Six Signs of a SSG That's Too Conservative

Or Admit It You Don't Want to Buy Stocks

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November 1, 2025

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Being Conservative Is NOT a Virtue When Buying Stocks

I was conservative
in my judgments…

A) Uncertain of judgments?
B) Risk avoidance?

Judgments should be REASONABLE…

Not conservative

3

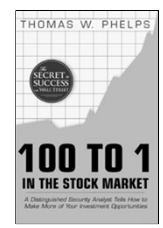
Avoidance of Risk vs. Seizure of Opportunity

Fallacy: "Avoidance of risk is more important than seizure of opportunity!"

Corollary: Do you…

Overemphasize the risks of stocks to study?
Underweight the cost of not buying?

Thomas Phelps (1901-1992), "100 to 1 in the Stock Market", 1972. pg. 24.



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Six Signs of a SSG That's Too Conservative

Prologue: Basic BI Investing Concepts

1. You Ignore the Visual Analysis (Primary) to Focus on Some Shiny Object (Secondary)
2. Taking Just a Few Points Off the Historic Rates
3. Not Changing Your Projection Starting Point
4. Failing to Believe a Good Company Can Sell at a High Price
5. Setting Risk to a Global Pandemic
6. Coming to the Wrong & Conservative Conclusion

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Prologue: Basic BI Investing Concepts

3. PRICE EARNINGS HISTORY as an indicator of the future

CLOSING PRICE (04/21/23): 200.59 52-WEEK HIGH: 220.19 52-WEEK LOW: 109.49

	A	B	C	D	E	F	G	H
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
2018	136.1	60.0	2.66	51.2	22.6	0.00	0.0%	0.0%
2019	148.2	95.5	3.12	47.5	30.6	0.00	0.0%	0.0%
2020	197.4	47.5	2.20	89.7	21.6	0.00	0.0%	0.0%
2021	237.9	151.0	4.95	48.1	30.5	0.00	0.0%	0.0%
2022	197.2	109.5	4.69	42.0	23.3	0.00	0.0%	0.0%
AVERAGE		**92.7**		**55.7**	**25.7**		**0.0%**	
CURRENT/TTM			4.69	46.9	23.3	0.00	0.0%	
AVERAGE PRICE EARNINGS RATIO: 40.7					**CURRENT PRICE EARNINGS RATIO: 42.8**			

Show / Hide Price/Earnings Chart Compare Peers

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BetterInvesting™ Stock Selection Guide®

Organizes all the research you gathered to determine the answers to two key questions:

1) Is this a quality growth company?

2) Is the company selling at a fair and reasonable value (price)?

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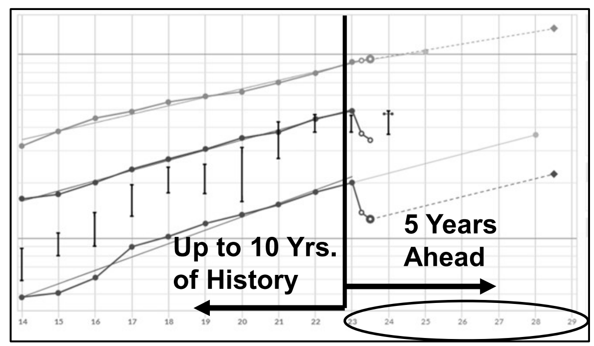
SSG Users Project Out Five Years

BI Members:

Look back 10 years to check performance in good and bad times.

Look forward five years to project future value.

A bad quarter or 2 may be insignificant over 15 years…



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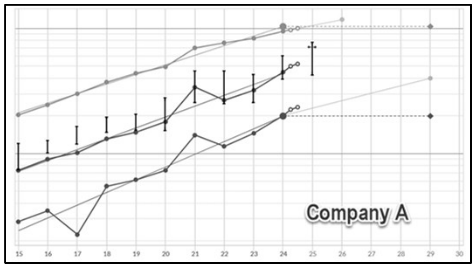
1. You Ignore the Visual Analysis (Primary) to Focus on Some Shiny Object (Secondary)



Returning to the Way the Founders Did SSGs

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Overreliance on Secondary Sources

Value Line

CFRA

ACE Estimates

Member Sentiment

Some give summaries of the most recent quarterly updates (Short term results!)

All give growth estimates—some for 3-5 years, some for 2 years

YOU STILL NEED

Review of the visual analysis for past years

Additional research: what makes the company tick

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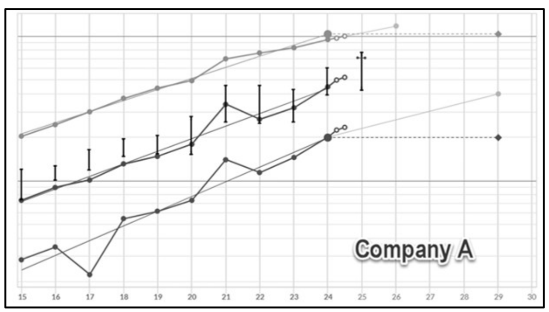
Is This a Quality Growth Company?

Current Price: 236.57 (10/10/25)
Last Fiscal Year End: 12/2024
Industry: Internet Content & Information
Sector: Communication Services
Company Size: Large - >$10B in Sales
Morningstar Financial Health Grade: A



If yes, how would you draw the projection line five years into the future?

