

Preliminary Sign of Vulnerability for Energy Sector

After several months of maintaining a ranking among the most attractive sectors, the energy sector has dropped out of the top-ranked group, due primarily to lower technical scores. Given the typical volatility in our rankings we will watch to see if this directional change holds over the coming weeks. The business services sector has also fallen out of the top-ranked group as both fundamental and technical outlook metrics have weakened. Improved catalytic properties have helped the aerospace/defense and consumer staples sectors to break into the top 5 group. Likewise, higher catalytic scores have resulted in the industrial products sector breaking out from the bottom 5 group. See Tables 5 and 6 for top-ranked names from the most attractive sectors and bottom-ranked names from the least attractive sectors.

Table 1 – Current Sector Rankings and Change from Last Report (as of January 4, 2023)

Sector	Previous Integrated Rank	Current Integrated Rank	Change In Rank	Behavioral Preference Rank
AUTO-TIRES-TRUCKS	1	1	0	4
HEALTHCARE	2	2	0	8
AEROSPACE DEFENSE	10	3	7	15
CONSUMER STAPLES	9	4	5	9
TRANSPORTATION	6	5	1	6
RETAIL-WHOLESALE	3	6	-3	5
INDUSTRIAL PRODUCTS	12	7	5	12
TECHNOLOGY	7	8	-1	11
FINANCIALS	8	9	-1	2
BUSINESS SERVICES	4	10	-6	13
BASIC MATERIALS	15	11	4	14
ENERGY	5	12	-7	7
CONSUMER DISCRETIONARY	11	13	-2	10
CONSTRUCTION	13	14	-1	3
UTILITIES	14	15	-1	1
CONGLOMERATES	16	16	0	16

Table 2 – Current Sector Rankings with Rankings for Absolute-Scale & Relative-Scale Metrics

Sector	Current Integrated Rank	Behavioral Preference Rank	ABSOLUTE-SCALE METRICS		RELATIVE-SCALE METRICS			
			Technical Outlook Rank	Fundamental Outlook Rank	Current Relative Scale Rank	Valuation Rank	Technical Rank	Catalytic Rank
AUTO-TIRES-TRUCKS	1	4	6	4	9	2	6	3
HEALTHCARE	2	8	9	1	4	12	9	2
AEROSPACE DEFENSE	3	15	2	10	13	8	2	12
CONSUMER STAPLES	4	9	11	2	10	3	11	1
TRANSPORTATION	5	6	3	8	7	13	3	7
RETAIL-WHOLESALE	6	5	8	6	6	11	8	6
INDUSTRIAL PRODUCTS	7	12	12	9	8	7	12	9
TECHNOLOGY	8	11	13	5	11	4	13	4
FINANCIALS	9	2	7	7	2	16	7	8
BUSINESS SERVICES	10	13	5	13	15	1	5	13
BASIC MATERIALS	11	14	4	12	16	9	4	11
ENERGY	12	7	1	11	12	14	1	10
CONSUMER DISCRETIONARY	13	10	10	14	14	6	10	14
CONSTRUCTION	14	3	16	15	3	5	16	15
UTILITIES	15	1	14	3	1	15	14	5
CONGLOMERATES	16	16	15	16	5	10	15	16

