



WWW.BETTERINVESTING.ORG

Back to Basics
Oklahoma Chapter EduFest 2023



August 19, 2023

STOCK SELECTION GUIDE®

BASICS

Suzi Artzberger
Director, Online Tools, IT & Data

Disclaimer

- The information in this presentation is for educational purposes only and is not intended to be a recommendation to purchase or sell any of the stocks, mutual funds, or other securities that may be referenced. The securities of companies referenced or featured in the seminar materials are for illustrative purposes only and are not to be considered endorsed or recommended for purchase or sale by BetterInvesting™ / National Association of Investors™. The views expressed are those of the instructors, commentators, guests and participants, as the case may be, and do not necessarily represent those of BetterInvesting. Investors should conduct their own review and analysis of any company of interest before making an investment decision.
- Securities discussed may be held by the instructors in their own personal portfolios or in those of their clients. BetterInvesting presenters and volunteers are held to a strict code of conduct that precludes benefitting financially from educational presentations or public activities via any BetterInvesting programs, events and/or educational sessions in which they participate. Any violation is strictly prohibited and should be reported to the CEO of BetterInvesting or the Director of Chapter Relations.
- This presentation may contain images of websites and products or services not endorsed by BetterInvesting. The presenter is not endorsing or promoting the use of these websites, products or services.
- National Association of Investors™, BetterInvesting™ and the BetterInvesting™ Icon are trademarks/registered trademarks. All rights reserved. © 2023 BetterInvesting™.

BetterInvesting is a non-profit, investment education organization



- We're a member-driven community of investment clubs and individual investors



- We show you how to create and manage a successful stock portfolio

Our Mission: Creating successful lifelong investors

Our Philosophy...

- **Invest in quality growth companies on a long-term basis**
- **Focus on company performance, both proven and potential, not emotional swings of the market**
- **Earnings are the ultimate driver of stock price**
- **Only consider buying a stock when the possibility of achieving an adequate return is good.**

Our Principles

- **We are fundamental investors**
- **Follow four simple principles**



Our Principles

- **We are fundamental investors**
- **Follow four simple principles**
- **Focus on growth companies**



What We Do...

1. Identify good quality growth companies
2. Verify quality characteristics
3. Estimate the company's potential
4. Determine a fair price to pay for that potential

The Stock Selection Guide® (SSG)®

How We Study a Growth Stock

1. Analyze Growth and Evaluate Management

- Visual analysis – quick look at history
- Examine past and do research – build a comfort level

2. Forecast Sales and Earnings

- Estimate growth potential for the next five years

3. Evaluate Risk and Reward

- Estimate high price and low price for the next five years

4. Valuation and Return

- Potential total return

The Stock Selection Guide® (SSG)®

How We Study a Growth Stock

1. Analyze Growth and Evaluate Management

- Visual analysis – quick look at history
- Examine past and do research – build comfort level
- Forecast Sales and Earnings
 - Estimate growth potential for next five years
- Evaluate Risk and Reward
 - Estimate high price and low price for next five years
- Valuation and Return
 - Potential total return