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Historic Performance Gives Clues To Your Future Growth Estimates

- Look at 10-year performance
- Look at 5-year performance
- Look at 3-year performance

- How do they compare?
  - Are the rates of growth similar? Increasing? Decreasing?
  - Is growth more consistent as the time periods shorten?

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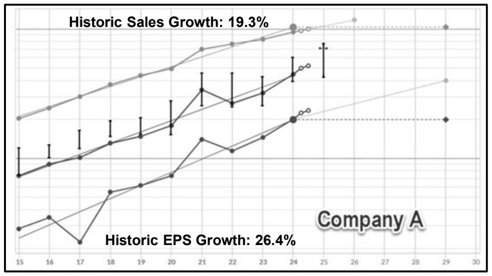
Measuring The Strength of Growth: 10 Years

“To measure the strength of growth, you will need a line that sums up the trend of growth over the period for which you have data.” Take Stock, pg. 92

The Trend Line is the light-colored line that shows the growth trend.



Annual Sales trendline touches 8 of the 10 years
Annual EPS trendline touches 5 of 10 years.

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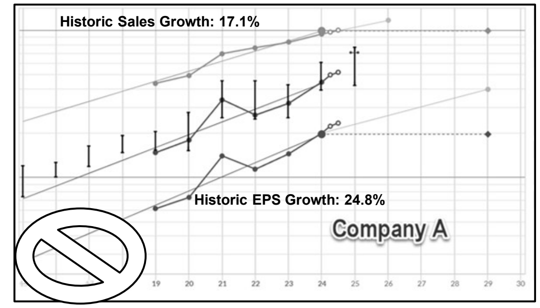
Measuring The Strength of Growth: 5 Years

Delete the oldest 5 years.

How steady is the performance?

How confident are you in making future performance projections?



Annual Sales trendline touches 4 of the 5 years;
Annual EPS trendline touches 3ish of 5 years.

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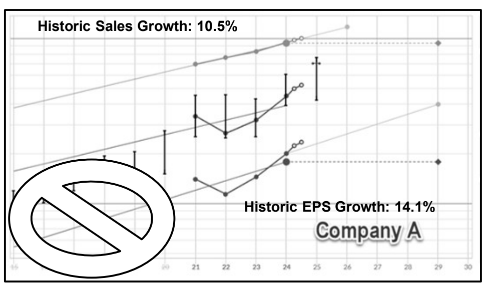
Measuring The Strength of Growth: 3 Years

With a shorter time, does trend line touch more data points?

How is recent performance?

What does this say about the future?



Annual Sales trendline touches 3 of the 3 years;
Annual EPS trendline touches 0 of 3 years

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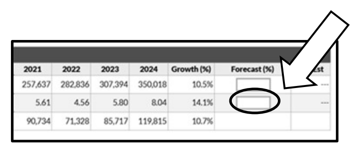
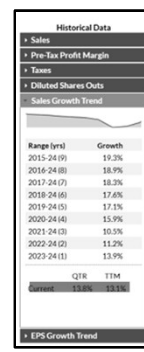
You May Also See Just the Numbers…

Pro Tip: If you prefer to see the numeric trend then open the EPS growth tab and click on ***Sales or EPS Growth Trend.***

Click



2021	2022	2023	2024	Growth (%)	Forecast (%)	Est
257,637	282,836	307,394	350,018	10.5%		---
5.61	4.56	5.80	8.04	14.1%		---
90,734	71,328	85,717	119,815	10.7%		



10-year
5-year
3-year
1-year
Last Quarter

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BetterInvesting™ Stock Research Form

This…

1.0 SALES GROWTH
1.1 HISTORICAL SALES GROWTH (FROM SSG)

History	Most Recent Quarter	1-year	3-year	5-year	9-year	Other:
Historical sales						

1.2 HISTORICAL TRENDS AND GROWTH STRATEGY
Historical Trends (Life cycle growth observations; Recessionary growth observations)

Growth Strategy (references: Annual Report/MD&A comments; Analysts' evaluation of growth strategies (i.e. CFRA Business Summary, Morningstar Analyst Report))

BI Members Only access

Before this…

	Current Year	Next Year	3-5 Year
Analyst Sales Estimates			

1.4 COMMENTS ABOUT FUTURE SALES GROWTH
Future Sales Growth (Geographic and Product-line growth vs. market share; Analysts' comments regarding future growth potential and rates)

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Choose What's Reasonable…

Company A Historic and Future Judgment

Historic	10 Yr.	5 Yr.	3 Yr.	Last Yr.	Last Qt.	Value Line Report	2 Yr. ACE	Member Sentiment	Future Judgments
Sales	19.3%	17.1%	10.5%	13.9%	13.8%	13.5%	11.2%	11.0%	
EPS	26.4%	24.8%	14.1%	38.6%	22.2%	12.0%	14.7%	12.1%	

NOT
"What's the Most Conservative?"

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Next Stock Study – Try These Techniques

Solutions to Point #1

1. Set the Projection Line using the strength of growth based on the timeframe (10 yrs, 5 yrs, 3 yrs) that best fits this stock
2. Use strength of growth before reading about the company
3. Then research the company
4. Re-adjust the SSG based on your research
5. Think out five years into the future.

