

Pairs Trading Matrixes

February 19, 2015

Sturdivant & Co. conducts bottom-up fundamental analysis on a wide range of nearly 3,000 large and small cap US equities. Today we are releasing the second publication of 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 4 pairs in the Medical-Biomed/Genetics industry that merit investment consideration, including: (A1) MDVN-TECH, (A2) MDVN-SGEN, (B1) ILMN-TECH and (B2) ILMN-SGEN.

Table 1: Large Cap Pairs Matrix

LARGE CAP PAIRS (based on 02/12/2015 prices)									
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 MEDICAL-BIOMED/GENETICS	MDVN	ILMN			TECH	SGEN			4
2 REIT-EQTY TRUST - OTHER	DLR	AMT			CXP				2
3 MOVIE/TV PRODUCTION/DISTRIB	LGF				NWSA				1
4 FINANCE-INVESTMENT MGMT	APAM				BEN				1
5 MEDICAL PRODUCTS	MDT	PRGO	CFN		HSP	BAX	BSX		9
6 ELECTRONIC COMMERCE	ZU				AMZN	NFLX			2
7 LARGE CAP PHARMA	ABBV				MRK	BMY			2
8 MACHINERY-GEN INDUSTRIAL	PH				IEX	CFX			2
9 STAFFING	RHI				MAN				1
10 FOOD-MISC/DIVERSIFIED	CAG				ARMK	SJM	CPB		3
TOTAL Number of PAIRS =									27

Table 2: Small Cap Pairs Matrix

SMALL CAP PAIRS (based on 02/12/2015 prices)									
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 MEDICAL INFORMATION SYSTEMS	HMSY	MDSO			FMI				2
2 BANKS-WEST	WABC				UMPQ	CVBF			2
3 MEDICAL-BIOMED/GENETICS	GERN	ARRY	ISIS	INO	SGMO	DVAX	OMED	LGND	16
4 MEDICAL-DRUGS	IRWD	AUXL			PTLA				2
5 COMPUTER-STORAGE DEVICES	SMCI				SGI				1
6 INTERNET SOFTWARE	DTSI				PCTY				1
7 REIT-EQTY TRUST - OTHER	IRET				EGP	PKY	HR		3
8 MEDICAL INSTRUMENTS	BABY	LMNX	ANGO		HTWR	CYNO	LDRH		9
9 RETAIL-FOOD & RESTAURANTS	BJRI	BWLD	FRGI		SONC				3
10 ELECTRONIC COMMERCE	PETS	OSTK			STMP				2
TOTAL Number of PAIRS =									41

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 |

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Table 3: Large Cap Pairs – Polaris Output (02/12/2015)

