The Stan Clark Financial Team

Our stock strategies

Use rules-based strategies that have beaten the indexes to invest directly in individual stocks

Investors who disengage their emotions when they make their investment decisions stand a much better chance of building wealth with returns that outperform both inflation and market averages. Doing this requires strategies based on objective data and the discipline to follow those strategies. As you continue reading, you will discover the nuts and bolts of disciplined, rules-based investing. You'll also learn how the Stan Clark Financial Team uses these strategies to provide returns to our clients that have beaten the indexes over many years.

Stock markets are remarkably consistent – in the long run

Historically, the stock market has generated a better return than almost any other investment, providing opportunities for individuals to participate in the profits of a wide range of businesses. Over the past 150+ years, the market has produced returns averaging 9.6% – this works out to 7.6% above inflation.

Year-to-year volatility frightens many investors into placing large portions of their portfolios into supposedly safe, but low-yielding, fixed-income investments such as bonds, GICs and bank deposits. While these appear safe over the short term, over the longer term they can produce large losses in real wealth due to inflation and taxes.

What these investors rarely realize is the short-term volatility in the stock market is not something to be overly concerned about.

- The volatility is caused mostly by investors' emotional ups and downs, which cancel each other out over time.
- Businesses are inherently flexible and can adapt to, and profit from, major changes that might occur in the world.

These two features combine to make stocks one of the most reliable means of preserving and growing wealth over longer stretches of time.

Subjective approach leads to lower returns

Although the average return from the stock market has been very good, many investors don't succeed at enjoying these good results. Typically, mutual funds and individual investors underperform the market by 2% to 4% a year. That may still result in a better return than you would get from fixed-income investments; however, it is far less growth than the stock market is capable of. Analysts have long recognized that underperformance is common. But only recently, through research in the area of behavioral finance, have the root causes of this problem become understood.

It now seems clear that underperformance stems from the fact that most mutual fund managers, advisors and analysts follow a subjective prediction approach. Some writers have dubbed this a *prediction addiction*. Drawn to stories about companies, industries and trends, these managers try to predict the future of specific companies, the stock market or the economy as a whole. Most of their predictions rely on subjective judgments, rather than objective facts. People use this approach to investing because it seems to make sense and feels right, intuitively. However, as has been shown by results and explained by behavioral finance, subjective predicting does not work well.

Using a subjective approach causes most investors, amateur and professional, to make systematic, repeated errors. Those errors are deeply rooted in human nature and are difficult to avoid, leading investors to overpay for some investments, while overlooking opportunities for superior returns.

Although pure luck can produce attractive-looking returns over periods of three to five years, this luck often leads to overconfidence. The systematic human mistakes are then often magnified in a negative way when the luck turns. You can't count on luck to persist, which is why past performance, especially over these short time periods, rarely results in similarly good future performance.

Objective factors produce superior returns

The surprising thing is, while most investors using a subjective approach perform worse than the market averages, numerous studies have found simple objective factors that have consistently, over many decades, led to much better-than-average returns. Had investors simply focused their efforts on selecting stocks with these positive factors and avoided using a subjective approach, their returns could have been much better.

Behavioral finance helps explain why these factors exist, why they lead to better performance and why most investors fail to take advantage of them. There are three main types of positive objective factors: *value*, *momentum* and *quality*.

Stocks with good *value* are those that have low prices compared to underlying company fundamentals. This good value is indicated by such measures as:

- Low price-to-earnings ratio
- Low price-to-cash flow ratio
- Low price-to-sales ratio
- Low price-to-book value ratio
- Low price-to-dividend ratio (which is the same as high dividend yield).

Stocks with good *momentum* are those that surprise investors by doing better than expected. Examples of this are:

- Analysts are raising their earnings estimates
- The company is surprising analysts by reporting better than expected earnings
- The company's stock price is moving up much faster than average, indicating much better-than-expected results.

Stocks with good *quality* are those with strong profitability, growth and safety. Good quality stocks justify higher prices, but these positive qualities are often under-appreciated by the market and therefore mis-priced. Examples of quality measures are:

- High return on equity, high profit margins, strong cash flows
- Growing earnings, margins and cash flows (e.g. last 5 years)
- Low price volatility (e.g. Beta), low earnings variability, low debt/equity.

In well-designed studies conducted by independent researchers, it has been shown that stocks with good value, momentum or quality produce returns averaging 3% to 5% above the market average. Stocks with poor value, momentum or quality produce returns 3% to 5% below the market average.

