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# TRIVARIATE RESEARCH

## TEN INVESTMENT MANTRAS THAT HAVE CHANGED SINCE 2020

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## RESEARCH SUMMARY

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We have noted many times over the last year that so many signals we analyze are behaving differently than in the past. We decided to highlight 10 areas where investors might need to unlearn the past and relearn investment heuristics.

1. **Risk-Manage the Giga-Caps:** Investors have to think about how to beat the market when it is so highly concentrated. With ten stocks that are \$1 trillion cap. or larger, and strong performance since 2020 of the top 10 vs. the other 1990, risk management around these names has become crucial for all long-only managers.
2. **Buy More Junk than High-Quality:** At the end of each month, we quantitatively tag stocks as high-, mid-, low-quality, or junk. As we have frequently pointed out in our research over the last year, junk stocks have beaten high-quality stocks since COVID. The S&P500 is 83% top-half quality by market cap. Investors need not be overweight high-quality, but instead should focus on improvement in quality, which can drive multiple expansion. The median high-quality stock has seen multiple contraction since 2020.
3. **Momentum Works Except in High-Quality:** We looked at the 12-month minus 1-month price momentum for each of our quality buckets. While momentum was never sustainably effective for high-quality stocks, it has worked everywhere else since 2020. We have found that strong momentum more often leads to upward earnings revisions, so mean-reverting trading strategies have failed over the last few years.
4. **Earnings Revisions Are Working:** Ever since Regulation-FD was enacted in 2000, earnings revisions had mixed efficacy. Buying stocks that just had upward revisions and selling those that just had downward revisions created no value from the Financial Crisis until COVID. But since COVID, it works. Companies that beat once have a higher probability of beating a second time.

## RESEARCH SUMMARY

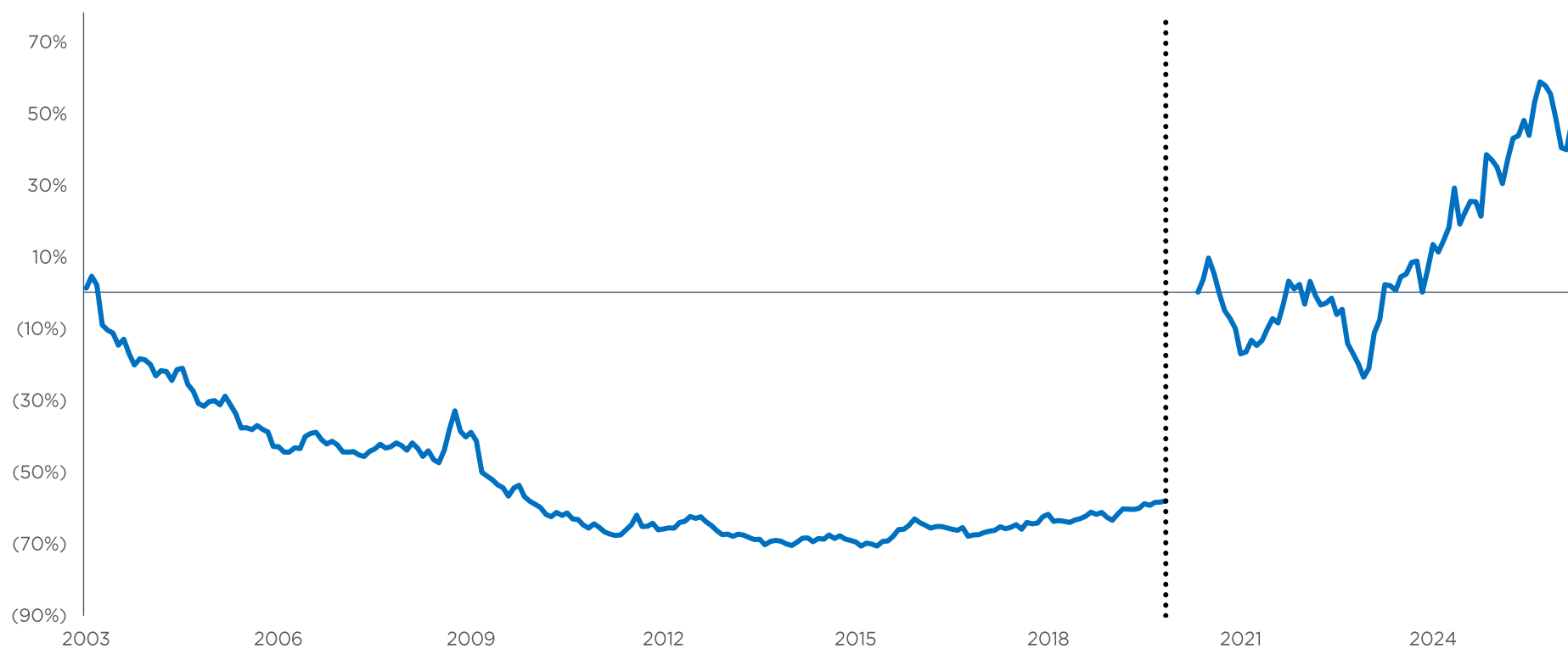
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5. **Short Interest Works, Especially in Growth:** After the Meme-stock debacle hurt performance of short-sellers, growth stocks with low short interest have massively outperformed growth stocks that are heavily shorted since 2020. Just when many allocators gave up on short-sellers, its efficacy has been strong.
6. **Gross Margin Revisions Are Key:** Stocks beating gross margin expectations have outperformed those missing since 2022, after almost no information in gross margin revisions from 2011-2021.
7. **Platforms vs. Services Correlations Have Changed:** We quantitatively tag stocks as platforms, products, or services. While there was a modest negative correlation between platform and service companies from 2000-2020, there is a strong negative correlation now. We think there is merit in using these labels for portfolio diversification.
8. **Buybacks Work Much Better:** We had been very critical of management teams over the past twenty years for poorly timing their buybacks. We had religiously pointed out that companies' buying back stock had not outperformed those who were diluting their shareholders. But since 2021, buybacks have worked better, at least until recently.
9. **Announcing Dividend Increases Has Been Rewarded:** We looked at the performance of stocks relative to their industry-group average following an announcement of a dividend increase. While this generally failed from 1999-2010, and was mixed from 2011-2019, since COVID there has been a slow and steady outperformance for stocks increasing their dividends.
10. **Growth Stocks are Being Rewarded for High Capex:** We know that, generally, capital-intensive businesses have lagged capital light businesses over time. Over the last few years, however, hyper-scaler capital spending has fueled the market to reward capital intensity in a wide range of sectors, including Industrials, Technology, Communication Services, and Energy, among others.

