Stocks of Admired Companies and Despised Ones

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Abstract

Do stocks of admired companies yield admirable returns? We study Fortune magazine's annual list of "America's Most Admired Companies" and find that stocks of admired companies had lower returns, on average, than stocks of despised companies during the 23 years from April 1983 through March 2006. We link differences between the returns of stocks of admired and despised companies to differences in affect, the quick feeling that distinguishes good from bad, admired from despised. The affect of admired companies is positive, and investors who were attracted by affect to stocks of admired companies paid for it with lower returns. However, the relative returns of stocks of admired and despised companies varied considerably from year to year and from decade to decade and the relationship between admiration and returns is not always monotonic.

Stocks of admired companies and despised ones

Fortune magazine has been publishing the results of an annual survey of company reputations since 1983. The survey published in March 2006 included 611 companies in 70 industries. Fortune asked the 10,000 senior executives, directors and securities analysts who responded to the survey to rate the ten largest companies in their industries on eight attributes of reputation, using a scale of zero (poor) to ten (excellent). The attributes were quality of management; quality of products or services; innovativeness; long-term investment value; financial soundness; ability to attract, develop, and keep talented people; responsibility to the community and the environment; and wise use of corporate assets. The score of a company is the mean of the ratings on the right attributes. UnitedHealth Group ranked highest with a score of 8.60, followed by United Parcel Service with a score of 8.54 and Procter & Gamble with a score of 8.45. Tenet Healthcare ranked at the very bottom with a score of 3.20.

Do stocks of good companies make good stocks? Do stocks of companies that score high in the Fortune surveys provide high subsequent returns? Past studies on the relationships between Fortune scores and subsequent stock returns reached conflicting conclusions. Anderson and Smith (2006) and Antunovich, Laster and Mitnick (2000) found that stocks of companies ranked high by Fortune had higher subsequent returns than stocks that ranked low. But Shefrin and Statman (2003) found that they did not. Similarly, Clayman (1987, 1994) found conflicting results in her study of companies labeled "excellent" by Peters and Waterman's "In Search of Excellence" (1982). In the first she found that stocks of excellent companies had relatively low subsequent returns but in the second she found that they had relatively high returns.

The purpose of this study is to reconcile the conflicting earlier conclusions about the relationship between Fortune ratings and subsequent stock returns and explore the behavior that underlies that relationship. We study Fortune ratings published during 1983-2006 and returns through March 2006, a period longer than those studied earlier, and find that stocks of despised companies beat stocks of admired companies during the overall period.

Returns

Consider two portfolios constructed by Fortune scores; each consisting of equally weighted half of the Fortune stocks. The Admired portfolio contains the stocks with the highest Fortune scores and the Despised portfolio contains the stocks with the lowest Fortune scores. We construct the portfolios on April 1st of 1983, based on the Fortune survey published earlier that year[1]. We calculate the returns of the portfolios for each of the 12 months from April 1st 1983 to March 31st 1984. We reconstruct each portfolio on April 1st of subsequent years based on the Fortune survey published earlier that year and calculate monthly returns similarly during the following 12 months.

The mean annualized return of the Despised portfolio during the 23 years from April 1983 through March 2006 was 17.50%, beating the return of the Admired portfolio by 1.82 percentage points. This result is consistent with the findings of Shefrin and Statman (2003) but inconsistent with the findings of Anderson and Smith and Antunovich et al.

[1] Surveys were published in January during 1983-1990, February during 1991-1994 and March during 1995-2006. We match the list of companies in the Fortune survey with list of companies in the CRSP database. Approximately 7% of the companies in the surveys are not publicly traded or are missing return data on CRSP

The mean scores of companies in some industries, such as the 6.44 of the Engineering and Management Services industry, are higher on average than those of other industries, such as the 5.55 of the Primary Metals industry. Ranking companies with no adjustment for such differences favors companies in higher scoring industries. We calculate the mean score of companies in each industry in the 1983-2006 surveys and define the industry-adjusted score of a company as the difference between its score in a given survey and the mean score of companies in its industry. We construct Industry-Adjusted Admired and Despised portfolios in a form identical to the construction of the Admired and Despised portfolios. The 17.84% mean annualized return of the Industry-Adjusted Despised portfolio beat the return of the Industry-Adjusted Admired portfolio by 2.49 percentage points, a margin greater than the 1.82 percentage point margin separating the return of the Despised portfolio from that of the Admired portfolio.

Figure 1 and Table 1offers a glimpse into one reason for the difference between our results and those of Antunovich et al and Anderson and Smith. Results vary greatly from period to period. The returns of the Industry-Adjusted Despised portfolio exceeded those of the Industry-Adjusted Admired portfolio in 13 of the 23 years from1983 to 2006 but lagged it in 10. The returns of the Industry-Adjusted Despised portfolio exceeded those of the Industry-Adjusted Admired portfolio in 11(overlapping) 5-year periods but lagged it in 8. The corresponding numbers for 10-year periods are 9 and 5.

