

*This summarized paper identifies the Cause and Effect of Asymmetric Betas in Grail Portfolios, and affirms the mechanism of low risk = high returns, cited in Professor Martin Baker et al's seminal paper: Benchmarks as Limits to Arbitrage: Understanding the Low Volatility Anomaly - March 2010, based on 41-years of data.*

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**Causes**

EPS growth generates Alpha

The greater the certainty and magnitude of EPS growth the larger the Alpha Element

**Process**

Separate evaluation of daily negative and positive Betas

**Effects**

Very low correlations with a surrogate index

Higher stock and portfolio performance than the Market Return

Greater Margin of Safety Potential

Reduced risk to the same level or less than the Market Risk

**Conclusions**

Alpha generates Beta, stock price and portfolio asymmetry

Grail stocks and portfolios are strongly skewed in favour of positive Betas and thus their risk structures do not conform to a Normal Distribution

**Market Risk Premium**  
S&P 500 = 0.87%

+

**Alpha Element**  
= 34.73%

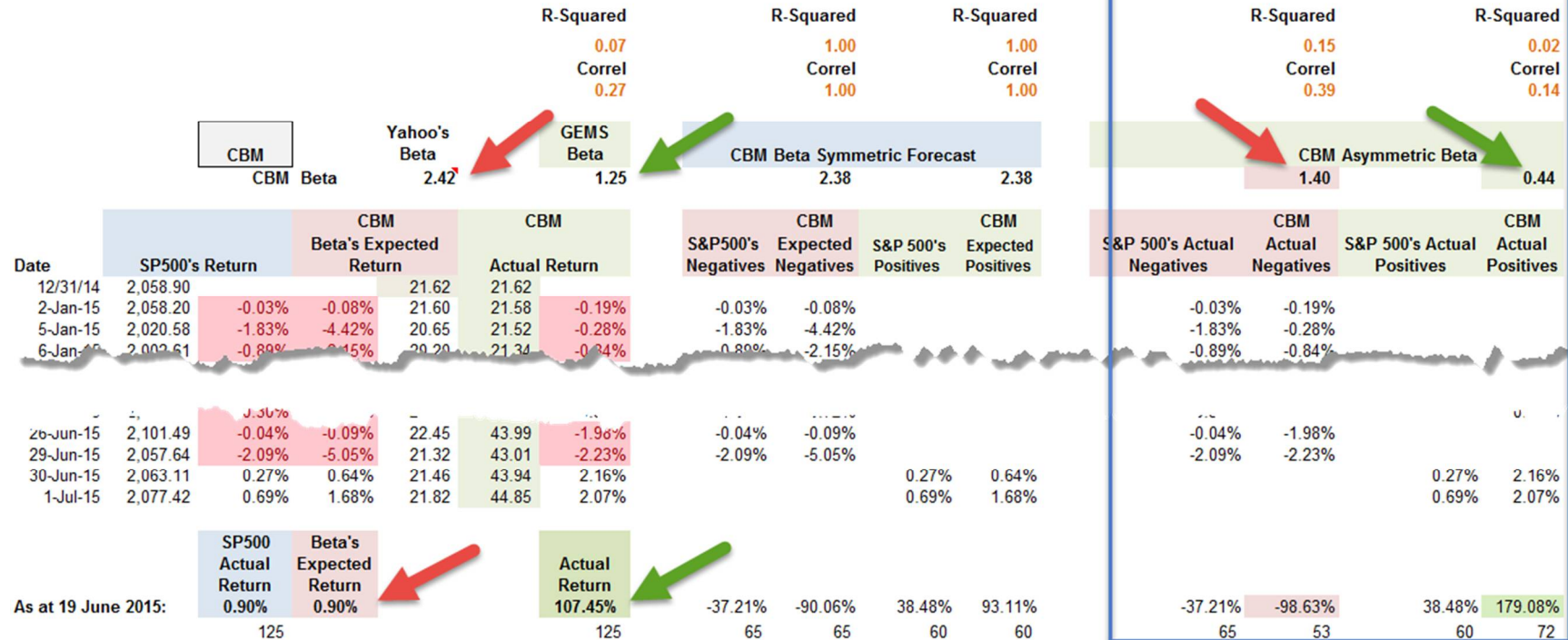
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**Grail Omega**  
= 35.60%