## POINT 1: RISK MANAGE THE GIGA-CAPS

We took the equal-weight performance of the top 10 stocks by market cap. and compared this monthly performance to the equal-weight returns of stocks 11 through 2000. We rebalanced monthly, and after consistent underperformance of the top 10 names from 2003 through 2015, and modest performance from 2015-2019, the top 10 names have strongly outperformed. This has created an extremely concentrated market – the most in the lifetime of any active US portfolio manager. There are 10 stocks today in the US that are \$1 trillion market cap. or larger. Risk management around these names has become crucial for all long-only managers.

Top 10 Companies By Market Cap. Minus Rest of Top 2000 (Equal Weight)  
Cumulative Spread (Pre/Post Covid)  
Through End-April, 2026



## POINT 2: BUY MORE JUNK THAN HIGH-QUALITY

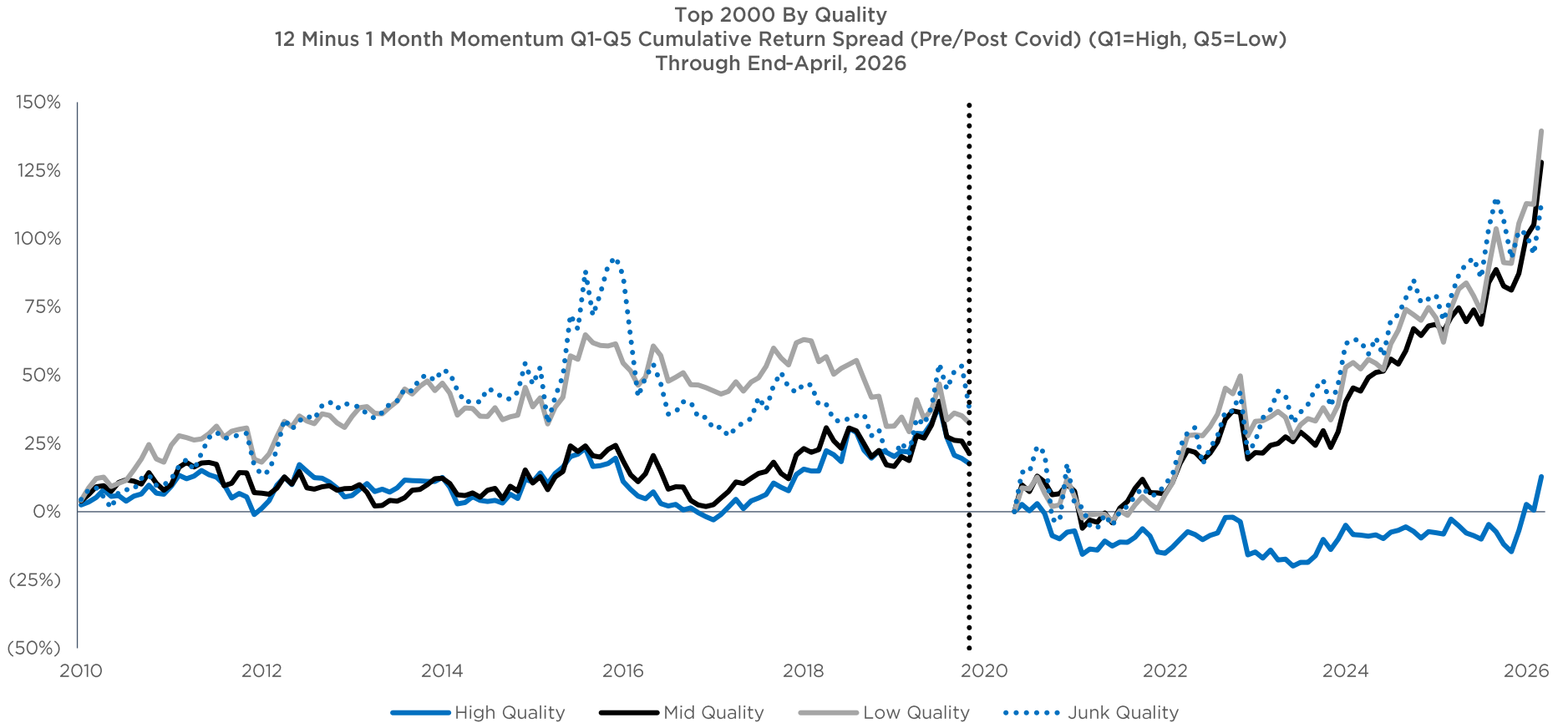
At the end of each month, we quantitatively tag stocks as high-, mid-, low-quality, or junk. As we have frequently pointed out in our research over the last year, junk stocks have beaten high-quality stocks since COVID. The S&P500 is 83% top-half quality by market cap. Investors need not be overweight high-quality, but instead should focus on improvement in quality, which can drive multiple expansion. The median high-quality stock has seen multiple contraction since 2020.



