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THE PREHN INSTITUTE | RESEARCH

Published July 17, 2026

I Analyzed All 5,636 US Stocks. Only 11 Passed.

A five-filter quality framework applied to every stock listed in the United States — and what the results tell us about risk, opportunity, and the hidden cost of passive investing.

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REPORT SCOPE

Plain-English explanation of the video.

RATING

None

PRICE TARGET

None

BOTTOM LINE:

We applied a rigorous five-factor quality test — covering profitability, competitive moat, cash generation, financial stability, and valuation — to all 5,636 US-listed stocks. Only 123 companies (2.9%) passed all five filters with an elite score. Just 11 companies (0.2%) scored above 80 out of 100. The vast majority of publicly traded stocks in America fail at least one fundamental quality test. This report details our methodology, the results, the 11 highest-scoring companies, and a simple three-question framework any investor can use to evaluate stocks on their own. Our analysis suggests that passive index investing, while convenient, forces investors to own a large volume of fundamentally weak companies alongside a tiny minority of truly strong businesses. We believe understanding quality is the first step toward smarter portfolio construction.

About Felix Nikolas Prehn and The Prehn Institute

Felix Nikolas Prehn

Felix Nikolas Prehn is an economist and former investment banker. He writes and lectures on how the financial markets work, with a focus on how ordinary savers can protect what they have built.

The Prehn Institute

Felix Nikolas Prehn is the founder of The Prehn Institute. It publishes research on the financial markets and provides instruction in how they work. It gives no financial advice.

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PART I — THE BIG PICTURE

The Problem: What You Actually Own When You Buy the Index

The Assumption. The conventional wisdom tells investors to buy the index — a broad basket of US stocks — for safety, diversification, and long-term growth. It is the advice given by nearly every financial commentator, robo-advisor, and retirement plan. And for many people, it is a reasonable starting point.

The Reality. What that advice does not tell you is what you actually own when you buy the index. When you purchase a total US stock market fund, you are not just buying the strongest companies in America. You are buying all 5,636 of them — the exceptional, the mediocre, and the outright awful. Every zombie company burning cash. Every speculative shell with no revenue. Every declining business that hasn't turned a profit in years. They are all in there, weighted alongside the winners.

The Maths. Our analysis of the entire US-listed stock universe — 5,636 companies — found that only 4,235 had sufficient financial data to score. Of those, only 123 (2.9%) achieved an elite quality score of 70 or above. Just 11 companies — 0.2% of the total — scored above 80. The median score across the entire universe was 40 out of 100.

That means when you buy the index, you are paying to own thousands of companies that fail basic quality tests. That is not diversification — it is dilution.

2.9%

of US stocks pass all five quality filters — 123 out of 5,636

0.2%

score above 80 — just 11 companies out of 5,636

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PART I — THE BIG PICTURE

Market Concentration: The Most Top-heavy Market Since the Dot-com

BUBBLE

A Narrow Market. The current US stock market is experiencing its highest level of concentration in over two decades. The top 10 companies in the S&P 500 now account for approximately 36–40% of the entire index's market capitalisation. That is up from 23% in 2000 and 19% in 2015. This level of concentration means a passive index investor's returns are increasingly determined by the performance of a tiny handful of mega-cap companies.

Why This Matters for Risk. When a small number of stocks dominate the index, the investor is exposed to significant idiosyncratic risk. An earnings miss or regulatory action against a single company — such as NVIDIA, Apple, or Microsoft — can disproportionately drag down the entire index. This is not the broad-based diversification that investors believe they are getting.

Equal Weight vs Market Cap. The divergence between the S&P 500 (market-cap weighted) and the S&P 500 Equal Weight Index has reached historic extremes. The market-cap-weighted version outperformed the equal-weight version by the widest margin since 1971 over the 2023–2025 period — driven almost entirely by the "Magnificent Seven" technology stocks. In early 2026, this gap has begun narrowing as market breadth expands, with over 60% of S&P 500 stocks outperforming the index year-to- date. However, the structural concentration remains elevated.

The Passive Feedback Loop. Massive inflows into passive index funds create a self-reinforcing cycle: money flows into the fund, which must buy stocks in proportion to their existing weight, which pushes the largest stocks higher, which increases their weight further. This means the biggest stocks get bigger regardless of whether their fundamentals justify it — simply because more money is flowing into passive vehicles.

