

First Quarter 2018 Scorecard for Fidelity.com Stock Research Providers

Integrity Research Associates, a consulting firm which evaluates investment research providers, has analyzed the performance of stock recommendations made by ten independent stock research firms available through Fidelity.com from April 1, 2015 through March 30, 2018, as tabulated by Investars, a performance measurement specialist.

Excluded from this scorecard are research firms available on Fidelity.com which do not offer buy and sell recommendations: Thomson Reuters I/B/E/S Earnings Estimates, The Hightower Report, Recognia, Trading Central, Starmine, Investars and Integrity Research. The following are highlights of the analysis.*

Q1 2018 Research Scorecard Highlights:

- The S&P 500 index broke a nine-quarter winning streak in the first quarter of 2018, falling .76% on a total return basis for the first time since the third quarter of 2015. The quarter started strongly in January only to fall victim to a host of worries including the fifth Federal Reserve rate rise since December 2015, turmoil in the Trump administration and trade-war fears. Volatility came back with a vengeance. The S&P 500 had 23 days with moves exceeding 1% (12 up and 11 down) compared to only 8 such moves for all of 2017. The first quarter saw 6 days with 2% moves (1 up and 5 down) compared to no such moves in 2017. 9 of the 11 industry sectors were down for the quarter, with only tech (+3.2%) and consumer discretionary (+2.8%) stocks in the black. The telecom sector was the worst performing, falling 8.7%.
- **Ford Equity Research won Fidelity's Research Award Score**, thanks to the strong performance of its recommendations. **Zacks Investment Research** was second with top-three performance across all time periods. **Thomson Reuters/Verus** placed third as a result of good performance combined with a low risk profile.
- In the rolling three years through Q1 2018, the Fidelity.com equity research providers with **top-performing buy recommendations** were **Ford Equity Research, Thomson Reuters/Verus** and **Zacks Investment Research**.
- When sell recommendations are included, the research providers with the best three year track records were **Ford Equity Research, Thomson Reuters/Verus** and **Zacks Investment Research**.
- **ValuEngine** had the **lowest volatility** associated with its buy recommendations and **MSCI** had the **lowest maximum drawdown** associated with its buy recommendations.
- **Zacks Investment Research was the most consistent performer on an industry sector level**, placing among the top three firms in 7 out of 11 industry sectors.
- Firms with **longer average holding periods** for their buy recommendations were **EVA Dimensions** and **MSCI ESG**. Those with the **shortest durations** were **Zacks Investment Research** and **Thomson Reuters/Verus**.

Research Awards

The research providers with the highest **Research Award Scores** for the first quarter of 2018 were:



First Place — **Ford Equity Research** with a score of 68 of a possible 100 points

Second Place — **Zacks Investment Research** with score of 66 of a possible 100 points

Third Place — **Thomson Reuters/Verus** with a score of 60 of a possible 100 points

The **Research Award Score** combines various components of research performance into one metric and compares the performance of the independent research firms available through Fidelity.com to the performance of all the research firms tracked by Investars.¹

Research Award Scores, First Quarter 2018

Research Provider	Award Score (100 pts)	Buys (36 pts)	Buys +Sells (32 pts)	Sectors (13 pts)	Holding (9 pts)	Volatility (10 pts)	Q4 Rank
Ford Equity Research	68	33.2	24.6	10.6	0.1	2.9	1
Zacks Investment	66	32.7	22.5	10.7	0.0	1.9	2
Thomson Reuters/Verus	60	30.4	21.9	7.5	0.0	2.8	3
Columbine Capital	54	28.3	16.4	9.5	0.1	2.4	4
EVA Dimensions, LLC	54	27.7	18.5	7.9	0.2	1.5	5
MSCI Inc	52	28.0	15.2	8.7	0.2	2.7	6
McLean Capital	48	24.5	14.3	8.7	0.1	1.5	7
Argus Research	45	21.3	16.7	6.9	0.1	1.7	9
Jefferson Research &	42	19.5	16.2	6.6	0.2	2.1	8
ValuEngine	30	13.2	9.3	7.4	0.1	3.0	10

Ford Equity Research reprised its top-billing this quarter – for the third consecutive quarter -- boasting the best three-year buy recommendation performance for the period as well as the best three-year performance when sell recommendations were included. Ford had the second-best sector level performance, placing among the top three Fidelity.com research providers in six out of 11 sectors.

