



# **2017 GURU PORTFOLIO PERFORMANCE REPORT**

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REVIEW AND ANALYSIS OF VALIDEA'S  
GURU-BASED MODEL PORTFOLIOS

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### 2017 MARKET OVERVIEW

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Economic growth in the U.S. and around the world gained momentum throughout 2017, fueling some eye-popping gains in global stock markets and encouraging optimism for consumers. Despite the political turbulence and early legislative failures by the Trump administration, December's passage of the tax plan was seen as a key victory that will propel the economy solidly into 2018.

Global synchronized and improving growth, low inflation, low interest rates, full employment, historically low volatility, the potential for falling tax rates and a more friendly business environments in the U.S., and higher future profits were some of the main ingredients that helped push markets to all-time highs. The market's P/E multiple continued to expand during the year as investors embraced stocks and continued to bid up prices.

During the first six months of the year, it was the technology companies that were leading the charge. Big returns came in a handful of stocks - Apple, Amazon, Google, Facebook - to name a few. During the second half of the year, returns were more distributed and some of the sectors that were left for dead earlier in the year (i.e. Retail) ended on a high note as investors took advantage of discounted valuations and looked for segments of the market that may receive more benefit from the lowering of corporate tax rates in 2018.

When everything was said and done, the S&P 500 returned an impressive 19.4% (price return only) for 2017. While most stocks pushed ahead, there were some trends under the surface that impacted performance of our portfolios and other factor strategies. Large cap stocks beat smaller names, so any strategy that focused mostly on smaller firms would have trailed the larger segment of the market. Growth and technology stocks, as mentioned above, also outperformed their value brethren by a wide margin. International equities, specifically emerging market stocks, finally came out of their long slumber of underperformance and put up stronger returns than many domestically focused names.

Overall, the Validea guru models did well but as a group they failed collectively to outperform the market. Returns ranged by a high of 57.2% to -3% when looking at our 10-stock monthly rebalanced portfolios. The average of all twelve guru portfolios came in at 16.6%, which was respectable but a few percentage points below the S&P 500. All but one of the 12 guru-inspired portfolios were positive for the year, while the model tracking the style of Motley Fool, which is our best long term performer, was down 3.7%. The Validea Hot List 10-stock portfolio returned 17%, up from its 9.9% return in 2016 but falling short of the market gain.

**Continue reading to see some of the performance highlights from 2017. (Returns are without dividends and most of the portfolio performance in this report refers to Validea's 10-stock monthly rebalanced portfolios.)**

## BEST PERFORMER

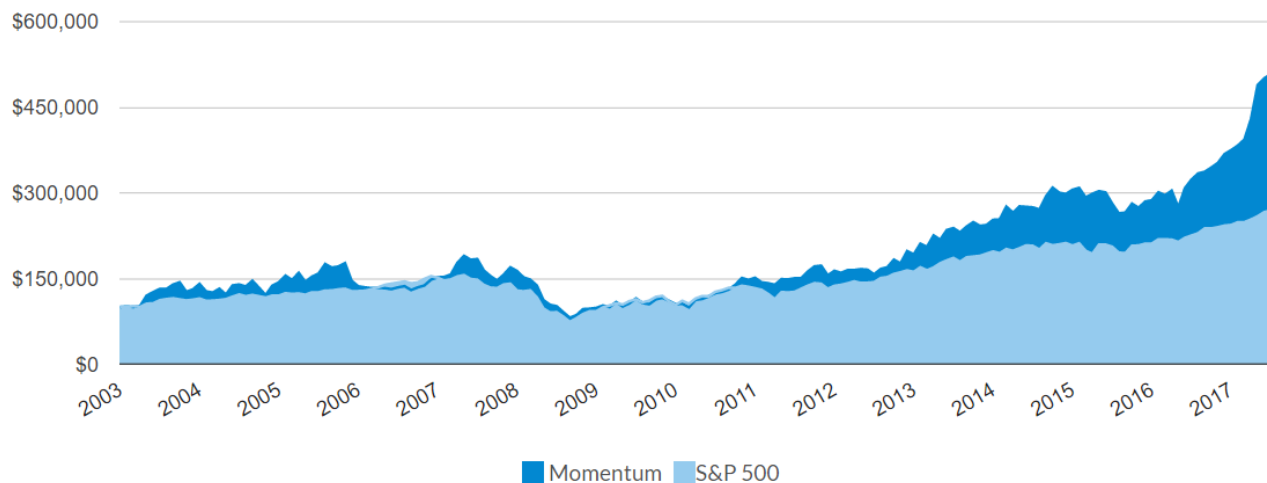
The top performer of 2017 was our Momentum Investor Portfolio, which is based on Validea's proprietary model. The 10-stock basket was up 57.2% for 2017 and got a big boost from its longest-held stock, Arista Networks (ANET). Shares of the cloud computing company were added in February and returned 138% this year. Other big gainers this year include ADRs of the Argentinian bank Grupo Supervielle (SUPV), up 23.7%, and shares of the mortgage insurer Essent Group (ESNT), up 13%. Since 2003, the portfolio has returned 12.0% annually, beating the 7.0% gain in the S&P 500.

