

Pairs Trading Matrixes

June 4, 2015

Sturdivant & Co. conducts bottom-up fundamental analysis on a wide range of nearly 3,000 large and small cap US equities. Herein we present our exclusive Pairs Trading Matrixes utilizing Polaris, our innovative system for stock selection guidance. (System design overview for Polaris is attached separately.)

Polaris integrates proprietary analytics that are focused on valuation, catalytic and technical properties to rank and characterize stocks. The quantitative scores derived for each stock in our coverage universe can be used to identify pricing disparities among pairs of stocks. An exploitable pricing disparity is indicated by a wide spread between the respective quantitative scores for the long and short component of a pair of stocks selected from the same sector and industry.

Our Pairs Trading Matrixes provide investors with guidance by specifying long/short pair combinations that we find attractive based on the spread in quantitative scores among the components of each pair. A separate matrix for a large cap universe and a small cap universe is provided below in Tables 1 and 2.

The Sturdivant & Co. coverage universe is grouped into 16 economic sectors and approximately 200 different industries. We have identified pair combinations selected from the 10 industries that we believe have the greatest degree of pricing disparity based on our analysis. For each industry from which attractive pairs are identified, we select 1 to 4 long candidates and 1 to 4 short candidates. Consequently, there can be anywhere from 1 to 16 different pair combinations to select from for each industry. As an example, in Table 1 below, we have identified 3 pairs in the Chemicals-Diversified industry that merit investment consideration, including: (A1) ALB-CYT, (A2) ALB-CE and (A3) ALB-DOW.

Table 1: Large Cap Pairs Matrix

PAIR COMBINATIONS = A1, A2, A3, A4, B1, B2, B3, B4, C1, C2, C3, C4, D1, D2, D3, D4									
INDUSTRY	LONG SIDE of PAIR				SHORT SIDE of PAIR				Number of Pairs
	A	B	C	D	1	2	3	4	
1 AEROSPACE/DEFENSE EQUIP	COL				TGI				1
2 UTILITY-ELECTRIC POWER	TE	SO	PEG		POM	NRG			6
3 CHEMICALS-DIVERSIFIED	ALB				CYT	CE	DOW		3
4 ELEC-SEMICONDUCTORS	AVGO	FSL			AMD				2
5 MEDICAL-HOSPITALS	MD	WOOF			UHS				2
6 REIT-EQTY TRUST - RESID	AIV	ACC	ELS	AVB	AMH				4
7 COMPUTER-SOFTWARE	SWI	INTU	CRM	RHT	SYMC	CTXS			8
8 FOOD-MISC/DIVERSIFIED	HAIN	KRFT			MDLZ	SJM			4
9 INSURANCE-PROP/CAS/TITLE	THG	FNF	TRV	CB	PRA				4
10 MACHINERY-ELECTRICAL	RBC				EMR				1
TOTAL Number of PAIRS =									35

Pairs Trading Matrixes

June 4, 2015

Table 2: Small Cap Pairs Matrix

PAIR COMBINATIONS = A1, A2, A3, A4, B1, B2, B3, B4, C1, C2, C3, C4, D1, D2, D3, D4									
INDUSTRY	LONG SIDE of PAIR				SHORT SIDE of PAIR				Number of Pairs
	A	B	C	D	1	2	3	4	
1 BROADCASTING-RADIO/TV	NXST				MEG				1
2 FINANCE-SAVINGS & LOAN	KRNY				CFFN	WAFD			2
3 MEDICAL-BIOMED/GENETICS	ISIS	NVAX	XLRN	GERN	RARE	GEVA	PBYI	SRPT	16
4 OIL & GAS-U S EXPLO & PROD	SYRG	CRZO	CPE	MTDR	CWEI	EOX	WTI	JONE	16
5 RETAIL-APPAREL/SHOE	PLCE	AEO			FINL				2
6 REIT-EQTY TRUST - OTHER	HIW	DFT	DRH	INN		HT	CSG		8
7 BANKS-NORTHEAST	SUSQ				NPBC				1
8 LEISURE & RECREATION SVCS	AMC				MYCC				1
9 BUSINESS SERVICES	WAGE				HMHC				1
10 FINANCE-INVESTMENT BKRS	WETF	ITG			EVR				2
TOTAL Number of PAIRS =									50

In Tables 3 and 4 below we provide output from the Polaris analysis for the stocks in each of the matrixes (large cap and small cap, respectively). The stocks in each matrix are grouped first by sector, then industry. The overall attractiveness of a stock is indicated by the Polaris Score, or PSCORE, whereby long candidates will have a positive PSCORE and short candidates will have a negative PSCORE. The PSCORE is a proprietary factor that is based on our analysis of each stock's valuation, technical and catalytic properties. The difference in PSCORES between the long and short candidates of a pair is the metric that we use as an indication of pricing disparity, otherwise referred to as the spread. Descriptions for the column headings in Tables 3 and 4 are as follows:

COLUMN HEADINGS

XSECTOR – Sector Identification Number used in master database (1 thru 16)**

DCOORD – Dimensional Coordinate used to characterize stocks in Polaris framework (1 thru 8)

PSCORE – Polaris Score, (+) value is favorable, (-) value is unfavorable, (0) value is neutral

VCAVG – Average calculated from VSCORE, TSCORE and CSCORE

VSCORE – Valuation Score, (+) value is favorable, (-) value is unfavorable, (0) value is neutral

TSCORE – Technical Score, (+) value is favorable, (-) value is unfavorable, (0) value is neutral

CSCORE – Catalytic Score, (+) value is favorable, (-) value is unfavorable, (0) value is neutral

**Sector Identification Numbers

1 Consumer Staples	5 Autos/Tires/Trucks	9 Conglomerates	13 Finance
2 Consumer Discretionary	6 Basic Materials	10 Computer & Technology	14 Utilities
3 Retail/Wholesale	7 Industrial Products	11 Aerospace	15 Transportation
4 Medical	8 Construction	12 Oils/Energy	16 Business Services

Pairs Trading Matrixes

June 4, 2015

Table 3: Large Cap Pairs – Polaris Output (06/01/2015)

	COMPANY	X SECTOR	TICKER	PRICE	DIV YLD	DCOORD	PSCORE	VTCAVG	VSCORE	TSCORE	CSCORE	MKT CAP
Consumer Staples												
FOOD-MISC/DIVERSIFIED												
A	Hain Celestial	1	HAIN	62.91	0.00	3.00	1.50	0.35	-0.94	0.98	1.01	6454.50
B	Kraft Foods Grp	1	KRFT	84.27	2.61	3.00	1.50	0.29	-1.83	1.05	1.64	49882.78
2	Smucker Jm	1	SJM	118.42	2.16	8.00	-1.69	-0.79	-0.70	-1.16	-0.49	14170.49
1	Mondelez Intl	1	MDLZ	40.69	1.47	8.00	-1.69	-0.89	-0.84	-0.75	-1.08	66187.29
Medical												
MEDICAL-HOSPITALS												
A	Mednax Inc	4	MD	70.21	0.00	1.00	1.66	0.85	0.59	0.77	1.19	6740.37
B	Vca Inc	4	WOOF	52.33	0.00	3.00	1.50	0.14	-0.82	0.75	0.47	4299.54
1	Univl Hlth Svcs	4	UHS	131.03	0.31	6.00	-1.58	-0.73	0.02	-1.54	-0.65	12982.71
Basic Materials												
CHEMICALS-DIVERSIFIED												
A	Albemarle Corp	6	ALB	59.85	1.94	1.00	1.61	0.67	0.33	0.52	1.16	6714.33
2	Celanese Cp-A	6	CE	69.10	1.74	6.00	-1.53	-0.68	0.47	-1.99	-0.52	10588.95
1	Cytec Inds Inc	6	CYT	60.49	0.83	8.00	-1.63	-0.93	-0.25	-2.26	-0.30	4318.81
Industrial Products												
MACHINERY-ELECTRICAL												
A	Regal Beloit	7	RBC	77.56	1.13	1.00	1.61	0.82	0.07	1.11	1.27	3475.23
1	Emerson Elec Co	7	EMR	60.24	3.12	6.00	-1.58	-1.44	0.11	-0.74	-3.70	40258.70
