OPALESQUE
18 YEARS
Thursday, January 14, 2021

DIVERSIFICATION MATTERS
Report 20

Quant pioneer profits by eschewing traditional investing beliefs

B. G., Opalesque Geneva:

Robert Zuccaro is a quantitative investment pioneer and CIO of Target QR Strategies, which is based in Florida and in New York. His Golden Eagle Growth Fund, which was launched in May 2020, returned triple-digits that year.

There are six reasons why the fund is ahead of the pack, he says. First, he employs quantitative decision-making based on facts and not opinions.

Second, he does not use P/Es as a primary investment tool like most money managers. “Our mantra is ‘highest profit growth leads to highest returns’,” he says.

Third, he evaluates money-losing companies differently from the rest; “we strip out capital expenditures from the income statement that are deducted for tax purposes, which we treat as an investment and not as an expense in order to arrive at true profits growth.”

Fourth, he identifies 25 of the fastest-growing companies throughout the world.

Fifth, he latches onto the biggest winners sooner than most managers. “It is common for the Fund to hold recent IPOs which are often under-priced because of their newness to the investing public,” he says.

And lastly, he holds the only body of knowledge on new high stock price behaviour and uses it for decision-making.

Zuccaro will present in the upcoming webinar, Investor Workshop: The Seven Keys to Behavioural Investing, on Tuesday, January 26th at 10 am EST.

He will explain why the time-worn assumption that stocks are fairly valued at 16x earnings does not apply to today's market; why he expects big stocks to outperform small stocks; and why higher volatility in fact does lead to higher returns.

The five worst ideas in managing money

According to Zuccaro, the five worst ideas in managing money start with short-selling.

"Equities hedge funds have generated a cumulative return of 58% versus 257% for the S&P 500 during 2010-2019, or 22% of the S&P return," he writes in an October commentary viewed by Opalesque. "Long-only mutual funds according to the Lipper Survey have provided a cumulative return of 182%, more than 3x the hedge fund return." The numbers speak plenty about the current trend.

Then there is the use of P/Es to evaluate stocks, as his research shows that profits growth trumps P/Es in evaluating stocks. Indeed, "84% of all types of equities funds failed to beat the S&P 500 over the past 10 years. The general perception of P/Es is that lower P/E stocks offer greater value. This viewpoint runs counter to the evidence at hand."

This is followed by the focus on positive earnings surprises. His research here shows that earnings growth is far more important than a quarterly surprise in stock evaluation and that conventional reporting on surprises has no relevance to the trajectory of growth.

Another bad idea is ignoring money-losing companies. "Wall Street rates stocks based on EPS, which is one of several ways to evaluate profits growth," Zuccaro says. However, "the EPS methodology makes no adjustments for capital expenditures such as R&D in the income statement."

The last of the worst ideas is being less than 100% invested. "Consider that we have just come through one of the strongest rebounds ever from a bear market low and one in which the S&P 500 is up 50% from its bottom. All this while, a lot of money designated for investment in stocks has been sitting on the sidelines."

Why big stocks will lead the market

Zuccaro also believes the big stocks will continue their market lead. And that the possibility of finding companies growing their earnings by 100% or more is greater than any time in modern history. He should know, this is what he invests in and he is making big gains.

In a year-end review, he explains that the small stock theory is not valid at the moment. It was so 40 years ago when the top five stocks in the S&P 500 by market cap were IBM, AT&T, Standard Oil of Indiana, and Schlumberger. They sold at an average P/E ratio of 12 then. But at the end of 2020, the top five stocks in the S&P 500 index were tech stocks: Apple, Microsoft, Amazon, Facebook, and Google. They comprise 22% of overall S&P weighting, the highest ever by the top five stocks. Their current P/E is 45x.

"Globalisation has dramatically altered both the economy and the stock market," he says. "Whereas business activities were principally domestic in scope in the past, globalisation offers an opportunity that is five times greater than the domestic market. Secondly, tech companies possess the capability to ramp up sales and profits faster than ever before."

Forty years ago, some small companies could generate sales and profits growth up to 30-40% each year, he concludes. Today, large-cap tech companies with global reach can generate growth rates of 100%.

Golden Eagle

The Golden Eagle Growth Fund, which actively invests in the world's fastest-growing companies using a quantitative method, began trading in May 2020.

"The Golden Eagle's 2020 return will finish higher than any model year which shows a 42% annualized return over 10 years," Zuccaro says. "This triple-digit return is not happenstance. Given prospects for overall faster profits growth accompanied by higher P/Es in the future, the possibility of 30-50% annual returns in coming years is viable. Many forecasters think that the party is over. On the other hand, I believe that it will continue."

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