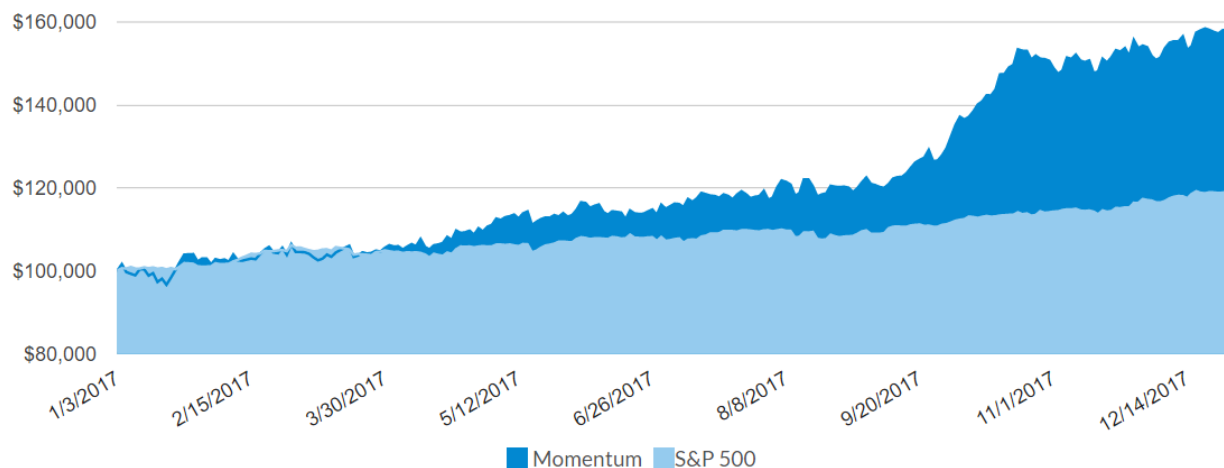
Except for Arista, the stocks in the momentum portfolio were added in the second half of the year, three of them in December, including Noah Holdings ADRs (NOAH), Toll Brothers (TOL), and Credicorp (BAP). The only portfolio holding that was negative was NetEase (NTES), the Chinese gaming and social media company, down 6.1%.

### Top Momentum Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	DATE REMOVED	START PRICE	END PRICE	RETURN
ANET	ARISTA NETWORKS INC	2/10/2017	Open	\$98.78	\$235.58	▲ 138.49%
JP	JUPAI HOLDINGS LTD (ADR)	9/22/2017	11/17/2017	\$13.61	\$23.17	▲ 70.24%
LGIH	LGI HOMES INC	8/25/2017	10/20/2017	\$43.79	\$55.92	▲ 27.70%
BMA	BANCO MACRO SA (ADR)	3/10/2017	11/17/2017	\$82.03	\$103.36	▲ 26.00%

