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DEHY RESEARCH · FACTOR STUDY

# The QVC Composite

Quality, Valuation, and a proprietary insider Catalyst — what survives an honest test

June 12, 2026 · dehy.io/research

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ABSTRACT

We test a Quality–Valuation–Catalyst composite on the U.S. equity cross-section (2016–2026), pairing two classic low-turnover factors with DEHY's proprietary insider-conviction signal as the Catalyst. Using point-in-time data, non-overlapping holding periods, and net-of-cost and sector-neutral checks, we report what survives rigor rather than what looks best. The durable, harvestable edge is a within-sector Valuation tilt; Quality's headline strength is largely a sector bet; and the insider signal is a genuine freshness overlay rather than a standalone source of return.

## 01 Introduction

A composite stock-selection model blends factors with low mutual correlation into a single signal. We follow the conventional Quality / Valuation / Catalyst spine, with one difference: our Catalyst is a proprietary, filing-derived insider-conviction score rather than a sell-side sentiment factor. This study asks a deliberately skeptical question — after costs, after sector effects, and out of sample, what part of the composite is real?

## 02 Investment Philosophy

Our philosophy is quantamental: systematic factor construction disciplined by an honest reading of what the evidence supports. We prefer low-turnover factors with persistent return drivers, we validate each leg on its own before combining, and we publish limitations alongside results.

- **Quality —** Margins, return on assets, free-cash-flow margin, and low leverage.
- **Valuation —** Earnings, sales, and free-cash-flow yields — cheapness against price.
- **Catalyst —** DEHY's insider-conviction score over recent purchases — the proprietary, freshness-sensitive leg.

## 03 Methodology

- **Universe & cadence —** Every issuer with annual financials and price coverage (~3,100 names per quarter); quarterly rebalance, 2016–2026.
- **Point-in-time —** Financials are lagged by a reporting-availability window; forward returns are measured from the rebalance date. No look-ahead.
- **Construction —** Each leg is cross-sectionally z-scored; the composite is the equal-weight blend. We sort into quintiles and measure the top-minus-bottom spread.
- **Metrics —** Information Ratio, quarterly turnover, and returns net of a 25 bps round-trip cost — plus long-only and sector-neutral robustness checks.

## 04 Results

As a long-short factor model the composite is strong and survives cost. But the long-short spread is concentrated in the short leg — distressed, low-quality names that are difficult to borrow and trade — so the decision-relevant question is how the long side behaves against a fair benchmark.

| Leg | Gross IR | Net IR | Quarterly turnover |
|---|---|---|---|
| **Quality** | 2.75 | 2.70 | 26% |
| **Value** | 1.14 | 1.11 | 29% |
| **Catalyst (insider)** | 0.10 | −0.01 | 21% |
| **QVC blend** | 2.56 | 2.46 | 44% |

*Figure 1 — Long-short factor results (2-quarter hold, net of 25 bps). IR = Information Ratio.*

**Where the spread really lives**

Every top-quintile basket underperformed a large-cap index over this window because the factor universe skews small- and mid-cap and the market was mega-cap-led. The long-short numbers are real but lean heavily on shorting distressed small-caps; we do not lead with them.

## 05 The Decisive Test: Sector Neutralization

To separate genuine stock selection from sector bets, we demean each factor within its sector before ranking, then measure the size-screened top quintile against the equal-weight universe.

| Leg | Raw excess (IR) | Sector-neutral (IR) | Verdict |
|---|---|---|---|
| **Value** | +5.4% (0.81) | +4.9% (0.80) | Survives — genuine |
| **QVC blend** | +5.0% (0.76) | +4.0% (0.71) | Survives (rides Value) |
| **Quality** | +2.6% (0.92) | +0.0% (0.01) | Was a sector bet |
| **Catalyst** | −0.8% (−0.35) | −0.1% (−0.03) | Overlay only |

*Figure 2 — Top-quintile excess vs. the equal-weight universe, ≥ $2B, before and after sector-neutralization.*

**The honest conclusion**

Within-sector Valuation is the durable, harvestable edge — roughly +4–5% per year over the equal-weight cross-section at an Information Ratio near 0.8, with low turnover and market-matching behavior versus the small-cap index. Quality’s apparent strength was largely a sector tilt. The insider Catalyst is a freshness and conviction overlay on a Quality-plus-Value base, not a standalone source of alpha.

## 06 Strengths and Limitations

- **Rigorous by construction —** Point-in-time data, non-overlapping holding periods, net-of-cost accounting, and sector-neutral and long-only checks before any claim is made.
- **Honest about the short leg —** We report that the long-short spread depends on a hard-to-trade short book and present the long-only, size-screened result as the decision-relevant one.

- **Limitation — regime length —** A single 2016–2026 sample spans one broad regime; results should be read as indicative, not as a guarantee across all market environments.
- **Limitation — capacity —** The edge is strongest in small- and mid-caps, where capacity and liquidity constrain how much capital can be deployed.

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