

This investment strategy is working even better than expected +1223%

Quantitative Investment Strategy

When we **first tested the Qi Value** investment strategy in 2015 (and I started **using it in my personal portfolio**) I did not think it would work this well.

22-year return +1223% = 8.3 times the market return

We tested the Qi Value investment strategy over 22 years from May 2001 to December 2022 world-wide and it **returned an astounding 1223.0%**!

This is more than **8.3 times** the 148.1% the market (MSCI World Index) returned over the same period.

Before I tell you exactly how to implement this strategy in your portfolio first some background information.

We like composite ratios

At [Quant Investing](#) we are big supporter of combining different ratios to find undervalued companies. This helps you **to find companies that are undervalued from different points of view**, for example based on earnings and cash flow.

The first such indicator we wrote about was [Value Composite One](#) (included in the screener) developed by James O'Shaughnessy.

The problem with Value Composite One

The problem with Value Composite One is that it includes the Price to Book ratio.

I have nothing against you using the price to book ratio to find undervalued companies (it works best after a large correction), the problem is it underperforms the market for long periods of times. You can read more about the problem here: [Be careful of this time tested value ratio](#).



www.quant-investing.com

To solve the problem

To solve this problem, we developed our own composite valuation indicator, which we called [Qi Value](#).

Not only does it exclude the Price to Book ratio, it also includes all the best valuation ratios we have tested, including the work from the research paper [Quantitative Value Investing in Europe: What Works for Achieving Alpha](#).

Qi Value ranks the whole universe of companies (around 22,000) in the [Quant Investing stock screener](#) using four valuation ratios **to help you find the most undervalued companies from different points of view**.

How is Qi Value calculated?

Qi Value is calculated with the following ratios:

EBITDA Yield

Which is calculated as: Earnings before interest, taxes, depreciation, and amortisation (EBITDA) / Enterprise Value

Earnings Yield

Calculated as Operating Income or earnings before interest and taxes (EBIT) / Enterprise Value (Read more about earnings yield here: [A simple ratio beats the world's best value funds](#))

FCF Yield

[FCF \(Free cash flow\) Yield](#) is calculated as Free Cash Flow / Enterprise Value – here free cash flow is equal to cash from operations minus capital expenditure

Liquidity (Qi.)

[Liquidity \(Qi\)](#) is calculated as Adjusted Profits / Yearly trading value. It gives you a sign of how high a company's yearly traded value per share is compared to its profits. A high value thus means low traded value compared to profits and thus a larger chance of the company's shares being miss-priced.

A low value means high traded value to profits which, most likely, means more analysts follow the company giving you a smaller chance that it may be miss-priced.

It can thus help you find companies with large controlling shareholders, or a stable base of shareholders where traded value is low and thus less analyst interest because they cannot make money trading of the company's shares.



www.quant-investing.com

In the following article can read about our back test of Qi Liquidity: [This overlooked ratio, large funds and hedge funds can't use, gives you higher returns](#)

To start using Qi Value in your portfolio now - Click here

Results of the back test

In 2015 we tested Qi Value against the market and six other investment strategies over the **14-year period from April 2001 to February 2015**.

The following table summarises the results:

	Qi Value	EY	P / FCF	PE	EBITDA Yield	PS	PB	Index
Total Return over 14yrs	477.6%	388.8%	438.8%	342.3%	412.9%	439.9%	287.0%	23.1%
Average Return	14.9%	13.7%	14.7%	13.0%	14.2%	15.0%	12.6%	3.5%
CAGR	13.5%	12.1%	12.9%	11.3%	12.5%	12.9%	10.2%	1.5%
Standard Deviation	18.1%	19.3%	20.6%	20.0%	20.1%	21.6%	23.5%	20.0%
Sharpe Ratio	0.82	0.71	0.71	0.65	0.71	0.69	0.54	0.18

Source: www.quant-investing.com

CAGR (Compound Annual Growth Rate)

Market = MSCI World Index

We tested the Qi Value indicator against:

- Earnings Yield (EY) = Earnings Before Earnings and Taxes / Enterprise Value
- Price to Free Cash Flow (P/FCF)
- Price to Earnings (PE)
- Earnings before interest, taxes, depreciation and amortisation / Enterprise value (EBITDA Yield)
- Price to Sales (PS)
- Price to Book (BP)

Qi Value is a lot better

As you can see Qi Value performed better than all the other ratios, except the average return of the Price to Sales ratio was higher.