Five Years Allows Us to Visualize Both Good Times and Bad Times

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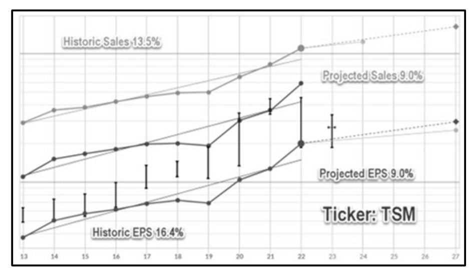
2. Taking Just a Few Points Off Historic Growth Rates



The Insidious Way You Talk Yourself Out of Buying a Company

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"Taking Just a Few Points Off Historic Growth Rates"

TSM Historic and Future Judgment									
Historic	10 Yr.	5 Yr.	3 Yr.	Last Yr.	Last Qt.	Value Line Report	2 Yr. ACE	Member Sentiment	Future Judgments
Sales	13.5%	19.1%	29.5%	33.9%	26.7%	12.0%	5.8%	15.3%	9.0%
EPS	16.4%	24.0%	40.6%	57.4%	58.0%	17.5%	4.8%	15.8%	9.0%

- You drop your growth rates: WHY? *Is this still a quality growth company?*
  - *If not, don't reduce projections! Discard!*
  - *If yes, shaving off points can result in losing out on a high-quality stock.*
- Solution: Trust your visual analysis!

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"Taking Just a Few Points Off Historic Growth Rates"

What research prompted projections:

Resulting in 33% less in future sales over the past 10 years?

And 45% less in future EPS over the same time period?

"Is this a quality growth company?"

If "no" then discard.

If "yes", why the pessimism?

Is It Reasonable???

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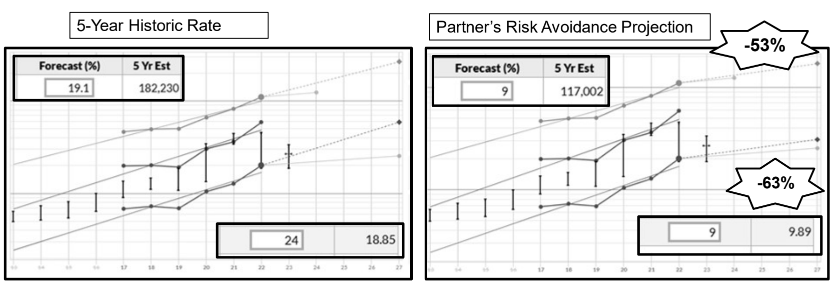
Effect of Lowering Sales & EPS Projections To Avoid Risk



2017	2018	2019	2020	2021	2022	5 Yr Avg	Trend
40.5%	38.5%	36.4%	43.7%	41.8%	50.5%	42.2%	
23.6%	23.4%	21.6%	27.1%	28.3%	37.4%	27.5%	
9.4%	9.8%	10.6%	16.7%	26.0%	23.0%	17.2%	

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Next Stock Study – Try These Techniques

Solutions to Point #2

1. Don't blindly select a few points less than historic levels.
2. Use Strength of Growth before you do any reading about the company.
3. Then read up on the company. Know what you own.
4. Return to your SSG and adjust your projections.
5. Think out five years into the future.

Five Years Allows Us to Visualize Both Good Times and Bad Times

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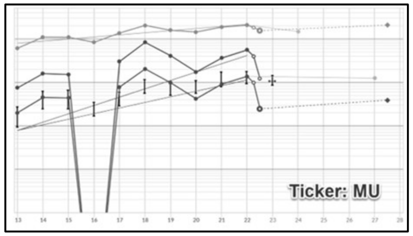
3. Not Changing Your Projection Starting Point



Accounting For an Outlier in the Most Recent Year

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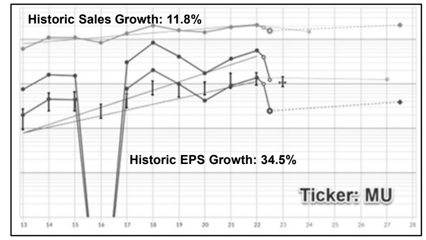
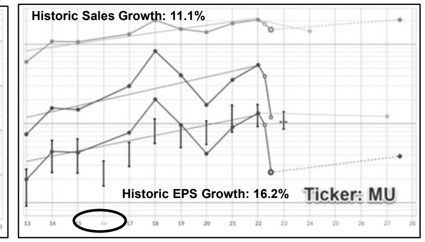
Why We Eliminate Outliers





"It's important to eliminate irrelevant data in order to properly measure historical growth and to **provide a reasonable starting point for estimating future growth**." *(emphasis added)*

-- Take Stock pg. 103

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When To Change Your Projection Starting Point

Or When the Current Quarter Is an Outlier

1. Is the latest quarter (or more) part of a "new normal" or just a blip on the chart? **Is this still a quality growth company?** (Add note to future self!)
2. Use the Strength of Growth / Trendline to see which starting point makes the most sense.
3. Remember to Think Out Five Years into the Future

