Our Position Scoring System

2021-05-26 | Di Iorio Family Wealth

One year ago we published a blog called Our Methodology - The DM5. In that post, we presented the five core rules that make up the methodology we apply to all aspects of our business. The overall theme of the methodology is simple: limit the use of emotions, and prioritize the use of planning, procedures, and facts.

In the first half of 2020, it was difficult to look past the fear – and the resulting volatility – arising from the pandemic. We believe that staying true to our methodology helped us to remain level-headed, and outperform the market by a wide margin.

One of the components of the DM5 is The Pre-Established Game Plan rule. As outlined in the blog post:

"As much as possible, we try to implement scenario analysis into our day-to-day activities. This means we like to have action plans in place for what we will be doing, and when we will be doing it, under various potential scenarios for the future. […] From an investment standpoint, this requires a systematic approach to idea generation, investment evaluation, and portfolio maintenance." We went on to say how we could devote an entire blog post to the topic of our approach to investment selection and sizing, and that is exactly what we have decided to do.

When it comes to selecting investments, we are constantly maintaining a pool of ideas. We build this pool from various sources, including: third-party AI data, analyst research, and our own scouring of the investment universe.

The next, and most important aspect of our investment process, is the scoring and selection of the pool of potential investments. We have developed a scoring system which rates a potential investment across various categories, and we use these scores to select which names make it into the portfolio. We also use the same system to assign ratings to names inside of the model, and those ratings allow us to decide how much of a weighting our various investments receive.

Our scoring system is made up of six main groups, which are sub-divided into various categories in which a potential investment can earn points. Without diving too deep into how we decide on the point allocation, we have decided to share (for the first time publicly) the various categories we use to score an investment:

Many of these categories are quite broad, or may seem somewhat vague. Additional depth to the system comes from the assigned weightings for each category, as well as the defined process for determining scores. This system is also not static, as it can and has evolved over time to include new factors, and to be re-prioritized based on our own experience.

As always, if you are curious about our scoring methodology, or about anything else relating to our investment process, we are always happy to share. Please feel free to reach out to us at any time.

Sincerely,
Di Iorio Family Wealth