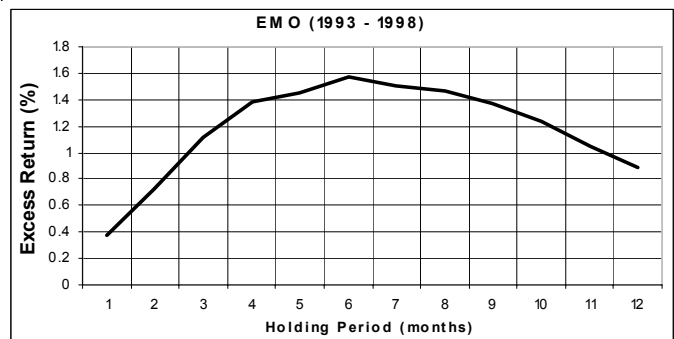
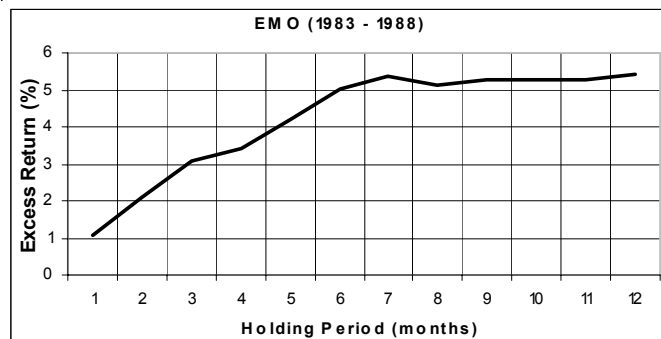
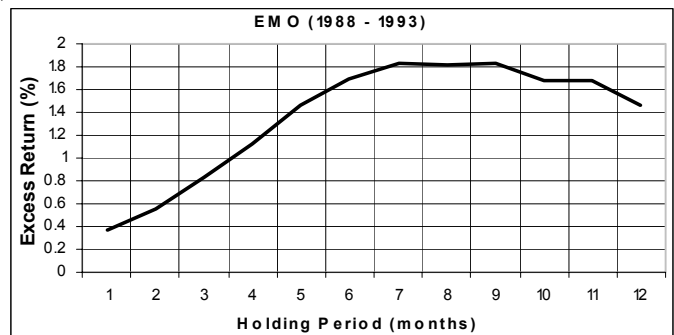
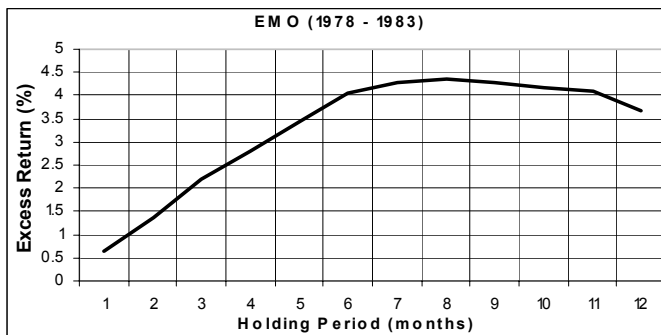
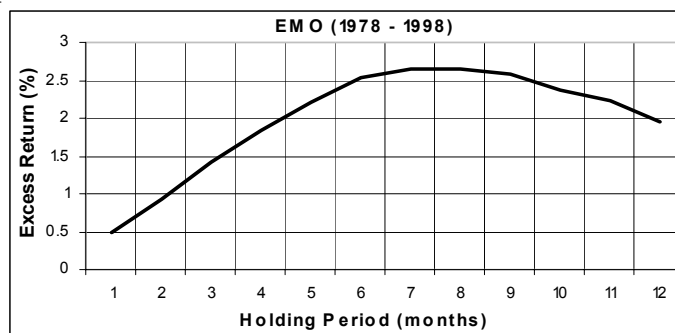




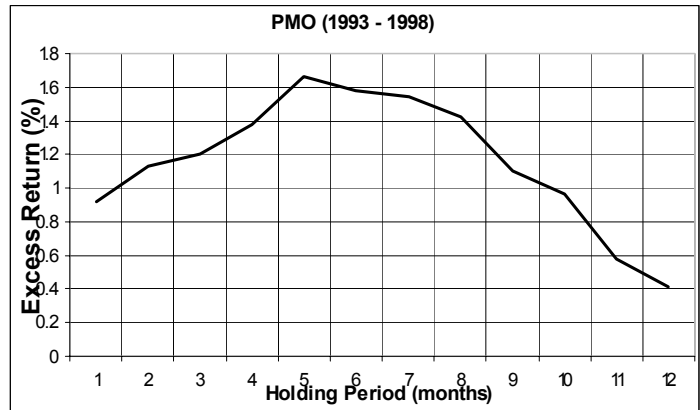
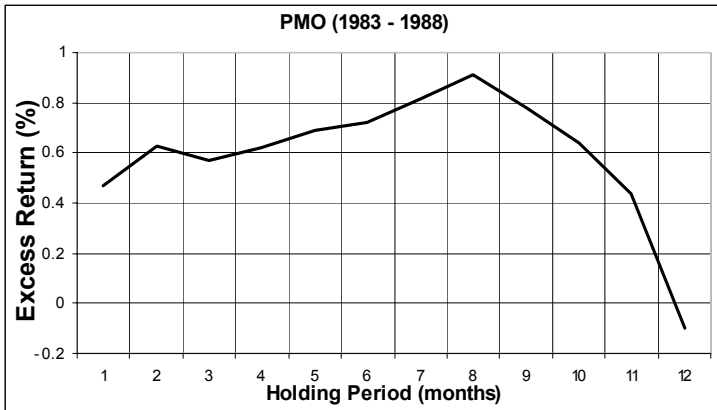
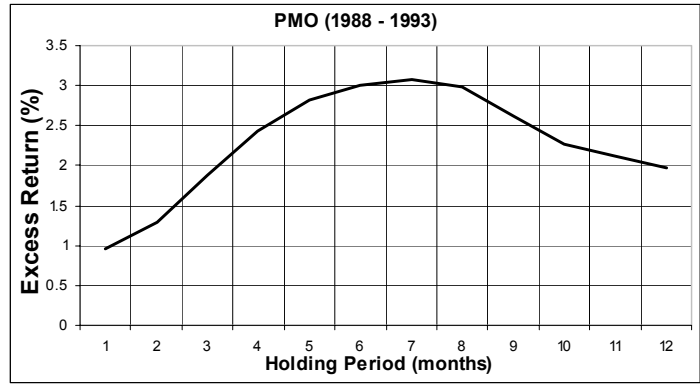
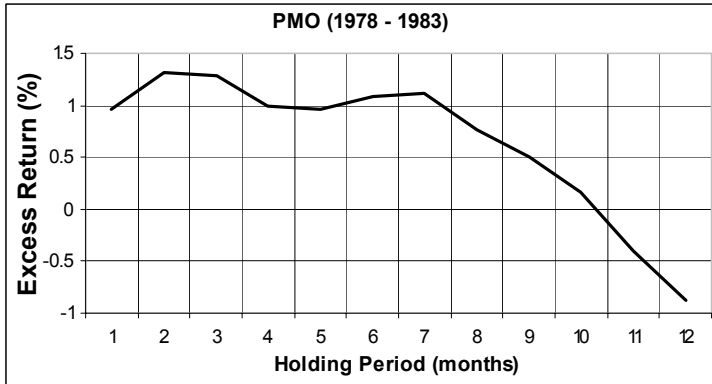
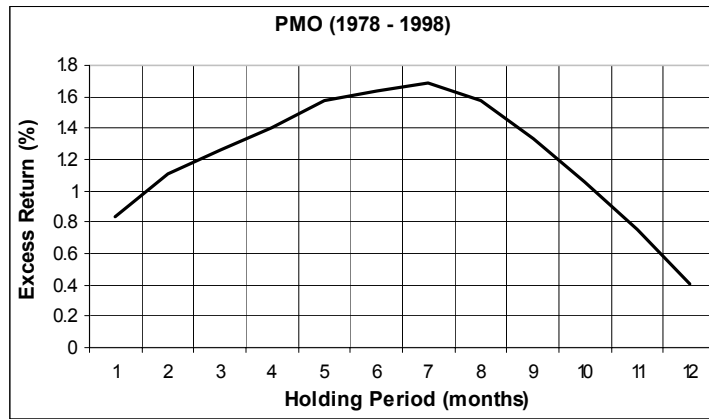
## Ford Variable Holding Period Returns - April 28, 2000

One of the most important questions in choosing and implementing a stock selection model is how long does it produce excess returns. Identifying a model's longevity or optimal holding period can serve to reduce portfolio turnover and consequently maximize returns net of transaction costs. This study examines the relationship between excess returns generated by various variables and the length of the holding period.

