CFRA Quantitative and Qualitative Equity Research Methodologies

About CFRA

CFRA is a leading independent investment insights and data analytics company. Through a multidisciplinary approach that spans fundamental, forensic accounting, policy, legal, fund, and technical research, CFRA provides actionable analytics to support investment and business decisions.

CFRA was founded 30 years ago as a forensic accounting-focused research firm serving sophisticated institutional investors. In 2016, CFRA acquired the Equity & Fund Research business of S&P Global, a franchise with roots dating to the 1920s. In 2021, CFRA further acquired Lowry Research – the oldest continuously published technical research firm, founded in 1938 – and Washington Analysis, a top-ranked independent research firm founded in 1973 that specializes in regulatory and legal risk arising from U.S. courts, Congress, and regulators.

Today CFRA is one of the world's largest independent research firms, with a global team of more than 90 analysts serving institutional investors, wealth advisors, asset managers, corporations, academics, and governments. This combination of fundamental, forensic, technical, and policy expertise underpins both research disciplines described in this document: CFRA's Qualitative (STARS) equity research and its Quantitative Equity Models.

CFRA Qualitative Research Methodology (STARS)

CFRA's qualitative equity research covers more than 1,600 equities globally through its proprietary STARS (STock Appreciation Ranking System) methodology. STARS is an analyst-driven process designed to deliver long-term outperformance and differentiated idea generation by identifying where a company's fundamentals diverge from the expectations embedded in its share price.

Top-down Analysis

Research begins with top-down economic analysis and market strategy. CFRA's equity team works with its Chief Investment Strategist and economic consultants to form eleven major sector outlooks each quarter, informed by economic indicators, valuation and momentum metrics, forensic diagnostic scores, Lowry's technical sector power rankings, and regulatory/legal risk views from the Washington Analysis team. These sector views cascade into 125 quarterly sub-industry outlooks (rated positive, neutral, or negative) and more than 50 in-depth industry surveys, which apply frameworks such as Porter's Five Competitive Forces and profit-pool analysis to understand industry structure and where profits are likely to emerge or erode.

Company-specific Analysis

At the company level, analysts study how a business generates cash, applying the same competitive-forces and profit-pool lenses used at the industry level. CFRA favors companies capable of generating strong free cash flow growth under management teams with credible track records. Reflecting CFRA's forensic accounting heritage, particular attention is paid to balance sheet and cash flow quality – often a better indicator of long-term financial health than reported earnings alone. Analysts build a proprietary three-statement financial model to assess whether current consensus expectations for a company are too high, too low, or near an inflection point, and they review management's capital allocation history, corporate governance, and insider transactions as additional checks.

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The Expectations Framework

CFRA's central thesis is that excess returns come from having a variant perception versus the market as a whole – correctly identifying where a company's actual fundamentals will differ from the expectations already embedded in its share price. Two complementary disciplines feed this process: forensic accounting, which flags deteriorating earnings quality or inflated cash flows not yet reflected in price, and fundamental analysis, which uses competitive positioning, industry dynamics, and total addressable market analysis to spot mismatches between expectations and reality. Under this framework, weak companies can be good investments if expectations are already low, and strong companies can be poor investments if expectations are too high – the framework is agnostic to “growth” versus “value” style, company size, or industry.

Valuation Framework

CFRA does not apply a single valuation method to every company. Instead, analysts triangulate value using intrinsic valuation – typically a discounted cash flow model built from an integrated three-statement forecast, using a conservative perpetuity-growth terminal value rather than an exit multiple – alongside relative valuation (P/E, price-to-sales, price-to-book, EV/EBITDA, PEG, and similar comparables) and, where relevant, sum-of-the-parts analysis for multi-segment businesses. Analysts also overlay financially material ESG factors – environmental, social, and governance issues judged relevant to long-term cash flow generation – rather than relying on third-party ESG scores. Every covered security receives a published 12-month target price reflecting this blended approach.

Risk Mitigation

Each STARS-covered equity receives a qualitative risk rating of high, medium, or low, reflecting the analyst's view of operational, balance-sheet, leverage, regulatory, and going-concern risk relative to the STARS coverage universe (this is distinct from market-based risk measures such as volatility or beta). Analysts are alerted when a covered company falls into the worst deciles on forensic accounting quality scores, prompting deeper review, and ratings are regularly challenged in cross-sector peer review sessions to reduce cognitive bias.