	COMPANY	X SECTOR	TICKER	PRICE	DIV YLD	DCOORD	PSCORE	VTCAVG	VSCORE	TSCORE	CSCORE	MKT CAP
Consumer Staples												
FOOD-MISC/DIVERSIFIED												
A	Conagra Foods	1	CAG	34.83	2.87	1.00	1.66	1.19	1.05	1.03	1.50	14834.69
3	Campbell Soup	1	CPB	46.88	2.66	6.00	-1.31	-0.48	0.49	-1.86	-0.08	14689.52
2	Smucker Jm	1	SJM	113.89	2.25	8.00	-1.42	-0.53	-0.16	-1.03	-0.41	11589.79
1	Aramark Holding	1	ARMK	30.54	1.13	8.00	-1.47	-2.01	-1.72	-4.13	-0.19	7237.83
Consumer Discretionary												
MOVIE/TV PRODUCTION/DISTRIB												
A	Lions Gate Emt	2	LGF	32.17	0.76	1.00	1.66	0.68	0.76	0.70	0.57	4499.10
1	News Corp New-A	2	NWSA	16.89	0.00	8.00	-1.63	-1.15	-0.37	-1.98	-1.09	6436.71
Retail-Wholesale												
ELECTRONIC COMMERCE												
A	Zulily-A	3	ZU	14.22	0.00	3.00	1.55	1.12	-0.18	2.39	1.15	1782.28
2	Netflix Inc	3	NFLX	466.10	0.00	8.00	-1.69	-1.70	-1.36	-0.96	-2.79	28198.12
1	Amazon.Com Inc	3	AMZN	381.83	0.00	8.00	-1.69	-2.26	-3.83	-1.11	-1.83	177315.75
Medical												
LARGE CAP PHARMA												
A	Abbvie Inc	4	ABBV	58.05	3.38	1.00	1.66	1.70	1.56	1.86	1.68	92489.03
2	Bristol-Myers	4	BMJ	60.04	2.46	8.00	-1.47	-1.25	-0.64	-2.59	-0.53	99592.92
1	Merck & Co Inc	4	MRK	58.81	3.06	6.00	-1.58	-1.53	0.06	-3.74	-0.92	167659.84
MEDICAL PRODUCTS												
A	Medtronic	4	MDT	75.26	1.62	3.00	1.55	0.46	-0.50	0.64	1.23	74079.70
B	Perrigo Co Plc	4	PRGO	150.90	0.28	1.00	1.44	0.63	1.23	0.50	0.15	21245.97
C	Carefusion Corp	4	CFN	59.81	0.00	1.00	1.39	0.83	0.58	1.34	0.56	12217.93
3	Boston Scientif	4	BSX	14.98	0.00	6.00	-1.37	-0.26	0.35	-0.57	-0.57	19870.82
2	Baxter Intl	4	BAX	70.39	2.95	6.00	-1.53	-0.76	0.69	-1.59	-1.40	38149.83
1	Hospira Inc	4	HSP	87.35	0.00	8.00	-1.69	-1.25	-1.30	-0.84	-1.63	14916.93
MEDICAL-BIOMED/GENETICS												
A	Medivation Inc	4	MDVN	104.71	0.00	1.00	1.66	1.32	2.26	1.03	0.67	8128.11
B	Illumina Inc	4	ILMN	198.54	0.00	3.00	1.34	0.33	-0.15	0.57	0.57	28192.68
2	Bio-Techne Cp	4	TECH	94.61	1.35	6.00	-1.58	-0.44	0.24	-0.77	-0.80	3513.25
1	Seattle Genetic	4	SGEN	31.57	0.00	8.00	-1.69	-1.50	-1.87	-0.67	-1.95	3911.27
Industrial Products												
MACHINERY-GEN INDUSTRIAL												
A	Parker Hannifin	7	PH	124.06	2.03	3.00	1.55	1.68	-0.08	2.44	2.69	17672.97
2	Colfax Corp	7	CFX	52.02	0.00	8.00	-1.42	-0.65	-0.52	-1.21	-0.20	6436.49
1	Ilex Corp	7	IEX	77.14	1.45	8.00	-1.63	-1.01	-0.64	-1.44	-0.95	6124.69
Finance												
FINANCE-INVESTMENT MGMT												
A	Artisan Pthr Am	13	APAM	46.16	5.20	1.00	1.66	0.75	0.91	0.52	0.83	3366.26
1	Franklin Resour	13	BEN	53.91	1.11	6.00	-1.58	-0.41	0.34	-0.84	-0.72	33522.70
REIT-EQTY TRUST - OTHER												
A	Digital Rlty Tr	13	DLR	68.65	4.84	1.00	1.66	0.98	1.33	0.75	0.85	9310.86
B	Amer Tower Corp	13	AMT	96.40	1.58	3.00	1.55	0.42	-0.01	0.56	0.72	38188.29
1	Columbia Ppt Tr	13	CXP	26.00	4.62	8.00	-1.69	-1.12	-1.74	-0.79	-0.83	3249.32
Business Services												
STAFFING												
A	Robt Half Intl	16	RHI	61.42	1.17	1.00	1.66	0.70	0.57	0.55	0.99	8350.54
1	Manpower Inc Wi	16	MAN	77.51	1.26	6.00	-1.53	-1.08	0.79	-1.32	-2.70	6134.14

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Table 4: Small Cap Pairs – Polaris Output (02/12/2015)