Source: Trivariate Research

## POINT 3: MOMENTUM HAS NOT WORKED IN HIGH-QUALITY

We looked at the 12-month minus 1-month price momentum for each of our quality buckets. While momentum was never sustainably effective for high-quality stocks, it has worked everywhere else since 2020. We have found that strong momentum more often leads to upward earnings revisions, so mean-reverting trading strategies have failed over the last few years.

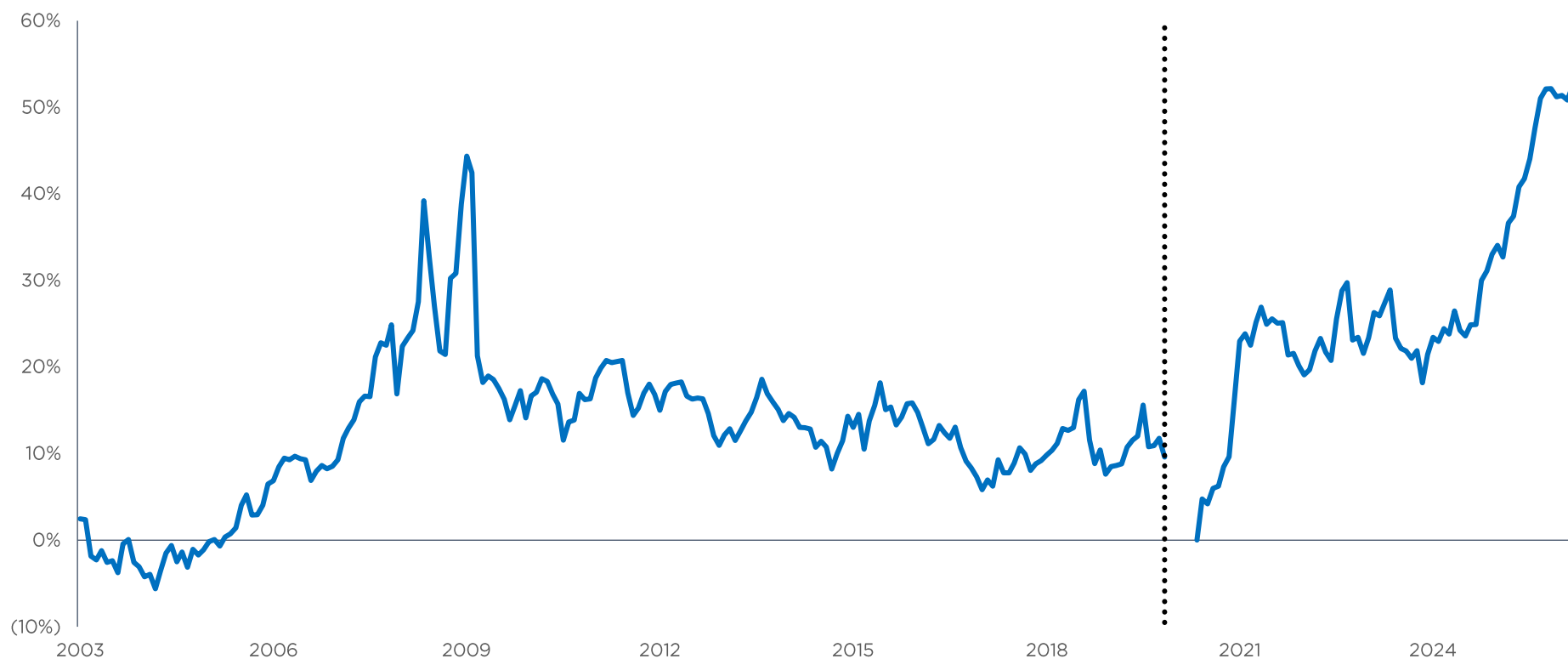


Source: Trivariate Research

## POINT 4: EARNINGS REVISIONS WORK

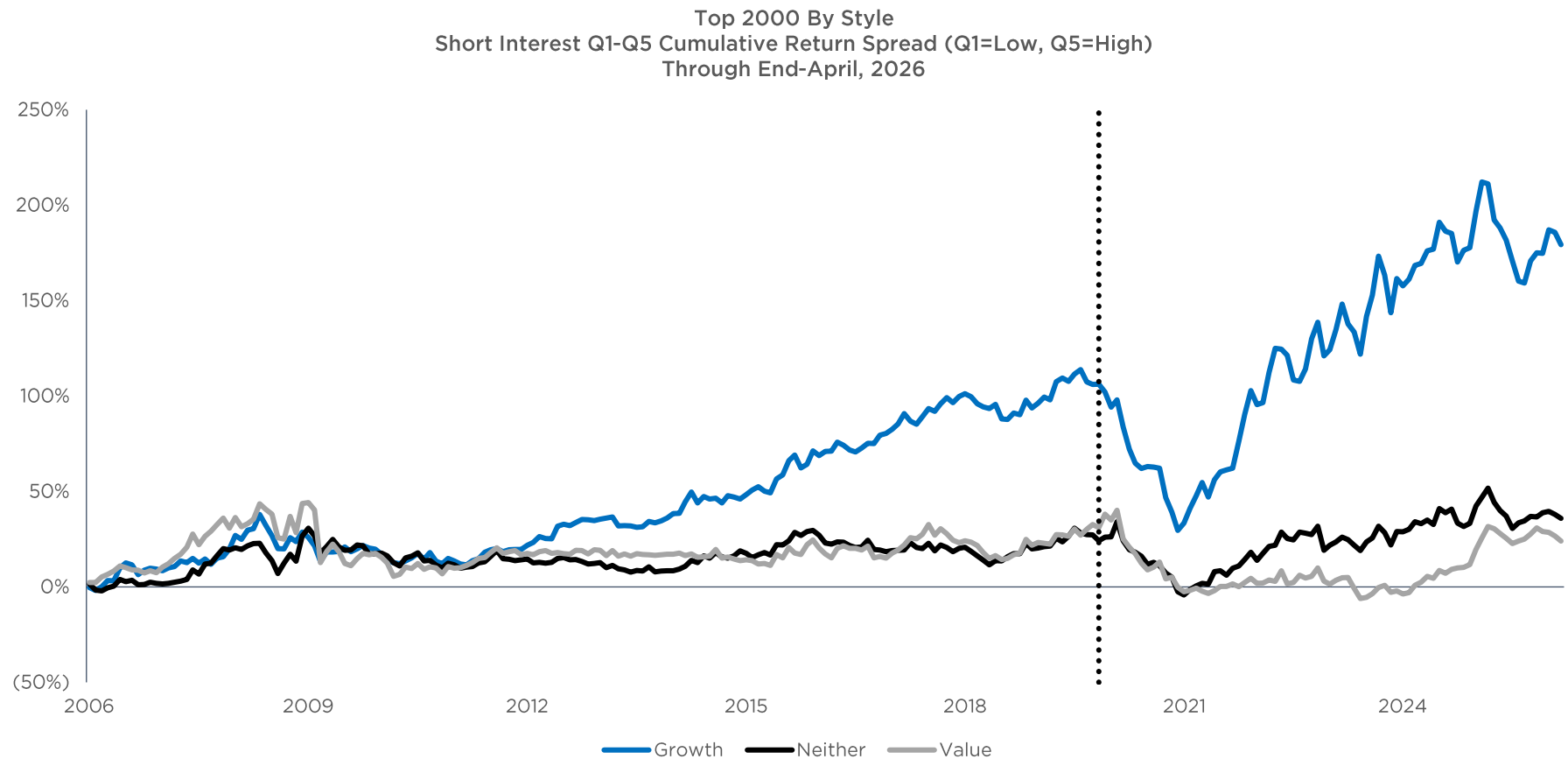
Ever since Regulation-FD was enacted in 2000, earnings revisions had mixed efficacy. Buying stocks that just had upward revisions and selling those that just had downward revisions had no value from the Financial Crisis until COVID. But since COVID, buying those that just had upward earnings revisions has worked. Our work has shown that there is a higher serial correlation than in the past, meaning the probability of a second upward revision given the first upward revision is higher than the unconditional probability.

