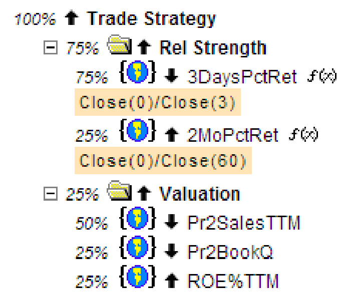
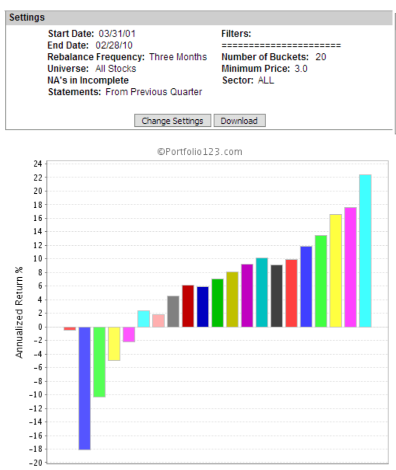
Executive Summary - This is a momentum strategy for value stocks. It ranks stocks with higher 2 months return (price momentum) and higher short-term (3 days) price reversion (capturing investor's over-reaction). The model also prioritizes profitable companies (higher ROE) with lower valuations (low P/B and P/S). By rebalancing a portfolio of 20 stocks every 3 months during 10 years, it will produce a Sharpe ratio of 0.70 and an annualized return of 28.14%.

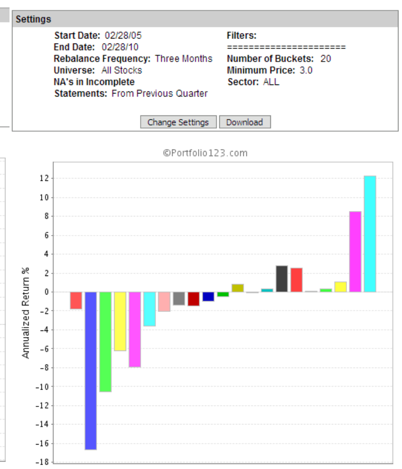
1.a. The ranking system uses a momentum strategy for value stocks.

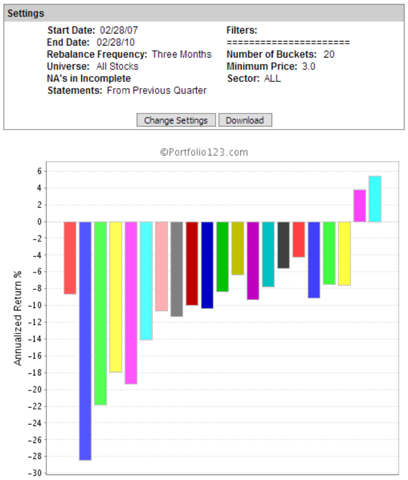


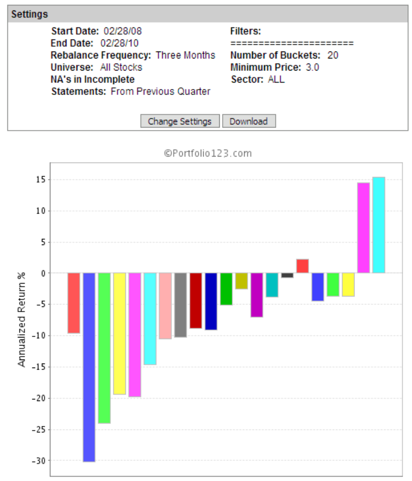
Momentum (75% weight): The model ranks stocks that had increased its price in the last 2 months (18.75% weight) and had a 3 days reversion in stock price (56.25% weight). Due to the price momentum, I expect the upward trend to continue and the 3-day over-correction will create an opportunity to buy cheap.

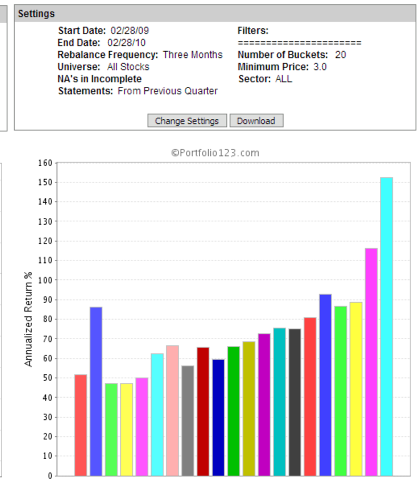
Value (25% weight): The model ranks profitable companies (higher ROE represents 6.25% weight) that the market expects to have low future earnings growth (lower P/S and P/B represents 18.75% weight). Since ROE should be correlated to P/S (and P/B), I expected that the market will close this gap and the company will have an increase in its multiples.