¹ To calculate the award scores, five main components are included: buy recommendations, buy recommendations combined with sell recommendations, industry sector performance, holding periods, and volatility of returns. First, the scores are ranked against the entire universe of research firms tracked by Investars, which tracks performance for about 100 research providers. Then the scores are weighted as detailed below:

1. The performance of the buy recommendations, comprising 36% of the overall score, or a maximum of 36 points.
2. The performance of buy and sell recommendations (overall performance), comprising 32% of the overall score, or a maximum of 32 points.
3. The industry sector performance (consistency of performance across industry sectors), comprising 13% of the overall score, or a maximum value of 13 points.
4. The average holding period of the buy recommendations (longer holding periods being more favorable), comprising 9% of the overall score, or a maximum value of 9 points.
5. The volatility (standard deviation) of the buy recommendations' performance, comprising 10% of the overall score, or a maximum of 10 points.

Please note that none of the performance metrics included in this report includes transaction costs, which can significantly impact realized return.

Zacks Investment Research finished second with the third-best buy performance over the last three years and the third-best buy-sell performance. Thomson Reuters/Verus placed third in the research award scores, thanks to good performance combined with a low risk profile.

Buy Recommendation Performance

The table below presents the performance of the buy recommendations of the Fidelity.com independent research firms over the past three years and over the past year, as well as two risk metrics. The performance measures the annual return that would be achieved if the buy recommendations of the research provider had been followed during the period, excluding transaction costs.

Q1 2018 Annualized BUY Performance vs. Risk of Stock Research Firms Available through Fidelity.com

Research Firm	3-Yr				1-Yr Buy Performance
	Annualized Buy Performance	Q1 vs. Q4 Rank	Annualized Standard Deviation	Maximum Drawdown	
Ford Equity Research	16.2	1 ⇄ 1	12.3	-8.6	18.9
Thomson Reuters/Verus	15.4	2 ⇄ 3	12.5	-8.9	13.0
Zacks Investment Research, Inc.	14.9	3 ⇄ 2	13.1	-9.1	19.7
EVA Dimensions, LLC	12.9	4 ⇄ 5	13.6	-9.4	13.6
Columbine Capital Services, Inc.	12.8	5 ⇄ 4	12.5	-8.9	14.2
MSCI Inc	12.1	6 ⇄ 6	12.7	-8.0	14.6
McLean Capital Management	10.9	7 ⇄ 7	13.2	-9.4	19.4
Argus Research	10.5	8 ⇄ 8	12.7	-9.7	13.2
Jefferson Research & Management	9.6	9 ⇄ 9	12.5	-9.5	12.7
ValuEngine	7.8	10 ⇄ 10	12.1	-9.6	7.4
Fidelity Average	12.3	NA	12.7	-9.1	14.7
Investars Universe Average	9.9	NA	13.6	-10.0	14.0
S&P 500	10.8	NA	11.0	-9.9	14.0

Performance of the individual research firms is estimated by taking the buy recommendations and tracking them as if the investor had invested equal amounts of cash into each stock in the research firm's buy portfolio. Each stock is held in the portfolio as long as the buy recommendation is in place, and is removed once a recommendation changes to a sell or hold. Essentially the performance of each firm is an equal-weighted index return. By contrast, the S&P 500 is weighted by the market capitalization of its component stocks.

We place the greatest weight on 3-year performance, so the table is sorted according to the three year return column. **Ford Equity Research had the best three year buy performance**, followed by **Thomson Reuters/Verus** and **Zacks Investment Research**.

The 1-year performance needs to be viewed with more caution since the narrower time frame may encompass fewer ups and downs in the market and does not address consistency over time. However, those firms which are performing well over 1 year will benefit as this performance rolls farther into the 3-year horizon. In other words, the 1-year numbers give a preview

of whether a top performer can sustain its performance, or whether a bottom performer is turning around. The strong 1-year performances of Ford and Zacks Investment suggest that their 3-year performance numbers will continue to be strong.

Risk

An important risk metric is standard deviation, which captures the volatility of an investment's returns. Standard deviation is a measure of the variability of the returns generated by the buy recommendations. Using the S&P 500 index as an example, the standard deviation of returns for the last three years was 11%. This means that about two-thirds of the time returns were between the average return (which was 10.8% for the latest 3 years) plus or minus 11%. In other words, two-thirds of the time, performance was between -.2% and 21.8%. As the standard deviation increases so does the potential range of returns, the result of more variability.

