# DAEDALUS INVESTMENTS

## Prospective Client Report

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**Note about commissions/payment:** Commission can be negotiated to any level the client feels comfortable. The management fee/expense ratio is .25% but is subject to potential change.

**Our mission - “Giving Wings to Your Money” :**

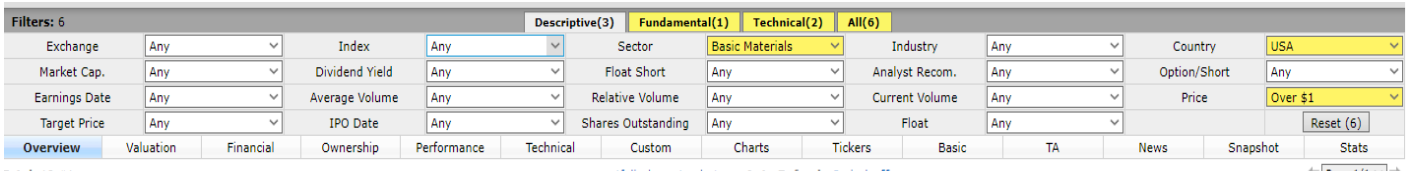
The story of Daedalus and Icarus is a classic tale of greed, folly, and unbridled spirit. Daedalus and Icarus were father and son, trapped on an island prison for angering King Minos, the ruler of the Greek island Crete. Daedalus, a brilliant inventor, created wings out of wax for himself and his son. Most people recognize this story because Icarus decided to fly too close to the sun, which melted the wax off his wings and ultimately brought his demise. However, we want to honor the story of Daedalus, a man whose shrewd decision-making ultimately allowed him to reach his end goals. By associating Daedalus to our name, we make sure that our investments are at the perfect balance of risk, to ensure that our wings aren’t dampened by seawater nor are they melted by the sun. By not flying too close to the sun or water, we hope our investments will take flight, and give us the best rate of return we can generate.

**Investment Focus**

First and foremost, we want to be ethical investors. The profit may be there, but at what cost? We want to make sure that the companies we invest in are not hampering society and instead want to place emphasis on companies we believe have a positively-oriented mission to make the world a better place. We also want to make sure that any company we choose to invest in makes sound decisions both internally and externally, while having a strong balance sheet, good profitability metrics, and a reasonable price point for its valuation.

**Investment Decision Process**

First, we will speak to our clients to see if they have any specific values or other criteria that may need to be met while choosing stocks, we will assess their risk tolerance and establish a stop-loss level for the whole account. This way, losses can be minimized and the stocks can be bought back at a more attractive price point or the money can be invested into different assets. Next, we will personalize a sector allocation based on the client's criteria along with our trained algorithm. From here, to find value, we narrow down stocks that have dipped below their 52-week high to indicate stocks that may whipsaw from a dip. With FinViz, the first process to narrow down each stock can be streamlined with a set amount of indicators and separating each basket by the industry the stock is in. The interface looks like this:

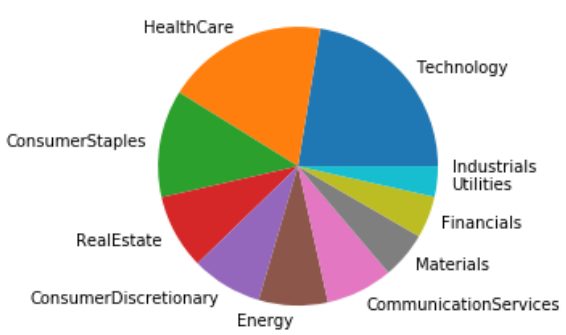


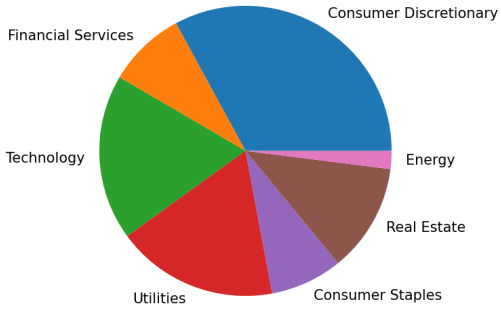

From here, each of the short-listed stocks are fed into an algorithm.

