Creating Portfolios that Outperform the Market - October 17th, 2026
- Educational purposes only -

We will be conducting the Northern Lights Chapter 4th-quarter stock study live. Starting with Relative Strength, we will look for sectors outperforming the S&P 500. Next, we'll drill down to find the industries within those sectors that are doing well. We can then screen those industries to find promising stocks to study. Using a Quick First Look with our SSG, we can narrow the candidates to a smaller list of stocks, which we will then study in more depth using the SSG and other tools. We will be utilizing technical analysis to check whether any potential buy is also currently a good investment. I like to end up creating and submitting a First Cut to BetterInvesting. Please join us for what promises to be a very educational day.

Attendees should gain an understanding of a stock study procedure.
You will learn what Relative Strength is and its advantages in investing.
Learn how to screen to narrow down your list of candidates to study.
Utilize the SSG (Stock Selection Guide) to find Good Companies.
Utilize technical analysis to find out if those Good Companies are also Good Investments and when those Good Investments should be considered for selling.
Understand a formula to know how many shares to buy.
Learn to complete and submit a First Cut study to BetterInvesting.

The four principles of BetterInvesting are:

1. Invest a set amount regularly (Cash is an investment)

Consistently invest money over time, regardless of market conditions.

2. Reinvest all earnings, dividends, and profits (DRIP versus non-DRIP)

Allow your investments to compound by putting all returns back to work.

3. Invest in quality growth companies (That are also Good Investments)

Focus on companies with strong fundamentals and long-term growth potential.

4. Diversify your portfolio to reduce risk (Diversify using Relative Strength)

Spread your investments across different industries and company sizes to help manage risk.

These principles are designed to be simple, practical, and effective for building long-term wealth. They are the foundation of BetterInvesting's educational approach and are used by both individual investors and investment clubs.

As investors, we need to focus on four items:

1. **Finding stocks to study**
2. **Analyzing those stocks**
3. **Buying the right amount of shares based on our portfolio's value**
4. **Knowing how to manage our portfolio (basically, when should we sell)**

1. Finding stocks to study:
The broad market may be defined as the S&P 500 (SPY or RSP for equal weight). Simply buying the index will give you market returns, and you can then go fishing. But we want to do better than the market: https://novelinvestor.com/sector-performance/ (website showing how each sector did over several years compared to the S&P 500).
How do we find those areas outperforming the market? By using Relative Strength (RS). RS in the stock market is a strategy that compares a stock's or security's performance against a benchmark, such as a market index (e.g., the S&P 500). It helps investors identify which securities are outperforming or underperforming relative to the market.

The market is broken down into sectors, into industries, and finally into companies.
We can start by looking at how the 11 sectors are doing against the market either by using the PerfChart at www.stockcharts.com. Stockcharts has a free version and a subscriber version. The free version meets our needs, but we have to put up with ads or we can use the charting functions at finance.yahoo.com . Personally, I like yahoo better. I focus on sectors that are underperforming the market but improving over recent timeframes. This may help me get into a company at an earlier stage. Why focus on Sectors and Industries? From ChatGPT: A meaningful portion of a company's stock-price movement can be explained by its sector and industry—but no fixed percentage applies to every company or time period. We can check the Seasonality at www.stockcharts.com to help us finalize sector choice: **Financial Services**.

Now that we have identified our area of interest, we can move to BI's stock screener to find stocks to study: www.betterinvesting.org. Not everyone subscribes to BI's Online tools. For those of you who do not, BI does publish a weekly stock screen as well as other ideas for you to investigate. You want to match those results to the sector of interest.

For those who do subscribe to BI's online tools, our screening is much easier. Under the Find Great Stocks header, click on Stock Screening. BI has seven Predefined Screens. Before clicking on the screens, click on the Clear Filtered List button. Now click on one of the seven Predefined Screens buttons. Sort the Results by Sector **(Financial Services)**. Click on the Preview Data button (second button on the left) and select the company by clicking on the star. Doing so will save it to our filtered list. Continue doing this for the other six Predefined screens. Once done, click on Show Filtered Companies. These **26 companies** are worthy of our further study. One can click on the Export as CSV button to download this to your computer and open this file in your spreadsheet program.