Perhaps the best way to visualize the relationship between risk and return is on a chart. The chart below plots the excess returns of each firm's buy recommendations relative to the S&P 500 index compared to the incremental volatility of each firm's buy recommendations relative to the volatility of the S&P 500 index. Ideally, a research provider would generate greater return and less volatility than a buy and hold index strategy, though in practice one generally must accept more risk to gain more return in the marketplace.

RISK CHART HERE

As can be seen in the chart above, seven of the research firms available on Fidelity.com had better performance than would have been generated by a simple "buy the S&P 500 index" investment, namely Ford, Thomson Reuters/Verus, MSCI, Zacks, EVA Dimensions, Columbine, and MLeann Capital. (Note, however, that transaction costs are not included in this analysis.) Higher returns generally come with higher risk, which is usually the case with the research providers on Fidelity.com. Firms in the lower right quadrant had returns above the S&P 500 Index, but did so with higher associated volatility. **ValueEngine and Ford had the lowest standard deviations.**

The firm with the most volatile recommendations—EVA Dimensions—had the same risk profile as the average for the firms tracked by Investars (a standard deviation of 13.6%).

Maximum drawdowns are another metric to assess the riskiness of the research recommendations. The maximum drawdown is a measure of the largest percentage loss the recommended stocks would have experienced during the 3 year time horizon. For example, using the S&P 500 index returns, an investor's portfolio would have lost 9.9% percent of its value if the investor were unfortunate enough to buy the index at its highest point and then sell the index at its lowest level during the last three years.

All the stock research firms offered by Fidelity.com had lower maximum drawdowns than the S&P 500 for the latest three year period. **MSCI had the lowest maximum drawdown (-8%),** followed by **Ford (-8.6%).** Argus Research had the highest maximum drawdown for the period (-9.7%).

Buy and Sell Recommendations

Investars calculates the performance for buys and sells by estimating a return based on each buy and sell recommendation during the period, ignoring returns associated with hold recommendations. In other words, a buy remains a buy until changed to a hold or a sell. Sell recommendations are treated like short sales until changed to a hold or a buy. Transaction costs are not included in the analysis.

Q1 2018 Annualized BUY + SELL Performance of Stock Research Firms Available through Fidelity.com

Q4 2017

Q1 2017

Research Firms	3 Year	2 Year	1 Year	Rank	Rank
Ford Equity Research	13.5	8.5	10.4	1	1
Thomson Reuters/Verus	11.6	6.5	2.3	2	3
Zacks Investment Research, Inc.	8.7	11.9	10.8	3	4
EVA Dimensions, LLC	6.4	2.5	1.6	4	6
Jefferson Research & Management	5.3	-0.3	6.3	8	5
Columbine Capital Services, Inc.	4.7	2.8	4.0	5	8
Argus Research	4.5	0.2	12.6	7	n/a
MSCI Inc	4.2	2.1	1.7	6	2
McLean Capital Management	2.7	-5.0	15.1	9	9
ValuEngine	-0.4	-7.9	-3.8	10	10
Fidelity Average	6.1	2.1	6.1		
Investars Universe Average	4.4	4.7	6.0		

Note: Performance includes buy and sell recommendations of each research firm

Ford Equity Research had the best combined buy and sell recommendations over a 3 year period. Thomson Reuters/Verus had the next best three year buy/sell performance. Zacks Investment Research was third over the three year period.

Industry Sector Performance

Investars calculates the 1-year performance of recommendations on stocks within each of the eleven industry sectors. The results need to be used with some caution because 1-year results can be more volatile than results over a longer period. Nevertheless, the result shows which research firms have expertise in a particular industry sector. The tables below list the top three research firms in each industry sector based on their one-year buy recommendation performance as calculated by Investars.

