

It pays to invest in top Quadrix scorers

The closer you get to the summit of a mountain, the more striking the view. Our back-tests confirm that a strategy of buying stocks in the top one-fifth as measured by Quadrix® Overall scores would have beaten the market. Culling the herd to keep just the top 20% is a sensible investment strategy. But what if you buy just the top 10%? Or just the top 3%?

By narrowing the field to companies that earn extremely high Quadrix scores, investors could have earned a substantial excess returns over the last 11 years. As the chart below illustrates, even incremental increases in Overall Quadrix score can translate into higher quarterly returns.

To generate the chart below, we divided the Dow Jones Total Market Index into 33 equal-numbered baskets, then calculated quarterly returns for each basket. Repeating this process quarterly from October 1994 to January 2006, an investment in the top basket (average Overall score of 98) would have generated an average quarterly return of 5.8%, which equates to a 25% annualized return.

As much as possible, we generated historical Quadrix scores using the same factors and weightings we use now, but our returns probably overstate what an actual investor could have achieved. Still, to put the impressive return into context, the average TMI stock generated a 14% annualized return.

