Risk-Adjusted Returns of Fundamentally Screened U.S. Equities

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Abstract

This report examines the historical performance of an equal-weighted portfolio constructed from NYSE- and NASDAQ-listed equities satisfying fundamental screening criteria over a 5.0-year sample period. Starting with $100,000 in initial capital and rebalancing quarterly, the portfolio delivered a cumulative return of 123.22% with a Sharpe ratio of 0.75 and Jensen's alpha of +8.43%. Point-in-time data integrity is maintained throughout using SEC filing dates to prevent look-ahead bias. The benchmark used is SPY.

1. Introduction

We construct a long-only portfolio of U.S.-listed equities selected through systematic fundamental screening. The strategy targets approximately 25 positions on average, rebalanced quarterly. All financial data uses point-in-time filing dates to ensure no forward-looking information contaminates the signal. Returns are measured against the SPY total return index.

2. Data and Methodology

Universe: NYSE- and NASDAQ-listed operating companies, excluding SPACs, REITs, ETFs, and mutual funds (~6,100 securities).

Portfolio construction: Equal-weighted, quarterly rebalancing, max 25 holdings. Trading costs of $0 applied.

Sample period: 2021-04-19 to 2026-04-18 (5.0 years, 60 monthly observations).

Risk-free rate: Prevailing 3-month U.S. Treasury rate at each evaluation point (sourced from U.S. Treasury via Financial Modeling Prep).

Screening Criteria

Filter	Constraint
Sectors	Financial Services, Healthcare, Technology, Industrials, Consumer Cyclical, Energy, Consumer Defensive, Basic Materials, Communication Services, Utilities, Real Estate
Exchanges	NYSE, NASDAQ
Revenue (TTM)	$2.0B to $650.0B
Operating Margin	20.0% to 50.0%
Free Cash Flow (TTM)	$100.7M to $150.0B
Return on Equity	20.0% to 100.0%
P/E Ratio	5.00 to 200.00
Debt/Equity	0.00 to 0.60

3. Empirical Results

Panel A: Performance and Risk

	Portfolio	Benchmark
Total Return	123.22%	83.96%
CAGR	17.43%	12.98%
Sharpe Ratio	0.75	0.60
Sortino Ratio	1.29	N/A
Volatility	18.55%	15.62%
Max Drawdown	-26.84%	-23.93%
Calmar Ratio	0.65	N/A

Panel B: Benchmark-Relative Metrics

	Value
Beta	0.61
Jensen's Alpha (annualized)	+8.43%
Information Ratio	0.27
Tracking Error (annualized)	17.05%
Treynor Ratio	22.75
Up Capture	77.07%
Down Capture	30.29%
Win Rate vs. Benchmark	58.30%

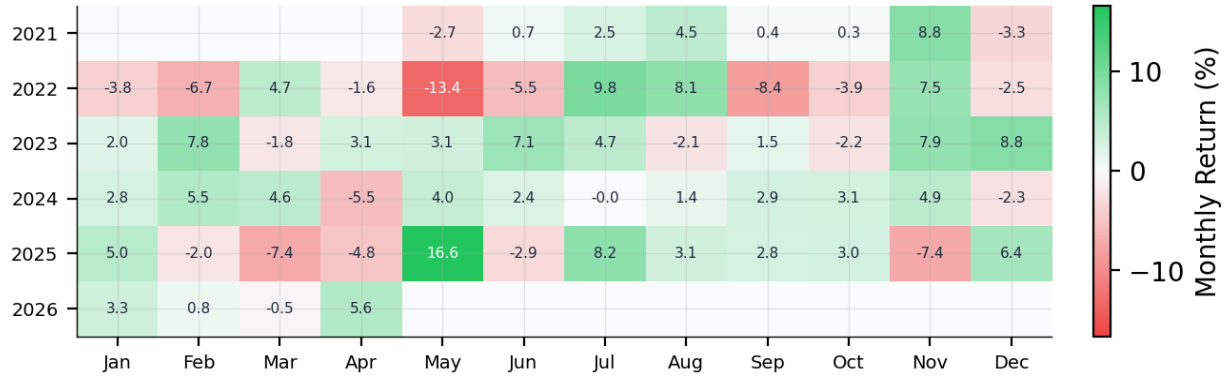
Panel C: Tail Risk and Distribution

	Value
VaR (95%, monthly)	-7.36%
CVaR (95%, monthly)	-9.16%
Skewness	-0.14
Kurtosis	0.50
Best Month	16.62%
Worst Month	-13.40%

Figure 1: Growth of Initial Capital

Portfolio (blue) vs. SPY (gray dashed). Initial capital: $100,000.

