



WHY THE TORTOISE SOMETIMES WINS

Avi Horwitz

What They Don't Teach at BINC

Why the Tortoise Sometimes Wins



Avi Horwitz
ACME
June 29, 2020

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What They Don't Teach at BINC

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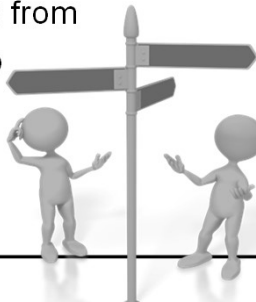


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What They Don't Teach at BINC

What We Will Talk About

- What we are looking for in a stock
- Where Total Return comes from
- The importance of Portfolio Management



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What We Are Looking For?

- Why would you invest in any stock?
 - High Quality
 - Good Value




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The Tortoise and The Hare

- We often think of fast-growing companies as being the best prospects
 - Stronger Growth
 - High Quality?



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Tortoises: Why?

- Can a company with only moderate growth prospects offer both high quality and good value?
 - Absolutely!

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Tortoises: Why?

- You shouldn't expect larger companies to grow rapidly
 - BetterInvesting Stock Selection Handbook suggests 7% to 10% growth as reasonable for large companies
- Considering slower growing companies gives you more investment possibilities

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What They Don't Teach at BINC

Slow And Steady

- Sometimes the tortoise, slow and steady, wins the race



- Slower growing companies can be the Tortoise that wins the race

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What Is a Good Value?

- A stock investment is a good value because of the potential for it to be worth more in the future
- Total Return is used to measure value on the Stock Selection Guide (SSG)


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Total Return Comes From ...

- Price Appreciation — driven by:
 - Earnings growth (EPS)
 - P/E ratio (optimism about the future)

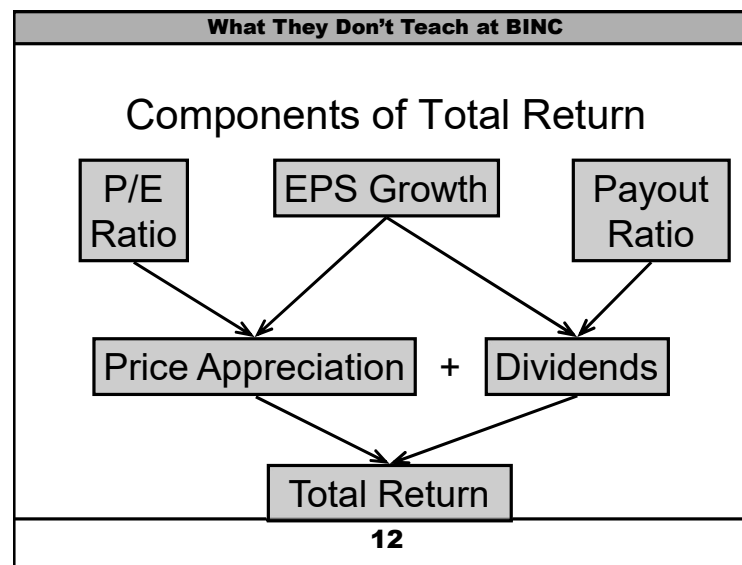


- Dividends — driven by:
 - Earnings growth (EPS)
 - Payout ratio (the percentage of earnings paid to shareholders as dividends)



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Dividends

EPS

 ×

Payout Ratio

 =

Dividend

Tortoises tend to have a larger Payout Ratio

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What They Don't Teach at BINC

Dividends

- Dividends tend to play a more significant role in Total Return for Tortoises
- Tortoises tend to have a larger payout ratio
 - More of EPS used to pay dividends
 - Less of EPS used to fund future growth
- A secure dividend may add some safety for slower growing stocks


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Is the Dividend Secure?

- Dividends come from earnings
 - A secure dividend requires secure earnings
- Consider financial strength of company



- Monitor dividend, yield, payout ratio
 - SSG section 3

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Is the Dividend Secure?