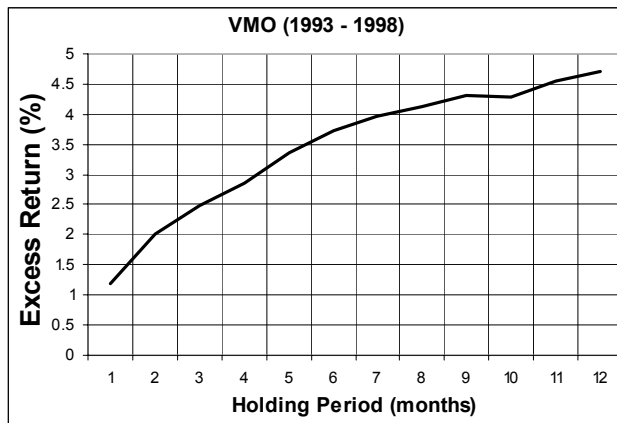
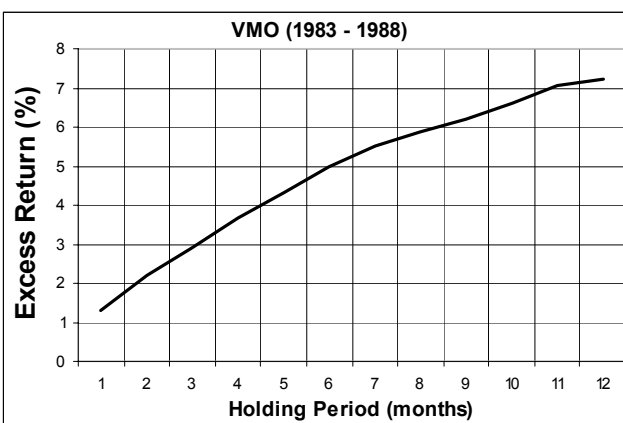
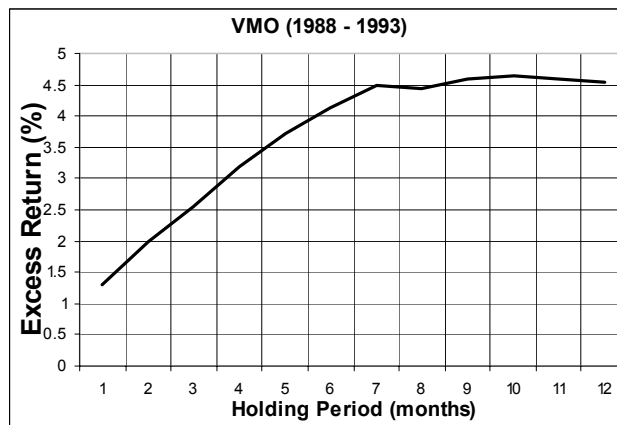
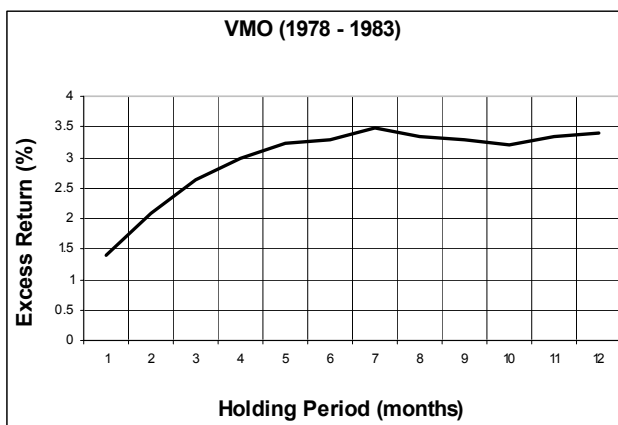
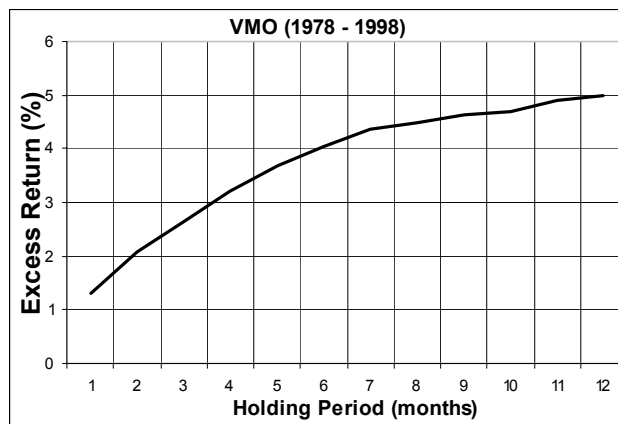
Four of Ford's variables were selected for this study. Three of them, earnings momentum (EMO), price momentum (PMO) and value/momentum (VMO), were chosen from our best performing models. The fourth, price to book ratio (PBK), represents a common value measure. Screening for the top 10% of each of these variables for the time period 1978 to 1998 created portfolios of stocks each month. Average one month through twelve month future returns were calculated for each portfolio. These returns less the average returns for the Ford universe of stocks are plotted as excess returns in the 20-year period and 5-year sub-period graphs shown.