Algorithms are usually cold-hearted, and many simply pick stocks that would provide the greatest profit, overlooking the human aspect of buying stocks, something we thought essential to our decision making. For that reason, we created a system that can make sound decisions, both in making a profit and aligning with any clients interests;

After filtering out stocks from all major sectors, we created a system to select which sectors and stocks we believed would match our clients interests. Our Machine Learning program, which is trained using supervised learning to find patterns in actual stock data and portfolios, then creates a portfolio allocation. This allocation tries to find a balance between both

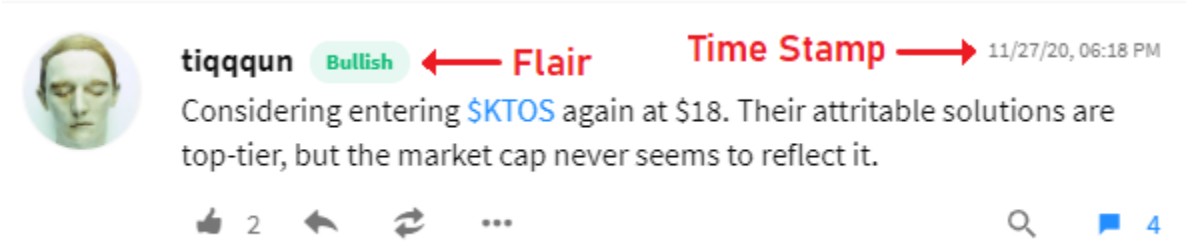
profits based on current data, and how much was allocated to any client's ideal stocks, which we select through reading goals and expectations as a client. We use these allocations to help us come to our final investment decisions. Below is a comparison between one of our older and more recent allocations. The one on the right, after being trained, was much closer to our actual allocation:




The approach we took was to leverage the power of public sentiment and crowdsourced platforms through Stocktwits, a large social media platform designed for sharing ideas between investors, Twitter, and r/wallstreetbets. A big question that gets asked very frequently now is "why is the stock market doing so well while the economy is so weak?" The answer to this question has been in the making for many years. Over the past few years, stocks have experienced a gradual divorce from being correlated with the economy. Rather than being an accurate reflection of where the economy stands, the stock market has become a psychological reaction of mass buying and selling. Stocks, in the end, are driven not by analysts or savants, but by the general public. If more people believe a stock is a buy and more people buy that stock, the stock will go up. The COVID-19 pandemic has led to a huge increase in the volatility of markets.

Additionally, 2020 saw nearly 10 million new brokerages added as individual investors are off to the races. Now more than ever, having an accurate gauge of public opinion can help provide key insights into the market. As such, Stocktwits and other sites possess extremely valuable tools to gauge Investor Sentiment. A comment on Stocktwits for example may look like this, with a flair and timestamp provided.




By creating a web scraper to pull StockTwits and other sites comments, we are able to determine the number of people who put either a bullish or bearish flair within any specified time range. As not all users put flairs on their comments, we use NLP (**Natural Language Processing**) which is a machine learning program that determines the sentiment of a given text (**how positive or negative the comment was rather than how neutral or biased it was**). We also have checks for specific keywords like “bearish”, or “falling”, which only have positive or negative connotations when looked at in the context of investment. In addition to all this data gathered from StockTwits, we also created a web scraper for Google News which determines the sentiment of various articles using the same NLP method, allowing us to gather the sentiment of the media, which can greatly reflect the public’s opinions on certain stocks.

Using Natural Language Processing, certain words are extracted from each comment and using a variation of the bubble sorting method, the words used are compared to the words next to it. This was important because in the English language, some words on their own can mean something, but the words next to or around them could make the meaning completely different.

Examples:

Bad - Negative sentiment

Not bad - Neutral sentiment

Not bad at all - Positive sentiment

Good - Positive sentiment

Not good - Negative sentiment

Not too good - Neutral sentiment

Words in the English language that are used as modifiers to adjectives, verbs, and other adverbs can greatly alter the meaning of a sentence. These modifiers, usually adverbs, are considered in the program by looking at the comment holistically. Machine learning was also utilized in the program because it detected commonalities in the usage of those specific modifiers in the comments from the stocks. The program then learned more and more of those clauses which allowed for streamlined and efficient extraction.

