

This Low Expectation Screen is Outperforming by 13% YTD

[% oldschooIvalue.com/blog/investing-strategy/low-expectation-screen-outperforming/](https://oldschoolvalue.com/blog/investing-strategy/low-expectation-screen-outperforming/)

Graham assigned a PE of 8.5 for Zero Growth Companies

With that in mind, I wanted to know how a stock considered by the market to have no growth potential would perform.

If the PE is too low, then there is a high probability that there really is a fault with the business. But if the company is borderline, there is a good chance that the business is sound and healthy but just misunderstood by the market or affected by macro factors outside of the company's control.

The PE range of No Growth Stocks

What I tried to do was to find that range of borderline no growth PE's. Keep in mind that lower expectations make the upside return that much more impressive as [David Dreman](#) has emphasized heavily in his books.

Through trial and error, I found that a PE range of 7 to 8.5 yielded the best results, but to be certain that I was getting quality companies, I included an additional criteria of ROE greater than 13%.

With the addition of ROE, the results are very impressive.

Low Expectations Stock Screen Results

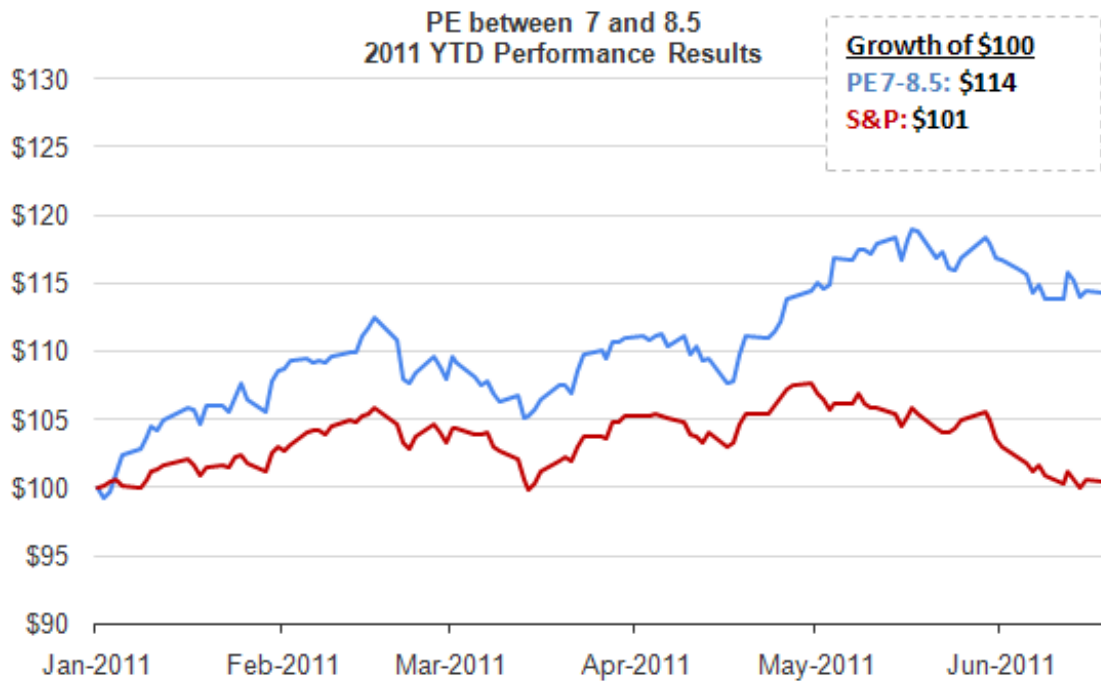
YTD the screen has returned a price return of 14.3% compared to 1.1% for the S&P500.

In a year where the majority of funds are under-performing, the screen selection is doing extremely well.

