



# Zacks Indicator Model & Zacks Rank

A Closer Look

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# Our flagship tools have helped investors and advisors for more than 30 years.

In 1978, Zacks' founder and CEO hit upon a key discovery:

Earnings estimate revisions are the most powerful force impacting stock prices.

This idea was developed into the Zacks Indicator Model, the firm's flagship model. Over the last three decades, the Indicator has produced an annualized return of approximately 24%. During the same period, the S&P 500 returned approximately 10% annually.

## How the Zacks Indicator Model and Zacks Rank work.

The Zacks Indicator Model ranks approximately 4,500 stocks from best to worst based on the idea that investors can capitalize on stock price movements resulting from EPS estimate revisions and earnings surprises.

The Zacks Rank is derived from the Zacks Indicator Model's composite score and assigns a simplified 1 to 5 score (1= best and 5 = worst). Only the top 5% of stocks receive the coveted Zacks #1 Rank, and approximately the same number receive the Zacks #5 Rank.

### Zacks Rank

- 1** Strong Buy
- 2** Buy
- 3** Hold
- 4** Sell
- 5** Strong Sell

# Annualized Returns for Zacks Indicator Model and Zacks Rank Stocks (January 1, 1988 – December 31, 2020)

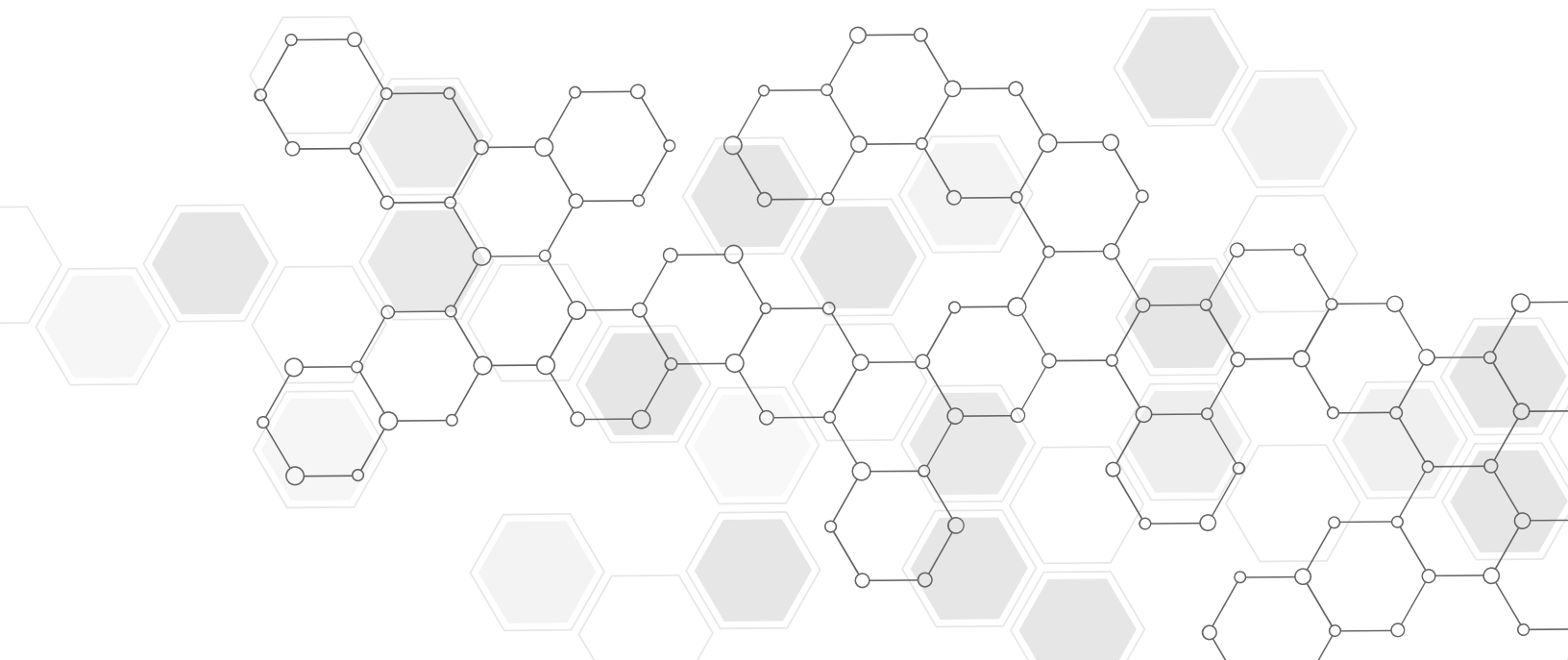
Indicator Score	1-2 Top 2%	1-5 Top 5%	1-10 Top 10%	6-20	21-79	80-94	90-99 Bottom 10%	95-99 Bottom 5%	98-99 Bottom 2%	Equally Weighted Universe	S&P 500
Zacks Rank		<b>1</b>		<b>2</b>	<b>3</b>	<b>4</b>		<b>5</b>			
Annualized	27.9%	24.9%	23.3%	18.5%	10.2%	6.0%	3.5%	2.7%	2.6%	11.5%	11.0%