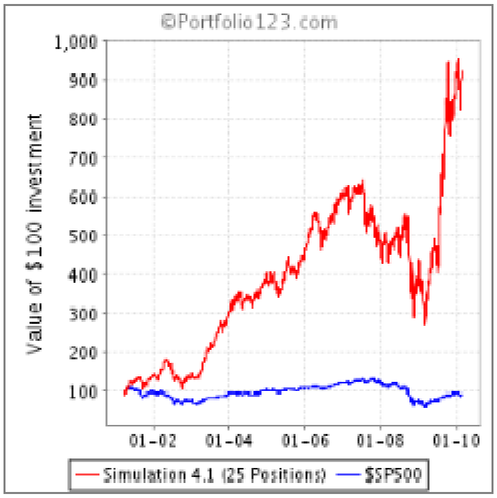


1.B. Running a simulation where I buy small stocks (market cap. between $200M and $1000M) with good liquidity ($200k average daily liquidity) and stock price above $3 and sell these stocks every 3 months if they rank below the 95th percentile in the model or if their prices decrease by more than 70% (stop loss rule), we can achieve an amazing return for 5 and 10 years:

10 years: In 10 years, the total return is 810% (versus -3.61% from S&P), which represents an annualized return of 28.14%. The Sharpe ratio is 0.70 and the maximum drown down is -57.37%. The annual turnover is relatively high (343%) as well as the overall winner's ratio (58.68%)

5 years: In 5 years, the total return is 155.93% (versus -8.23% from S&P), which represents an annualized return of 20.68%. The Sharpe ratio is 0.39 and the maximum drown down is -62.88%. The annual turnover is relatively high (348.26%) and the overall winner's ratio is 52.49%

Jefferson Kasa Acct340 Portfolio 123 Contest



Interactive Graph

General Info	
Inception Date	03/31/01
Last Rebalance Date	12/19/09
Days Since Last Rebalance	72
Rebalance Frequency	Three Months
Ranking System	Assignment 4

Quick Stats -- as of 02/26/10	
Total Market Value (inc. Cash)	$ 4,553,576.50
Cash	$ 11.26
Number of Positions	20
Total Return	810.72%
Benchmark Return	-3.61%
Active Return	814.33%
Annualized Return	28.14%
Annual Turnover	343.75%
Max Drawdown	-57.37%
Overall Winners	(372/634) 58.68%
Sharpe Ratio	0.70
Correlation with S&P 500	0.80

Top Holdings

No	Ticker	Weight	Return	Shares	Value
1	SANM	8.2%	72.48%	22,566.0	$373,241.66
2	BWS	6.4%	34.00%	20,966.0	$289,959.78
3	LZB	6.1%	28.41%	22,035.0	$277,861.34
4	AEL	5.8%	23.00%	30,244.0	$266,147.22
5	AHT	5.4%	14.17%	45,082.0	$247,049.36
6	GEL	5.3%	12.05%	12,242.0	$242,452.81
7	GIII	5.2%	9.74%	11,323.0	$237,443.30
8	HS	5.0%	5.95%	12,453.0	$229,259.73
9	LNY	4.9%	3.93%	11,028.0	$224,860.91

Last 10 Trades

Date	Type	Symbol	Shares	Price
12/21/09	BUY	AEL	30,244.0	$7.14
12/21/09	BUY	AHT	45,082.0	$4.79
12/21/09	BUY	AIQ	39,193.0	$5.51
12/21/09	BUY	BWS	20,966.0	$10.30
12/21/09	BUY	CPD	40,215.0	$5.37
12/21/09	BUY	GEL	12,242.0	$17.64
12/21/09	BUY	GIII	11,323.0	$19.07
12/21/09	BUY	HS	12,453.0	$17.34
12/21/09	BUY	KIRK	12,651.0	$17.07

Trading System Settings

General Parameters	
Benchmark	SP500 Index
Commission	8 (Flat Fee)
Slippage (% of trade amount)	0.2%
Rebalance Frequency	Three Months
Allow sold stocks to be re-bought at current rebalance	NO
Price for transactions	Next Open
Position Sizing	
Type	% of Market Value
Ideal Weight New Pos	5% of Portfolio Value
Aprox. Number of Positions	20.0
Max Weight Deviation	30%

Data Source and Ranking System	
Universe	All Stocks
NA's from Pre-Annoucement	From Previous Quarter
Ranking Name	Assignment 4

