

## Quadrix proves its utility with utilities

While the *Forecasts'* Quadrix® Overall score is an effective tool for selecting stocks in most market sectors, it doesn't work as well for utilities as it does for other types of stocks. Fortunately, we can still use Quadrix to select top utility stocks.

The Quadrix Value score has more predictive power in the utility sector than do other scores. In a back-test to 1992 for utilities in the Dow Jones Total Market Index, the top one-fifth of stocks as measured by Value outperformed the average stock by an average of 6.4%.

The Overall score, a weighted average of Value and five other composite scores, also has considerable predictive power. The top one-fifth of utilities as measured by Overall score delivered average out-performance of 2.9%, with substantially less volatility than the top Value scorers.

By using individual Quadrix factors, we can focus on the metrics that work the best for utility stocks. As the charts on page 4 illustrate, a back-tested portfolio of stocks selected based on six individual factors outperformed portfolios of top Overall or Value scorers, with less volatility.

While Value is the most effective composite score, we did not limit ourselves to valuation metrics. The six-factor portfolio considered four valuation metrics as well as EBIT margin (earnings before interest and taxes as a percentage of sales, a component of the Financial Strength score) and estimated five-year profit growth (a component of the Quality score).