Year	Top 10 Weight in S&P 500	Context
2015	~19%	Post-financial-crisis recovery; broad market participation
2000	~23%	Dot-com peak; previous record concentration
2024	~38%	AI-driven mega-cap rally
2026 (current)	~36–40%	Most concentrated market in modern history

Source: Visual Capitalist (2026), RBC Wealth Management, Benzinga (May 2026)

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PART I — THE BIG PICTURE

Academic Evidence: Bessembinder and the 4% Rule

The Research. Our framework is supported by one of the most important academic studies in modern finance. Professor Hendrik Bessembinder of Arizona State University analyzed every US common stock listed between 1926 and 2023 — over 29,000 companies. His finding was striking: just 4% of all stocks accounted for the entirety of net wealth creation above Treasury bills. The remaining 96% collectively returned the same as cash.

Most Stocks Lose Money. Approximately 51.6% of all stocks in the study had negative compound lifetime returns. The single most common outcome for an individual stock was a total loss of 100%. The median lifespan of a publicly traded company was just seven to eight years.

Extreme Concentration of Returns. The top 72 companies — roughly 0.26% of all listings — accounted for half of all shareholder wealth created since 1926. This extreme positive skewness means the average return of the market is pulled up by a tiny number of "home run" stocks, while the typical stock

- ✓ the one most investors actually hold — performs far worse than the market average.

What This Means for You. If most stocks underperform cash, and a tiny fraction drive all the returns, then the ability to identify quality — to find the companies in that winning 4% — is not a luxury. It is the core skill of investing. Our five-filter framework is designed to do exactly that: separate the 3% that matter from the 97% that do not.

Key Finding: Just 4% of all US stocks created all net wealth above Treasury bills since 1926. The other 96% collectively matched the return of cash.

Source: Bessembinder, H. (2018). "Do Stocks Outperform Treasury Bills?" Arizona State University.

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PART II — THE FIVE-FILTER FRAMEWORK

Overview: How We Grade a Business

The Philosophy. "We look neither for value stocks, nor for growth stocks. We look for quality stocks." That is the principle behind everything that follows. A great company is not the same as a great stock. A company with extraordinary fundamentals can still be a terrible investment if the price is absurd. And a stock that goes up is not necessarily a good business

- ✓ it may simply be the beneficiary of hype, momentum, or passive fund flows.

The Five Filters. Our scoring system runs every US- listed stock through five fundamental quality tests. Each filter examines a different dimension of business strength. A company must demonstrate quality across all five to receive an elite score. The five filters are:

1. Profitability — Does the business actually make money? (Gross margin, ROIC, operating margin)
2. Competitive Moat — Does it have a durable advantage that competitors cannot easily erode? (Consistency of high returns over time)
3. Cash Generation — Is the cash real? (Free cash flow margin, cash conversion)
4. Financial Stability — Can it survive a bad year? (Leverage, interest coverage, debt ratios)
5. Valuation — Are you paying a sane price? (P/E, price-to-cash-flow relative to sector)

How to Read the Score. Each stock receives a composite score from 0 to 100. Scores above 70 are "elite" — the top 2.9%. Scores above 80 are "truly elite" — the top 0.2%. The median US stock scores

1. A low score does not necessarily mean the company is a fraud — it means it fails at least one quality test that serious investors use to evaluate a business.

Sector Context. Each filter is applied with awareness of sector norms. A 20% gross margin might be acceptable for a retailer but catastrophic for a software company. Valuation is compared to sector peers, not to a universal threshold. This prevents false positives and false negatives driven by sector differences.

Score Range	Classification	Count (of 5,636)	% of Market
80–100	Truly Elite	11	0.2%
70–79	Elite		2.7%
50–69	Above Average	~900	~21%
Below 50	Below Median / Failing	~3,200	~76%
Not Scoreable	Insufficient Data	1,401	—

Source: Winston US Stock Export, July 2026

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PART II — FILTER 1

Filter 1: Profitability — Does It Actually Make Money?

Case Study: NVIDIA vs Intel

What This Filter Catches. Profitability is the foundation. Before we consider anything else, we need to know: does this business make money on what it sells? We examine gross margin (how much profit is left after the cost of making the product), return on invested capital (ROIC — how efficiently the company turns capital into profit), and operating margin (profit after all operational costs).