Top 2000 US Equities  
1-Month EPS Revisions Q1-Q5 Cumulative Return Spread (Pre/Post Covid) (Q1=High, Q5=Low)  
Through End-April, 2026



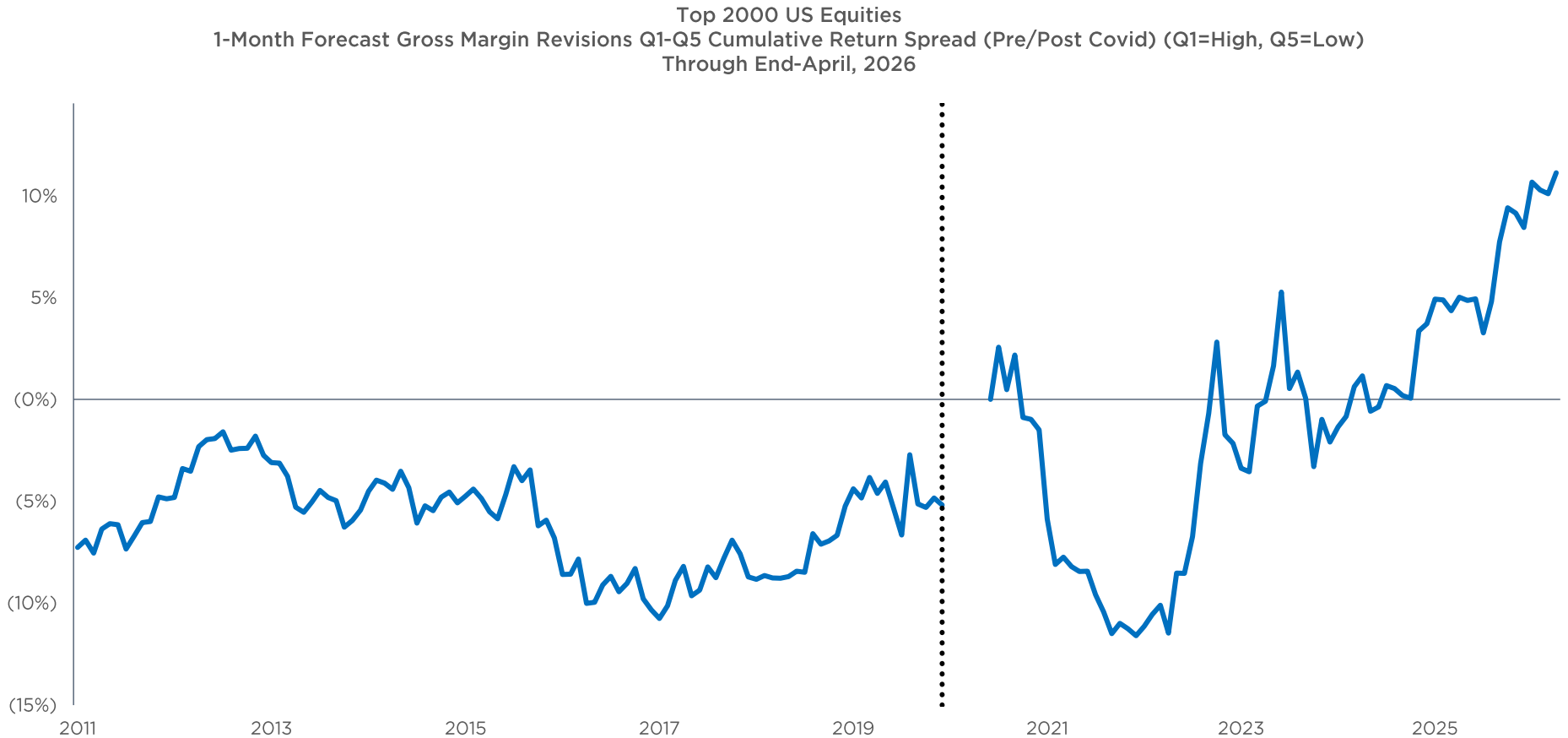
## POINT 5: SHORT INTEREST WORKS, ESPECIALLY IN GROWTH

After the meme-stock debacle hurt performance of short-sellers, growth with low short interest have massively outperformed growth stocks that are heavily shorted since 2020. Just when many allocators gave up on short-sellers, its efficacy has been strong.



