



STOCK SELECTION GUIDE BLUNDERS, BUNGLES, & BLOOPERS

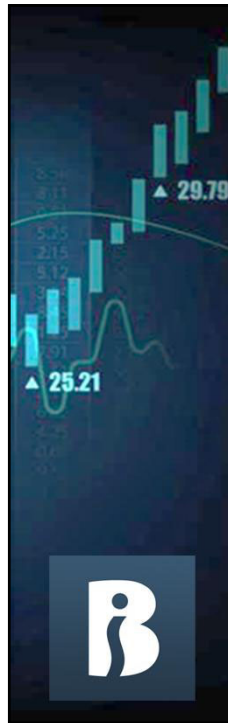


27 JUNE 2026
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VICE-PRESIDENT, BETTERINVESTING
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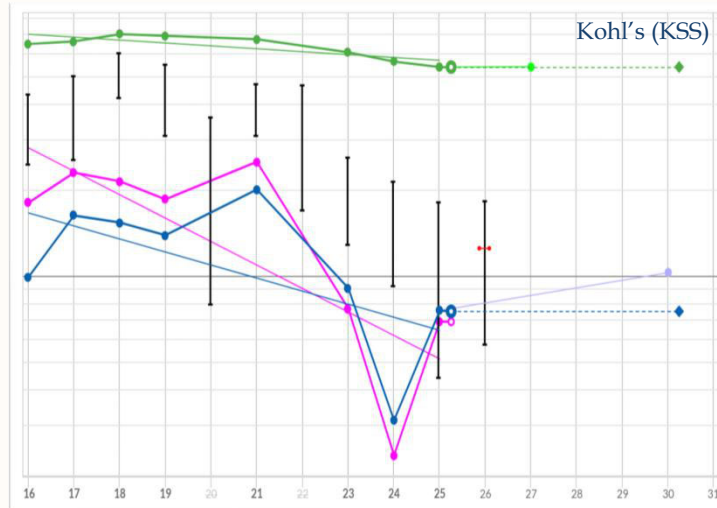


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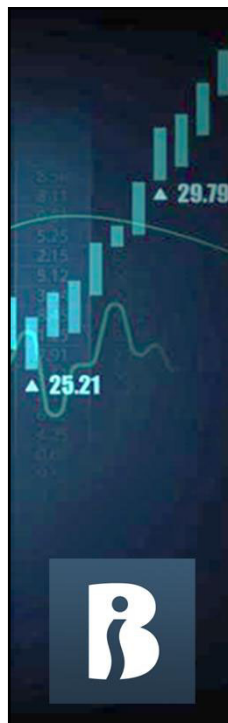


BEWARE DECLINING GROWTH TRENDS

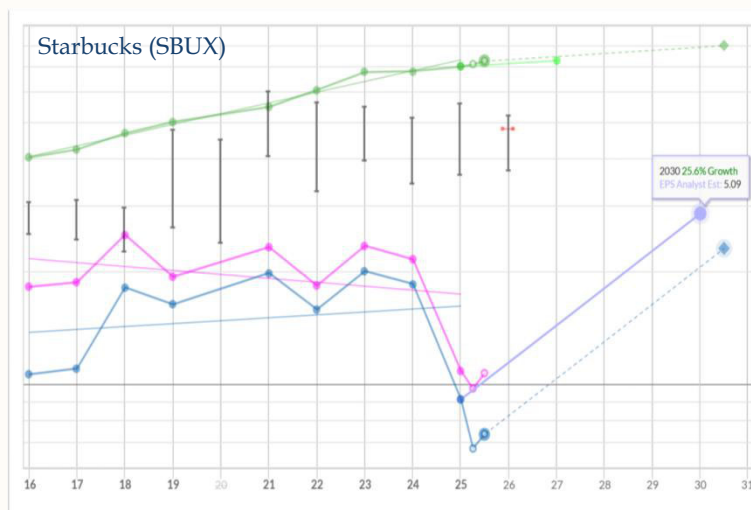


- Without growth of sales & EPS, price has no volition to increase.

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BEWARE "TURNAROUNDS"



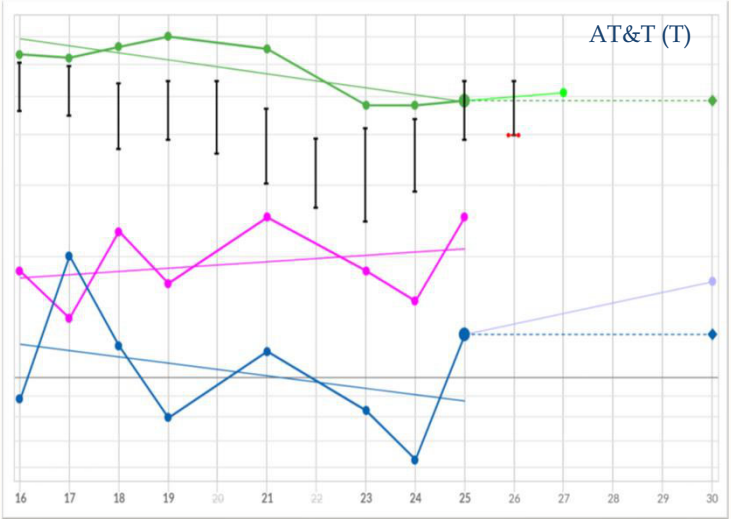
- How do you know "fallen angel" will be able rise again?
- Turnaround companies can look "inexpensive" but may still be overvalued.

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BEWARE INCONSISTENT GROWTH



AT&T (T)

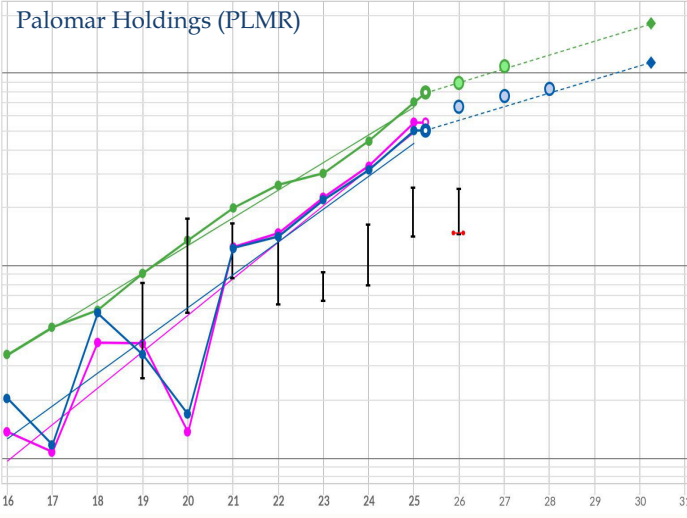
- While past performance is no indication of future results, trends tell a story.
- If management has been unable to grow business consistently in past, why do you think they will in the future?

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B

DO PUT A HIGH VALUE ON CONSISTENCY



Palomar Holdings (PLMR)

Consistent, straight-line growth is sign of good management & high-quality company.

Look for “railroad tracks to the stars”; “up, straight, and parallel” historic growth of EPS and Sales.


2020 results for many companies may be atypical & considered “outliers.”

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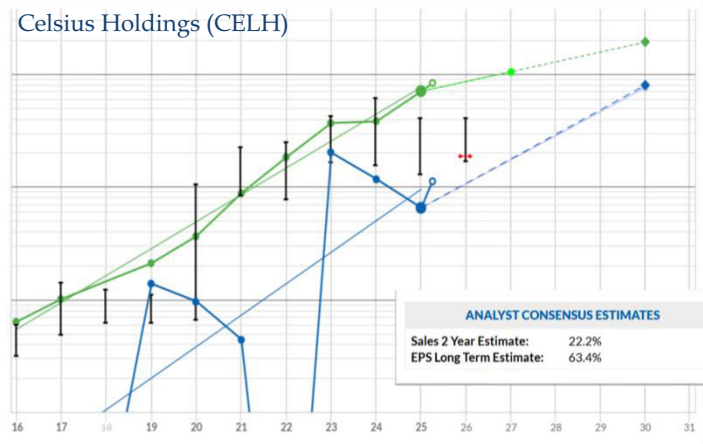
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DON'T PROJECT EXCESSIVE GROWTH


Celsius Holdings (CELH)



Fundamental Company Data													
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Growth (%)	Forecast (%)	5 Yr Est
Historical Sales (\$M)	23	36	53	75	131	314	654	1,318	1,356	2,515	73.2%	22.2	6,854
Historical EPS (\$)	-0.03	-0.06	-0.08	0.05	0.04	0.02	-0.88	0.77	0.45	0.25	90.1%	64.9	3.05

- Even if analysts estimate future growth at high levels, resist projecting future growth at high rates.
- Usual guidance is to limit future sales & EPS growth below 30%.


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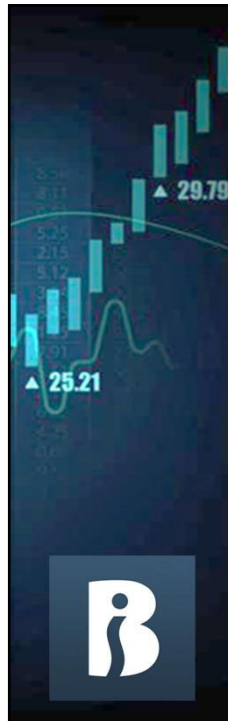
DON'T IGNORE RECENT TRENDS

EPS Growth Zero Growth Last 5 Years Only Limit 50% Growth

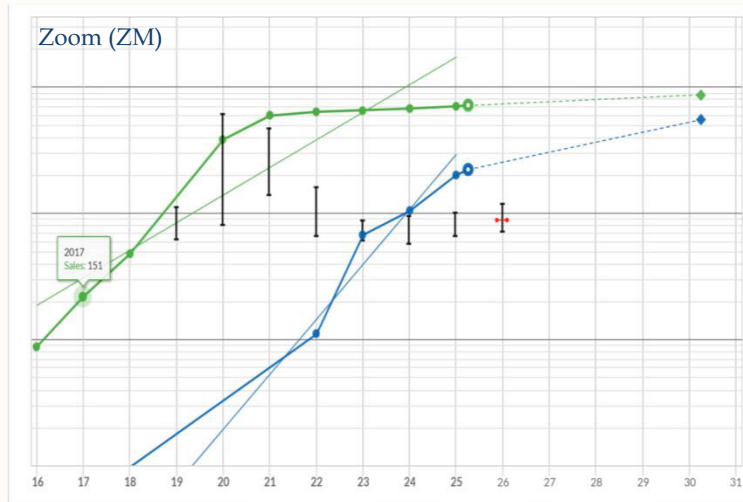


- If company's recent growth (annual or quarterly) has slowed, wise to reduce future expectations.
- Generally, always project lower growth in future than in past.
 - Possible exception: large, mature, stable-growth companies.

