

Frequently Asked Questions

Q: What can I save using Formula Stocks instead of other products?

A: Formula Stocks offers a low, flat and transparent fee, which does not scale with volume. What you can save depends on what you otherwise pay in fees. This can be complicated to calculate, as many funds have a number of different costs, some of which can be grouped into sales charges, expense ratios, transaction commissions, and redemption fees. Hedge funds and alternative investment vehicles often include a large performance fee as well. ETFs have trading costs in addition to expense ratios. FormulaStocks is usually the less expensive method, sometimes by a very large factor. It depends on the amount of capital deployed as well.

From a savers perspective you could view the Formula Stocks model as kind of the IKEA model of the investment world. You buy prefabricated parts (strategy and technology), do the final assembly yourself (the purchase and sale of equities), and obtain very significant savings in the process.

Q: How much can I expect in investment returns?

A: Formula Stocks can, like everyone else, not answer this question. We can optimize the odds for you to outperform the market averages. At any rate, the market return going forward is inversely proportional to the current price level. When the general price level is high, expect lower returns forward from any form of investment. Conversely, when the general price level is low, expect higher returns going forward. We have tended to outperform the market averages during both bear and bull markets, historically speaking. What we do, is to improve the odds quite significantly. We do not control the outcome. The longer one is invested with Formula Stocks however, the better the odds of success, as the outcomes converge more and more with the positively skewed odds over time.

Q: What about volatility?

A: Formula Stocks selections typically have smaller drawdowns over time than the S&P500, and higher net returns, but due to smaller portfolio sizes and more concentration, the results are also likely to be more volatile in the shorter term. Refer to the Omega risk/reward benchmark found elsewhere on our website for more detail.

Q: Do you offer an investment fund/ETF with which one can invest directly?

A: No, not at this point in time. It may be considered in the future.

Q: How do I begin to invest?

A: It depends on how you wish to use Formula Stocks. The easiest method is to mirror the Model Portfolio. And then update it once a month.

Another way to use it is to simply view the recommendations when they appear and use them for investment or further analysis.

You could also choose a combination: applying a percentage, for instance 40% to the portfolio now, earmarking 20% to the first 3 months new recommendations, and keeping 40% in cash for later. This approach is a belt-and-suspenders way of easing into a position over time.

Lastly, you may simply do your own analysis of either portfolio positions or recommendations, which, if you are a very experienced investor, may be an interesting alternative. You can then use FS as a high quality stock screener.

Q: How often are new stocks recommended for purchase or sale?

A: New recommendations appear on a weekly basis if and when the market offers them. Accessing these once a month is fully sufficient. How many recommendations appear depends very much on current market conditions, and from time to time the recommendations may be the same for a while. FormulaStocks looks for great opportunities in the markets; sometimes we find few, as in less than 5, sometimes many as in above 50. The holding period is long term, from 300 to 1200 days.

Q: How many new investment candidates are available?

A: The availability of new investment candidates is a function of the available investments we can locate in the marketplace with a sufficient degree of certainty. We buy stocks like you buy steaks in a supermarket. We generally prefer high quality and low prices. The market does not always accommodate our preferences, and the number of candidates does vary greatly with the price level of the general market. If the pickings are slim, we may prefer a partial cash position for a while.

Q: Which and how many stocks are covered by your service?

A: We do not supply a full list of all the potential stocks analyzed by our systems. It covers many thousands of stocks, however, ranging from micro cap to mega cap companies in all sectors with varying geography.

Q: Can your products be used in any country?

A: Yes, absolutely. We cater to an international audience, and the stocks we prefer are accessible for purchase in all countries.

Q: Is your stock selection USA only?

A: No. Formula Stocks can be used from anywhere in the world. It works with a majority of public US companies, a significant part of Canadian companies, and a larger number of international companies with an ADR (American Depositary Receipt). These are international companies which trade on the US exchanges, as if they were US stocks, denominated in USD, even though the company itself may be located in Peru, Switzerland, or Germany, for instance, and also trade in the local currency of this particular country. In practical terms Formula Stocks analyzes international stocks, usually a similar subset to what you might find traded on US exchanges. This is to ensure the availability of all stocks, to all members, no matter their geographical location.

Q: What about currencies?