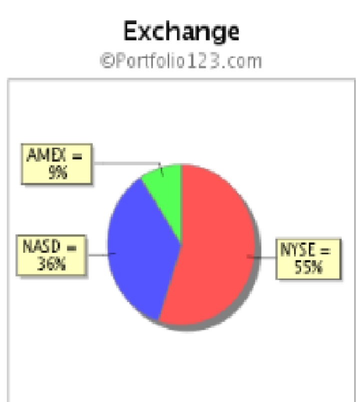
Restrictions	
Exposure List	None
Restrict Buy List	
Restrict Sell List	
Load Global Restrictions (YES)	

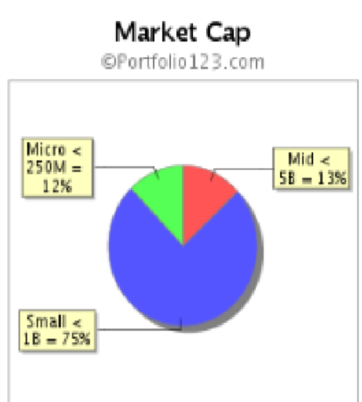
Buy Rules (Implicit AND) [copy to screen]

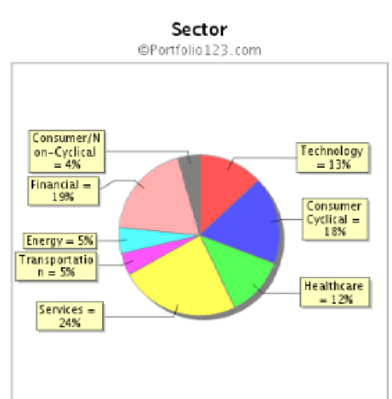
Name	Formula
MktCap Low	MktCap>200
Mkt Cap Up	MktCap<1000
Liquidity	avgdailytot(20)>200000
Price	close(0)>3

Sell Rules (Implicit OR) [copy to screen]

Name	Formula
Rank	Rank < 95
Stop Loss	GainPct < -70



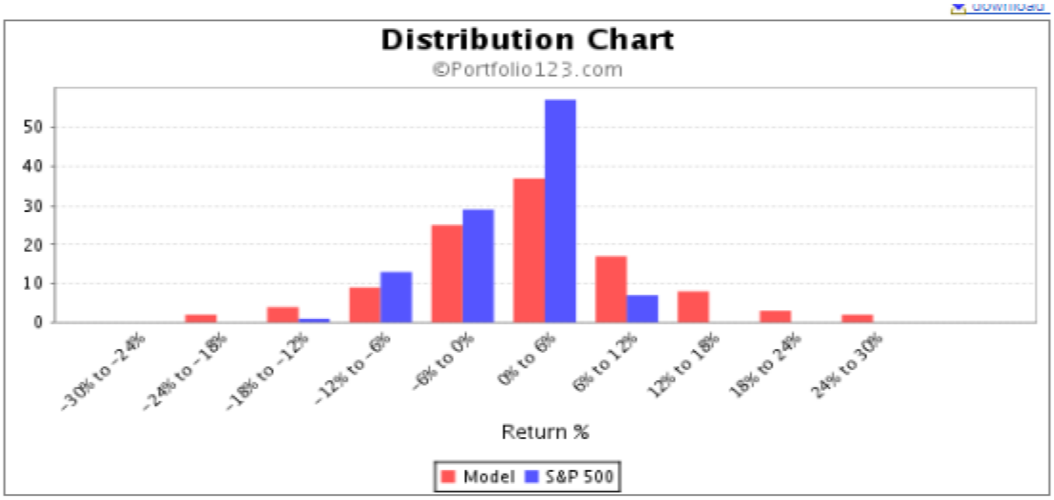




Performance		
Return	Model	S&P 500
Total	810.72 %	-3.61 %
Annualized	28.14 %	-0.41 %
Year To Date	1.10 %	-0.95 %
4 Week	4.08 %	2.85 %
13 Week	13.74 %	1.19 %
1 Year	194.12 %	46.71 %
3 Year	53.81 %	-21.05 %

Annualized Performance by Calendar Year										
	2001*	2002	2003	2004	2005	2006	2007	2008	2009	2010*
Model	59.18 %	-3.78 %	120.16 %	33.95 %	10.44 %	37.02 %	-20.13 %	-16.69 %	121.30 %	- %
S&P 500	-1.38 %	-23.37 %	26.38 %	8.99 %	3.00 %	13.62 %	3.53 %	-38.49 %	23.45 %	- %
Excess Return	**60.56 %**	**19.58 %**	**93.78 %**	**24.96 %**	**7.44 %**	**23.41 %**	**-23.66 %**	**21.80 %**	**97.84 %**	**- %**