Figure 2: Monthly Returns Heatmap

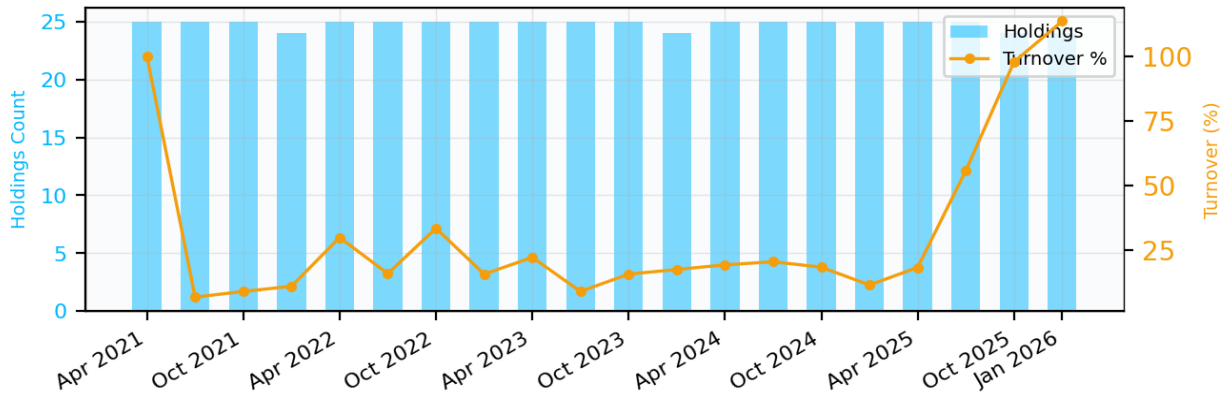


Monthly returns (%) by year. Green indicates positive returns; red indicates negative.

4. Portfolio Construction

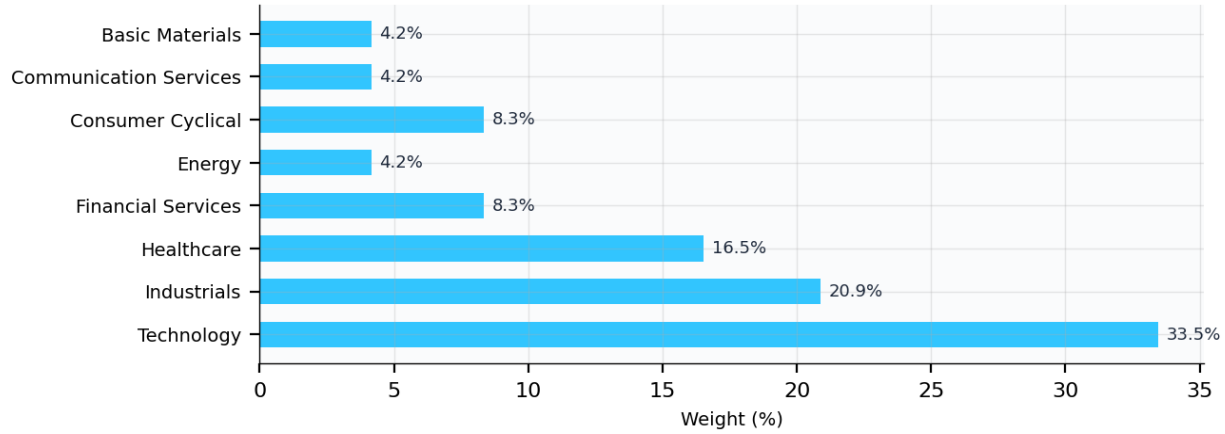
The portfolio underwent 20 rebalance events over the sample period, averaging 25 holdings per rebalance with a mean turnover rate of 32.0%. Total trades executed: 324 (172 buys, 152 sells).