A: We use USD as a base currency for the sake of simplicity. No matter what your local currency is, you can easily use FormulaStocks anywhere in the world.

Q: How often do I need to think about my portfolio?

A: You need to check for any recommendations once a month or alternatively rebalance your portfolio once a month. At least in case you want your portfolio to match the Formula Stocks portfolio exactly. This is not a requirement, though. A loosely managed portfolio or simply single, handpicked investments can perform just as well. We recommend a once-a-month checkup. If your personality is more in tune with frequent attention to investments, our purchase recommendations are updated on a weekly basis, while our sales recommendations are updated once a month. Our strategies trade only once a month. (This is to allow one full month for accumulation or distribution of larger positions).

Q: How do I pay for membership?

A: Typically with a credit card. although other options exist for BUSINESS and FUND members.

Q: Is there a trial period available?

A: We offer a free trial for a one month period with full access to our BASIC plan.

Q: Is there a minimum period for subscription?

A: No. BASIC and PREMIUM are monthly subscriptions, whereas BUSINESS and FUND are yearly subscriptions. Once a period begins, it is non-refundable. You can cancel your subscription anytime before a new period starts.

Q: Do I have to choose the portfolio suggested by FormulaStocks or can I continue with my current portfolio?

A: This is entirely up to you. You can freely mix and match with any other portfolio, stock, or product.

Q: Do I enter my other portfolio positions within the app/website?

A: No. Formula Stocks is not aware of your actual positions. Formula Stocks displays an optimized model portfolio per plan and tracks its performance through time.

Q: Does Formula Stocks offer direct brokerage services or investment advisory services?

A: No.

Q: What does a Formula Stocks purchase suggestion include?

A: Purchase recommendations are vetted from a quantitative, strategy, value, growth and business analytics standpoint. When you receive a recommendation, you can access 10 data points, mostly related to relative price, expected return, expected growth rate, etc. Our Business Analytics, however, analyze over 400 primary datapoints for many thousands of stocks every day. We do not write up the usual analyst report, as these do tend to be influenced by human biases.

Q: What does "cash allocation" percentages in purchase suggestions signify?

A: Each month, if you choose to mirror our model portfolio, you would deploy a percentage of the available cash into a new stock. Please note that this is not a percentage of the entire portfolios net worth, but only of freely available cash.

Q: How does the Formula Stocks portfolios tie in with my existing asset allocation?

A: The Formula Stocks plans are different, but with 89 different strategies used in total they involve sound diversification both in terms of stocks, sectors, and strategies. Formula Stocks includes equities from all sectors, even though you will statistically speaking see a certain underweight in some sectors. As you have full access to the Formula Stocks portfolio, you can judge the exact portfolio composition for yourself. Adding high-probability investment ideas should be a plus for any portfolio. A user may run a FS portfolio as a 1:1 mirror, may alternatively use recommendations on an ongoing basis which will results in a slightly different portfolio, or again alternatively cherry pick specific investments only. It is also possible to use FS portfolios and recommendations as a very advanced stock screener.

Q: Do you short stocks?

A: No.

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Q: The majority of active investment managers cannot beat the market averages in historical analysis. Why is Formula Stocks different?

A: We offer something that most managers simply do not have access to. Our proprietary IIT™ quantifies the risks and reward, odds of success, and the presumed future alpha of every investment candidate. In fact, it quantifies over 400 datapoints about every single business that we analyze. From this we are able to extract knowledge to beat the market averages using the scientific method. This proprietary technology, 14 years in the making, is a machine learning based expert system, which runs on a supercomputer and possesses knowledge which is simply not generally available. This knowledge is a simplistic form of artificial intelligence, geared entirely towards business analysis.

Our BUSINESS product, for instance, has historically surpassed the market returns (as defined by the S&P 500) 88% of the time on a yearly basis. Future investment returns are however unknown, and we make no representation that any particular level of performance will be achieved.

Q: Why is Formula Stocks not 100% invested in stocks right now?

A: It may be at times, and at other times maintain a variable cash allocation. Typically a cash allocation can be due to a lack of sufficiently attractive investments. When evaluating the attractiveness of any investment, more than 400 parameters are taken into consideration, and extremely complex logic used to ascertain where to invest. Also, if the market is considered too or at least very expensive, Formula Stocks will typically maintain a cash allocation in order to maximize opportunity in the future and equally reduce portfolio risk.

