Updates to the Performance Measurement of the Most Attractive/Most Dangerous Stocks Model Portfolios

Starting with Model Portfolio Performance Through 3Q20, we updated the risk-free rate we use to benchmark the performance of the market-neutral long/short strategies based on our Most Attractive & Most Dangerous Stocks Model Portfolios. Going forward, the risk-free rate is based on the 5-year zero-coupon U.S. Treasury rate.

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Prior to this update, we used the 3-Month T-Bill as the risk-free rate to benchmark performance of these portfolios.

We also use the 5-year zero-coupon U.S. Treasury rate as the risk-free rate in our Company Valuation Models.

Below, we show how much the switch to the new rate raises the performance of our risk-free benchmark.

First, the cumulative return of the new risk-free rate since 2005 is ~42% through 2Q20, compared to ~22% with the prior rate. See Figure 1.

Figure 1: Cumulative Risk-Free Rate Return: Comparing Prior vs. New Rate

	Prior Risk-Free Rate	New Risk-Free Rate	Difference
Since Jan 2005	22%	42%	20%

Sources: New Constructs, LLC and company filings.
Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates.

Next, we compare the annualized rates of return for the prior and new risk-free rates across multiple time frames. See Figure 2.

Figure 2: Annualized Risk-Free Rate Returns: Comparing Prior vs. New Rate

	Prior Risk-Free Rate	New Risk-Free Rate	Difference
1 year	1.2%	1.2%	0.0%
3 year	1.7%	2.0%	0.3%
5 year	1.1%	1.8%	0.7%
Since Inception	1.3%	2.3%	1.0%

Sources: New Constructs, LLC and company filings.
Note: Gain/Decline performance analysis excludes transaction costs, dividends and rebates. Inception date is January 2005.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.

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