## How investors use the Zacks Indicator Model and Zacks Rank.

The optimal time horizons for the Zacks Indicator Model and Zacks Rank are 1-6 months. For this reason, many institutional investors use them as a timing tool rather than a method of picking long-term outperformers.

## Examples of common uses of these tools include:

- » Tiebreakers to pick among equally attractive stocks
- » Screening for new purchase candidates
- » Tiebreakers to pick among stocks in an industry group
- » One component multi-factor



# Zacks Indicator Model

## Historical Performance (%)

Results from January 1, 1988 - December 31, 2020

Year	Top 2%	Top 5%	Top 10%	Bottom 10%	Bottom 5%	Bottom 2%	Equally Weighted Universe	S&P 500
2020	33.25	33.86	42.73	19.21	19.77	18.56	33.94	19.27
December 2020	4.51	4.23	4.41	6.13	5.47	5.42	5.31	2.13
November 2020	18.74	17.58	17.71	27.57	26.94	32.57	23.61	11.78
October 2020	-1.27	-1.27	-0.56	-2.38	-2.41	-1.52	-0.90	-1.73
September 2020	5.51	3.76	3.62	-0.14	-1.53	-2.67	1.87	0.20
August 2020	-1.14	-0.78	-0.61	4.37	4.68	5.39	1.45	2.55
July 2020	4.83	4.81	5.67	-0.19	-0.05	-1.34	2.62	3.77
June 2020	7.56	10.25	10.08	4.95	5.32	4.63	8.92	4.72
May 2020	13.11	16.26	15.81	12.23	13.57	13.53	13.05	8.20
April 2020	25.63	20.32	22.31	17.66	19.44	21.24	19.02	8.86
March 2020	-26.72	-26.42	-24.87	-27.86	-26.55	-28.45	-25.98	-13.08
February 2020	-7.24	-6.82	-6.95	-9.14	-9.96	-10.16	-8.02	-7.84
January 2020	-4.26	-3.04	-1.53	-4.56	-5.84	-8.06	-1.89	0.91
2019	17.4	23.8	23.6	16.3	17.1	12.8	19.6	29.4
2018	-12.6	-7.4	-7.1	-15.8	-15.9	-16.0	-10.5	-3.8
2017	33.5	28.3	27.0	11.6	13.0	9.3	17.0	21.4
2016	32.3	27.4	28.5	29.0	39.4	31.1	27.3	14.8
2015	-1.4	0.0	4.6	-17.7	-19.0	-24.2	-9.8	0.2
2014	14.8	14.9	14.4	-7.8	-14.4	-14.5	2.4	13.3
2013	47.8	47.5	45.0	25.6	18.0	23.2	30.7	32.4
2012	27.9	24.9	24.8	8.4	8.1	10.0	15.3	16.0
2011	-4.6	-3.8	-2.8	-18.4	-21.4	-16.8	-12.9	2.1
2010	32.3	29.0	32.2	28.2	27.2	21.1	29.2	15.1
2009	56.3	65.9	75.2	54.2	49.4	63.8	74.5	26.5
2008	-41.4	-40.4	-40.7	-47.2	-50.9	-51.8	-47.2	-37.0
2007	24.7	19.7	13.8	-19.0	-24.0	-21.9	-4.1	5.5
2006	26.1	27.3	27.7	16.6	18.2	14.5	18.5	15.8
2005	25.1	18.8	16.4	-3.1	-6.0	-1.6	6.5	4.9
2004	37.4	28.7	29.4	14.2	14.6	16.8	18.2	10.9
2003	75.6	67.0	77.3	53.0	54.4	47.3	64.0	28.7
2002	8.6	1.2	-9.1	-20.4	-15.9	-14.6	-16.9	-22.1
2001	24.7	24.3	14.3	24.2	20.2	38.6	15.0	-11.9
2000	24.8	14.3	8.4	-8.8	-4.0	-8.3	-7.9	-9.1
1999	58.8	45.9	39.1	17.3	17.7	17.7	34.3	21.0
1998	28.3	19.5	17.5	-14.2	-14.8	-16.0	1.5	28.6
1997	48.8	43.9	38.9	4.8	3.1	0.9	23.2	33.4
1996	48.1	40.9	37.3	10.7	8.0	9.5	18.1	23.0
1995	52.7	52.6	53.9	11.7	9.1	2.7	30.0	37.6
1994	24.9	12.7	12.6	-13.1	-10.9	-13.6	-2.8	1.3
1993	51.5	45.3	35.0	6.3	9.5	7.4	17.1	10.1
1992	46.5	41.0	34.1	15.0	17.3	13.4	18.0	7.6
1991	101.4	81.4	69.1	33.6	34.4	43.8	46.9	30.5
1990	-7.0	-2.6	-5.4	-33.0	-34.7	-34.6	-20.6	-3.1
1989	39.1	39.6	40.0	0.6	-5.1	-6.9	16.3	31.7
1988	43.8	39.2	37.7	16.9	18.4	23.8	22.2	16.6
Annualized	27.9	24.9	23.3	3.5	2.7	2.6	11.5	11.0