# Two Examples of Grail Stocks with High Returns Evaluated for Asymmetry of Beta

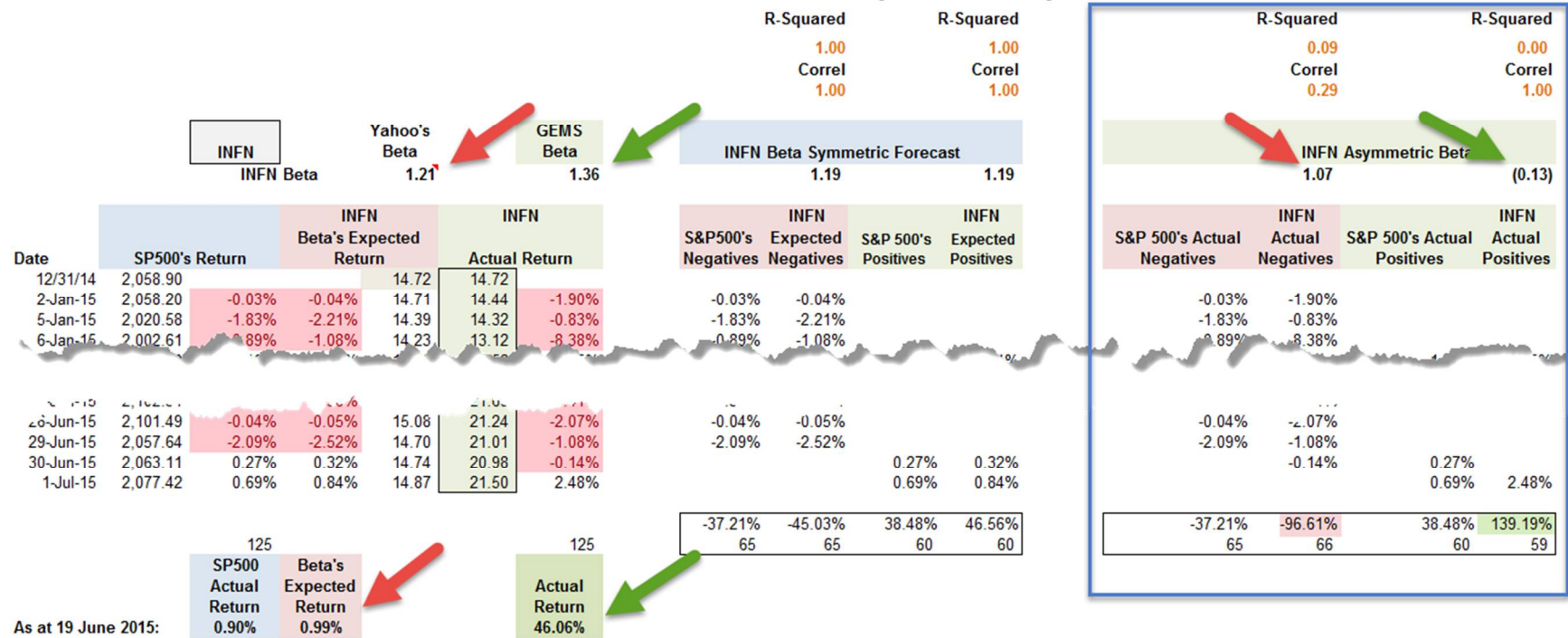
## Cembrex Corporation (CBM)

To test whether beta is symmetric or asymmetric



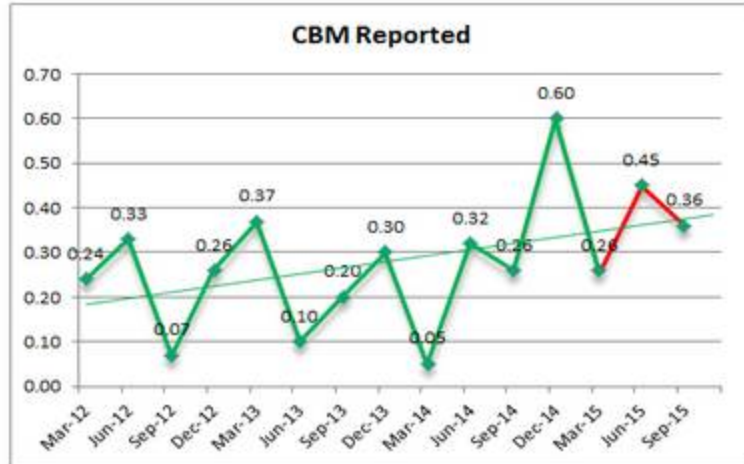
# Infinera Corporation (INFN)