Another conundrum the program had to get past was the use of curse words in comments. Since StockTwits is a crowdsourced platform with no limitations or censorship, the use of curse words is highly abundant in comments. Curse words are one of the paradoxes of the English language. For sake of this report, I will only go into detail about one curse word, and the amount of confusion that it can cause in the program without a holistic view of the comment. It is imperative that comments with curse words are not left out in the scanning because as much as 78% of the comments extracted contained some form of a curse word. Here, we will look at the word crap which is a filler for the actual curse word which has the same meaning. Here are some clauses that were used in some comments, and after reading, it will soon be evident why machine learning was crucial to allow the program to learn the different clauses in order to make accurate sentiment predictions.

It's crap! - (it's bad) - Negative sentiment

It's THE crap! - (that's the stuff!) - Positive sentiment

Give crap to it - (telling it off) - Negative

Give a crap about it - (care about it) - Neutral/Positive/Negative depending on modifiers

Take crap - (take a beating) - Neutral/Positive ← Great falling knife indication

Piece of crap - (bad meaning) - Negative

This is only one of many curse words. There are more complex uses that curse words have in determining the meaning of the sentence. However, extracting each comment is of paramount importance in determining what the best possible sentiment score is for the stock.

We used this sentiment data, which was provided as a score for each stock, to adjust the Monte Carlo simulations we conducted using stock data we pulled through the Internet. Doing this, we were able to combine both our quantitative and qualitative analysis of each stock into a single score. Essentially, we were able to find stocks that are good in the eyes of a computer and the eyes of the public. Our entire system works as a powerful tool to make general predictions about stocks in the long run, while still being able to be used as a short-term tool to accurately predict values using our analysis of public sentiment.

**Example:**

If **XYZ's** sentiment analysis indicated that **76%** of people thought that it was **Bullish** for the current situation, but the statistical analysis gave a forecast the stock would **decline** based on historical data, the changing procedure would go something like:

Take the last 2 weeks of XYZ's closing data and alter it by **+0.76%**. If on some given day, XYZ's closing price was **$81.78**, down **0.32%** from the previous day, the new data for the closing price would instead of being down 0.32 percent, would be up **0.44%** from the previous day, with a new closing price of **$88.05**

**Special thanks to: Arnav Vadnere, Keshav Iyengar, Ashish Radhakrishnan, who were instrumental in implementing the algorithm. Although the logic was established, putting it together technically and really bringing it to life was no easy task. Thank you to all.**

| Close | Adj Close | Alteration | New Close | Ticker |
|---|---|---|---|---|
| 54.73 | $53.75 | -0.63 | $53.12 | **DOX** |
| 54.03 | $53.06 | -0.63 | $52.43 | |
| 54.67 | $53.69 | -0.63 | $53.06 | |
| 54.5 | $53.52 | -0.63 | $52.89 | |
| 55.03 | $54.04 | -0.63 | $53.41 | |
| 53.83 | $52.86 | -0.63 | $52.23 | |
| 53.79 | $52.82 | -0.63 | $52.19 | |
| 54.3 | $53.32 | -0.63 | $52.69 | |
| 53.97 | $53.00 | -0.63 | $52.37 | |
| 54.14 | $53.45 | -0.63 | $52.82 | |
| 54.11 | $53.42 | -0.63 | $52.79 | |
| 54.41 | $53.72 | -0.63 | $53.09 | |
| 54.34 | $53.65 | -0.63 | $53.02 | |
| 54.86 | $54.16 | -0.63 | $53.53 | |
| 54.46 | $53.77 | -0.63 | $53.14 | |
| 55.21 | $54.51 | -0.63 | $53.88 | |
| 55.06 | $54.36 | -0.63 | $53.73 | |

This is an example of what an altered data set would look like for Amdocs, Inc.

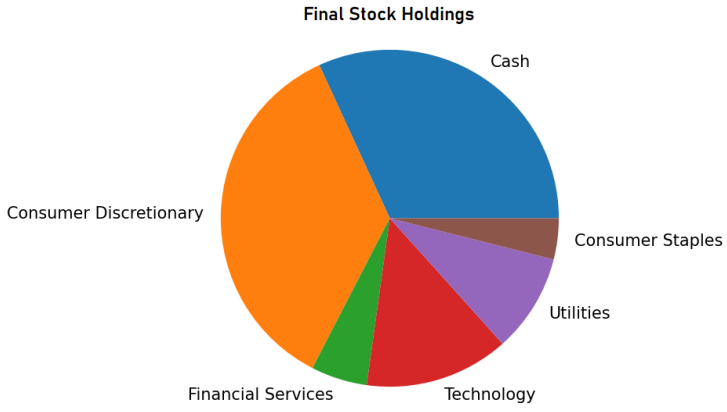
**Stock Picks based on Fundamental and Technical indicators:**