Table 2 offers a comparison of returns during our 1983 – 2006 period to returns during Antunovich et al's 1983 – 1996 period and it explains further the difference between our results and theirs. Antunovich et al concluded that stocks of admired companies beat stocks of despised companies. The mean annualized return of their

portfolio of the stocks of the most admired 10% of Fortune companies was 18.30%, beating by 6.40 percentage points the return of the stocks of the most despised 10%. Our replication of Antunovich et al results during their period is consistent with their results and shows an even greater advantage of the most admired 10% portfolio over the most despised 10% portfolio. The mean annualized return of the most admired 10% portfolio was 17.83%, beating by 9.86 percentage points the return of the most despised 10% portfolio. But the results during the following 1996 – 2006 period are the reverse of the results during 1983 – 1995. The most despised 10% portfolio had a return of 26.74%, beating by 9.17 percentage points the return of the most admired 10% portfolio. During the overall period, 1983-2006, the mean annualized return of the most despised 10% portfolios beat that of the most admired 10% portfolios by 4.02 percentage points.

Antunovich et al's results also show that the relationship between Fortune scores and subsequent returns is not consistently monotonic. For example, while they found that the most admired 10% portfolio beat the most despised 10% portfolio, they also found that the less admired 2nd and 3rd decile portfolios beat the most admired decile portfolio. The lack of consistently monotonic relationship between Fortune scores and subsequent stock returns is even more starkly evident in a comparison between our results and those of Anderson and Smith.

Anderson and Smith studied the performance of a portfolio composed of the stocks of top-10 companies in the Fortune survey and found that it beat the S&P 500 Index during 1983 –2005. They titled their article "A great company can be a great investment." The top-10 companies in Anderson and Smith's study are the top stocks by vote of all Fortune respondents, regardless of industry affiliation. That list is different

from the list of companies by industry-adjusted scores assigned by Fortune respondents with industry affiliation. Nevertheless, our results for the top-10 portfolio of stocks of the top 10 companies by scores assigned by industry affiliated respondents are similar to those of Anderson and Smith. Table 3 shows that the mean annualized return of the top-10 portfolio during 1983-2006 was 18.95%, beating by 4.63 percentage points the return of the bottom-10 portfolio. But Anderson and Smith's results cannot be generalized into a statement that stocks of great companies make great investments. Table 3 shows that the results of each of the next three pairs of top-10 and bottom-10 portfolios are the opposite of the results of the first pair and in the fifth pair the returns of the top and bottom portfolios are approximately equal. For example, the return of the portfolio of the top 11^{th} to 20^{th} stocks lagged the return of the portfolio of the bottom 11^{th} to 20^{th} stocks by 9.18 percentage points.

Private information or noise?

We know from Fama and French (1992) and earlier work that small-cap value stocks provided higher returns over long periods of time than stocks of large-cap growth stocks. Shefrin and Statman (1986, 1995) argued that the common growth-value and large-small scales are imperfect measures of a scale that ranges from good to bad, admired to despised, such as the scale offered by the Fortune ratings. They found that companies that ranked high on the Fortune scale were large-cap growth stocks. Clarke and Statman (1994) added that the large-small and growth-value characteristics are only two of many characteristics that distinguish admired companies from despised ones. They studied the relationship between Fortune ratings and BARRA characteristics and found

that companies that ranked high on the Fortune scale also ranked high on size and success and low on book-to-price, variability in markets, earnings variability, financial leverage and dividend yield. We find similar results here. Table 4 shows that companies with high Fortune scores had larger capitalization, lower book-to-market ratios, lower earning-to-price ratios, lower cash-flows-to-price ratios, higher past sales growth and higher past stock returns.

Seven of the eight attributes in the Fortune survey relate to companies. One, Long Term Investment Value, relates to companies' stocks. What is the relationship between perceptions of the quality of companies and perceptions of the investment value of their stocks? Consider the a regression of investment value scores on the quality of company scores, computed as the mean of the 7 company attribute scores in the 2006 survey, as presented in Figure 2. We find, consistent with the Shefrin and Statman (1995) that Fortune respondents rate companies as if they believe that good stocks are stocks of good companies. Ratings on perceptions of quality of company and perceptions of the investment value of their stocks are highly positively correlated.

The results are puzzling. Stocks rated highly by Fortune respondents on investment value are stocks of large-cap growth companies. Why do Fortune respondents rate such stocks highly when the evidence on long-term stock returns indicates that they lag small-cap value stocks? Perhaps Fortune respondents are noise traders who believe, wrongly, that good stocks are stocks of good companies. Or perhaps Fortune respondents are private information traders.

Anderson and Smith's hypothesis is the private information hypothesis. They hypothesize that typical Fortune respondents are information traders who know how to

select winning stocks, and link their hypothesis to the work of Fisher (1958) and Lynch and Rothchild (1994). Fisher advocated a "scuttlebutt" system where investors gain private information by talking with a company's managers, employees, customers, suppliers, and other people who know that company's industry. Lynch advocated a system where investors gain private information by, for example, observing the flow of shoppers in malls and identifying companies that are better at attracting shoppers than Wall Street analysts.

But Anderson and Smith's top-10 list is not the best group of stocks to test the private information hypothesis because their top-10 group contains the stocks of companies ranked by all Fortune respondents, regardless of industry affiliation. In such ratings executives and analysts of, say, the airline industry have no greater voice in rating airline companies than executives and analysts of, say, the metals or coal mining industries. If private information underlies the high returns of stocks of highly rated companies we should find that Fortune respondents are especially good at rating companies in their own industries.