Why NVIDIA Passes. NVIDIA is one of the most profitable businesses in the world. It earns a 71% gross margin — meaning for every dollar of revenue, 71 cents is profit before operating expenses. Its return on invested capital is approximately 63%, which means every dollar the company puts to work generates 63 cents of annual profit. This is extraordinary by any standard, and reflects both the dominance of its AI chip architecture and the strength of its pricing power.

Why Intel Fails. Intel operates in the same semiconductor sector. It has benefited from significant US government investment through the CHIPS Act, and its stock price has rallied on bullish sentiment. But underneath the price action, the fundamentals tell a different story. Intel's return on invested capital has been negative — meaning it is destroying value on its own money. Its gross margin has compressed to approximately 35%, and its free cash flow margin is negative at roughly −6%. The price went up, but the business did not improve.

The Lesson. This is why we separate the business from the stock. Two companies in the same sector, riding the same narrative (AI chips, US semiconductor independence), can have completely opposite financial realities. The price does not tell you which one is real.

Metric	NVIDIA (NVDA)	Intel (INTC)
Winston Score	82	13
Gross Margin	71%	35%
ROIC	63%	−3%
FCF Margin	45%	−6%
Interest Coverage	503×	−4.8×
P/E Ratio		Negative earnings

Source: Winston, July 2026

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PART II — FILTER 2

Filter 2: Competitive Moat — Can Competitors Kill It?

Case Study: Mastercard vs PayPal

What This Filter Catches. A moat is a durable competitive advantage — something that prevents competitors from eroding a company's profits over time. Moats come in several forms: cost advantages, economies of scale, high switching costs, patents, brand power, or network effects. We look for high, consistent returns year after year as the clearest evidence that a moat exists and is holding.

Why Mastercard Passes. Mastercard owns the payment rails. It operates a global transaction network that connects banks, merchants, and consumers across virtually every country on Earth. Every time a card is tapped — at a coffee shop in Tokyo, a petrol station in Texas, or an online checkout in Lagos — Mastercard takes a small fee. Its gross margin is near 100%, its ROIC is 61%, and these numbers have been remarkably consistent for years. Nobody can build a competing global payment network overnight. That is what a real moat looks like.

Why PayPal Fails. PayPal was once the undisputed digital payments leader — the original online wallet. But its competitive moat has been eroding from every direction. Apple Pay from one side. Buy Now Pay Later services from another. Shop Pay from Shopify. Google Pay. Local payment platforms in emerging markets. The gross margin has slipped below 46% and continues to decline. Revenue growth is increasingly coming from lower-margin processing segments. PayPal is not a bad business — but its competitive position is weakening, and the numbers show it.

The Lesson. A moat is not static. It can erode. What matters is whether the company's structural advantage is growing stronger or weaker over time. The financials — especially multi-year return on capital trends — tell you which direction it is heading.

Metric	Mastercard (MA)	PayPal (PYPL)
Winston Score	72	57
Gross Margin	~100%	46%
ROIC	61%	15%
FCF Margin	52%	16%
Interest Coverage	27×	18×
P/E Ratio		

Source: Winston, July 2026

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PART II — FILTER 3

Filter 3: Cash Generation — Is the Money Real?

Case Study: Robinhood vs Rivian

What This Filter Catches. Revenue is what a company bills. Cash is what it actually collects. Many companies report impressive revenue growth while burning through cash every quarter. This filter examines free cash flow — the actual cash left over after the company pays for everything it needs to run and grow the business. If a company is not generating real free cash flow, its survival depends on continued access to capital markets, which is never guaranteed.

Why Robinhood Passes. Robinhood started as a meme-stock trading app that many investors did not take seriously. But it has quietly matured into a genuinely profitable business. It now generates a free-cash-flow margin of approximately 47% — meaning nearly half of every dollar of revenue ends up as real cash in the door. It has transitioned from a speculative growth story into a company that makes money. The maths have caught up with the narrative.

Why Rivian Fails. Rivian is one of the most talked- about electric vehicle companies. It makes a beautiful truck. But beautiful trucks do not pay the bills — cash does. Rivian's free-cash-flow margin is approximately −45%. It burned $2.49 billion in free cash flow in 2025 and continued burning in 2026. The company's CEO has publicly defended the cash burn as "the cost of building a very large company." That may be true. But until the maths change, Rivian is not a business — it is a bet on someday.