Q: How is the model portfolio updated?

A: Once a month, we recalibrate our model portfolio. This involves purchasing new positions, selling existing positions, and position size adjustments. Once the decisions have been made, we allow for one full month to perform the actual trading required, this month is our trading window. This is to allow accumulation or distribution of larger positions, for instance using Volume Weighted Average Price algos (VWAP). By using a longer time period price impact can be minimized to a reasonable extent. The Suggestions are slightly different, as these are updated weekly, and there may changes in content more frequently.

Q: What are the size limits / AUM limits?

A: Our retail product BASIC and PREMIUM are designed for retail usage, with which relatively low individual AUMs are intrinsically expected. The BUSINESS product is designed for medium size capital; typically a corporation, CEO, CFO, accredited or sophisticated investor etc., and institutional capital is not allowed. BUSINESS is not widely diversified. FUND is designed for institutional capital. It is important to not try to use retail or BUSINESS products with institutional size capital. It will not work. Only FUND is designed to maintain an adequate diversification level, with a significant level of underlying liquidity, which can satisfy institutional requirements.

Q: What about institutional capital?

A: Only our FUND product is designed to handle institutional capital. It should be able to cope with AUM sizes well beyond multiple large typical fund AUMs. FUND is designed to maintain an adequate diversification level, with significant liquidity available for market operations, which can satisfy institutional requirements. Contact us for further information.

Q: How can you state results all the way back to 1970, when Formula Stocks development first began in 2003?

A: Our methods are fully quantifiable, built upon a timeless investment philosophy. This means that FS methods will work on any opportunity set (any

set of available stocks at any point in history, both past and future), and the exact results of the past can be quantified with great accuracy. In principle it could be calculated what Formula Stocks results would have been for several hundreds of years, as far back as company reports have sufficient detail in them, as to provide enough information to make prudent business decisions. 1970 is an arbitrary starting point. Our input is the market opportunity set regardless of time or macro. Our formula is our complex expert system based upon sound business logic. The output is a set of fully quantifiable business decisions. Tracking the financial results of executing these decisions is both easy and reasonably accurate. While pre-2009 results as such are calculated, post-2009 results are not. These have been actual, inasmuch as the recommendations have been performed in realtime, and the future -as it appeared back then in 2009- has proven a rather exact match of our expectations. We have profited strongly from investments carried out on the recommendation of FS release V1 in 2009.

Q: Can I expect a quick return on my investment?

A: No. The creation of value takes time. Formula Stocks does not speculate on timing related issues. We buy real businesses when it makes good sense to buy them, and we hold, until sufficient value has been created or a better opportunity reveals itself. This means we are sometimes early when we buy. And we may not be buying at the exact bottom, and thus one may well experience an initial negative marketvalue of any single position. It may in fact take up to several years in some instances for an investment position to turn from a negative return to a positive return. Or it can happen very quickly. Either way, patience and the ability to stick to the plan, enduring some volatility at times, are significant elements of achieving long term success in any form of investing. This experience is well known to long term value investors, and anyone observing for instance Mr. Warren Buffett over time, would have observed the same phenomenon: Short term volatility preceding long term gain. Please refer to our online video visualization of returns over time.

Q: What risks do I incur investing with Formula Stocks?

A: This is question which it is difficult to give a precise answer to. Generally one incurs the risk of investing in stocks minus a somewhat reduced risk from investing in better than average stock positions with better than average odds and a reasonable margin of safety. At the same time volatility may likely be higher than the whole market due to less diversification than, say the S&P 500. We however do not consider volatility to be risk in a strict sense, although some investors do. (we have yet to meet the investor who frowns upon volatility to the upside: gains). Please refer to the Omega graph found on our website for a comparison of risk/reward relative to the general market. FS risk may be somewhat lower relative to the market because our methods at times holds a cash component. Any investment involves risk. See our Terms and Conditions.

Q: Do you recommend stocks with which you have any form of affiliation or interest in?

A: Absolutely not. Formula Stocks operate under very strict ethical standards. We will never recommend anything, in which we have a vested interest. We receive no compensation from any parties. Formula Stocks employees are allowed to invest using the products for personal retirement purposes, alongside members through the website.

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