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DON'T PROJECT EPS FASTER THAN SALES

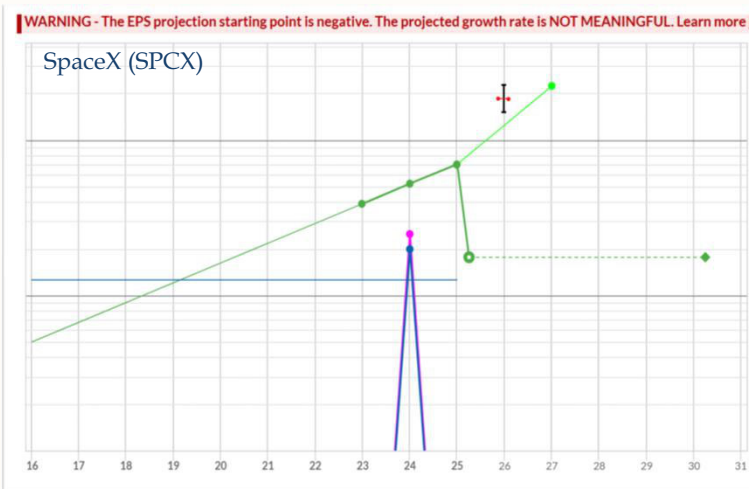


- Use caution whenever projecting EPS faster than sales.
- Can be supported if company is buying back shares and/or improving margins, but there are limits to sustainability.

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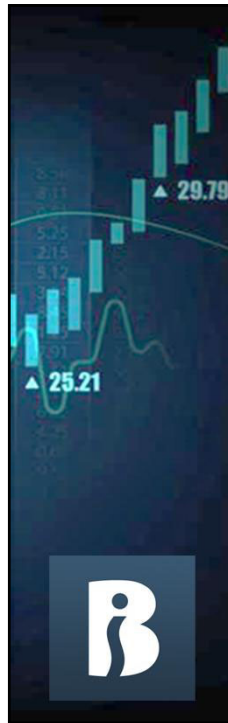


BEWARE COMPANIES WITH LIMITED HISTORIES



- How can you tell if company will ever deliver consistent profitability?

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DO USE PREFERRED PROCEDURE

Determine EPS 5 Year Forecast

Select 5 Year Forecast EPS Growth Rate:

Projection Starting Point: QUARTER (EPS = 2.97, Sales = 17,782)

Your EPS Growth Rate Forecast: % 5 Year Estimate: 4.78

Analyst Estimate:

Preferred Procedure Growth Calculation: 5 Year Estimate: \$4.4

Preferred Procedure Calculation

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	7.0%	<input type="text" value="7"/>	24,940
Less Expenses (5 Year Avg. % Pre-Tax Profit Margin):	19.1%	<input type="text" value="19.1"/>	-20,177
Less Taxes (Last Year Tax Rate):	21.7%	<input type="text" value="21.7"/>	-1,034
Less Preferred Dividends (Current Preferred Dividend):	0.0	<input type="text" value="0.0"/>	0
equals Projected 5 Year Total Earnings of:			3,730
÷ Shares Outstanding (Current Diluted Shares in Mil.):	848.3	<input type="text" value="848.3"/>	4.4
5 Year Compound Annual EPS Growth Rate:			8.2%

Update Study

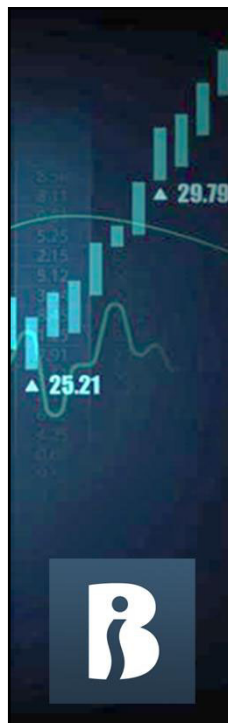
Historical Data

- Sales
- Pre-Tax Profit Margin
- Taxes
- Diluted Shares Outs
- Sales Growth Trend
- EPS Growth Trend

Year	Value
2016	1,450.8
2017	1,342.5
2018	1,234.2
2019	1,166.8
2020	1,116.9
2021	1,044.2
2022	974.4
2023	915.0
2024	880.6
2025	855.9

- Use Preferred Procedure tool to determine if EPS growth rate is supportable.
- Especially useful if company is buying back shares or greatly improving margins.

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DO REVIEW HISTORICAL GROWTH TRENDS

Historical Data

- Sales
- Pre-Tax Profit Margin
- Taxes
- Diluted Shares Outs
- Sales Growth Trend

Range (yrs)	Growth
2016-25 (9)	14.0%
2017-25 (8)	14.2%
2018-25 (7)	14.6%
2019-25 (6)	14.6%
2020-25 (5)	14.7%
2021-25 (4)	12.6%
2022-25 (3)	11.7%
2023-25 (2)	9.9%
2024-25 (1)	5.4%


Historical Data

- Sales
- Pre-Tax Profit Margin
- Taxes
- Diluted Shares Outs
- Sales Growth Trend
- EPS Growth Trend

Range (yrs)	Growth
2016-25 (9)	50.6%
2017-25 (8)	37.1%
2018-25 (7)	38.0%
2019-25 (6)	34.1%
2020-25 (5)	35.2%
2021-25 (4)	26.8%
2022-25 (3)	21.5%
2023-25 (2)	13.4%
2024-25 (1)	2.7%

- Access from **5-Year EPS Forecast** screen in Preferred Procedure section.
- Declining rates indicate **slowing** growth.

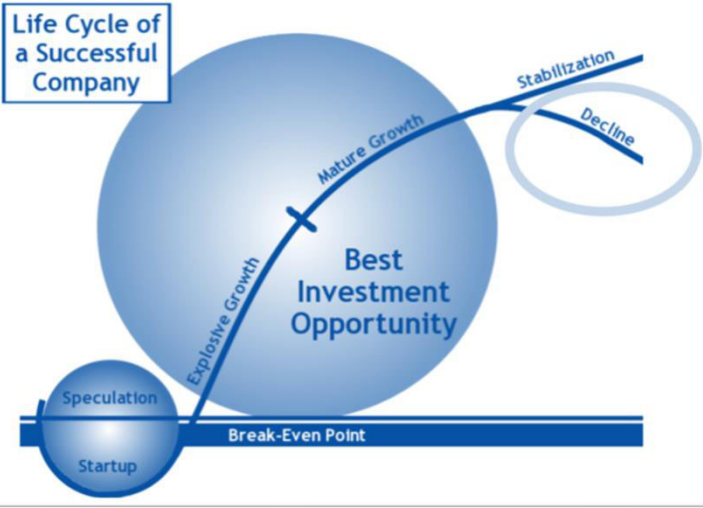
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DO UNDERSTAND COMPANY LIFE CYCLE

Life Cycle of a Successful Company



- Where is your company in typical life cycle of successful businesses?

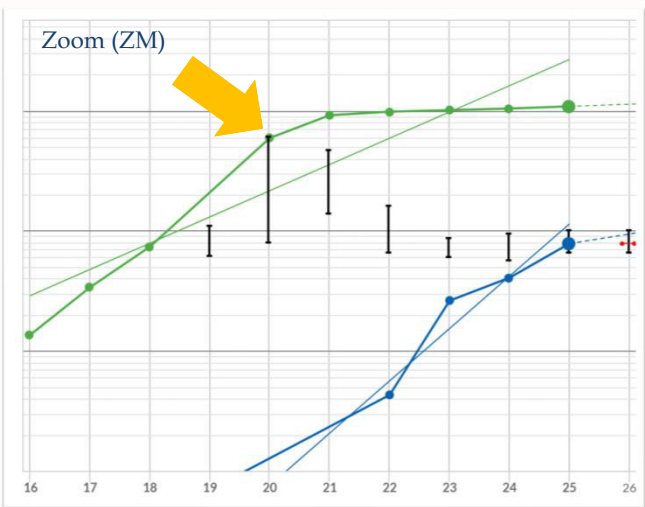
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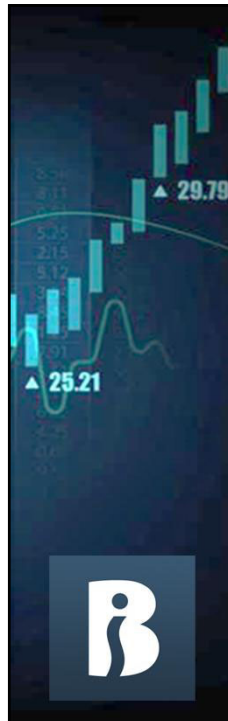
DON'T BUY AT PEAK OF AGGRESSIVE GROWTH

Zoom (ZM)



- Growth tends to slow over time.
- Buying fast-growing stocks at peak of aggressive growth stage can lead to losses.
- Growth rate slows, but prices stop growing. It may take time for investors to adjust to different phase of company growth cycle.

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DON'T ACCEPT POOR PTP OR ROE

Evaluate Management												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	4.9%	4.5%	0.7%	3.5%	3.6%	3.6%	1.7%	3.1%	1.6%	0.5%	2.1%	
% Return on Equity	14.5%	18.8%	-2.0%	10.6%	10.4%	10.6%	5.8%	11.2%	6.2%	2.4%	7.2%	

- Companies struggling with margins are likely facing problems that will inhibit future growth.
- These are key quality indicators, so if they are not strong, best to find another company.