SSG PLUS

File Data Print Research Tools Logout GWS50

Analyze Growth and Quality Valuation and Return Quarterly Data Ratios Notes

Company: RPM International (RPM) Study Name: Jan Stock Up RPM 12/26/16 Quick Navigation

3. PRICE EARNINGS HISTORY as an indicator of the future

CLOSING PRICE (12/23/16): 54.01 HIGH THIS YEAR: 55.92 LOW THIS YEAR: 35.75

Year	A Price		B Earnings		C Price Earnings Ratio		D Dividend	E % Payout	F % High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share			
2011	27.7	17.2	1.85	16.8	10.4	0.35	51.9%	5.0%	
2012	34.2	24.8	0.74	46.2	33.5	0.59	12.6%	3.0%	
2013	45.5	30.8	2.16	20.9	14.2	0.94	43.3%	3.1%	
2014	52.0	38.6	1.78	29.2	22.2	1.02	57.3%	2.8%	
2015	51.6	35.8	2.03	19.0	14.0	1.27	41.3%	3.0%	
AVERAGE		29.8		26.5	18.9		62.8%		
CURRENT/TTM			2.72			1.25	44.1%		
AVERAGE PRICE EARNINGS RATIO: 22.7					CURRENT PRICE EARNINGS RATIO: 19.9				

Show / Hide Price/Earnings Chart Compare Peers

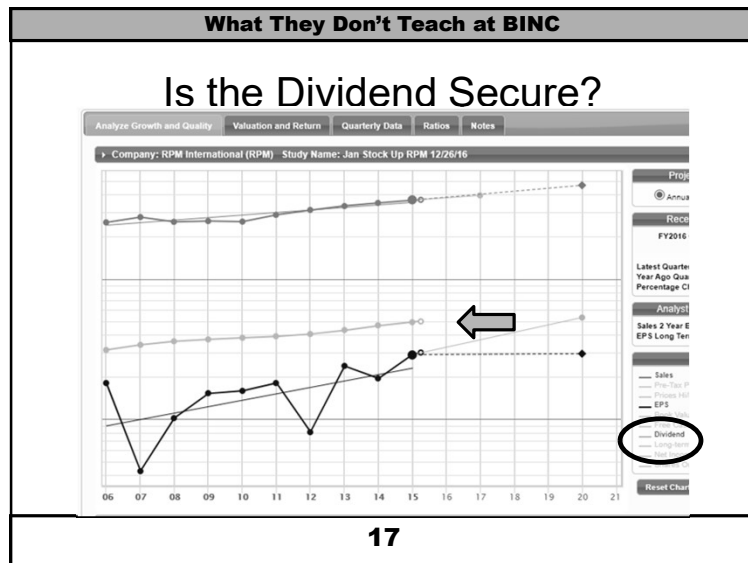
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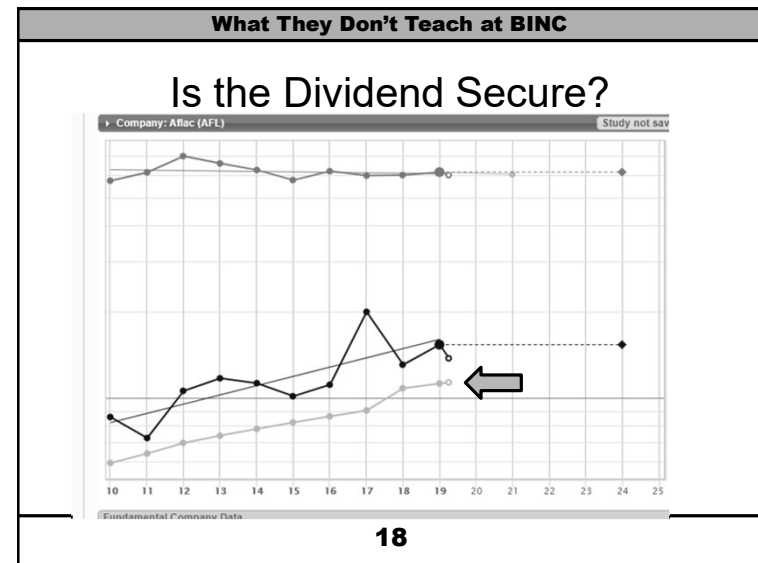
What They Don't Teach at BINC (BetterInvesting National Convention)

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Is the Dividend Secure?

Company: Aflac (AFL) Study not saved. Click to save.

