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**Improving Your Returns Using Portfolio
Management**

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Presented By:

Craig Braemer
Director, San Francisco Bay Area Chapter
craigbraemer1@gmail.com



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Agenda

- What is Portfolio Management?
- Focus on several techniques
 - Asset Allocation
 - Diversification
- Are you buying growth companies – Do your SSG!
- Is your position size too large or small?
- Investing in smaller companies
- Creating a portfolio management process
- Summary

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What is Portfolio Management (PM)?



Portfolio Management
[pòrt-'fò-lē-,ò 'ma-nij-mənt]

The art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution.


Source: Investopedia/Sidney Saporito

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Why is Portfolio Management Important?

- If your portfolio doesn't meet your goals and risk tolerance, will you stick to that strategy?
- Research shows following a process and sticking with it is important to financial success.
- Determining your risk tolerances and goals is key. Less key for clubs.



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Three Elements of Portfolio Management

- Asset Allocation
- Diversification
- Rebalancing
- We will focus on these first two elements.
- We will also review some portfolio tune-up process/questions to ask.

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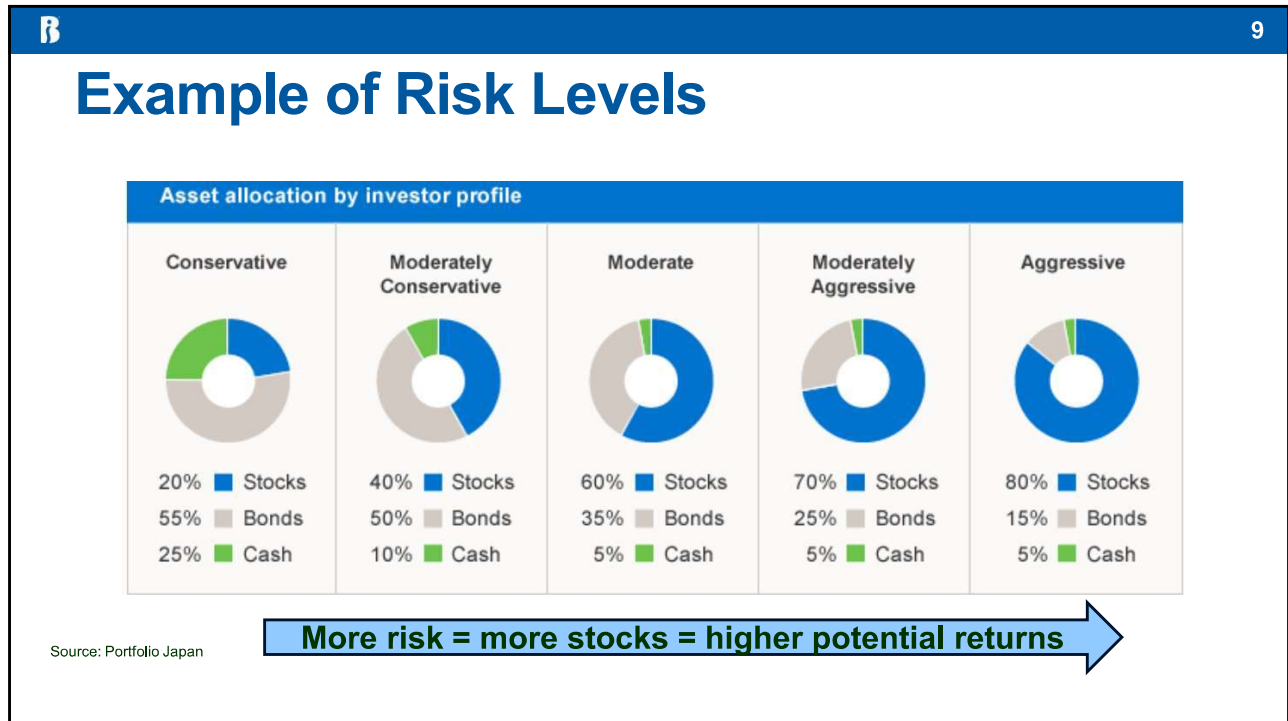
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Asset Allocation

