



**Why the Tortoise Sometimes Wins**



Presenter: **Ron Mauer**  
Director Wisconsin Chapter

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**Objectives**

- What we are looking for in a stock
- Determine Total Return
- Portfolio Management




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**Terminology**

- Sales and Revenue
- Earnings, Profits, and Income
- Equity, Capital, Equity Capital, and Book Value

These terms may also be preceded by "Net" or "Total"



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**What We Are Looking For?**

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




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**High Quality**

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CORE SSG

SSG PLUS

Screening and Stock Ideas from BetterInvesting

Class Title: Screening and Stock Ideas from BetterInvesting

Program Title: Online Tools

Release Date: 10/24/2024

Length: 1:00:12

Intro to the SSG


Selecting the Best Companies

Class Title: Selecting the Best Companies

Program Title: Intro to the SSG Series

Release Date: 9/5/2024



Length: 59:59



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**The Hare and The Tortoise**

- Are fast-growing companies 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!


Size	Annual Revenue	Growth
Small	< \$1B	> 12%
Medium	\$1B to \$10B	7 to 12%
Large	> \$10B	=> 5%




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### Tortoises: Why?

- Considering slower growing companies gives you more investment possibilities





Size	Number
Small	3441
Medium	1421
Large	565



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### Slow And Steady



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

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### What Is 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)

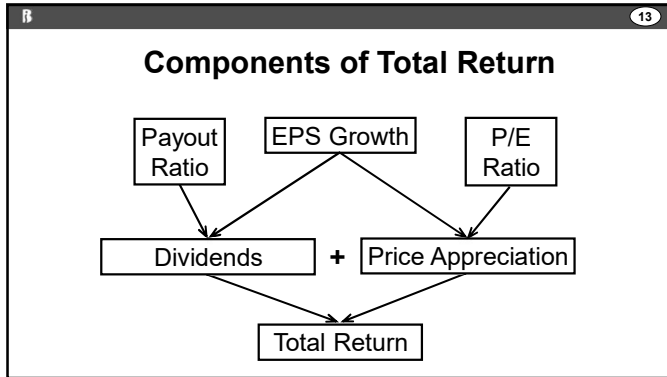
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### Total Return Comes From ...

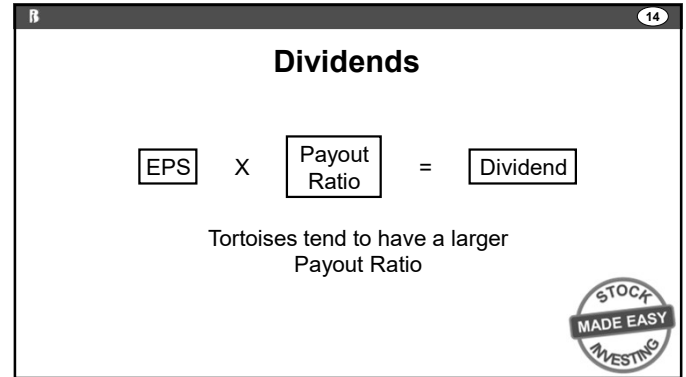
- Dividends — driven by:
  - ✓ Earnings growth (EPS)
  - ✓ Earnings Payout ratio (the percentage of earnings paid to shareholders as dividends)
- Price Appreciation — driven by:
  - ✓ Earnings growth (EPS)
  - ✓ P/E ratio (optimism about the future)



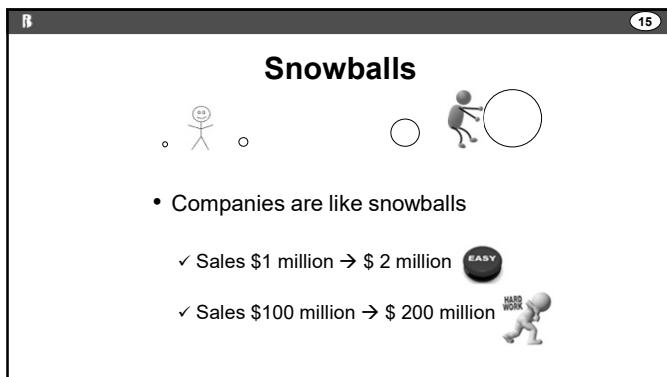
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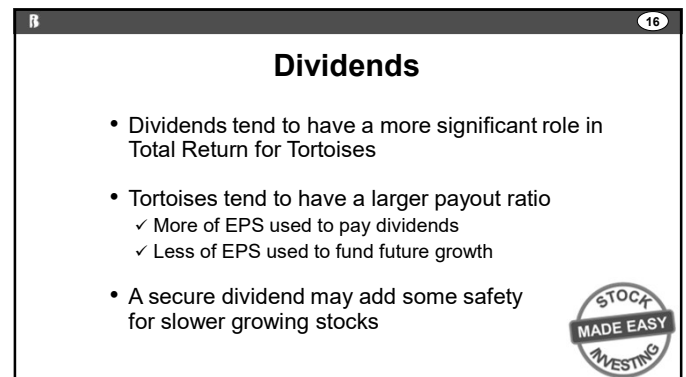
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**Dividend and EPS Growing?**