DON'T PROJECT EXCESSIVE P/E RATIOS

Year	A Price		B Earnings		C Price Earnings Ratio		D Dividend Per Share	E % Payout F / C * 100	F % High Yield F / B * 100
	High	Low	Per Share	High A / C	Low B / C				
2021	34.6	11.6	0.39	90.0	30.0	0.02	4.2	0.1	
2022	28.9	10.8	0.17	166.4	62.1	0.02	9.2	0.1	
2023	63.5	20.4	1.19	53.2	17.1	0.02	1.3	0.1	
2024	153.1	63.7	2.94	52.1	21.7	0.03	1.2	0.1	
2025	212.2	86.6	4.90	43.3	14.7	0.04	0.8	0.0	
AVERAGE		38.6		81.0	29.7		3.3		
CURRENT/TTM			4.90	43.3	14.7	0.04	0.8		
AVERAGE PRICE EARNINGS RATIO: 55.4					CURRENT PRICE EARNINGS RATIO: 37.3				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The following table shows the range of risk and reward.

A HIGH PRICE - NEXT 5 YEARS					
Avg. High P/E	81.0	X Estimate High Earnings/Share	26.35 =	Forecasted High Price \$	2,134.4
B LOW PRICE - NEXT 5 YEARS					
(a) Avg. Low P/E	29.7	X Estimate Low Earnings/Share	4.90 =	Forecasted Low Price \$	145.5
(b) Avg. Low Price of Last 5 Years	38.6				
(c) Recent Market Low Price	63.7				
(d) Price Dividend Will Support		Indicated Dividend	0.04	=	27.0
		High Yield	0.15%	=	
					Selected Forecasted Low Price \$ 145.5

- P/E ratios tend to contract over time as growth slows.
- P/Es in "nosebleed territory" usually indicate excessive downsides are possible.



DON'T ACCEPT VERY HIGH U/D RATIOS

C. ZONING using 25%-50%-25% (click to toggle)

Forecasted High Price: 16.5 Minus Forecast Low Price: 4.2 = 12.3 Range. 25% of Range: 3.1

Buy Zone: 4.2 to 7.3
 Hold Zone: 7.3 to 13.4
 Sell Zone: 13.4 to 16.5

Current Stock Price of 4.40 is in the BUY Zone.

Show / Hide Gain vs Loss Chart

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$$\frac{\text{Forecasted High Price} - \text{Current Price}}{\text{Current Price} - \text{Forecasted Low Price}} = \frac{(16.5 - 4.40)}{(4.40 - 4.2)} = \frac{12.13}{0.20} = 60.6 \text{ To } 1$$

- Usually indicates future high price set unrealistically high.
- Adjust future high P/E and/or EPS growth rate.

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DON'T TRADE TOTAL RETURN FOR DIVIDENDS

A. CURRENT YIELD

$$\frac{\text{Indicated Annual Dividend}}{\text{Current Price}} = \frac{5.92}{142.02} = 0.0417 = 4.2\%$$

B. AVERAGE YIELD - USING FORECAST HIGH P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast High P/E}} = \frac{78.7}{25.0} = 3.1\%$$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast Average P/E}} = \frac{78.7}{22.50} = 3.5\%$$

C. COMPOUND ANNUAL RETURN - USING FOREC

Annualized Price Appreciation 8.4%
 Average Yield 3.1%
 Annualized Rate of Return 11.6%

Pepsico (PEP)

SSG Results Summary	
Zone:	BUY
Upside Downside Ratio:	4.9 To 1
Total Return (High P/E):	11.6%
Projected Return (Avg. P/E):	9.7%
Buy price to satisfy US/DS of 3 to 1 and 15% total return:	121.7
Buy Below price based on zoning selection:	148.8
Current Price (06/19/26):	142.02

- Chasing yield is generally not compatible with total return stock approach.
- Dividend payers can provide lowered volatility in portfolio, but overloading on them can inhibit future returns.

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QUESTIONS?



WRITE ME: GERLACH@ICLUB.COM



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MAKE BETTER SELL DECISIONS IN YOUR PORTFOLIO



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THIS SESSION

- Assumes familiarity with SSG, BetterInvesting's SSGPlus and Portfolio PERT Report.
- How to identify companies with potential problems in quality or valuation.
- Steps to take to address underperformers & overachievers.
- My strategy to address sell decisionmaking.

3



PHILIP FISHER ON SELLING

“If the job of buying a stock has been done properly, the time to sell is never.”

- *Common Stocks & Uncommon Profits*



4



WARREN BUFFETT ON SELLING

- “Buy low & never sell.”
- “If you aren’t thinking about owning a stock for 10 years, don’t even think about owning it for 10 minutes.”
- “Our favorite holding period is forever.”



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SELL DECISIONS ARE PERSONAL

- Personal circumstances such as holding period of stock (long-term vs. short-term), whether stock is held in tax-advantaged account, risk tolerance, investing horizon all play into sell decisions.
- Most investors face situations when they are undecided about whether to sell a stock due to underperformance, overvaluation, fundamental concerns.
- While there are no hard & fast rules for selling, these guidelines may help.

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INVESTORS ARE TERRIBLE AT SELLING

- Academic studies show that individuals are **very good** at knowing when to buy stocks.
- However, individuals are **awful** when it comes to selling, because:
 1. We tend to **sell winners too soon**.
 2. We tend to **hold onto losers for too long**.

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WHY DO INVESTORS SELL TOO SOON?

- Wall Street preaches to “lock in profits.”
 - However, selling winners **locks out future profits**.
 - This is like pruning flowers in your garden & letting weeds grow.
- What’s left after selling all of your winners?
 - Potentially higher tax bill.
 - Portfolio of losers.

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WHY DO INVESTORS HOLD TOO LONG?

- Sometimes individuals believe “long-term” means holding **forever**.
- But “buy and hold” does not mean “buy and forget.”
- Addressing under-performing stocks is key to long-term performance of a portfolio.

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COGNITIVE BIASES AFFECT DECISIONS

- Human subconscious often overrules intellectual thinking.
- These “**cognitive biases**” can cause destructive behavior if unchecked.
- Research shows that many cognitive biases negatively impact sell decisions for investors.

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WHY INDIVIDUALS RESIST SELLING

- Selling “locks in” losses & validate “bad” decisions.
- On other hand, stock that continues to be held *may recover!*
- Investors hold on to hopes (no matter how slim) that stock will recover.
- Easier to ignore losses than face up to problems.

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INVESTORS TRY TO AVOID PAIN

“Trading brings pride when decisions turn out well, but it brings regret when decisions do not turn out well. Investors try to avoid **pain of regret** by avoiding realization of losses.”

-Professor Meir Statman, Santa Clara University, "Investor Psychology and Market Inefficiencies"

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4 “EASY” SELL DECISIONS



THESE “EASY OUTS” PREVENT HAVING TO MAKE MORE DIFFICULT DECISIONS.

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1. YOU HAVE A USE FOR CASH

- If you need or have better use for cash, sell stock from portfolio instead of borrowing.
- When raising cash, best to sell underperformers or stocks with uncertain prospects.
 - Gives good excuse to sell without focusing on failure.
 - Helps weed out the portfolio & let winners continue to bloom.

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2. WHEN COMPANY IS BOUGHT OUT

- Sell companies being bought out or merged instead of waiting.
 - Waiting for closing won't earn much more profit.
 - Price falls if deal is cancelled, can re-buy at lower price.
- In club, this simplifies treasurer's job (especially as transactions get more complex).
- If receiving shares, make sure you want to own it.
- Review tax consequences related to holding period & transaction consideration.

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3. FULL CLUB MEMBER WITHDRAWAL

- For full club member withdrawal, consider selling underperformers to raise cash for member payout.
 - Try not to sell winners for this unless really necessary.
- Generates capital loss for club & members.
- Great opportunity to "clean up" portfolio by removing stock with high uncertainty.
- Can revisit stock in 31 days to consider repurchasing.

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4. AT TAX TIME

- At year-end, determine capital gains incurred year to date & look to sell underperformers to offset realized gains.
 - Aim to review in November to not get caught in year-end tax selling by other investors.
- Review stocks in over- or hyper-valued territory & consider selling both winners & losers to offset gains.
- Remember: Can revisit any stock sold at loss in 31 days to consider repurchasing.

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STOCK SELECTION GUIDE SELL INDICATORS



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SELL SIGNALS ON SSG

- SSG never “tells you” what to do.
 - It is “guide” to help you with decisions.
- Historically, SSG was only for purchase decisions.
 - Used to be too much work to redo all SSGs by hand.
 - PERT report was made to help review fundamentals & aid sell decisions.
- Today, SSG can be updated easily & used to spot problems.

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SPOTTING PROBLEMS IN STUDY

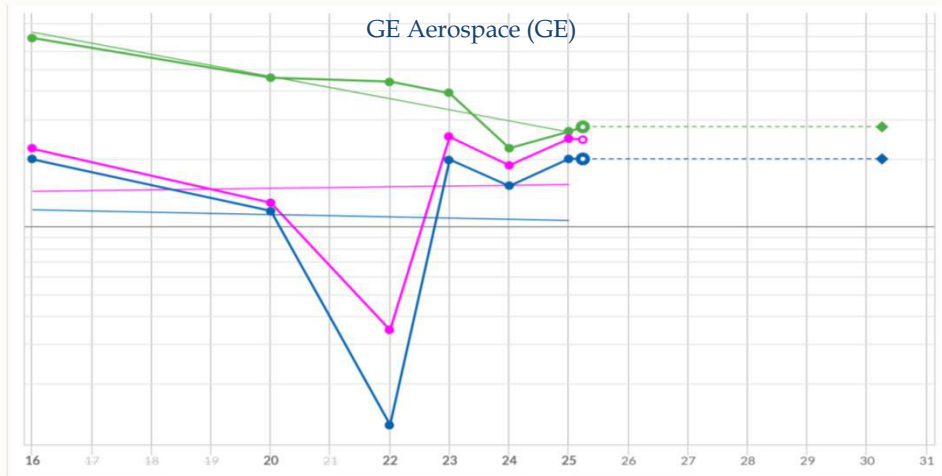
- Check warning signs if company is acting contrary to reasons that drove original purchase decision.
- **Are EPS and/or Sales falling?**
 - Check on Visual Analysis graph.
- **Are profit margins deteriorating?**
 - Check annual percentages in Evaluating Management section, % Pre-Tax Profit on Sales.
 - Check Quarterly Data graph.

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COMPANY GROWTH IS DISAPPEARING

What is likely future trend?