Figure 3: Holdings Count and Turnover per Rebalance



Blue bars show number of holdings; amber line shows portfolio turnover percentage.

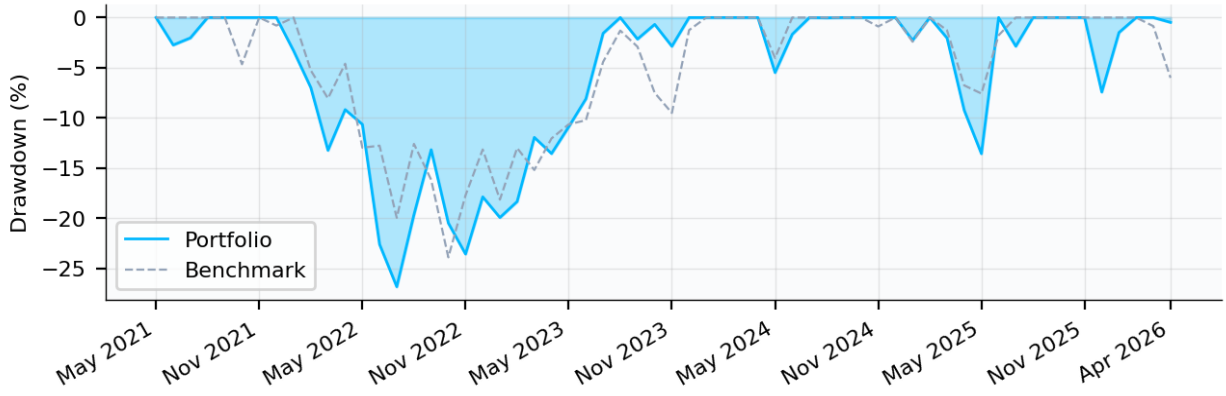
Figure 4: Sector Allocation (Most Recent Rebalance)



Sector weights as of the most recent portfolio rebalance date.

5. Risk Decomposition

Figure 5: Underwater Drawdown

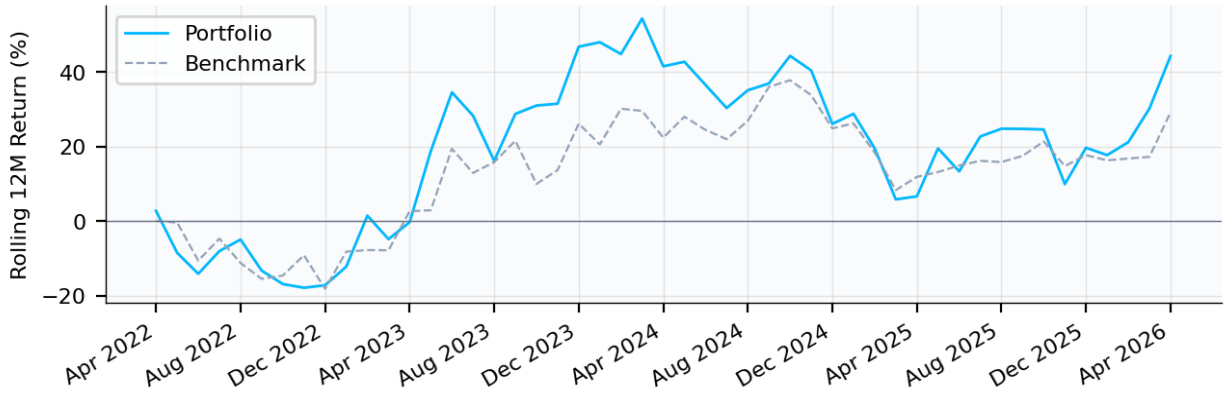


Maximum portfolio drawdown: -26.84%.

