CrestPoint Capital Management

Investment Process

For clients with a portfolio size where full diversification is economical, the firm believes its disciplined equity portfolio strategy, which employs a repetitive, quantitative process to manage portfolios, can add value. The objective of the strategy is to achieve excess returns above the Standard & Poor's 500 Stock Index, while incurring similar volatility.

The strategy's process is comprised of four main steps. The goal of each step is to add value.

1. Screen a database to create an investable universe.

A database of approximately 4000 names is screened for quality, capitalization size, dollar price, average daily trading volume, extraordinarily high dividend yields, foreign securities, completeness of data, and several other proprietary screens. An investable universe of approximately 700 – 800 names is created from this screening.

2. Rank stocks in the investable universe by a quantitative measure of attractiveness, an "alpha" factor.

Stocks are ranked according to a composite "alpha" factor. This factor is a composite of valuation, earnings momentum, and price momentum and has historically been strongly associated with future rates of returns.

3. Construct the portfolio using an optimization program to have a high "alpha" score while controlling risk to the benchmark using the firm's proprietary risk model.

The firm has created a proprietary risk model to identify the non-company specific risk factors that are related to subsequent returns. The model uses 20 fundamental risk factors and 20+ industry groups. Examples of the fundamental factors employed are various value factors (price/earnings ratio, price/book ratio, and dividend yield), historical earnings growth, capitalization size, quality, and earnings surprise.

The portfolio is constructed with an optimization program to have a high "alpha" factor score and simultaneously have risk factor measures and industry weights similar to the strategy's benchmark.

Portfolios generally have an average of about 100 stocks. Portfolios are as fully invested as practical. No market timing is employed. Because of the optimization program, portfolios do not have equal weighted positions. Portfolios following this strategy can be regarded as following a large cap core or blend strategy although each portfolio's value/growth characteristics, industry weightings, and average capitalization size are dynamic and respond to changes in the S&P 500.

4. Rebalance the portfolio approximately twice a year to maintain a high "alpha" score and control portfolio risk through time, while being tax-efficient for taxable investors and controlling turnover.

While individual holdings are monitored continually to insure investable standards are maintained, each portfolio is rebalanced approximately twice a year. During rebalance, each portfolio's holdings are identified and, together with fresh data for the stocks in the investable universe, are incorporated into the optimization program. The purpose of rebalance is to maintain a high "alpha" score for the portfolio and preserve the portfolio's risk characteristics versus the benchmark through time.

Buys and sells occurring during a rebalance are designed to be as simultaneous as possible. Turnover is constrained to control trading costs. Because the strategy is a large capitalization strategy, liquidity with transactions is seldom an issue.

During rebalance existing holdings in the portfolio are identified by lot. The optimization program is designed to promote the realization of losses while allowing gains to remain in the portfolio. Position sizes of holdings with gains that have risen above the maximum position size are trimmed.