Five Years Allows Us to Visualize
Both Good Times and Bad Times

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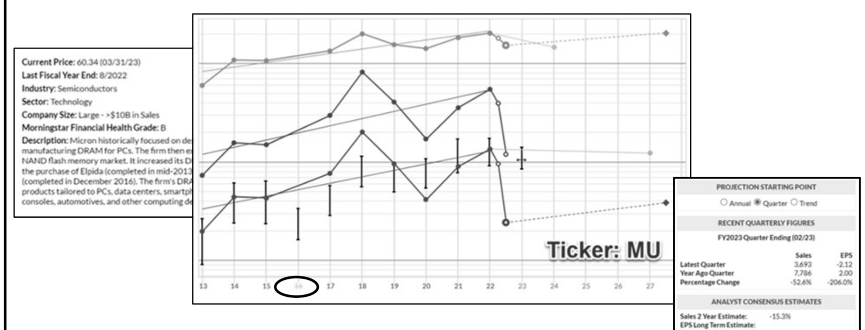
What is the Correct Projection Starting Point?



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Projecting Growth Rates off a Down Quarter / Year

Three options to set projection starting point.

Up, Straight & Parallel: Use “Quarter”

- Allows a full five years for projections

Vs.

- Annual: In this case a 4-1/2 year projection
- Trendline: In this case a 4-1/2 year projection

PROJECTION STARTING POINT

Annual / Quarter / Trend

RECENT QUARTERLY FIGURES

FY2023 Quarter Ending (02/23)

	Sales	EPS
Latest Quarter	3,693	-2.12
Year Ago Quarter	7,786	2.00
Percentage Change	-52.6%	-206.0%

ANALYST CONSENSUS ESTIMATES

Sales 2 Year Estimate: -15.3%
EPS Long Term Estimate:

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Projecting Growth Rates off a Down Quarter / Year

Starting from the last quarter:

Full 5-year projection

Starting point is low: $1.39

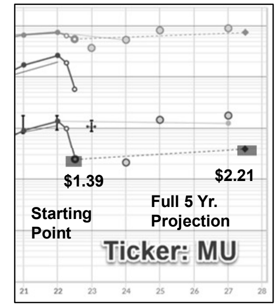
Result is 5-year EPS of $2.21

Is this reasonable?

2021	2022	Growth (%)	Forecast (%)	5 Yr Est
27,705	30,758	11.8%	6	30,863
5.14	7.75	34.5%	9.7	2.21
6,218	9,571	55.5%		

PROJECTION STARTING POINT

Annual / Quarter / Trend



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Projecting Growth Rates off a Down Quarter / Year

Starting from the Annual Data:

4-1/2 year projection

Starting point $7.75

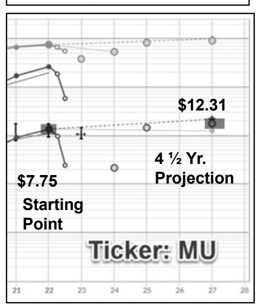
Result is 5-year EPS of $12.31

Is this reasonable?

Pro Tip: Projected EPS results have a major impact results on the Valuation & Return tab.

PROJECTION STARTING POINT

Annual / Quarter / Trend



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Projecting Growth Rates off a Down Quarter / Year

The Annual and the Trend Data –

Both start with the last fiscal year (2022)
Both will end at the 2026 Fiscal Year
Difference: End of trendline in 2022

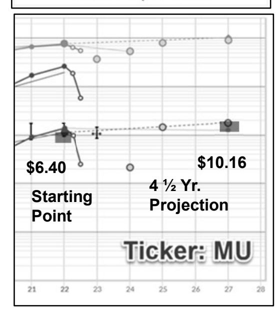
Starting with 2022 Trendline:

Start: $6.40
End: $10.16

Pro Tip: Review this Doug Gerlach webinar from the start of the pandemic – June 22, 2020 – where he talks about projecting from a down year.

PROJECTION STARTING POINT

Annual / Quarter / Trend



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Comparing Results Based on Starting Point

Actual EPS result (projection) is on both
Analyze Growth & Quality and Valuation & Return Sections

Ticker	Projection Starting Point	Starting Point	Value	EPS Growth Rate	Ending Point	Length of Time	Result
MU	Latest Quarter	2nd Qt, FY 2023	$1.39	9.7%	2nd Qt, FY 2028	5 Yrs.	$2.21
	Last Annual Data	4th Qt, FY 2022	$7.75	9.7%	4th Qt, FY 2027	4 1/2 Yrs.	$12.31
	End of Trendline	Where Trendline meets 4th Qt, FY 2022	$6.40	9.7%	4th Qt, FY 2027	4 1/2 Yrs.	$10.16

Big Impact. What's Reasonable?

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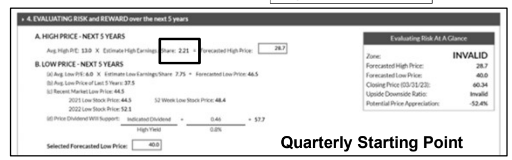
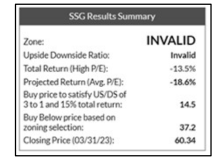
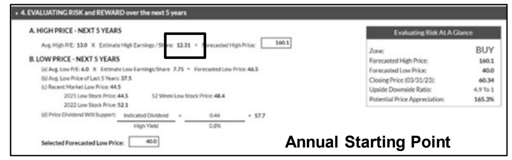
Impact On Your Valuation and Return

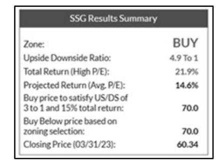
High & Low Price

Five Year Potential









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Impact On Your Valuation and Return

High & Low Price

Five Year Potential

The only change in judgment is where we started our projection from (Quarterly, Annual or Trend).