Analyze Growth and Quality

Legend:   
— Div/share   
— EPS

Year	Div/share	EPS
14	1.4	1.4
15	1.5	1.2
16	1.6	1.4
17	1.7	1.5
18	1.8	1.8
19	1.9	1.7
20	2.0	1.9
21	2.1	2.1
22	2.2	2.3
23	2.3	2.5
24	2.4	2.4


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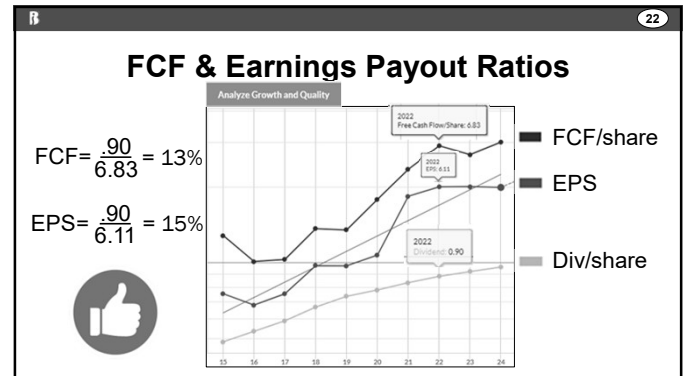
**Free Cash Flow Payout Ratio**

$$\text{FCF Payout Ratio} = \frac{\text{Dividends Paid}}{\text{FCF}}$$

Earnings and FCF – both are important!



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**Price Appreciation**

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

$$\boxed{\text{EPS}} \times \boxed{\text{P/E}} = \boxed{\text{Price}}$$


Tortoises need help from *P/E expansion*



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**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**

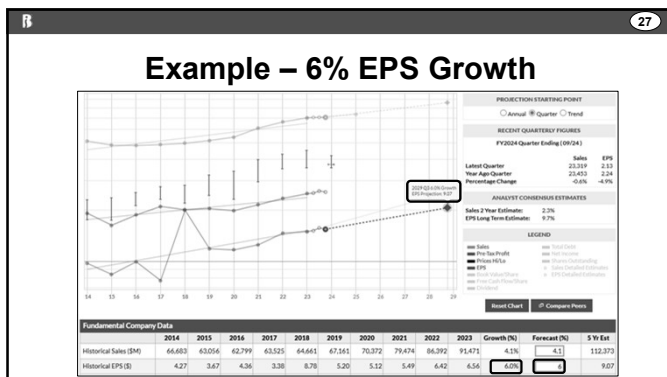
- P/E expansion means ...
- ... the Price-to-Earnings ratio moves higher than when you bought the stock
- Buying when there is potential for P/E expansion is always important — even more so for tortoises

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**P/E Expansion is Limited**

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

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**Example – 6% EPS Growth**

3. PRICE EARNINGS HISTORY as an indicator of the future

5 YEAR AVERAGE PRICE EARNINGS RATIO: 25.6

4. EVALUATING RISK AND REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS

High Price: 224.0, Estimate High Earnings/Share: 9.07, Forecast High Price: 234.0

Potential high P/E set to 5-year average P/E – we assume no P/E expansion...