It turns out that the list of top companies as rated by industry affiliated Fortune respondents is different from the list of top companies as rated by all Fortune respondents regardless of industry affiliation. For example, in the Fortune survey published in March 2006, only one of the top-10 companies by the ranking by all respondents, General Electric, is are among the top-10 companies by the ranking of industry-affiliated respondents. Moreover, as noted earlier, mean ratings in some industries are higher on average than those of other industries. Ranking companies with no adjustment for such

differences favors the private information of executives and analysts of higher ranked industries over others. The top-10 companies in the three lists are presented in Table 5.

Our results are inconsistent with the private information hypothesis. As noted earlier, the Industry-Adjusted Despised portfolio beat the Industry-Adjusted Admired portfolio by a mean annualized 2.49 percentage points. Rather, our results are consistent with the noise trader hypothesis where the typical Fortune respondents are noise traders who believe, wrongly, that good stocks are stocks of good companies.

Dispersion

Not all stocks of despised companies do well. Indeed many of them do very poorly. The return advantage of the Industry-Adjusted Despised portfolio over the Industry-Adjusted Admired portfolio comes because some stocks in the Industry-Adjusted Despised portfolio do exceedingly well, more than compensating for very poor performance of other stocks in the portfolio. By comparison, the returns of stocks in the Industry-Adjusted Admired portfolio are middling. For example, during the April 1998 – March 1999 period, America Online was the best stock in the Industry-Adjusted Despised portfolio with a 771% gain and DIMON was the worst with a 76% loss. The dispersion of returns from highest to lowest was 847 percentage points. The dispersion of returns in the Industry-Adjusted Admired portfolio was lower. The best return in the Industry-Adjusted Admired portfolio was the 281% gain of Charles Schwab, and the worst was the 66% loss of Thermo Electron for a dispersion of only 347 percentage points. The standard deviation of returns of stocks in a portfolio is a general measure of dispersion and Table 6 shows that dispersion was higher in the Industry-Adjusted

Despised portfolio than in the Industry-Adjusted Admired portfolio in all but two of the twenty-three years. The average dispersion in the Industry-Adjusted Despised portfolio during the 23 years was 39.96% while that in the Industry-Adjusted Admired portfolio was only 29.77%.

Performance evaluation

The 17.84% mean annualized return of the Industry-Adjusted Despised portfolio was higher than the 15.35% mean of the Industry-Adjusted Admired portfolio, but so was its volatility. Still, the higher return of the Industry-Adjusted Despised portfolio more than compensated for its higher volatility. The Sharpe ratio of the Industry-Adjusted Despised portfolio was 0.19, higher by 0.02 than the Sharpe ratio of the Industry-Adjusted Admired portfolio. (See Table 7)

The advantage of the Industry-Adjusted Despised portfolios over the Industry-Adjusted Admired portfolio is also evident when we evaluate performance by the CAPM equation. The beta of the Industry-Adjusted Despised portfolio is 1.04, higher by 0.04 than the beta of the Industry-Adjusted Admired portfolio. But the alpha of the Industry-Adjusted Despised portfolio is 0.30 percentage points per month, higher by 0.14 percentage points than that of the Industry-Adjusted Admired portfolios. Performance analysis by the four-factor model shows that the Industry-Adjusted Despised portfolio tilts toward small-value stocks relative to the tilt of the Industry-Adjusted Admired portfolio. The coefficient of Small-minus-Big in the Industry-Adjusted Despised portfolio is higher than its coefficient in the Industry-Adjusted Admired portfolio and so is the coefficient of Value-minus-Growth. Moreover, stocks in the Industry-Adjusted

Despised portfolio do not display as much momentum as those in the Industry-Adjusted Admired portfolio. Still, the 0.12% monthly alpha of the Industry-Adjusted Despised portfolio is double the alpha of the Industry-Adjusted Admired portfolio.

Investor behavior and stock returns

We admire a stock or despise it when we hear its name, whether Google or General Motors, before we think about its price-to-earnings ratio or the growth of its company's sales. Stocks, like houses, cars, watches and most other products exude affect, good or bad, beautiful or ugly, admired or despised. Slovic, Finucane, Peters, and MacGregor (2002) described the importance of affect in guiding judgments and decisions. They wrote that affect, the specific quality of 'goodness' or 'badness,' is a feeling that occurs rapidly and automatically, often without consciousness. Zajonc (1980), an early proponent of the importance of affect in decision making wrote, " We do not just see house: We see a handsome house, an ugly house, or a pretentious house" (p. 154) and added "We sometimes delude ourselves that we proceed in a rational manner and weight all the pros and cons of the various alternatives. But this is probably seldom the actual case. Quite often 'I decided in favor of X' is not more than the "I liked X'. We buy the cars we 'like," choose the jobs and houses we find 'attractive,' and then justify theses choices by various reasons." (p. 155)

Statman (1999) described a behavioral asset-pricing model that includes utilitarian factors, such as risk, but also expressive characteristics, such as affect. He illustrated the model with an analogy to the watch market. A $10,000 Rolex watch and a $50 Timex watch have approximately the same utilitarian qualities; both show the same

time. But Rolex buyers are willing to pay an extra $9,950 over the price of the Timex because of the affect of the Rolex, consisting of prestige and perhaps beauty, is more positive than that of a Timex. Affect plays a similar role in the behavioral asset-pricing model. Investors in stocks of admired companies receive some of their reward in the form of returns and some in the form of affect, while investors in stocks of despised companies receive their reward in returns only. Our results show that affect is not free. Investors in stocks of admired companies received lower returns than investors in stocks of despised companies.