Invest in Quality Growth Stocks



Visual Analysis

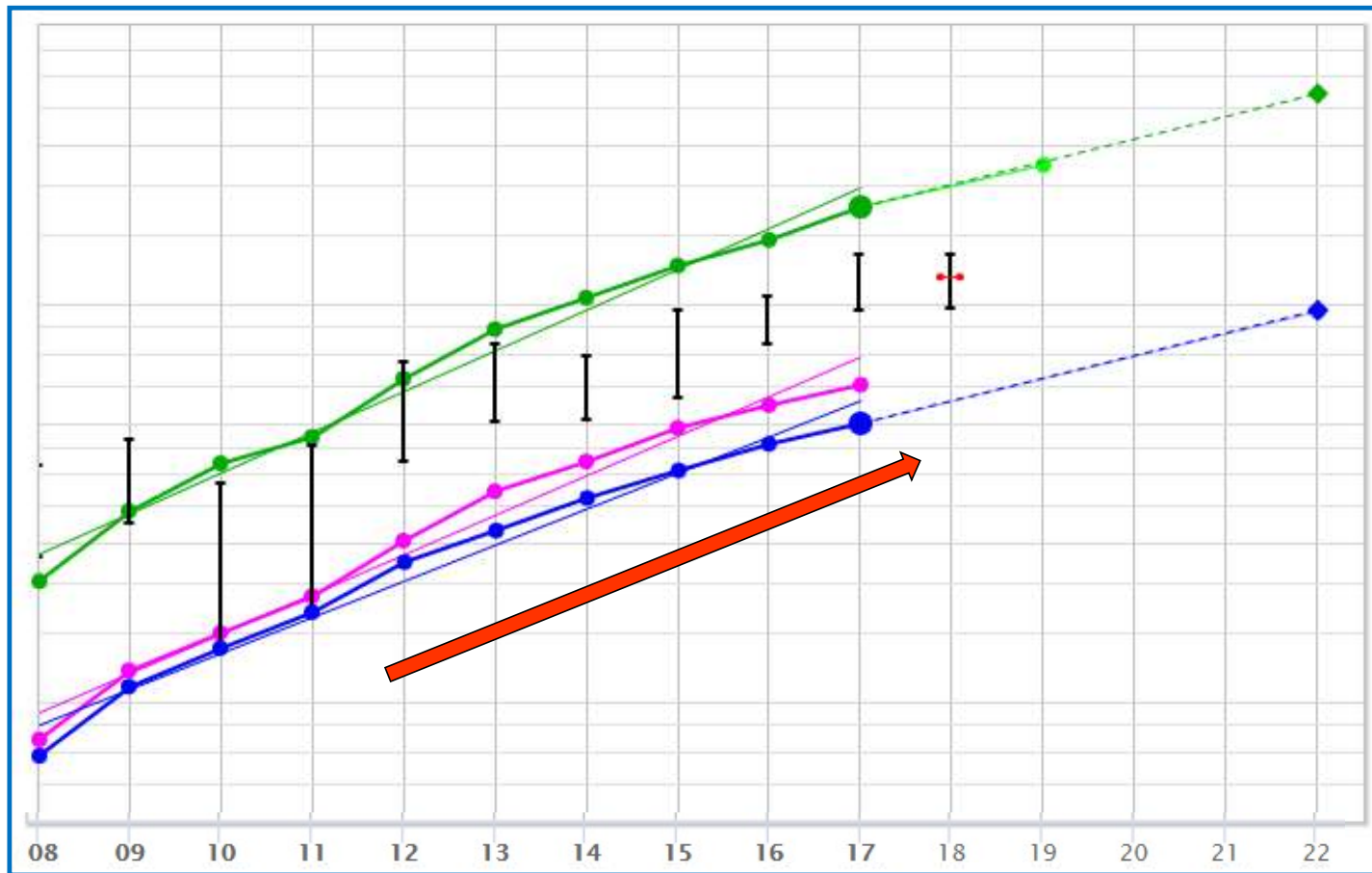
Visual Analysis:

Visual Analysis helps us identify quality growth companies

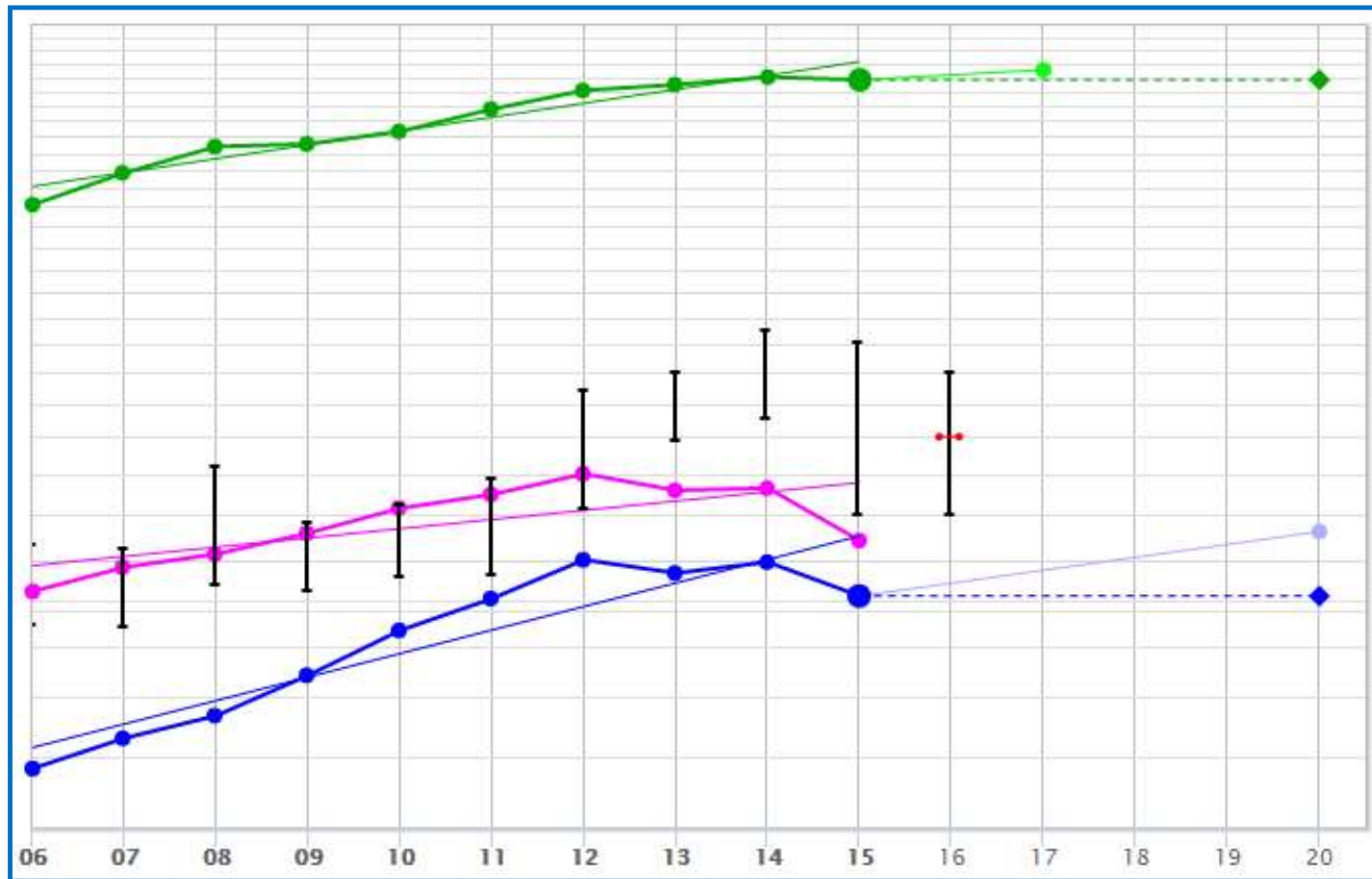
What we look for in quality growth companies

