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### Model Performance on Canadian Companies

The Ford universe of stocks has included 60 to 100 Canadian companies for more than 10 years. Recent interest in these companies prompted us to develop a separate database that covers over 500 Canadian companies which has recently been released. Ford is collecting Canadian company fundamental data, adjusting the earnings to an operating basis, providing standardized financials, and applying its proprietary research as it does in the US. With this development in mind, it is timely for us to examine the effectiveness of Ford's models and proprietary ratios on the small set of Canadian companies we've covered for the past 10 years.

The following tables show the average returns for selected factor quintiles, or in the case of Share Buyback defined groupings, of the universe of Canadian companies that is included in the Ford historical database. The returns are equally weighted and rebalanced monthly.

The best quintile performance spread came from Share Buyback. However, as pointed out below, most of the difference came from substantial underperformance of companies that increased shares outstanding by more than 5%. Ford's Value Momentum Model was the second best in terms of performance spread, but the best factor based on risk adjusted return. Value Momentum is the basis for our research reports that include buy/hold/sell ratings. These reports are now available on most of the 500 Canadian stocks we are covering. We will also be introducing a Canadian Select List to go along with the U.S. and ADR versions of this model portfolio.

## Price to Value Ratio (PVA)

Ford's Price to Value Ratio divides a stock's current price by the intrinsic value of a share as determined by Ford's dividend discount model. The intrinsic value is computed by discounting expected earnings and dividends over a ten-year time period using a quality-adjusted discount rate. The overall performance distribution of PVA is not that great on Canadian companies. However, similar to in the U.S., the top quintile hit a home run in the market rebound years of 2003 and 2009.

<b>PVA</b>	<b>Lowest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Highest</b>	<b>Canadian</b>
2000	-20.7	1.3	42.3	16.4	-2.2	6.1
2001	52.5	5.2	-2.2	15.7	-0.9	14.4
2002	-30.0	5.0	-14.2	4.0	-3.6	-7.5
2003	83.5	52.7	49.5	50.3	78.9	63.5
2004	12.3	34.3	21.9	25.9	-0.2	19.0
2005	16.5	23.6	-0.8	17.5	3.0	12.1
2006	20.8	18.4	16.5	2.3	22.3	16.3
2007	-22.0	2.8	25.6	27.5	8.6	7.1
2008	-55.2	-49.1	-49.1	-51.3	-50.6	-50.5
2009	310.7	131.1	92.8	54.4	35.2	114.2
Annualized	13.4	15.1	12.0	11.8	4.3	12.5
Standard Dev.	37.1	25.1	23.8	23.3	25.2	23.1

## Operating Earnings Yield (OEY)

Ford's Operating Earnings Yield is an earnings-to-price ratio based on the last 3 quarters of operating earnings per share and the current quarter's estimate. OEY produced a slightly better predictive result than the PVA valuation measure in the top quintile with a much lower standard deviation of returns, indicating it had better risk-adjusted returns. However, the distribution of returns was not quite as good as that of PVA.

<b>OEY</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>Canadian</b>
2000	-14.1	29.9	2.8	36.6	-19.2	6.1
2001	47.1	17.8	-7.0	10.5	0.5	14.4
2002	-6.2	-1.1	-13.5	-2.9	-22.4	-7.5
2003	70.1	48.0	44.3	90.3	63.9	63.5
2004	32.8	20.3	4.3	11.4	26.2	19.0
2005	20.7	19.0	17.3	5.3	-2.8	12.1
2006	13.4	11.1	19.4	19.9	12.4	16.3
2007	8.7	15.0	16.5	20.6	-23.1	7.1
2008	-37.1	-46.2	-50.1	-51.7	-68.2	-50.5
2009	85.7	48.7	46.3	114.4	378.7	114.2
Annualized	16.6	12.6	4.0	17.2	5.3	12.5
Standard Dev.	23.5	21.2	21.7	25.0	42.6	23.1

## Price/Normal Earnings Ratio (PER)

Ford's normal earnings per share represents the current sustainable level of earnings of a company and serves as the base on which we build our intrinsic value analysis and our price/normal earnings valuation metric. Ford's normal earnings tend to smooth out the volatility of historical earnings series caused by cyclical and large gains or losses from extraordinary items. The top quintile of PER produced the highest returns among the valuation factors shown mainly due to the 500% return in 2009. In examining the companies in the 2009 top quintile, we found that the average quality was C+ and over half of the companies had prices well below \$5. This confirms our observation that shares of low quality companies tend to rebound much more on a percentage gain basis than those of higher quality companies after a substantial market decline.

PER	Lowest	Quintile 2	Quintile 3	Quintile 4	Highest	Canadian
2000	-28.7	23.7	16.3	12.9	10.1	6.1
2001	51.4	4.1	4.1	23.1	-12.5	14.4
2002	3.9	0.1	-6.9	-11.9	-24.8	-7.5
2003	79.3	46.8	67.0	54.1	68.8	63.5
2004	31.1	24.8	14.4	6.5	18.3	19.0
2005	7.4	25.7	14.9	7.0	5.1	12.1
2006	31.0	21.0	11.7	0.1	18.0	16.3
2007	-22.0	5.2	4.9	13.7	44.2	7.1
2008	-59.1	-52.4	-43.1	-54.7	-43.7	-50.5
2009	509.6	99.6	50.8	35.0	48.8	114.2
Annualized	21.8	13.6	9.5	4.1	8.0	12.5
Standard Dev.	39.5	23.2	22.1	23.1	26.1	23.1

## Earnings Momentum (EMO)

The Earnings Momentum model is a modified version of Ford's original earnings trend analysis which makes an adjustment for the volatility of earnings. Similar to the original analysis, EMO measures the acceleration or deceleration in the growth of operating earnings per share over a 5-quarter period ending with the current estimated quarter. In each case, 12-month earnings at the end of each quarter are used to eliminate seasonal fluctuations. EMO had a good distribution overall and in most years but the standard deviation of the top quintile was relatively high.