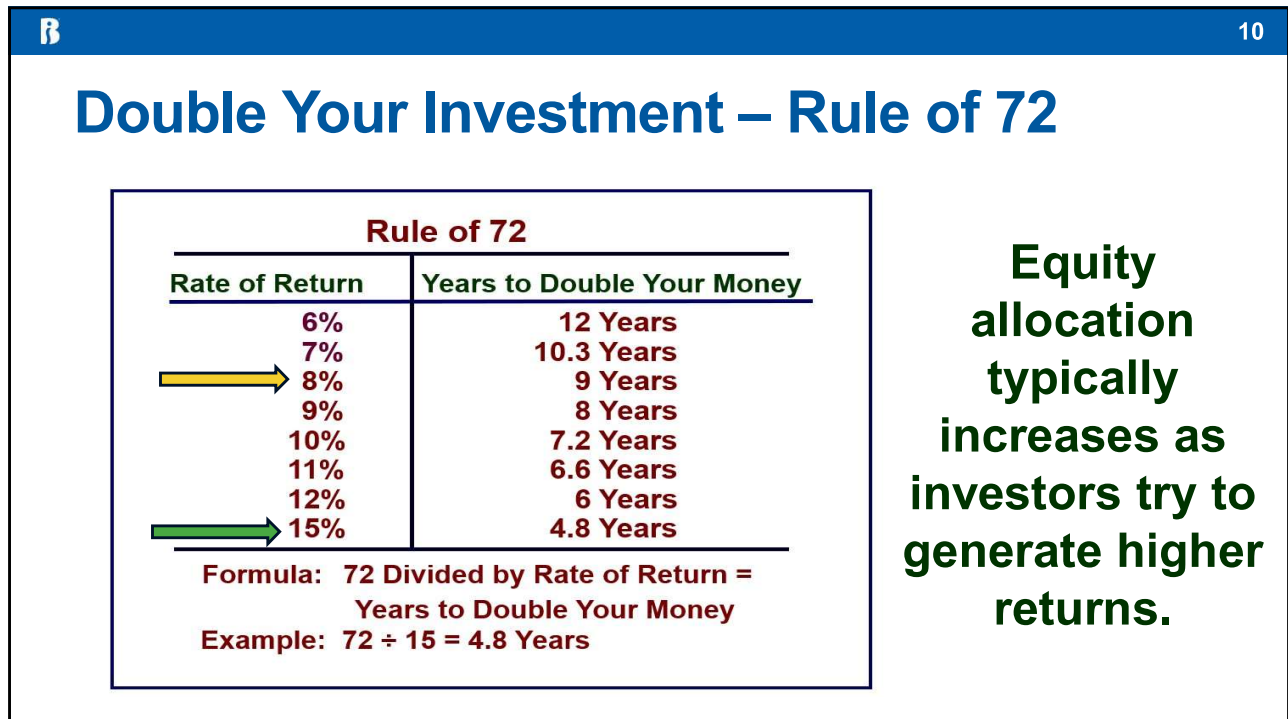
- The goal is to spread out your assets by owning different asset classes that behave differently from each other over time.
- Individuals must determine their asset allocation level.
- Clubs are focused on growth and thus stocks are typically our choice.



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BetterInvesting Diversification Focus - Sales

Diversification is the idea is to spread out your assets vs investing in one or just a few companies/assets.

Sales	Size	Acceptable Growth Rate	Amount of Risk
< \$1 billion	Small	At Least 12%	More
\$1 billion to \$10 billion	Medium	7% - 12%	Average
>\$10 billion	Large	5% - 7%	Less

Company size and acceptable growth may be a factor in a company's ability to grow.