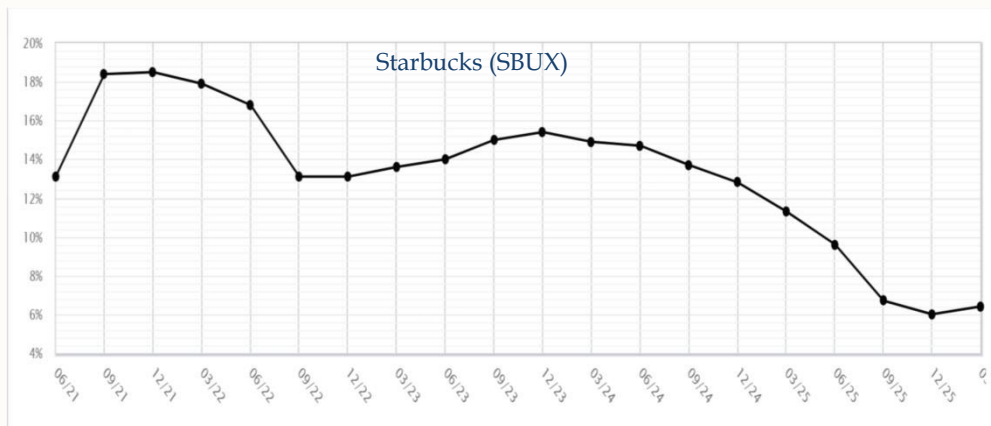


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PROFIT MARGINS DECLINING

Declining quarterly pre-tax profit margins is distressing.



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IDENTIFYING & COPING WITH UNDERPERFORMING COMPANIES



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BETTERINVESTING'S "RULE OF 5"

- For every 5 stocks that you purchase:
 - 3 stocks will perform about as you expected.
 - 1 stock will be a superstar, performing well above expectations.
 - 1 stock will be a dog, an underperformer that consumes inordinate amount of energy & thought.

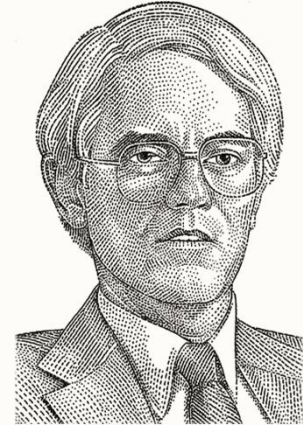
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PETER LYNCH ON UNDERPERFORMERS

“Maybe you’re right 5 or 6 times out of 10.

“But if your winners go up 4- or 10- or 20-fold, it makes up for the ones where you lost 50%, 75%, or 100%.”



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WHAT IS AN UNDERPERFORMER?

- Underperformers are easy to identify.
- Companies with problems that last more than 1-2 quarters (price usually declines).
- Identify with research & BetterInvesting portfolio management tools.
- More research required to understand long-term impact.

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INVESTIGATE COMPANIES WITH:

- Poor growth trends.
- Adverse management changes.
- Competitive pressures.
- Uncertain product cycles.
- Unchecked input costs.
- Margin deterioration.
- Accounting irregularities.



SPOT POTENTIAL PROBLEMS ON PERT

Company Name	Qtr End	EPS		Sales		Pre-Tax Profit		TTM EPS		
		\$	% Chg	Mill \$	% Chg	Mill \$	% Chg	\$	% Chg	
Skyworks Solutions	06/24	0.75	-38.5%	905.5	-15.5%	133.4	-39.9%	14.7%	4.8	-25.3%
	06/23	1.22		1071.2		222.1		20.7%	6.4	
T. Rowe Price Gr	06/24	2.11	2.4%	1733.3	7.6%	645.0	0.8%	37.2%	8.4	26.2%
	06/23	2.06		1610.2		639.7		39.7%	6.7	

- **Review % Change** in EPS, Revs, & PTP calculated from year-ago quarter (& TTM EPS). NOTE: PTP change is compared to EPS growth rate
- **% Change** is highlighted if less than projected on SSG.



WHAT DOES HIGHLIGHTING MEAN?

- **Highlighting** shows signs of potential danger.
- Changes must be:
 1. **Observed** to see if isolated or incoming.
 2. **Interpreted** to determine severity of threat.
- Greater the downturns, greater the potential danger.
- However, PERT Report only shows 1 period, *not* trend, so must dig deeper.



DIG DEEPER INTO TRENDS

- Focus on pre-tax profit instead of EPS.
- Problems with EPS can be **obscured**:
 - By **share buybacks**.
 - By **EPS adjustments**.
 - By **changes in tax rate**.
- Pre-tax profits are not as easily manipulated.
- Reviewing PTP trends also helps spot growing problems before other market participants do.



REVIEW QUARTERLY TRENDS

Click company row from PERT Report to open SSG, then **Quarterly Data** tab:

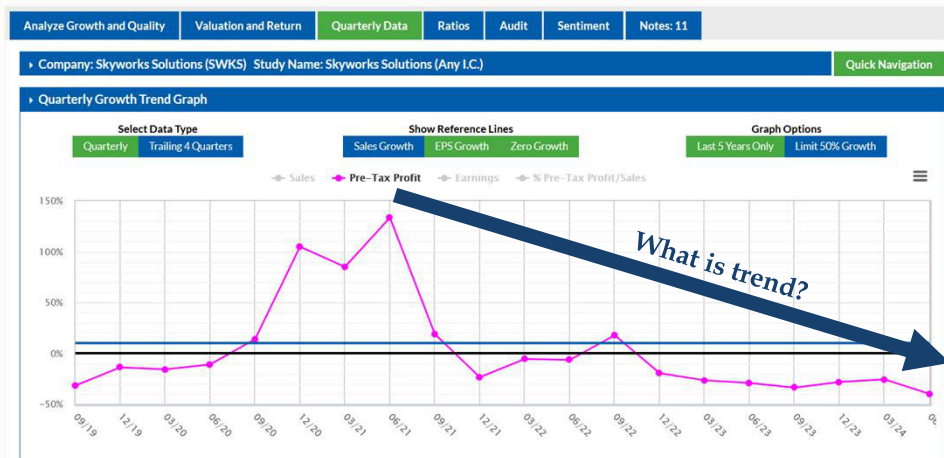
Company Name	Div	Yield	Est EPS	EPS			Sales		Pre-Tax Profit			TTM EPS	
				Qtr End	\$	% Chg	Mill \$	% Chg	Mill \$	% Chg	% Sales	\$	% Chg
Skyworks Solutions	2.80	2.8	5.34	06/24	0.75	-38.5%	905.5	-15.5%	133.4	-39.9%	14.7%	4.85	-25.3%
				06/23	1.22		1071.2		222.1		20.7%	6.49	

[Analyze Growth and Quality](#)
[Valuation and Return](#)
[Quarterly Data](#)
[Ratios](#)
[Audit](#)

Company: Skyworks Solutions (SWKS) Study Name: Skyworks Solutions (Any I.C.)

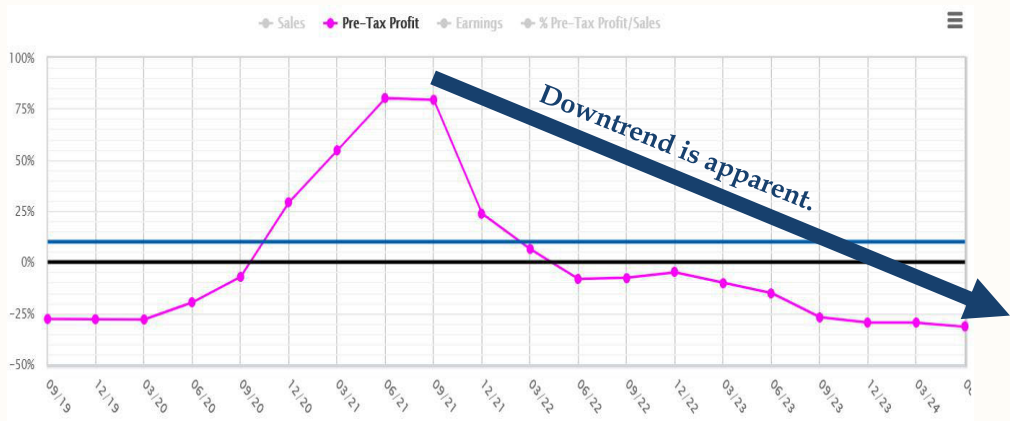
[Quarterly Growth Trend Graph](#)

QUARTERLY GROWTH TREND GRAPH





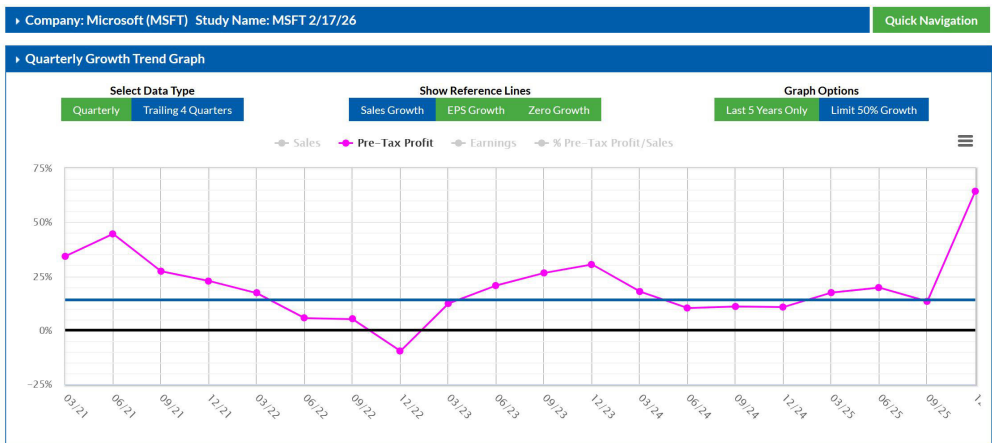
EXAMPLE #1: LOOK AT PTP TREND



Also consider: If PTP grows slower than Estimated EPS, how likely is it company will grow as you projected?



EXAMPLE #2: WHAT IS THIS TREND?





COPING WITH UNCERTAINTY

- If trends are suspect or non-definitive, why hold if not confident about prospects?
 - Selling is opposite of buying: If reasons for buying stock no longer exist, **action is required**.
- Don't let indecision cause paralysis & delay inevitable decision.
 - **Be intentional in action.**
- Use my “**replace**” strategy instead of selling outright (*more on this later*).