33% of annual data is required to calculate annualized return.
(*) Inception Date: 03/31/01
(**) End Date: 02/26/10



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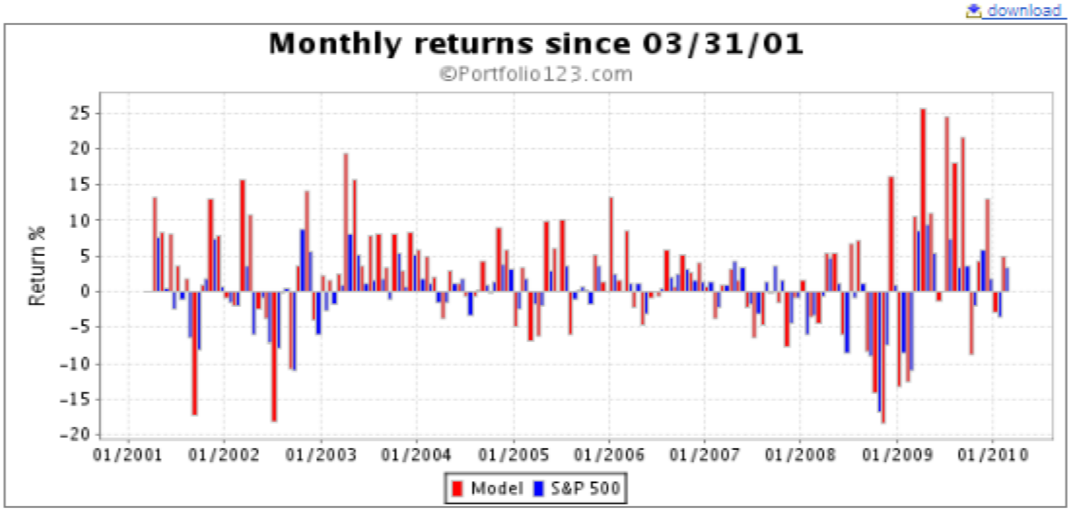
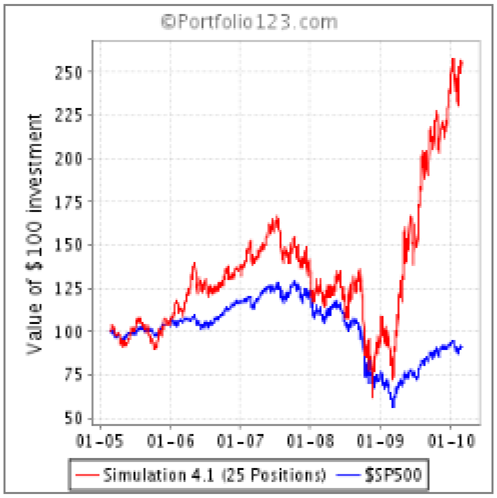


5 years results



Interactive Graph

General Info	
Inception Date	02/26/05
Last Rebalance Date	02/20/10
Days Since Last Rebalance	9
Rebalance Frequency	Three Months
Ranking System	Assignment 4

Quick Stats -- as of 02/26/10	
Total Market Value (inc. Cash)	$ 1,279,680.50
Cash	$ 16.44
Number of Positions	20
Total Return	155.93%
Benchmark Return	-8.23%
Active Return	164.17%
Annualized Return	20.68%
Annual Turnover	348.26%
Max Drawdown	-62.88%
Overall Winners	(190/362) 52.49%
Sharpe Ratio	0.39
Correlation with S&P 500	0.83

Top Holdings

No	Ticker	Weight	Return	Shares	Value
1	XTEX	7.1%	65.38%	9,608.0	$91,083.84
2	PIR	6.4%	49.80%	13,505.0	$82,515.55
3	APL	5.5%	16.20%	5,327.0	$70,902.38
4	AAWW	5.4%	12.52%	1,523.0	$68,656.84
5	MTRX	5.0%	4.68%	5,970.0	$63,879.00
6	HPY	4.9%	3.30%	4,123.0	$63,040.67
7	CLMT	4.9%	1.79%	3,129.0	$62,110.65
8	CHRS	4.8%	1.49%	10,409.0	$61,933.55
9	RT	4.8%	1.04%	7,621.0	$61,653.89
10	CPII	4.8%	0.60%	4,978.0	$61,378.74

