



Sector Methodology

Quality. Scale. Performance.



Your Guide to CFRA Sector Methodology

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CFRA's Investment Policy Committee (IPC) consists of a team of five seasoned investment professionals. It meets regularly to discuss market trends and projections, maintain an S&P 500 12-month forward price target, and make asset allocation/sector recommendations.

The IPC establishes over, market, and underweight recommendations on the 11 sectors within the S&P 500. Overweight and underweight recommendations imply that the IPC expects these sectors to outperform or underperform the S&P 500, respectively, during the coming 6 to 12 month period. A "marketweight" recommendation indicates that the sector is expected to be a market performer during this same timeframe. The IPC analyzes economic projections, fundamental forecasts, technical considerations, and historical precedent when making such recommendations. Changes in recommendations can be made more frequently than every 6 to 12 months as market conditions evolve.

We leverage Action Economics U.S. and international economic growth, as well as Wall Street consensus estimates compiled by S&P Global, to determine likely sector beneficiaries of the projected expansion or contraction of global economic growth patterns.

We also incorporate CFRA equity analysts' STARS recommendations and overall fundamental forecasts for the stocks in their coverage universe. We use this information to understand why sectors may be trading at valuation discounts or premiums, which groups are likely to benefit from embryonic market trends, and whether the large- or small-cap components of each sector are expected to be group drivers.

We work under the assumption that prices can lead fundamentals. We believe that while fundamentals may tell us why prices move, technicals frequently tell us when and how far they'll go. We look to chart patterns for signals that ongoing absolute and relative sector price trends will be maintained, or are likely to experience near-term top-outs or turnarounds.

We look to historical precedents. We acknowledge that history is a great guide, but never gospel. We identify traditional seasonal or cyclical patterns, and then decide if history will likely rhyme or forget the words, based on our economic, fundamental and technical expectations.

Recommended sector over- and under-weightings are typically within the range of -3 to +3 percentage points. In addition, they can be as small as -0.5% or +0.5%, particularly for those sectors that have a relatively small representation within the S&P 500, such as Materials, Real Estate, Telecom and Utilities.



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Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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Updated as of September 21, 2017