By focusing on the positive objective factors that lead to consistent, long-term growth, you can greatly increase the likelihood of better than average returns, while reducing your investment risks.

Rules-based strategies help avoid errors and achieve higher returns

The Stan Clark Financial Team created proprietary rules-based strategies to help us avoid errors produced by a subjective approach, and to take advantage of the above-average returns found in stocks with good value, momentum and quality.

We don't just rely on our own firm's data and research. Every day, we obtain high quality financial data for thousands of public companies, and earnings estimates and ratings from research analysts across the industry. Most important, we make our decisions by objectively analyzing this data, using our team's proprietary systems and applying our rules to separate the stocks we want from those we don't. We never play hunches or try to guess the market when deciding which stocks to buy and which ones to sell for you.

The rules-based strategies enable us to create and manage diversified portfolios using individual securities. Our strategies' average compound growth over the past 28-plus years has surpassed market indexes and has significantly outperformed mutual funds.

The strategies have also consistently beaten the averages over most rolling three-, four- and five-year periods. They have had considerably fewer losing periods – in keeping with our goal to deliver exceptional growth to our investors during up markets, while softening the blows and easing the stresses of down markets.

Our stock selection process

The following outlines the four-step process used by the Stan Clark Financial Team to create and manage customized portfolios using individual stocks.

1. Obtain accurate, timely data

To evaluate stocks using the positive objective factors of value, momentum and quality, we need accurate and timely data. Some sources of data are better than others; our team uses an independent company to provide daily updates and the highest quality data available on over 700 publicly traded Canadian companies and 2,000 publicly traded U.S. companies.

We also receive earnings estimates and ratings from hundreds of analysts at dozens of investment firms across the industry. Our data is verified by independent teams of accounting and investment professionals to ensure the data is consistent and accurate. All this data is updated and provided to us electronically every day.

2. Update rankings within each strategy

Our team has created several unique *strategies*, each using different combinations of value, momentum and quality. For example, our Income Strategy focuses on dividend yield and our Predictable Growth Strategy focuses on price-to- earnings ratios, while our Multi-Screen Strategy looks at all the factors together. We have eight separate strategies for Canadian stocks and eight specifically for U.S. stocks. We have two additional strategies using low-cost exchange traded funds for international investing.

For every strategy, we evaluate each stock, ranking them from best to worst based on how well they meet the strategy's criteria. The better the ranking, the more likely it is the stock will provide good returns. Since each strategy has a slightly different focus, each produces a different ranking of the stocks. Each day we receive new data, which we use to update our strategies, producing a new set of rankings.

Besides ranking stocks, each strategy also has a *sell point*, a ranking below which a stock no longer qualifies as one we want to hold.

Using several strategies gives us a greater number of top-ranked stocks to choose from, and also reduces the chance of having too much money invested in any one that might lag behind the market.

Having 18 strategies is like having 18 separate money managers. All 18 are extremely disciplined and avoid the common selection mistakes made by most regular money managers.

3. Create diversified portfolios using top-ranked stocks from each strategy

After we have updated our strategies, we create lists of the top-ranked stocks in each one. Any new company on the list is manually verified by our team to ensure the data behind it is accurate and makes sense. We then use our revised list of verified top-ranked stocks to create our portfolios.

Each new portfolio is created by picking the top-ranked stocks from each strategy, to create a portfolio of 35 to 70 stocks. This ensures that our portfolios are not overly exposed to any one company or to any one strategy and that they hold only the top-rated stocks. To reduce risk further, we make sure each

portfolio is balanced by industry. This is usually easy to achieve because of the large number of top-ranked stocks identified by our multiple strategies.

4. Monitor portfolios; adjust to improve rankings

After our portfolios are created, we check each one daily against our updated rankings. If any portfolio holds a stock that is no longer well-rated by our strategies, our team reviews the portfolio and determines the best, highest-ranked stock to replace it with. We then replace the low-ranked stock with the better one. We also make changes to ensure the portfolios remain balanced and diversified.

Because we apply our strategies systematically, virtually every member of the Stan Clark Financial Team can review your portfolio and arrive at the same conclusions about what should be in it and what should not.

Discipline: The key to success

Our investment strategies are based on our own objective, detailed analysis of the data.