### Momentum Investor Since Inception and 2017 Performance Charts





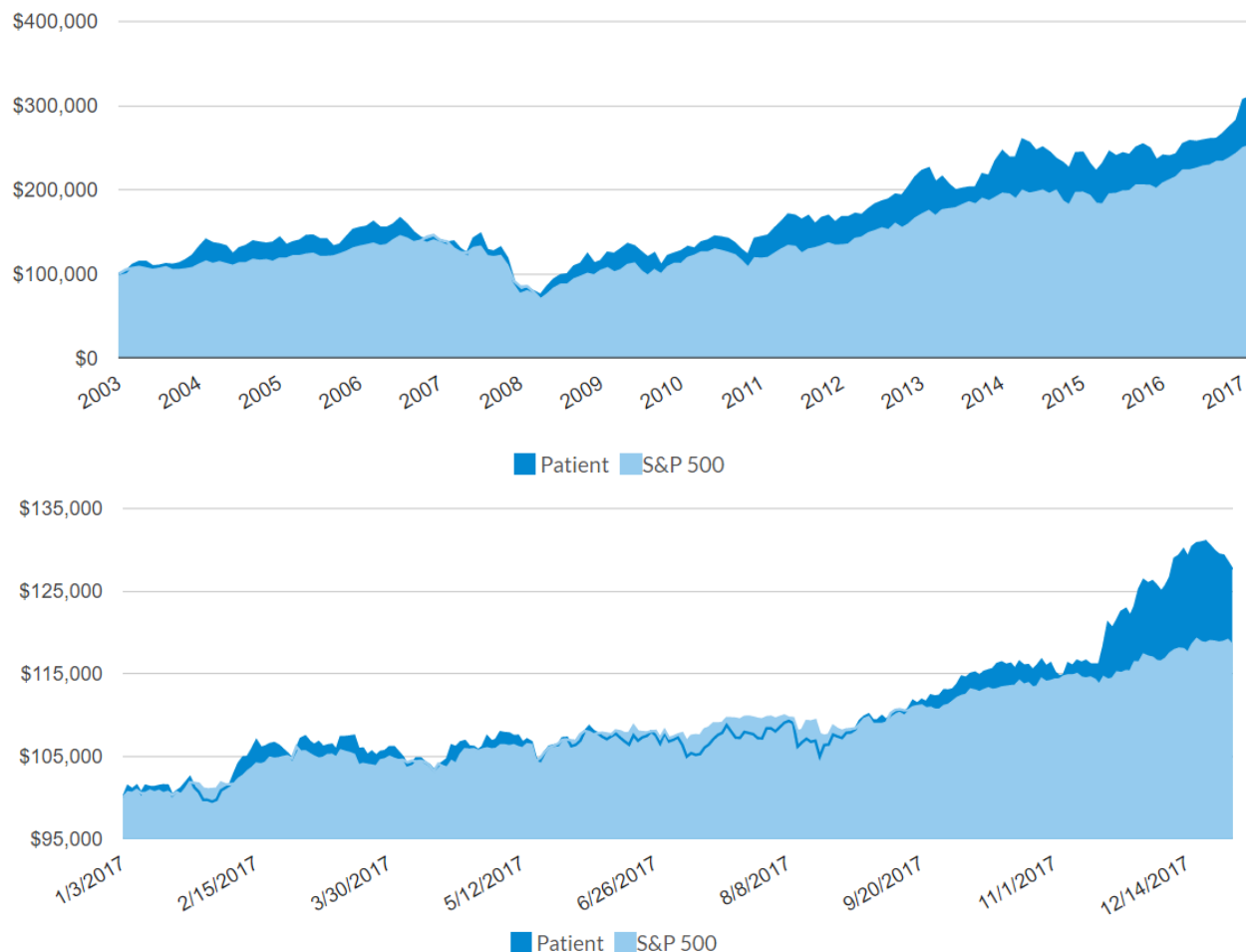
## BIGGEST TURNAROUND

The Patient Investor portfolio inspired by the style of Warren Buffett experienced the biggest turnaround during the year, overcoming a loss of 5.8% in 2016 to return 29.5% this year. Since 2003, it has posted an annual 8.4% return compared to 6.5% for the broader market. Shares of Ross Stores (ROST), which were added in 2012, lifted the portfolio this year, returning 163%. The Patient portfolio also got a boost from shares of Credit Acceptance Corp. (CACC), added this year and returning 63.8%. Another significant boost came from shares of Apple (AAPL), which Warren Buffett's Berkshire Hathaway has been buying. The computer company is up 33.1% this year. On the downside, shares of Nic Inc. (EGOV) are down 22.33%, and shares of Masimo (MASI) are down 0.38%. As the chart below shows, the model portfolio was basically in-line with the overall market through the first nine months of the year, but as the rally broadened out to other areas of the market, the Patient Investor portfolio was a beneficiary and the very strong returns from September through December helped drive most of the outperformance for the year.

### Top Patient Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	SCORE WHEN ADDED	CURRENT SCORE	START PRICE	LATEST CLOSE	RETURN
ROST	ROSS STORES, INC.	10/26/2012	100%	100%	\$30.46	\$80.25	▲ 163.46%
CACC	CREDIT ACCEPTANCE CORP.	3/10/2017	100%	100%	\$197.47	\$323.48	▲ 63.81%
AAPL	APPLE INC.	2/13/2015	100%	96%	\$127.08	\$169.23	▲ 33.17%

## Patient Investor Since Inception and 2017 Performance Charts



## **BEST VALUE MODEL**

Contrarian Investor style of David Dreman, which is one of our deepest value strategies, returned 22.6%. The Contrarian style did well in the four years ending 2007, a time of rising interest rates when value and international stocks outperformed. Since 2003 it has returned an average of 5.3% a year vs. 7% from the S&P 500. But the pendulum may be swinging back in that direction, as it seemed to indicate at the end of last year, despite this year's noted run up in growth-oriented tech stocks.

