IDS 462 Final Project

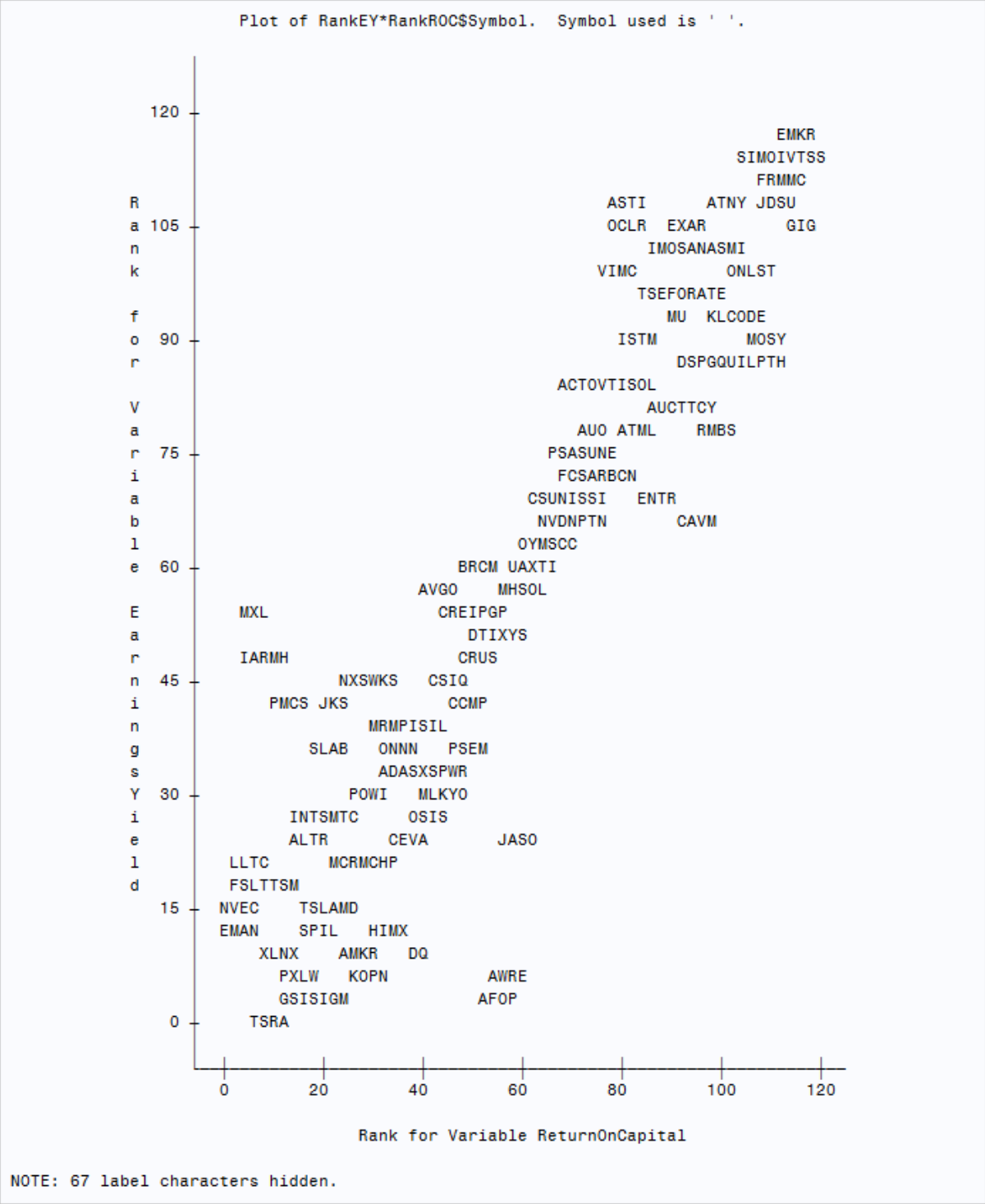

Figure 1: RankEY - RankROC Scatterplot

This above graph plots the companies in the semi-conductor industry with respect to their ranks on the basis of Earning's Yield and Return on Capital.

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Figure 2: Return - AvgRank Scatterplot

An average rank has been calculated for companies in the semiconductor industry based on their ranks for Earning's Yield and Return on Capital.

The above graph depicts the returns of the various companies for a one-year period between 2012 - 2013 vs their average rank.

From exploratory analysis, we can deduct from the above graph that the slope of a regression line between the returns and average rank is positively sloped. This result is not in harmony with the advice provided by the Little Book that Beats the Market.

The REG Procedure
Model: MODEL1
Dependent Variable: return

Number of Observations Read	116
Number of Observations Used	116

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	0.15554	0.15554	0.44	0.5061
Error	114	39.85770	0.34963		
Corrected Total	115	40.01324			

Root MSE	0.59129	R-Square	0.0039
Dependent Mean	0.43974	Adj R-Sq	-0.0049
Coeff Var	134.46518		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	0.37415	0.11262	3.32	0.0012
AvgRank	1	0.00112	0.00168	0.67	0.5061

Figure 3: Regression Model for Return

The above image depicts a regression model built with the dependent variable as the returns from holding the stock of a company between 2012 – 2013 and the independent variable as the average rank of the companies.

The Little book that beats the Market method advices to invest in companies which have high earnings yield and a high return on capital.

From the results of the regression output, it is clear that as the average rank of the companies increases by 1 unit, The returns increase by 0.112%. The increase is non-trivial and not very statistically significant as the p-value is greater than 0.01.