- **Strong and consistent sales growth**
- **Strong and consistent earnings per share growth**
- **Steady or growing % pre-tax profit on sales (PTP)**
- **Steady or growing % earned on equity (ROE)**
- **Debt to Capital less than 33%**

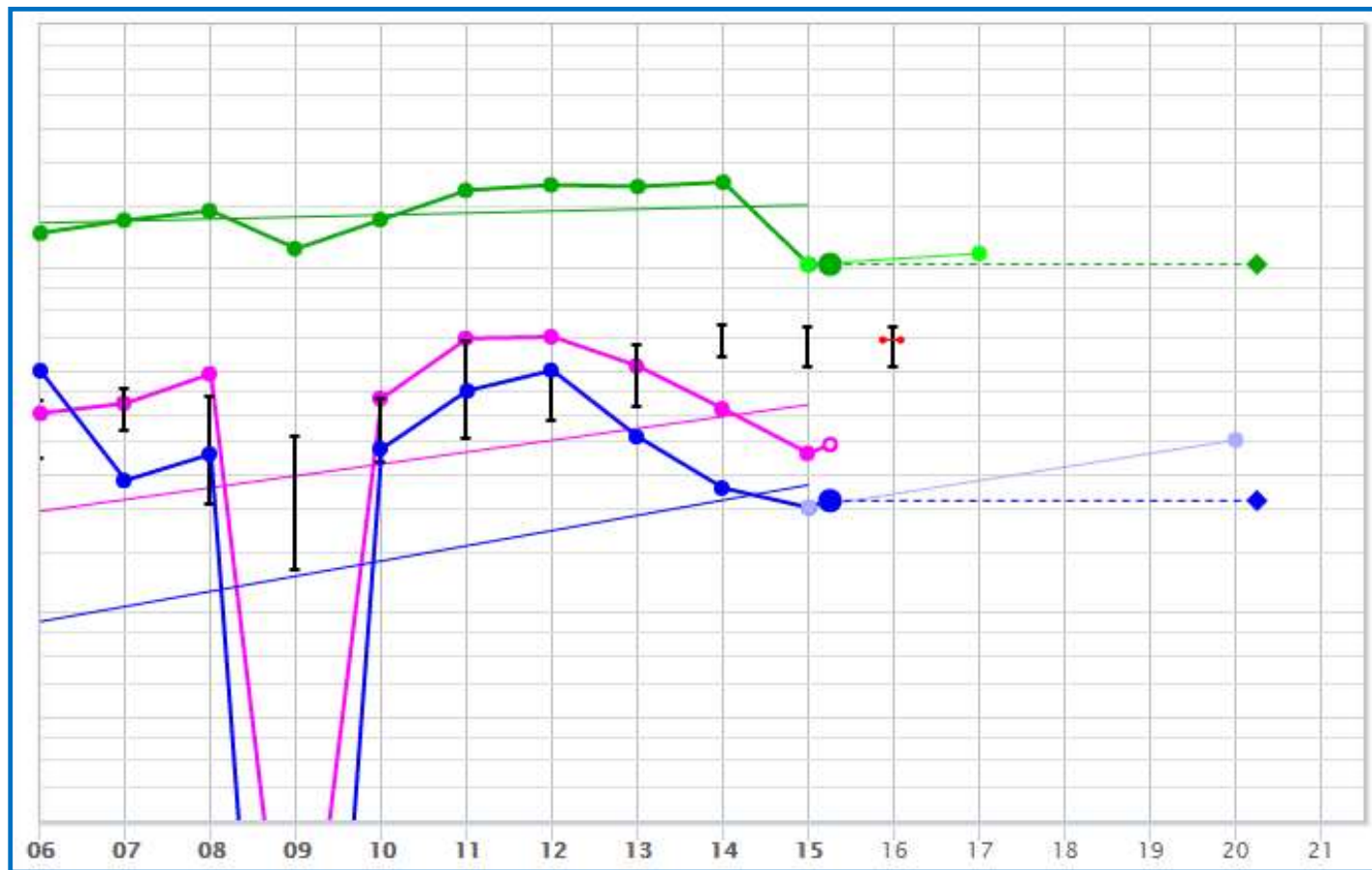
Visual Analysis: SAMPLE Company



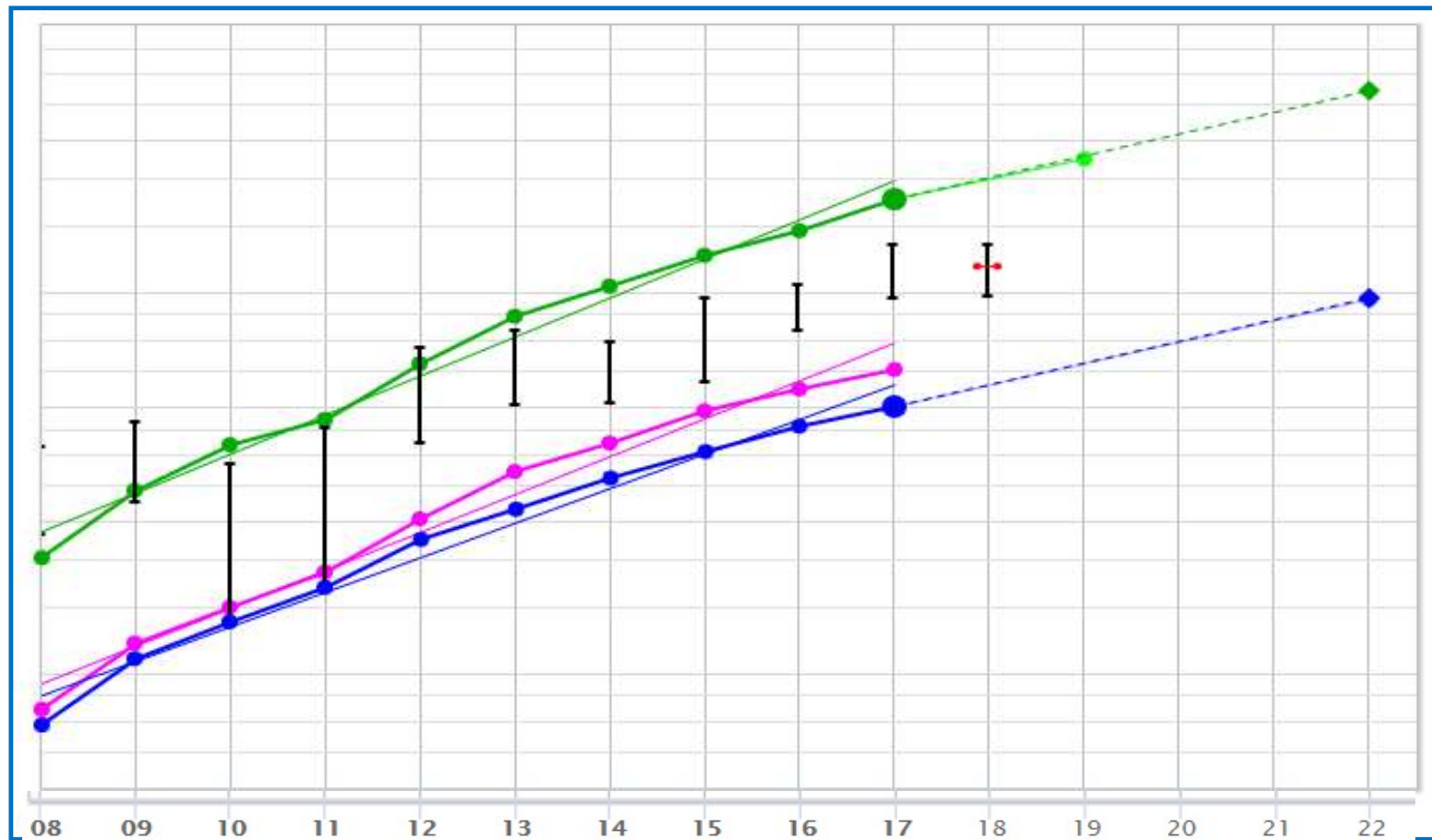