We apply clearly-defined criteria to the data to create rankings, which we then use to help us make decisions. In doing this our goal is to minimize or eliminate biases, rumours, overconfidence and other psychological factors that cause even the best of us to make subjective choices and repeated errors of judgment that lead to unwise investments. It also provides transparency in our decision making – you know what we're doing and why. Directly owning and managing individual stocks also keeps your costs low especially when compared to mutual funds or pool funds.

We established our rules-based approach to investing to keep us from falling into the common traps or "stories" that human nature regularly tempts us with. This can be difficult, but the benefits are worthwhile: we have used our disciplined approach for several years, with good results. It is simply the best way we know to reliably outperform the market over the long term.

Summary of our 18 disciplined stock selection strategies

Canadian Strategies

High Yield (HY): Value strategy that looks for stocks with the highest dividend yields among large, liquid companies.

Income (In): Value strategy that looks for stocks with high dividend yields and price stability.

Value (VL): Looks for well-priced stocks relative to earnings, cash flow, book value and sales; and also those that are less leveraged, have consistent earnings and lower price volatility.

Multi-Screens (MS): Blended strategy that looks for stocks that are reasonably priced and showing signs of surprising with better than expected results. Uses a selection of value, timing, and quality screens.

Predictable Growth (PG): Blended strategy that looks for stocks with good earnings value, growing book values and consistent earnings.

Shareholder Yield (SY): Blended strategy that favours companies that pay dividends and are buying back shares.

Quality (QL): Blended strategy identifying stocks that exhibit high quality defined by profitability, growth and safety.

Momentum (Mo): Favouring companies that are surprising the market with better than expected results. Emphasis on strong earnings growth, earnings surprise, and estimate revisions. In addition to this pure Momentum strategy, all our other Canadian strategies incorporate some momentum in order to reduce the likelihood of "value traps" to improve returns and reduce risk.

When used together, our Canadian strategies have a 36 year track record of 12.7% vs. 8.5% market benchmark*.

U.S. Strategies

High Yield (HY): Value strategy that looks for stocks with the highest dividend yields among large companies.

Asset Value (AV): Blended strategy with emphasis on stocks trading at low price-to-book ratios.

Earnings Value (EV): Blended strategy with emphasis on stocks trading at low price-to-earnings ratios.

Value (VL): Looks for well-priced stocks relative to earnings, cash flow, book value and sales; and also those that are less leveraged and have consistent earnings.

Multi-Screens (MS): Blended strategy that looks for stocks that are reasonably priced and showing signs of surprising with better than expected results. Uses a selection of value, timing, and quality screens.

Shareholder Yield (SY): Blended strategy that favours companies that pay dividends and are buying back shares.

Quality (QL): Blended strategy identifying stocks that exhibit high quality defined by profitability, growth and safety.

Momentum (Mo): Favouring companies that are surprising the market with better than expected results. Emphasis on strong earnings growth, earnings surprise, and estimate revisions. In addition to this pure Momentum strategy, all our other U.S. strategies incorporate some momentum in order to reduce the likelihood of "value traps" to improve returns and reduce risk.

When used together, our U.S. strategies have a 28 year track record of 12.9% vs. 10.6% market benchmark*.

International Strategies

Developed Markets: Invests in country indexes of developed markets outside of North America. Looks for the strongest value and momentum characteristics. 47 year track record of 14.9% vs. 10.8% benchmark.