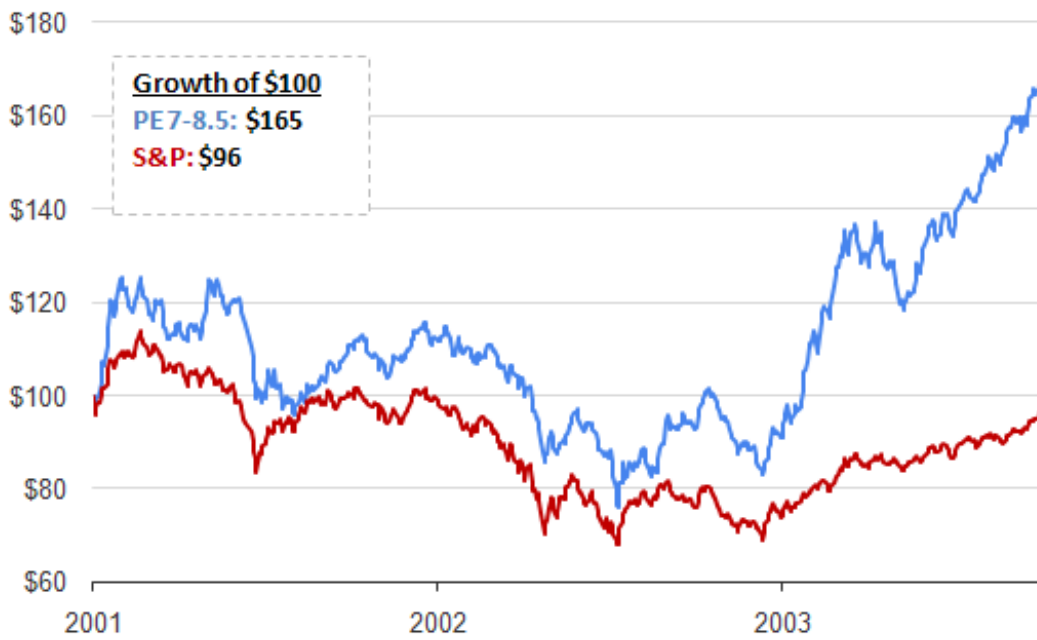
Here are the stocks that are being tracked from the beginning of the year.

As you can see from the list, the majority are all very well capitalized and healthy businesses, but the reason why I'm impressed with the results can be visualized from the performance graphs below.

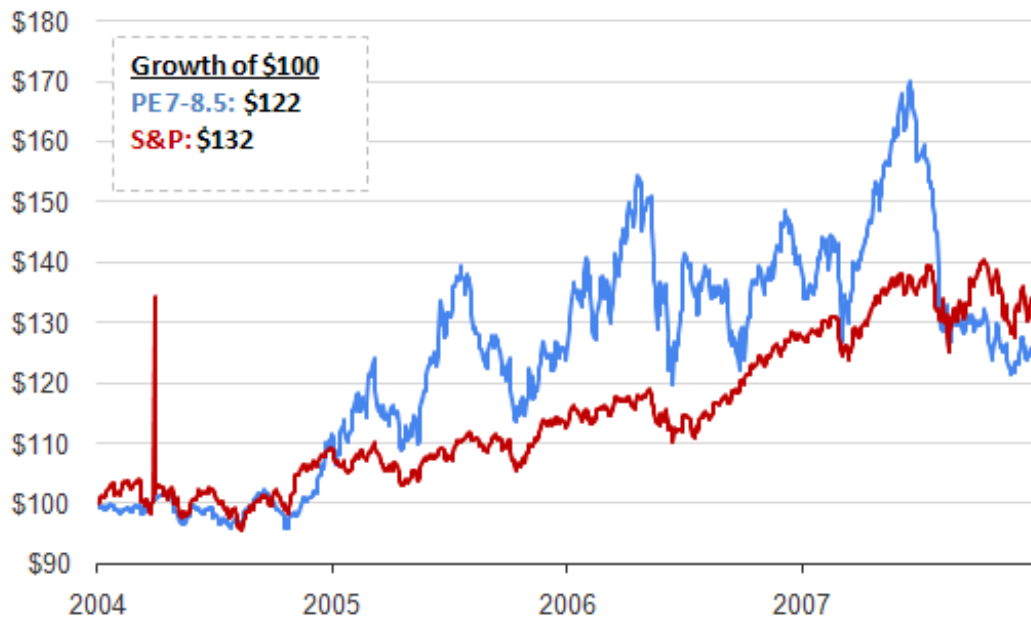
Symbol	Name	% Gain	Market Cap
SOLR	GT Solar International, Inc.	47.26	1,376.57
KLIC	Kulicke and Soffa Industries	41.67	511.09
AET	Aetna Inc.	41.63	12,207.05
HUM	Humana Inc.	41.6	9,213.76
CI	CIGNA Corporation	33.36	9,931.33
HRB	H&R Block, Inc.	29.3	3,633.86
FRX	Forest Laboratories, Inc.	20.95	9,134.08
NRG	NRG Energy, Inc.	19.29	4,830.23
LLY	Eli Lilly & Co.	6.54	40,406.14
ACE	ACE Limited	3.31	21,127.02
DSX	Diana Shipping Inc.	-6.93	985.08
AIZ	Assurant, Inc.	-9.06	4,104.46
HPQ	Hewlett-Packard Company	-16.86	92,216.92
LXK	Lexmark International, Inc.	-20.3	2,735.61