We take a three-pronged approach to decide what stocks to invest in when it comes to deciding on a fundamental level in which companies were best positioned for success. With the indicators we choose, we aim to measure profitability, strength in terms of the balance sheet, and to what degree the stock may be under or overvalued. With the P/E and Price/Projected FCF ratios, we can determine a standing on where the valuation of a stock lies and get an idea of where a stock's intrinsic value lies near. We can find how profitable the company is through the three-year revenue growth rate, and finally, we can find how strong a company's balance sheet is overall with the Altman Z-Score, and the Piotroski F-Score, which combine a multitude of fundamental indicators that bring more specificity to how strong a company is financially.

**Here is an example of a case study conducted in April where we try to find undervalued stocks with growth potential. Our results will be posted at the end of this.**

**Case Example:**

Client 1 wishes for 20% of his/her/their portfolio to be allocated to companies that have a strong record of profit, and are actively contributing to making the world a better place, the portfolio allocation program will first consider these priorities. Then, it will move on to making calculated allocations which perfectly balance out a risk to reward ratio based on patterns that are detected in terms of spikes in return rates for those respective sectors. Here is an example allocation that has been spit out by the algorithm for a portfolio of $100,000:




| | |
|---|---|
| **Cons. Discretionary** | $38784.95 - 34.94% |
| **Consumer Staples** | $4287.65 - 3.86% |
| **Financial Services** | $5862.00 - 5.28% |
| **Technology** | $15050.80 - 13.56% |
| **Utilities** | $10291.35 - 9.27% |
| **Cash** | Subjective/Relative |

From this step onwards, the algorithm comes into play and eventually, a stock list gets narrowed down that can be further scrutinized individually with fundamental analysis using a multitude of indicators and reading balance sheets to determine the health of the business model.

**In General, we look for: Low P/E, high Altman Z-Scores, high 3-year revenue growth, low Price/Projected FCF, and a high Piotroski F-Score, while keeping in mind that all data points for companies should be looked at relative to their respective industries.**

**Consumer Discretionary (All statistics taken at the time of buying the company)**

| Company | P/E | Altman Z-Score | 3 Yr Rev. Growth | Price-to-Projected FCF | Piotroski F-Score |
|---|---|---|---|---|---|
| Ulta Beauty Inc. | **21.28** | **4.64** | **18.1x** | **1.88** | **7** |
| IMAX Corporation | **13.71** | **1.93** | **5.2x** | **1.13** | **4** |
| Vera Bradley Inc. | **33** | **2.88** | **3.2x** | **.54** | **7** |
| Comcast Corp. | **18.56** | **1.66** | **12.6x** | **.98** | **7** |
| Carnival PLC | **7.3** | **0.72** | **11.1x** | **.99** | **3** |

**Financials**

| Company | P/E | Altman Z-Score | 3 Yr Rev. Growth | Price-to-Projected FCF | Piotroski F-Score |
|---|---|---|---|---|---|
| Citigroup Inc. | **9.93** | **N/A** | **10.2x** | **.43** | **4** |

**Consumer Staples**

| Company | P/E | Altman Z-Score | 3 Yr Rev. Growth | Price-to-Projected FCF | Piotroski F-Score |
|---|---|---|---|---|---|
| Ambev SA | **23.81** | **3.78** | **10.2x** | **1.19** | **5** |
| Godrej Agrovet Ltd. | **31.05** | **4.68** | **12.3x** | **.96** | **4** |

**Technology**

| Company | P/E | Altman Z-Score | 3 Yr Rev. Growth | Price-to-Projected FCF | Piotroski F-Score |
|---|---|---|---|---|---|
| Arista Networks Inc | **19.8** | **11.77** | **25x** | **2.01** | **7** |

| | | | | | |
|---|---|---|---|---|---|
| Alibaba Group | **35.85** | **7.82** | **45x** | **2** | **5** |