Note: Company size is based on annual Sales or Revenues

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Diversification Other Than Sales

- **Diversify by market capitalization.**
 - Stock price times the shares outstanding.
 - Consider smaller companies.
- **Geographic diversity** – Not done often at clubs, but individuals typically own international funds.
- **Diversify by industry or sector.**
 - Calculate your sector weight and compare with S&P 500 Index weights.

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Compare Sector Weights To The S&P 500

- Since most clubs tend to have larger stocks in their portfolio, I feel the S&P 500 index is a good index to compare with.
- The S&P 500 Index has 11 sectors.
- Compare your weights with the S&P 500.
- Did you know technology at 28% is the largest weight in the S&P 500 Index?

Source: Charles Schwab, IVV - 500 Index.
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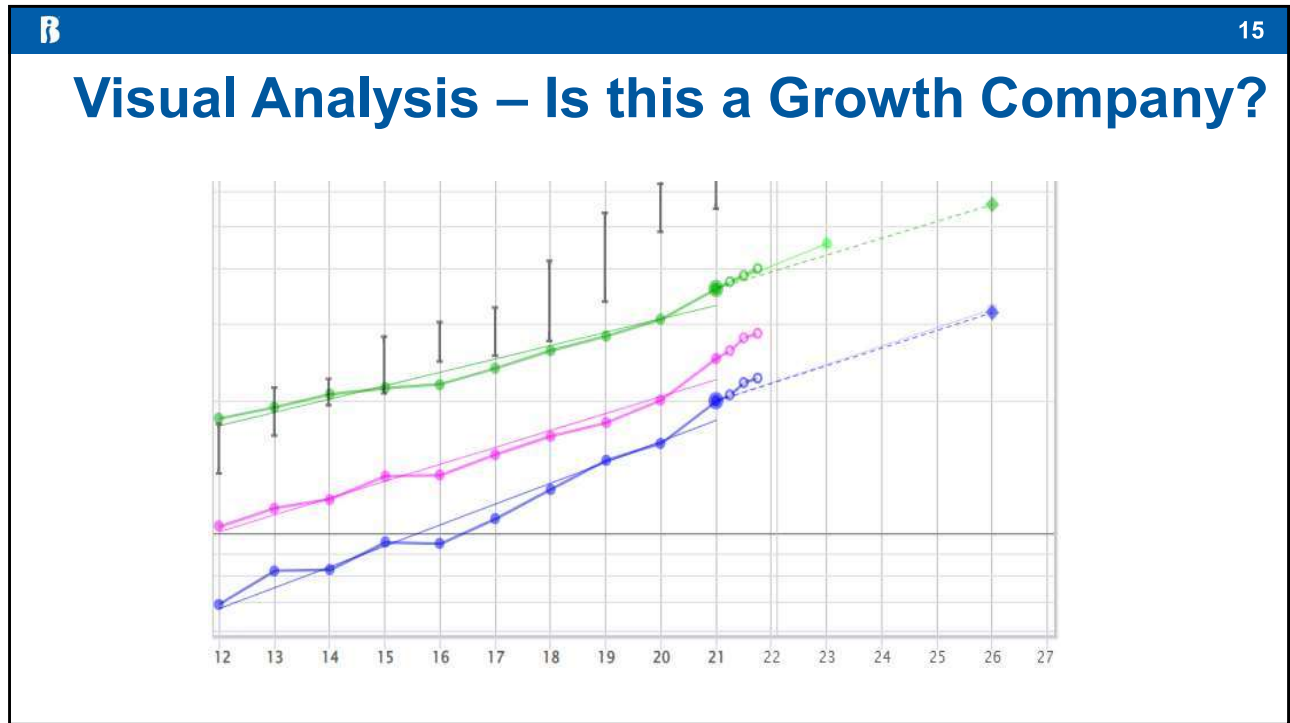
Compare Your Portfolio To The Market

- Break your holdings into sectors by hand or the SSGPlus will do this for you.