EMO	Highest	Quintile 2	Quintile 3	Quintile 4	Lowest	Canadian
2000	18.0	-1.6	1.5	20.6	-13.1	6.1
2001	29.9	20.2	5.6	17.0	-4.4	14.4
2002	-19.1	-8.4	-14.2	-3.8	6.9	-7.5
2003	99.2	40.9	46.2	51.6	82.3	63.5
2004	23.1	15.9	28.5	17.6	8.5	19.0
2005	9.7	9.4	25.8	11.5	3.8	12.1
2006	22.1	16.5	26.5	15.8	-2.2	16.3
2007	13.4	9.6	10.8	8.4	-8.4	7.1
2008	-57.2	-48.0	-49.8	-41.8	-57.1	-50.5
2009	249.2	109.7	69.0	53.7	112.6	114.2
2000-2009	21.3	10.4	10.0	11.7	4.1	12.5
Standard Dev.	32.7	24.4	23.8	23.2	28.4	23.1

## Price Momentum (PMO)

The Ford Price Momentum Model is a near-term price performance indicator. The model uses both traditional long-term (twelve month) price momentum combined with less conventional short-term (one to three month) reversion to the mean price momentum. The performance distributions were good in 5 of the 10 years, but mediocre when measured over the entire ten year period.

PMO	Highest	Quintile 2	Quintile 3	Quintile 4	Lowest	Canadian
2000	-23.2	14.7	6.0	21.6	13.5	6.1
2001	59.3	25.0	-1.9	-13.1	5.7	14.4
2002	-0.4	-4.8	-0.7	-14.6	-23.9	-7.5
2003	70.8	63.6	47.0	57.2	75.7	63.5
2004	19.5	7.7	41.7	25.3	1.8	19.0
2005	3.2	14.7	24.7	11.8	5.3	12.1
2006	30.6	-0.7	22.2	21.2	8.8	16.3
2007	13.7	16.0	12.4	1.0	-7.7	7.1
2008	-51.1	-48.6	-51.3	-58.6	-44.9	-50.5
2009	132.2	66.5	84.0	180.2	102.2	114.2
Annualized	15.8	10.5	12.7	10.9	6.8	12.5
Standard Dev.	29.5	23.2	23.0	28.6	30.4	23.1

## Share Buyback (SHB)

Our Share Buyback factor measures the percentage change in shares outstanding compared to one year ago. Across the entire Ford universe of stocks, our research indicates that companies that have reduced the number of shares outstanding, on average, generate above average performance. For this small universe of stocks, there was only a small difference in average performance of companies that reduced shares outstanding or increased shares by 5% or less. However, companies that increased shares outstanding by more than 5% had substantial average underperformance in 8 of 10 years.

SHB	< -1%	-0.99% to 1%	1.01% to 5.0%	> 5%	Canadian
2000	14.6	2.3	20.3	1.8	6.1
2001	10.1	31.4	0.7	2.4	14.4
2002	13.8	1.2	34.4	-29.9	-7.5
2003	74.7	44.6	74.0	66.2	63.5
2004	47.9	17.9	24.4	7.0	19.0
2005	27.3	17.9	8.6	0.4	12.1
2006	20.4	12.1	9.1	25.5	16.3
2007	33.1	-3.0	19.0	-10.7	7.1
2008	-50.3	-45.8	-49.7	-68.6	-50.5
2009	61.6	158.1	161.2	71.6	114.2
Annualized	19.8	15.3	20.6	-2.4	12.5
Standard Dev.	21.4	25.1	26.8	30.8	23.1

### Value Momentum Model (VMO)

The Value Momentum Model combines valuation, earnings momentum and price momentum into a single stock selection factor. When applied to the Canadian company universe, the model produced very good distribution in all but the bounce back years of 2003 and 2009 (which is similar to the US results). Also notable is the relatively low standard deviation of returns for the top quintile indicating that the combination of valuation and momentum factors produces the best risk-adjusted returns.

<b>VMO</b>	<b>Highest</b>	<b>Quintile 2</b>	<b>Quintile 3</b>	<b>Quintile 4</b>	<b>Lowest</b>	<b>Canadian</b>
2000	13.7	10.0	14.7	-9.9	1.6	6.1
2001	29.5	19.5	21.6	23.3	-20.3	14.4
2002	5.2	-18.9	-5.7	-4.3	-18.0	-7.5
2003	59.7	59.8	74.4	53.0	68.5	63.5
2004	41.4	20.2	18.1	0.2	16.4	19.0
2005	22.8	16.6	19.1	-4.0	6.7	12.1
2006	17.7	20.6	29.3	21.4	-7.6	16.3
2007	24.0	21.1	8.5	-2.1	-13.1	7.1
2008	-38.2	-53.4	-45.2	-48.9	-67.9	-50.5
2009	74.3	48.4	70.6	226.5	185.9	114.2
Annualized	21.1	9.2	15.5	12.0	0.2	12.5
Standard Dev.	22.2	21.3	23.4	28.3	35.9	23.1