Notable Drawdown Episodes

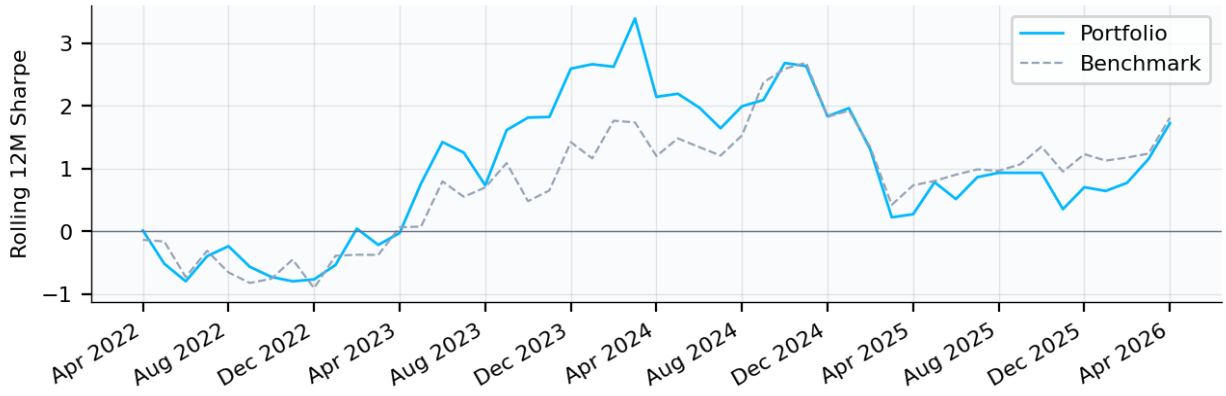
Start	Trough	Recovery	Depth	Duration
2021-11-19	2022-06-19	2023-07-19	-26.84%	607 days
2025-01-19	2025-04-19	2025-05-19	-13.59%	120 days
2025-10-19	2025-11-19	2026-01-19	-7.43%	92 days
2024-03-19	2024-04-19	2024-06-19	-5.49%	92 days
2023-07-19	2023-10-19	2023-11-19	-2.87%	123 days

Figure 6: Rolling 12-Month Returns



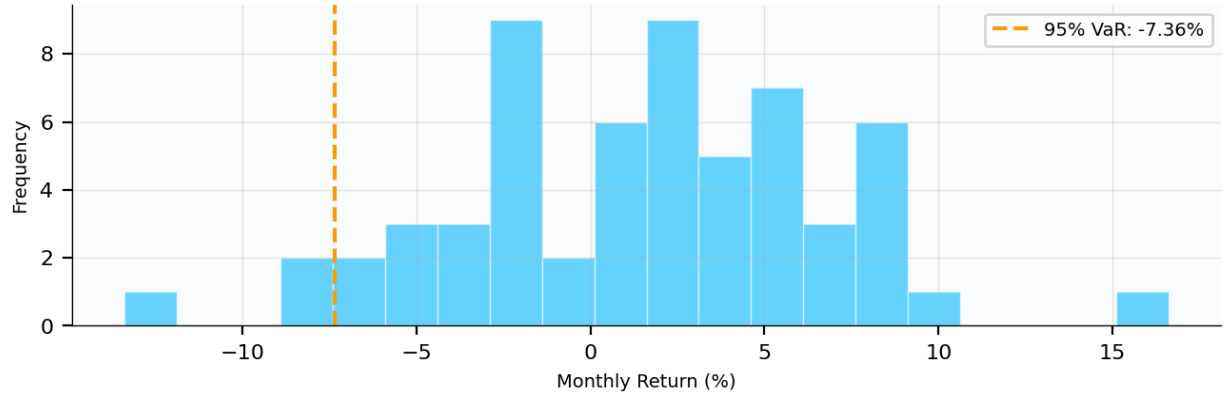
Rolling annualized returns over trailing 12-month windows.

Figure 7: Rolling 12-Month Sharpe Ratio



Rolling Sharpe ratio computed over trailing 12-month windows using prevailing treasury rate.

Figure 8: Monthly Return Distribution



Distribution of 60 monthly returns. Amber dashed line marks the 95% Value-at-Risk threshold.

6. Analysis

The following analysis was generated using artificial intelligence to interpret the empirical results presented above.