The Lesson. Two companies, both labelled "disruptors," both with passionate fan bases. One grew up into a cash machine. One is still burning through money to stay alive. The story is the same. The cash is not.

Metric	Robinhood (HOOD)	Rivian (RIVN)
Winston Score	71	18
Gross Margin	82%	−2%
ROIC	19%	−31%
FCF Margin	47%	−45%
Interest Coverage	97×	−28×
P/E Ratio		Negative earnings

Source: Winston, July 2026

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PART II — FILTER 4

Filter 4: Financial Stability — Can It Survive a Bad Year?

Case Study: Fortinet vs Snowflake

What This Filter Catches. Markets crash. Recessions happen. Customers delay purchases. Interest rates spike. This filter asks a simple question: if the worst happens, can this company survive? We examine leverage (how much debt the company carries relative to its assets), interest coverage (how many times over the company can pay its interest obligations from earnings), and overall balance-sheet strength.

Why Fortinet Passes. Fortinet is a cybersecurity company with a fortress balance sheet. It earns its interest obligations more than 100 times over — an interest coverage ratio of 114×. That means even if Fortinet's revenue dropped dramatically, it would still have an enormous cushion to cover every dollar it owes. Its debt-to-assets ratio is under 10%. This company is nearly unkillable from a financial stability perspective.

Why Snowflake Fails. Snowflake is a cloud data platform that generates substantial buzz among investors and technology enthusiasts. But its financial stability tells a different story. Snowflake has negative interest coverage — it is not earning enough from operations to comfortably cover its obligations. Its debt-to-equity ratio has risen from 0.06 in 2024 to 1.42 in 2026. Its operating margin remains deeply negative at approximately −28%. This is a company that is growing revenue but has not yet demonstrated the ability to weather a storm.

The Lesson. Growth without stability is fragile. In a rising market, both Fortinet and Snowflake might look equally appealing. But when the market turns — and it always turns — only one of them has the balance sheet to survive it.

Metric	Fortinet (FTNT)	Snowflake (SNOW)
Winston Score	76	27
Gross Margin	81%	67%
ROIC	34%	−30%
FCF Margin	34%	24%
Interest Coverage	114×	−87×
P/E Ratio		Negative earnings

Source: Winston, July 2026

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PART II — FILTER 5

Filter 5: Valuation — Are You Overpaying?

Case Study: AppLovin vs Tesla

What This Filter Catches. This is the test that catches people off guard, because it separates the question of "is this a good business?" from "is this a good investment at this price?" A company can pass every quality filter — profitability, moat, cash, stability

- ✓ and still be a terrible investment if the price is too high. This filter examines price-to-earnings (P/E), price-to-cash-flow, and other valuation ratios relative to the company's sector.

Why AppLovin Passes. AppLovin is an AI-powered advertising technology platform. It is a genuine high- growth business with exceptional fundamentals: over 65% ROIC, a 71% free-cash-flow margin, and an 88% gross margin. And here is the surprise: despite being a high-growth darling, it is still priced sanely relative to what it earns. Its P/E of 53 is high in absolute terms but justified by its extraordinary capital efficiency and cash generation. The maths actually work. Remember this name — it appears again in the Elite 11.

Why Tesla Fails. Tesla is perhaps the most famous stock in the world. It has a passionate following and a visionary CEO. But the valuation tells a stark story. Tesla's P/E ratio is north of 300, while its gross margin sits at just 19%. To put that in simple terms: for every dollar Tesla sells, it keeps 19 cents before any other expenses. But the stock is priced as if it keeps many times that. At this valuation, you are not buying a business — you are paying for a narrative. The narrative may eventually come true. But the price assumes it already has.

The Lesson. Hype is not the enemy. Overpaying is the enemy. AppLovin proves that a high-growth stock can be the real thing and still be priced sanely. Tesla proves that a company everyone loves can be priced so aggressively that the investment case collapses under its own weight.

Metric	AppLovin (APP)	Tesla (TSLA)
Winston Score	85	42
Gross Margin	88%	19%
ROIC	65%	3%
FCF Margin	71%	7%
Interest Coverage	23×	14×
P/E Ratio		300+

Source: Winston, July 2026

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PART III — THE RESULTS

The Collapse: 5,636 Down to 11

The Funnel. When all five filters are applied in sequence to the entire US stock universe, the number of qualifying companies collapses rapidly. Of 5,636 US-listed stocks, only 4,235 have enough financial data to score. After applying profitability filters, thousands fail. Moat consistency eliminates more. Cash generation, stability, and valuation each remove another tranche.