Computer and Technology												
COMPUTER-SOFTWARE												
A	Solarwinds Inc	10	SWI	47.98	0.00	1.00	1.66	0.55	0.50	0.77	0.39	3665.10
B	Intuit Inc	10	INTU	106.42	0.94	3.00	1.56	0.62	-0.42	0.68	1.59	29335.32
C	Salesforce.Com	10	CRM	73.10	0.00	3.00	1.56	0.62	-0.37	0.56	1.66	47921.14
D	Red Hat Inc	10	RHT	76.74	0.00	3.00	1.34	0.06	-0.49	0.57	0.09	14067.90
2	Citrix Sys Inc	10	CTXS	65.77	0.00	6.00	-1.32	0.02	1.18	-0.98	-0.14	10542.14
1	Symantec Corp	10	SYMC	24.69	2.43	6.00	-1.53	-0.59	0.75	-1.86	-0.66	16810.58
ELEC-SEMICONDUCTORS												
A	Avago Technolog	10	AVGO	146.62	1.04	3.00	1.56	0.40	-0.11	0.95	0.37	37620.79
B	Freescall Semi	10	FSL	44.97	0.00	1.00	1.40	0.42	0.04	1.02	0.20	13876.80
1	Adv Micro Dev	10	AMD	2.25	0.00	8.00	-1.69	-0.99	-1.71	-0.47	-0.78	1750.64
Aerospace												
AEROSPACE/DEFENSE EQUIP												
A	Rockwell Collin	11	COL	95.01	1.39	3.00	1.50	-0.06	-1.28	0.59	0.50	12566.88
1	Triumph Grip Inc	11	TGI	66.60	0.24	6.00	-1.53	-1.15	1.42	-2.93	-1.93	3281.65
Finance												
INSURANCE-PROP/CAS/TITLE												
A	Hanover Insuran	13	THG	71.35	2.30	3.00	1.56	1.03	-0.15	0.64	2.60	3154.95
B	Fnf Group	13	FNF	37.95	2.00	3.00	1.50	0.08	-0.87	0.54	0.58	10643.19
C	Travelers Cos	13	TRV	101.01	2.18	1.00	1.45	0.53	0.62	0.52	0.44	32191.69
D	Chubb Corp	13	CB	96.99	2.35	1.00	1.40	0.43	0.22	0.70	0.36	22283.74
1	Proassurance Cp	13	PRA	44.94	2.76	8.00	-1.63	-1.30	-0.33	-0.80	-2.77	2472.33
REIT-EQTY TRUST - RESID												
A	Apartment Invt	13	AIV	38.61	3.11	3.00	1.56	0.32	-0.39	0.70	0.64	6033.89
B	Amer Campus Cty	13	ACC	39.83	4.02	1.00	1.45	0.59	0.66	0.84	0.27	4472.95
C	Equity Lifestyl	13	ELS	55.31	2.71	1.00	1.45	0.51	0.65	0.84	0.04	4659.37
D	Avalonbay Cmnty	13	AVB	168.29	2.97	1.00	1.40	0.38	0.31	0.67	0.16	22245.92
1	American Hm 4 R	13	AMH	16.78	1.19	8.00	-1.69	-2.20	-0.90	-2.94	-2.77	3538.10
Utilities												
UTILITY-ELECTRIC POWER												
A	Teco Energy	14	TE	18.82	4.78	1.00	1.66	0.66	0.96	0.55	0.46	4425.00
B	Southern Co	14	SO	43.67	4.97	1.00	1.45	1.05	1.16	1.82	0.19	39663.76
C	Public Sv Entrp	14	PEG	42.91	3.64	1.00	1.45	0.33	0.48	0.50	0.00	21706.58
2	Nrg Energy Inc	14	NRG	25.14	2.31	8.00	-1.47	-0.91	-1.03	-1.30	-0.38	8384.06
1	Peppco Hldgs	14	POM	27.15	3.98	8.00	-1.69	-0.85	-0.99	-1.02	-0.55	6870.90