Once these companies are identified, the next stop is www.finviz.com. Again, there is a free version and a subscriber version. The free version meets our needs. Note: stockcharts uses the Dow Jones classification system. Both yahoo and finviz uses the same data source as BetterInvesting® (BI), the Morningstar Global Equity Classification System. Finviz does not do RS. My focus is to be aware of those industries that have not been improving over time and stay away from these. You can see how the Industries within the Financial Services sectors are doing by clicking on Groups then choose Industry (Financial). The Asset Management industry and the Capital Markets industry have not been improving over time and those companies in those industries are removed from our list of stock to study. Our 26 companies are narrowed down to 20.

2. Analyzing stocks:
A complete SSG may show that a company is a great candidate for our portfolio. But before doing that work, I want to know if this company is currently a Good Investment (technical analysis using finance.yahoo.com). I define a Good Investment as the monthly price being above its 10-month simple moving average and the MACD(8,17,9) showing positive momentum. Those that are Good Investments (10 companies) move on to further analysis.

All of these companies may not pass muster. Before doing a more complete study using BI's SSG (Stock Selection Guide), I do a Quick First Look.
BI classifies company size based on annual sales:
Large-sized companies have annual sales over $10 billion with expected growth rates between 5 and 7 percent.
Mid-sized companies have annual sales between $1 billion and $10 billion with expected growth rates between 7 and 12 percent.
Small-sized companies have annual sales less than $1 billion with expected growth rates greater than 12 percent.
What I am looking for is how Up, Straight, and Parallel it is. I like to see Historical data, Recent Quarterly Figures, and the Analyst Consensus Estimates (if given) meeting our expectations for a company of this size. Finally, I like to see the Evaluate Management trends showing neutral to positive growth.

Those companies that passed our Quick First Look and appear to be Good Investments move on for further study (**EWBC, SYBT, MA, PRI, PLMR**). When I continue my SSG study, my focus is on section 3. Price Earnings History. Understanding what the average PE is for a company is so important in knowing if a stock is undervalued, fairly valued, or overvalued. I do prefer to look at the 10-year data to get a more detailed history.

If a company has a dividend, I want to know how safe it is.
From https://thedividendforecaster.com/learn/how-to-tell-if-a-dividend-is-safe/

Check 1: The payout ratio — is the dividend actually funded?
The payout ratio is the share of a company's earnings being paid out as dividends. It's the single fastest read on sustainability, and it comes in rough bands:
Under 60% — comfortable. The company earns substantially more than it pays, leaving a cushion for bad years and room for raises.
60–75% — normal for mature, slow-growth businesses, but watch the trend. A ratio drifting upward means earnings aren't keeping up with the dividend.
75–100% — stretched. One bad year forces a choice between the dividend and the business.
Over 100% — the company is paying out more than it earns. That's borrowed time by definition; the money is coming from debt, reserves, or asset sales.

Check 2: The price chart next to the payout — what does the market know?
A dividend that looks stable while the share price has fallen 40–50% is the single most reliable pre-cut silhouette. The yield looks better every week — because the market is pricing in the cut before management admits it. When price and payout tell opposite stories, believe the price first and investigate.

Check 3: The growth history — is the payment alive?
Pull up five to ten years of dividend history and ask one question: is the payment *growing*? A healthy dividend rises most years, because it's funded by rising earnings. A payment that's been frozen for years is a payment management is nursing. A payment that's already been trimmed once is a warning siren — the taboo is broken, and the second cut is easier than the first.

Check 4: The yield against its neighborhood — is the number normal?
Every category has a normal yield range. When one fund or stock advertises double or triple its peers, the market is expressing doubt about the payout, not generosity.

Check 5: The debt — who gets paid first?
Dividends are paid from what's left after interest. A company carrying heavy debt into a downturn faces a fixed interest bill and a discretionary dividend — and only one of those can legally be skipped. You don't need to read a balance sheet like an analyst; a glance at whether debt has been climbing while earnings flatten tells you if the dividend is competing with creditors for the same shrinking pot.

