

Guide to using a screener

Your essential guide to making the most of an investment screener

by Tim du Toit



QUANT INVESTING

Index

Introduction	1
Powerful tool	1
A tool to give you what you want	1
Choose your strategy	1
How to choose your strategy	2
Books that can help you.....	2
Which markets to include?	2
Be careful of home market bias.....	3
Different accounting standards	3
I am not suggesting that you invest in the Wild West.....	3
The big pool to fish in.....	3
Find your broker.....	3
Cheapest is not best.....	3
Then everything is very easy.....	4
Set it up only once	4
What to do with the ideas?	4
No research at all	4
Buy a basket of companies	4
If you want to do research.....	4
What I do for the newsletter	5
Just a guideline.....	5
Build a system	6
Your strategy.....	6
A list of companies.....	6
Reject ideas quickly.....	6
Buy and sell	6

Index

Six months work best for momentum	6
Five years if you are a value investor	7
Will you follow a stop loss strategy?	7
Summary and conclusion	7
You have to stick to it.....	7
Underperformance is important.....	8
Learn all the time	8
ABOUT THE AUTHOR.....	9

Guide to Screening

Dear Fellow Investor

You have subscribed to a screener, “now what?” you may be thinking?

Introduction

Powerful tool

A screener is a powerful tool that can give you exactly what you want but because of all the choices (strategies, countries and ratios) it can also leave you completely overwhelmed.

A tool to give you what you want

The best way to use the screener is to take a step back and see it simply as a tool to give you exactly what you want in terms of investment ideas.

Therefore, instead of looking at all the possibilities, first you should think about and clarify exactly what you want the screener to do for you, because in the end the screener is just a tool to help you reach your investment goals.

Choose your strategy

For the screener to make your life easier you need to decide what kind of investment ideas you are looking for.

This decision depends on what type of investor you are.

Are you:

- A value investor
- A trader
- A dividend investor
- A growth investor,
- A combination of the above or
- A different type of investor altogether?

Guide to Screening

It does not matter what type of investor you are; the most important thing is that you must be comfortable with the investment strategy that you have chosen. The investment strategy should fit with your nature and must allow you to sleep peacefully at night.

You must also be able to feel so comfortable with the strategy that you can stick with it in regardless of what other people may say and through good and bad times, because inevitably there will be times when your strategy will perform better and worse than the market.

How to choose your strategy

If you have not yet made up your mind about which investment strategy you would like to follow, here are a few ideas.

On our [strategies page](#) (click the link to go to the page), you will see a list of strategies that we have developed and tested. Read through the list and when you find a strategy that looks interesting click on the strategy name on the left ([Neglected, Value and Momentum – Europe](#), for example) to get more detailed information about the strategy.

In this way, you can quickly get a good idea of the best investment strategies that we have tested and whether they fit your personal preferences.

Books that can help you

We have, of course, not listed all the possible investment strategies on this page, only the best strategies that we have found and developed through the testing of new ratios and indicators, something we do all the time.

Here is a list of books that will help you to find an investment strategy that suits you (click the book title to visit the Amazon page):

[The Little Book That Still Beats the Market](#) by Joel Greenblatt

[What Works on Wall Street](#) by James O'Shaughnessy

[Quantitative Value](#) by Wesley Gray and Tobias Carlisle

[Dual Momentum Investing: An Innovative Strategy for Higher Returns with Lower Risk](#) by Gary Antonacci

[The Little Book of Behavioral Investing: How not to be your own worst enemy](#) by James Montier

[Behavioural Investing: A Practitioners Guide to Applying Behavioural Finance](#) by James Montier

Which markets to include?

Once you decide on an investment strategy, your next decision is which markets worldwide to include when you are looking for investment ideas.

Guide to Screening

Be careful of home market bias

Like me, I am sure that you also feel a lot more comfortable about investing in the country where you live. You read the news, know a lot of the companies already and have a general good feeling toward selecting investment ideas from the companies listed on your home exchange.

However if you only invest in the country where you live, you exclude a whole world of companies that may fit your investment strategy much better.

Different accounting standards

You may be wondering, "What about different accounting standards?"

Most investors think that their home country's accounting rules are strict and a company's financial statements give them a very good idea of the financial health of a company.

Is this really true?