3. PRICE EARNINGS HISTORY as an indicator of the future

Year	A Price		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F / C * 100	H % High Yield F / B * 100
	High	Low		High A / C	Low B / C			
2015	33.3	25.7	2.92	11.4	8.8	0.76	3.1%	
2016	37.3	27.3	3.21	11.6	8.5	0.83	3.0%	
2017	44.9	33.3	5.77	7.8	8.8	0.87	2.6%	
2018	48.2	41.4	3.77	12.8	11.0	1.04	2.5%	
2019	57.2	44.3	4.43	12.9	10.0	1.08	2.4%	
AVERAGE		34.4	3.97	11.3	8.8	1.12		
AVERAGE TTM								
AVERAGE PRICE EARNINGS RATIO:	10.0			CURRENT PRICE EARNINGS RATIO: 9.2				

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Price Appreciation

Faster growing stocks can produce adequate price appreciation from EPS growth alone

EPS X **P/E** = **Price**

Tortoises need help from *P/E expansion*

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What They Don't Teach at BINC

Price Appreciation


- Potential for future P/E to be higher is critical for tortoises
 - Stock price tends to follow earnings growth
 - With a constant P/E ratio, slower growth produces less price appreciation
- Especially important for tortoises
 - Buy when P/E ratio is below average

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P/E Expansion



P/E expansion means ...

... the Price-to-Earnings ratio moves higher than when you bought the stock

Buying when there is potential for P/E expansion is always important — even more so for tortoises

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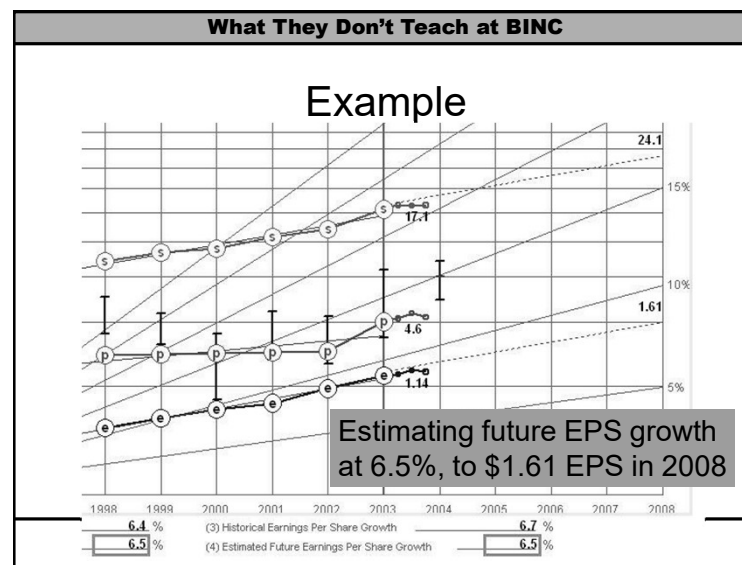
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P/E Expansion is Limited

- P/E expansion can't continue forever!
- After the P/E has moved up to 'normal', future Total Return is limited ...
 - ... by the future EPS growth rate!
- When you run out of potential for P/E expansion, you should consider selling

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Example – 6.5% EPS Growth

[6] AVERAGE PRICE EARNINGS RATIO: 14.0 [8] CURRENT PRICE EARNINGS RATIO: 16.7
 Prev. P/E (13.75) Based on Next 4 qtr. EPS (1.25) Current P/E Based on Next 4 qtr. EPS (1.17)
 ↓ EVALUATING RISK and REWARD over the next 5 years

A HIGH PRICE – NEXT 5 YEARS: 16.3 16.7 Estimate High Earnings/Share: 1.61 Forecast High Price \$: 26.9

Potential high P/E set to current P/E -
 we assume no P/E expansion ...

Price appreciation = EPS growth rate

Average Yield	5.4%
Annual Appreciation	6.5%
% Compd Ann Rate of Ret	8.9%

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What They Don't Teach at BINC

Let's Review

- Slower growing stocks can produce good returns
- Total Return comes from:
 - Price Appreciation + Dividends
- For Tortoises (vs. faster growing Hares)
 - Dividends are a bigger factor
 - Potential for P/E expansion is even more important than usual

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Questions?