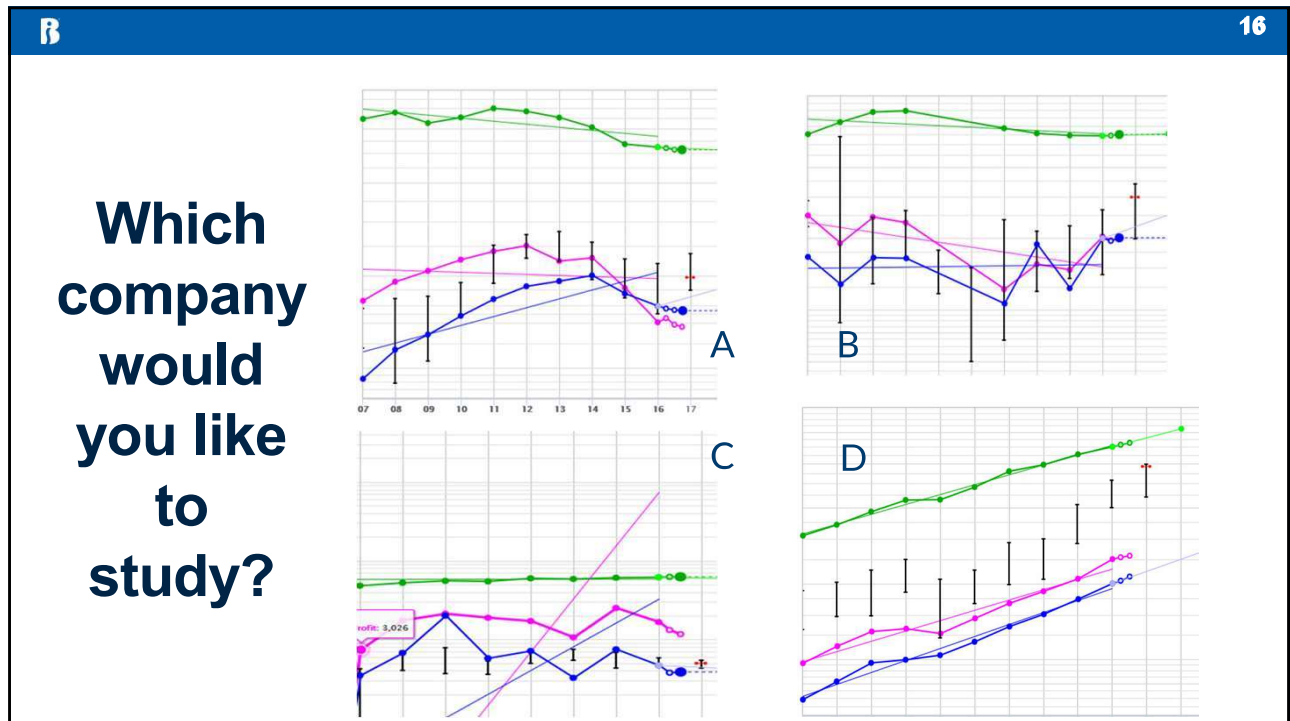
Report Details		SF		Study data	
Sector	Industry	Market Value (Security)	% of Portfolio (Security)	% of Portfolio (Industry)	% of Portfolio (Sector)
Communication Services				19.2%	19.2%
	Internet Content & Information				
	Meta Platforms	\$8,708.99	19.2%		6.2%
Energy					
	Oil & Gas Equipment & Services				
	SLB	\$2,826.06	6.2%		21.8%
Financial Services					

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Sectors Where I have Found Growth Names in My Past

- Lots of Growth
 - Information Technology
 - Health Care
 - Consumer Discretionary
 - Industrials
- Some Growth
 - Consumer Staples
 - Materials
 - Financials
 - Communications
- Few Growth Names
 - Utilities
 - Energy
 - Real Estate

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How Many Stocks per Club Member?

- To determine how many stocks each club member is following. If for example, the portfolio held 14 stocks.
- Example with 12 members, you cover 1.2 stocks/person. (14 stocks / 12 members)
- Most clubs average between 1-2 stocks per person.