Price appreciation = EPS growth rate

5. FIVE-YEAR POTENTIAL

COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation: 6.0%

Average Yield: 3.1%

Annualized Rate of Return: 9.1%


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## Let's Review


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



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## Questions




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## Portfolio Management Importance

- 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
- Might be inadequate for slower growers




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## Portfolio Management

*"Coach, Is Offense or Defense More Important?"*  
 Portfolio Evaluation Review Technique (PERT®)


Robin Ware, Mike Torbenson, John Blais



October 30, 2024



Hand outs → link to Coach class




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**Portfolio Management**


- BI embraces concept of Defense/Offense
  - ✓ 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 to determine value
  - ✓ 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**

5. FIVE-YEAR POTENTIAL

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Company	Price	Shares	Total Value	% of Portfolio	Potential % Tot Ret
1	38.18	70	2,673	10%	8.3
2	45.02	50	2,251	9%	15.0
3	50.06	70	3,504	13%	3.0
4	22.16	80	1,773	7%	15.3
5	61.48	20	1,230	5%	18.8
6	39.98	80	3,198	12%	21.4
7	66.96	11	737	3%	13.5
8	25.26	170	4,294	16%	10.1
9	18.00	125	2,250	9%	14.9
10	52.81	35	1,848	7%	17.4
11	36.70	20	734	3%	7.1
12	31.22	50	1,561	6%	13.3
			26,053	100%	12.7%




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**Offensive Portfolio Management**

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New	50.06	70	3,504	13%	17.0
4	22.16	80	1,773	7%	15.3
5	61.48	20	1,230	5%	18.8
6	39.98	80	3,198	12%	21.4
7	66.96	11	737	3%	13.5
8	25.26	170	4,294	16%	10.1
9	18.00	125	2,250	9%	14.9
10	52.81	35	1,848	7%	17.4
11	36.70	20	734	3%	7.1
12	31.22	50	1,561	6%	13.3
			26,053	100%	14.6%

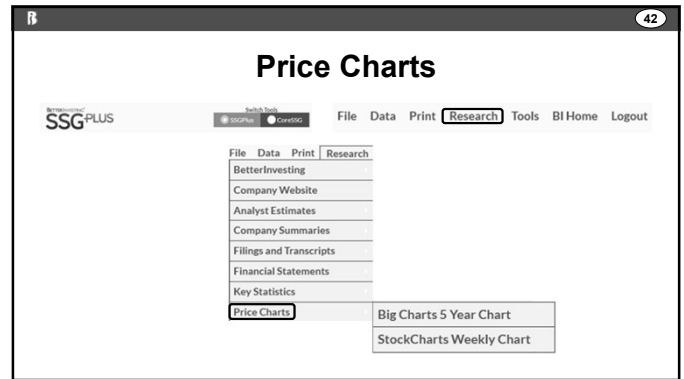


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**First Cut Stock Reports** Every week, BetterInvesting members from across the country share new stock studies. [VIEW ALL](#)

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**Deere First Cut**

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**First Cut Stock Study Report**


<b>Company Name:</b> Deere	<b>Ticker:</b> DE
<b>Date of Study:</b> 7/29/2024	<b>Price:</b> \$ 386.55
<b>Your Name:</b> Sofia Bitela	
<b>Email address:</b> sofiabetterinvesting@gmail.com	
<b>City:</b> Plantation	<b>State:</b> FL
<b>Chapter Name (if applicable):</b> South Florida	

**STOCK MADE EASY INVESTING**

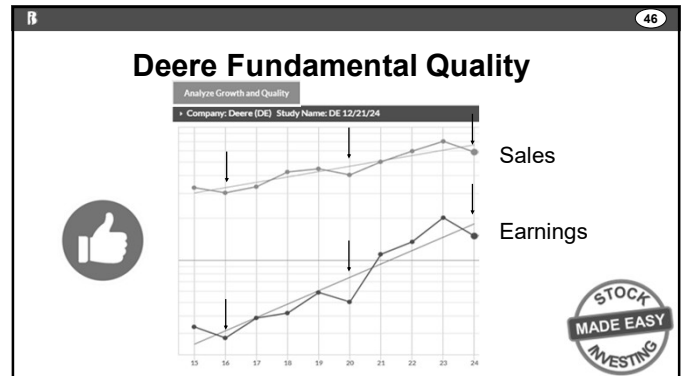
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**Deere Quality Metrics**

- Fundamentals
  - ✓ Sales Growth
  - ✓ Earnings Growth
- Management
  - ✓ Profit margin
  - ✓ Return on Equity (ROE)
  - ✓ Manageable debt



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**Deere Management Quality**