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The Importance of Portfolio Management

- For slower growing stocks, more active Portfolio Management can improve return
- If you just buy and hold, what is the very long-term potential for Total Return?
 - EPS growth rate + dividend yield
- For slower growers that may be inadequate

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What They Don't Teach at BINC

Portfolio Management

- BetterInvesting thinking embraces the concept of Defensive/Offensive Portfolio Management
 - Defense = Quality
 - Offense = Value
- Defense – don't own poor quality stocks
 - Maintain a good average level of quality
 - Sell stocks that are clearly poor quality

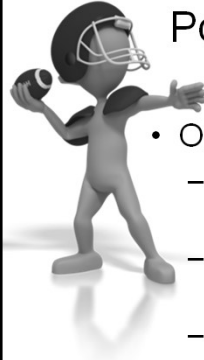


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Portfolio Management



- Offense – monitor Total Return
 - Maintain an adequate average Total Return level
 - Replace low Total Return stocks as you identify significantly better opportunities
 - Very important for slower growers!

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Offensive Portfolio Management

From Section 5 of your SSGs

Company Name	Ticker	Shrs	Price/shr 3/2/05	~current Value	% of portfolio	Proj Tot Ret'n	Sector (S&P GICS)
Brinkers International	EAT	70	38.18	\$2,673	10%	8.3%	Consumer Discretionary
Costco	COST	50	45.02	\$2,251	9%	15.6%	Consumer Staples
CVS	CVS	70	50.06	\$3,504	13%	4.7%	Consumer Staples
Dollar General	DG	80	\$22.16	\$1,773	7%	15.6%	Consumer Discretionary
Harley Davidson, Inc	HDI	20	\$61.48	\$1,230	5%	16.6%	Consumer Discretionary
Home Depot	HD	80	\$39.98	\$3,198	12%	21.4%	Consumer Discretionary
Johnson & Johnson	JNJ	11	\$66.96	\$737	3%	13.5%	Health Care
Microsoft	MSFT	170	\$25.26	\$4,294	16%	10.1%	Information Technology
Neogen	NEOG	125	\$18.00	\$2,250	9%	14.8%	Health Care
Starbucks	SBUX	35	\$52.81	\$1,848	7%	17.4%	Consumer Discretionary
Wendy's International	WEN	19.3	\$38.02	\$734	3%	7.1%	Consumer Discretionary
Yankee Candle	YCC	50	\$31.22	\$1,561	6%	13.3%	Consumer Discretionary
Sum =====>				\$26,052		12.8%	<== Weighted Ave Ret'n

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What They Don't Teach at BINC

Offensive Portfolio Management

Company Name	Ticker	Shrs	Price/shr 3/2/05	~current Value	% of portfolio	Proj Tot Ret'n	Sector (S&P GICS)
Brinkers International	EAT	70	38.18	\$2,673	10%	8.3%	Consumer Discretionary
Costco	COST	50	45.02	\$2,251	9%	15.6%	Consumer Staples
Commerce Bancorp	CBH	115	29.97	\$3,447	13%	19.0%	Financials
Dollar General	DG	80	\$22.16	\$1,773	7%	15.6%	Consumer Discretionary
Harley Davidson, Inc	HDI	20	\$61.48	\$1,230	5%	16.6%	Consumer Discretionary
Home Depot	HD	80	\$39.98	\$3,198	12%	21.4%	Consumer Discretionary
Johnson & Johnson	JNJ	11	\$66.96	\$737	3%	13.5%	Health Care
Microsoft	MSFT	170	\$25.26	\$4,294	17%	10.1%	Information Technology
Neogen	NEOG	125	\$18.00	\$2,250	9%	14.8%	Health Care
Starbucks	SBUX	35	\$52.81	\$1,848	7%	17.4%	Consumer Discretionary
Wendy's International	WEN	19.3	\$38.02	\$734	3%	7.1%	Consumer Discretionary
Yankee Candle	YCC	50	\$31.22	\$1,561	6%	13.3%	Consumer Discretionary
Sum =====>				\$25,995		14.7%	<== Weighted Ave Ret'n