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Table 4: Small Cap Pairs – Polaris Output (06/01/2015)

	COMPANY	X SECTOR	TICKER	PRICE	DIV YLD	DCOORD	PSCORE	VTCAVG	VSCORE	TSCORE	CSCORE	MKT CAP
Consumer Discretionary												
BROADCASTING-RADIO/TV												
A	Nexstar Brcdstg	2	NXST	58.14	1.31	1.00	1.68	0.88	0.77	0.65	1.21	1819.32
1	Media General	2	MEG	17.01	0.00	8.00	-1.70	-1.12	-0.74	-0.90	-1.73	2218.09
LEISURE & RECREATION SVCS												
A	Amc Entertainmt	2	AMC	28.00	2.86	3.00	1.58	0.57	-0.24	0.68	1.26	2727.28
1	Clubcorp Hldgs	2	MYCC	22.53	2.31	8.00	-1.65	-0.63	-0.69	-0.73	-0.47	1455.75
Retail-Wholesale												
RETAIL-APPAREL/SHOE												
A	Childrens Place	3	PLCE	65.92	0.91	1.00	1.63	0.89	0.40	0.97	1.29	1359.07
B	Amer Eagle Outf	3	AEO	16.23	3.08	3.00	1.58	0.83	-0.35	0.78	2.06	3171.68
1	Finish Line-Cla	3	FINL	26.05	1.38	6.00	-1.33	-0.72	0.80	-2.60	-0.36	1199.58
Medical												
MEDICAL-BIOMED/GENETICS												
A	Isis Pharmaceut	4	ISIS	66.94	0.00	1.00	1.68	0.86	0.31	1.19	1.06	8013.59
B	Novavax Inc	4	NVAX	8.94	0.00	3.00	1.58	0.36	-0.31	0.63	0.77	2394.85
C	Acceleron Pharm	4	XLRN	32.06	0.00	3.00	1.52	0.24	-0.88	0.89	0.71	1051.95
D	Geron Corp	4	GERN	3.86	0.00	1.00	1.41	0.43	0.14	0.91	0.25	610.22
4	Sarepta Therap	4	SRPT	24.95	0.00	8.00	-1.65	-0.95	-0.24	-0.76	-1.86	1034.58
3	Puma Biotechnlg	4	PBYI	169.97	0.00	8.00	-1.70	-0.86	-0.32	-0.92	-1.33	5464.71
2	Synageva Biophm	4	GEVA	218.58	0.00	8.00	-1.70	-1.28	-1.62	-1.17	-1.07	8123.96
1	Ultragenyx Phar	4	RARE	86.65	0.00	8.00	-1.70	-1.74	-0.36	-1.55	-3.30	3111.00
Oils-Energy												
OIL & GAS-U S EXPL & PROD												
A	Synergy Res Cp	12	SYRG	11.39	0.00	3.00	1.58	0.32	-0.66	1.22	0.40	1185.32
B	Carizzo Oil&Gas	12	CRZD	50.04	0.00	3.00	1.52	0.81	-0.82	1.07	2.18	2574.61
C	Callon Pete-Del	12	CPE	7.81	0.00	3.00	1.52	0.13	-1.15	0.79	0.75	514.45
D	Matador Resourc	12	MTDR	27.45	0.00	3.00	1.52	-0.20	-2.34	0.89	0.86	2343.41
4	Jones Energy-A	12	JONE	9.48	0.00	6.00	-1.33	-0.25	0.54	-0.82	-0.48	585.11
3	W&T Offshore	12	WTI	5.27	3.80	6.00	-1.54	-0.33	0.79	-0.85	-0.92	400.19
2	Emerald Oil Inc	12	EOX	5.79	0.00	6.00	-1.54	-1.08	1.08	-3.05	-1.28	32.08
1	Williams(C)Engy	12	CWEI	51.89	0.00	8.00	-1.70	-0.78	-1.32	-0.49	-0.53	631.50
Finance												
BANKS-NORTHEAST												
A	Susquehanna Bsh	13	SUSQ	13.81	2.61	3.00	1.31	0.01	-0.84	0.79	0.09	2517.80
1	Natl Penn Bcshs	13	NPBC	10.63	4.14	6.00	-1.60	-0.39	0.20	-0.80	-0.58	1489.27
FINANCE-INVESTMENT BKRS												
A	Wisdomtree Inv	13	WETF	21.22	1.51	3.00	1.52	0.43	-0.83	0.74	1.39	2907.84
B	Invest Tech-New	13	ITG	27.51	0.25	3.00	1.36	0.11	-0.23	0.47	0.10	941.61
1	Evercore Partnr	13	EVR	51.69	2.17	6.00	-1.33	-0.40	0.69	-1.64	-0.26	1882.91
FINANCE-SAVINGS & LOAN												
A	Kearny Finl Cp	13	KRNY	10.82	0.00	3.00	1.31	-0.56	-2.76	0.93	0.15	1011.98
2	Wash Fedl Inc	13	WAFD	21.94	2.37	8.00	-1.44	-0.36	-0.15	-0.78	-0.16	2081.09
1	Capitol Fedl Fn	13	CFFN	12.11	2.81	6.00	-1.60	-0.54	0.42	-0.57	-1.46	1703.44
REIT-EQTY TRUST - OTHER												
A	Highwoods Pptys	13	HIW	42.59	3.99	1.00	1.68	0.74	0.88	0.46	0.87	4005.68
B	Dupont Fabros	13	DFT	32.63	5.15	1.00	1.68	0.51	0.47	0.38	0.67	2133.15
C	Diamondrock Hos	13	DRH	13.34	3.75	1.00	1.63	0.35	0.11	0.54	0.42	2677.49
D	Summit Hotel Pr	13	INN	13.62	3.45	3.00	1.58	0.80	-0.45	0.75	2.11	1178.20
2	Chambers St Ppt	13	CSG	7.64	6.68	6.00	-1.54	-0.30	1.56	-1.14	-1.33	1809.62
1	Hersha Hospitly	13	HT	6.48	4.32	8.00	-1.65	-0.66	-0.22	-1.32	-0.43	1272.13
Business Services												
BUSINESS SERVICES												
A	Wageworks Inc	16	WAGE	43.59	0.00	3.00	1.58	0.57	-0.43	1.02	1.13	1557.69
1	Houghton Miffln	16	HMHC	26.60	0.00	8.00	-1.70	-1.22	-1.76	-0.56	-1.36	4096.29

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