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COPING WITH HYPER-VALUED STOCKS



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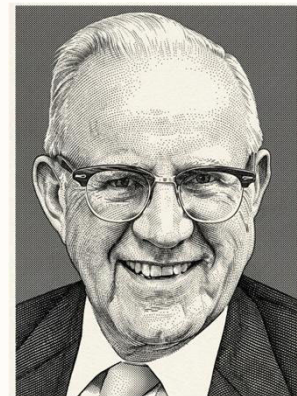
ADDRESSING VALUATION

- Fundamental problems should be addressed first, since they threaten upside potential of portfolio.
- Afterwards, turn to valuation issues.
- These can show problems with potential total return or downside risks.
- Holding stocks with limited upside return potential can be as detrimental to performance as fundamental laggards!



RALPH SEGER ON HIGH P/E RATIOS

“High P/E stocks not only discount the future, but the hereafter as well.”





RIGHT SIDE OF PERT REPORT

Company Name	Proj PE	Price	Proj RV	Proj 5Yr P/E Ratios			Est EPS Growth	PEG Ratio	U/D Ratio	% Total Return	Est 5 Years	
				Hi	Avg	Low					Low Price	High Price
Miller Industries	8.6	57.73 9/6/2024	69.3	15.1	12.4	9.7	8.0	1.1	37.7	21.1	55.6	138.0
NVIDIA	40.2	102.84 9/6/2024	154.4	35.0	26.1	17.1	20.0	2.0	1.2	12.8	36.4	185.5
O'Reilly Automotive	25.2	1119.18 9/6/2024	125.4	24.2	20.1	15.9	12.0	2.1	1.2	8.6	626.5	1694.5
Apple	30.6	220.86 9/6/2024	124.5	27.5	24.6	21.6	10.0	3.1	0.9	6.2	141.9	291.0

Yellow highlighting indicates possible areas of concern re: valuation & return.



VALUATION INDICATORS ON PERT

- Based on SSG judgments, PERT flags stocks when:
 - Projected Relative Value < 80% – valuation is “busted,” likely due to fundamental problems.
 - Projected Relative Value >150% – stock is in “hyper-valued” territory.
 - Upside/Downside Ratio < 1.0 – too much downside.
 - % Total Return < 10% – too low to support portfolio return objectives.



OVER- VS. HYPER-VALUATION

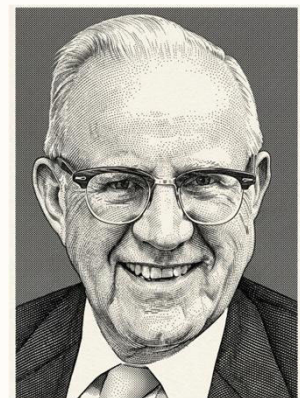
- Over-valuation is common – we want stocks to be more than just “reasonably” valued after purchase.
- When stocks approach “hyper-valuation” phase, replacement is often prudent.
- Quick test of hyper-valuation: Projected Relative Value is near 150%.
 - Current P/E is near 150% of future average P/E ratios you selected on SSG.
- These are prime candidates for sudden price deterioration due to high expectations.

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RALPH SEGER ON OVERVALUATION

“Excessively high P/Es mean future good news is already included in the price.”



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DANGERS OF HYPERVALUATION

- Highlighted stocks have limited upside that threatens portfolio total return.
- Highlighted stocks that are also in SSG sell zone are candidates for replacement or thinning.
- Market loves success stories & may carry these stocks along at excessively-high valuations for some time, but this doesn't reduce risks.
- Exercise care whenever holding hyper-valued stocks.



SIMPLE "4 STRIKES, YOU'RE OUT" APPROACH

As # of strikes increases, sell decision gains strength:

1. **Upside/Downside Ratio < 1:1.**
 - If upside equals downside, why invest?
2. **Projected Relative Value > 150%.**
 - $\text{Projected RV} = \text{Current P/E} \div \text{Average Future P/E}$.
3. **Projected Return < Long-term Bond or Savings Yield.**
 - Stock returning 4%-5% is likely not good use of cash.
4. **4. Stock is in Sell Zone.**
 - Rarely happens for consistent performers.



NEVER SAY “SELL” AGAIN (IN 3 EASY STEPS)



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“SELL” IS LOADED WORD

- Selling wreaks havoc with our emotions.
- Hurts feelings of club member who recommended stock.
- Stimulates second guessing or regret.
- Adds to cash of portfolio, which may be undesirable.
- Skews portfolio diversification, requiring more work to realign holdings.

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1. REPLACE, NOT SELL, STOCKS

- Never say “sell” – think of “**replacing**” underperformer with better performing company.
- **Can always find better companies** than those you own, in any market or any economy.
- Once found, characteristics of better company will make decision to switch more straightforward.
- **Pleasure of new purchase will offset pain of selling.**

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2. USE A CHALLENGE APPROACH

- Constantly “**challenge**” stocks to find better companies.
 - For every underperformer, extremely likely you could find different stock with better prospects.
- Ask “What can be done to improve this portfolio today?”
 - In this light, underperformers appear especially suspect.
- Ask “How can quality & total return of portfolio be improved?”
 - Replacing any stock with one that can deliver greater return or has higher quality metrics should be no-brainer.

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3. FLAG UNDERPERFORMERS

- When company is not performing up to your expectations, first review expectations.
- If analysis indicates company may not have as bright a future as you initially believed, flag company in portfolio as **AFC** (“**A**vailable for **C**ash”).
- This is reminder that action will need to be taken (sooner rather than later) & spur research to find replacement.

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QUESTIONS?

EMAIL ME:

GERLACH@ICLUB.COM





NEED IDEAS TO REPLACE SELL CANDIDATES?

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DOUG'S FAVORITE SMALL-CAP STOCKS FOR 2026- 2031



BY DOUG GERLACH
JUNE 27, 2026
GERLACH@ICLUB.COM

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IN THIS SESSION

- Understand why investors gravitate towards mega-cap stocks.
- Understand why portfolios overloaded with mega-cap stocks are more likely to underperform expectations.
- Why you should improve the small company stock exposure in your portfolio.
- Smaller company ideas to get you started on diversifying away from mega-caps.



SMALLCAP INFORMER (SCI) PERFORMANCE UPDATE





SMALLCAP INFORMER NEWSLETTER

- Founded in 2012.
- Published monthly.
- Uses Stock Selection Guide (SSG) to present analysis of high-quality, reasonably valued small-company stocks.
- Has exceeded small-cap market index returns consistently since inception.

