
ARGUS RESEARCH: SECTOR WEIGHTING PROCESS

THEORY & APPLICATION

- Argus Research maintains recommended sector weightings for normally balanced equity portfolios.
- These recommended sector weights are set and rebalanced in relation to sector weightings on the S&P 500.
- Argus suggests that investors use this process to tweak weightings within their balanced equity portfolios in order to take advantage of valuation imbalances.
- A “recommended Over-Weight” indicates that investors should consider a sector position larger than the comparable S&P 500 weight.
 - For large and mid-sized sectors, the recommended Over-Weight position is approximately 100-200 bps.
 - For small sectors (Utilities, Materials, REITs, and Telecom Services), the recommended Over-Weight position is approximately 50 bps.
- A “recommended Under-Weight” indicates that investors should consider a sector position smaller than the comparable S&P 500 weight.
 - For large and mid-sized sectors, the recommended Under-Weight position is approximately 100-200 bps.
 - For small sectors (Utilities, Materials, REITs, and Telecom Services), the recommended Under-Weight position is approximately 50 bps.

PROCESS

- Argus uses a multi-stage process to set its sector recommendations on a quarterly basis.
- Elements of this process include performance, valuation in relation to historical norms, relative valuation, quality & safety, and analyst conviction, among others.
- As part of its process, Argus uses a multi-stage model that:
 - awards or subtracts points for each metric;
 - sums all points to determine an all-sector score;
 - divides by number of sectors to set an average sector score;
 - counts points for each sector; and
 - determines recommended sector weighting based on sector score in relation to sector average.
- The multi-stage model includes the following elements:
 - Performance Rank
This momentum measure assigns points for monthly, quarterly and year-to-date performance in relation to benchmark (S&P 500).
 - P/E Valuation
This is the current sector P/E in relation to five-year average sector P/E (delta), measured against S&P 500 P/E delta. Points are awarded/subtracted based on proximity to S&P 500 delta.
 - Earnings Growth
Individual sector earnings growth is estimated for the current and following year. Points are awarded/subtracted for average exceeding benchmark average, and for acceleration (higher EPS growth in following year than in current year).
 - Relative Performance
Year-to-date sector performance is divided by YTD S&P 500 performance. Points are awarded/subtracted for better/worse than sector group average.
 - Sector Conviction
This is based on the percentage of BUY ratings per sector. Points are awarded/subtracted for the percentage of BUYs exceeding/lagging the percentage of BUYs in the total Argus Analyst Coverage Universe
 - PEG Ratio
Here, points are awarded/subtracted for sector PEG ratios below/above the group average.
 - Quality & Safety
This is determined using input from Argus Institutional Partners’ proprietary sector screens, which are based on analysis of individual companies’ quality & safety rankings.

DISCLAIMER

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc. The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock. Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.