STARS Ratings

STARS evaluates the expected 12-month total return of a stock relative to a relevant regional benchmark (MSCI US Equally Weighted Index for North America, MSCI Europe Equally Weighted Index for Europe, and MSCI Asia Pacific ex-Japan Equally Weighted Index for Asia). Ratings are assigned across five categories:

Rating	Signal	Definition (12-month total return vs. relevant regional index)
Five-STARS	**Strong Buy**	Expected to outperform the relevant index by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.
Four-STARS	**Buy**	Expected to outperform the relevant index over the coming 12 months, with shares rising in price on an absolute basis.
Three-STARS	**Hold**	Expected to closely approximate the total return of the relevant index over the coming 12 months, with shares generally rising in price on an absolute basis.
Two-STARS	**Sell**	Expected to underperform the relevant index over the coming 12 months, with share price not anticipated to show a gain.
One-STARS	**Strong Sell**	Expected to underperform the relevant index by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

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CFRA Quantitative Research Methodology

CFRA's Quantitative Equity Models apply a “Quantamental” philosophy: a systematic, data-driven framework built on the CFRA Global Quantitative Equity Universe Series (GQEUS), designed to complement – not replace – fundamental research. The models emphasize transparency, alpha generation, limited turnover aligned to a 12–24 month holding period, and comprehensive global coverage across developed and emerging markets.

Model Architecture

Baseline models exist for each of seven regions, and, because financial statement analysis differs materially by business type, each regional universe is further divided into Bank, Non-Bank Financials, and Non-Financials sub-models. The quantitative “scores” within the models are calculated using well understood and proven financial metrics (factors), and comparing a covered stock’s metrics against its peers. Each model combines factors from three components: Quality (earnings quality, profitability, cash flow, and financial health), Valuation (revenue-, income-, and cash-flow-based multiples relative to market cap or enterprise value), and Catalyst (analyst consensus, price targets, EPS revisions, momentum, volatility, and reversal signals).

Quintile Ratings

Final ratings are symmetrically distributed within each model universe, ensuring an equal balance of buy and sell signals:

Rating	Signal	Definition
Q5	**Strong Buy**	Top 10% of model universe.
Q4	**Buy**	Next 20% of model universe.
Q3	**Hold**	Middle 40% of model universe.
Q2	**Sell**	Next 20% of model universe.
Q1	**Strong Sell**	Bottom 10% of model universe.

Comparison Between Qualitative and Quantitative Methodologies

Both methodologies pursue the same objective – identifying mispriced expectations to generate excess, risk-adjusted returns – but they differ substantially in process, scale, and the type of insight each is best suited to capture. CFRA views them as complementary: fundamental judgment provides depth on a focused set of covered companies, while the quantitative models provide systematic, breadth across the broader liquid equity universe.

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Dimension	Qualitative (STARS)	Quantitative (Quant Models)
Core inputs	Company filings, management conversations, industry surveys, forensic accounting diagnostics, three-statement modeling, intrinsic (DCF) and relative valuation.	Third party financial and market data (company intelligence, GICS, market data, financials, estimates) scored across Quality, Valuation, and Catalyst factors.
Rating scale	Five STARS levels: Strong Buy, Buy, Hold, Sell, Strong Sell.	Five quintiles (Q1–Q5): Strong Sell, Sell, Hold, Buy, Strong Buy – symmetrically distributed by model universe.
Benchmark	Relevant regional index (e.g., MSCI US, Europe, or Asia Pacific ex-Japan Equally Weighted Index).	Equal-weighted model universe.
Time horizon	12-month target price; investment thesis may take 1–2 years to fully play out.	Factors targeted to 12–24 month signal decay, matched to model holding-period assumptions.
Update frequency	Updated as company, industry, or event-driven catalysts warrant.	Daily update of all factor data, relative rankings and ratings.
Turnover	Typically low; ratings intended to persist through the investment thesis horizon.	Designed to be low, consistent with the models' 12-24 month signal targets.
Risk framework	Qualitative risk assessment (high/medium/low) reflecting operational, balance-sheet, and going-concern risk, informed by forensic accounting.	Universe-relative common factor risk assessment (e.g. liquidity, volatility, size, leverage, etc.)
Key strength	Depth of company- and industry-specific insight; captures qualitative drivers (management quality, competitive position, catalysts) that data alone may miss.	Objectivity, scalability, and consistency across thousands of securities with minimal manual intervention.
Key limitation	Labor-intensive; limited to covered universe; subject to analyst judgment and potential bias.	Can miss idiosyncratic qualitative factors; subject to overfitting, data quality issues, model drift, and crowding risk.
How CFRA uses them together	Fundamental research draws on forensic accounting and industry expertise to build a differentiated, analyst-driven view of company value.	Described by CFRA as "Quantamental" – quantitative signals are designed to complement, not replace, fundamental research, blending systematic breadth with human insight.

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Disclosure

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