If you believe MU is a well - managed company, and the latest quarterly figure is a one-time occurrence then you might want to be patient with management.

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Next Stock Study – Try These Techniques

Solutions to Point #3

1. Select and compare results from different projection starting points
2. Always ask, "Is this a Quality Growth Company?"
   - Wildly erratic lines: A cyclical company? A company to discard?
   - Is recent bad quarter an outlier?
3. Read Up on the Company.
4. Return to your SSG and adjust your starting projection point.
5. Remember to Think Out Five Years into the Future

Five Years Allows Us to Visualize Both Good Times and Bad Times

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Let's Break For ….

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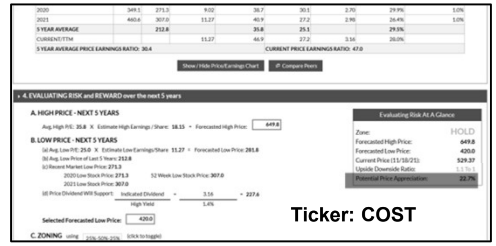
4. Failing to Believe a Good Company Can Sell at a High (P/E) Value



Your Potential Price Appreciation is Set to Never

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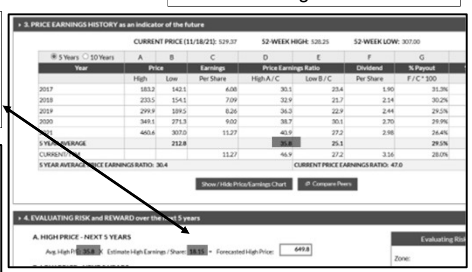
Price Appreciation Comes From Two Sources

Future EPS Growth in Sec. 1

Ticker: COST

Forecasted High P/E in Sec. 4

2019	2020	2021	Growth (%)	Forecast (%)	5 Yr Est
152,703	166,761	195,929	7.3%	9	301,461
8.26	9.02	11.27	11.6%	10	18.15
4,765	5,367	6,680	9.3%		



If 5-yr Est too low

> High price too low
> Company can be permanently in the HOLD Zone

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Ascending Historic P/Es

Ticker: COST

3. PRICE EARNINGS HISTORY as an indicator of the future

CURRENT PRICE (11/18/21): 529.37 52-WEEK HIGH: 528.25 52-WEEK LOW: 307.00

◉ 5 Years ○ 10 Years	A	B	C	D	E	F	G	H
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
2017	183.2	142.1	6.0	30.1	23.4	1.90	31.3%	1.3%
2018	233.5	154.1	7.0	32.9	21.7	2.14	30.2%	1.4%
2019	299.9	189.5	8.2	36.3	22.9	2.44	29.5%	1.3%
2020	349.1	271.3	9.0	38.7	30.1	2.70	29.9%	1.0%
2021	460.6	307.0	11.2	40.9	27.2	2.98	26.4%	1.0%
5 YEAR AVERAGE		212.8		35.8	25.1		29.5%	
CURRENT/TTM			11.2	46.9	27.2	3.16	28.0%	
5 YEAR AVERAGE PRICE EARNINGS RATIO: 30.4					CURRENT PRICE EARNINGS RATIO: 47.0			

Show / Hide Price/Earnings Chart Compare Peers

"When P/E ratios are increasing, the average high and low P/Es are the conservative choice. Although P/E ratios are headed up, they can't continue in that direction forever. The average high and low P/Es in this case will be less than the most recent year's P/Es." SSG Digital Handbook, pg. 46

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Lower Future P/Es = P/E Contraction

- Your choice: Your high P/E is lower than the current market P/E
- Your choice means: Company needs phenomenal EPS growth or a high payout ratio (or both) to get out of the Hold zone

Charles Schwab:

- Best way to assess a company's P/E:
  - Compare "the company's P/E to its historical P/E range"
  - Compare "the company's current P/E to other companies in the same business or industry group"

Source: Charles Schwab article

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Finding a "Never-Buy" Quality Growth Company

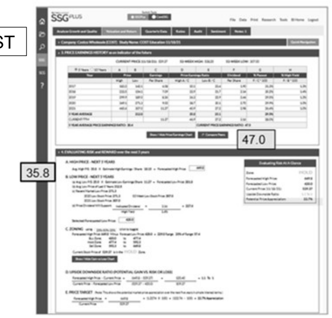
1. Choose too low a projection

Ticker: COST

2019	2020	2021	Growth (%)	Forecast (%)	5 Yr Est
152,703	166,761	195,929	7.3%	9	301,461
8.26	9.02	11.27	11.6%	10	18.15
4,765	5,367	6,680	9.3%		

2019	2020	2021	5 Yr Avg	Trend
3.1%	3.2%	3.4%	3.2%	
25.1%	23.7%	30.2%	26.3%	
30.9%	35.7%	36.6%	35.0%	

2. Choose too low a P/E



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Is the Current P/E (Value) a New Normal?