To test whether beta is symmetric or asymmetric



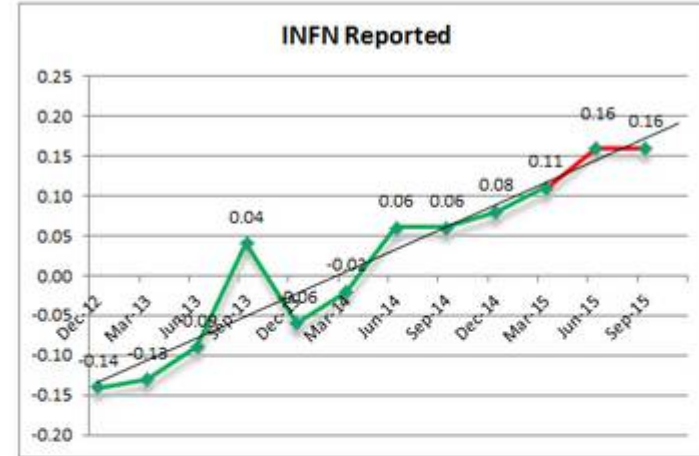
## Strong and Consistent Earnings Drive the Alpha Element of Stock Prices

Corporate high earnings growth that is based on sustainable competitive advantage and new products is the 'Holy Grail' of equity investment.



**Earnings per share (EPS) growth profile**

Mar 15 vs. 3 years average earnings	0.26	0.26	0.00	1%
Mar 15 surprise vs. 3 years average	0.03	0.02	0.01	50%
Mar 15 vs. Mar 12	0.26	0.24	0.02	8%
Mar 15 vs. Mar 14	0.26	0.05	0.21	420%
Mar 15 actual vs. forecast	0.26	0.23	0.03	13%
Jun 15 forecast vs. Mar 15 actual	0.45	0.26	0.19	73%

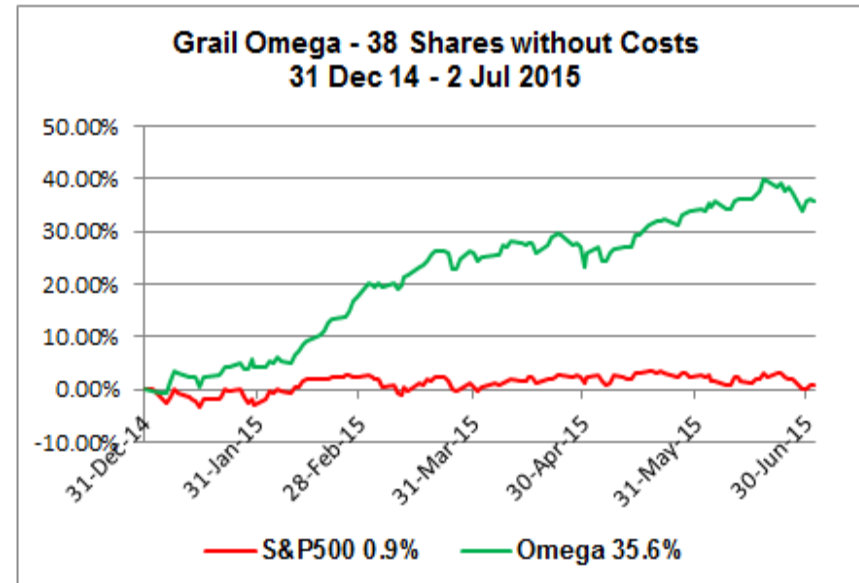
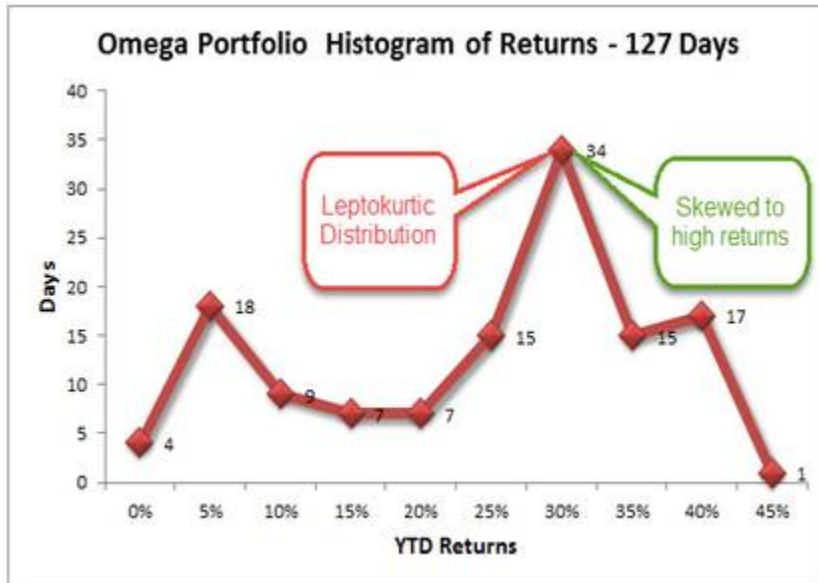