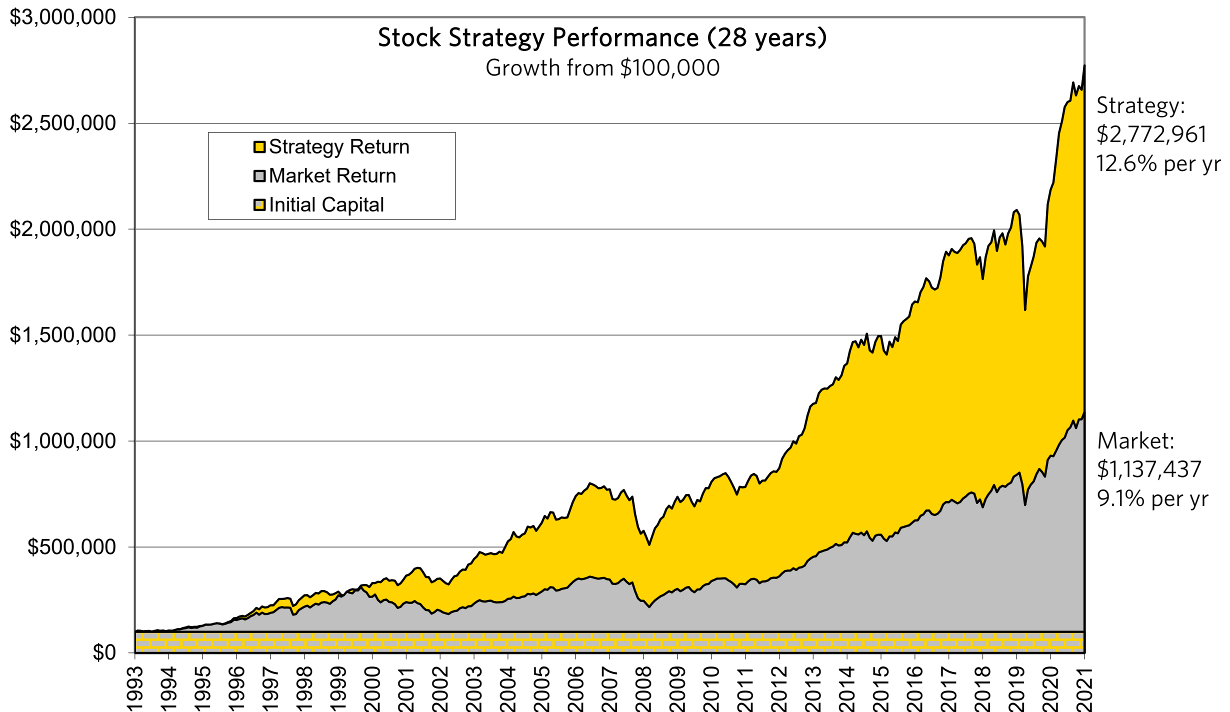
Emerging Markets: Invests in country indexes of emerging markets for international diversification. Looks for the strongest value and momentum characteristics. 26 year track record of 10.9% vs. 6.3% benchmark.

All 18 of our stock strategies used together have a 28 year track record of 12.6% vs. 9.1% market benchmark*.

** Strategies returns include 1.25% management fees. No management fee included for market benchmark returns.*

Summary of Returns – All Strategies (C$)

The following shows the returns from using all of our strategies together over the past 28 years. There are eighteen strategies in total: 8 Canadian, 8 U.S., International Developed Markets ETF and International Emerging Markets ETF. Returns shown in Canadian dollars.



Compound Annual Returns

	% Return		Growth from $100,000	
	Strategy	Market	Strategy	Market
1 yr	26.9%	22.2%	$126,857	$122,205
3 yr	16.3%	18.3%	$157,177	$165,546
5 yr	10.8%	12.7%	$167,216	$181,899
10 yr	13.5%	13.4%	$354,032	$350,862
20 yr	10.7%	8.1%	$759,980	$474,354
28 yr	**12.6%**	**9.1%**	**$2,772,961**	**$1,137,437**

Rolling Periods

	Success vs. Mkt	Positive Returns
1 year	226/325 (70%)	274/325 (84%)
2 year	241/313 (77%)	283/313 (90%)
3 year	246/301 (82%)	281/301 (93%)
4 year	249/289 (86%)	285/289 (99%)
5 year	233/277 (84%)	276/277 (100%)

Risk/Volatility Measures

	Strategies	Market
Monthly standard deviation:	3.4%	3.5%
% losing 3 month periods:	27.5%	28.1%
% losing 12 month periods:	15.7%	20.9%
% losing 3 year periods:	6.6%	16.9%

Turnover per year:	74%
Annual fee assumed:	1.25%
Annual fee assumed for Market:	0.00%
Cost per trade assumed:	0.1%

For more information…

To learn more about CIBC Wood Gundy, the Stan Clark Financial Team and the many ways we can help manage your wealth, please call (604) 641-4361 or toll free at 1 (800) 661-9442.

You can also reach us by email at StanClarkFinancialTeam@cibc.ca or visit us online at www.stanclark.ca.

Additional Information on the Return Calculations

The preceding pages show returns from disciplined strategies used by the Stan Clark Financial Team. The returns are estimates of what would have been achieved by investing exactly according to various strategies.