- Situation: High P/Es rose *each* year from 30 (2017) > 41 (2021).
- Current P/E 47.
- Choosing average high P/E of 35.8 ignores the upward trend of the P/E growth.
- P/E choice of 35.8 means future value ~24% lower than today's value.

C	D	E
Earnings	Price Earnings Ratio	
Per Share	High A / C	Low B / C
6.08	30.1	23.4
7.09	32.9	21.7
8.26	36.3	22.9
9.02	38.7	30.1
11.27	40.9	27.2
	35.8	**25.1**
11.27	46.9	27.2

Ticker: COST

What's Reasonable?

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Look at the 10 Year P/E (Value) History: New Normal?

Ticker: COST

Company: Costco Wholesale (COST) Study Name: COST Education 11/18/21 Quick Navigation

3. PRICE EARNINGS HISTORY as an indicator of the future

CURRENT PRICE (11/18/21): 529.37 52-WEEK HIGH: 528.25 52-WEEK LOW: 307.00

5 Years 10 Years	A	B	C	D	E	F	G	H
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
2012	99.3	76.6	3.89	25.5	19.7	1.03	26.5%	1.3%
2013	120.2	93.5	4.63	26.0	20.2	1.17	25.3%	1.3%
2014	126.1	109.5	4.65	27.1	23.5	1.33	28.6%	1.2%
2015	156.8	117.0	5.37	29.2	21.8	1.51	28.1%	1.3%
2016	169.7	138.2	5.33	31.8	25.9	1.70	31.9%	1.2%
2017	183.2	142.1	6.08	30.1	23.4	1.90	31.3%	1.3%
2018	233.5	154.1	7.09	32.9	21.7	2.14	30.2%	1.4%
2019	299.9	189.5	8.26	36.3	22.9	2.44	29.5%	1.3%
2020	349.1	271.3	9.02	38.7	30.1	2.70	29.9%	1.0%
2021	460.6	307.0	11.27	40.9	27.2	2.98	26.4%	1.0%
5 YEAR AVERAGE		**212.8**		**35.8**	**25.1**		**29.5%**	
10 YEAR AVERAGE		**159.9**		**31.9**	**23.7**		**28.8%**	
CURRENT/TTM			11.27	46.9	27.2	3.16	28.0%	

5 YEAR AVERAGE PRICE EARNINGS RATIO: 30.4 CURRENT PRICE EARNINGS RATIO: 47.0

Show / Hide Price/Earnings Chart | Compare Peers

What's Reasonable?

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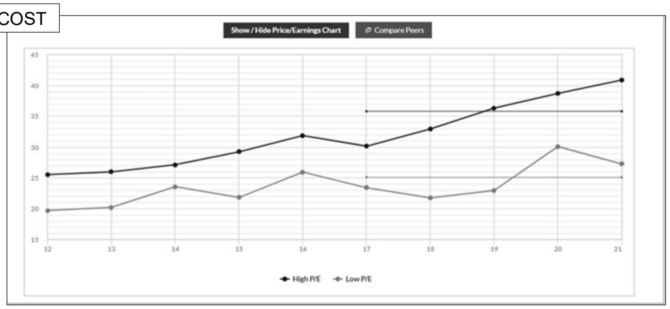
Six Signs of a SSG That's Too Conservative, By Kevin Gillogly 45

10 Years of P/Es (Value) Visually

Ticker: COST



What's Reasonable?

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Six Signs of a SSG That's Too Conservative, By Kevin Gillogly 46

10 Years of High and Low Price

CURRENT PRICE (11/18/21): 529.37 **52-WEEK HIGH:** 528.25 **52-WEEK LOW:** 307.00

Ticker: COST

How Much has the Price gone up in the past 10 years?

Are you missing out by being Conservative?

Or will you seize an Opportunity?

5 Years / 10 Years	A	B
Year	**Price**	
	High	Low
2012	99.3	76.6
2013	120.2	93.5
2014	126.1	109.5
2015	156.8	117.0
2016	169.7	138.2
2017	183.2	142.1
2018	233.5	154.1
2019	299.9	189.5
2020	349.1	271.3
2021	460.6	307.0
5 YEAR AVERAGE		**212.8**
10 YEAR AVERAGE		**159.9**
CURRENT/TTM		

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Six Signs of a SSG That's Too Conservative, By Kevin Gillogly 47

Next Stock Study – Try This Technique

Solutions to Point #4

1. Is this a high-quality growth company? If not, discard immediately!
2. If Potential Price Appreciation is less than 50% try a more optimistic SSG. Try and seize an opportunity.
   - Consider raising forecasted high earnings (Sec. 1) and / or
   - Consider raising forecasted high P/E
3. Goal is a price appreciation (Evaluating Risk at a Glance) > 75%.
4. Compare the 2 SSGs. Which one is more reasonable?
5. Remember to Think Out Five Years into the Future

Five Years Allows Us to Visualize Both Good Times and Bad Times

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Six Signs of a SSG That's Too Conservative, By Kevin Gillogly 48

5. Setting Your Downside Risk to a Global Pandemic

A. HIGH PRICE - NEXT 5 YEARS

Avg. High P/E: **35.0** X Estimate High Earnings / Share: **16.27** = Forecasted High Price: **569.4**

B. LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E: **24.0** X Estimate Low Earnings/Share **6.71** = Forecasted Low Price: **161.0**
(b) Avg. Low Price of Last 5 Years: **146.1**
(c) Recent Market Low Price: **196.3**
2021 Low Stock Price: **196.3** 52 Week Low Stock Price: **213.4**
2022 Low Stock Price: **241.5**
(d) Price Dividend Will Support: Indicated Dividend / High Yield = 2.72 / 2.4% = **112.1**

Selected Forecasted Low Price: 161.0

Evaluating Risk At A Glance	
Zone:	HOLD
Forecasted High Price:	**569.4**
Forecasted Low Price:	**161.0**
Current Price (05/18/23):	**318.52**
Upside Downside Ratio:	1.6 To 1
Potential Price Appreciation:	**78.8%**

Ticker: MSFT

Stop Being Chicken Little

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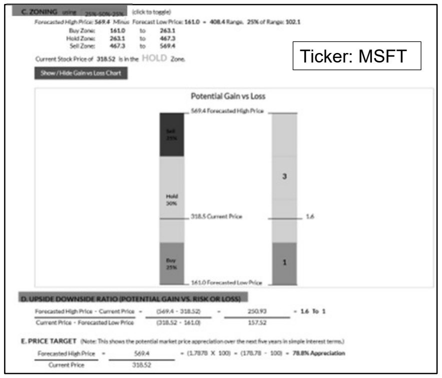
Selecting the Future Low Price Has a Major Impact On….

1) The Zoning
(Buy, Hold, or Sell)

and

2) The Upside / Downside Ratio
(Potential Gain vs Risk or Loss)



Ticker: MSFT

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"If the low price is not set correctly then the Upside / Downside Ratio is meaningless."

Ed Chiampi, Florida Director, in BI Magazine April 1998

Solution: When setting your low price select a figure that allows for downside risk but not Armageddon.

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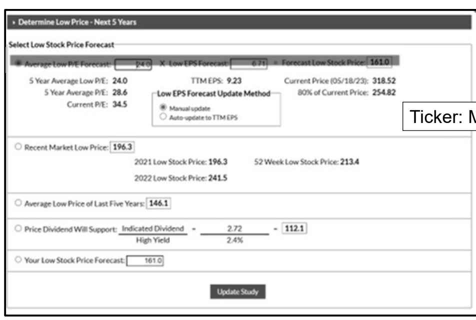
Blindly Selecting Sec. 4Ba Can Make Your SSG Too Conservative

Be Reasonable!

Why should MSFT's Future Price be 50% less than current Price?



Ticker: MSFT

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What is Too Low?

- BI members avoid setting a low price higher than 80% of the current price.
- We have no standard for too low.
- If it is a high-quality company then question any low-price estimate more than 50% lower than of the current price.
- Current price \$100.57 x 50% = \$50.28

Selected Forecasted Low Price: 48.5

Too Cautious???

Evaluating Risk At A Glance	
Zone:	HOLD
Forecasted High Price:	130.0
Forecasted Low Price:	48.5
Current Price (10/18/23):	100.57
Upside Downside Ratio:	0.6 To 1
Potential Price Appreciation:	29.2%

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Next Stock Study – Try These Techniques

Solutions to Point #5

1. Try Thinking About The Company Itself
   - Quality company = cut some slack; Declining company = discard
2. We expect downside risk. We won't think the sky is falling every year.
3. If the latest quarters are positive then set the low price closer to the upper limit (80% of the current price) than the unofficial lower limit (50% of the current price).
4. Do a more optimistic SSG. Which is more reasonable?
5. Remember to Think Out Five Years into the Future

Five Years Allows Us to Visualize Both Good Times and Bad Times

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6. Coming to the Wrong & Conservative Conclusion

5. FIVE-YEAR POTENTIAL

A. CURRENT YIELD

$\frac{\text{Indicated Annual Dividend}}{\text{Current Price}} = \frac{2.72}{94.91} = 0.0287 = \mathbf{2.9\%}$

B. AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High P/E}} = \frac{69.5}{30.0} = \mathbf{2.3\%}$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average P/E}} = \frac{69.5}{28.40} = \mathbf{2.4\%}$

Ticker: MDT

SSG Results Summary	
Zone:	BUY
Upside Downside Ratio:	3.6 To 1
Total Return (High P/E):	13.4%
Projected Return (Avg. P/E):	**12.3%**
Buy price to satisfy US/DS of 3 to 1 and 15% total return:	**88.3**
Buy Below price based on zoning selection:	**97.7**
Current Price (08/17/22):	**94.91**

You Wanted to Buy Stocks to Protect Against Inflation

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Total Return vs. Projected Average Return

- Total Return (TR) is our calculation when everything is going well.
- Projected Average Return (PAR) is our calculation when everything is going average.
- If things are going wrong -- SELL

Bracket your return between good (TR) and average (PAR)

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When Total Return (TR) and Projected Average Return (PAR) Are Near Each Other

SSG Results Summary	
Zone:	BUY
Upside Downside Ratio:	3.6 To 1
Total Return (High P/E):	13.4%
Projected Return (Avg. P/E):	**12.3%**
Buy price to satisfy US/DS of 3 to 1 and 15% total return:	**88.3**
Buy Below price based on zoning selection:	**97.7**
Current Price (08/17/22):	**94.91**

Why This Happens:
Either / Or

- Your P/Es in Sec. 4 are too close to each other.
- Too conservative P/Es in Section 4.