# Zacks Rank

## Historical Performance (%)

Results from January 1, 1988 - December 31, 2020

Year	#1 Rank	#2 Rank	#3 Rank	#4 Rank	#5 Rank	S&P 500
2020	33.86	39.71	34.35	30.43	19.77	19.27
December 2020	4.23	5.22	5.26	5.87	5.47	2.13
November 2020	17.58	19.70	23.11	30.75	26.94	11.78
October 2020	-1.27	-0.16	-0.80	-1.42	-2.41	-1.73
September 2020	3.76	3.00	2.00	0.70	-1.53	0.20
August 2020	-0.78	-0.92	1.37	3.94	4.68	2.55
July 2020	4.81	5.01	2.42	1.16	-0.05	3.77
June 2020	10.25	9.29	9.14	8.14	5.32	4.72
May 2020	16.26	14.28	12.79	11.51	13.57	8.20
April 2020	20.32	21.58	19.16	15.01	19.44	8.86
March 2020	-26.42	-25.12	-25.71	-27.53	-26.55	-13.08
February 2020	-6.82	-8.01	-8.01	-7.85	-9.96	-7.84
January 2020	-3.04	-0.88	-1.55	-2.54	-5.84	0.91
2019	23.8	27.1	17.4	20.1	17.1	29.4
2018	-7.4	-6.7	-10.2	-14.2	-15.9	-3.8
2017	28.3	23.2	15.1	16.3	13.0	21.4
2016	27.4	27.1	27.2	21.0	39.4	14.8
2015	0.0	-0.9	-11.0	-13.8	-19.0	0.2
2014	14.9	10.3	1.2	-4.0	-14.4	13.3
2013	47.5	37.2	30.6	23.9	18.0	32.4
2012	24.9	19.1	16.4	6.5	8.1	16.0
2011	-3.8	-4.9	-13.5	-18.6	-21.4	2.1
2010	29.0	35.2	27.9	29.3	27.2	15.1
2009	65.9	84.2	78.8	60.4	49.4	26.5
2008	-40.4	-43.5	-48.7	-45.7	-50.9	-37.0
2007	19.7	5.4	-4.3	13.1	-24.0	5.5
2006	27.3	26.3	16.8	15.0	18.2	15.8
2005	18.8	12.6	6.7	0.5	-6.0	4.9
2004	28.7	23.7	15.8	11.5	14.6	10.9
2003	67.0	69.5	64.9	55.0	54.4	28.7
2002	1.2	-13.5	-17.8	-24.0	-15.9	-22.1
2001	24.3	11.7	14.1	17.9	20.2	-11.9
2000	14.3	-1.5	-17.8	-19.5	-4.0	-9.1
1999	45.9	35.5	31.0	18.5	17.7	21.0
1998	19.5	12.9	-3.5	-8.8	-14.8	28.6
1997	43.9	33.9	22.9	10.2	3.1	33.4
1996	40.9	28.6	16.1	7.7	8.0	23.0
1995	52.6	46.8	30.6	17.4	9.1	37.6
1994	12.7	5.2	-3.6	-11.1	-10.9	1.3
1993	45.3	26.9	14.8	8.6	9.5	10.1
1992	41.0	29.6	18.0	12.2	17.3	7.6
1991	81.4	56.8	46.0	36.6	34.4	30.5
1990	-2.6	-13.7	-21.3	-23.9	-34.7	-3.1
1989	39.6	26.8	15.9	9.6	-5.1	31.7
1988	39.2	29.7	20.8	19.1	18.4	16.6
Annualized	24.9	18.5	10.2	6.0	2.7	11.0



# Learn more about the Zacks Indicator Model and Zacks Rank.

Here are answers to some of the most frequent questions.

## The Basics

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**Q: What is the fundamental principle behind these tools?**