Returns actually achieved by individual investors vary from these because of a number of factors, including the following:

1) Intentional variations to the basic strategy rules. The main ones are as follows:

a) We incorporate a small number of rules over and above what were available to calculate the historical returns. We only use these if they make sense and if we can implement them in a very systematic way in addition to the basic strategy rules. Two examples are average analyst ratings and the Ethical, Social and Governance (ESG) screens. Both of these are used to help eliminate high risk companies.
b) We do *daily* monitoring and adjustments, rather than the monthly adjustments used to calculate strategy returns.
c) We allow cross-strategy adjustments (i.e.: we do not "double up" on positions). This allows us to have more stringent sell criteria on each strategy without increasing turnover, and provides more complete diversification. This means our positions will vary in weighting from those implied by the strategy returns.
d) Company and geographic weights can vary from those implied by the strategy returns. We will often delay trimming our winning positions to allow our "winners to run" to a greater extent than used in calculating the mechanical strategy returns.
e) We personally verify each buy and sell signal to ensure they "make sense" and are not caused by unusual data signals. While we believe rules-based strategies will outperform subjective decision making, we believe that combining informed judgement with rules in a disciplined way will outperform both.

We believe these variations will improve returns and reduce risk, but may cause deviations (hopefully mostly positive) from the calculated strategy returns.

2) Trading costs, including bid-ask spreads, commissions, market impact, and time-lags. The returns shown include an assumed "cost per trade" of 0.1% to account for the trading costs. Actual costs experienced may be higher or lower than this amount, depending on the stock and the circumstance.

The All Strategies returns assume a geographic mix of 40% Canada, 40% U.S., 13% International Developed Markets and 7% International Emerging Markets. As the Emerging Markets ETF strategy did not start until February 1996, from 1994 to January 1996, we instead used our Developed Markets ETF strategy returns and benchmarks. Market benchmark returns were created using indexes with the same geographic mix as the strategies.

Strategies returns include 1.25% management fees. No management fee is included for market benchmark returns. Indexes used in market benchmark returns are unmanaged, do not reflect management or trading fees, and one cannot invest directly in an index.

While we expect the superior performance from the strategies to continue in the future, the future can never be predicted with precision. Factors unknown to us may cause any or all of the strategies to cease working in the future. We therefore cannot guarantee that future performance will match past performance. All strategies experience periods of under-performance. Sometimes these periods last a number of years. Often, the best returns occur after periods of under-performance. It is difficult to distinguish between temporary under-performance and a permanent impairment of a strategy.

We strongly believe in using a portfolio approach with the strategies, investing money in all of the strategies and not rely too much on any single strategy. This helps provide more steady returns from year to year, and helps protect against having too much money allotted to a strategy that produces sub-par results. Our portfolios typically hold 30-70 stocks and also have a balance by industry, geography and style.

Further information is available on the specific strategies and the methods of calculating returns.

Stan Clark is a Senior Wealth Advisor with CIBC Wood Gundy in Vancouver, BC. The views of Stan Clark do not necessarily reflect those of CIBC World Markets Inc. This information, including any opinion, is based on various sources believed to be reliable, but its accuracy cannot be guaranteed and is subject to change. Clients are advised to seek advice regarding their particular circumstances from their personal tax and legal advisors. Insurance services are available through CIBC Wood Gundy Financial Services Inc. In Quebec, insurance services are available through CIBC Wood Gundy Financial Services (Quebec) Inc. If you are currently a CIBC Wood Gundy client, please contact your Investment Advisor "CIBC Private Wealth" consists of services provided by CIBC and certain of its subsidiaries, through CIBC Private Banking; CIBC Private Investment Counsel, a division of CIBC Asset Management Inc. ("CAM"); CIBC Trust Corporation; and CIBC Wood Gundy, a division of CIBC World Markets Inc. ("WMI"). CIBC Private Banking provides solutions from CIBC Investor Services Inc. ("ISI"), CAM and credit products. CIBC World Markets Inc. and ISI are both Members of the Canadian Investor Protection Fund and Investment Industry Regulatory Organization of Canada. CIBC Private Wealth services are available to qualified individuals. The CIBC logo and "CIBC Private Wealth" are trademarks of CIBC, used under license.
© Stan Clark 2022

CIBC WOOD GUNDY | The Stan Clark Financial Team
Where planning, investing and behavioral finance meet

Phone: 604 641-4361 | Toll-free: 1 800 661-9442 | Fax: 604 608-5211 | Email: stanclarkfinancialteam@cibc.ca | www.stanclark.ca