The Stan Clark Financial Team's

PERSPECTIVES

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Investing

Behind the Numbers: Introduction to a new series on our strategies – and how they work

By Michael Chu, Investment Advisor

The Stan Clark Financial Team uses rules-based strategies that we believe will help you achieve higher returns with lower risk. In this new series of articles, "Behind the Numbers," we'll discuss what's behind our strategies and how they work. We'll explore a variety of topics, from the rationale behind specific variables to how we rank companies, and finally to how we integrate the strategies into your portfolio. We hope that this series will give you a better idea of our investment process.

In 1997, more than 20 years ago, a computer shocked the world by beating Garry Kasparov – considered the best chess player of all time. Since then, computer-vs.-human achievements have continued to stack up. These days, we're hearing a lot about computers taking over all sorts of human jobs. So, for our investment strategies, should we just do what the computer says?

"If you can't beat them, join them," goes the old saying. After that epic chess match in 1997, Kasparov suggested a new game where human players could make use of computers for help, but the humans still had the final decision. Surprisingly, the final four players were not computers or humans – but human-machine pairings. In other words, humans aided by computers were the winners.

Today, with computers' capabilities continuing to improve, we believe that those who can synergize with computers and data will be best positioned to do well. As that chess tournament showed us, we can't rely solely on computers to do our thinking. On our team we instead embrace a combined intelligence, where decision-making is enhanced by computer-aided people. The beauty of this approach is that computers and people can capitalize on each other's strengths while compensating for each other's weaknesses. With respect to our investment decisions, computers help us greatly but we still apply our intuition and experience in making the final decisions.

We use wide range of strategies or methods to determine what to invest in for your portfolio. Our stock strategies cover approximately 3,000 companies between Canada and the U.S. For our international strategies, we rank 23 different countries located around the world.

With that many potential investments to consider, we have to scour a lot of information to determine which are best suited for your portfolio. Some of the data we look at include: price-to-earnings ratios, dividends, book values, price trends and more.

To do this effectively, we need accurate and timely data. We work with independent financial data vendors who provide us with data that has been reviewed by more than 40 accountants and analysts. They verify the data for consistency and accuracy. For example, if a company has a one-time event that temporarily boosted earnings, we want to factor that out when evaluating growth prospects.

Our data providers also give us ratings and earnings estimates from many analysts in Canada and the U.S. These are industry experts providing their detailed company fundamental analysis. Having multiple analysts means that, when evaluating a company, we're not reliant on just one expert's opinion. This allows us to remove the personal biases of any single analyst – the result being a more objective view.

One of the key points to our strategies is avoiding the proverbial "black box" – a system where the inputs and outputs are defined, but not the internal workings or processes.

At this point, it may seem that we have a lot of information to process. But a benefit of having defined rules is that we can automate the process as much as possible. If we were doing everything by hand, it would take weeks to do all the calculations. With our computer systems, we can rank thousands of companies, and re-evaluate them on a daily basis as new information comes in.

One of the key points to our strategies is avoiding the proverbial "black box" – a system where the inputs and outputs are defined, but not the internal workings or processes. An example of this is the subjective decision-making of the human mind. We know what goes in and what comes out, but we aren't always sure how biases and emotions can affect the output. This gives us inconsistent results – exactly what we want to avoid when dealing with investments. By having a rigid and clearly defined process, we achieve consistency in our decisions, which should give us better results over time.

While we try to make our strategies as objective as possible, we're still very involved in making the final decisions. In upcoming issues of *Perspectives*, we'll take a deeper look at our investment process. ■

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