We hypothesize that affect tilts the ratings of the Fortune respondents toward admired companies and find evidence consistent with this hypothesis. We asked 501 investors, high net-worth clients of an investment company, to complete a questionnaire listing only the names of companies and a 10-point scale ranging from "bad" to "good". The questionnaire said: "Look at the name of the company and quickly rate the feeling associated with it on a scale ranging from bad to good. Don't spend time thinking about the rating. Just go with your quick, intuitive feeling." The affect score of a company is the mean score assigned to it by the surveyed investors.[2]

We conducted the affect survey in June 2005, between the time Fortune conducted the survey published in 2005 and the survey published in 2006. Figure 3 shows that company affect scores are highly correlated with the corresponding company Fortune scores. The R^2 of the regression of affect scores of companies on their mean 2005 and 2006 Fortune scores is 0.32.

[2] We sent the questionnaire to 900 investors in three groups of 300 each. The list of stocks for each group included approximately one third of the 131 companies in the survey. We received 163 completed questionnaires from the first group, 171 from the second and 167 from the third, for a total of 501.

Slovic et al wrote that the affect heuristic "appears at once both wondrous and frightening: wondrous in its speed, and subtlety, and sophistication, and its ability to 'lubricate reason'; frightening in its dependency upon context and experience, allowing us to be led astray or manipulated – inadvertently or intentionally – silently and invisibly." (p. 419-20) Our results testify to the power of the affect heuristic in the choices of investors, even the sophisticated respondents of the Fortune surveys.

Earlier, Shefrin and Statman (1995) attributed the preference for admired companies to representativeness, a cognitive bias. Kahneman and Tversky (1973) described represnetativeness bias as the tendency to assess likelihood by representativeness of features. For example, people tend to conclude that a man with features more representative of a stereotypical engineer than a stereotypical lawyer is more likely to be an engineer than a lawyer even when they are told that the population from which the man is drawn contains many more lawyers than engineers.

One manifestation of representativeness is a tendency to extrapolate from the past to the future. For example, Fisher and Statman (2000) found that individual investors tend to extrapolate past stock returns, becoming bullish after periods of high stock returns. This is true here as well. Past returns are higher among stocks in the Industry-Adjusted Admired portfolio than among stocks in the Industry-Adjusted Despised portfolio. (See Table 4)

We do not have a conclusive test of the relative powers of affect and representativeness in the preference for stocks of admired companies. It might be that the two work in tandem where, in the words of Slovic et al, affect lubricates reason. However, the high correlation between the affect scores of companies and their Fortune

scores gives the edge to affect. Investors assigned affect score with no explicit knowledge of past returns or other features of companies and their stocks, yet the correlation between affect scores and Fortune scores is high.

Investor preferences and stock returns

The road from the preference of most investor for stock of admired companies to the lower return of such stocks is not straight, as explained by Shefrin and Statman (1995) and more recently by Pontiff (2006). Suppose that most investors are indeed noise traders who believe, erroneously, that good stocks are stocks of good companies. But surely not all investors are noise traders. Some investors are information traders, aware of the biases of noise traders and seek to capitalize on them by investing as "contrarians," favoring stock of despised companies. Would information traders not nullify any effect of noise traders on security prices through arbitrage? If the effects of noise traders on stock returns are nullified, risk adjusted expected returns to stocks of admired companies would be no different from risk-adjusted expected returns to stocks of despised companies. However, if arbitrage is incomplete, risk-adjusted expected returns to stocks of despised companies will exceed risk adjusted expected returns to stocks of admired companies.

As we consider arbitrage and the likelihood that it would nullify the effects of the preferences of noise traders on stock price, we should note that no perfect (risk-free) arbitrage is possible here. To see the implications of imperfect arbitrage, imagine information traders who receive reliable, but not perfect, information about the expected return of a particular stock. Imagine also that the nature of the information is such that

the expected return of the stock as assessed by information traders is higher than the expected return as reflected in the current price of the stock. It is optimal for information traders to increase their holdings of the particular stock, but as the amount devoted to the stock increases, their portfolios become less diversified as they take on more idiosyncratic risk. The increase in risk leads information traders to limit the amount allocated to the stock, and with it, limit their effect on its price. Indeed, the great period-to-period variation in the relative returns of the Admired and Despised portfolios indicates that idiosyncratic risk is high.

Conclusion

Do stocks of admired companies yield admirable returns? We study Fortune magazine's annual list of "America's Most Admired Companies" and find that stocks of admired companies had lower returns, on average, than stocks of despised companies during the 23 years from April 1983 through March 2006. We link differences between the returns of stocks of admired and despised companies to differences in affect, the quick feeling that distinguishes good from bad, admired from despised. The affect of admired companies is positive, and investors who were attracted by affect to stocks of admired companies during April 1983 – March 2006 paid for it with lower returns. However, we do not know if returns of stocks of admired companies would exceed those of despised companies in the next year, the next decade or the next 23 years. We find that the relative returns of stocks of admired and despised companies varied considerably from year to year and from decade to decade. Stocks of admired companies were the winners in some periods and losers in other periods. Moreover, the relationship between

admiration and returns is not always monotonic. Investors lose some of the benefits of diversification when they tilt their portfolios toward stocks of admired companies or despised ones and they must balance the potential benefits of tilts against these losses.

