New Amsterdam’s quantitative analysis has highlighted two important results about our investment process.

(1) Our EPS estimates are more accurate than the IBES consensus estimates. An analysis of the estimation errors indicates that our errors are more symmetric and suffer less overestimation bias than the consensus estimates.

(2) Stocks where our EPS estimates are higher than the consensus estimates outperform other stocks to the extent of 3.35% per annum.

The reasons for these results lie in the Rational Belief Equilibrium Theory, proposed by the Stanford economist Mordecai Kurz. The theory assumes that different market participants sharing the same data use different inferential models based on differing degrees of structural knowledge about the economy. An important implication of Kurz’s theory is that the market will generally misprice assets. Our EPS estimates being more accurate give us greater opportunity to identify such securities.

However, the profit potential from identifying mispriced securities would be realized only when other market participants change their beliefs and move the price toward its correct level. Given that our EPS estimates are more accurate and have less overestimation bias, companies where our estimates are higher tend to have a positive earnings surprise. This leads to a change in the current beliefs of other market participants, stock price increases and outperformance in returns for such stocks.

This is a gratifying confirmation of our investment process and our ability to add value for our clients.

Please contact Kelli Dunn, Marketing Analyst, if you wish to obtain a copy of the full research study report. Ms. Dunn can be contacted at 212-689-1500, or KDunn@napllc.com.

New Amsterdam Partners continues to use our proven process, strategy and proprietary technology to successfully invest our clients’ assets. We have 7 strategies which are founded on our belief that the best investment opportunities are reasonably priced companies with strong growth potential. We utilize the same philosophy and process for each strategy and invest over $ 5.7 billion in the U.S. equity market on behalf of our clients.

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