Table 3 – Corresponding Model Scores for Current Sector Rankings

Sector	Current Integrated Score	Behavioral Preference Score	ABSOLUTE-SCALE METRICS		RELATIVE-SCALE METRICS			
			Technical Outlook Score	Fundamental Outlook Score	Current Relative Scale Score	Valuation Score	Technical Score	Catalytic Score
AUTO-TIRES-TRUCKS	0.258	0.125	0.283	0.117	-0.095	0.542	0.211	0.622
HEALTHCARE	0.192	-0.024	0.157	0.197	0.127	-0.139	0.085	0.695
AEROSPACE DEFENSE	0.157	-0.342	0.511	-0.112	-0.234	0.082	0.439	0.361
CONSUMER STAPLES	0.141	-0.029	0.131	0.177	-0.099	0.344	0.059	0.698
TRANSPORTATION	0.133	0.057	0.434	-0.015	0.075	-0.195	0.362	0.499
RETAIL-WHOLESALE	0.118	0.101	0.173	0.076	0.077	0.006	0.101	0.586
INDUSTRIAL PRODUCTS	0.005	-0.193	0.129	-0.100	0.034	0.143	0.057	0.398
TECHNOLOGY	-0.004	-0.153	0.080	0.103	-0.106	0.302	0.008	0.603
FINANCIALS	-0.029	0.270	0.207	-0.009	0.201	-0.536	0.135	0.494
BUSINESS SERVICES	-0.062	-0.232	0.289	-0.214	-0.271	2.097	0.216	0.357
BASIC MATERIALS	-0.118	-0.296	0.371	-0.174	-0.339	0.059	0.298	0.364
ENERGY	-0.143	-0.015	0.658	-0.148	-0.191	-0.373	0.586	0.375
CONSUMER DISCRETIONARY	-0.210	-0.046	0.153	-0.237	-0.267	0.164	0.081	0.296
CONSTRUCTION	-0.257	0.214	-0.200	-0.270	0.152	0.170	-0.272	0.255
UTILITIES	-0.270	0.359	-0.030	0.117	0.349	-0.404	-0.102	0.588
CONGLOMERATES	-0.691	-0.570	-0.169	-0.523	0.094	0.006	-0.241	-0.029

Table 4 – Current versus Historical Sector Rankings (last 12 months)

Sector	Current Rank 01/04/2023	Dec 2022	Nov 2022	Oct 2022	Sept 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022	Avg Hist Rank	Curr vs. Hist
AEROSPACE DEFENSE	3	10	8	16	11	13	16	14	4	14	8	15	14	11.9	8.9
AUTOS-TIRES-TRUCKS	1	2	5	4	7	5	15	13	15	12	9	16	11	9.5	8.5
CONSUMER STAPLES	4	4	11	13	16	11	10	15	12	16	15	13	12	12.3	8.3
HEALTHCARE	2	3	2	3	10	8	11	16	9	8	12	10	10	8.5	6.5
RETAIL-WHOLESALE	6	1	7	14	13	9	8	12	10	10	10	14	1	9.1	3.1
TECHNOLOGY	8	12	9	5	14	6	13	10	14	7	14	8	7	9.9	1.9
TRANSPORTATION	5	7	4	7	4	3	2	3	2	6	11	12	13	6.2	1.2
INDUSTRIAL PRODUCTS	7	5	10	6	15	10	9	7	6	11	5	3	8	7.9	0.9
BUSINESS SERVICES	10	11	6	8	6	7	7	9	11	15	16	6	3	8.8	-1.3
CONSUMER DISCRETIONARY	13	15	14	11	9	15	6	11	13	9	7	11	9	10.8	-2.2
BASIC MATERIALS	11	6	15	9	12	14	3	2	3	5	3	9	6	7.3	-3.8
FINANCIALS	9	8	3	12	2	4	4	1	5	3	4	1	2	4.1	-4.9
CONSTRUCTION	14	13	13	15	8	12	14	5	8	2	1	7	5	8.6	-5.4
CONGLOMERATES	16	14	16	10	5	16	12	4	16	1	6	2	16	9.8	-6.2
UTILITIES	15	16	12	2	3	1	5	6	7	13	13	4	15	8.1	-6.9
ENERGY	12	9	1	1	1	2	1	8	1	4	2	5	4	3.3	-8.8

Table 5 – Highlighted Names from Most and Least Attractive Sectors (January 4, 2023)

Most Attractive Names from the Top-Ranked Sectors			Least Attractive Names from the Bottom-Ranked Sectors		
Polaris All-Cap Core Universe			Polaris All-Cap Core Universe		
	Company	Ticker		Company	Ticker
<u>AUTO-TIRES-TRUCKS</u>			<u>CONGLOMERATES</u>		
1	Ferrari Nv	RACE	1	Icahn Enterpris	IEP
2	Harley-Davidson	HOG	2	Genl Electric	GE
3	Cnh Industrial	CNHI	3	3M Co	MMM
<u>HEALTHCARE</u>			<u>UTILITIES</u>		
1	Utd Therapeutic	UTHR	1	Avangrid Inc	AGR
2	Horizon Therps	HZNP	2	Ameren Corp	AEE
3	Quest Diagnostc	DGX	3	Dte Energy Co	DTE
<u>AEROSPACE DEFENSE</u>			<u>CONSTRUCTION</u>		
1	Aar Corp	AIR	1	Masco	MAS
2	Bae Systems-Adr	BAESY	2	Trex Company	TREX
3	Embraer Air-Adr	ERJ	3	Topbuild Corp	BLD
<u>CONSUMER STAPLES</u>			<u>CONSUMER DISCRETIONARY</u>		
1	Beyond Meat Inc	BYND	1	Cedar Fair	FUN
2	Campbell Soup	CPB	2	Fox Corp-B	FOX
3	Conagra Brands	CAG	3	Endeavor Group	EDR
<u>TRANSPORTATION</u>			<u>ENERGY</u>		
1	Amer Airlines	AAL	1	Dril-Quip Inc	DRQ
2	Copa Hldgs Sa-A	CPA	2	Hess Midstream	HESM
3	Azul Sa	AZUL	3	Hf Sinclair Cp	DINO

