



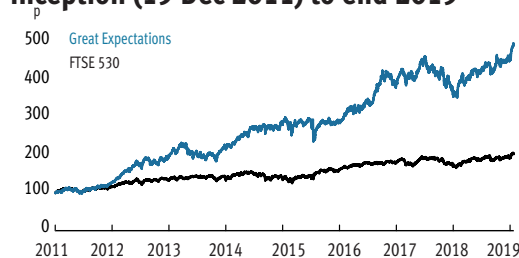
AlphaScreens: The might of momentum

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.

- Top of the FTSE All-Share momentum screen is digital services business **Kainos (KNOS)** – the shares are up 65 per cent in three months and they still meet all our screen criteria.
- **Liontrust Asset Management (LIO)** and gaming business **Rank Group (RNK)** also get full marks and have seen three-month price returns of over 50 and 40 per cent, respectively.
- There aren't any really big companies scoring well, but interesting firms valued at over £1bn include **Games Workshop (GAW)**, which only fails the two-year forecast earnings growth test. This business has been a star in the past two years, so it is interesting to keep tabs on any signal analysts expect its rate of growth to slow.
- Over on Aim, the eye is drawn to **CentralNic (CNIC)** a holding company for domain name services – the shares are up 88 per cent in three months – and **Volex (VLX)**, a power cord and cable assembly specialist – shares are up 78 per cent in three months. Both firms fail the two-year forward earnings forecast test which is a reason to pause and reconsider the investment case, but also could be a manifestation of the under reaction to good news that in part explains the momentum effect.

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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
Kainos Group	LSE:KNOS	£907m	746p	41	19%	1.2%	11.6%	12.3%	65.3%	37m	GBP	8	na
Liontrust Asset Mgmt	LSE:LIO	£620m	1,140p	18	19%	2.4%	21.2%	18.5%	51.1%	29m	GBP	8	na
The Rank Grp	LSE:RNK	£1,086m	278p	14	40%	2.8%	31.7%	11.2%	42.8%	2m	GBP	8	na
Avon Rubber	LSE:AVON	£671m	2,200p	23	26%	0.9%	3.8%	16.2%	37.5%	48m	GBP	7	>10% EPSgrth FY+1/
Games Workshop Grp	LSE:GAW	£2,014m	6,165p	27	30%	2.0%	13.1%	4.4%	27.9%	29m	GBP	7	>10% EPSgrth FY+2/
Aveva Group	LSE:AVV	£7,565m	4,694p	41	12%	0.9%	19.0%	11.2%	23.8%	-12m	GBP	7	/1mthMom/
Future	LSE:FUTR	£1,415m	1,456p	26	104%	0.1%	17.6%	20.8%	13.8%	-40m	GBP	7	/1mthMom/
Dunelm Group	LSE:DNLM	£2,292m	1,135p	21	12%	2.5%	6.9%	4.2%	34.4%	-25m	GBP	6	>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Pets at Home Group	LSE:PETS	£1,439m	288p	20	12%	2.6%	4.3%	3.3%	31.5%	-623m	GBP	6	>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Softcat plc	LSE:SCT	£2,341m	1,184p	32	17%	2.6%	6.4%	6.6%	17.6%	79m	GBP	6	>10% EPSgrth FY+1/>10% EPSgrth FY+2/

Source: S&P Capital IQ, 6 January 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	£620m	1,140p	18	19%	2.4%	21.2%	18.5%	51.1%	29m	GBP	8	na
Avon Rubber	LSE:AVON	£671m	2,200p	23	26%	0.9%	3.8%	16.2%	37.5%	48m	GBP	7	>10% EPSgrth FY+1/
Haynes Publishing	LSE:HYNS	£64m	421p	17	47%	1.8%	30.2%	17.3%	31.0%	5m	GBP	7	/1mthMom/

Source: S&P Capital IQ, 6 January 2020

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

Name	TIDM	Market cap	Price	Fwd NTM PE	Av 12mth 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
Springfield Properties	AIM:SPR	£137m	143p	9	13%	3.1%	10.0%	10.2%	25.6%	-30m	GBP	8	na
Begbies Traynor	AIM:BEG	£114m	89p	14	33%	2.9%	22.7%	13.6%	8.3%	-10m	GBP	8	na
CentralNic	AIM:CNIC	£167m	92p	15	30%	-	81.5%	2.6%	88.8%	-10m	USD	7	>10% EPSgrth FY+2/
Volex	AIM:VLX	£223m	149p	12	20%	1.3%	147.3%	-7.1%	78.4%	1m	USD	7	>10% EPSgrth FY+2/
Team17 Group	AIM:TM17	£501m	388p	36	17%	-	29.9%	3.2%	21.9%	36m	GBP	7	>10% EPSgrth FY+2/
Marlowe	AIM:MRL	£233m	508p	23	16%	-	25.9%	16.9%	17.2%	-32m	GBP	7	/1yrMom/
Mpac Group	AIM:MPAC	£40m	203p	7	77%	-	537.8%	-38.9%	11.9%	5m	GBP	7	>10% EPSgrth FY+2/
Knights Group	AIM:KGH	£250m	339p	20	19%	0.7%	40.3%	13.6%	1.7%	-14m	GBP	7	/3mthMom/
ITM Power	AIM:ITM	£383m	81p	-	113%	-	-	-	55.1%	5m	GBP	6	>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Dart Group	AIM:DTG	£2,494m	1,675p	16	28%	0.6%	7.2%	5.2%	74.7%	455m	GBP	6	>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Focusrite	AIM:TUNE	£380m	662p	30	21%	0.6%	4.0%	1.9%	20.1%	15m	GBP	6	>10% EPSgrth FY+1/>10% EPSgrth FY+2/
Tracsis	AIM:TRCS	£205m	710p	22	21%	0.3%	16.7%	8.2%	18.3%	24m	GBP	6	>10% EPSgrth FY+2/1yrMom/
Pan African Resources	AIM:PAF	£231m	12p	5	58%	1.0%	157.1%	-3.2%	9.6%	-128m	USD	6	>10% EPSgrth FY+2/1yrMom/

Source: S&P Capital IQ, 6 January 2020

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