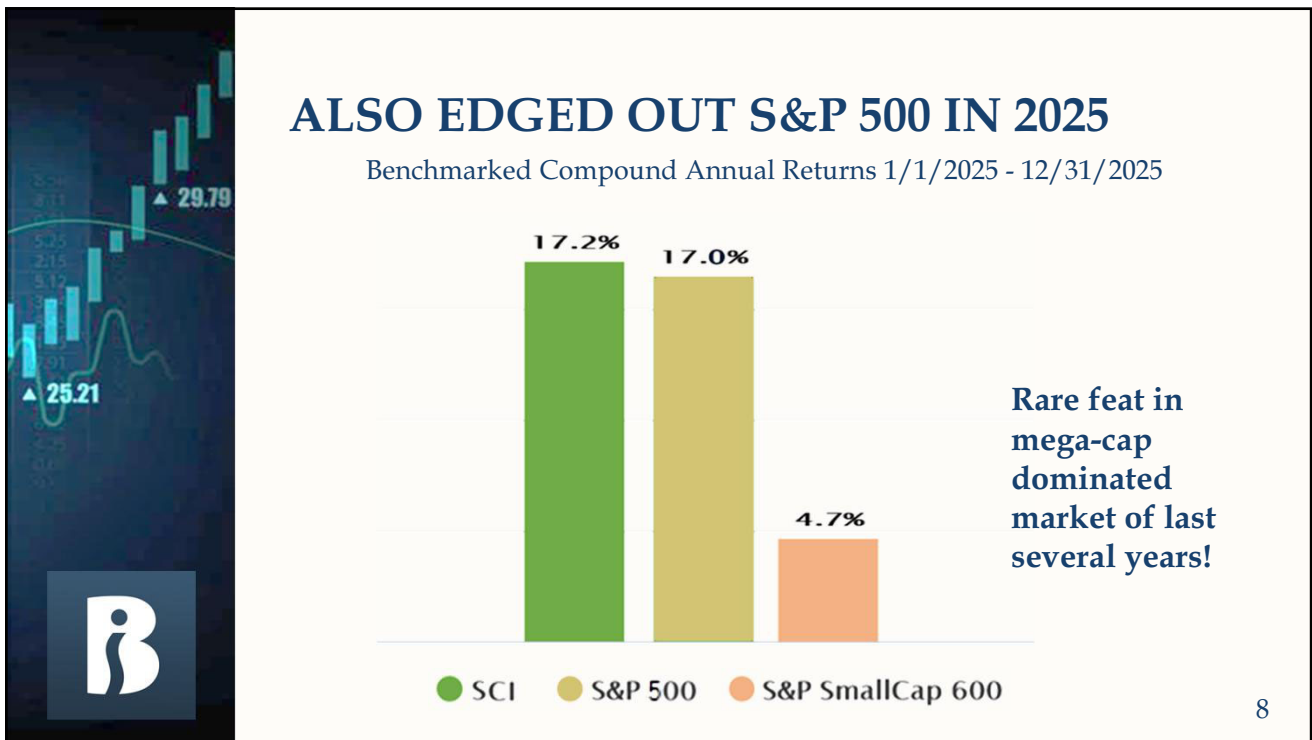
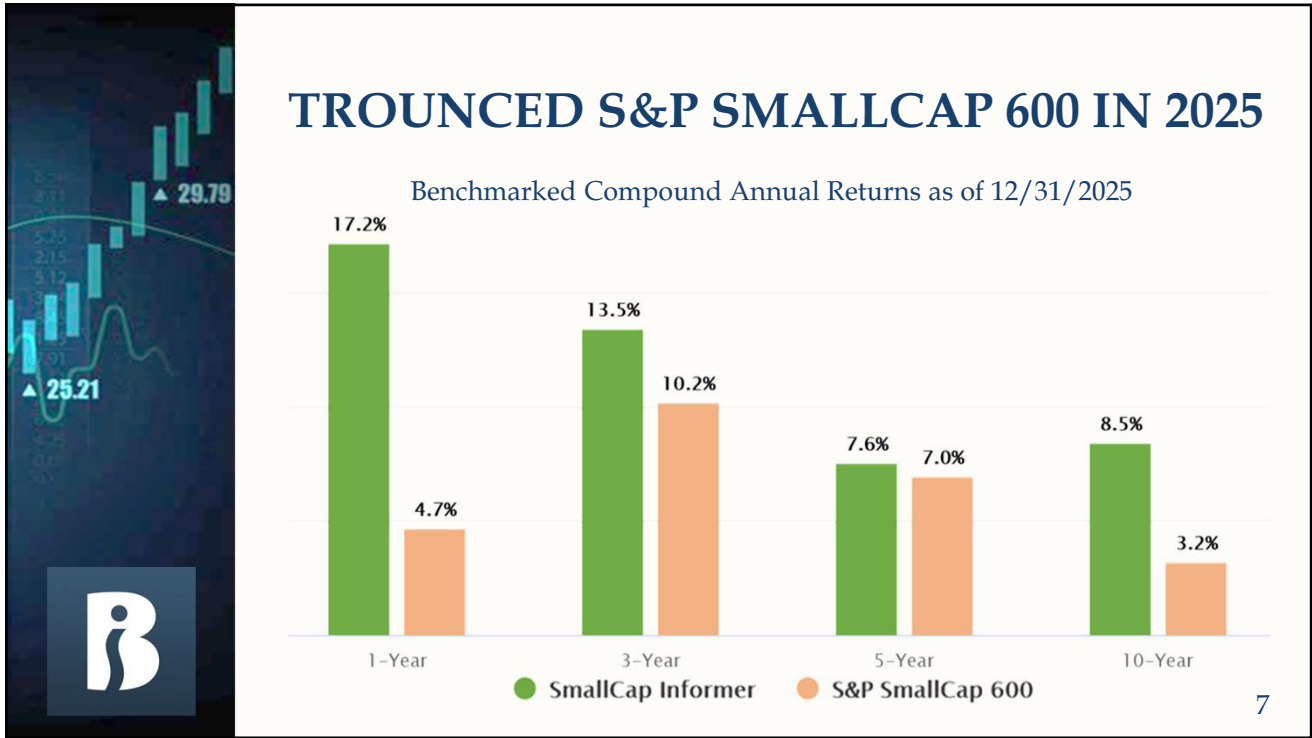
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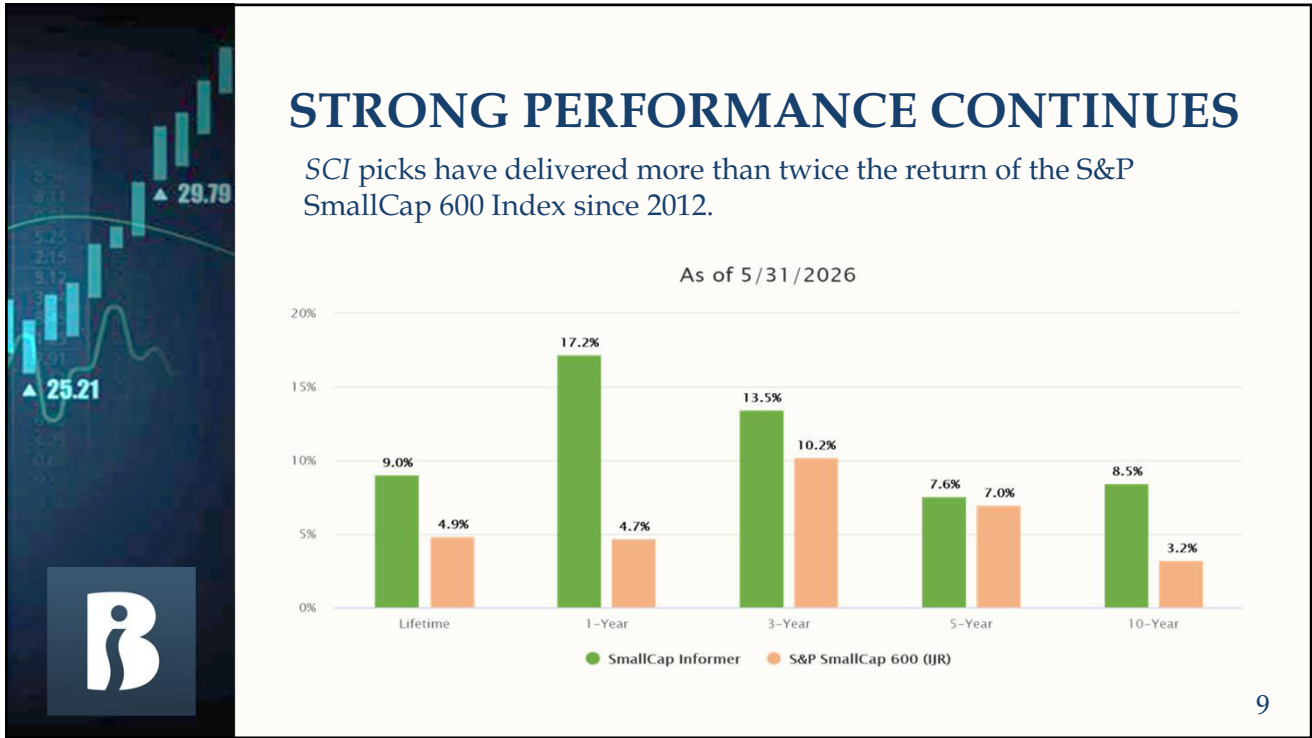


SCI PERFORMANCE NOTES

- Newsletter's target benchmark is S&P SmallCap 600 Index.
 - Index is managed similarly to S&P 500, so companies are more profitable & smaller than those in Russell 2000.
- All *SCI* buy & sell recommendations are tracked & then benchmarked to S&P SmallCap 600 ETF (IJR).
- Resulting rates of return reflect entirety of *SCI* coverage over time.
- Since subscribers will not likely buy all covered stocks, each individual's results will vary.