Table 6 – Model Scores for Highlighted Names (January 4, 2023)

SECTOR CODES:

1-Staples, 2-Discretionary, 3-Retail, 4-Medical, 5-Auto, 6-Materials, 7-Industrials, 8-Construction, 9-Conglomerates, 10-Technology, 11-Aerospace, 12-Energy, 13-Financials, 14-Utilities, 15-Transportation, 16-Business Services

MOST ATTRACTIVE STOCKS FROM MOST ATTRACTIVE SECTORS

	COMPANY	SECTOR	TICKER	PRICE	YIELD	IPSCORE	Behavioral Preference Factor	ABSOLUTE-SCALE METRICS			RELATIVE-SCALE METRICS					MKT CAP	DAYS2TR	
								ABS DCOORD	TECH OUTLK	FUNDA OUTLK	REL DCOORD	rPSCORE	VTCAVG	VSCORE	TSCORE			CSCORE
1	Ferrari Nv	5	RACE	219.67	0.00	1.62	0.29	1	1.08	1.51	3	1.54	0.66	-0.07	1.16	1.84	40583.57	0.58
1	Harley-Davidson	5	HOG	41.86	1.50	1.32	0.13	2	-0.51	1.51	2	0.49	0.56	0.80	-0.43	1.84	6119.26	0.49
1	Cnh Industrial	5	CNHI	16.17	0.00	1.12	0.19	3	1.52	1.19	3	1.54	0.70	-0.12	1.59	1.40	21740.24	0.44
2	Utd Therapeutic	4	UTHR	272.83	0.00	1.50	1.21	1	-0.22	2.17	4	1.80	0.36	-0.45	-0.14	1.97	25717.01	0.04
2	Horizon Therps	4	HZNP	113.48	0.00	1.50	1.21	1	-0.22	1.51	4	1.80	0.39	-0.13	-0.14	2.31	12434.76	0.27
2	Quest Diagnostic	4	DGX	154.58	1.71	1.50	1.21	1	-0.22	1.51	4	1.80	0.34	-0.27	-0.14	1.97	17604.72	0.18
3	Aar Corp	11	AIR	45.24	0.00	1.87	0.53	1	1.68	1.62	3	1.53	0.48	-0.91	0.64	2.60	1558.75	2.28
3	Bae Systems-Adr	11	BAESY	41.66	2.26	1.83	0.74	1	-0.24	1.62	2	0.36	-0.22	0.67	-1.28	2.28	32065.69	1.79
3	Embraer Air-Adr	11	ERJ	11.02	0.00	1.80	0.73	1	-0.72	1.51	2	-0.39	-0.62	0.22	-1.76	2.28	2023.79	1.98
4	Beyond Meat Inc	1	BYND	12.87	0.00	1.64	-0.32	1	1.42	1.97	3	1.47	1.00	-0.43	1.64	1.78	820.36	1.11
4	Campbell Soup	1	CPB	55.76	2.65	1.61	-0.51	1	-0.22	1.66	3	0.71	0.49	-0.24	0.00	1.71	16698.31	0.20
4	Conagra Brands	1	CAG	38.65	3.42	1.61	-0.51	1	-0.22	1.51	3	0.71	0.45	-0.09	0.00	1.44	18523.21	0.18
5	Amer Airlines	15	AAL	13.59	0.00	1.63	0.56	1	1.50	1.70	3	1.28	0.79	-0.39	0.47	1.97	3556.78	1.18
5	Copa Hldgs Sa-A	15	CPA	84.82	0.00	1.63	0.56	1	1.18	1.66	3	1.28	0.87	-0.13	0.79	1.97	8832.15	0.08
5	Azul Sa	15	AZUL	5.88	0.00	1.61	0.55	1	1.50	2.17	3	0.95	0.40	-1.61	0.79	2.31	2474.78	1.79

