb encapsulates the case for a no-change policy:

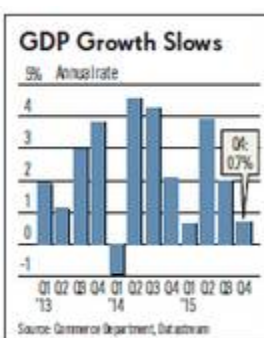
“Epistemic arrogance bears a double effect: we overestimate what we know, and under estimate uncertainty, by compressing the range of possible uncertain states (i.e. by reducing the space of the unknown)”.

I do not rule out that this may even apply to me – that I’ve got it wrong, and mediocre performance will flourish on the false premise that such products as index funds, and other similar portfolios, are inherently safer and offer commensurate returns. But on the other hand these graphs show that benchmarking produces its own sour fruits shown in red!

THE GRAIL EQUITY MANAGEMENT SYSTEM (GEMS) IS AN ADVANCED ALPHA STOCK AND EFFECTIVE RISK MANAGEMENT SYSTEM OFFERED AS AN ADVISORY SERVICE AND BECAUSE OF ITS ANALYSIS METHODOLOGIES IDENTIFIES HIGH-QUALITY HIGH-GROWTH STOCKS.

MARKET COMMENT

The market is now in a confirmed uptrend (again), because it made its first weekly gain this year of **1.7%**! Undoubtedly, the upbeat earnings season is so far producing better than expected earnings, especially by bellwether companies, such as Face Book (FB), and Microsoft (MSFT), which both gapped up, although Amazon (AMZN) gapped down. More rally fuel was provided from sources you would not expect if you subscribe to the view that the stock market reflects the progress of the real economy. It was in fact more of the same we saw last year, namely that ‘Bad news is good news’!



And the bad news of first instance was that the fourth quarter GDP disappointingly grew only at an annual rate of 0.7%, down from gains of 2.0% in Q3, and 3.9% in Q2. Why should this be a factor to push up the market? Because of the view that it is less likely that the stock market would be exposed to further interest rate increases this year, since GDP is signalling an economic slowdown. The consensus is however that it will not blot into a fully-fledged recession. Another engine of the rally was that Japan is introducing negative interest as a means of stimulating its listless economy. The third economic factor

was the crude oil rally, which bounced off a 12-year low. Brent Crude rose 7.9% during the week, while U.S. oil settled up 4.4%, as America's production edged lower. The Russian Initiative to discuss with OPEC production cuts also was positively received.