My other focus is on section 4. Evaluating Risk and Reward, more specifically, the Low Price. For this, I look at the company's price chart and look at where the price may find support levels.

My goal is to find Good Companies (SSG) that are Good Investments (technical analysis) and are outperforming the market (Relative Value). The above procedure works.

3. Buying the right amount of shares:
The third step, buying the correct number of shares, is a simple calculation. Position sizing of your trade is as important as, if not more than, the levels at which you buy or sell. To fully profit from a deal, you need to know how much of a company's stock to hold in your portfolio.
Account size * % account size risk (max 5%) = planned $ risk in account per trade
Planned $ risk in account / planned risk per share = max # of shares
Planned risk per share = entry price – stop loss exit price
Stop loss exit price = Low Price on SSG section four or Support zone on Price Chart

2% - 5% account size in accounts under 10k
1% - 2% account size 10k - 100k
0.5% -1% account size 100k plus
0.3% MAX allocation for million-plus account size

$100,000 * .02 = $2,000 planned $ risk per trade
$2,000 / (current stock purchase price – stop loss) = xxx shares

https://stockcalculator.com/calculators/position-size-calculator

4. Portfolio Management (know when to sell)
When we were looking to see if a company was a Good Investment, I defined it as the monthly price being above its 10-month simple moving average and the MACD(8,17,9) showing positive momentum. When is a company no longer a good investment? Again, we can use finance.yahoo.com and look at a price chart. If the monthly price is crossing below its 10-month simple moving average and/or the MACD(8,17,9) indicator is showing negative momentum, it may no longer be a Good Investment.

Another check would be to compare the company of interest against its Industry, its Sector, and the market. We can do this at finance.Yahoo.com also.

1. Enter the quote for the company
2. Check its Profile to find its Industry and Sector
3. Go to the Sector page
4. Get the advanced chart for its Industry (includes the market) and enter the ticker symbols for its sector (see stockchart.com PerfChart), and for itself with the Comparison feature.

If you see weakness in the company's RS against the above, it may no longer be a Good Investment. It is important to zoom in on the chart.

Bonus Section

Submitting a First Cut -

First Cut Stock Reports are created by BetterInvesting members on good quality companies. These stock reports consist of a completed Stock Selection Guide (SSG) showing the judgments made by the author, and a written report sharing why each judgment was made.
https://www.betterinvesting.org/members/find-great-stocks/first-cut-stock-reports
https://www.betterinvesting.org/members/learning-center/video-learning-library/tickertalk/tickertalk-june-2021/tickertalk-june-2021

To submit a First Cut, we need to go beyond what we did above.
Forecasted sales and earnings must be made. And we need to indicate what zone it is in. For forecasted sales and earnings, I use three main items:

1) What are our expectations for a company of its size?
2) I check the Sentiment tab to see what other investors are doing.
3) Finally, I check the Audit tab to see if I am out of line with my judgments.

We need to determine the Buy/Hold/Sell zones by finishing section four of the SSG. We already have our low price chosen. We already have our average high PE determined. Complete the High Price - Next 5 Years calculation.
In deciding which of the five companies to study further, the RightStock score was checked for each company. This is a new feature at BI. **PLMR** had the highest FitScore of 98 and was chosen as our 4th Quarter Stock to Study.

Using Relative Strength with your 401(k) -

We will use the PerfChart at www.stockcharts.com to see how our 401(k) choices stack up against a benchmark. Knowing which vehicle you should currently be contributing to can greatly increase the value of your 401(k).

https://www.mnretire.gov/core-investment-options
TRSSX,VTPSX,VMCPX,VSMPX,VIIIX,VDIGX,VBAIX,VBMPX
Price charts at finance.yahoo.com

Mutual Funds: https://www.betterinvesting.org/learn-about-investing/investor-education/investing-in-mutual-funds

Mutual Fund Analysis worksheets: https://www.betterinvesting.org/members/learning-center/worksheets