How We Invest

Your Path to Better Investing

Presenter:

Dennis Genord
Director, Education
NAIC/BetterInvesting

WELCOME

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 Corporation (“BI”). 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. BI presenters and volunteers are held to a strict code of conduct that precludes benefiting 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.

- This session is being recorded for future use.
BetterInvesting is …

We’re a member driven community
- 4,000+ investment clubs
- 80,000+ investors

We’re volunteer based with
- 700+ volunteer educators
- 64 chapters nationwide

Our Mission: Creating successful life long investors

Why BetterInvesting Will Work For You

- Common sense approach
- Education and Information
- Tools and Resources
- Community and Support
Our Philosophy…

- Stock investments should be in growth companies and viewed 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

[Diagram showing four principles: Invest Regularly, Buy Growth Stocks, Reinvest Dividends, Diversify]
Our Principles

- We are fundamental investors
- Follow four simple principles

- Buy Growth Stocks
- Invest Regularly
- Reinvest Dividends
- Diversify

What BetterInvesting members do...

- Identify good quality growth companies
- Verify quality company characteristics
- Estimate the company’s potential
- Determine a fair price to pay for that potential
How We Study a Stock

- 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

- Analyze 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%
% Return on Equity

% Debt to Capital
REVIEW

✓ Strong and consistent Sales
✓ Strong and consistent Earnings
✓ 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.

What Do We Do Next?

• We need to have a good understanding of the company’s future prospects. Your research will uncover the company’s growth potential.
• Using this information, combined with our understanding of historical performance, we will be prepared to make 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?
- Who are the competitors?
- How does the company stack up?
- What are the drivers for future growth?
- What are risks or limitations to future growth?
- What are analysts saying about future sales and EPS growth?
Evaluating Risk and Reward

Forecast High Price

P/E x Earnings = Price

Forecast Low Price

P/E x Earnings = Price
Evaluating Risk and Reward

Potential Gain vs Loss

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

**BetterInvesting Stock Selection 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

### REVIEW: How We Invest

<table>
<thead>
<tr>
<th>Compound Total Return (using Forecast High P/E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>View Calculations</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Potential Annual Price Appreciation:</td>
</tr>
<tr>
<td>Yield:</td>
</tr>
<tr>
<td>Annual Rate of Return:</td>
</tr>
<tr>
<td>Current Yield:</td>
</tr>
</tbody>
</table>
Questions?

If you have questions, send me an email…

Email: dennisg@betterinvesting.org