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What They Don't Teach at BINC							
Toolkit 5 Offense Report							
COMPANY	TICKER	QTR END	RELATIVE VALUE	PROJECTED REL VAL	UID RATIO	TOTAL RETURN	TARGET RETURN
BEAZER HOMES USA INC	BZH	09.04	51.7	48.0	13.8	31.8	15.0
BISYS GROUP INC	BSG	09.04	79.5	68.8	6.5	26.4	15.0
BEST BUY CO INC	BBY	11.04	77.1	69.3	2.8	23.8	15.0
BB&T CORP	BBT	09.04	101.4	91.2	4.4	21.4	15.0
BED BATH & BEYOND INC	BBBY	11.04	70.1	60.6	5.7	20.5	15.0
BAXTER INTERNATIONAL INC	BAX	09.04	86.3	80.2	2.3	17.1	15.0
Elomet	BMET	11.04	100.4	87.3	1.9	16.6	15.0
BJS WHOLESALE CLUB INC	BJ	10.04	97.4	86.6	1.8	16.1	15.0
Boston Scientific	BSX	12.04	60.5	57.9	4.6	14.8	15.0
BARR LABORATORIES INC	BRL	09.04	93.2	85.1	2.1	14.6	15.0
ANHEUSER-BUSCH COS INC	BUD	12.04	82.0	79.2	7.2	13.0	15.0
BEMIS CO	BMS	09.04	125.8	121.7	1.2	5.2	15.0

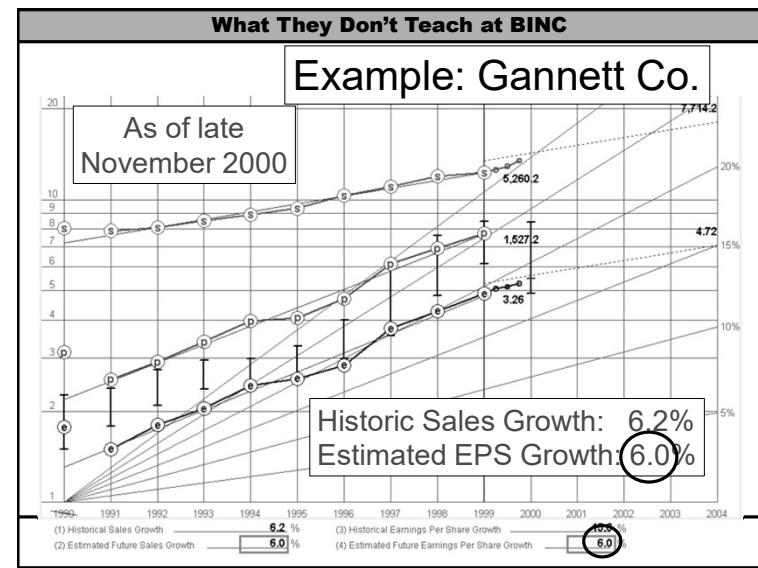
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What They Don't Teach at BINC
<p>Let's Review Again!</p> <ul style="list-style-type: none"> • Total Return comes from: Price Appreciation + Dividends • For tortoises: <ul style="list-style-type: none"> – Dividends are a bigger factor – Potential for P/E expansion is critical for adequate price appreciation • P/E expansion can't continue forever! • Good Offensive Portfolio Management is key to success
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What They Don't Teach at BINC
<p>Questions?</p> 
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What They Don't Teach at BINC (Better Investing National Convention)

WHY THE TORTOISE SOMETIMES WINS

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What They Don't Teach at BINC

C ZONING: 108.6 High Forecast Price Minus 41.0 Low Forecast Price Equals 67.6 Range: 1/3 of Range = 16.9

(4A1) Lower 1/3 = (4B1) 41.0 to 57.9 (Buy) Note: Ranges changed to 25%/50%/25%

(4C2) Middle 1/3 = 57.9 to 91.7 (Maybe)

(4C4) Upper 1/3 = 91.7 to 108.6 (4A1) (Sell)

Present Market Price of 54.000 is in the **Buy** Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 108.6 Minus Present Price 54.000 = 54.6 = 4.2 To 1

Present Price 54.000 Minus Low Price (4B1) 41.0 = 13.0 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 108.6 = (2.011) X 100 = (201.1) - 100 = 101.1 % Appreciation