Energy	Rank	1 Yr Performance
Ford Equity Research	1	19.9
McLean Capital Management	2	4.3
ValuEngine	3	0.8

Materials	Rank	1 Yr Performance
Zacks Investment Research, Inc.	1	19.6
Ford Equity Research	2	19.4
ValuEngine	3	18.2

Industrials	Rank	1 Yr Performance
Ford Equity Research	1	22.7
Columbine Capital Services, Inc.	2	22.7
MSCI Inc	3	18.4

Performance Data Provided By **Investars**

Consumer Discretionary	Rank	1 Yr Performance
McLean Capital Management	1	25.7
Zacks Investment Research, Inc.	2	23.4
Thomson Reuters/Verus	3	12.3

Consumer Staples	Rank	1 Yr Performance
ValuEngine	1	21.6
Columbine Capital Services, Inc.	2	18.2
Zacks Investment Research, Inc.	3	14.6

Health Care	Rank	1 Yr Performance
Zacks Investment Research, Inc.	1	27.5
MSCI Inc	2	26.4
Ford Equity Research	3	26.0

Financials	Rank	1 Yr Performance
McLean Capital Management	1	33.1
Ford Equity Research	2	17.9
Thomson Reuters/Verus	3	17.0

Information Technology	Rank	1 Yr Performance
Zacks Investment Research, Inc.	1	31.9
Thomson Reuters/Verus	2	30.5
McLean Capital Management	3	27.8

Telecommunications Services	Rank	1 Yr Performance
Thomson Reuters/Verus	1	30.4
McLean Capital Management	2	20.3
Ford Equity Research	3	12.1

Utilities	Rank	1 Yr Performance
Columbine Capital Services, Inc.	1	23.8
ValuEngine	2	11.5
Zacks Investment Research, Inc.	3	9.7

Real Estate	Rank	1 Yr Performance
Argus Research	1	18.3
Columbine Capital Services, Inc.	2	15.5
Zacks Investment Research, Inc.	3	13.3

Industry Sector Performance (Summary)

We summarize the industry sector performance by tracking which research firms consistently rank among the top 3 firms in each industry sector. **Zacks Investment Research demonstrated the best sector consistency**, placing among the top 3 firms in seven out of eleven industry sectors.

Sector Leadership (Number of Instances Performance Ranked Among Top Three Providers in a Sector)				
Research Firm	First	Second	Third	Total
Zacks Investment Research, Inc.	3	1	3	7
Ford Equity Research	2	2	2	6
McLean Capital Management	2	2	1	5
Columbine Capital Services, Inc.	1	3		4
Thomson Reuters/Verus	1	1	2	4
ValuEngine	1	1	2	4
MSCI Inc		1	1	2
Argus Research	1			1
EVA Dimensions, LLC				
Jefferson Research & Management				

Holding Period

Holding period, the length of time that a recommendation is in place, is another factor in evaluating research firms. Many investors are not active traders, and it is easier for these investors to replicate the performance of research firms with recommendations that have longer average holding periods. The longer the holding period, the more likely the firm's performance will be captured by investors. Also, longer holding periods represent lower trading costs. On the other hand, model-driven recommendations are typically updated as soon as new information is available, making the recommendations as fresh as possible.

Holding Period Chart Here

The chart above is sorted by the average length of holding periods for the buy recommendations of each research firm. **EVA Dimensions had the longest average holding period** for buy recommendations, averaging over five and a half months' duration for each buy recommendation. **MSCI** had the next longest holding period for its buy recommendations, with a similar duration for buy recommendations. **Zacks Investment Research** and **Thomson Reuters/Verus** had the shortest holding periods, averaging less than 1 month for each recommendation.

Conclusions

First Place –Ford Equity Research had the best buy recommendation performance over the last three years and the best buy-sell performance over the three years. At the same time, it had the second-best sector level performance placing among the top three Fidelity.com providers in six out of eleven sectors. Ford had the best performance in the Energy and Industrials sectors.

Second Place — Zacks Investment Research finished second with the with consistent top-three performance across all time periods we evaluated. It had the best sector level performance placing among the top three Fidelity.com providers in seven out of eleven sectors. It was the top performer in the Materials, Healthcare and IT sectors.

Third Place – Thomson Reuters/Verus had the second-best buy performance over three years and the second-best buy-sell performance over the period. It had the third best risk profile for both standard deviation and maximum drawdown. It was the top performer in the Telecommunications sector.

Finally, we suggest caution with any performance measurement analysis, including this analysis. Performance of buy/sell recommendations is only one aspect of the research offered on Fidelity.com. Although it is useful to understand a research firm's overall track record, a research firm's performance on any given stock can diverge significantly from the overall performance. There are additional factors beyond performance that any investor should consider in evaluating a research firm, such as the insights provided and the ease with which the research can be used. Performance of recommendations, while important, should not be the only factor an investor considers in evaluating research.

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