The Survivors. At the end of the process, 123 companies — 2.9% of the total market — achieve a score of 70 or above. These are the elite. But only 11 companies score above 80.

These are the truly elite

- ✓ companies that pass every quality test at an exceptional level.

What the Index Owns. Every time an investor buys a total US stock market index fund, they are purchasing all 5,636 companies — the 11 that are truly elite, the 112 that are merely elite, and the more than 5,500 that fail at least one fundamental quality test. The investor is paying to own them all, with no discrimination.

Stage	Companies Remaining	% of Total
Total US-listed stocks	5,636	100%
Sufficient data to score	4,235	75.1%
Score 50+ (Above Average)	~1,023	~18%
Score 70+ (Elite)		2.9%
Score 80+ (Truly Elite)		0.2%

Source: Winston, July 2026. Median score: 40.

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PART III — THE ELITE 11

The Elite 11: Complete Breakdown

The Surprise. The most striking result is not the scores themselves — it is the names. Most of the Elite 11 are not mega-cap household names. Only two (NVIDIA and AppLovin) are widely discussed in mainstream financial media. The rest are fintech companies, insurance specialists, ad-tech platforms, a biotech firm, a clinical research organisation, and a dating app. These are the kinds of companies most retail investors have never heard of — let alone own.

What This Tells Us. The quality test does not care about fame. It does not care about Twitter followers, TikTok mentions, or CNBC airtime. It cares about margins, cash, stability, and price. The businesses with the strongest fundamentals in the US market right now are overwhelmingly companies that the average investor would walk right past.

Rank	Ticker	Company	Sector	Score	Gross Margin	ROIC	FCF Margin	Int. Cov.	P/E
1	SLDE	Slide Insurance	Insurance	88	—	—	—	—	—
	APP	AppLovin	Ad Tech			88%	65%	71%	23×
	SEZL	Sezzle	Fintech			—	—	—	— —
	HG	Hamilton Insurance	Insurance			—	—	—	— —
	NVDA	NVIDIA	Semiconductors			71%	63%	45%	503×
	TTD	The Trade Desk	Ad Tech			—	—	—	— —
	DAVE	Dave	Fintech			—	—	—	— —
	DSP	Viant Technology	Ad Tech			—	—	—	— —
	GRND	Grindr	Technology			—	—	—	— —
	KRYS	Krystal Biotech	Biotech			—	—	—	— —
	MEDP	Medpace	Healthcare Services			—	—	—	— —

Source: Winston, July 2026. Detailed financials shown where used in video companion analysis; full metrics available in the Winston app.

Sector Concentration. It is notable that the Elite 11 are dominated by three sectors: ad-tech/digital advertising (AppLovin, The Trade Desk, Viant Technology), fintech (Sezzle, Dave), and insurance (Slide, Hamilton). This concentration reflects where the strongest combination of high margins, strong moats, real cash generation, and reasonable valuations currently exists in the US market.

No Mega-Cap Dominance. Only one of the traditional mega-cap technology companies — NVIDIA — appears in the list. Apple, Microsoft, Amazon, Alphabet, and Meta are all absent from the top 11. This does not mean they are bad companies. It means that at current valuations, or on one or more quality dimensions, they do not reach the threshold of "truly elite." The test treats a $3 trillion company the same as a $3 billion company. Only the fundamentals matter.

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PART III — THE CORNERS OF THE BOARD

The Corners of the Board: Surprises That Break Your Assumptions

The most revealing part of this analysis is not the stocks that passed — it is the ones that surprise you. Three cases illustrate why intuition is an unreliable guide to quality.

The Darling: Palantir (PLTR) — Score: 72

Palantir is one of the most popular stocks among retail investors. It has an 84% gross margin and has become a genuine AI infrastructure company. Its score of 72 puts it in the "elite" category — it passes the quality bar. But its P/E ratio is north of 150 and its balance sheet cushion is minimal. This is a great business at a terrifying price. It passes the quality test but sits on a knife-edge of valuation risk. One earnings miss could send it tumbling. The fundamentals are real. The price assumes perfection.