Present Market Price 54.000 = 78.1% Relative Value: 78.1% Proj. Relative Value: 73.6%

5 5-YEAR POTENTIAL This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ 0.800

Present Price of Stock \$ 54.000 = 0.016 X 100 = 1.6 Present Yield or % Returned on Purchase Price (5A)

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 4.20 X Avg. % Payout (307) 31.9 = 134.0 = 2.5 % Present Price \$ 54.000 (5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 101.1 = 20.2 % Average Yield (5B) 1.6 % Annual Appreciation 15.0 %

Average Total Annual Return Over the Next 5 Years (5C) 22.7 % % Compd Ann Rate of Ret 16.4 %

• 16.4% potential Total Return

• Mostly from EPS growth and P/E expansion

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Example: Gannett Co.

- Fast-Forward 15 months, to Feb 2002
- Stock price rose from \$54 to \$74
- From EPS growth?
 - No
- EPS for 2001 was disappointing, below estimate on original SSG
- There was significant P/E expansion

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What They Don't Teach at BINC

Year	PRESENT PRICE		HIGH THIS YEAR		LOW THIS YEAR		53,000	
	A	B	C	D	E	F	G	H
	PRICE	PRICE	Earnings Per Share	Price Earnings Ratio	Price Earnings Ratio	Dividend Per Share	% Payout	% High Yield
	HIGH	LOW	A-C	B-C	B-C	F-C	F-C	F-B X 100
1 1997	61.8	35.0	2.50	24.7	14.0	0.740	29.6	2.1
2 1998	75.1	47.6	2.86	26.3	16.6	0.780	27.3	1.6
3 1999	83.6	60.6	3.26	25.6	18.6	0.820	25.2	1.4
4 2000	81.6	48.4	3.63	22.5	13.3	0.860	23.7	1.8
5 2001	71.1	53.0	3.12	22.8	17.0	0.890	28.5	1.7
6 TOTAL		244.6		121.9	79.5		134.3	
7 AVERAGE		48.9		24.4	15.9		26.9	
8 AVERAGE PRICE EARNINGS RATIO	20.1		CURRENT PRICE EARNINGS RATIO		23.7			

4 Proj. P/E [22.03] Based on Next 4 qtrs. EPS [3.36] EVALUATING RISK AND REWARD over the next 5 years Current P/E Based on Last 4 qtrs. EPS [3.12] PEG=283

Assuming one recession and one business boom every 5 years, calculations are made of low high and low low the stock might end. The up-side-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 24.4 21.0 X Estimate High Earnings/Share 4.54 = Forecast High Price \$ 95.3

- Current PE has grown:
 - from 15 (in late 2000)
 - to close to the historic average high P/E
- Not much room for further expansion

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What They Don't Teach at BINC

Time to Replace

C ZONING: 95.3 High Forecast Price Minus 40.6 Low Forecast Price Equals 54.7 Range: 1/3 of Range = 13.7

(4A1) Lower 1/3 = (4B1) 40.6 to 54.3 (Buy) Note: Ranges changed to 25%/50%/25%

(4C2) Middle 1/3 = 54.3 to 81.6 (Maybe)

(4C4) Upper 1/3 = 81.6 to 95.3 (4A1) (Sell)

Present Market Price of 74.090 is in the **Hold** Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 95.3 Minus Present Price 74.090 = 21.2 = 0.6 To 1

Present Price 74.090 Minus Low Price (4B1) 40.6 = 33.5 (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price (4A1) 95.3 = (1.286) X 100 = (128.6) - 100 = 28.6 % Appreciation

Present Market Price 74.090 = 6% Expected Annual Price Appreciation was close to the expected EPS growth rate

5 5-YEAR POTENTIAL

A Present Full Year's Dividend \$

Present Price of Stock \$

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 3.91 X Avg. % Payout (307) 26.9 = 105.2 = 1.4 % Present Price \$ 74.090 (5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 28.6 = 5.7 % Average Yield (5B) 1.4 % Annual Appreciation 5.2 %

Average Total Annual Return Over the Next 5 Years (5C) 7.1 % % Compd Ann Rate of Ret 6.4 %

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Gannett --- Result?