## POINT 6: GROSS MARGIN REVISIONS HAVE WORKED SINCE 2022

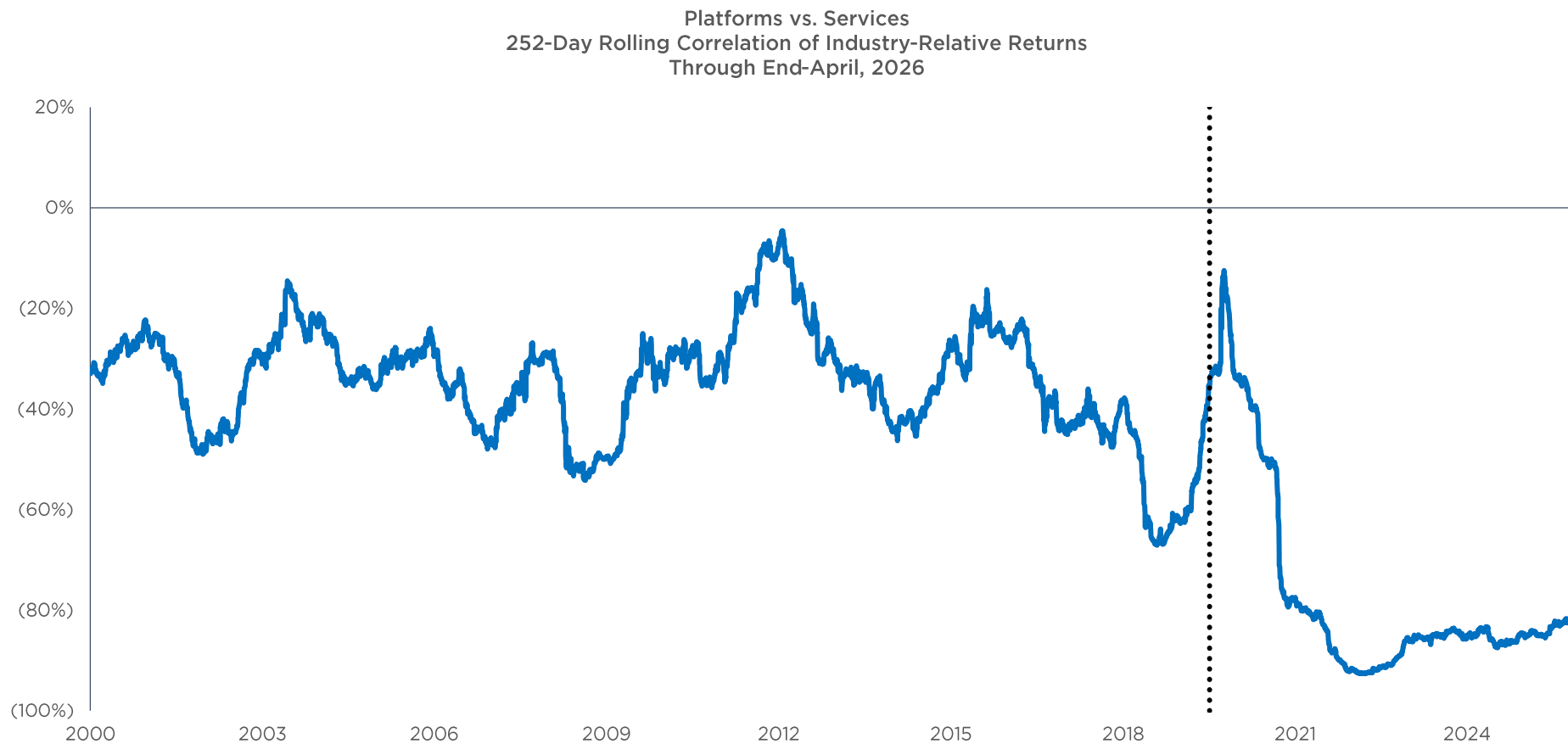
We have focused on gross margin expansion over the last several years in our research. Stocks beating gross margin expectations have strongly outperformed those missing since 2022, after almost no information in gross margin revisions from 2011-2021. Today, this means a focus on pricing power and mix, as well as depreciation, labor costs and productivity, and input costs like oil, commodities, and logistics.