The model tracks the style of David Dreman, who believed investors overreact in predictable ways, giving popular stocks too much credit and undervaluing stocks considered to be "the worst." He focused on stocks in that second group, the ones with low multiples that otherwise should be performing better based on the company's profit margins and debt ratios. Except for ADRs of Chilean electricity producer Enel Generacion Chile SA (EOCC), which are up 12%, all of the holdings in the Contrarian Portfolio were added in the second half of this year. The best showing has been Embraer SA (ERJ), the Brazilian aerospace conglomerate, up 27.4%. The worst

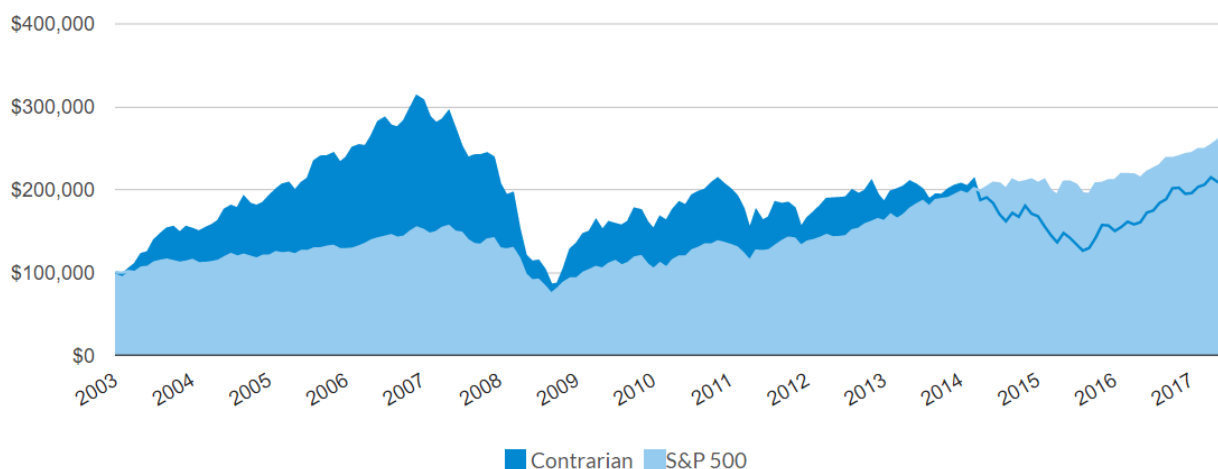
among the contrarian stock holdings: Micron Technology (MU), down 10.9% after being added to the portfolio in November.

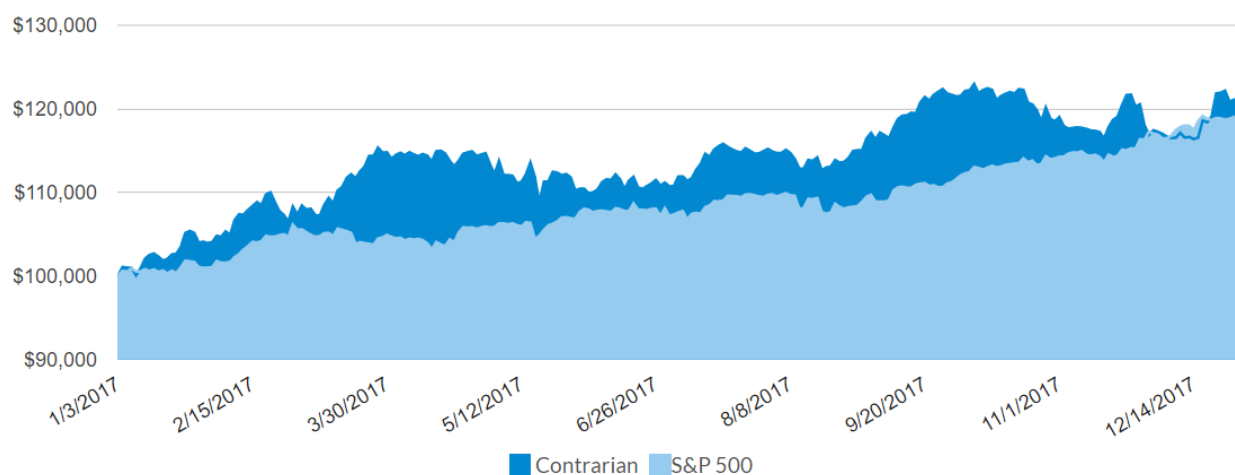
As the 2017 performance chart depicts, the model led the market most of the year but performance cooled a little bit between mid-November and mid-December. From a longer term standpoint, the model has struggled as its deep value orientation and high allocation to international stocks has been mostly a detraction from performance over the last few years, but if investors begin to reward the same types of stocks as they did between 2003-2007, you can expect much better results out of this model in that type of investing environment.

