Systematic Trading Strategy: Small Cap Syndrome

Team: Cash Me If You Can (CMIYC)
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Investment Decision: Invested $50,000

Introduction:

The current holdings in MSIF primarily track the SPY index. To diversify and reduce risk, we developed a strategy focused on gaining small- and mid-cap exposure while mitigating the volatility typical of traditional small-cap index funds.

Trading Strategy Details:

We screened equities traded on U.S. exchanges with market caps between $250 million and $10 billion. Selection criteria included positive NOPAT, D/E ratios between 50% and 100%, and PEG ratios between 0 and 1.5 to identify undervalued stocks with strong growth potential. We excluded penny stocks by setting a minimum share price of $5 and filtered stocks with RSI between 40 and 70 to avoid overbought or oversold conditions.

To ensure strong market sentiment, we included only stocks in the top quartile of 12-month price CAGR. Finally, we ranked the remaining equities by 1-year annualized Sharpe Ratio and selected the top 10 for quarterly rebalancing.

Backtesting Performance:

Over the past decade, our strategy achieved a 21.7% annualized return compared to 14.2% for SPY, with a Sharpe ratio of 0.84 versus SPY's 0.79. Compared to the Russell 2000 index, our strategy posted a 21.7% return versus 7.8%, with a Sharpe of 0.84 versus 0.38. The 10-year beta of the strategy is 1.16, delivering superior returns with controlled additional market risk.