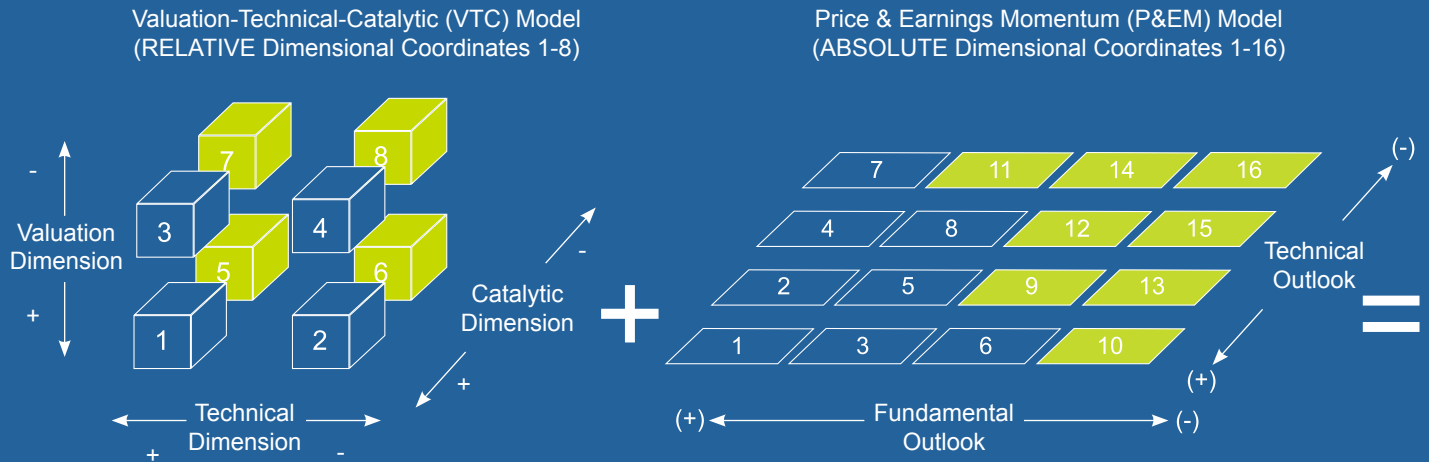
LEAST ATTRACTIVE STOCKS FROM LEAST ATTRACTIVE SECTORS

	COMPANY	SECTOR	TICKER	PRICE	YIELD	IPSCORE	Behavioral Preference Factor	ABSOLUTE-SCALE METRICS			RELATIVE-SCALE METRICS					MKT CAP	DAYS2TR	
								ABS DCOORD	TECH OUTLK	FUNDA OUTLK	REL DCOORD	rPSCORE	VTCAVG	VSCORE	TSCORE			CSCORE
1	Icahn Enterpris	9	IEP	52.83	15.14	-1.08	0.77	16	-1.08	-0.98	4	-0.62	-0.83	-1.22	-0.58	0.00	76705.30	0.06
1	Genl Electric	9	GE	70.20	0.46	-0.89	-1.25	15	-0.79	-0.83	2	-1.48	-0.12	0.27	-1.15	0.66	69175.77	0.07
1	3M Co	9	MMM	125.15	4.76	-0.66	-1.18	14	-1.37	-0.36	2	-1.48	-0.14	0.47	-0.87	0.00	17828.75	0.98
2	Avangrid Inc	14	AGR	43.72	4.03	-1.41	-0.64	16	0.07	-0.83	7	-1.63	-0.63	-0.86	0.14	-1.54	23163.79	0.19
2	Ameren Corp	14	AEE	88.96	2.65	-1.41	-0.64	16	0.36	-0.83	7	-1.63	-0.58	-0.95	0.43	-1.10	22998.13	0.27
2	Dte Energy Co	14	DTE	119.56	3.19	-1.41	-0.99	16	0.07	-1.29	5	-1.63	-0.42	0.00	0.14	-1.10	16903.21	1.30
3	Masco	8	MAS	48.73	2.30	-1.49	0.48	16	-1.42	-1.45	6	-0.85	-0.88	0.40	-1.50	-0.54	4998.58	0.58
3	Trex Company	8	TREX	45.55	0.00	-1.49	0.48	16	-1.72	-0.98	6	-0.85	-0.86	0.06	-1.50	-0.54	5170.25	0.75
3	Topbuild Corp	8	BLD	161.71	0.00	-1.49	0.48	16	-1.72	-0.94	6	-0.85	-0.87	0.02	-1.20	-1.00	10990.03	0.35
4	Cedar Fair	2	FUN	41.94	2.86	-1.48	-1.16	16	0.07	-0.98	5	-1.75	-0.13	0.22	0.00	-0.50	15354.68	0.90
4	Fox Corp-B	2	FOX	29.37	1.70	-1.48	-1.16	16	0.07	-0.83	5	-1.75	-0.08	0.39	0.00	-0.50	15938.91	0.75
4	Endeavor Group	2	EDR	21.86	0.00	-1.47	-0.36	16	0.07	-0.98	7	-1.53	-0.64	-1.46	0.00	-0.50	2280.80	2.68
5	Dril-Quip Inc	12	DRQ	26.32	0.00	-1.67	0.93	16	0.72	-1.02	6	-0.26	-0.03	0.08	0.00	-0.40	10076.67	0.25
5	Hess Midstream	12	HESM	30.02	7.50	-1.67	0.93	16	-1.67	-0.83	6	-0.26	-0.32	0.03	-0.32	-0.07	892.77	2.70
5	Hf Sinclair Cp	12	DINO	50.20	3.19	-1.51	-1.68	15	1.03	-0.98	5	-1.90	-0.17	0.02	-2.70	-0.07	1320.97	2.75