Apart from that the Qi Value had a:

- The highest total return +477.6%



www.quant-investing.com

- The highest compound annual growth rate over 14 years
- The lowest standard deviation which means Qi Value returns were not as volatile as the other ratios
- The highest Sharpe ratio (higher is better) which means it would have given you higher risk adjusted returns. Here is the [Sharpe ratio definition](#).

What about 2016 to 2022?

Since we finished the back test, we have continued tracking the results of the Qi Value to make sure our back test remains valid.

Here are the updated results:

	Qi Value	Earnings Yield	Price to Book	MSCI World Index
Apr 2001 - Feb 2015 Return	477.6%	388.8%	287.0%	23.1%
2016 Return	18.2%	16.9%	22.3%	5.3%
2017 Return	26.7%	28.5%	32.6%	20.1%
2018 Return	-15.7%	-17.0%	-19.4%	-10.4%
2019 Return	21.7%	22.6%	23.2%	25.2%
2020 Return	24.2%	28.0%	38.7%	14.1%
2021 Return	24.9%	21.5%	29.6%	20.1%
2022 Return	-3.9%	-4.9%	-0.7%	-19.5%
Total Return	1223.0%	1005.1%	1012.7%	148.1%
Average Return	14.5%	13.7%	14.4%	5.9%
CAGR	12.7%	11.7%	11.8%	4.3%

Source: www.quant-investing.com

CAGR (Compound Annual Growth Rate)

As you can see Qi Value continues to do well. Not the highest returns but very consistent high returns.

8.3 Times better than the market

Despite that Qi Value's total return of +1223.0% was the highest, 8.3 times that of the market and **210.3% better than Price to Book** the second-best performing strategy.



www.quant-investing.com

Not all strategies tested again

Just in case you were wondering - we are not selectively showing the results of other strategies so that Qi Value looks best, we simply do not test all the strategies all the time as it is a lot of work.

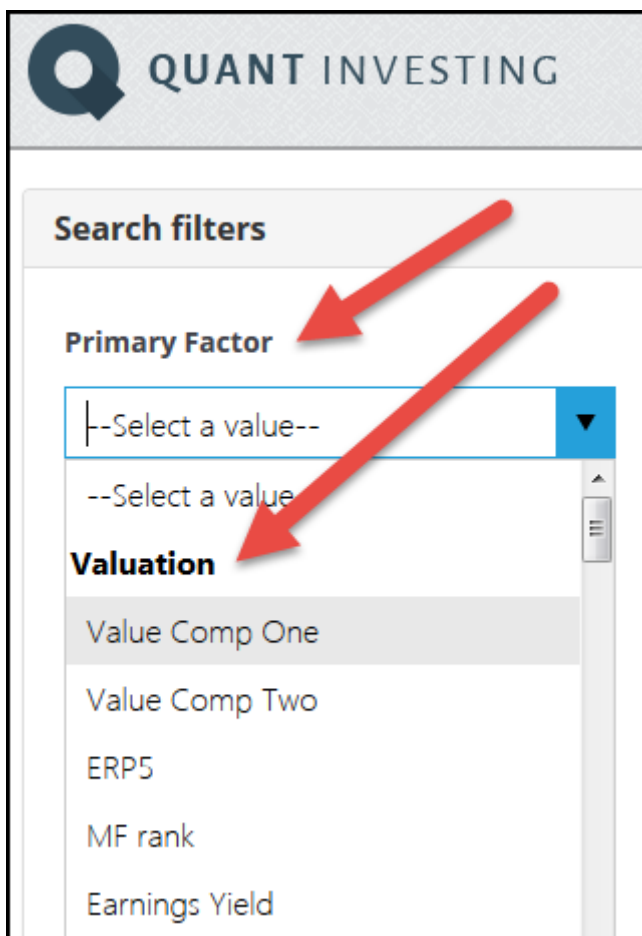
To start using Qi Value in your portfolio now - Click here

How to start using Qi Value in your portfolio right now

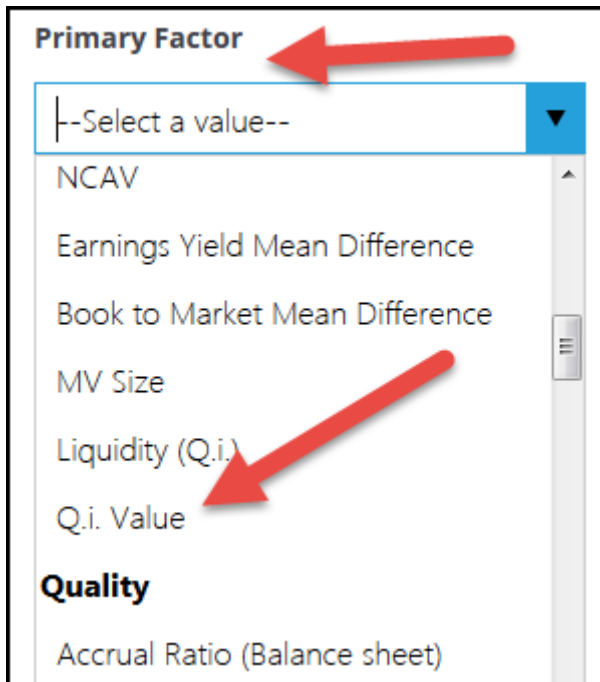
Where can you find it?

