



*The convergence
of significant factors
to a specific point.*

SEPA Technology™

Specific Entry Point Analysis™ - SEPA™ was developed by Mark Minervini over 24 years. The methodology's foundation is built upon *historical precedent analysis* of past stock market "SUPER PERFORMERS." To determine what characteristics make a stock likely to advance significantly, historical models of top price performers and industry leaders are archived in our confidential database. These models are based upon sets of characteristics prevalent in exceptional winning stocks.

A DYNAMIC BLUEPRINT

On-going efforts are focused on identifying in detail the characteristics of the most successful performers of the past to determine what makes a stock likely to outperform its peers in the future. Based on these attributes, current investment candidates can be compared and scrutinized for criteria in-line with our proprietary "Leadership Profile." This success blueprint is the fundamental basis for our stock selection. The database and profile is continually updated to account for market dynamics and new available data. The SEPA™ model takes into account thousands of historic company profiles going back over many market cycles spanning numerous decades. In order to find rapidly growing companies with the ability to sustain above average appreciation, a unique combination of quantitative screening, fundamental research and qualitative analysis serve as core selection criteria for the SEPA™ investment process.

Additionally, our ranking process scores each company based on earnings surprises, estimate revisions and company issued guidance in order to determine the probability for future price performance catalysts. A unique component of the SEPA™ process is a focus on "where" a stock is within its earnings maturation cycle. Each day, our computers systematically analyze thousands of stocks for specific data items using a proprietary series of absolute, relative and time dimension calculations. Our extensive fundamental research ranks each investment candidate for probable earnings surprise.

Specific Entry Point Analysis™ focuses on identifying, company-by-company, the precursors of inefficient pricing in order to distinguish appropriate entry points. Utilizing SEPA Technology™, stocks displaying the potential for significant price appreciation are identified and pinpointed. While we're not perfect, our proven SEPA Technology™ consistently highlights many of the best investment ideas and stock market leaders before they're widely recognized by Wall Street.

The SEPA™ screening process can be summarized as follows:

1. Stocks are screened through a series of "filters" based on earnings, sales & margin growth, relative price performance and price trend characteristics. Approximately 95% of all stocks in the market are eliminated in this first screen leaving roughly 1,000 initial contenders.
2. These remaining stocks are scrutinized for similarity to a proprietary "leadership profile" in-line with specific fundamental and technical factors exhibited by our historic models. This second stage removes most of the remaining companies, leaving a narrowed list of investment ideas for further review and evaluation.
3. The final stage is a comprehensive manual review. The narrowed list of candidates are examined individually by Mark Minervini and scored according to a "relative prioritizing" ranking process which considers the following characteristics:
 - Reported earnings and sales
 - Earnings surprise history
 - EPS growth rate and sales acceleration
 - Company issued guidance
 - Earnings estimate revisions
 - Profit margins (historic & projected)
 - Industry and market position
 - Potential "catalysts" (new products, services or industry changes)
 - Performance compared to other stocks in same sector
 - Price momentum, price trend and trading volume analysis
 - Liquidity

The ranking process is focused on identifying three key elements:

- The potential for future earnings and sales surprises
- The potential for institutional volume support
- The potential for rapid price appreciation based on a supply/demand imbalance

Profiting from the Earnings Cycle

Individual stocks can go through extended periods of underperformance, in some instances for decades – Eastman Kodak’s stock price took twenty-four years (1973-1997) to break even while the S&P 500 Index advanced 500%. While some stocks languish, companies with superior improving fundamentals can perform exceptionally well. Large institutional buyers (mutual funds, pension plans, hedge funds, etc.) have the greatest buying power to influence a stock’s share price. So, what do they look for? Earnings and sales surprise and estimate revisions contribute to valuation model changes and thus impact buying and selling pressure. The subsequent buying pressure that comes from an earnings surprise or a company materially raising guidance generally leads to a higher stock price, which in turn attracts momentum buyers.

An understanding of how Wall Street works and identifying what specific characteristic will attract institutional buyers into a stock is our daily focus. The graph below illustrates a typical earnings maturation cycle and where we focus our efforts on buying and selling within the cycle:





SUMMARY OF THE PROCESS

1. HISTORICAL PRECEDENT ANALYSIS

- ✓ Study of the best performing stocks over each market cycle
- ✓ Characteristics defined and archived
- ✓ Blueprint is constructed based on attributes of winners

2. COMPUTER SURVAEILLENCE

- ✓ Computers screen 8,000+ stocks daily
- ✓ Narrows down to the top 1%
- ✓ Companies displaying specific characteristics are identified

3. LEADERSHIP PROFILING

- ✓ Data is compared to all stocks
- ✓ Results are compared to a “Leadership Profile”
- ✓ Profile is continually updated to reflect new information

4. RANKING AND SELECTION

- ✓ Candidates are monitored for specific criteria convergence
- ✓ Catalyst such as earnings surprise, company issued guidance
- ✓ Entry point defined based on risk/reward

A vertical collage of four images related to finance: a computer monitor displaying a stock chart, a hand holding a red pen pointing at a document, a close-up of a stock market ticker board with various numbers and colors, and a laptop screen showing financial data.

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