**A:** Both the Zacks Indicator Model and the Zacks Rank are based on the insight that any revision in a company's expected future earnings directly affects the company's stock price. Both the Zacks Indicator Model and Zacks Rank successfully predict stock price movements based on expected estimate revisions and earnings surprises.

**Q: What makes this approach more accurate than the consensus?**

**A:** The first revision is rarely the last revision, and the most recent estimates are the most accurate. We use this information to create an EPS forecast that is more accurate than the consensus. This Most Accurate Forecast is used in the Upside component of the Zacks Indicator Model and the Zacks Rank.

**Q: Can you break down the components of the Zacks Indicator Model?**

**A:** The four components of the model are:



**Agreement** – The extent to which revisions are made in the same direction, whether positive or negative



**Upside** – Comparing the Most Accurate Forecast to the consensus estimate offers a clue as to future revisions



**Surprise** – The difference between reported and expected EPS



**Magnitude** – The bigger the revision, the bigger the impact

## How does the Zacks Indicator Model relate to the Zacks Rank?

Indicator Model Scores	Zacks Rank	Plain English
1 to 5	<b>1</b>	Strong Buy
6 to 20	<b>2</b>	Buy
21 to 79	<b>3</b>	Hold
80 to 94	<b>4</b>	Sell
95 to 99	<b>5</b>	Strong Sell

## Performance

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**Q: Is this a market anomaly?**

**A:** Yes. The market is not efficient with respect to revisions. We believe the information in revisions takes 30 to 90 days to become fully reflected in stock prices.

**Q: Why are Zacks Indicator Model scores between 20 to 80 considered neutral?**

**A:** The Indicator Model is based on estimate revisions and earnings surprises. If revisions or surprises have not occurred recently, then the Indicator Model does not make a bullish or bearish prediction. This is also reflected in the “Hold” designation in the Zacks Rank.

