

Pairs Trading Matrixes

January 5, 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 introducing our exclusive Pairs Trading Matrixes utilizing Polaris, our innovative system for stock selection guidance. (Introductory presentation for Polaris is enclosed 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 6 pairs in the Utility-Electric Power industry that merit investment consideration, including: (A1) FE-DTE, (A2) FE-HE, (A3) FE-AEE, (B1) EXC-DTE, (B2) EXC-HE and (B3) EXC-AEE.

Table 1: Large Cap Pairs Matrix

LARGE CAP PAIRS (based on 12/31/2014 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 UTILITY-ELECTRIC POWER	FE	EXC			DTE	HE	AEE		6
2 BROADCASTING-RADIO/TV	STRZA	SIRI			CBS				2
3 COMM INFRASTRUCTURE	SBAC				COMM				1
4 FINANCIAL TRANSACTION SERVICE	GPN	ADS	FISV		FIS				3
5 DIVERSIFIED OPERATIONS	CR	LUK			UTX	GE			4
6 LARGE CAP PHARMA	ABBV	AGN	JNJ		MRK	PFE			6
7 REIT-EQTY TRUST - OTHER	HCN	GLPI			HTA	DEI	BXP		6
8 AEROSPACE/DEFENSE	GD				NOC				1
9 AUTO/TRUCK-ORIGINAL EQP	TRW				VC	OSK	JCI		3
10 LEISURE & RECREATION SVCS	RGC	MSG	LYV	CNK	RCL	NCLH	SIX		12
TOTAL Number of PAIRS =									44

Table 2: Small Cap Pairs Matrix

SMALL CAP PAIRS (based on 12/31/2014 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 UTILITY-ELECTRIC POWER	NYLD	PNM			EE	NWE			4
2 MEDICAL PRODUCTS	ABAX				MGNX	NUVA			2
3 TRANSPORTATION-SHIP	SFL	LPG	TNK		DHT				3
4 FOOD-MISC/DIVERSIFIED	CQB				LANC				1
5 RETAIL-FOOD & RESTAURANTS	RT	BOBE	DFRG	BJRI	BLMN	NDLS	RUTH	CAKE	16
6 MEDICAL-BIOMED/GENETICS	MNKD	AMAG	PBYI	RARE	GEVA	RPTP	AGEN	CYTK	16
7 INTERNET SOFTWARE	CTCT	PCTY	MKTO		BNFT	CVT	VRNS		9
8 REIT-EQTY TRUST - RESID	SUI				EDR				1
9 FINANCE-CONSUMER LOANS	CACC				ECPG				1
10 MEDICAL INSTRUMENTS	NAVB				ARAY				1
TOTAL Number of PAIRS =									54

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. Further background on the Polaris framework is provided in the enclosed introductory presentation. 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 (12/31/2014)