Visual Analysis: SAMPLE Company



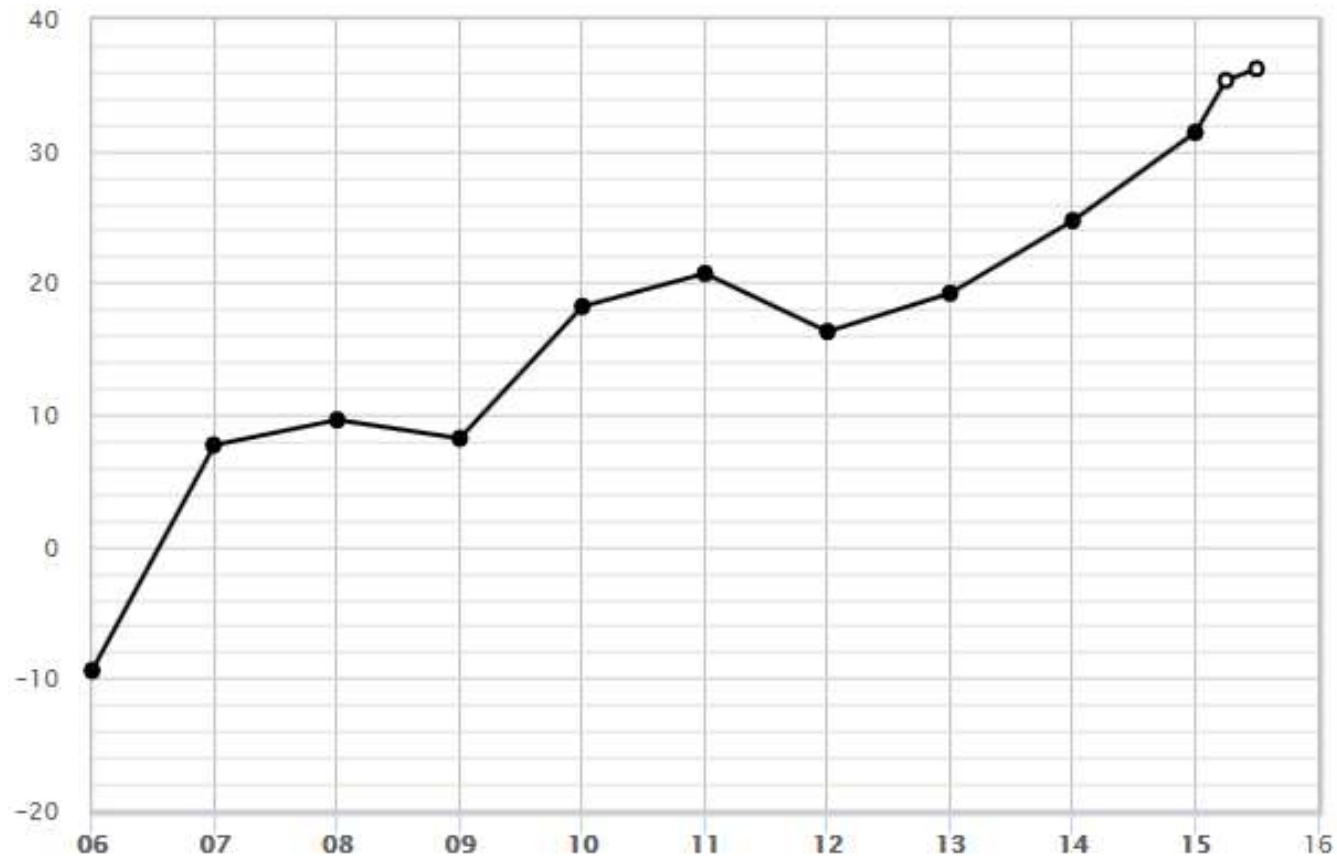
Visual Analysis: SAMPLE Company



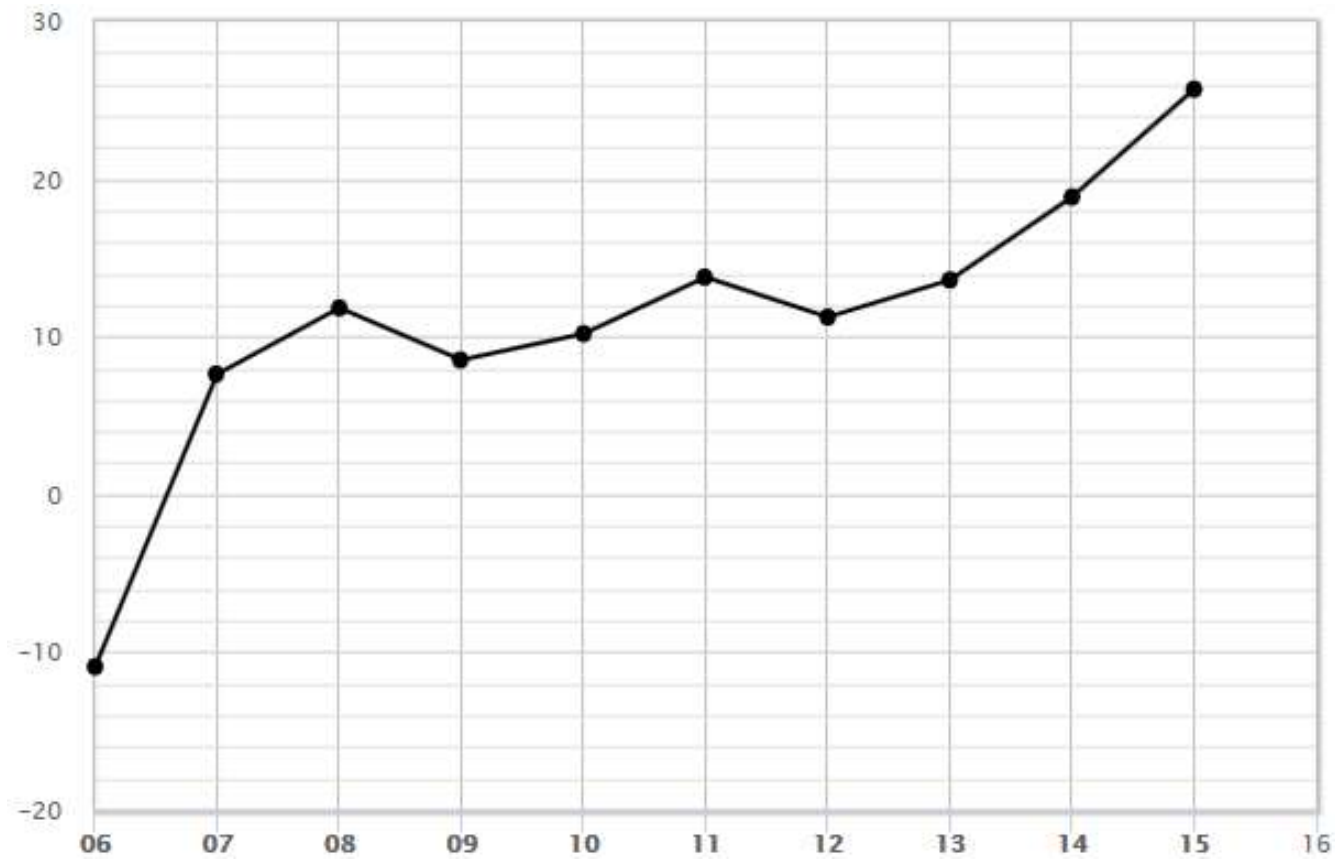
Visual Analysis: SAMPLE Company



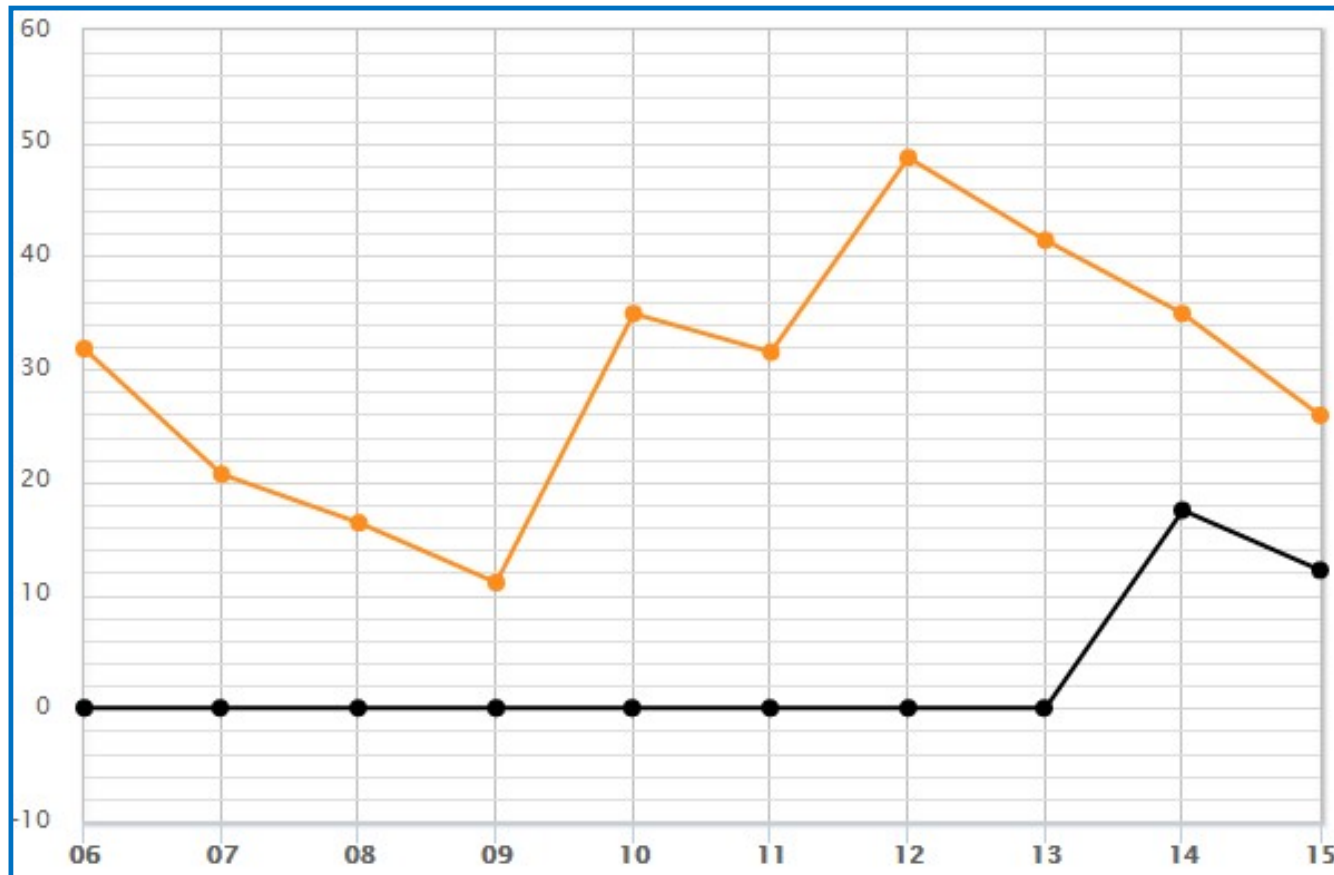
% Pre-tax Profit on Sales



%Return on Equity



%Debt to Capital



REVIEW

- Strong and consistent Sales