- Stock held for 15 months
- What return did we get on our money?
 - 30% compound annualized return
 - (a 39% increase in 15 months)
- This sometimes happens with Offensive Portfolio Management and tortoises:
 - There is a bit more portfolio activity


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What They Don't Teach at BINC

Gannett – Hypothetical?

- Was this a real-world case?
- Yes:
 - Based on real data, using this approach
- No:
 - I didn't personally buy and sell shares of Gannett and actually make this return



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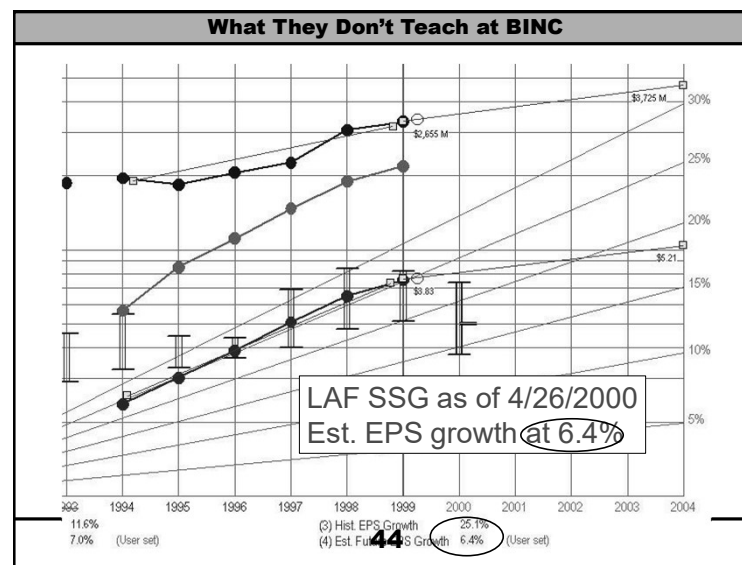
What They Don't Teach at BINC

LaFarge (LAF)

- Purchased LAF shares on 4/26/2000 at \$24.94 per share (P/E 6.5)
- Sold all shares on 3/4/2002 at \$41.30 per share (P/E 14.3)
- Collected \$1.20 per share in dividends
- 33% compound annualized return
 - (69% increase over 22 months)

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What They Don't Teach at BINC (BetterInvesting National Convention)

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What They Don't Teach at BINC										
LAF on 4/26/2000										
Current Price: \$24.94 52 Wk High: \$36.77 52 Wk Low: \$18.81 Dividend: \$0.60										
Year	A PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F=C X 100	H % Hi. Yield F=B X 100		
	HIGH	LOW		HIGH (A=C)	LOW (B=C)					
1 1995	\$22.30	\$16.60	\$1.51	14.8	11.0	\$0.39	25.2%	2.3%		
2 1996	\$21.90	\$18.10	\$1.95	11.2	9.3	\$0.40	20.5%	2.2%		
3 1997	\$34.30	\$20.10	\$2.54	13.5	7.9	\$0.42	16.5%	2.1%		
4 1998	\$42.10	\$23.80	\$3.24	13.0	7.3	\$0.51	15.7%	2.1%		
5 1999	\$40.80	\$25.70	\$3.77	10.8	6.8	\$0.60	15.9%	2.3%		
6 TOTAL		\$104.30		63.3	9.4		93.9%			
7 AVG.		\$28.68		42.7	11.0	\$0.70		18.8%		
8 AVERAGE PE			40.0	9.0	18.1	6.5	EPS=\$3.83	RV=72.4		

4 EVALUATING RISK and REWARD over the next 5 years
 Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS
 Avg. High PE = 11.0 X Est. High EPS = \$5.21 = Forecast Hi Pr. = \$57.31

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What They Don't Teach at BINC			
LAF on 4/26/2000			
C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS			
Avg. 5 Year Appreciation Potential = $\frac{129.8\% (4E)}{5} =$	Simple 26.0%	Compounded 18.1%	
Average Yield (5B) = 3.4%	+ 3.4%	+ 3.4%	
Average Total Annual Return Over the Next 5 Years (5C) = 29.3%	= 29.3%	= 21.5%	

- Potential Total Return: 21.5%
- 18.1% of that is potential price appreciation
- What part of the 18.1% is from EPS growth?
- 6.4% (SSG page 1)
 - Expecting lots of P/E expansion