6

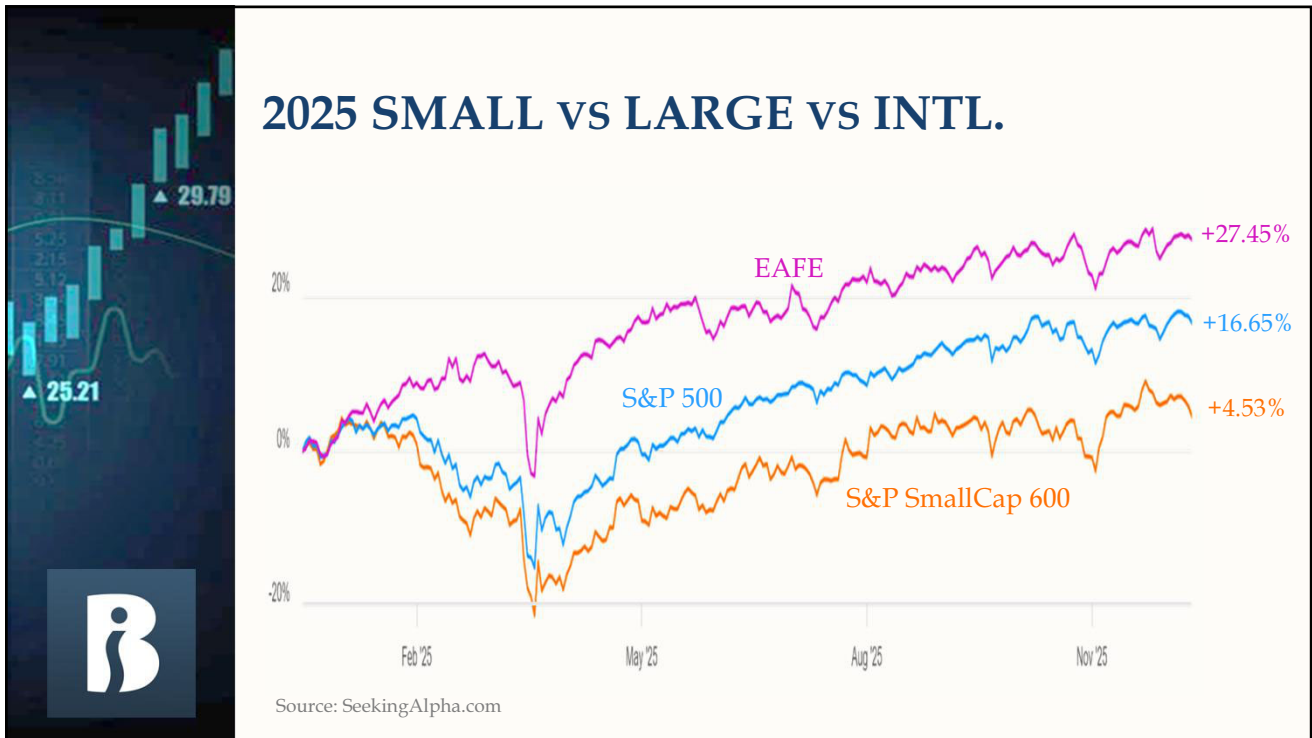




LOOKING BACK AT STOCK MARKET PERFORMANCE IN 2025

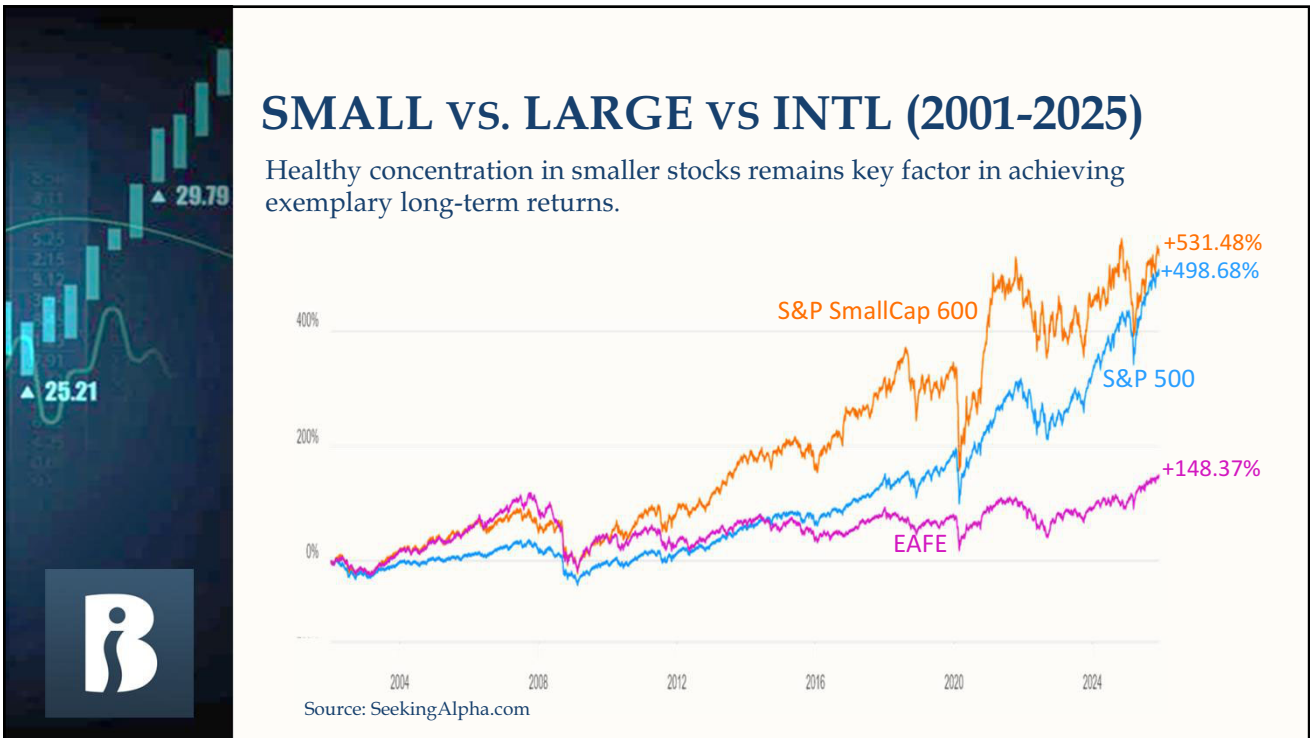
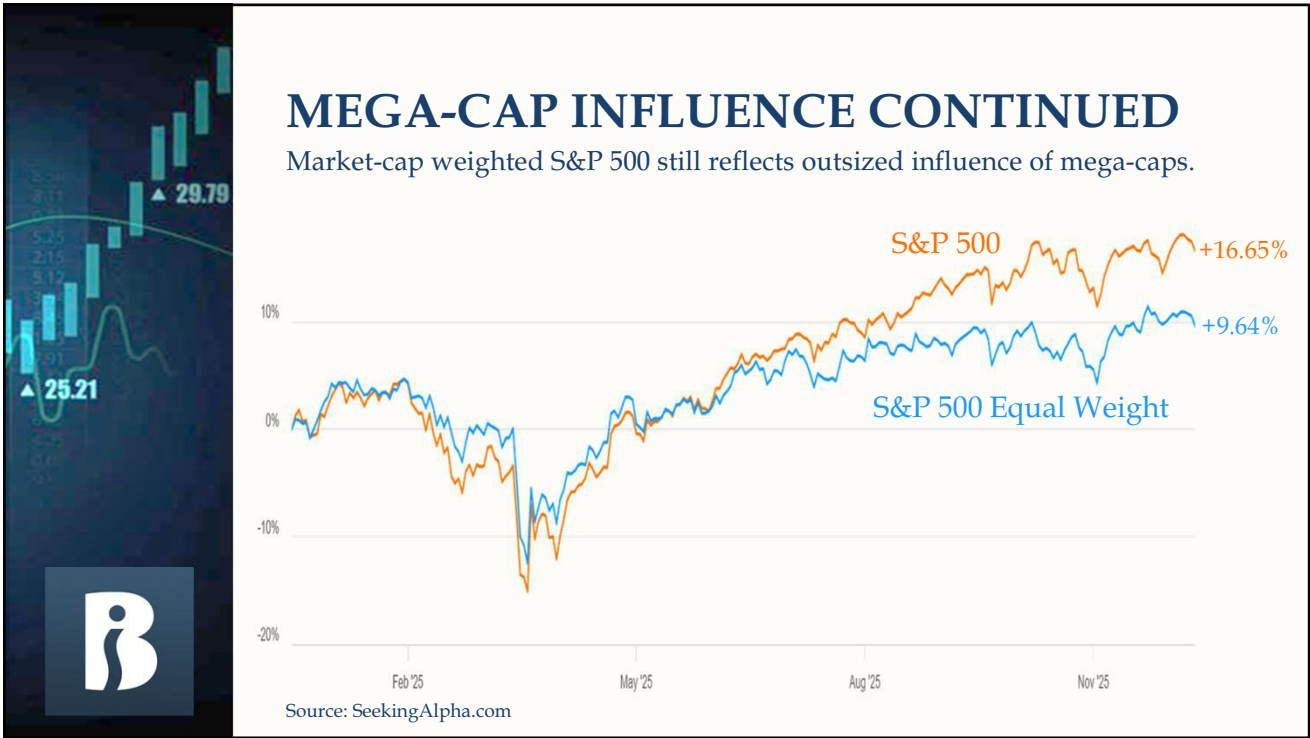


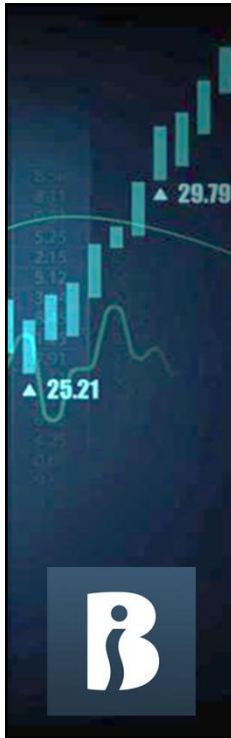
Presented by Doug Gerlach, gerlach@iclub.com



2025 SMALL-CAP TRENDS

- Interest rate cuts helped profitable smaller companies capitalize on cheaper credit.
- Tariffs & trade policy boosted interest in more domestically-focused companies.
- Small semiconductor companies benefited from AI buildouts.
- M&A activity grew with many small companies as attractive targets.
- Significant valuation gap between large & small stocks pulled in some buyers.
- Many investors still consider mega-caps as “safe havens.”





INVESTORS GRAVITATE TOWARDS MEGA- CAPS

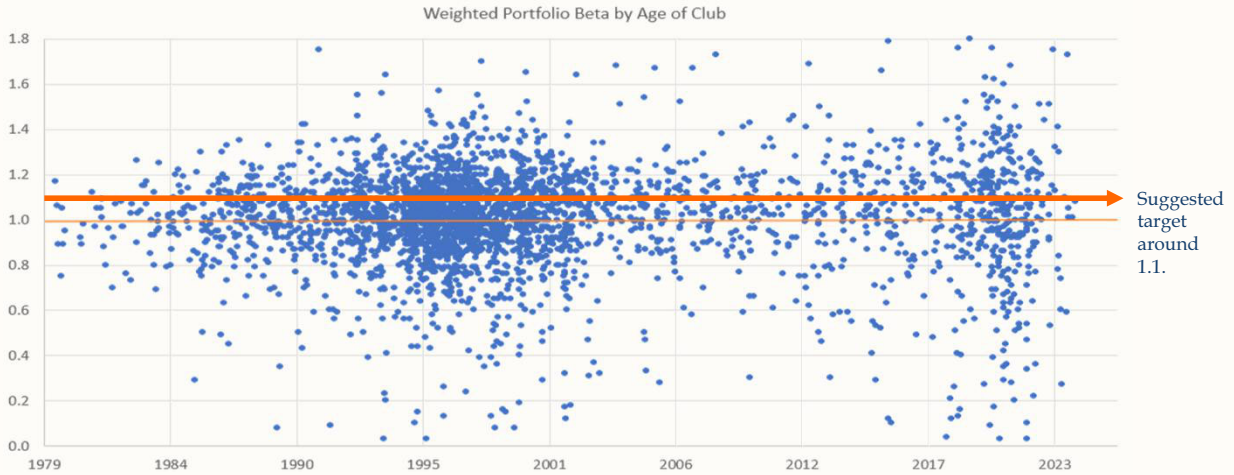


RISK & RETURN

- Investing is always trade-off of reward for risk.
- Beta (β) is quick measure of volatility risk for companies & portfolios.
 - Beta of 1.0 = return of overall market (S&P 500).
 - Beta < 1.0 = security/portfolio tends to deliver lower returns than broad market (undesirable!)
 - Beta > 1.0 = security/portfolio tends to deliver higher returns than broad market (desirable!, except...)
 - As betas exceed 1.0, also bring increased downside risk.
 - 1.1 is good target for most investors/clubs (tend to deliver 10% better price gains than market).

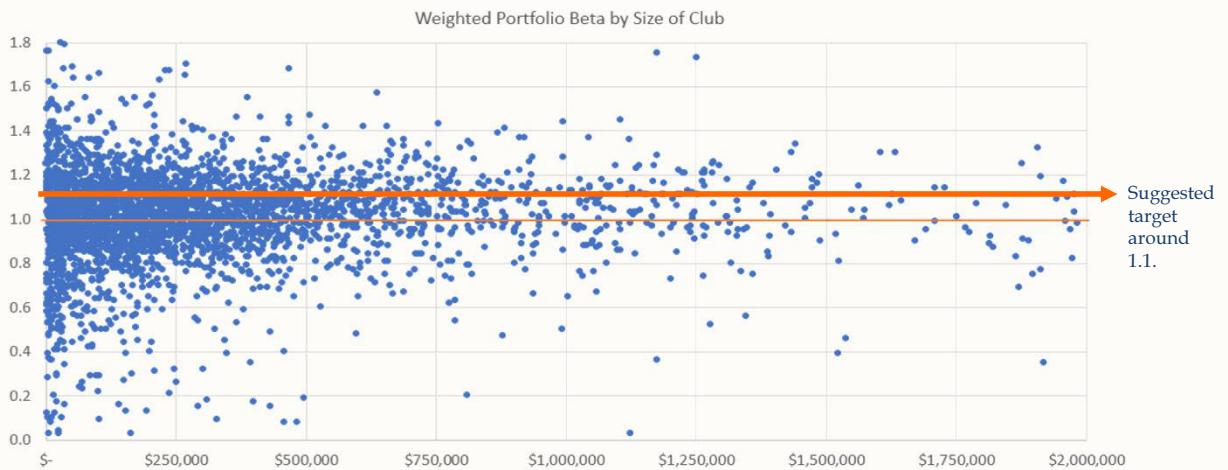
TOO MANY CLUBS FAVOR LOW-BETA STOCKS

Beta levels suggest too many clubs invest too "conservatively" (β below 1.1).