### Top Contrarian Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	SCORE WHEN ADDED	CURRENT SCORE	START PRICE	LATEST CLOSE	RETURN
ERJ	EMBRAER SA (ADR)	11/17/2017	84%	76%	\$18.78	\$23.93	▲ 27.42%
EOCC	ENEL GENERACION CHILE SA (ADR)	5/5/2017	90%	86%	\$24.03	\$26.91	▲ 11.99%
CIM	CHIMERA INVESTMENT CORPORATION	11/18/2016	90%	93%	\$16.52	\$18.48	▲ 11.86%

### Contrarian Investor Since Inception and 2017 Performance Charts





## BEST GROWTH MODEL

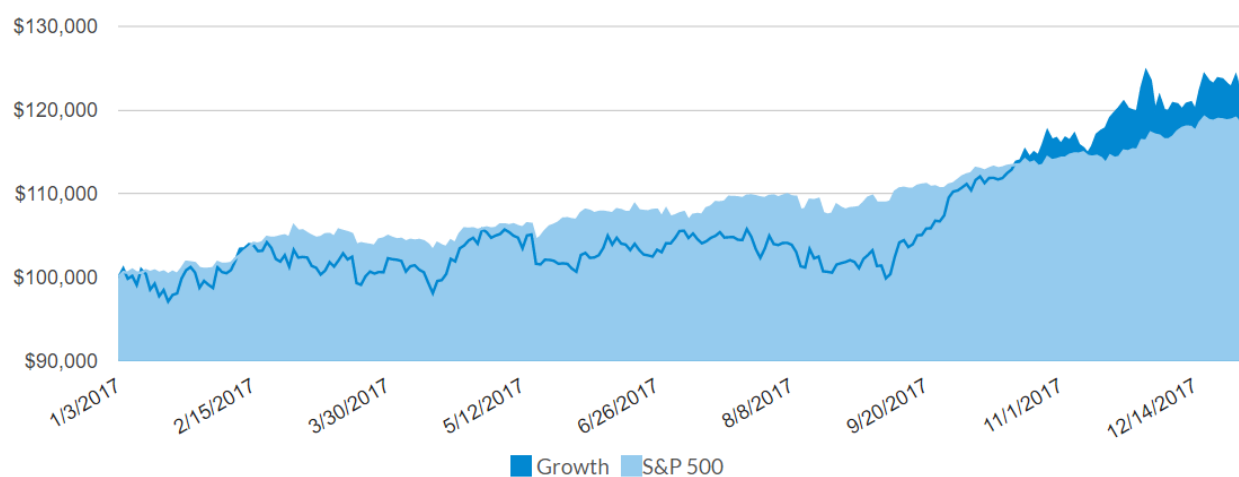
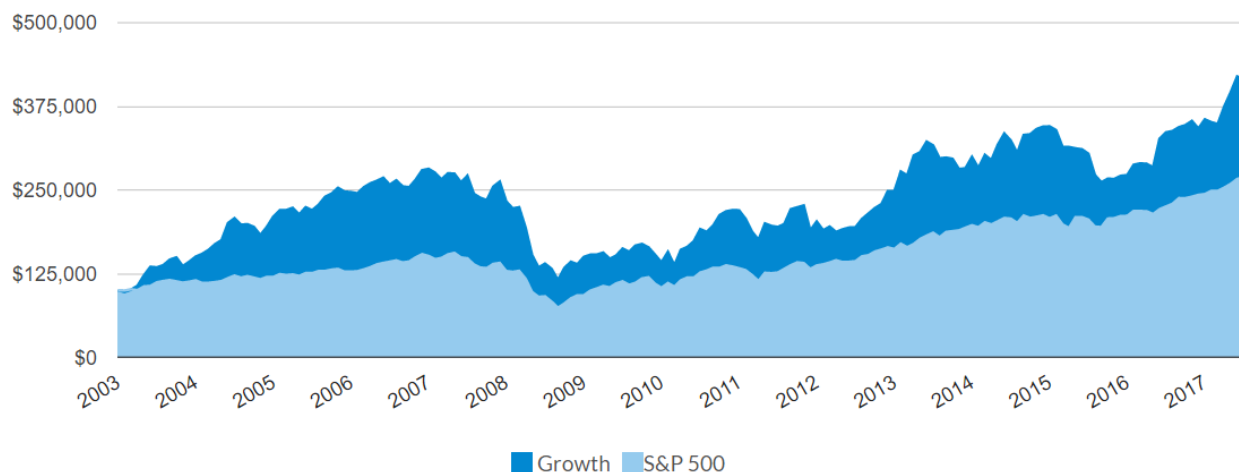
Validea's Martin Zweig-inspired Growth Investor Portfolio is mostly made up of financial stocks, a nod to the expected boost deregulation is going to bring to the U.S. banking sector. Zweig, author of the book "Winning on Wall Street," didn't like to overpay for growth stocks, so he would look at names that had relatively modest multiples and low debt-to-equity ratios compared to industry averages. The portfolio's best performing stock this year is IPG Photonics (IPGP), a maker of fiber lasers, up 60.1%. Shares of SVB Financial (SIVB) are up 37.8%, and shares of Bank of the Ozarks (OZRK) are up 28.7%. Its worst-performers are shares of Eagle Bancorp (EGBN), down 13.7% and Facebook (FB), down 1.4% since it added it.