**Utilities**

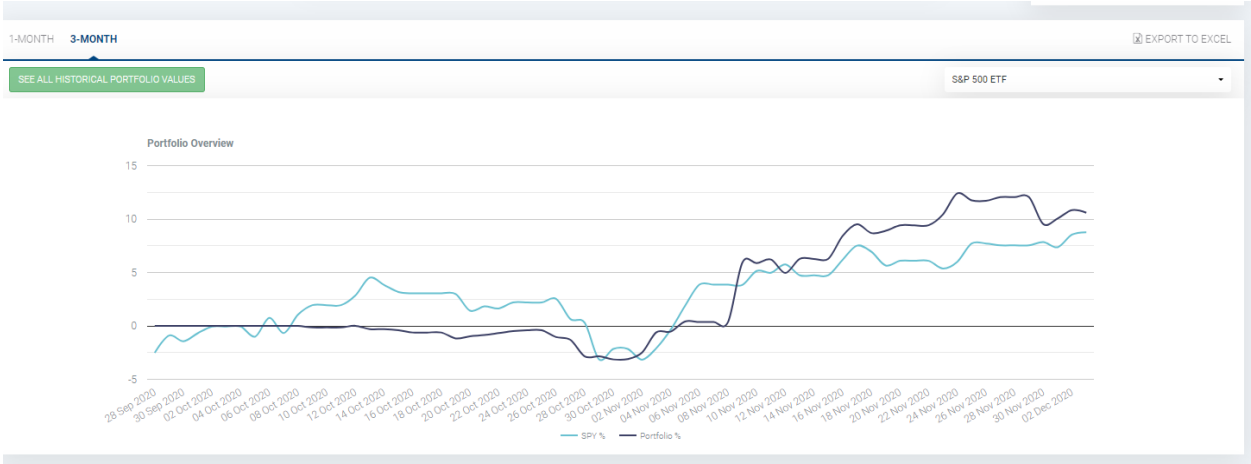
| **Company** | **P/E** | **Altman Z-Score** | **3 Yr Rev. Growth** | **Price-to-Projected FCF** | **Piotroski F-Score** |
|---|---|---|---|---|---|
| China Mobile Ltd. | **8.2** | **1.8** | **1.5x** | **0.64** | **8** |

We especially find that the Piotroski F-Score was a perfect financial indicator to use as it uses different criteria such as operating efficiency and profitability which we find very important when looking at the fundamentals of a stock. To better aid in filtering out the stocks that would be the most profitable, we created a program that looked at all of the stocks in the competition stock list and calculated their F-score. With all this data we calculated, it helps us narrow down our list of stocks to analyze by hand and pick the best stocks that fit with any client's interest as well as have the best growth potential.

**A Technical Analysis Perspective:**

An imperative step to our investment strategy is technical analysis (TA); a method for us to add a layer of quantitative analysis that can better help in decision making. There are 2 key roles to TA which we have identified: trends and entry/exit points. Using indicators such as MACD, coupled with drawing trend, support, and resistance lines, we can determine whether the company has a long/short term positive or negative projection. Additionally, given the March correction due to COVID-19, TA also helps us identify potential heavily undervalued companies and companies that might gap up. The Ichimoku indicator is a strategy built upon charting analysis which we used to find potential reversal stocks such as IMAX and VRA. The RSI indicator also helps us analyze key entry and exit points in any time frame we want (weekly,

monthly, yearly, etc). With the COVID-19 correction, several oversold stocks made for great short-term investments (CCL and ULTA) allowing us to effectively allocate 10% of our portfolio to increase our client's stake.




**At the end of the management period, the prospective portfolio for the client grew higher than the relative S&P 500 gold standard. The investments that were made in the portfolio especially in the pandemic recovery sectors. Each indicator lined up with our investment strategy and overall, we found that when we invested in the companies at the time, they offered a lot of value for the price point that they were being offered at.**

| Account Snapshot | View Summary |
|---|---|
| Currency | USD |
| Portfolio Value | $132,006.58 |
| Buying Power | $2,728.88 |
| Portfolio % Return | 32.01% |

# Thank you for considering Daedalus Capital

We hope that your time is well spent here and we hope that our main policy of ethical investing while being transparent with all the decisions we make and listening to our clients helps you have a reliable, safe experience with us. We want to make sure that your money is well taken care of and we hope to do business with you.

- Sanjay R. Swamy, founder and CEO, Daedalus Capital