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What They Don't Teach at BINC										
LAF on 3/4/2002										
Current Price: \$41.30 52 Wk High: \$43.10 52 Wk Low: \$28.45 Dividend: \$0.60										
Year	A PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F=C X 100	H % Hi. Yield F=B X 100		
	HIGH	LOW		HIGH (A=C)	LOW (B=C)					
1 1996	\$21.90	\$18.10	\$1.95	11.2	9.3	\$0.40	20.5%	2.2%		
2 1997	\$34.30	\$20.10	\$2.54	13.5	7.9	\$0.42	16.5%	2.1%		
3 1998	\$42.10	\$23.80	\$3.24	13.0	7.3	\$0.51	15.7%	2.1%		
4 1999	\$40.80	\$25.70	\$3.77	10.8	6.8	\$0.60	15.9%	2.3%		
5 2000	\$28.30	\$16.70	\$3.51	8.1	4.8	\$0.60	17.1%	3.6%		
6 TOTAL		\$104.40		56.6	36.1		85.8%			
7 AVG.		\$20.88		44.0	7.2	7.0		17.2%		
8 AVERAGE PE			9.0	11.0	14.3	7.2	EPS=\$2.88	RV=159.3		

4 EVALUATING RISK and REWARD over the next 5 years
 Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS
 Avg. High PE = 11.0 X Est. High EPS = \$4.59 = Forecast Hi Pr. = \$50.49

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What They Don't Teach at BINC			
LAF on 3/4/2002			
C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS			
Avg. 5 Year Appreciation Potential = $\frac{22.3\% (4E)}{5} =$	Simple 4.5%	Compounded 4.1%	
Average Yield (5B) = 1.5%	+ 1.5%	+ 1.5%	
Average Total Annual Return Over the Next 5 Years (5C) = 6.0%	= 6.0%	= 5.6%	

- Potential Total Return: now just 5.6%
- 4.1% of that is potential price appreciation
- Current P/E is so high that we actually expect P/E contraction from here
 - Time to replace

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WHY THE TORTOISE SOMETIMES WINS

Avi Horwitz

What They Don't Teach at BINC

Summary

- Slower growing stocks can make sense
- One approach to investing in tortoises:
 - Buy quality stocks when P/E is below average.
 - Consider selling when future Total Return is inadequate (P/E is above average)
 - Or, if you're satisfied with a lower return, continue to hold; it's up to you!




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What They Don't Teach at BINC

Summary

- Does it always work out as easily and nicely as in the examples?
- Of course not!
- But the approach can work well
- And, it expands your investment possibilities





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What They Don't Teach at BINC

A big thank you to
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investment education opportunity!**



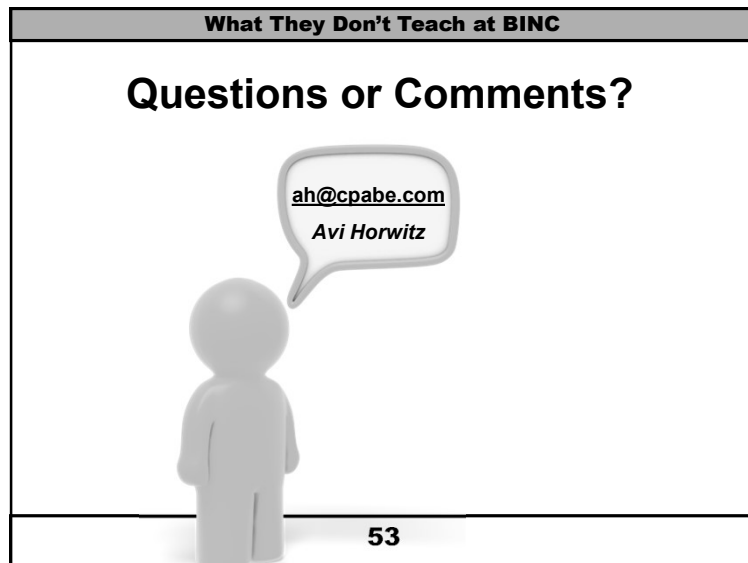
Pay It Forward

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WHY THE TORTOISE SOMETIMES WINS

Avi Horwitz



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