The Hype Buy: SpaceX (SPCX) — Score:

SpaceX is the stock everyone is desperate to buy. Pre-IPO shares trade at premium valuations. Elon Musk's rocket company has captured the public imagination. But SpaceX scores 19 out of 100. Why? Because it is private. It shows you no numbers — no margins, no cash flow, no earnings, no balance sheet. The score is functionally N/A on every fundamental metric. You cannot grade what will not show you its books. Buying SpaceX at current private-market valuations is not investing in a business — it is investing in a story with no audited receipts.

The Nobody: The Buckle (BKE) — Score:

The Buckle is a mall-based denim retailer headquartered in Kearney, Nebraska. Nobody tweets about it. Nobody makes YouTube videos about it. It is perhaps the most boring stock in America. And it scores 78 — higher than Palantir, Meta, Microsoft, and 99% of everything else. Near-zero debt. Real free cash flow. A return on invested capital of 24%. A P/E under 10. This is a quietly elite business hiding in plain sight, available at a fraction of the price of the stocks everyone is chasing.

Stock	Score	Key Metrics	Verdict
PLTR (Palantir)	72	Gross margin 84%, P/E 150+	Great business. Terrifying price.
SPCX (SpaceX)			All fundamentals: N/A (private) No receipts. Cannot grade.
BKE (The Buckle)			ROIC 24%, P/E ~10, zero debt Quietly elite. Completely ignored.

Source: Winston, July 2026

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PART III — THE CORNERS OF THE BOARD

The Honesty Beat: Why Quality Is a Filter, Not a Fortune-teller

The Case of Adobe. Adobe passes every filter in this report. It has an 89% gross margin — one of the highest in the software industry. Its return on invested capital is strong. And at a P/E of approximately 12, it is trading at its cheapest valuation in over a decade

- ✓ well below Microsoft (22), Oracle (26), and its own 10-year median of 44.

But. Adobe is staring down a wave of AI-powered competitors. Generative AI tools can now create images, edit videos, and design layouts in seconds

- ✓ tasks that millions of people used to pay Adobe subscriptions to perform. Canva, Figma, and dozens of AI-native startups are eroding Adobe's moat from every direction. The quality filters cannot see disruption coming. They measure what is. They do not predict what will be.

Why This Matters. We include this section deliberately, because intellectual honesty is more important than appearing infallible. A high score does not guarantee future returns. Quality is a filter that gets you into the room — the 3% of companies worth even considering. But once you are in the room, you still have to think. About disruption. About where money is flowing. About what is changing in the world that the numbers have not yet reflected.

The Takeaway. Anyone who tells you a single number — a score, a rating, a rank — ends your thinking is selling you something. Our framework is designed to begin the conversation, not end it.

Metric	Adobe (ADBE)	Context
Winston Score	74	Elite — passes all five filters
Gross Margin	89%	Among the highest in software
ROIC	37%	Strong capital efficiency
FCF Margin	42%	Real cash generation
Interest Coverage	65×	Comfortable debt position
P/E Ratio	~12	Cheapest in a decade (10-yr avg: 44)
AI Disruption Risk	HIGH	Generative AI directly competing with core products

Source: Winston, July 2026

"Quality is a filter, not a fortune-teller. It gets you into the room — the 3% worth considering. Then you still have to think."

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PART IV — YOUR FRAMEWORK

The Kitchen-table Rule: Three Questions for Any Stock

No App Required. Everything in this report can be distilled into three questions that any investor can ask about any stock, tonight, at their kitchen table, with nothing more than a free stock screener. These three questions are the compressed version of the five-filter framework.

Question 1: Does this company actually make money?

Not revenue — money. Real margins. Real cash coming in the door. Look at gross margin, operating margin, and free cash flow. If the answer is "no" or "not yet," this is not a quality business — it is a speculation.

Question 2: Could a competitor, a new technology, or a policy change kill this company in two years?

If the answer is "easily," it does not have a moat. Look at how consistent its returns have been over the last five years. Look at whether its market share is growing or shrinking. If it is vulnerable, it is not elite.

Question 3: Am I paying a sane price — or a lottery-ticket price?

Look at the P/E ratio. If the P/E is in the hundreds and the gross margin is in the teens, you are paying for a fantasy, not a business. Compare the P/E to others in the same sector. If it is wildly above its peers with no justification in the fundamentals, the price is a bet on hope.

How to Use This. Run these three questions across your entire portfolio — every stock, every ETF, every holding. We believe you will find things you did not choose and would not defend if someone asked you to explain why you own them. That is the job: not finding the one perfect stock, but filtering out the 97% that do not matter.