**Earnings per share (EPS) growth profile**

Mar 15 vs. 3 years average earnings	0.11	-0.02	0.13	593%
Mar 15 surprise vs. 3 years average	0.06	0.04	0.02	50%
Mar 15 vs. Mar 12	0.11	-0.19	0.30	158%
Mar 15 vs. Mar 14	0.11	-0.02	0.13	650%
Mar 15 actual vs. forecast	0.11	0.05	0.06	120%
Jun 15 forecast vs. Mar 15 actual	0.16	0.11	(0.05)	45%

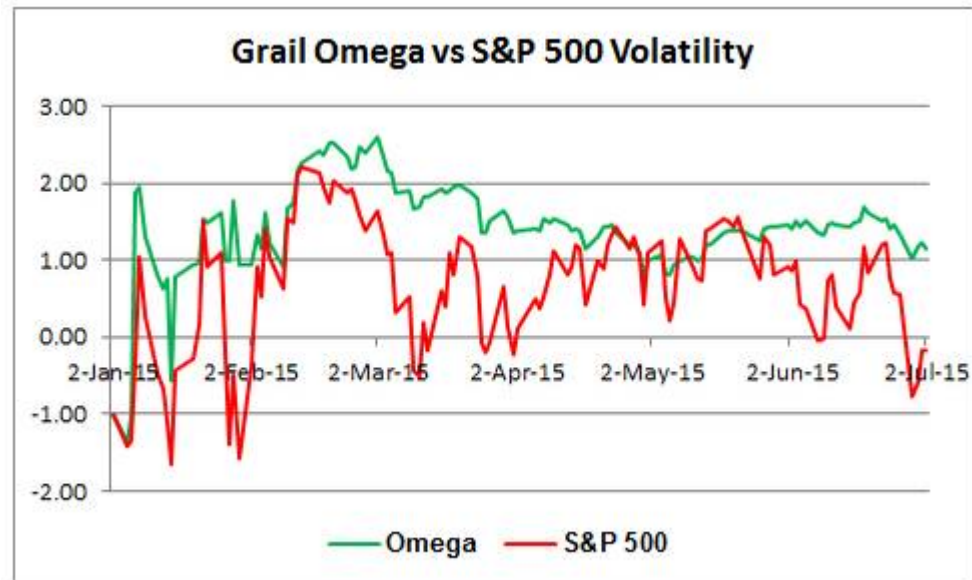
## The Asymmetric Distribution of the Omega Portfolio

The Omega Portfolio showing a Leptokurtic Distribution, with the characteristic positive skew, i.e. not the Normal Distribution assumed by Portfolio Theory. Only one share has a loss of 5.2% has been generated in the 38 stock portfolio.



## The Low Volatility Anomaly of the Grail Omega

The Grail Omega portfolio compared to the S&P 500 demonstrates less risk than its surrogate index



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