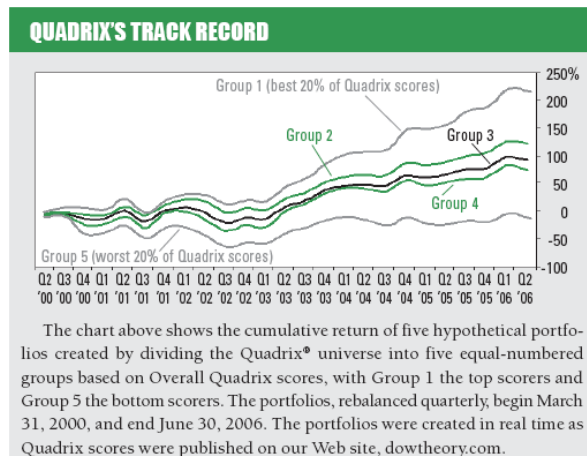


Why Quadrix leaders outperform

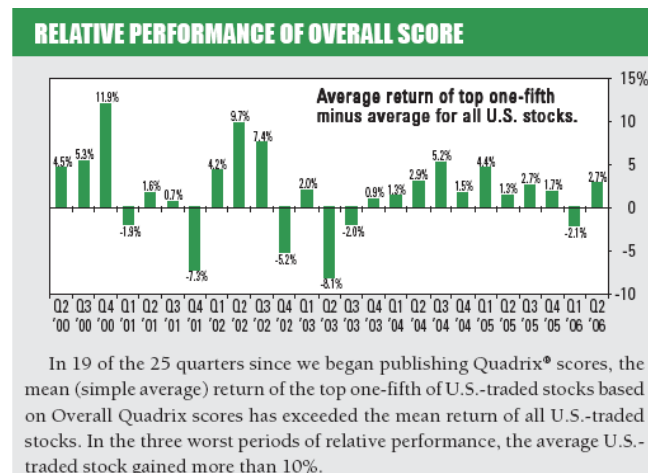
Our Quadrix® stock-rating system has been upgraded several times since its introduction in early 2000. Separate category scores for Performance and Earnings Estimates were added in 2001, narrowing the Momentum score’s focus to company operating momentum. The weightings used to calculate Overall scores have been adjusted to place more emphasis on Value, and a few highly effective individual variables were added in 2004.

Despite these changes, the underlying philosophy and basic design of Quadrix is largely unchanged since 2000. Unlike many quantitative systems, which place undue emphasis on companies with the very best valuations or growth rates, Quadrix is designed to reward balanced strength.

The system is broadly diversified, grading stocks on more than 100 factors in six categories: Momentum (recent operating results), Value (price/ earnings and other valuation ratios), Quality (long-term track records and returns on assets, equity, and investment), Financial Strength (profit margins, debt positions, and interest coverage), Earnings Estimates (trends in analyst estimates), and Performance (stock returns).



Based on what’s working and our expectations, we adjust the weightings assigned to individual variables and the category scores. But we have never used fewer than five variables for a category, and no category has been assigned a weight exceeding one-third of the Overall score.



Quadrix’s use of percentile ranking also limits the impact of any single variable. In theory, 831% sales growth is much better than 83% sales growth. But in reality, 831% growers — or the extreme outliers for any variable — are often benefiting from one-time items, acquisitions, or other unusual circumstances.

So far, Quadrix’s diversified approach has worked nicely. As shown in the chart of Quadrix’s track record, an equal-weighted portfolio that rotated quarterly into stocks with Quadrix Overall scores above 80 would have gained 214.8% from March 31, 2000, to June 30, 2006. A portfolio that rotated into stocks with Overall scores below 20 would have declined 13.6%.

Using mean, or simple average, total returns, the top one-fifth of Quadrix Overall scorers has outperformed the average U.S.-traded stock by 1.7% per quarter. The top one-fifth has outperformed in 19 of the 25 quarters since March 2000.

The Overall score has not performed as well as the Value score. In back-tests to 1990, both Overall and Value scores have provided competitive returns, though the returns of top Value scorers are more volatile.

Also, you can extract much of the advantage provided by Value scores by emphasizing stocks with strong scores for both Value and Overall.

QUADRIX QUARTERLY PERFORMANCE				
The median stock in the top quintile, or one-fifth, of U.S.-traded stocks based on Overall Quadrix® score has outperformed the median among all U.S.-traded stocks by an average of 2.0% per quarter for the 25 quarters since March 2000. By definition, one-half of the stocks in a set have returns higher than the median, while one-half have returns below the median.				
Using the mean, or simple average, of returns, the top one-fifth on Overall score has outperformed by an average of 1.7% per quarter. In 76% of the 25 quarters since we began publishing Quadrix scores, the mean return of the top one-fifth has exceeded the mean return of all U.S.-traded stocks.				
Category	Median Returns		Mean Returns	
	Avg. Quarterly Outperformance by Top Quintile of U.S. Stocks	% of Quarters Top Quintile Beat Median	Avg. Quarterly Outperformance by Top Quintile Of U.S. Stocks	% of Quarters Top Quintile Beat Mean
Overall	2.0%	76%	1.7%	76%
Value	2.7	84	2.9	84
Quality	1.1	76	0.3	60
Financial Strength	0.4	52	-0.4	48
Momentum	0.2	64	0.5	68
Earnings Estimates	0.2	62	0.7	62
Volume Metrics	-0.2	57	-0.5	65
Performance	-0.4	52	-0.1	71