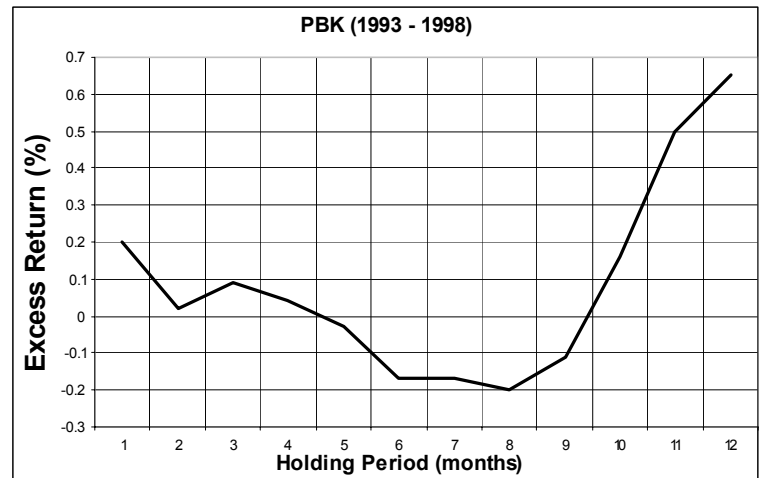
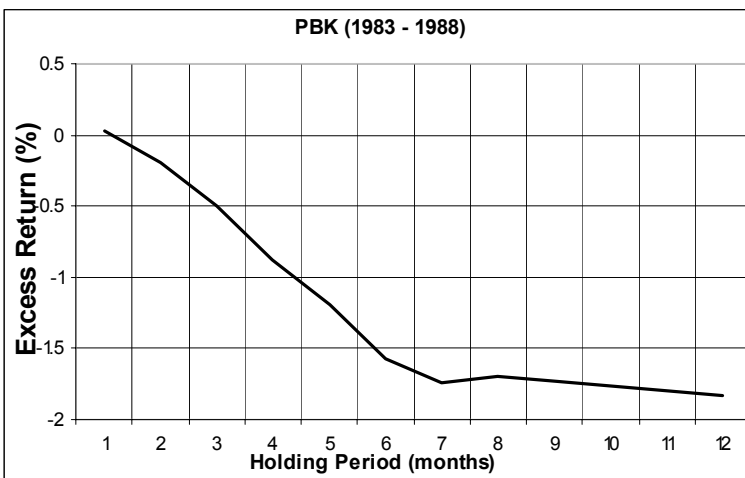
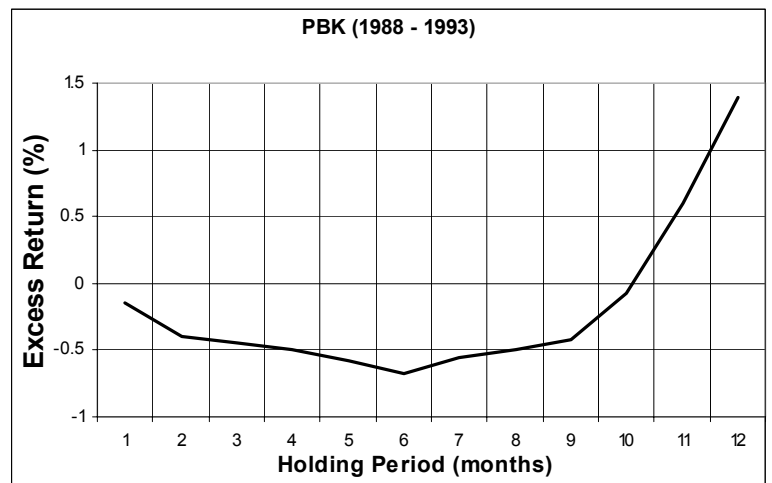
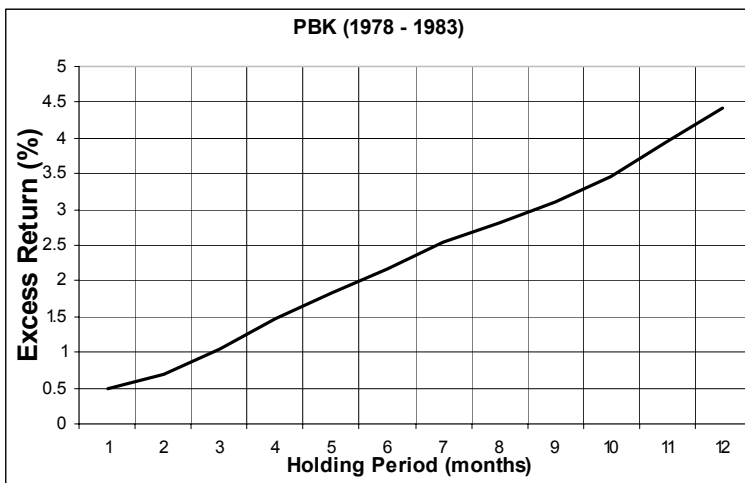
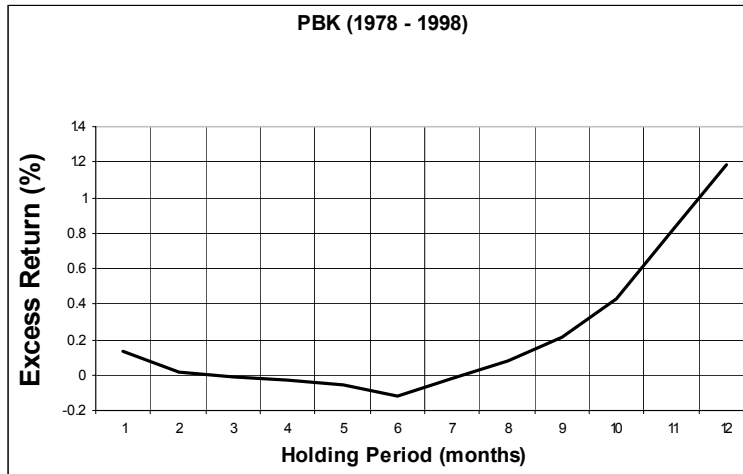
The earnings momentum model measures the acceleration or deceleration in operating earnings per share over the 7 prior quarters and the current estimated quarter. Consequently, quarterly earnings reports and estimate changes affect it. The earnings momentum model produced increasing excess returns for approximately 7 months when averaged over the 20-year time period studied. It also produced remarkably consistent increases in excess returns out to between 6 and 8 months over each of the 5-year sub-periods shown. Although the longevity of the model's effectiveness is fairly consistent over these time periods, the amount of maximum excess returns generated in each sub-period differs a fair amount (note that the scaling differs between graphs), ranging from over 5% to about 1.6%.



Ford's price momentum model takes into account a stock's 1-year price change, 1-quarter price change and latest month price change. The model overweights the reverse of the latest month price change, which capitalizes on the mean reverting nature of price changes. The best excess return holding period is a surprisingly long 7 months when averaged over the 20-year study period. However, a look at the 5 year sub-periods, shows varied peak excess return holding periods with a consistent drop off in excess returns in the latter half of the year.



The value/momentum is a multifactor model that, as its name implies, incorporates aspects of value (operating earnings yield) and momentum (price and earnings momentum, estimate revisions and surprise). Over the 20-year study period the model averaged about a 5% excess return over the universe of Ford stocks when holding for 12 months. The excess returns tend to peak at the twelve-month period in 20-year average, the 1983-1988 period and the 1993-1998 period. In the 1978-1983 and 1988-1993 period's performance peaked at about 7 months. Note that although excess performance peaks, that there is not a rapid drop in excess returns as in some of the other models.



Ford's price/book ratio is created by dividing a stock's current price by the most recent quarterly book value per share, adjusted monthly for estimated earnings plowback. This commonly used value measure shows poor near-term performance in most of the time periods shown. However, in the 20-year period and three of the sub-periods there was a substantial increase in excess returns in the longer holding periods. This highlights the patience that is often necessary when using a value investment style.