Since inception, the 10-stock portfolio has an annualized return of 10.2% compared to 7% for the S&P 500. The strategy's performance was almost the mirror opposite of the Contrarian highlighted above. After trailing the market for most of the year, the stocks in the portfolio started to demonstrate very strong performance starting around the end of October. Over the remaining two months of the year the portfolio walked down the market to finish the year with a gain of 23.6% compared to 19.4% for the S&P 500.

### Top Growth Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	SCORE WHEN ADDED	CURRENT SCORE	START PRICE	LATEST CLOSE	RETURN
IPGP	IPG PHOTONICS CORPORATION	5/5/2017	92%	92%	\$133.74	\$214.13	▲ 60.11%
SIVB	SVB FINANCIAL GROUP	8/25/2017	100%	100%	\$169.64	\$233.77	▲ 37.80%
OZRK	BANK OF THE OZARKS INC	10/21/2016	92%	92%	\$37.64	\$48.45	▲ 28.72%

## Growth Investor Since Inception and 2017 Performance Charts



## **MOST CONSISTENT PERFORMER**

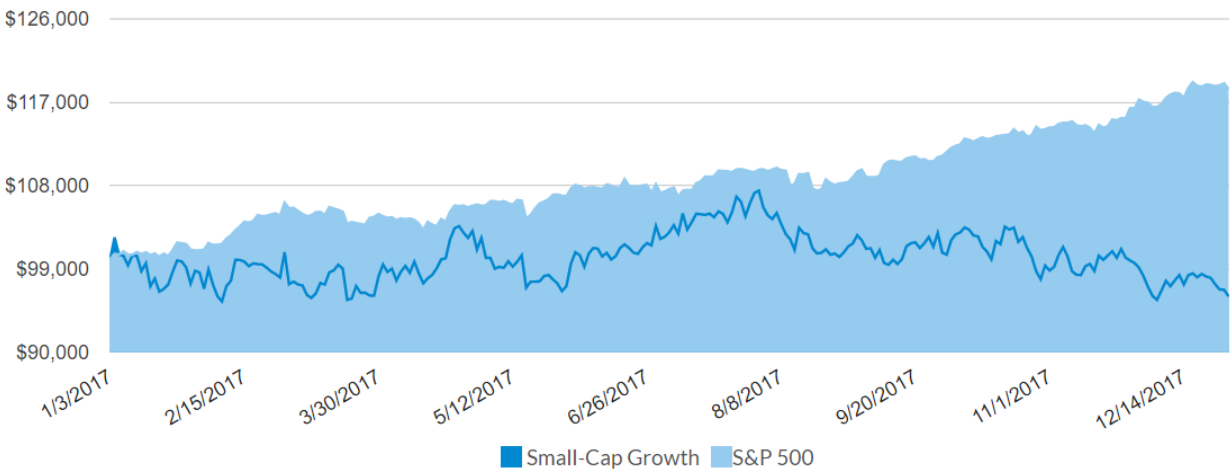
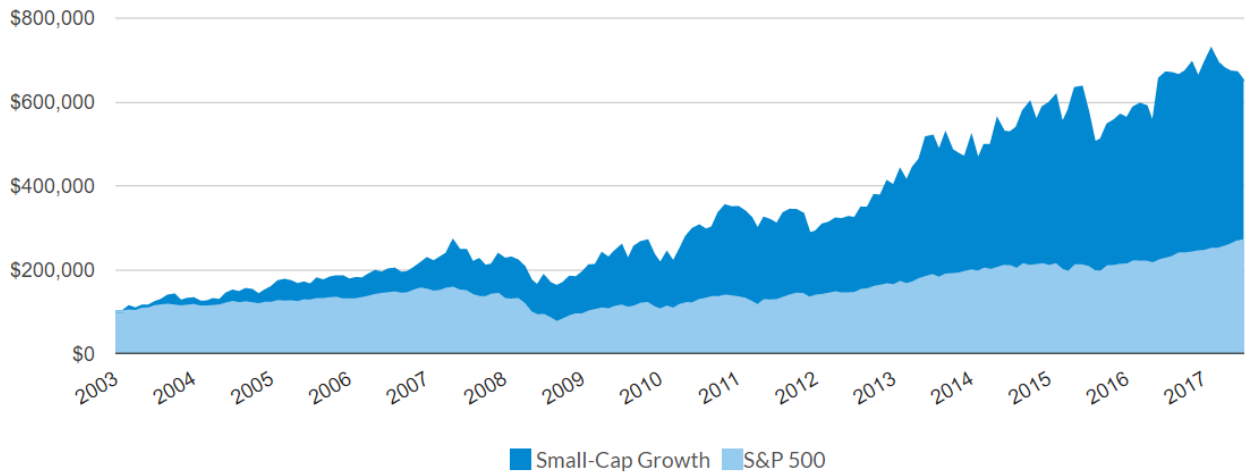
Coming into this year, the Motley Fool-inspired Small-Cap Growth Investor Portfolio was the best performer and one of the most consistent. The strategy stumbled this year, but the long term performance record and the degree of consistent market outperformance still ranks it as one of the best on the Validea site. It is up 13.7% annually since its 2003 inception, beating the 7.1% annual gain