- Strong and consistent EPS
- Steady or increasing PTP
- Steady or increasing ROE
- Low Debt to Capital

Next, we will dive deeper into the fundamental data and conduct research to verify quality.

The Stock Selection Guide® (SSG)®

How We Study a Growth Stock

1. Analyze Growth and Evaluate Management
 - Visual analysis – quick look at history
 - Examine past and do research – build a comfort level
2. **Forecast Sales and Earnings**
 - Estimate growth potential for the next five years
3. Evaluate Risk and Reward
 - Estimate high price and low price for the next five years
4. Valuation and Return
 - Potential total return

What Do We Do Next?

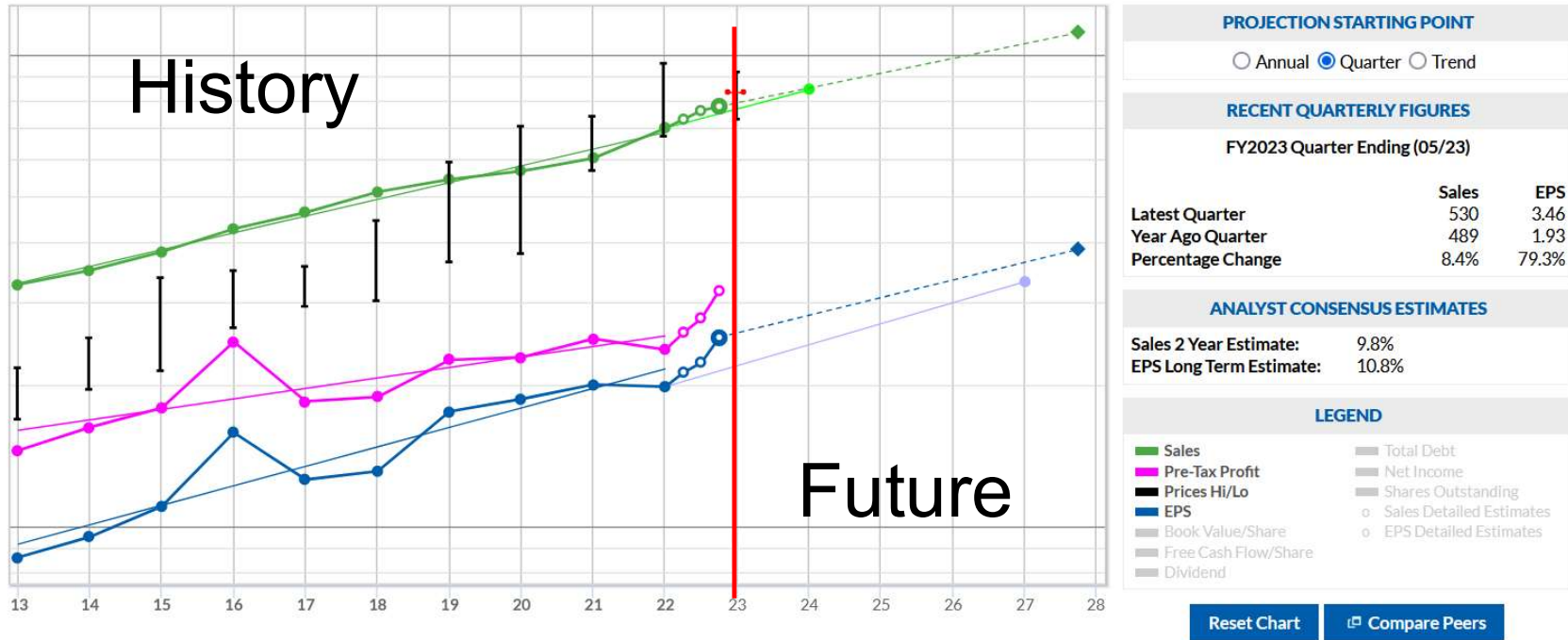
- **We need to have a good understanding of the company's future prospects. Research will uncover the company's growth potential.**
- **Using this information combined with our understanding of historical performance, we will be prepared to make reasonable, forward-looking estimates regarding the company's future sales and earnings growth.**