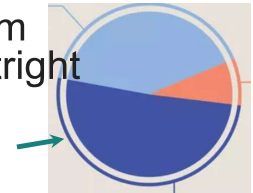
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Average Position Size – What is Too Big?

- The number of stocks in the club determines the average holding size. ($100\%/holdings$)
- Example a portfolio has 12 stocks = 8.3%. This is the average position size. ($100/12$)
- What is too big position? For me, its when a holding is 2X greater than an average weight. In this case, 16.6%.
- Do you hold – sell - trim? This is your decision.
- Though I have used the concept of trying to just trim wide economic moat stocks in my clubs versus outright selling.



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Tiny Holdings – Action Time?

- Tiny position sizes won't help your portfolio performance too much due to their small size.
- The decision tree with tiny holdings is: Hold – Add – Sell.
- Get the position to a size that will help performance – Consider the average weight in the portfolio.
- Create a goal of owning several smaller companies consistently or carrying a certain portfolio weight to get exposure to smaller companies.



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The Smaller Question

- BI recommends 75% of the portfolio in smaller and mid-sized sales companies.
- Is the club trying to find smaller companies?
- Smaller companies tend to perform better than larger stocks over longer time periods – more risk.
- Finding smaller companies is harder.
- Mid-sized companies tend to look better on an SSG versus smaller companies.



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Creating A Portfolio Management Process

- So far, we have been asking the basic questions for a club's Portfolio Tune-up to answer. Here is a list:
- How many stocks is each club member tracking?
- Determine the average position size in the portfolio.
- Are they invested in growth sectors?
- Are they diversified by size on sales?
- Determine how diversified they are by sectors.
- What is the breakdown by economic moat analysis?



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Additional Portfolio Management Questions

- How many big winners or losers in the portfolio?
- I typically find 1 or 2 big winners in a portfolio and one loser.
- If there are several losing stocks in the portfolio – review your research and purchase process.
- Finally,
- How are you valuing a non-profitable company?
- Create and track a company's investment thesis?

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The Individual Stock

- Finally in BetterInvesting, we focus on growth companies with:
 - Consistent sales and EPS growth,
 - Businesses that are an industry leader,
 - A competitive edge due to unique products – a moat,
 - Decent to good management teams.
- The SSG, Sections 1 & 2, is a good tool for this analysis.
- Remember, don't overpay today for anticipated future growth. How much should future earnings be discounted?
- Finally, don't be too conservative!



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Another Tool – Tracking Economic Moats

- I track them for club tune-ups, I think moats are very powerful.
- Many clubs own mainly wide + narrow moat stocks.
- Morningstar is the leader on moats.
- In selling or trimming, if it is a wide moat stock, I lean towards trimming.
- In theory, wide moat stocks should be stronger companies for a longer time.
- “No moat” stocks can do well, you might have to trade them more frequently.



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Example of The Process with a Real Club

- I have created a standard process that I have just described that I use on a club visit where we perform a Portfolio Tune-up. It is the portfolio management process.
- Determine how many stocks each club member is following. With 16 members, you cover 1.2 stocks/person. Average position size is roughly 5.3%.
- Depending on how many members and stocks in the club will determine how many stocks per person and the average holding size. (# stocks/members) and (100%/holdings)
- With 19 stocks, you are diversified in 7 sectors –technology, financials, communications, health care, industrial, consumer staple and discretionary. Largest sectors - consumer discretionary – 32.5%, tech 18.8%, and industrial 16%.
- Your portfolio runs from small to large companies. Many are profitable and industry leaders. 6–Wide Moat stocks, 6–Narrow, 1–None, 6–N/A (Smaller companies)

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Summary

- I have found most clubs that I have visited are doing well.
- Comparing your portfolio versus an index might help your portfolio management.
- Diversification helps investors over time.
- Manage both large and small holdings position sizes.
- Focusing on your individual holdings is key.
- Asset allocation can help individual investors.

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Questions or Comments?


- Improving Your Returns Using Portfolio Management

- Craig Braemer
- craigbraemer1@gmail.com




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