	COMPANY	SECTOR	TICKER	PRICE	DIV YLD	DCOORD	PSCORE	VTCAVG	VSCORE	TSCORE	CSCORE	MKT CAP
Retail-Wholesale												
ELECTRONIC COMMERCE												
A	Petmed Express	3	PETS	15.57	4.37	1.00	1.60	0.94	0.40	0.50	1.91	315.49
B	Overstock.Com	3	OSTK	22.45	0.00	3.00	1.34	0.06	-0.58	0.76	0.00	539.63
1	Stamps.Com Inc	3	STMP	56.92	0.00	8.00	-1.63	-0.70	-0.56	-0.64	-0.92	905.65
RETAIL-FOOD & RESTAURANTS												
A	Bj'S Restaurant	3	BJRI	45.62	0.00	3.00	1.55	0.49	-0.50	1.33	0.64	1189.91
B	Buffalo Wild Wng	3	BWLD	187.27	0.00	1.00	1.39	0.34	0.24	0.63	0.15	3521.43
C	Fiesta Restmnt	3	FRGI	61.80	0.00	3.00	1.34	0.18	-0.49	0.87	0.15	1655.19
1	Sonic Corp	3	SONC	31.59	1.14	8.00	-1.68	-2.32	-1.78	-4.36	-0.81	1690.63
Medical												
MEDICAL INFORMATION SYSTEMS												
A	Hms Hldgs Cp	4	HMSY	20.00	0.00	1.00	1.65	0.66	0.77	0.73	0.49	1755.76
B	Medidata Solutn	4	MDSO	46.58	0.00	3.00	1.55	0.29	-0.12	0.48	0.51	2526.74
1	Foundation Med	4	FMI	48.88	0.00	8.00	-1.68	-3.39	-1.55	-2.67	-5.96	1388.05
MEDICAL INSTRUMENTS												
A	Natus Medical	4	BABY	36.96	0.00	1.00	1.60	0.83	0.25	1.05	1.20	1202.97
B	Luninex Corp	4	LMNX	15.45	0.00	1.00	1.44	0.68	0.55	1.23	0.28	661.77
C	Angiodynamics	4	ANGO	18.78	0.00	1.00	1.39	0.37	0.21	0.86	0.04	672.72
3	Ldr Holding	4	LDRH	37.73	0.00	8.00	-1.47	-0.70	-1.13	-0.79	-0.17	983.24
2	Cynosure Inc-A	4	CYNO	31.37	0.00	6.00	-1.52	-0.58	0.58	-1.05	-1.28	679.10
1	Heartware Intl	4	HTWR	88.18	0.00	8.00	-1.63	-1.71	-0.11	-4.57	-0.44	1500.65
MEDICAL-BIOMED/GENETICS												
A	Genron Corp	4	GERN	3.03	0.00	1.00	1.60	0.45	0.32	0.56	0.48	476.35
B	Array Biopharma	4	ARRY	8.05	0.00	3.00	1.55	0.49	-0.21	0.53	1.16	1124.56
C	Isis Pharmaceut	4	ISIS	63.86	0.00	3.00	1.55	0.33	-0.30	0.61	0.68	7544.48
D	Inovio Pharmac	4	INO	6.80	0.00	3.00	1.49	0.26	-0.51	0.68	0.61	412.02
4	Ligand Pharma-B	4	LGND	55.91	0.00	8.00	-1.63	-0.51	-0.25	-0.72	-0.57	1098.41
3	Oncomed Pharma	4	OMED	26.06	0.00	8.00	-1.63	-0.98	-0.13	-2.09	-0.73	777.42
2	Dynavax Tech Cp	4	DVAX	16.96	0.00	8.00	-1.68	-0.77	-0.43	-1.54	-0.34	445.98
1	Sangamo Biosci	4	SGMO	15.40	0.00	8.00	-1.68	-1.41	-0.56	-0.73	-2.93	1053.42
MEDICAL-DRUGS												
A	Ironwood Pharma	4	IRWD	15.15	0.00	1.00	1.60	0.86	0.29	1.43	0.86	2115.43
1	Portola Pharma	4	PTLA	34.96	0.00	8.00	-1.68	-1.70	-0.65	-2.33	-2.12	1700.18
Computer and Technology												
COMPUTER-STORAGE DEVICES												
A	Super Micro Com	10	SMCI	39.74	0.00	1.00	1.60	0.80	0.21	0.92	1.26	1849.54
1	Silicon Graphic	10	SGI	9.59	0.00	8.00	-1.68	-1.36	-2.47	-0.65	-0.95	330.11
INTERNET SOFTWARE												
A	Dts Inc	10	DTSI	28.68	0.00	1.00	1.44	0.52	0.48	0.93	0.16	492.89
1	Paylocity Hldg	10	PCTY	28.59	0.00	8.00	-1.68	-1.87	-2.37	-0.84	-2.39	1443.42
Finance												
BANKS-WEST												
A	Westamer Bancp	13	WABC	43.59	3.49	1.00	1.60	1.21	0.20	1.50	1.93	1128.41
2	Umpqua Hldgs Cp	13	UMPQ	16.82	3.57	6.00	-1.57	-0.34	0.34	-0.70	-0.65	3703.11
1	Cvb Finl	13	CVBF	15.86	2.52	6.00	-1.57	-0.41	0.32	-0.51	-1.05	1679.46
REIT-EQTY TRUST - OTHER												
A	Investors RI Es	13	IRET	7.75	6.71	1.00	1.65	0.61	0.87	0.39	0.58	932.00
3	Healthcare Rily	13	HR	28.69	4.18	8.00	-1.47	-0.81	-1.59	-0.50	-0.35	2816.70
2	Parkway Ppty	13	PKY	17.89	4.19	8.00	-1.63	-0.74	-0.51	-1.02	-0.68	1988.06
1	Eastgroup Ppty	13	EGP	63.25	3.60	8.00	-1.63	-0.75	-0.02	-0.98	-1.25	2019.57

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