



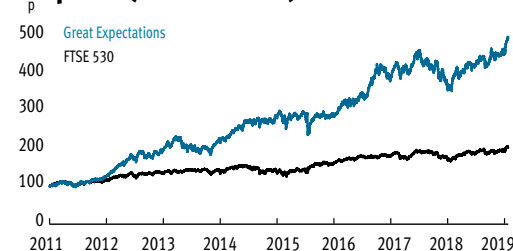
AlphaScreens: The might of momentum

Momentum strategies show persistent outperformance.

We run our Alpha momentum screen across three indices:

FTSE All-Share, All Small, and Aim

Great Expectations: Total returns since inception (19 Dec 2011) to end 2019



Source: Thomson Datastream from Refinitiv

Great Expectation criteria:

The Alpha momentum screens apply the idea of momentum not only to share price performance, but also to expected profit growth. The screen looks for strong forecast earnings per share (EPS) growth, but more importantly it looks for an improving trend in broker expectations. Indeed, EPS forecast upgrades can be considered the screen's primary focus.

- Thanks to improved one-month share price momentum, this month, software group **AVEVA (AVV)** joins digital services business **Kainos (KNOS)**, **Liontrust Asset Management (LIO)**, leisure and gambling company **Rank Group (RNK)** in passing 8/8 tests on our share price and earnings momentum screen.
- Across the market capitalisation scale, not many businesses are scoring well on the screen, reflecting global uncertainty and where we are in the cycles for both the economy and the stock market. Tests commonly failed by FTSE All-Share companies are requirements for forecast earnings growth of over 10 per cent in the current and next financial year.
- Aim is normally a market associated with momentum shares but only **Knights Group (KGH)**, the legal and professional services specialist, gets full marks this month. The caveat, with Aim stocks especially, is that further research needs to be undertaken - into facets of operations and accounting policies on revenue recognition - before making a final assessment.

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Alpha momentum criteria

The Alpha momentum screen is conducted separately on constituents of the FTSE All-Share, FTSE All Small and FTSE Aim All-Share indices, with the results from each screen reported in separate tables. The screen looks for stocks displaying three characteristics, each of which are tested using a few different criteria.

- Earnings upgrade momentum: EPS upgrades over the past 12 months of at least 10 per cent for both the current financial year and next financial year.
- Earnings momentum: Forecast EPS growth of at least 10 per cent in the current financial year and next financial year.
- Price momentum: Studies have found that the longer price momentum has persisted the more likely it is to be 'stale' and set to reverse. The Alpha momentum screen tests for strong share price performance over four different periods, which helps check price momentum remains fresh.

The screen looks for share price performance among the top quarter of shares screened over one year, and share price performance above the median (mid-ranking) average over six months, three months and one month.

Not many stocks pass such a stringent list of criteria. The ones that pass all the tests are listed at the top of the tables, followed by those failing one test, then those failing two tests as detailed in the 'Tests passed' column. All stocks must pass the EPS upgrade tests to feature in the tables.

While the primary ranking of the stocks is based on the number of tests they pass, inside each of these groupings, stocks are ordered according their attractiveness based on a combination of earnings upgrades over the past 12 months and three-month share price momentum.