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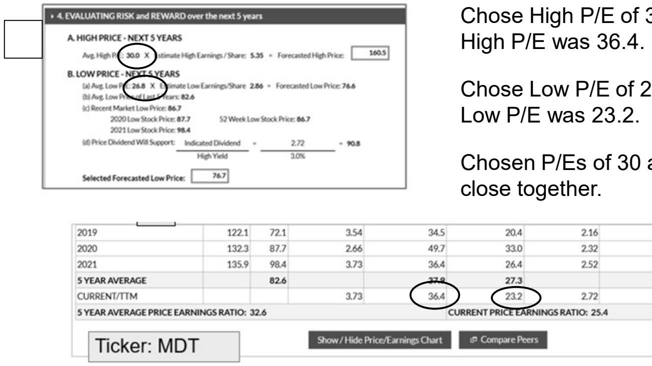
When Forecasted P/Es Are Too Close Together



4. EVALUATING RISK and REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS

Avg. High P/E: 30.0 X Estimate High Earnings / Share: 5.35 = Forecasted High Price: 160.5

B. LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E: 26.8 X Estimate Low Earnings/Share 2.86 = Forecasted Low Price: 76.6

(b) Avg. Low Price of Last 5 Years: 82.6

(c) Recent Market Low Price: 86.7

2020 Low Stock Price: 87.7 — 52 Week Low Stock Price: 86.7

2021 Low Stock Price: 98.4

(d) Price Dividend Will Support: Indicated Dividend / High Yield = 2.72 / 3.0% = 90.8

Selected Forecasted Low Price: 76.7

2019	122.1	72.1	3.54	34.5	20.4	2.16
2020	132.3	87.7	2.66	49.7	33.0	2.32
2021	135.9	98.4	3.73	36.4	26.4	2.52
5 YEAR AVERAGE		82.6		37.9	27.3	
CURRENT/TTM			3.73	36.4	23.2	2.72

5 YEAR AVERAGE PRICE EARNINGS RATIO: 32.6 — CURRENT PRICE EARNINGS RATIO: 25.4

Show / Hide Price/Earnings Chart — Compare Peers

Ticker: MDT

Chose High P/E of 30, but average High P/E was 36.4.

Chose Low P/E of 26.8, but average Low P/E was 23.2.

Chosen P/Es of 30 and 26.8 too close together.

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Price Appreciation Comes From 2 Sources

If you are cautious / conservative in setting your future Sales and EPS, then you will get a lower future earnings.

If you are cautious / conservative in setting your Forecasted High and Low P/Es, then you will get lower P/E expansion or worse P/E contraction.

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Next Stock Study – Try These Techniques

Solutions to Point #6

1. Think about the company itself
   - Quality company = cut some slack. Declining company = discard.
2. Whenever your TR and PAR converge
   - Either your forecasted High P/E is too low
   - Or your forecasted Low P/E is too high – or both
3. How will this company perform when things are going well (TR)?
4. Return to your SSG and adjust your projections
5. Remember to Think Out Five Years into the Future

Five Years Allows Us to Visualize Both Good Times and Bad Times

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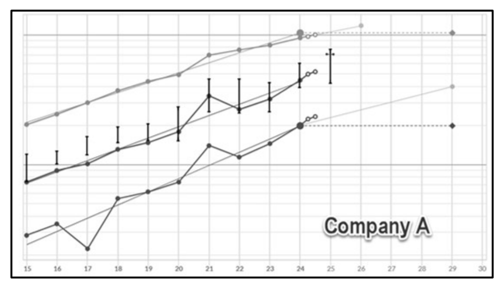
Are Your Judgments Too Conservative



Trying It All Together

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Six Signs of a SSG That's Too Conservative, By Kevin Gillogly 61

If You Have One of These Six Signs…

- …. You Might Be Ok with your judgments.
- Two (of the six) signs
  - Still stop and think. Are my judgments unreasonably conservative?
- Three (of the six) signs
  - Am I missing out on an investment that other investors like and who might make money on?
- Four (of the six) signs
  - Reach out to your study buddy / club member / trusted source because something is off.
- Five or six signs
  - You Probably Entered The "I Really Don't Want to Buy Stocks" Zone.

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Six Signs of a SSG That's Too Conservative, By Kevin Gillogly 62

Being Conservative Is NOT a Virtue When Buying Stocks

I was conservative in my judgments…

A) Uncertain of judgments?
B) Risk avoidance?

Judgments should be REASONABLE…

Not conservative

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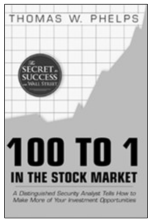
Avoidance of Risk vs. Seizure of Opportunity

Fallacy: "Avoidance of risk is more important than seizure of opportunity!"

Corollary: Do you …
Overemphasize the risks of stocks to study?
Underweight the cost of not buying?



Thomas Phelps (1901-1992), "100 to 1 in the Stock Market", 1972. pg. 24.

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Any Questions

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