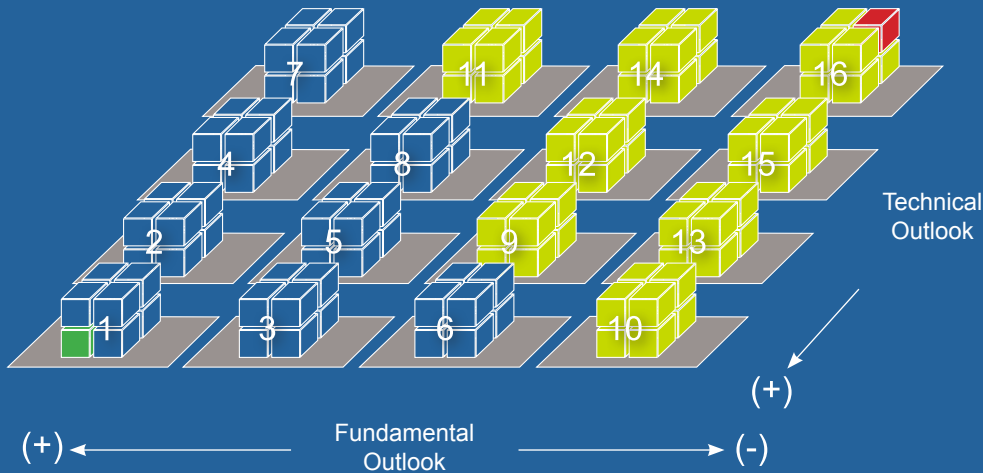
Description of Table 6 Report Headings

iPScore	Composite multi-factor score based on integrated relative-scale and absolute-scale metrics. Positive (+) or negative (-) number indicates standard deviation units above or below peer group average.
Behavioral Preference	Behavioral preference factor for stock based on investor behavior pattern recognition. Positive (+) or negative (-) number indicates expected favor or disfavor towards stock expressed in standard deviation units.oup average.
ABS DCOORD	Absolute-scale dimensional coordinate (1-16) based on combined measures of fundamental outlook and technical outlook. for each stock. (1 = most attractive, 16 = least attractive)
TECH OUTLK	Technical outlook for stock based on proprietary price oscillator and money flow factors. Positive (+) or negative (-) number indicates standard deviation units above or below peer group average.
FUNDA OUTLK	Fundamental outlook for stock based on proprietary measure of earnings expectations. Positive (+) or negative (-) number indicates standard deviation units above or below peer group average.
REL DCOORD	Relative-scale dimensional coordinate (1-8) based on 3-dimensional positioning of stock indicated by valuation, technical and catalytic scores. Also used to determine qualitative characterizations of stocks
rPScore	Composite multi-factor score based on relative-scale valuation, technical and catalytic scores. Positive (+) or negative (-) number indicates standard deviation units above or below peer group median.
VTCavg	Sector-specific, optimally-weighted average of relative-scale valuation, technical and catalytic scores. Positive (+) or negative (-) number indicates standard deviation units above or below peer group median.
VScore	Sector-specific composite score based on optimal combination of various VALUATION factors. Positive (+) or negative (-) number indicates standard deviation units above or below peer group median.
TScore	Composite multi-factor score based on optimal combination of various TECHNICAL factors. Positive (+) or negative (-) number indicates standard deviation units above or below peer group median.
CScore	Composite multi-factor score based on optimal combination of various CATALYTIC factors. Positive (+) or negative (-) number indicates standard deviation units above or below peer group median.
DAYS2TR	Days-to-Trade - A standardized liquidity measure indicating the number of trading days required to trade a \$25 million position at the average daily trading volume for the stock.

