

Myth Busting for Classes to GO!
Ken Kavula

Smashing More BI Myths



Ken Kavula, Chairman
BetterInvesting Volunteer Advisory Board




Classes To GO! 6B

BETTERINVESTING NATIONAL CONVENTION

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- 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.



2

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BUSTING MORE BI MYTHS



MR. MYTH BUSTER!

3

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MYTH #1

It's a MYTH!

STOCKS WITH PRICES OVER \$100 ARE TOO EXPENSIVE!





4


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BUSTED!

Whether you pay \$200 for a single share of stock or \$20 per share for 10 shares of stock makes absolutely no difference!



ONE OF THESE




TWO OF THESE

5

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BUSTED!



What really counts is the P/E value for the stock you are purchasing!


Think of P/E as the amount that you are willing to pay for \$1.00 of the company's earnings.

6

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BUSTED!

Stocks with P/E values of 35 or 40 or higher are **REALLY** the expensive purchase!




That's the TRUTH!

7

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MYTH #2

EARNINGS MUST GROW AT 15% OR BETTER FOR A STOCK PRICE TO APPRECIATE AT 15% OR BETTER




It's a MYTH!

8

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BUSTED!


P/E Expansion and/or a Dividend often turn EPS growth in the 7-12% range into price appreciation in the 12% or greater range!



9

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BUSTED!



If the P/E fraction is expanding and if earnings are growing, then price must be growing more quickly than earnings!


A stock's P/E grows from 15 to 18, earnings grow at 12%:
Price of \$17.00 divided by Earnings of \$1.13 = P/E of 15
New Earnings will be \$1.27 (\$1.13 x 1.12). New price must be \$22.86 to give P/E of 18 (\$22.86/\$1.27 = 18)
Stock price appreciated from \$17.00 to \$22.86 or 34.5%!
[(22.86-17.00)/17.00=.345]

10

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If the P/E is constant but the stock pays a 3% dividend, then the 12% growth in earnings (which results in a 12% growth in price at a constant P/E) gives us total appreciation of 15%. Total appreciation is stock price appreciation plus dividend yield (if any!).



The math doesn't lie!

11

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MYTH #3

EACH STOCK IN MY PORTFOLIO MUST GROW AT 15% TO MEET MY GOAL!



It's a MYTH!


12

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BUSTED!

George Nicholson counseled that your entire **PORTFOLIO** should grow at 15%!

SIZE DISTRIBUTION



■ SMALL
■ MEDIUM
■ LARGE



13

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BUSTED!


SALES PER YEAR

SMALL	LESS THAN \$500M
MEDIUM	BETWEEN \$500M AND \$5B
LARGE	GREATER THAN \$5B

GROWTH PER YEAR

SMALL	>15%
MEDIUM	10-15%
LARGE	7-10%

That's the TRUTH!



14

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BUSTED!

In a typical portfolio, there's always room for large, slower-growing stocks as long as you also have some small, faster-growing stocks.




15

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CONCLUSION

BUSTING MYTHS CAN BE LIBERATING! ARE THERE OTHER MYTHS EMBEDDED IN YOUR CLUB CULTURE THAT NEED BUSTING?



kkavula1@comcast.net

16

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QUESTIONS?

17