Source: Trivariate Research

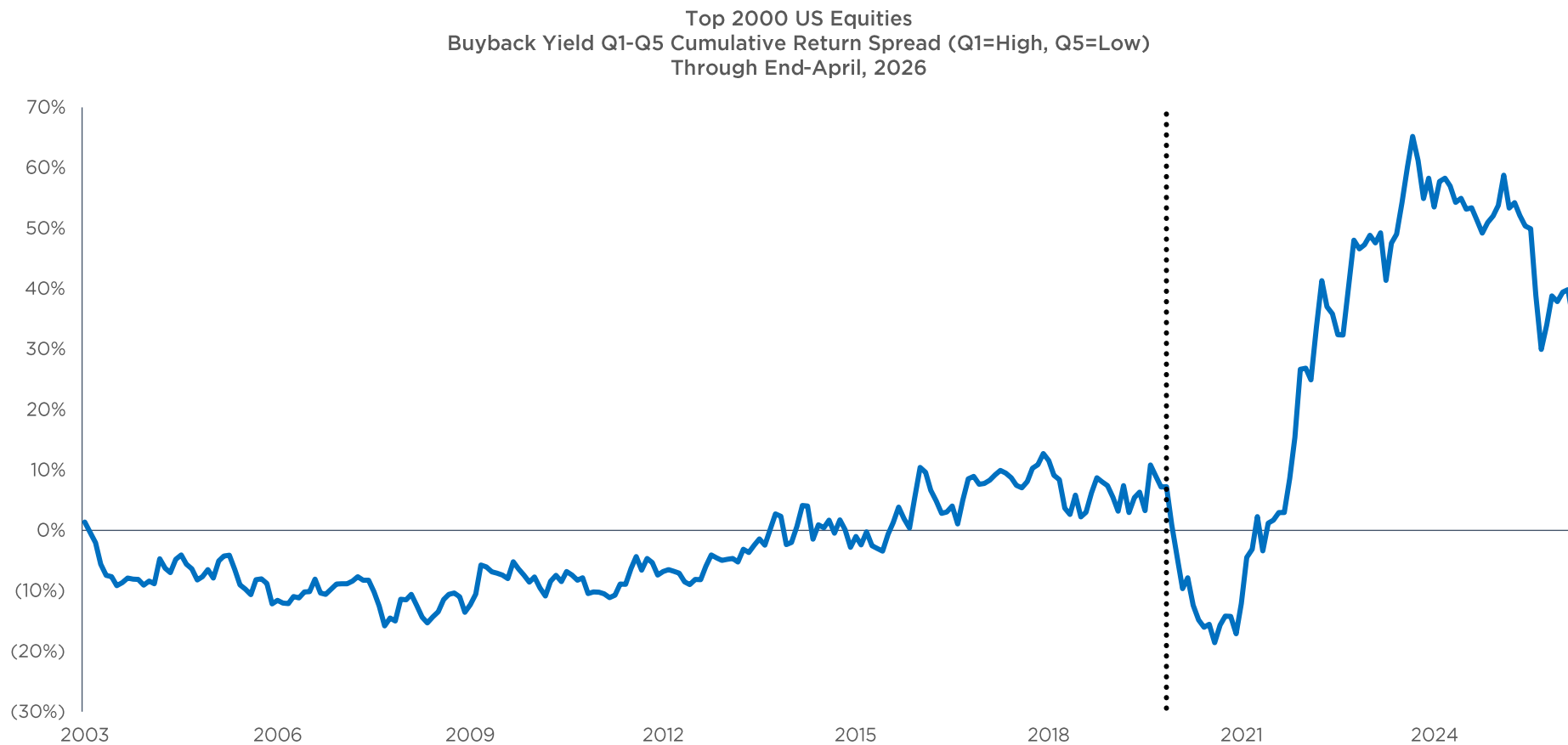
## POINT 7: PLATFORMS VS. SERVICES CORRELATIONS HAVE CHANGED

We quantitatively tag stocks as platforms, products, or services. While there was a modest negative correlation between platform and service companies from 2000-2020, there is a strong negative correlation now. We think there is merit in using these labels for portfolio diversification.



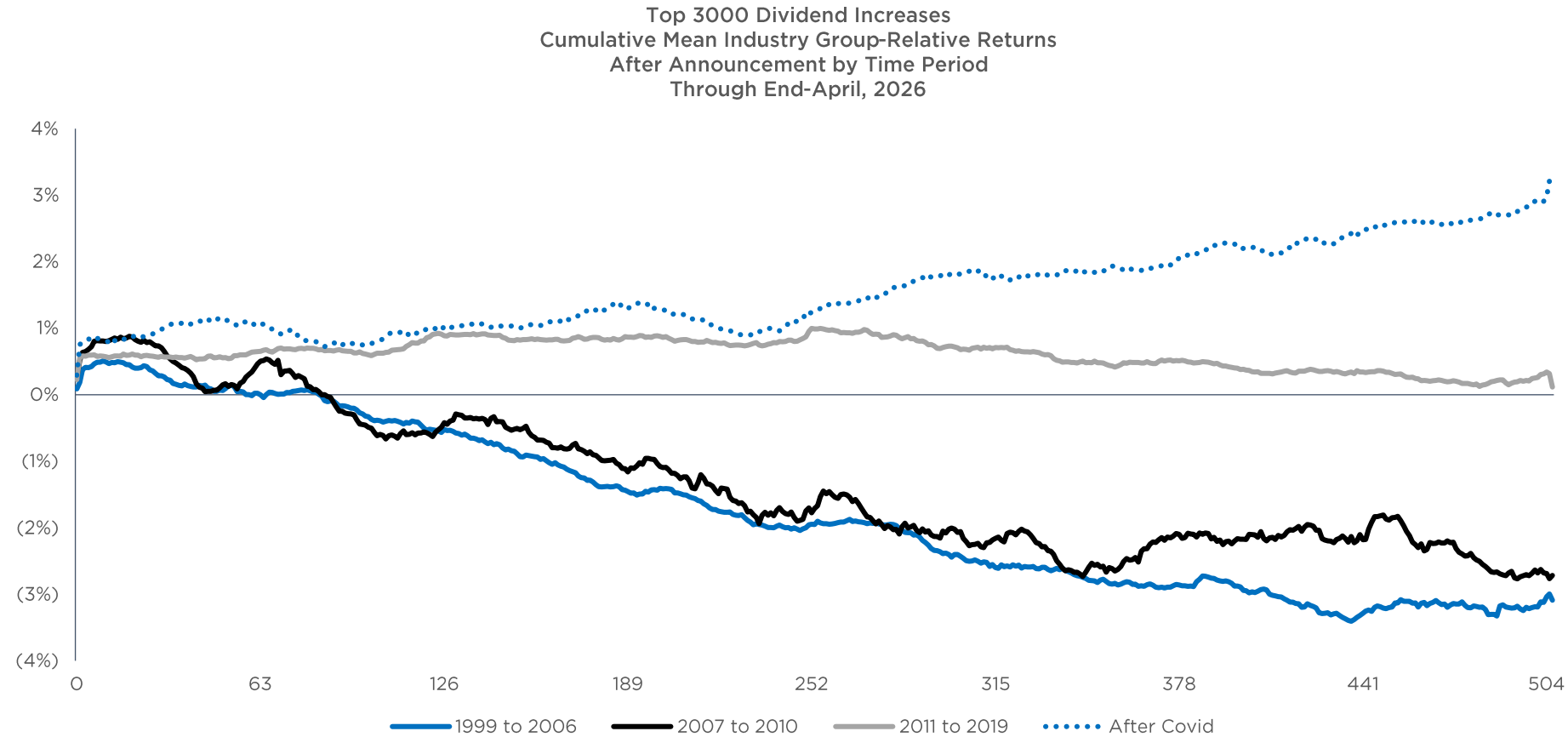
## POINT 8: BUYBACKS WORK MUCH BETTER SINCE COVID, UNTIL 2025

We had been very critical of management teams over the past twenty years for poorly timing their buybacks. We had religiously pointed out that companies' buying back stock had not outperformed those who were diluting their shareholders. But since 2021, buybacks have worked better, at least until recently. Our work has shown that since COVID, Accelerated Share Repurchases have been an even better use of capital than buybacks.



