Profitable Value Strategy

Presented by: Cash Me If You Can

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Investment decision: *Did Not Invest*

Introduction:

We chose a Profitable Value strategy because we wanted to target companies that showed strong, consistent profitability while still being undervalued by the market. Our expectation, based on both academic research and our own analysis, was that this combination would help us identify stable, fundamentally strong companies trading at attractive prices. In theory, this should have given us a solid pool of stocks with both quality and value characteristics.

Trading Strategy Details:

Our trading universe was first limited to US exchanges, and then we filtered out financials and industrials as our metrics are less accurate for these sectors. We selected only companies with a market cap over 10 billion. Our profitability metric, gross profits / assets, is a custom formula we used in Bloomberg. This prohibited us from using a percentile ranking system, so rather we set a hard cut off for GP/A>= 0.35 as this was the historical 50th percentile value. Our value metric, Enterprise Value / EBITDA was required to be positive, and then we took the bottom 10% since lower values for this criteria produce higher returns. This left 15 companies, and we have the intention to rebalance quarterly.

The companies included in our strategy are Astera Labs, Alnylam Pharamaceuticals, Credo Technology, Doordash, Datadog, Draftking, Duolingo, Exact Sciences, Hubspot., ServiceNow, Pinterest, Palantir Technology, Pure Storage, Reddit, and Roku. Our main concerns with this strategy are the lack of consistency and volatility. This strategy does not consistently beat the S&P across all historical backtests.

Backtesting Performance:

We ran backtests over 10-year, 5-year, 3-year, and 1-year periods and found mixed but encouraging performance. The strategy beat the S&P 500 over the 10-year and 1-year horizons, showing strong long-term compounding and solid recent execution. However, it underperformed over the 3- and 5-year periods, reflecting normal factor cyclicality rather than structural weakness.

Our valuation screen played a major role in these results. The cheapest EV/EBITDA cohorts paired with high GP/A produced the strongest long-run outcomes, but mid-term windows were more affected by market regimes that favored growth or macro-driven sectors.

Despite the uneven relative performance, the strategy maintained low volatility, controlled drawdowns, and consistent fundamentals, benefiting from exposure to operationally efficient, cash-generative firms. Overall, it offers a quality-tilted value profile that performs best over long horizons and remains resilient even during periods of factor rotation.