Evaluate Management

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
% Pre-Tax Profit on Sales	9.9%	8.6%	11.0%	11.2%	10.7%	11.2%	17.7%	17.8%	21.6%	18.2%
% Return on Equity	23.7%	20.4%	25.1%	22.3%	26.1%	21.1%	37.2%	36.5%	42.3%	30.4%
% Debt To Capital	84.5%	84.5%	80.7%	78.9%	79.9%	78.2%	72.5%	72.0%	74.5%	74.1%

Improvement last 5 years vs previous years






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**Deere Liquidity Quality**

Analyze Growth and Quality | Valuation and Return | Quarterly Data | **Built** | Audit | Sentiment | Notes

Liquidity Ratios

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Current	Trend
Current Ratio	2.0	2.1	2.1	1.8	2.0	2.2	2.1	1.9	1.9	2.0	2.0	
Quick Ratio	1.8	1.9	1.9	1.6	1.7	2.0	1.8	1.6	1.6	1.7	1.7	
Interest Coverage	5.1	3.9	4.5	4.4	3.8	4.1	8.7	9.6	6.3	3.8	3.8	

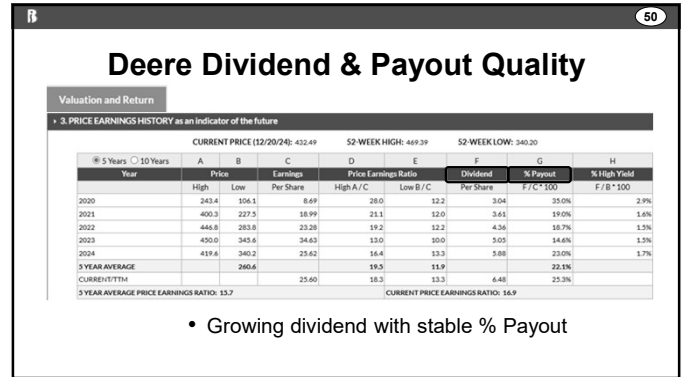
- Stable, increasing or decreasing?
- Compare to peers



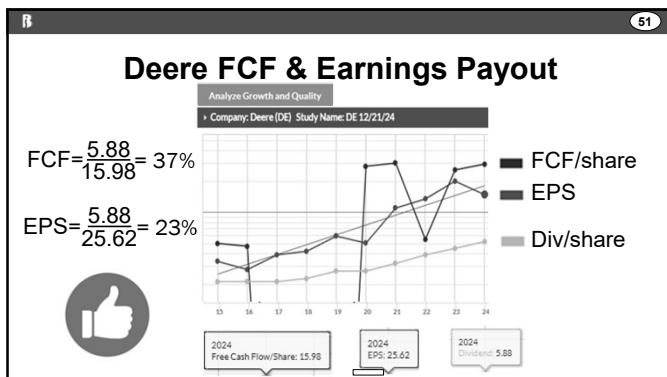
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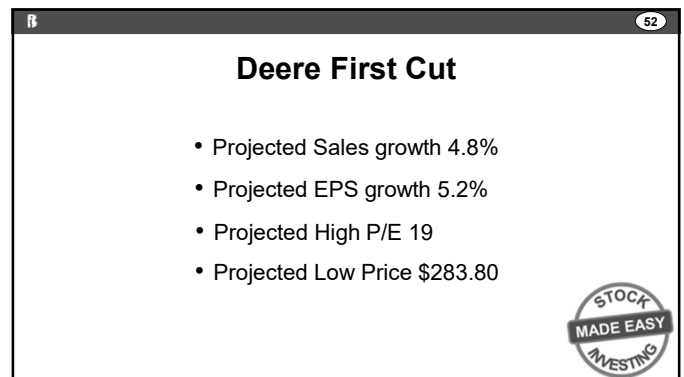
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Deere July 2024								
3 PRICE-EARNINGS HISTORY as an indicator of the future								
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2019	176.4	132.7	10.15	17.4	13.1	3.04	30.0	2.3
2020	243.4	106.1	8.69	28.0	12.2	3.04	35.0	2.9
2021	400.3	227.5	18.99	21.1	12.0	3.61	19.0	1.6
2022	446.8	283.8	23.28	19.2	12.2	4.36	18.7	1.5
2023	450.0	345.6	34.63	13.0	10.0	5.05	14.6	1.5
AVERAGE		219.1		19.7	11.9		23.5	
CURRENT/TTM			33.22	13.4	10.4	5.88	17.7	
AVERAGE PRICE EARNINGS RATIO: 15.8				CURRENT PRICE EARNINGS RATIO: 11.6				