# POINT 9: ANNOUNCING DIVIDEND INCREASES HAS BEEN REWARDED

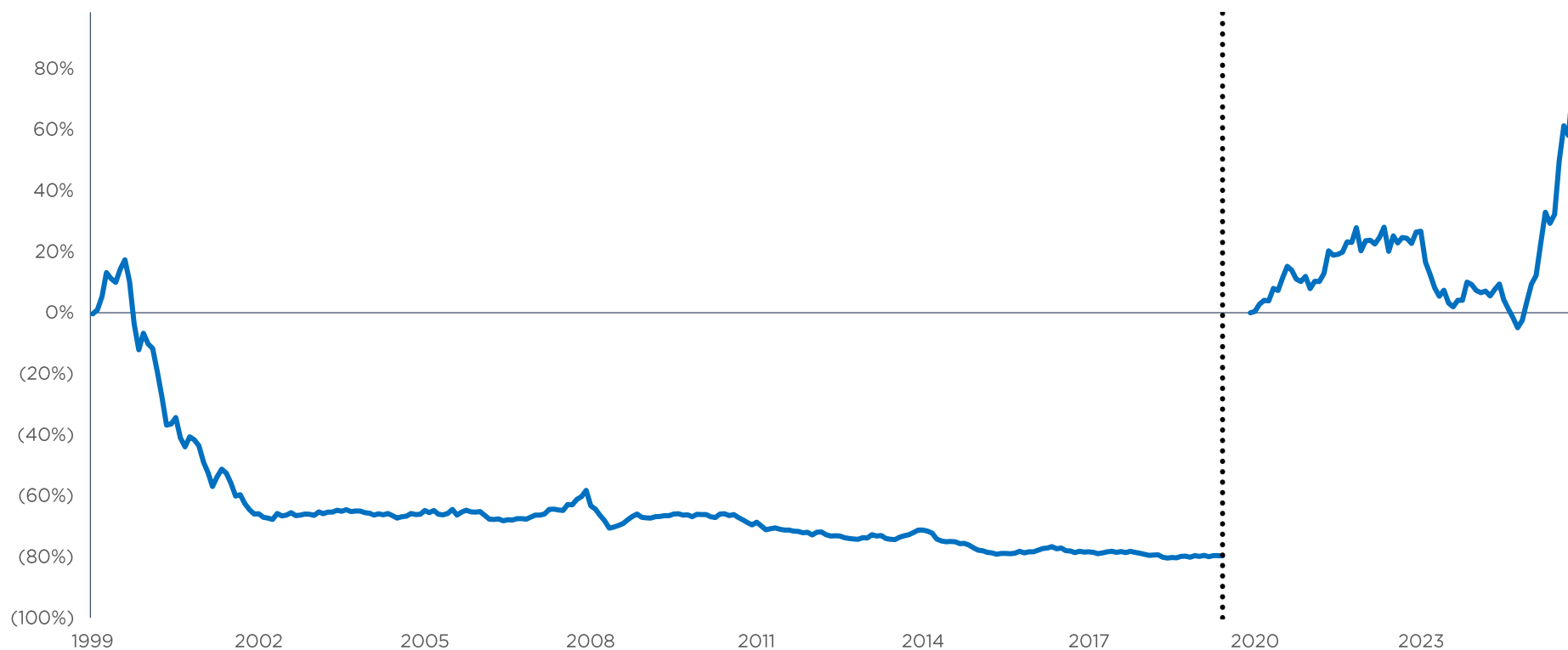
We looked at the performance of stocks relative to their industry-group average following an announcement of a dividend increase. While this generally failed from 1999-2010, and was mixed from 2011-2019, since COVID there has been a slow and steady outperformance for stocks increasing their dividends.



## POINT 10: GROWTH STOCKS ARE BEING REWARDED FOR HIGH CAPEX

We know that, generally, capital-intensive businesses have lagged capital-light businesses over time. While there have been exceptions in Energy, Utilities, and Cable, it was a successful factor for nearly 20 years. Over the last few years, however, hyper-scaler capital spending has fueled the market to reward capital intensity in a wide range of sectors, including Industrials, Technology, Communication Services, and Energy, among others. This has worked particularly well in growth stocks since early 2020.

Top 2000 Growth  
Capital Spending-to-Sales Q1-Q5 Cumulative Return Spread (Pre/Post Covid) (Q1=High, Q5=Low)  
Through End-April, 2026



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