Forecast Sales and Earnings

Things to consider along with historical performance:

- **How does the company plan to grow sales and earnings?**
- **What are the drivers for future growth?**
- **What are the risks or limitations to future growth?**
- **What are analysts saying about future sales and EPS growth?**
- **Who are the competitors?**
 - **How does the company stack up?**

Forecasting Sales and EPS Growth



Fundamental Company Data													
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Growth (%)	Forecast (%)	5 Yr Est
Historical Sales (\$M)	858	920	1,007	1,127	1,221	1,350	1,435	1,494	1,591	1,844	8.5%	7.5	2,942
Historical EPS (\$)	4.45	4.92	5.71	8.19	6.51	6.78	9.08	9.65	10.36	10.25	10.0%	9	20.08
Pre-Tax Profit (\$M)	271	303	334	461	344	352	422	427	468	444	9.65		

The Stock Selection Guide® (SSG)®

How We Study a Growth Stock

1. **Analyze Growth and Evaluate Management**
 - Visual analysis – quick look at history
 - Examine past and do research – build a comfort level
2. **Forecast Sales and Earnings**
 - Estimate growth potential for the next five years
3. **Evaluate Risk and Reward**
 - Estimate high price and low price for the next five years
4. **Valuation and Return**
 - Potential total return

Evaluating Risk and Reward

Forecast High Price

Forecast High Price

Enter Your Average High P/E Forecast: X High EPS Forecast: = High Stock Price Forecast:

5 Year Average High P/E: 38.1

Closing Price (08/03/23): 431.0

5 Year Average P/E: 31.7

Current P/E: 33.0

Update Study

P/E x Earnings = Price

Evaluating Risk and Reward

Forecast Low Price

Forecast Low Price

Select Low Stock Price Forecast

Your Low Stock Price Forecast:

Low P/E X Low EPS Forecast: Update Low EPS Forecast using: **Auto Update to TTM EPS** (click to toggle)

Enter Your Average Low P/E Forecast: X Low EPS Forecast: = Low Stock Price Forecast:

5 Year Average Low P/E: 25.2 TTM EPS: 13.05 Closing Price (08/03/23): 431.0

5 Year Average P/E: 31.7

Current P/E: 33.0

Recent Market Low Price:

2021 Low Stock Price: 294.2 52 Week Low Stock Price: 377.9

2022 Low Stock Price: 345.9

[Update Study](#)

P/E x Earnings = Price

Evaluating Risk and Reward



The Stock Selection Guide[®] (SSG)[®]

How We Study a Growth Stock

1. **Analyze Growth and Evaluate Management**
 - Visual analysis – quick look at history
 - Examine past and do research – build a comfort level
2. **Forecast Sales and Earnings**
 - Estimate growth potential for the next five years
3. **Evaluate Risk and Reward**
 - Estimate high price and low price for the next five years
4. **Valuation and Return**
 - Potential total return

Five-Year Potential Total Return

Total Return:

- Rate of return of an investment over a certain period of time.

Two components:

- Capital Appreciation – the change in market price of an asset
- Income Appreciation – dividend distributions

Five-Year Potential

Determine 5 Year Potential - Compound Total Return

Compound Total Return (using Forecast High P/E)

[View Calculations](#) [Learn More](#)

Potential Annualized Price Appreciation:	10.3%
Yield:	0.9%
Annual Rate of Return:	11.2%
Current Yield:	0.9%

REVIEW: How We Invest

BetterInvesting Stock Selection Guide Methodology

- **Evaluate Management** – looking for quality
 - Visual analysis
 - Historical performance
- **Forecast Sales and Earnings** – estimate potential
- **Valuation and Return** – potential worth
 - Forecast high price and low price
 - Potential total return

Question and Comments



Introduction to the SSG

Suzi Artzberger

Director – Online Tools, Information
Technology and Data

suzia@betterinvesting.org