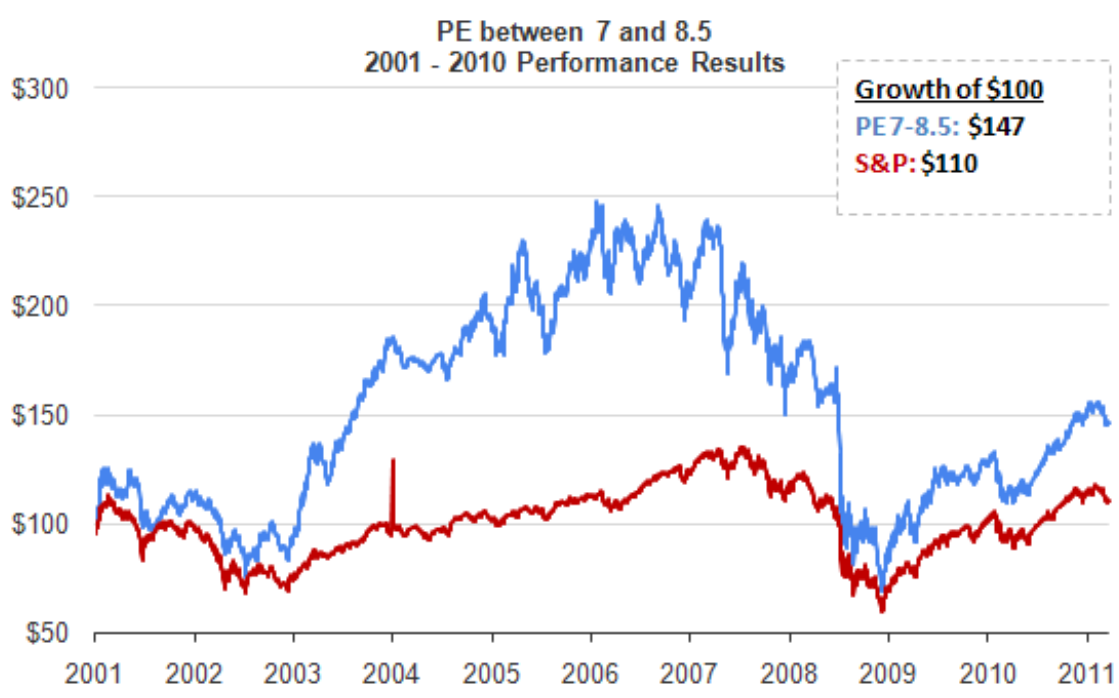
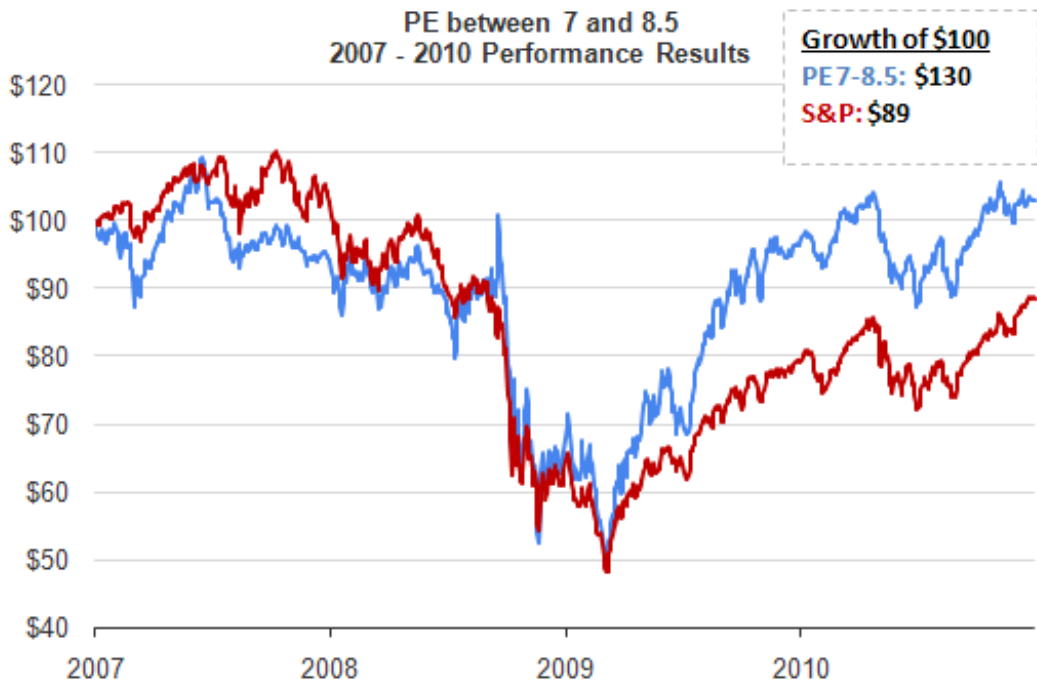