	COMPANY	X SECTOR	TICKER	PRICE	DIV YLD	DCOORD	PSCORE	VTCAVG	VSCORE	TSCORE	CSCORE	MKT
Consumer Discretionary												
BROADCASTING-RADIO/TV												
A	Starz-Lib Cap-A	2	STRZA	29.70	0.00	1.00	1.59	0.65	0.32	0.98	0.65	2806.80
B	Sirius Xm Hldgs	2	SIRI	3.50	0.00	1.00	0.75	0.45	0.21	0.64	0.50	19230.55
1	Cbs Corp	2	CBS	55.34	1.08	8.00	-1.68	-0.58	-0.58	-0.57	-0.58	28681.23
LEISURE & RECREATION SVCS												
A	Regal Entmnt Gp	2	RGC	21.36	4.12	3.00	1.54	0.50	-0.32	0.85	0.98	3335.85
B	Madison Square	2	MSG	75.26	0.00	3.00	1.49	-0.06	-2.01	0.72	1.10	5835.89
C	Live Nation Ent	2	LYV	26.11	0.00	3.00	1.49	-0.10	-3.00	0.70	2.00	5239.21
D	Cinemark Hldgs	2	CNK	35.58	2.81	1.00	1.44	0.83	1.06	1.16	0.25	4116.57
3	Six Flags Entmt	2	SIX	43.15	4.82	8.00	-1.47	-0.67	-0.75	-0.95	-0.31	4039.49
2	Norwegian Cruis	2	NCLH	46.76	0.00	8.00	-1.63	-0.46	-0.19	-0.50	-0.69	10455.49
1	Royal Caribbean	2	RCL	82.43	1.46	8.00	-1.63	-0.50	-0.38	-0.55	-0.57	18354.94
Medical												
LARGE CAP PHARMA												
A	Abbvie Inc	4	ABBV	65.44	2.57	1.00	1.65	1.34	1.03	0.78	2.19	104263.27
B	Allergan Inc	4	AGN	212.59	0.09	3.00	1.54	0.43	-0.26	0.39	1.17	63330.35
C	Johnson & Johns	4	JNJ	104.57	2.68	1.00	1.44	0.49	0.52	0.68	0.25	292702.94
2	Pfizer Inc	4	PFE	31.15	3.34	6.00	-1.57	-0.28	0.40	-0.59	-0.65	196265.47
1	Merck & Co Inc	4	MRK	56.79	3.17	6.00	-1.57	-0.98	0.26	-1.88	-1.32	161901.08
Auto-Tires-Trucks												
AUTO/TRUCK-ORIGINAL EQP												
A	Trw Automtv Hld	5	TRW	102.85	0.00	3.00	1.49	0.71	-0.79	2.52	0.41	11378.19
3	Johnson Control	5	JCI	48.34	2.15	6.00	-1.52	-0.67	0.55	-1.01	-1.54	32271.40
2	Oshkosh Corp	5	OSK	48.65	1.40	6.00	-1.57	-0.96	0.00	-2.09	-0.80	3800.93
1	Visteon Corp	5	VC	106.86	0.00	8.00	-1.68	-0.94	-1.08	-0.89	-0.86	4733.90
Conglomerates												
DIVERSIFIED OPERATIONS												
A	Crane Co	9	CR	58.70	2.25	1.00	1.65	0.97	1.04	1.00	0.88	3462.36
B	Leucadia Natl	9	LUK	22.42	0.28	1.00	1.44	0.54	0.75	0.87	0.00	8260.18
2	Genl Electric	9	GE	25.27	3.64	6.00	-1.52	-0.41	0.63	-1.29	-0.58	253766.20
1	Ultl Techs Corp	9	UTX	115.00	2.05	6.00	-1.57	-1.19	0.09	-1.42	-2.25	104840.67
Computer and Technology												
COMM INFRASTRUCTURE												
A	Sba Comm Corp	10	SBAC	110.76	0.00	1.00	1.65	2.00	2.06	0.59	3.34	14298.67
1	Commscope Hldg	10	COMM	22.83	0.00	8.00	-1.63	-0.78	-0.28	-1.38	-0.70	4284.78
Aerospace												
AEROSPACE/DEFENSE												
A	Genl Dynamics	11	GD	137.62	1.80	3.00	1.49	0.06	-1.28	0.97	0.48	45605.89
1	Northrop Grummn	11	NOC	147.39	1.90	8.00	-1.68	-1.06	-1.62	-0.50	-1.05	29772.63
Finance												
REIT-EQTY TRUST - OTHER												
A	Health Cr Reit	13	HCN	75.67	4.20	3.00	1.54	0.16	-0.42	0.45	0.47	24795.09
B	Gaming And Leis	13	GLPI	29.34	7.09	3.00	1.49	-0.11	-1.43	0.63	0.49	3299.20
3	Boston Pptys	13	BXP	128.69	2.02	8.00	-1.63	-0.46	-0.38	-0.57	-0.42	19702.44
2	Douglas Emmett	13	DEI	28.40	2.96	8.00	-1.68	-1.18	-1.71	-1.31	-0.53	4113.09
1	Healthcare Trst	13	HTA	26.94	2.15	8.00	-1.68	-4.80	-1.94	-4.77	-7.68	3218.60
Utilities												
UTILITY-ELECTRIC POWER												
A	Firstenergy Cp	14	FE	38.99	3.69	1.00	1.65	1.10	1.23	0.43	1.63	16406.72
B	Exelon Corp	14	EXC	37.08	3.34	1.00	1.44	0.57	1.10	0.38	0.24	31868.96
3	Ameren Corp	14	AEE	46.13	3.56	8.00	-1.47	-0.74	-1.30	-0.55	-0.37	11192.75
2	Hawaiian Elec	14	HE	33.48	3.70	6.00	-1.57	-1.30	0.09	-3.14	-0.84	3433.88
1	Dte Energy Co	14	DTE	86.37	3.20	8.00	-1.68	-1.15	-1.59	-0.60	-1.26	15286.71
Business Services												
FINANCIAL TRANSACTION SERVICES												
A	Global Payments	16	GPN	80.73	0.10	1.00	1.65	0.76	0.63	0.83	0.81	5460.33
B	Alliance Data	16	ADS	286.05	0.00	1.00	1.59	0.69	0.00	0.88	1.20	18312.92
C	Fiserv Inc	16	FISV	70.97	0.00	3.00	1.33	0.24	-0.23	0.73	0.23	17314.27
1	Fidelity Nat In	16	FIS	62.20	1.54	8.00	-1.63	-0.47	-0.22	-0.78	-0.40	17649.31