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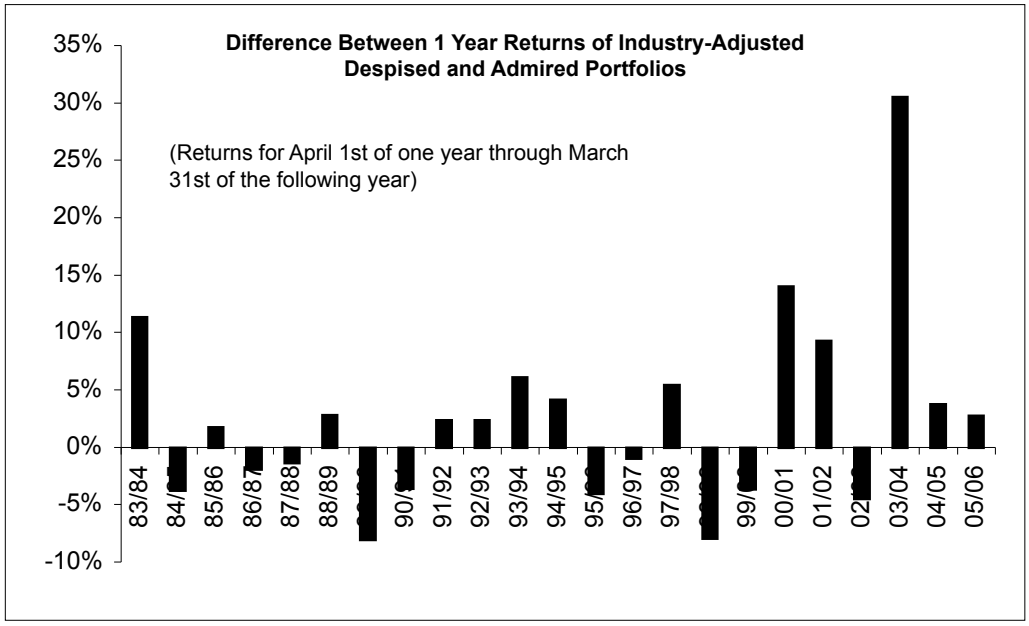
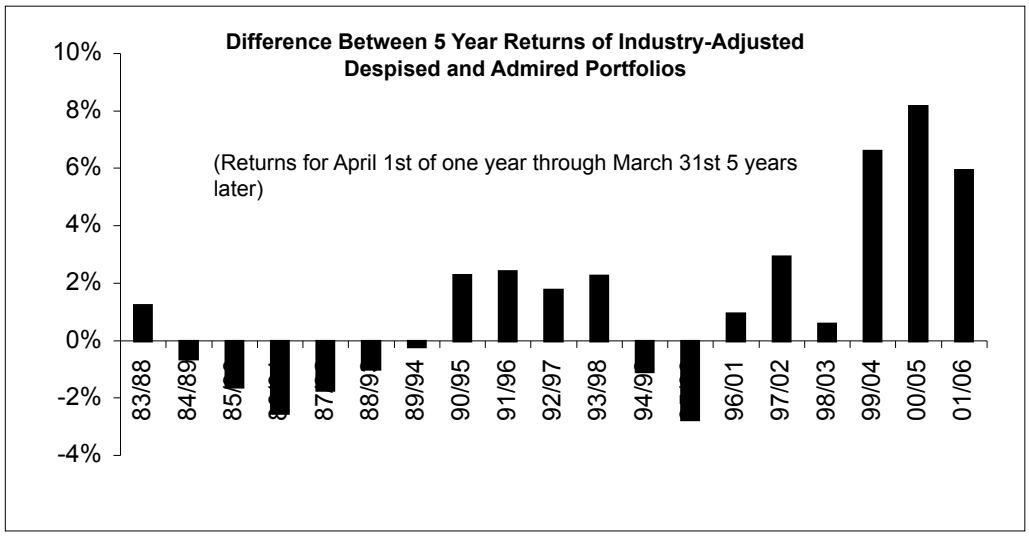
Figure 1: Difference between the return of Industry-Adjusted Despised and Admired portfolios during periods of one, five, and ten years: April 1983 – March 2006.