in the S&P 500 in the same time frame. This model tracks the book of David and Tom Gardner, the cofounders of the Motley Fool, who look for stocks of fast-growing companies with good fundamentals. But for this year, the portfolio is down 3.0% and the only one of the 12 guru-inspired models to post a negative number. This is a great example of how a strategy that has worked over the long term, and is one of the very best and actually most consistent, can fall out of favor. The one thing we know for sure when it comes to running these fundamentally based models is that all of them will have periods of below market returns. When that happens, most investors aren't patient and will jump ship. This ebb and flow of outperformance and underperformance can be difficult and it takes discipline to see through these short and medium term periods of lackluster returns. Investors following this strategy, or thinking about getting into it, should look at a year like 2017 and ask themselves if they could trail the market by close to 25% in one year - that is very difficult for most investors to handle.



## Top Small-Cap Growth Investor Portfolio Performers

TICKER	COMPANY	DATE ADDED	SCORE WHEN ADDED	CURRENT SCORE	START PRICE	LATEST CLOSE	RETURN
CUTR	CUTERA, INC.	11/17/2017	83%	83%	\$42.50	\$45.35	▲ 6.71%
NMIH	NMI HOLDINGS INC	11/17/2017	83%	76%	\$16.30	\$17.00	▲ 4.29%
INGN	INOGEN INC	11/17/2017	83%	83%	\$118.26	\$119.08	▲ 0.69%