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Table 4: Small Cap Pairs – Polaris Output (12/31/2014)

	COMPANY	X SECTOR	TICKER	PRICE	DIV YLD	DCOORD	PSCORE	VTCAVG	VSCORE	TSCORE	CSCORE	MKT
Consumer Staples												
FOOD-MISC/DIVERSIFIED												
A	Chiquita Br Int	1	CQB	14.46	0.00	1.00	1.64	0.95	0.22	1.75	0.89	681.24
1	Lancaster Colon	1	LANC	93.64	1.97	8.00	-1.66	-0.57	-0.21	-1.17	-0.34	2560.40
Retail-Wholesale												
RETAIL-FOOD & RESTAURANTS												
A	Ruby Tuesday	3	RT	6.84	0.00	1.00	1.69	0.97	0.50	1.03	1.37	423.56
B	Bob Evans Farms	3	BOBE	51.18	2.42	1.00	1.64	1.06	0.23	1.17	1.79	1207.95
C	Del Friscos Rst	3	DFRG	23.74	0.00	1.00	1.64	0.53	0.03	0.87	0.70	555.92
D	B/S Restaurant	3	BJRI	50.21	0.00	3.00	1.58	0.49	-0.29	0.92	0.83	1309.63
4	Cheesecake Fact	3	CAKE	50.31	1.31	6.00	-1.39	-0.25	0.36	-1.04	-0.06	2490.04
3	Ruths Hospitly	3	RUTH	15.00	1.33	8.00	-1.44	-0.53	-0.34	-0.94	-0.30	530.35
2	Noodles & Co	3	NDLS	26.35	0.00	8.00	-1.44	-0.58	-0.05	-1.67	-0.03	744.84
1	Bloomin Brands	3	BLMN	24.76	0.00	6.00	-1.60	-0.48	0.20	-0.82	-0.81	3111.37
Medical												
MEDICAL INSTRUMENTS												
A	Navidea Biophar	4	NAVB	1.89	0.00	1.00	1.69	3.82	8.70	1.78	0.98	284.90
1	Accuray Inc	4	ARAY	7.55	0.00	6.00	-1.55	-0.55	0.58	-0.56	-1.66	587.77
MEDICAL PRODUCTS												
A	Abaxis Inc	4	ABAX	56.83	0.70	1.00	1.69	0.56	0.41	0.97	0.31	1280.72
2	Nuvasive Inc	4	NUVA	47.16	0.00	6.00	-1.39	-0.26	0.12	-0.73	-0.18	2218.45
1	Macrogenics Inc	4	MGNX	35.07	0.00	8.00	-1.71	-1.18	-2.31	-0.83	-0.39	974.77
MEDICAL-BIOMED/GENETICS												
A	Mannkind Corp	4	MNKD	5.22	0.00	3.00	1.58	0.52	-0.14	1.28	0.43	2115.73
B	Amag Pharma Inc	4	AMAG	42.62	0.00	3.00	1.58	0.30	-0.22	0.66	0.47	1078.50
C	Puma Biotechnlg	4	PBYI	189.27	0.00	3.00	1.53	2.53	-0.93	2.83	5.70	5706.11
D	Ultragenyx Phar	4	RARE	43.88	0.00	3.00	1.53	0.39	-1.89	2.11	0.96	1399.73
4	Cytokinetcs Inc	4	CYTK	8.01	0.00	8.00	-1.66	-0.67	-0.18	-0.77	-1.06	293.24