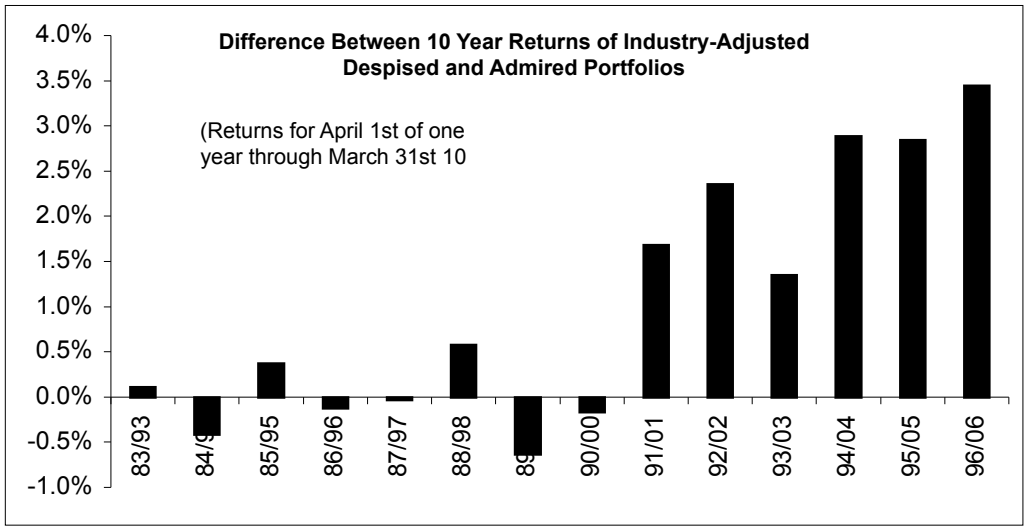
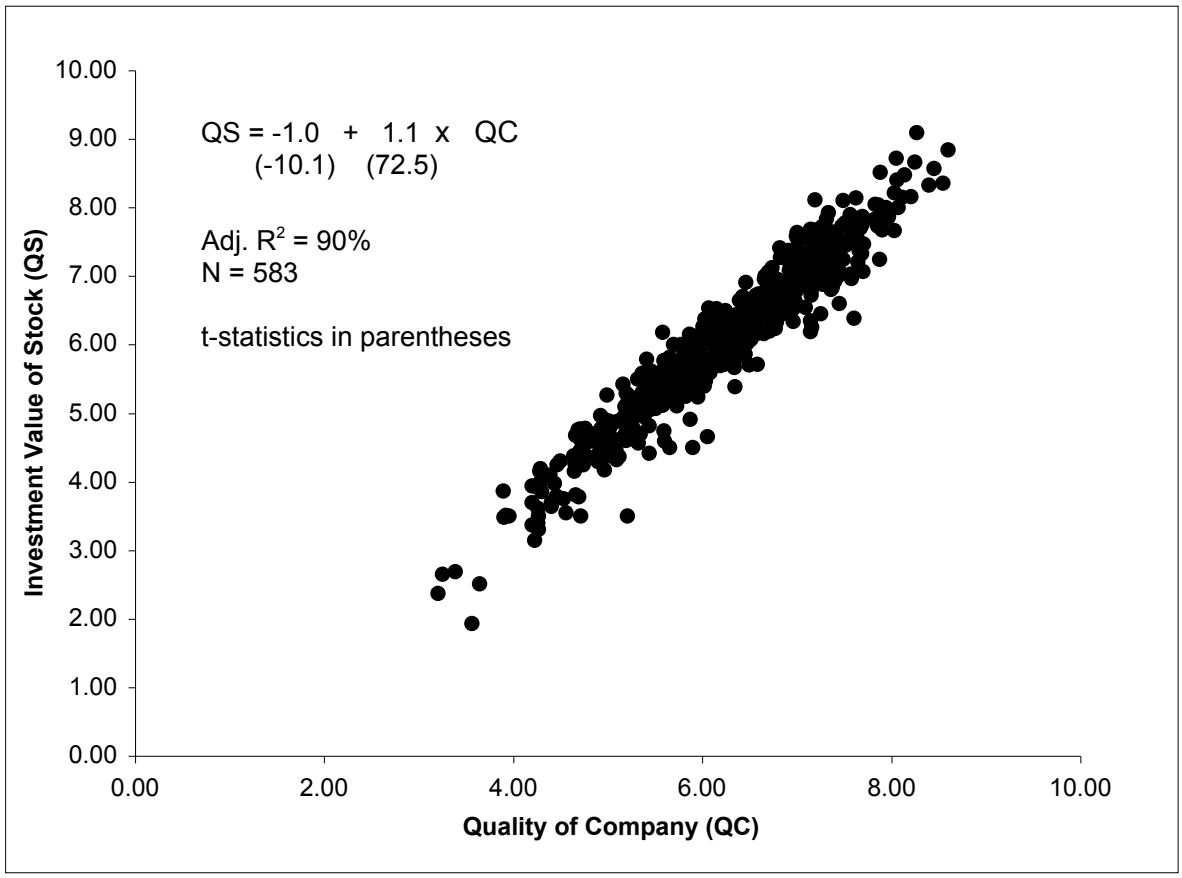


Figure 2: The relationship between the rating of the quality of company by Fortune respondents and the rating of the investment value of its stock: Survey published in March 2006.[1]



[1]Quality of a company is the mean rating on the 7 company attributes in the Fortune survey, quality of management; quality of products or services; innovativeness; financial soundness; ability to attract, develop, and keep talented people; responsibility to the community and the environment; and wise use of corporate assets. Investment value is the rating on the attribtue of long term investment value.

Figure 3: The relationship between Fortune scores of companies and their affect scores