On a nearly continuous basis, there are reports of fraud causing investors large losses in most of the world's main markets. This means that fraud can take place in any country, irrespective of how strict the accounting rules are.

I am not suggesting that you invest in the Wild West

I am not suggesting that you invest in countries with a bad reputation in terms of fraud and investor protection or that you even consider emerging markets.

All I am suggesting is that you should consider all developed markets. For example, I look for investment ideas in Australia, New Zealand, the USA, Canada, Europe, the UK, Scandinavia and Switzerland.

The big pool to fish in

This gives you a very big pool to fish in, with a much higher chance of finding really interesting investment ideas that exactly fit with your investment strategy.

Find your broker

Once you have decided which investment universe you want to invest in, you have to find a broker who can buy and sell in all those markets and who is not too expensive.

Cheapest is not best

Be careful not just to look for the cheapest broker; fees are important, but the safety of the investments and cash that you hold with the broker is much more important.

Read the small print of the brokerage agreement so that you know what will happen should your broker go out of business. You want to make sure that your investments and cash do not form part of your broker's business so that you can move your account easily and quickly.

Guide to Screening

Then everything is very easy

Once you have decided on your investment strategy and the countries where you want to look for investment ideas, using the screener becomes very easy.

Set it up only once

The [Quant Value screener](#) even allows you to save your searches, so in future all you need to do is to load your favourite screens and the screener will automatically look for companies that exactly match your investment strategy.

What to do with the ideas?

Now that you have come this far, the next step is to decide how much research you would like to do on each investment idea.

You basically have two choices: either a lot of research or no research at all.

No research at all

If you decide to do no research, you will simply buy a few of the companies on the list that the screener has selected based on the search criteria you have chosen.

If you think this sounds very risky, you must remember that this is exactly what happened with all of the strategies on the [strategies page](#) and all back-tested strategies (including academic studies) that you have read.

The companies the screener came up with were simply added to a portfolio and in most cases sold at the end of one year when a new group of companies was bought.

Choosing to do no research at all would be a perfectly valid strategy to follow.

Buy a basket of companies

If you decide to follow the route of not doing any research, we advise you to buy an equally weighted (the same amount invested in each company) basket of at least 30 to 50 companies that fit with your investment strategy.

This idea, known as diversification, means that you spread your risk amongst a lot of companies and the risk of a large fall in the value of your portfolio is lowered due to each company making up only a small part of your total investment portfolio.

If you want to do research

If you want to do more research on the ideas that the screener produces, you need to decide how much research you want to do.

Guide to Screening

Do you want to carry out a little research to make sure that each company is correctly included in the list or do you want to do a lot of research to make sure that you understand the company's business model, management and future prospects?

Only you can decide how much research you would feel comfortable with before buying an investment.

What I do for the newsletter

For example, for the [Quant Value Newsletter](#) I also do a little research on each investment idea, mainly to make sure that it has been correctly included in the screener.

I do this by working through the following checklist:

- Are there any outliers in the financial results? A record one-off year perhaps?
- Does the cash belong to the company? (This is important for the valuation calculations using enterprise value.) Online gambling companies, for example, have customer deposits that should not be included in the calculation of enterprise value.
- Is there enough volume traded each day for you to buy and sell easily?
- Is there heavy insider buying or selling?
- Is there a lot of short selling?
- Check the latest news
 - If a company has made it through the above questions and I have not found anything unusual, I look at all the latest company news on the investment relations website of the company.
 - I specifically look at the latest financial results (half yearly or quarterly) as well as all the financial press releases of the company to make sure that nothing has happened that has substantially changed its financial situation.
- Has the business changed?
 - Look for actions that can or have substantially changed the business or structure of the company.
 - Keep in mind that the screener selects companies based on their past results and you thus want to make sure that the company has not changed substantially since the publication of its last financial results.
 - Look for:
 - Spin-offs, because after the spin-off the company may not look at all like the company that was selected by the screener on information from before the spin-off.
 - Special dividends, as these may change the valuation as well as the financial position of the company substantially. A large dividend means less cash and a different enterprise value for example.

Just a guideline

Guide to Screening

Remember that this is just a guideline to give you an idea of what I do with the ideas from the screener. Only you can decide how much research you would like to do.

However once you have decided, I suggest that you write down your research process, even including a checklist, to make sure that you look at every aspect of the company that you would like to research.