Qi. Value indicator, like all ratios and indicators in the screener, is **easy to find and use**.

You can select it in any one of the four funnels (or filters) as shown below. **Qi Value is one of the last items under heading Valuation.**

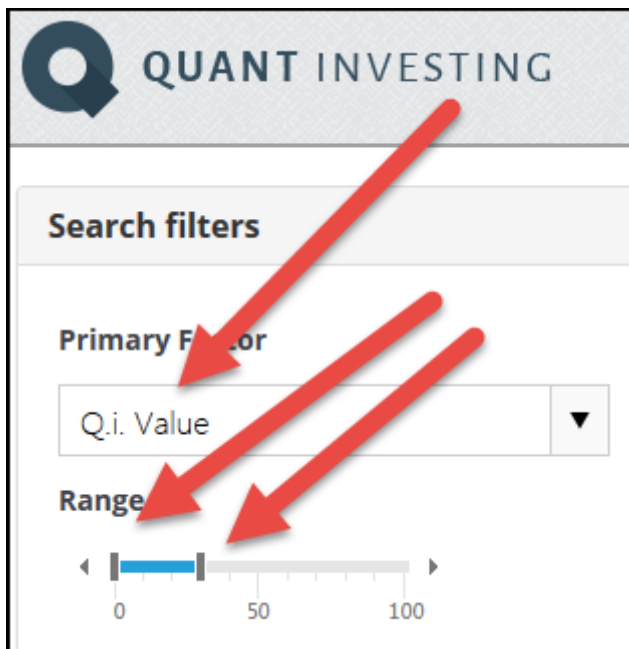


www.quant-investing.com



Find the most undervalued companies

To find the most undervalued companies set the slider from 0% to as far as you would like to go. The top 30% most undervalued companies are selected in the image below, 0% to 30% is selected.



Combine Qi Value with your investment strategy

Once you have selected undervalued companies with Qi Value you can of course add your favourite ratios or indicators – here are a few suggestions:

Momentum

Combine Qi Value with the following indicators to find companies with an upward moving share price – this is a good way to avoid value trap companies.

The following are all good indicators to use:

- Price Index 6 months
- Price Index 12 months - 1 month
- Price Index 12 months
- Adjusted Slope 125/250d
- Adjusted Slope 90d

You can find the exact definition of all ratios in the [Glossary](#).

You can read more about why and how momentum works here:

[10 myths about momentum investing, squashed](#)

[How to find stocks on the move with a better momentum indicator - exponential regression](#)

Piotroski F-Score

The Piotroski F-Score is a great indicator you can use to only select good quality companies – I use it all the time with the screens I use.

You can read more about the Piotroski F-Score here:

[Can the Piotroski F-Score also improve your investment strategy?](#)

[Use the Piotroski F-Score to seriously improve your returns](#)

[This academic can help you make better investment decisions – Piotroski F-Score](#)



www.quant-investing.com

Market leaders (large companies on steroids)

If you prefer investing in large companies, this is a great universe to be looking for ideas in. It is a list of large companies world-wide selected using sales and Free Cash Flow generation.

You can read more about what exactly market leading companies are and where to find it in the screener here: [Large companies on steroids – Market Leaders](#)

The best valuation ratio you can use

From all the above research I am sure you will agree that **Qi Value is a great indicator** because it finds undervalued companies using a few proven ratios that it combines into a single ranking value.

Its results speak for themselves, **higher returns with lower volatility, something I am sure you are also interested in.**

PS To get access to the Qi Value indicator **updated daily** for over 22,000 companies world-wide as well as more than 110 other ratios and indicators why not [sign up right now](#), it costs less than an inexpensive lunch for two, just click here: [join now](#)

PPS It's so easy to put things off and forget, why not [sign up now](#) to start improving your investment returns.

To start using Qi Value in your portfolio now - Click here



www.quant-investing.com