**Q: Performance numbers can be deceptive. How are your numbers calculated?**

**A:** Returns are calculated using the stock’s appreciation, plus dividends, compounded.

One performance benchmark is the return of the entire equally weighted Indicator Model universe, and the benchmark returns is calculated using the same methodology. It should be noted that the returns do not take into account transaction costs nor the effects of taxes.

**Survivor Bias:** Since our performance data is based on companies in existence when the scores were calculated, there is no survivor bias in our results.

**Look-Ahead Bias:** Since we use only available Indicator Model reports to construct our portfolios, our returns are not influenced by look-ahead bias.

## Superior Tools

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**Q: Why should we use the Zacks Indicator Model/Zacks Rank instead of building our own?**

**A:** You can save time and money. Given Zacks' access to data, software and 30+ years of research experience on this subject, it is unlikely someone will be able to build better models without devoting at least 1 or 2 person-years to the project. If you would like to try, we can get you started.

**Q: If we already have a Revisions model, why should we consider these tools?**

**A:** The Zacks Indicator Model and Zacks Rank may outperform or enhance your model. Ask your Zacks representative for a copy of our performance statistics, which can then be compared to your model's performance.

**Q: If the Zacks Indicator Model and Zacks Rank are so good, why don't you use them?**

**A:** They are used by other departments.

**Q: Don't you then compete with us?**

**A:** In most, if not all, cases the Indicator Model and/or Zacks Rank are used as one piece of a larger investment approach, thus making a client's end "product" unique to each investment manager.





# Zacks Indicator Model • Zacks Rank

A closer look at our Earnings-per-Share Estimates Revision Model

## Background

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A basic tenet of investing is that a company's current value is equal to that company's future earnings discounted to the present. Academic studies show that any revision in a company's expected future earnings directly affects the company's stock price. The Zacks Indicator Model and Zacks Rank attempt to capitalize on stock price movements resulting from EPS estimate revisions and earnings surprises.

## Methodology

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The Zacks Indicator Model assigns a composite score to each stock on a scale of 1 to 99, with 1 being the most attractive and 99 being the least. This ranking system is intended to identify stocks whose returns are expected to be higher than the equally weighted universe over the next 1-6 months.

The Zacks Rank is derived from the Zacks Indicator Model, and gives every stock a specific rank: Strong Buy, Buy, Hold, Sell, and Strong Sell.

## Performance

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Stocks with top composite scores (and top rankings) have, on average, consistently produced excess returns since 1980. During this time, those stocks with the highest composite scores have had an annualized return of approximately 28%. This compares to approximately an 11% return for the S&P 500 and roughly the same return for all stocks equally weighted with composite scores during the same period. (These performance figures do not include transaction costs or the effects of taxes).

# Put the Zacks Indicator Model and the Zacks Rank to work for you.

Let us show you how the proven performance of our tools can help you develop and refine your process.

Our expert consultants are here to help you find more alpha in your strategies.

Contact Us:



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These Zacks Rank #1 annualized returns and comparable annualized returns for the S&P 500 cover the period from January 1, 1988 through December 31, 2020.

During the period from January 1, 1988 through December 31, 2013, the portfolios of stocks were rebalanced monthly. Since January 1, 2013, they have been and continue to be rebalanced on a weekly basis.

These returns are from hypothetical portfolios; they are not the returns of actual portfolios of stocks. Zacks Rank #1 stock-rating system returns are computed monthly based on the performance of the stocks at the beginning and end of the month. They include any of the stock dividends received during that particular month but they do not include any transaction costs, nor the effects of taxes.

A simple, equally weighted average return of Zacks Rank #1 stocks is calculated to determine the monthly return. The monthly returns are then compounded to arrive at the annual return. Only Zacks Rank #1 stocks included in Zacks hypothetical portfolios at the beginning of each month are included in the return calculations. Zacks Rank #1 stocks can, and often do, change throughout the month. Certain Zacks Rank #1 stocks for which no month-end price was available, pricing information was not collected, or for certain other reasons have been excluded from these return calculations.

The S&P 500 is an unmanaged index.

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