Stock screen methodology formulated and explained by Algy Hall

Large-cap momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Liontrust Asset Mgmt	LSE:LIO	£740m	1,345p	20	32%	2.0%	26.9%	20.9%	59.7%	29m	GBP	8	na
Kainos Group	LSE:KNOS	£963m	790p	43	19%	1.2%	11.5%	12.9%	50.2%	37m	GBP	8	na
AVEVA Group	LSE:AVV	£7,926m	4,918p	43	12%	0.9%	19.3%	11.2%	18.0%	-12m	GBP	8	na
The Rank Group	LSE:RNK	£1,117m	286p	14	40%	2.7%	34.3%	10.6%	14.8%	-299m	GBP	8	na
Avon Rubber	LSE:AVON	£761m	2,495p	26	28%	0.8%	5.0%	15.6%	40.3%	48m	GBP	7	/>10% EPSgrth FY+1/
Sophos Group	LSE:SOPH	£2,748m	557p	42	20%	-	18.2%	10.8%	-0.8%	-138m	USD	7	/3mthMom/
Dunelm Group	LSE:DNLM	£2,344m	1,159p	21	13%	2.4%	8.9%	4.0%	47.2%	-25m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Pets at Home	LSE:PETS	£1,410m	282p	19	14%	2.7%	4.5%	3.8%	39.7%	-623m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Softcat plc	LSE:SCT	£2,285m	1,155p	31	13%	2.7%	7.6%	7.3%	20.7%	79m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Intermediate Capital	LSE:ICP	£4,969m	1,742p	18	18%	2.9%	-2.2%	9.7%	16.8%	-889m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Biffa	LSE:BIFF	£705m	282p	12	12%	2.6%	9.8%	5.3%	10.2%	-478m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Future	LSE:FUTR	£1,244m	1,280p	22	106%	0.1%	21.2%	21.4%	-7.4%	-40m	GBP	6	/3mthMom/1mthMom/

Source: S&P Capital IQ, 3 February 2020

Small-cap momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Liontrust Asset Mgmt	LSE:LIO	£740m	1,345p	20	32%	2.0%	26.9%	20.9%	59.7%	29m	GBP	8	na
Haynes Publishing	LSE:HYNS	£64m	422p	17	47%	-	30.2%	17.3%	16.8%	3m	GBP	8	na
Avon Rubber	LSE:AVON	£761m	2,495p	26	28%	0.8%	5.0%	15.6%	40.3%	48m	GBP	7	/>10% EPSgrth FY+1/
Hansard Global	LSE:HSD	£61m	44p	10	69%	10.1%	36.9%	16.0%	12.0%	1,147m	GBP	6	/1yrMom/6mthMom/
Biffa	LSE:BIFF	£705m	282p	12	12%	2.6%	9.8%	5.3%	10.2%	-478m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/

Source: S&P Capital IQ, 3 February 2020

Aim momentum selection (passing at least 6 of 8 tests)

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12-mth EPS upgrade	DY	Fwd EPS grth FY+1	Fwd EPS grth FY+2	3-month momentum	Net cash/debt (-)	Currency	Tests passed (out of 8)	Test failed
Knights Group	AIM:KGH	£324m	439p	27	16%	0.6%	38.7%	14.6%	35.6%	-37m	GBP	8	na
CentralNic	AIM:CNIC	£156m	86p	15	34%	-	71.7%	15.4%	116.1%	-10m	USD	7	/1mthMom/
Mpac Group	AIM:MPAC	£55m	278p	8	125%	-	703.8%	-44.4%	67.3%	5m	GBP	7	/>10% EPSgrth FY+2/
Team17 Group	AIM:TM17	£647m	500p	40	34%	-	47.8%	2.8%	72.3%	36m	GBP	7	/>10% EPSgrth FY+2/
Volex	AIM:VLX	£246m	165p	13	20%	1.2%	147.3%	-7.1%	60.2%	1m	USD	7	/>10% EPSgrth FY+2/
CVS Group	AIM:CVSG	£809m	1,147p	21	22%	0.5%	15.6%	4.0%	21.5%	-102m	GBP	7	/>10% EPSgrth FY+2/
Sylvania Platinum	AIM:SLP	£113m	40p	5	63%	1.9%	84.0%	-8.5%	8.1%	21m	USD	7	/>10% EPSgrth FY+2/
ITM Power	AIM:ITM	£495m	105p	-	109%	-	-	-	69.7%	56m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Dart Group	AIM:DTG	£2,531m	1,700p	16	28%	0.6%	7.2%	5.2%	34.6%	455m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Focusrite	AIM:TUNE	£421m	735p	33	21%	0.5%	4.0%	1.9%	33.4%	15m	GBP	6	/>10% EPSgrth FY+1/>10% EPSgrth FY+2/

Source: S&P Capital IQ, 3 February 2020

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