Build a system

So far, you have decided:

- Which investment strategy would like to follow
- The countries in which you will look for investments
- How much research you would like to do on each investment idea.

Your strategy

To get investment ideas quickly and easily, for the investment strategy you have chosen, the next step is to build and save a template (or more than one template).

This means that every time you look for investment ideas, all you have to do is to load the template and the screener will automatically give you a list of investment ideas based on the current financial results and share price of all the companies in your investment universe.

A list of companies

Now that you have a list of investment ideas, you need to apply your decision on how much research to do on every investment idea.

Reject ideas quickly

If you decide to do more research, use your checklist to eliminate investment ideas you don't want to research further.

This is important as it frees up time for you to research the ideas that you find interesting.

Buy and sell

The last thing you have to do is to decide how long you want to hold your investments.

In most of the back-tested strategies listed on our [strategies page](#), companies were bought, held for a year and sold if they were not on the list of companies that the screener produced after a year.

Of course, you do not have to use a one-year holding period. You can choose a shorter or a longer period depending on your investment strategy.

Six months work best for momentum

Guide to Screening

If you choose a strategy that includes momentum, the back-tests that we have done show that six months is the best holding period. If you use such a short holding period, make sure that your dealing costs are low as high costs can have quite an impact on your returns.

Five years if you are a value investor

If you follow a value investing strategy, back tests done by James Montier over a 22 year period showed that an average holding period of up to 5 years would have given you the best market-beating returns. You can read more about the back-test here: [Are you fishing in a pond that is just too small? Global value investing proven.](#)

Will you follow a stop loss strategy?

Do you want to implement a stop loss strategy to limit losses? This would be a good idea, especially if you include momentum as one of the criteria that you use to look for investment ideas.

You can find more information on the stop loss strategies we have studied as well as how you can implement them in your portfolio in this article: [Truths about stop-losses that nobody wants to believe.](#)

Summary and conclusion

In this guide I have presented you with the easiest and simplest way of implementing a market beating investment strategy in your portfolio.

All it took was for you to make a few decisions:

- 1 Which investment strategy would you like to follow?
- 2 In which markets are you going to invest?
- 3 How much research would you like to do?
- 4 Which system are you going to follow to buy and sell investments?
- 5 Are you going to implement a stop loss system to limit your losses?

Even though these questions look simple and easy to answer, they are the most important decisions that you can make to give you market beating investment returns.

You have to stick to it

Much more important is that you stick to the strategy through good and bad times.

Guide to Screening

The back-test results show that your strategy works, especially if you follow it over long periods of time. That, however, does not mean and work every year or even every quarter.

Your goal should be to stick to the strategy even when it underperforms the market for periods, even long periods of time.

Underperformance is important

It is a simple fact of investing that every investment strategy underperforms from time to time. However, as Joel Greenblatt wrote in his excellent book [The Little Book That Still Beats the Market](#), it is important for market-beating investment strategies to underperform the market from time to time, because if they do not too many people will start to follow them and they will no longer outperform the market.

Learn all the time

Just because you have made these decisions once, it does not mean that they do not need to be reviewed from time to time.

We test new investment strategies all the time and from the results gained we make changes to our investment strategies as well as the strategy that we follow in the [newsletter](#).

It is very important for you to write down your investment strategy and look at it once a year to make sure that it still fits your needs. This review is also a good time to make changes if you have found a higher return strategy or one that fits your needs better. However, remember that jumping from one strategy to another is the same as having no strategy at all.

Furthermore be very careful before you change to a strategy that has performed well in the recent past, the previous year for example, as just after very good performance a strategy may not work well for a number of years.

Your best bet is to find one good strategy that you feel comfortable with and stick with it through good and bad times.

Wishing you profitable investing,



Chief analyst

P.S. If you have not tried the [Quant Investing screener](#) yet give it a try you will be surprised at how easy it is to find high return investment ideas for your portfolio. Just click [here](#)

Guide to Screening

ABOUT THE AUTHOR



Tim du Toit

Tim du Toit is (born 1967) has a MBA (Finance) degree from Indiana University in the USA. He is founder and head analyst of [Quant Investing](#)

To find out more visit [Quant Investing](#).

You can contact Tim at tim@quant-investing.com

© 2015 All rights reserved