PE between 7 and 8.5
2001 - 2003 Performance Results



PE between 7 and 8.5
2004 - 2007 Performance Results





Compared to my other [stock screener](#) backtest performances, the low expectations screen isn't as explosive, but the stability and the downside protection this screen provides is very impressive.

Since a screen does not have any intelligence, if you were to monitor these stocks a little closer and sell when you felt it was becoming overvalued, I'm sure the results would be even better.

15 Stocks with Low Expectations but Ready to Break Out

Symbol	Name	Market Cap	P/B	FCF Yield %	Altman Z
AFL	AFLAC Incorporated	21,056.07	1.91	33.38	NA
ESI	ITT Educational Services, Inc	2,122.91	26.38	28.44	7.97
DSX	Diana Shipping Inc.	883.48	0.77	21.25	2.25
LRCX	Lam Research Corporation	5,282.14	2.27	18.39	6.68
CECO	Career Education Corp.	1,580.64	1.71	11.01	3.99
RSH	RadioShack Corporation	1,339.48	1.52	10.98	4.74
FTO	Frontier Oil Corporation	3,205.37	2.94	8.58	5.17
TCK	Teck Resources Limited	26,281.15	1.59	6.51	2.07
WLT	Walter Energy, Inc.	6,724.75	8.39	6.33	6.35
MRO	Marathon Oil Corporation	36,024.56	1.46	6.29	2.84
CVX	Chevron Corporation	199,355.59	1.81	3.92	3.35
AMKR	Amkor Technology, Inc.	1,126.40	1.48	3.37	2.1
EGY	VAALCO Energy, Inc.	332.41	1.62	1.22	8.22
WFR	MEMC Electronic Materials, I	1,949.29	0.84	-22.71	1.21
GNK	Genco Shipping & Trading Lir	252.38	0.22	-44.2	0.55

Any of these companies catch your eye? Tell me in the comments below.

Disclosure: None.