POLARIS Integrated Model Structure



Qubit Multi-factor Model



■ Most Attractive Stocks

On an Absolute Scale:

- Positive **Technical Outlook**
- Positive **Fundamental Outlook**

Relative to Peer Group Stocks:

- Favorable **Valuation** Properties
 - Favorable **Technical** Properties
 - Favorable **Catalytic** Properties
- (Favorable = More Positive or Less Negative)

■ Least Attractive Stocks


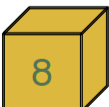

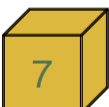

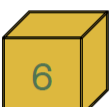

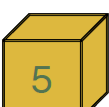
On an Absolute Scale:

- Negative **Technical Outlook**
- Negative **Fundamental Outlook**

Relative to Peer Group Stocks:

- Unfavorable **Valuation** Properties
 - Unfavorable **Technical** Properties
 - Unfavorable **Catalytic** Properties
- (Unfavorable = Less Positive or More Negative)

Characterizations based on Relative-Scale Dimensional Coordinates

	<p>Cheap with Positive Catalytic and Positive Technical properties = “Ideal Overweight”</p>	
	<p>Expensive with Negative Catalytic and Negative Technical properties = “Ideal Underweight”</p>	
	<p>Cheap with Positive Catalytic properties, but has Negative Technical properties = “Early/Late Value Stock” (has Timing Risk)</p>	
	<p>Expensive with Negative Catalytic properties, but has Positive Technical properties = “Momentum Stock”</p>	
	<p>Expensive but has Positive Catalytic and Positive Technical properties = “Timely Growth Stock”</p>	
	<p>Cheap but has Negative Catalytic and Negative Technical properties = “Value Trap Stock”</p>	
	<p>Expensive with Positive Catalytic properties but has Negative Technical properties = “Early/Late Growth Stock” (has Timing Risk)</p>	
	<p>Cheap with Negative Catalytic properties but has Positive Technical properties = “Mean Reversion Stock”</p>	

Brian T. Hannon, CFA
Founder, Director of Quantitative Equity Research
Qubit Research, LLC



With an academic background in engineering and economics, Brian Hannon began his career in the chemicals industry at the Dupont Company where he held various positions in research & development, project management, and corporate finance. An early indication of his innovative nature occurred while in R&D; as Brian was awarded a patent for his role in the development of a reverse osmosis process for purifying chemicals used in the production of semiconductor devices (Patent# 4,879,043: Manufacture of High Purity Hydrogen Peroxide by Using Reverse Osmosis”).

Pursuing his interest in the stock market, Brian made the transition to the investment management profession as a research analyst covering chemicals industry companies at the DuPont Pension Fund. He subsequently joined ASB Capital Management where he originated the unique approach to structuring multi-factor models that Polaris is based on. Brian moved on to Macquarie Investments (formerly Delaware Investment Management) where he produced an exceptional track record while serving as a senior portfolio manager on the institutional large-cap value team. After Brian left Macquarie, he founded Qubit Investments, LLC to launch an equity market neutral fund. The fund utilized an updated version of the Polaris multi-factor model, integrated with a systematic portfolio construction algorithm that Brian developed. He later became the director of equity research at Sturdivant & Co. and then Quoin Capital, LLC, which was prior to his current role as founder of Qubit Research, LLC, an independent equity research boutique. Brian holds a BS degree in chemical engineering and a BS in economics from Carnegie-Mellon University. He is also a CFA charter holder.

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