3	Agenus Inc	4	AGEN	3.97	0.00	8.00	-1.66	-0.92	-0.21	-2.32	-0.22	248.85
2	Raptor Pharmact	4	RPTP	10.52	0.00	8.00	-1.66	-2.05	-0.33	-5.09	-0.73	668.69
1	Synageva Biophm	4	GEVA	92.79	0.00	8.00	-1.71	-0.55	-0.84	-0.51	-0.31	3082.30
Computer and Technology												
INTERNET SOFTWARE												
A	Constant Contac	10	CTCT	36.70	0.00	3.00	1.31	0.05	-0.76	0.89	0.02	1162.51
B	Paylocity Hldg	10	PCTY	26.11	0.00	3.00	1.31	-0.17	-2.60	1.94	0.14	1314.04
C	Marketo Inc	10	MKTO	32.72	0.00	3.00	1.31	-0.40	-1.98	0.68	0.10	1348.46
3	Varonis Systems	10	VRNS	32.83	0.00	8.00	-1.71	-1.13	-2.43	-0.43	-0.54	806.50
2	Cvent Inc	10	CVT	27.84	0.00	8.00	-1.71	-2.01	-1.92	-3.54	-0.56	1150.52
1	Benefitfocus	10	BNFT	32.84	0.00	8.00	-1.71	-2.13	-2.15	-3.90	-0.35	839.26
Finance												
FINANCE-CONSUMER LOANS												
A	Credit Accept	13	CACC	136.41	0.00	1.00	1.69	0.49	0.61	0.27	0.60	2809.77
1	Encore Cap Grp	13	ECPG	44.40	0.00	6.00	-1.55	-0.06	0.62	-0.47	-0.32	1141.97
REIT-EQTY TRUST - RESID												
A	Sun Cmnty Inc	13	SUI	60.46	4.30	3.00	1.58	0.14	-0.21	0.30	0.32	2902.69
1	Education Rlty	13	EDR	36.59	3.94	6.00	-1.60	-4.32	0.15	-2.94	-10.17	1736.23
Utilities												
UTILITY-ELECTRIC POWER												
A	Nrg Yield Inc-A	14	NYLD	47.14	3.18	3.00	1.53	0.78	-1.50	2.57	1.28	3645.05
B	Pnm Resources	14	PNM	29.63	2.50	3.00	1.53	0.34	-1.15	0.68	1.49	2360.15
2	Northwestern Cp	14	NWE	56.58	2.83	8.00	-1.44	-1.16	-0.18	-3.17	-0.13	2597.76
1	EI Paso Elec Co	14	EE	40.06	2.80	6.00	-1.55	-0.65	0.49	-1.43	-1.00	1616.74
Transportation												
TRANSPORTATION-SHIP												
A	Ship Fin Intl	15	SFL	14.12	11.61	1.00	1.69	1.28	1.10	1.76	0.99	1318.23
B	Dorian Lpg Ltd	15	LPG	13.89	0.00	3.00	1.53	0.63	-1.96	0.60	3.25	802.61
C	Teekay Tankers	15	TNK	5.06	2.37	3.00	1.53	0.13	-0.55	0.48	0.46	461.35
1	Dht Holdings	15	DHT	7.31	1.09	8.00	-1.71	-1.16	-1.60	-1.18	-0.70	676.25

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