## Small-Cap Growth Investor Since Inception and 2017 Performance Charts





## 2017 TOP CONSENSUS STRATEGIES

### The Validea Hot List

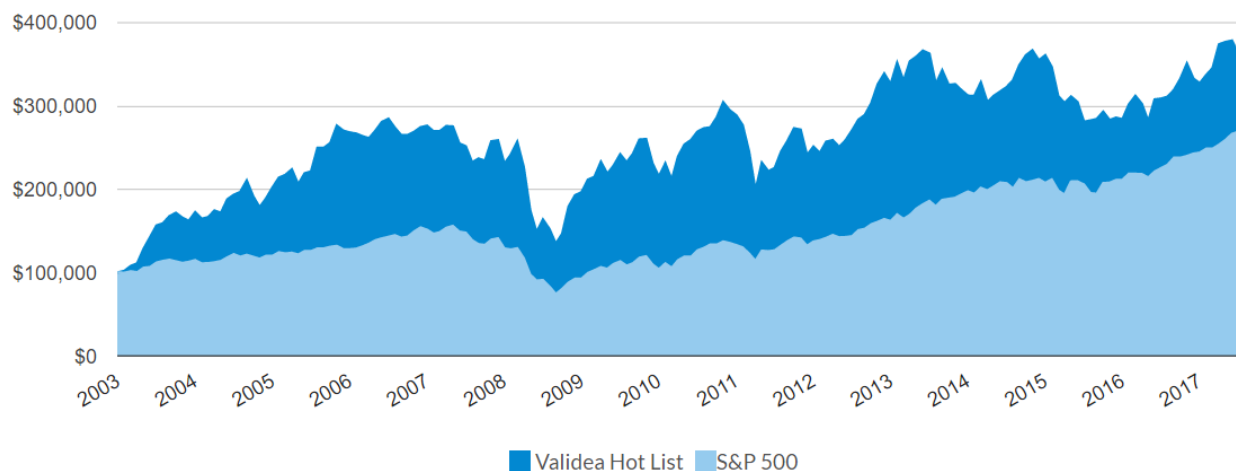
Validea's flagship portfolio notched a 17.5% gain this year, which was not quite enough to beat the S&P 500. Its biggest boost for the year came from shares of Sanderson Farms (SAFM), a poultry processor up 74.28%. Other gains came from holdings of Magna International (MGA), an automotive supplier up 22.92%, and homebuilder LGI Homes (LGIH), up 18.8%.

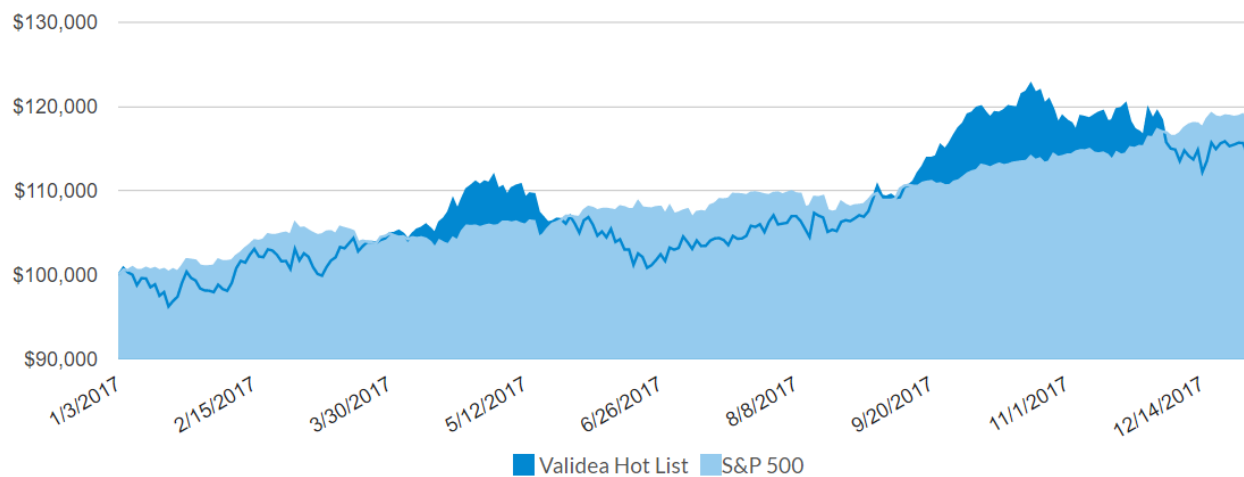
The Validea Hot List is a consensus strategy. By that, we mean it is a strategic blend of multiple models. The Hot List portfolio holds stocks that obtain high scores from multiple guru approaches at the same time. Our goal with this approach is to limit the strategy specific risk that a standalone guru model, like a value or growth method, may be susceptible to, but as the performance shows, even a blended model can fall out of favor. This is why it's very important for any investor who is using our system to understand that in the short run our strategies are risky. But over long periods of time, if you follow one or many of our portfolios with discipline and a commitment, you can put the odds of outperforming in your favor.

### Top Validea Hot List Portfolio Performers

TICKER	COMPANY	DATE ADDED	SCORE WHEN ADDED	CURRENT SCORE	START PRICE	LATEST CLOSE	RETURN
SAFM	SANDERSON FARMS, INC.	11/18/2016	56%	33%	\$81.04	\$138.78	▲ 71.25%
MGA	MAGNA INTERNATIONAL INC. (USA)	6/2/2017	69%	64%	\$46.38	\$56.67	▲ 22.19%
LGIH	LGI HOMES INC	11/17/2017	78%	38%	\$63.52	\$75.03	▲ 18.12%

### Validea Hot List Since Inception and 2017 Performance Charts





To view the 2017 model portfolio results, as well as the full historical record of all of Validea's strategies, please [click here](#) to view our model portfolios.