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PART IV — THE TWO-LENS SYSTEM

The Two-lens System: Flow + Quality

The Complete Framework. The five filters tell you what is a quality business. But they do not tell you where to look. For that, we need a second lens: money flow. Institutional investors — pension funds, sovereign wealth funds, the largest hedge funds — move hundreds of billions of dollars. They are too big to hide. They leave footprints in the data: sector allocation shifts, fund flow reports, 13F filings.

Step 1: Follow the Money. Find the sectors where the big institutional money is flowing in. Where are the pension funds increasing allocation? Where are sovereign wealth funds buying? These footprints tell you the right neighbourhood — the part of the market where sophisticated capital is concentrating.

Step 2: Run the Filters. Inside that neighbourhood, apply the five-filter framework. Find the one or two names that are actually quality businesses — not the story stock, not the one that has just gone up, but the one with real margins, real cash, real stability, and a sane price.

The Analogy. Follow the footprints to the right street. Then use the filters to find the house that will not fall down. Do both, and you are not gambling anymore. You are doing what professional investors do — just without the $400 lunch.

The Two-Lens System:

Lens 1 — Flow: Where is institutional money moving? → This tells you the right neighbourhood.

Lens 2 — Quality: Inside that neighbourhood, which names pass all five filters? → This tells you the right house.

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PART IV — ETF ALTERNATIVES

ETFs for Lower-risk Exposure

For Investors Who Prefer Baskets. Not every investor wants to pick individual stocks — and that is perfectly reasonable. For those who want exposure to the quality theme through diversified vehicles, we highlight the following sector and factor ETFs that align with the principles in this report.

ETF	Name	Focus	Why It Aligns
QUAL	iShares MSCI USA Quality Factor ETF	Quality factor (ROE, earnings stability, low leverage)	Directly screens for the same fundamentals our framework uses — profitability, stability, and balance sheet strength.
DGRW			
	WisdomTree US Quality		
	Dividend Growth Fund		
		Dividend growers with	
		quality screens	
			Filters for companies that generate real cash and return it
			to shareholders — our Cash and Stability filters in ETF
			form.

RSP

Invesco S&P 500 Equal Weight ETF

Equal-weighted S&P 500 Mitigates the concentration risk we identified — gives equal exposure to all 500 companies rather than overweighting the top 10.

SMH

VanEck Semiconductor ETF

Semiconductors Exposure to the semiconductor sector where NVIDIA (our highest-scoring tech name) operates. Provides sector exposure without single-stock risk.

HACK

ETFMG Prime Cyber Security ETF

Cybersecurity

Exposure to the cybersecurity sector where Fortinet (our Stability filter example) operates.

IPAY

ETFMG Prime Mobile Payments ETF

Digital Payments

Exposure to the payments ecosystem where Mastercard (our Moat filter example) operates.

Note: ETF inclusion is for educational context only — not a recommendation. Always verify current holdings and expense ratios before investing.

A Note on Quality ETFs. The QUAL ETF specifically screens for companies with high return on equity, stable year-over-year earnings growth, and low financial leverage — three of the five pillars in our framework. We believe quality-factor ETFs deserve consideration as core portfolio holdings, particularly in a market environment where concentration risk in cap-weighted indices is at historic highs.

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PART IV — RISK FACTORS

Risk Factors

Our analysis, while rigorous, carries inherent limitations. We believe transparency about these limitations is essential.

Backward-Looking Data. All five filters are based on reported financial data — they measure what has happened, not what will happen. A company can score highly on historical fundamentals and still be disrupted by a new technology, regulation, or competitive entrant that the data has not yet captured. The Adobe case study in this report illustrates this risk explicitly.

Concentration Risk in the Elite 11. The Elite 11 are concentrated in a small number of sectors (ad-tech, fintech, insurance). An investor who builds a portfolio exclusively from this list would be taking significant sector concentration risk. We do not recommend using this list as a portfolio — we recommend using it as a starting point for further research.

Market Regime Changes. The quality factor has historically outperformed over long periods but can underperform during speculative rallies when momentum and low-quality stocks lead. Investors should be aware that quality investing requires patience and a longer time horizon.

Scoring Methodology Limitations. Our composite score weights all five factors. Different weighting schemes could produce different results. Investors with different risk tolerances or investment horizons may reasonably disagree with the relative importance we assign to each filter.