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Deere July 2024								
5 5-YEAR POTENTIAL								
<p>A Indicated Annual Dividend 5.88</p> <p>Current Price 386.55 = 0.0152 = 1.5% Current Yield</p> <p>B AVERAGE YIELD - USING FORECAST HIGH P/E</p> <p>Avg. % Payout = 23.5% = 1.2%</p> <p>Forecast High P/E 19.00 = 1.2%</p> <p>C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E</p> <p>Annualized Appreciation 17.0%</p> <p>Average Yield 1.2%</p> <p>Annualized Rate of Return 18.2%</p>								
<p>AVERAGE YIELD - USING FORECAST AVERAGE P/E</p> <p>Avg. % Payout = 23.5% = 1.5%</p> <p>Forecast Average P/E 15.50 = 1.5%</p> <p>COMPOUND ANNUAL RETURN - USING FORECAST AVG. P/E</p> <p>Annualized Appreciation 12.3%</p> <p>Average Yield 1.5%</p> <p>Annualized Rate of Return 13.9%</p>								
<p>13.9% - 1.5% dividend = 12.3% price appreciation</p> <p>12.3% - 5.2% EPS growth = 7.1% P/E expansion</p>								

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# Deere Dec 2024

## 3. PRICE EARNINGS HISTORY as an indicator of the future

CURRENT PRICE (12/20/2024): 432.49

52-WEEK HIGH: 449.39

52-WEEK LOW: 340.30

Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2020	215.4	136.1	9.49	25.0	13.2	3.04	30.0	2.3%
2021	400.3	227.5	18.99	21.1	12.0	3.61	19.0	1.6%
2022	446.8	283.8	23.28	19.2	12.2	4.36	18.7	1.5%
2023	450.0	345.6	34.63	13.0	10.0	5.05	14.6	1.5%
2024	419.6	340.2	25.62	16.4	13.3	5.88	23.0	1.7%
3 YEAR AVERAGE		360.6		19.3	13.9		22.1	
CURRENT/TTM			25.60	16.3	13.3	6.40	25.3	
3 YEAR AVERAGE PRICE EARNINGS RATIO: 15.7				CURRENT PRICE EARNINGS RATIO: 14.7				

## 5. FIVE-YEAR POTENTIAL

### COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation 3.4%

Average Yield 1.4%


Annualized Rate of Return 4.8%

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## Tortoises

- Seek out replacements potentially more often
  - More work
  - You decide if worth it
  - Taxes
- 



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## 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
  - ✓ Current P/E = or > average P/E
- If satisfied with lower return, hold. It's up to you!



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## Summary

- Does it always work out?
- Of course not!
- But the approach can work well
- It expands your investment possibilities



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## Questions



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Slide 62 has a dark header with a 'B' logo and the number '62'. The main title is 'Make a Difference in Someone's Life'. Below it, the text reads: 'If you have benefited from BETTERINVESTING™ Please share some BetterInvesting materials and introduce others to this dynamic investment education opportunity!'. To the left are logos for 'BETTERINVESTING weekly', 'StockUp', 'BETTERINVESTING SSG PLUS', and 'BETTERINVESTING CORE SSG'. To the right is an image of a '100' magazine and a 'TickerTalk' logo. At the bottom, it says 'Pay it forward!'.

62

 Slide 63 has a dark header with a 'B' logo and the number '63'. It features a calendar icon on the left. The title is 'Save the Dates' followed by 'The Tax Man Has Nothing On Us: A Deep Dive Retirement Series'. Below that, it says 'Presented by Christi Powell'. The dates are 'Thr. May 29th ▪ Mon. June 30th ▪ Mon. August 4th'. There is a small circular logo with an umbrella and the text 'Protecting Your Future'. At the bottom, it says 'Email Questions or Comments to' followed by 'Presenter: Ron Mauer', 'Email Adr: [RJMM1878@GMAIL.COM](mailto:RJMM1878@GMAIL.COM)', and 'Email Subject Line: Why The Tortoise Sometimes Wins'. A 'STOCK MADE EASY INVESTING' logo is in the bottom right corner.

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