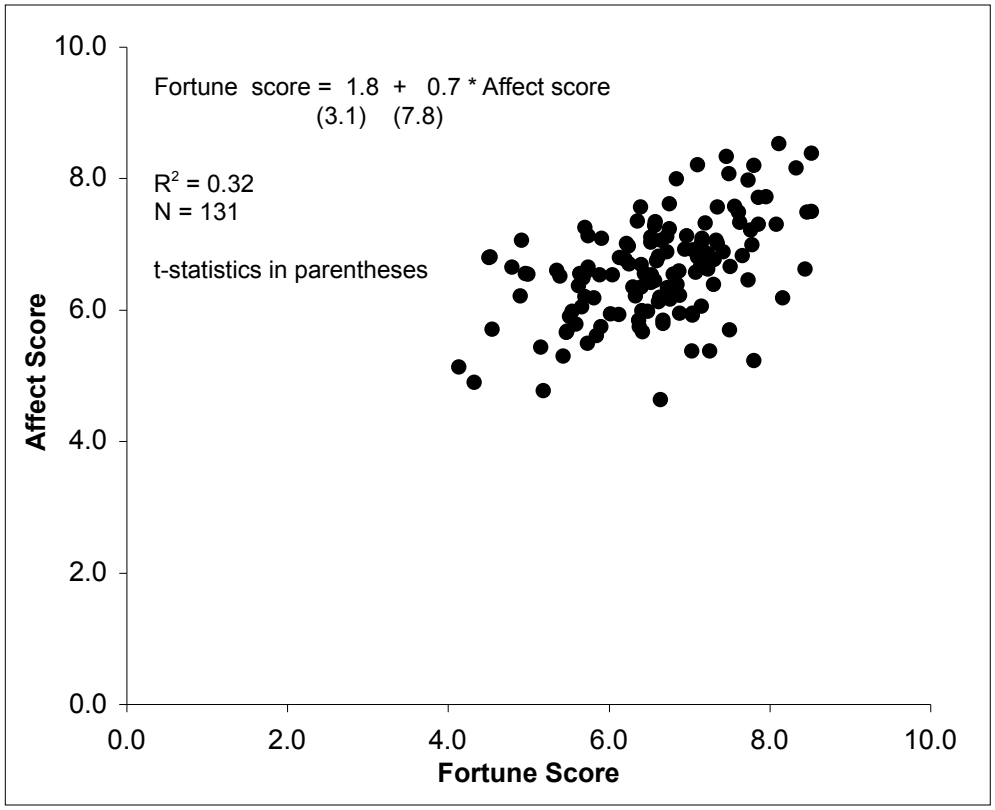


Table 1: Returns of the admired and despised portfolios: April 1983 - March 2006.

Period	Returns of the Industry-Adjusted Despised Portfolio	Returns of the Industry-Adjusted Admired Portfolio	Difference
April 1983 - March 1984	15.52%	4.15%	11.37
April 1984 - March 1985	17.27%	21.00%	-3.73
April 1985 - March 1986	45.94%	44.20%	1.74
April 1986 - March 1987	21.50%	23.44%	-1.94
April 1987 - March 1988	-8.12%	-6.74%	-1.37
April 1988 - March 1989	23.03%	20.18%	2.85
April 1989 - March 1990	4.55%	12.62%	-8.07
April 1990 - March 1991	6.49%	10.08%	-3.59
April 1991 - March 1992	19.51%	17.15%	2.36
April 1992 - March 1993	18.48%	16.08%	2.40
April 1993 - March 1994	9.24%	3.12%	6.12
April 1994 - March 1995	13.15%	9.01%	4.14
April 1995 - March 1996	27.64%	31.67%	-4.03
April 1996 - March 1997	16.58%	17.52%	-0.94
April 1997 - March 1998	49.43%	43.96%	5.47
April 1998 - March 1999	-5.94%	1.98%	-7.92
April 1999 - March 2000	6.44%	10.07%	-3.63
April 2000 - March 2001	18.47%	4.42%	14.05
April 2001 - March 2002	23.28%	14.01%	9.28
April 2002 - March 2003	-28.69%	-24.24%	-4.45
April 2003 - March 2004	80.18%	49.64%	30.54
April 2004 - March 2005	15.94%	12.18%	3.76
April 2005 - March 2006	20.42%	17.64%	2.78
Mean annualized returns: April 1983 - March 2006	17.50%	15.68%	1.82
Mean annualized industry adjusted returns: April 1983 - March 2006	17.84%	15.35%	2.49

Table 2: Returns on portfolios of stocks of the most admired 10% and most despised 10% of companies in the Fortune surveys. A comparison of our results to those of Antunovich et al.

	Most Despised 10%	Most Admired 10%	Difference
Mean annualized returns during 1983-1996 in Antunovich et al's study	11.90%	18.30%	-6.40 pp
Mean annualized returns during April 1983- March 1996 in our replication of Antunovich et al's study[1]	7.97%	17.83%	-9.86 pp
Mean annualized returns during April 1996- March 2006 in our study[1]	26.74%	17.57%	9.17 pp
Mean annualized returns during April 1983- March 2006 in our study[1]	18.73%	14.71%	4.02 pp

[1] Stocks ranked by industry-adjusted Fortune scores.

Table 3: Returns on portfolios of the top and bottom companies by industry adjusted Fortune scores: April 1983 - March 2006

	Mean Annualized Returns		Mean Annualized Returns	Difference
Bottom 10 Stocks	14.32%	**Top 10 Stocks**	18.95%	-4.63 pp
Bottom 11-20 Stocks	21.40%	**Top 11-20 Stocks**	12.22%	9.18 pp
Bottom 21-30 Stocks	20.54%	**Top 21-30 Stocks**	13.35%	7.20 pp
Bottom 31-40 Stocks	17.66%	**Top 31-40 Stocks**	14.07%	3.59 pp
Bottom 41-50 Stocks	14.60%	**Top 41-50 Stocks**	14.90%	-0.30 pp

Table 4: Characteristics of stocks of admired and despised companies.[1]