The results of companies in the semi-conductor industry for the period 2012 - 2013 completely disagree with the advice given by the author.

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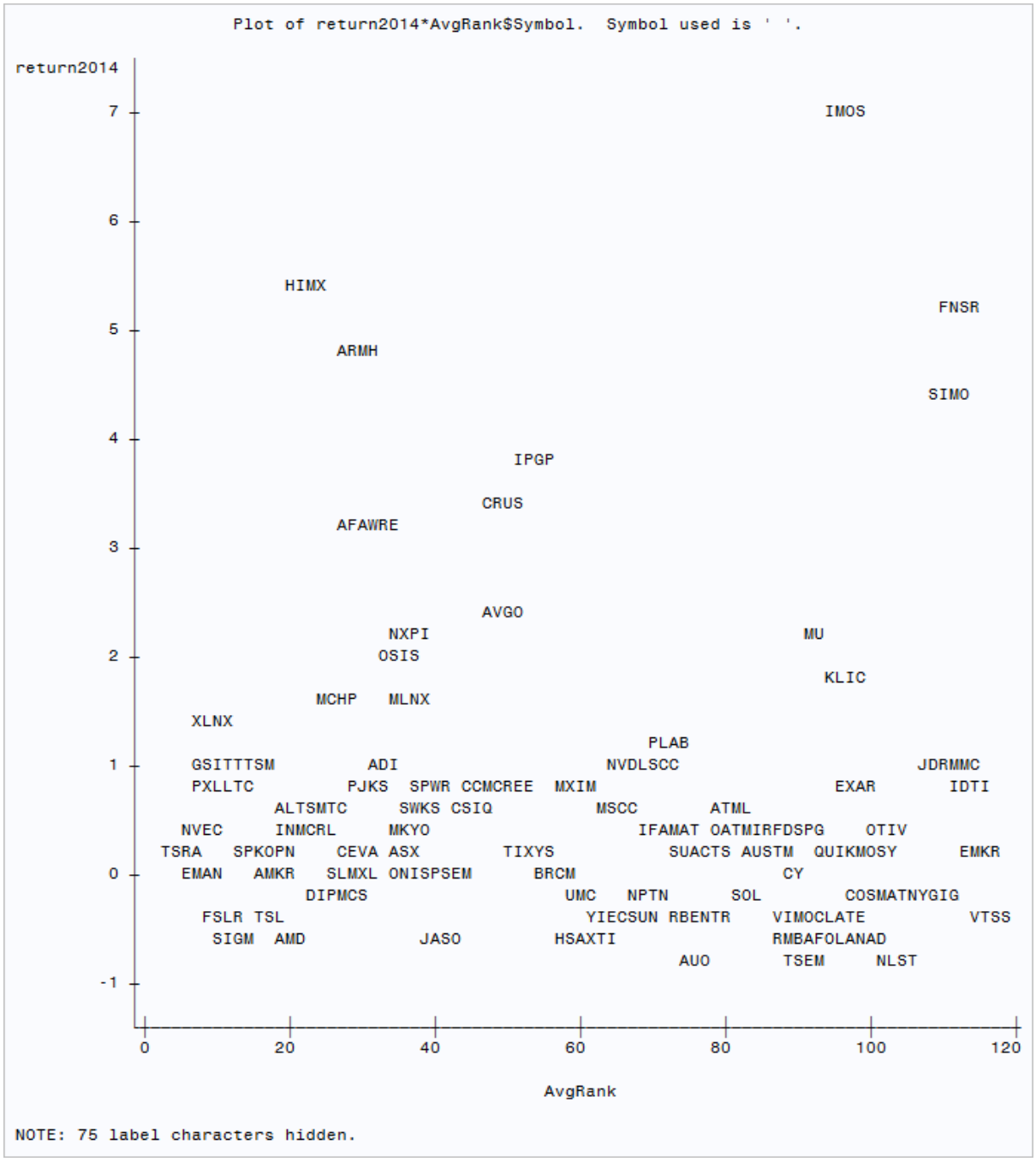

Figure 4: Return2014 - AvgRank Scatterplot

An average rank has been calculated for companies in the semiconductor industry based on their ranks for Earning's Yield and Return on Capital.

The above graph depicts the returns of the various companies for a two-year period between 2012 - 2014 vs their average rank.

From exploratory analysis, we can deduct from the above graph that the slope of a regression line between the returns and average rank is slightly negatively sloped. This result is in harmony with the advice provided by the Little Book that Beats the Market.

The REG Procedure
Model: MODEL1
Dependent Variable: return2014

Number of Observations Read	116
Number of Observations Used	116

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	1	0.50417	0.50417	0.28	0.6005
Error	114	208.40992	1.82816		
Corrected Total	115	208.91409			

Root MSE	1.35209	R-Square	0.0024
Dependent Mean	0.62130	Adj R-Sq	-0.0063
Coeff Var	217.62188		

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	t Value	Pr > |t|
Intercept	1	0.73939	0.25753	2.87	0.0049
AvgRank	1	-0.00202	0.00384	-0.53	0.6005

Figure 5: Regression Model for Return2014

The above image depicts a regression model built with the dependent variable as the returns from holding the stock of a company between 2012 – 2014 and the independent variable as the average rank of the companies.

From the results of the regression output, it is clear that as the average rank of the companies increases by 1 unit, The returns decrease by 0.202%. The decrease is non-trivial and not very statistically significant as the p-value is greater than 0.01.

The results of companies in the semi-conductor industry for the period 2012 - 2014 agree with the advice given by the author.