

CANALYST NEWSLETTER: ACTIVE MANAGEMENT & UNDERCOVERED NAMES

The summer trading doldrums are over, so it's time to start finding that next big winning stock idea. In this edition, we bring you a piece on active management, under-covered names, a screener contest, and a few exciting Canalyst product updates. Read on...

ACTIVE MANAGEMENT

In a world obsessed with alternative strategies, recommending individual stockpicking sadly qualifies as a contrarian idea unto itself. The sentiment about this as an outdated approach is well captured by the following tongue-in-cheek quote by a popular financial columnist:

"Who buys individual stocks? It has become an old-timey hobby for the modestly wealthy and eccentric, like model railroading."
- Matt Levine, Bloomberg Money Stuff

The reasons for this view are actually fairly logical, given the steady deterioration in alpha captured by equity hedge funds over the last 15 years. As measured by the Credit Suisse Equity Long/Short "Skill" Index, the 5-year annualized rolling outperformance steadily fell from 6%/year in the early 2000s to 0% now, with most of the degradation occurring since 2008.

While many reasons have been put forward for why this occurred, the "abnormal markets" explanation appears to fit the chart best. From the 2008 period until just recently, the average pair-wise correlation of stocks was extremely high, over 50%, vs. 30% historically. If you recall hearing your active manager complaining about everything moving together (remember those Europe-crisis terms of "risk-on" and "risk-off" days), this is what they meant. This phenomenon was exacerbated by central bank policy pinning rates near zero, rendering most tactical asset allocation models temporarily worthless vs. the non-stop injection of liquidity.

Looking at the world today, these trends appear to finally be abating. Central bank policy is normalizing, both in the US as well as in Canada. Last November's US election sparked massive sector rotation, and though some of those trades are unwinding now, it has at least reminded the market that stocks don't always move together.

Additionally, any discussion of active stockpicking can't ignore the passive elephant in the room, the rise of indexing. Almost 30% of US investments are now passively run, a figure that is expected to cross the 50% threshold sometime in the next 5-7 years. While this creates obvious challenges for the active management industry, the medium-term opportunities for fundamental stockpickers are striking:

1. As passive benchmarks become all-important, the value gap between larger, well-followed index names, and small/midcap overlooked firms will increase. Though it may require patience to "arb" this gap (eg. waiting for quality smaller names to qualify for inclusion and re-rate higher), this seems like a winning fundamental strategy for stockpickers.
2. Sellside firms are, and will continue to, drop coverage of smaller companies as cost pressures mount, creating more opportunities for investors willing to do the legwork.
3. If some of the performance decline from equity hedge funds since 2000 is attributable to the "pool of alpha" theory, in which there are just too many funds chasing the same trades, forcing some of the weaker players out of the market may improve returns over time.

Overall, while it is always difficult to draw a line in the sand and call for the end of a two-decade-long trend, this article is meant to illustrate that many of the factors that have led to the current overall sentiment towards active management may be set to reverse.

[Download Slides](#)

UNDERCOVERED NAMES

If now really is "Active Management's Time to Shine," this begs the question: how do you best position yourself for this potential reversal?

Canalyst provides the absolute deepest coverage of North American companies, especially those with little to no coverage by the Street. Out of our universe of 3600 companies, the following table shows how Canalyst's breadth is especially powerful in the small/midcap universe:

# OF SELLSIDE ANALYST RECOMMENDATIONS	# OF CANALYST MODELS AVAILABLE FOR DOWNLOAD
0	131
1	131
2	133
3	156
4	212
TOTAL:	763

Source: Canalyst models, Thompson

Want additional help finding your next hidden gem among these 750 under-analyzed names? Stay tuned for screening and analytics launching on our portal soon!

SCREENER CONTEST

We're looking for some earnest thoughts on what you'd like to see in a Canalyst screener. We've got a shortlist of ideas going, but want to hear from you. Simply put, how valuable is a screening tool to you and what would you like screened using fundamental data that you can't do today?

We will draw one lucky respondent's name and award them for their efforts with a good bottle of wine. Send marketing@canalyst.com your ideas, and we'll choose a winner at the end of October.

RECENTLY ADDED

We have a few new features that we're excited to announce and a potential game changer currently in development.

Canalyst's IPO models are now more convenient than ever with 'click to download' functionality, formerly 'click to request'. This change reduces the turnaround time for IPO model delivery from 48 hours to less than a minute.

Additionally, we've expanded our international coverage with 300+ 'click to request' models for US listed foreign companies and ADRs. This means Canalyst subscribers now have access to complete models on any US-listed ADRs, at no additional charge.



US Listed Foreign Companies & ADRs
329 files

NEW WEBSITE

We've launched a new website and updated our messaging recently. When you have a chance to [take a look](#), we'd appreciate your feedback. Send any comments or suggestions to marketing@canalyst.com.

In the meantime, know any rockstars who are passionate about equity research or technology – or both? We're hiring! Please send them to the Canalyst [careers page](#) to learn about current job openings.

James Rife
Canalyst, Head of Equities

P.S. Don't forget to use your 'Watch List' to prioritize updates during earnings.

If you need a model updated, please email us and we will have it ready in 48 hours.

support@canalyst.com

For more information on anything in the newsletter, or to get a demo of our entire equity model database, contact us today!

sales@canalyst.com

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