6.1 Strategy Assessment

The portfolio delivered a total return of 123.22% over the five-year sample period, corresponding to a compound annual growth rate of 17.43%, which exceeds the SPY benchmark CAGR of 12.98% by 445 basis points. Risk-adjusted performance metrics present a more nuanced picture: the Sharpe ratio of 0.75 exceeds the benchmark's 0.60, though both values indicate modest excess return per unit of total volatility. The Sortino ratio of 1.29 demonstrates substantially stronger performance when penalizing only downside volatility, suggesting the portfolio's return distribution is characterized by asymmetric risk. The annualized Jensen's alpha of 8.43% represents economically meaningful outperformance after adjusting for systematic risk exposure, though the information ratio of 0.27 indicates this alpha is accompanied by meaningful idiosyncratic tracking error of 17.05%. The portfolio's beta of 0.61 reveals substantially lower systematic risk than the benchmark, yet the up capture ratio of 77.07% demonstrates the strategy forfeits a material portion of positive market movements, a tradeoff implicit in lower market sensitivity.

6.2 Risk Observations

The portfolio exhibits a maximum drawdown of -26.84%, exceeding the benchmark's -23.93% despite lower beta, which indicates the strategy concentrates idiosyncratic downside risk that is not explained by market beta alone. Month-level tail risk metrics reveal a worst-case monthly loss of -13.40%, with the 95% conditional value at risk of -9.16% substantially exceeding the value at risk threshold of -7.36%, demonstrating fat left tails in the monthly return distribution. The negative skewness of -0.14 and modest positive kurtosis of 0.50 together confirm the presence of left-tail concentration, though the magnitudes suggest this is not extreme. Most strikingly, the down capture ratio of 30.29% indicates the portfolio captures only three-tenths of benchmark losses during market downturns, a defensive characteristic that comes at the cost of capturing 77% of gains, creating a pronounced asymmetry that warrants scrutiny regarding whether this profile is consistent with portfolio objectives.

6.3 Screening Criteria Commentary

The observed performance profile is consistent with a selection strategy that systematically overweights companies with specific systematic and idiosyncratic characteristics that are positively correlated with subsequent returns but negatively correlated with market beta. The beta of 0.61 suggests the screening filters select for smaller-capitalization or lower-volatility names, or those in economically defensive sectors, thereby reducing systematic market exposure while maintaining positive alpha generation. The high down capture (30.29%) relative to up capture (77.07%) indicates the filters likely select for companies with return distributions characterized by smaller systematic beta but larger idiosyncratic volatility, allowing outperformance during market rallies through specific factor exposures while limiting participation in broad market declines. The equal-weighted portfolio structure across 25 holdings with 32% quarterly turnover implies the filters create sufficient differentiation to sustain outperformance, though the modest information ratio of 0.27 relative to the 17.05% tracking error suggests the filters identify genuine return predictors whose economic magnitude is limited, consistent with the hypothesis that they exploit subtle cross-sectional patterns rather than dominant factor exposures.

7. Conclusion

Over the 5.0-year sample period, the fundamentally screened portfolio grew from $100,000 to $223,218, representing a total return of 123.22% (17.43% annualized). The strategy achieved a Sharpe ratio of 0.75 with maximum drawdown of -26.84%. Positive Jensen's alpha of +8.43% suggests the strategy generated excess risk-adjusted returns relative to the benchmark. These results are subject to standard backtesting caveats including survivorship considerations, transaction cost assumptions, and the inability to guarantee future performance from historical patterns.

8. References

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Appendix A: Data Availability and Integrity

All fundamental data is sourced from Financial Modeling Prep (FMP) using trailing-twelve-month (TTM) pre-calculated endpoints. Point-in-time integrity is enforced by using SEC filing dates (the date financial data became publicly available) rather than fiscal period end dates. This prevents look-ahead bias that would arise from using data before it was actually known to market participants. Price data uses split- and dividend-adjusted closing prices.

Appendix B: Metric Definitions

Sharpe Ratio: (R_p - R_f) / sigma_p, using the prevailing 3-month Treasury rate as R_f.

Sortino Ratio: (R_p - R_f) / sigma_downside, penalizing only negative deviations.

Jensen's Alpha: R_p - [R_f + beta * (R_m - R_f)], the intercept of excess return regression.

Information Ratio: (R_p - R_b) / TE, measuring excess return per unit of tracking error.

Treynor Ratio: (R_p - R_f) / beta, measuring return per unit of systematic risk.

VaR (95%): The 5th percentile of monthly returns; the maximum expected loss in 95% of months.

CVaR (95%): The average of returns worse than the 95% VaR; expected loss in the worst 5% of months.

Up/Down Capture: Ratio of portfolio return to benchmark return during positive/negative benchmark months.