Last 10 Trades

Date	Type	Symbol	Shares	Price
02/22/10	BUY	AAWW	1,523.0	$39.98
02/22/10	BUY	APL	5,327.0	$11.43
02/22/10	BUY	BBEP	3,985.0	$15.28
02/22/10	BUY	CHRS	10,409.0	$5.85
02/22/10	BUY	CLMT	3,129.0	$19.46
02/22/10	BUY	CLW	1,269.0	$47.95
02/22/10	BUY	CPII	4,978.0	$12.23
02/22/10	BUY	EROC	10,682.0	$5.70
02/22/10	BUY	ES	9,170.0	$6.64
02/22/10	BUY	HPY	4,123.0	$14.77

Exchange
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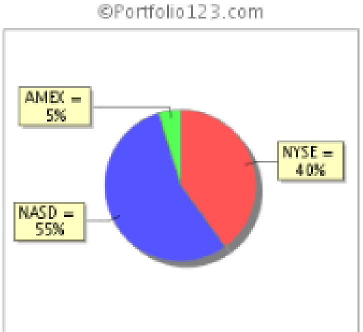

Market Cap
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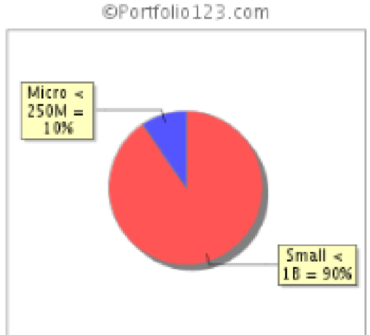

Sector
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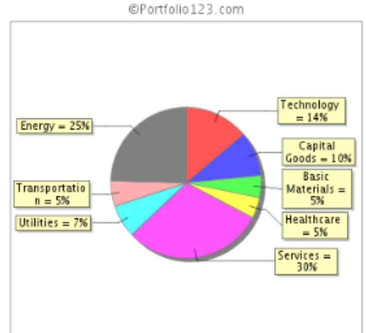

Performance		
Return	Model	S&P 500
Total	155.93 %	-8.23 %
Annualized	20.68 %	-1.70 %
Year To Date	7.65 %	-0.95 %
4 Week	7.07 %	2.85 %
13 Week	20.63 %	1.19 %
1 Year	195.51 %	46.71 %
3 Year	74.90 %	-21.05 %

Annualized Performance by Calendar Year						
	2005*	2006	2007	2008	2009	2010**
Model	4.60 %	31.69 %	-0.51 %	-27.67 %	141.42 %	- %
S&P 500	3.58 %	13.62 %	3.53 %	-38.49 %	23.45 %	- %
Excess Return	**1.02 %**	**18.08 %**	**-4.04 %**	**10.82 %**	**117.97 %**	**- %**

33% of annual data is required to calculate annualized return.
(*) Inception Date: 02/26/05
(**) End Date: 02/26/10

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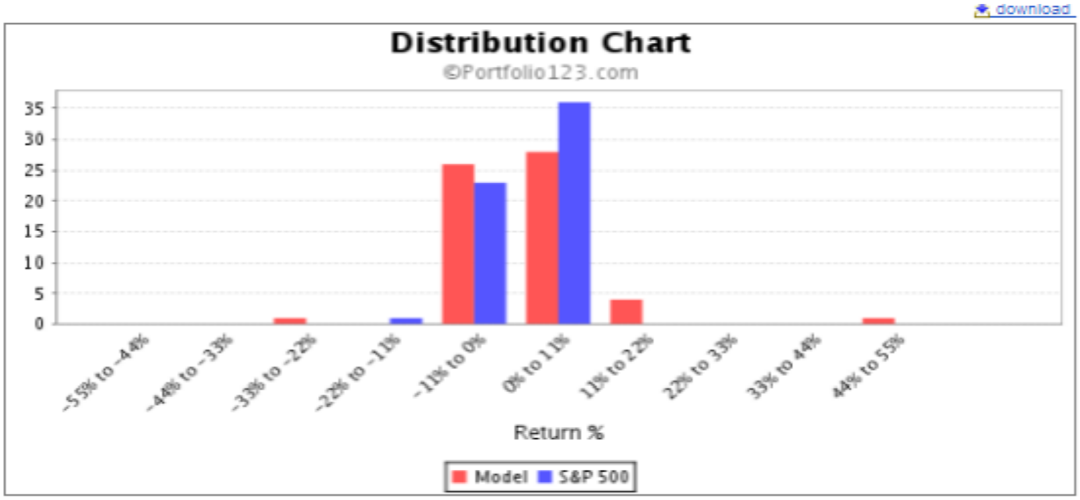

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