Morningstar® Investment Research Center℠

Introducing Morningstar's Quantitative Equity Ratings

We're introducing Morningstar's quantitative equity ratings, a new tool that allows to greatly expand our stock research coverage. The rating, available in your Morningstar Investment Research Center, is denoted by a superscript Q, and can be found on our redesigned stock quote pages and in our stock screener.

With about 120 equity and credit analysts, Morningstar has one of the largest independent equity research teams in the world, covering approximately 1,000 equities in the U.S., using a consistent methodology that focuses on fundamental analysis, competitive advantage assessment, and intrinsic value estimation. But even with this deep coverage, we're not able to cover every stock that our users own or want to do more research on. To that end, we've introducing quantitative equity ratings generated by a statistical model that is based on Morningstar's analyst-driven equity ratings. In essence, the quantitative valuation algorithm attempts to divine the characteristics of stocks that most differentiate the overvalued stocks from the undervalued stocks as originally valued by our team of human equity analysts. Once these characteristics have been found, and their impact on our analyst-driven valuations has been estimated, we can apply our model beyond the universe of analyst-covered stocks.

The quantitative rating extends to more than 50,000 companies in 86 countries that trade on 64 exchanges, including 12,000 firms traded in the U.S.

What It Means for Investors

By introducing quantitative equity ratings, we are extending a useful tool to thousands of securities around the world that might otherwise not be analyzed. A forward-looking quantitative assessment rooted in our analyst process, the quantitative ratings are relative to the full investment universe, each country, and each sector, which helps investors evaluate the most attractively priced stocks in each category. The quantitative equity ratings also provide additional benefits beyond our qualitative research, including the ability to analyze portfolios by aggregating data and providing history on a daily frequency to track changes over time.

Quantitative Equity Ratings Descriptions

Our ratings are composed of the Quantitative Fair Value Estimate, Quantitative Valuation ratio, Quantitative Economic Moat Rating, and Quantitative Uncertainty.

Quantitative Fair Value Estimate: Morningstar's Quantitative Fair Value Estimate is our estimate of the per share dollar amount that a company's equity is worth today. Morningstar calculates the Quantitative Fair Value Estimate using a statistical model derived from the fair value estimate our equity analysts assign to companies.

Quantitative Valuation ratio: The Quantitative Valuation is the ratio of a stock's Quantitative Fair Value Estimate to its most recent close price and is similar to the analyst-driven fair value estimate to last market close price ratio. The rating is expressed as overvalued, fairly valued, and undervalued.

Quantitative Economic Moat Rating: The Quantitative Economic Moat Rating is analogous to Morningstar's Economic Moat Rating in that both are meant to describe the strength of a firm's competitive position. It is calculated using an algorithm designed to predict the economic moat rating a Morningstar analyst would assign to the stock. The quantitative rating is expressed as none, narrow, and wide.

Quantitative Uncertainty: Any equity valuation involves some degree of uncertainty. Quantitative Uncertainty describes our level of uncertainty about the accuracy of our Quantitative Fair Value Estimate. In this way, it is analogous to Morningstar's Uncertainty Rating. The lower the Quantitative Uncertainty, the narrower the potential range of outcomes for that particular company. The rating is expressed as low, medium, high, very high, and extreme.

How Are Quantitative Ratings Different?
Although our quantitative ratings are based on our traditional analyst-assigned ratings, they also differ in some important ways.

First, stocks with quantitative ratings won't feature analyst reports like our firms under analyst coverage. Instead, you'll be able to see the quantitative data points (fair value, valuation, economic moat, and uncertainty).

Second, those data points will be updated daily as new data flows into the model versus the periodic updates seen in our analyst coverage. That means the quant rating will respond to market news, like earnings or a merger, in a different way. For analyst-covered stocks, you can expect the analyst to respond to the news with a stock analyst note and then adjust his or her fair value estimate and other data points based on the news. On the other hand, the quant rating is using a number of market-based and fundamental inputs to predict how an analyst would react if they did cover the firm. So, in some cases, the quantitative ratings will be more likely to move gradually versus the step changes an analyst would make.

Remember though, no valuation is an exact point estimate. There is always uncertainty embedded in any estimate, due to the uncertainty around our model and the uncertainty in the inputs themselves. The ratings seek to present the range of possible valuation outcomes for a company.

How do I differentiate quantitative ratings from qualitative ratings?
Quantitative ratings are denoted with a superscript Q. Here are a few examples of how the quantitative ratings will be displayed:

Gold Q Silver Q Bronze Q Neutral Q Negative Q

How do I use the stock screening tool to generate a list of companies that are covered by quantitative ratings?
If you want to generate a list of stocks that have quantitative rather than qualitative ratings, you can choose "Morningstar Analysis Available = No" from the dropdown list of data points to screen on.

From there you can add any additional filters you choose to further qualify your list.

Note: in the screener you will not see the superscript Q next to data points.