	Mean Values as of September 30 of each year, 1982 - 2005.	
	Stocks in the Industry-Adjusted Despised Portfolio	**Stocks in the Industry-Adjusted Admired Portfolio**
Returns in the previous 1-year	11.80%	21.04%
Returns in the previous 3-year	35.79%	80.25%
Returns in the previous 5-year	81.43%	176.31%
Market Capitalization ($ millions)	5,725	19,370
Book-to-Market ratio	0.785	0.484
Earnings-to-Price ratio	0.066	0.060
Cash-Flow-to-Price ratio	0.149	0.109
Sales gowth	0.063	0.105

[1]Book equity is in the fiscal year prior to portfolio formation. Earnings-to-price ratio was calculated with earnings in the previous fiscal year and price on September 30 of the portfolio formation year. Cash flow-to-price ratio was calculated with cash flows (Earnings + Depreciation) in the previous fiscal year and price on September 30 of the portfolio formation year. These ratios are set to zero if they are negative. Sales growth is log change in sales during the year ending on September 30. Previous 1, 3 and 5 year returns are buy-and-hold returns during 1, 3, and 5 years prior to the September 30 of the year when the portfolios were formed.

Table 5: Lists of top-10 companies by the rankings of Fortune respondents: Survey published in March 2006

	(a) **Ranking by all Fortune Respondents Regardless of Industry Affiliation**	(b) **Ranking by Score of Fortune Respondents with Industry Affiliation**	(c) **Ranking by Industry-Adjusted Score of Fortune Respondents with Industry Affiliation**
1	General Electric (a,b) (a,c)	United Health Grp (b,c)	United Health Grp (b,c)
2	FedEx	UPS (b,c)	UPS (b,c)
3	Southwest Airlines	Procter & Gamble (b,c)	Exelon
4	Procter & Gamble	Walt Disney	FedEx
5	Starbucks	Exxon Mobil	Worthington Industries
6	Johnson & Johnson	Exelon	Walgreen (b,c)
7	Berkshire Hathaway	General Electric (b,c)	BP America
8	Dell	Walgreen (b,c)	General Electirc (b,c)
9	Toyota Motor	Starbucks (b,c)	Starbucks (b,c)
10	Microsoft	Nordstrom	Procter & Gamble (b,c)

(a,b) denotes companies shared by lists a and b, and notation is similar for (a,c) and (b,c)

Table 6: Dispersion of returns in the industry-adjusted despised and admired portfolios.[1]

Period	Dispersion of Returns in the Industry-Adjusted Despised Portfolio	Dispersion of Returns in the Industry-Adjusted Admired Portfolio	Difference
April 1983 - March 1984	21.52%	18.86%	2.67 pp
April 1984 - March 1985	26.54%	23.19%	3.35 pp
April 1985 - March 1986	39.36%	25.09%	14.26 pp
April 1986 - March 1987	28.96%	33.76%	-4.80 pp
April 1987 - March 1988	27.53%	21.95%	5.57 pp
April 1988 - March 1989	30.16%	17.71%	12.44 pp
April 1989 - March 1990	29.33%	23.76%	5.57 pp
April 1991 - March 1991	32.06%	27.70%	4.36 pp
April 1991 - March 1992	44.79%	31.96%	12.83 pp
April 1992 - March 1993	37.32%	24.19%	13.13 pp
April 1993 - March 1994	29.87%	18.39%	11.48 pp
April 1994 - March 1995	29.33%	21.62%	7.71 pp
April 1995 - March 1996	31.48%	27.54%	3.94 pp
April 1996 - March 1997	36.55%	25.09%	11.45 pp
April 1997 - March 1998	38.47%	37.38%	1.09 pp
April 1998 - March 1999	67.20%	47.45%	19.74 pp
April 1999 - March 2000	69.33%	69.63%	-0.30 pp
April 2000 - March 2001	58.18%	46.01%	12.17 pp
April 2001 - March 2002	51.74%	27.75%	23.99 pp
April 2002 - March 2003	31.12%	23.70%	7.42 pp
April 2003 - March 2004	84.17%	40.86%	43.31 pp
April 2004 - March 2005	39.84%	23.86%	15.98 pp
April 2005 - March 2006	34.19%	27.22%	6.98 pp
Mean	39.96%	29.77%	10.19 pp

[1] Dispersion is the standard deviation of the returns of stocks in a portfolio during the period.

Table 7: Performance of the industry-adjusted Admired and Despised portfolios: April 1983 - March 2006

	Despised Portfolio	Admired Portfolio	Difference
Mean annualized industry-adjusted return	17.84%	15.35%	2.49
Sharpe Ratio[1]	0.19	0.17	0.02

	CAPM-Based Performance[1]		
Alpha	0.30%	0.16%	0.14
t-stat	2.04	1.66	
Market	1.04	1.00	0.04
t-stat	30.70	44.17	
Adj R^2	0.77	0.88	

	4-Factor Based Performance[1]		
Alpha	0.12%	0.06%	0.06
t-stat	1.19	0.76	
Market	1.18	1.10	0.08
t-stat	46.84	54.38	
Small-minus-Big	0.35	-0.03	0.38
t-stat	11.17	-1.36	
Value-minus-Growth	0.58	0.30	0.28
t-stat	15.65	9.96	
Momentum	-0.22	-0.11	-0.12
t-stat	-10.25	-6.23	
Adj R^2	0.91	0.93	

[1]Analysis of monthly data