Valuation Is a Snapshot. The P/E ratios and valuation metrics in this report reflect a specific moment in time. Valuations change daily. A stock that appears sanely priced in this report may become expensive or cheap by the time you read it. Always verify current valuations before making any investment decision.

Small-Cap Liquidity Risk. Several of the Elite 11 companies are small- or mid-cap stocks with lower trading volumes than mega-cap names. This can result in wider bid-ask spreads, higher volatility, and difficulty entering or exiting positions at desired prices.

This Is Not a Recommendation. Nothing in this report constitutes a recommendation to buy or sell any security. This is educational research designed to illustrate a framework for evaluating business quality. All investment decisions should be made in consultation with a qualified financial advisor based on your individual circumstances, risk tolerance, and investment goals.

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APPENDIX A

Appendix a: Full Data Reference Table

All figures from the Winston US Stock Export, July 2026. Cross-verified against independent sources.

Ticker	Company	Score	Gross Margin	ROIC	FCF Margin	Int. Cov.	P/E	Role in Report
APP	AppLovin	85	88%	65%	71%	23×	53	Value PASS / Elite 11
NVDA	NVIDIA		71%	63%	45%	503×		Profit PASS / Elite 11
BKE	The Buckle		49%	24%	16%	—		Corner: The Nobody
FTNT	Fortinet		81%	34%	34%	114×		Stability PASS
ADBE	Adobe		89%	37%	42%	65×	~12	Honesty Beat
META	Meta		82%	20%	22%	51×		Reference
MA	Mastercard		~100%	61%	52%	27×		Moat PASS
PLTR	Palantir		84%	22%	51%	—	150+	Corner: The Darling
HOOD	Robinhood		82%	19%	47%	97×		Cash PASS
MSFT	Microsoft		68%	21%	23%	53×		Reference
PYPL	PayPal		46%	15%	16%	18×		Moat FAIL
TSLA	Tesla		19%	3%	7%	14×	300+	Value FAIL
SNOW	Snowflake		67%	−30%	24%	−87×	Neg.	Stability FAIL
SPCX	SpaceX		N/A	N/A	N/A	N/A	N/A	Corner: No Receipts
RIVN	Rivian		−2%	−31%	−45%	−28×	Neg.	Cash FAIL
INTC	Intel		35%	−3%	−6%	−4.8×	Neg.	Profit FAIL

Source: Winston, July 2026

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APPENDIX B

Appendix B: Felix's Quality Stock Checklist

"We look neither for value stocks, nor for growth stocks. We look for quality stocks." — Felix

Is the Business Profitable?

Metric	What It Tells You
Gross Margin	Indicates the size of the moat. Reveals core efficiency and its ability to absorb shocks.

Is It Generating Cash?

Metric	What It Tells You
Cash Conversion	Ability to convert profits into cash. Good measure of efficiency and flexibility.

Is It Financially Stable?

Metric	What It Tells You
Leverage	Measure of financial risk. Tells a story about volatility of returns.

Valuation

Metric	What It Tells You
P/E Ratio + Forward P/E	Short-term valuation snapshot + forward-looking prediction. This is the least important of our metrics.
Earnings Growth	
Consistency	
	Shows whether management and business are reliable or cyclical.
EPS Increasing	
Consistently?	
	Reveals whether shareholder value is increasing or being diluted.

Moat (Competitive Advantage)

A unique edge over competitors. This comes in the following forms:

Cost advantage Size advantage (economies of scale) High switching cost Patents, brand, government licences

Additional Criteria for Growth Stocks

Criterion	Details
Same valuation method applies	Growth stocks are not exempt from quality standards.
High Operating Margin	Non-negotiable. Growth without margins is just spending.
Strong Revenue Growth	Must beat others in the sector — it is a growth company, after all.
Low Debt	Growth companies with heavy debt are fragile in downturns.
Good Cash Position	Must be able to survive a crash without diluting shareholders.
Large Target Market	25× TAM or more — room to run for years.
CEO/Founder Invested	Skin in the game. Management should own meaningful equity.
Fully Understand Business Model	Can you write down 3 reasons this company is better than competitors?

RUN THESE FIVE FILTERS ON ANY STOCK

And if you want to run these five filters yourself on any stock in the world, Winston does it automatically. Completely free for a full month.

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