TOO MANY CLUBS FAVOR LOW-BETA STOCKS

Larger asset clubs have slightly higher beta portfolios.





“INVEST IN WHAT YOU KNOW?”

- Seems so sensible, but advice can be seriously misguided.
- Plays into cognitive bias [unconscious mode of thinking] that causes humans to overweight their “expertise” about familiar things.
 - Investors bought shares in own Baby Bell telcos far more often than others.
 - Investors avoid buying companies when they’ve had bad experience with their products.
 - Clubs turn to member who works as nurse whenever any healthcare stock is discussed.



“FUD” (FEAR, UNCERTAINTY, DOUBT)

- In 60s/70s, IBM salespeople often closed sales by reminding prospects that “No one was ever fired for buying IBM.”
 - Implied that customers could lose jobs if they recommended buying competitor’s product & it didn’t work out.
- Likewise, individuals often feel less fearful, more certain, less doubtful when they buy familiar names for their portfolios.
 - Professional fund managers, money managers often use same tactic – easier to play it safe than do more research.



MARKET AS POPULARITY CONTEST

- Large companies have millions of shareholders, dominant market shares, & public relations teams to keep them in headlines.
- News & information are constantly fed to investors about large companies.
- Creates feedback loop: largest companies grow in value, which attracts more investors, which causes more growth.
- “Talking heads” on TV, radio, blogs, newsletters push large company picks as safe performance bets to raise own reputations.
- Large companies thus always voted “Most Likely to Succeed.”

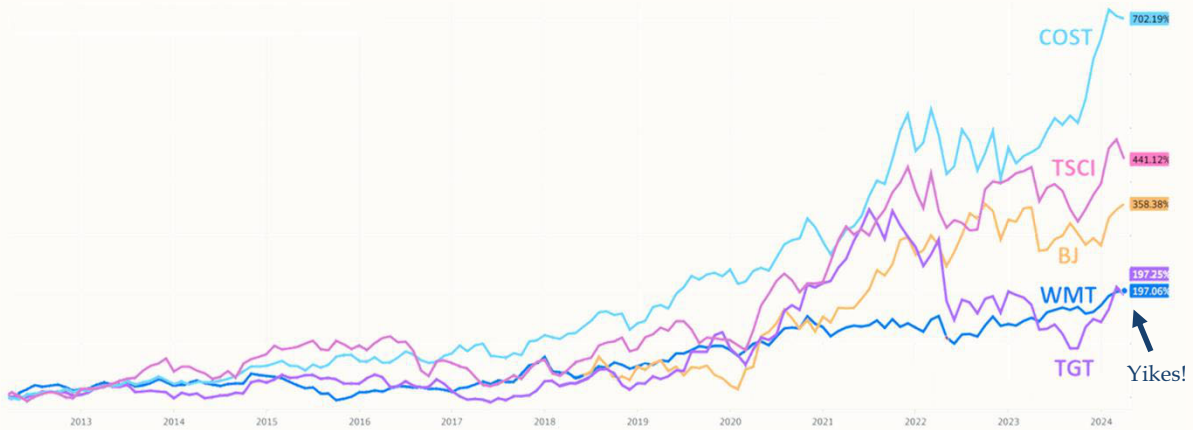


CLASSIC CASE: WAL-MART

- Beardstown Ladies Investment Club famously described how they “discovered” Wal-Mart due to always busy parking lot at new location in town.
- Ideas generated from surface observations are fine, but must be supported by further **evidence**.

WAL-MART PRICE COMPARED TO PEERS

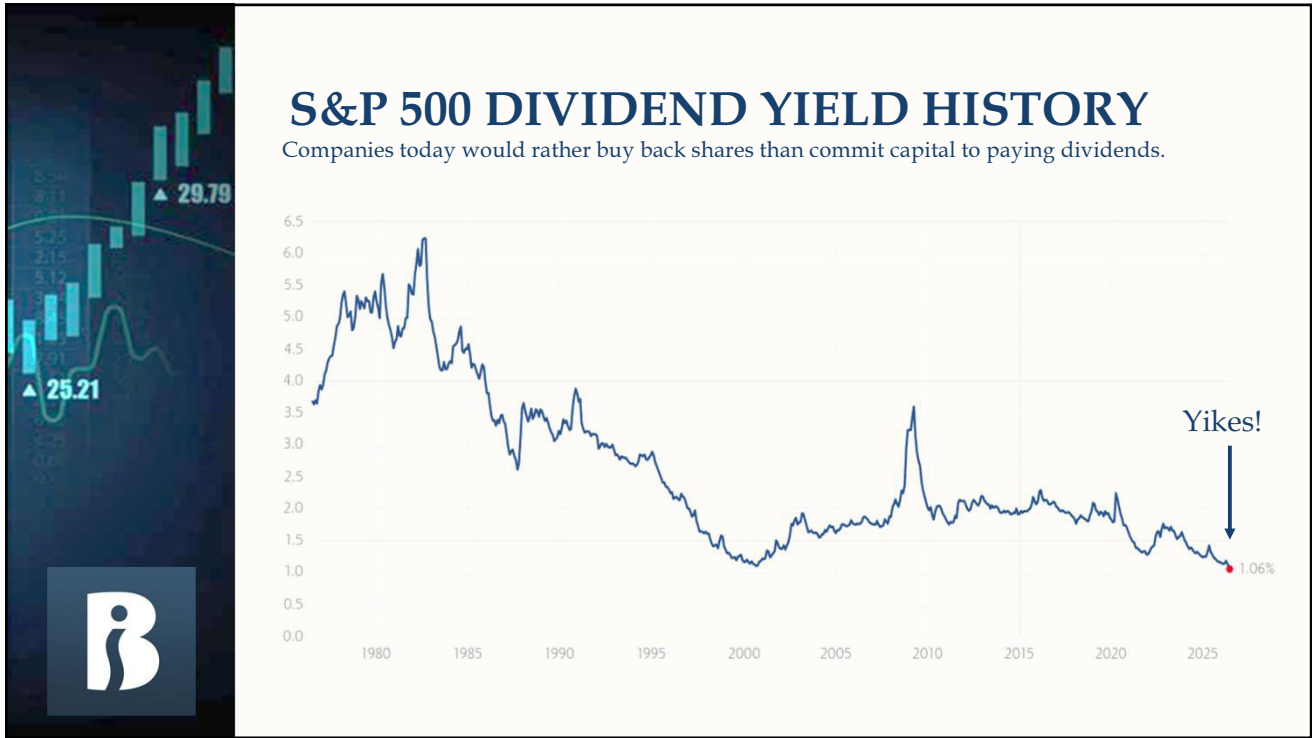
Most "familiar" company may not be best long-term investment.



WHAT ABOUT DIVIDENDS?

- Investors often "like the dividends" that mega-caps pay.
- Dividends are paid by large companies since capital appreciation alone **won't keep pace** with broad market returns over time.
- Dividend payouts by US companies have declined for decades.
 - Companies would rather buy back shares than increase dividends.
- Dividend-centric investor must understand role of yield in total return (growth vs. income).
 - May be acceptable risk/return tradeoff (such as for late stage or high net worth investors).
 - May not be acceptable for investors in accumulation/growth phase.
 - This must be prepared to underperform broader market.





SMALL COMPANIES HARD TO FIND/ANALYZE

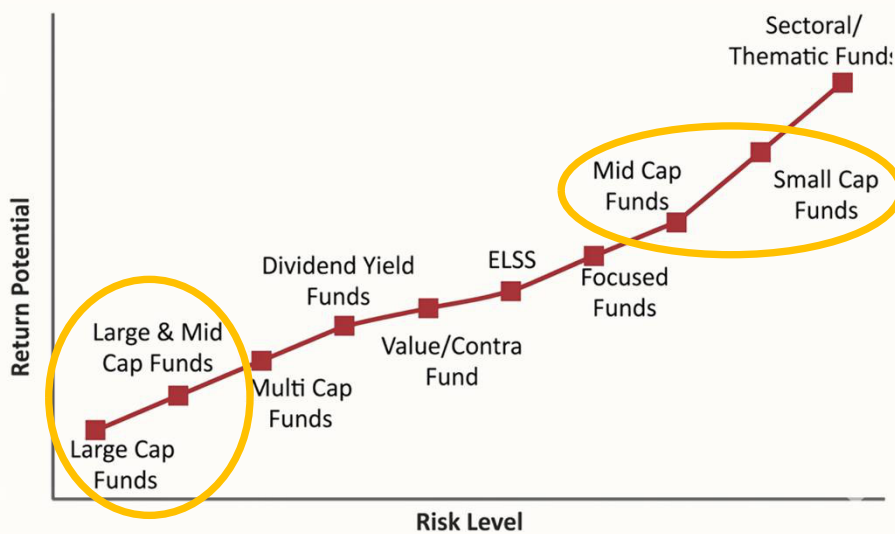
- Many investors believe it is difficult to find small & mid-sized companies suitable for SSG.
- *Investor Advisory Service & SmallCap Informer* newsletters have been finding SSG-style stocks consistently for 53 & 14 years (respectively).
 - And both beat respective indexes regularly.



PROBLEMS OF OVERWEIGHTING LARGE STOCKS



DECREASED RISK BRINGS DECREASED RETURNS



Focusing solely on large stocks can inhibit risk—but also returns compared to investing in small/mid stocks.



SLOW REACTION TIMES OF MEGA-CAPS

- Due to their size, mega-caps may dominate new trends & markets such as Artificial Intelligence or cloud computing.
- However, % of their revenues & EPS that come from trends may not be significant to company's own results.
- May be more profitable to seek out smaller players in these markets & invest there instead.



MEGA-CAPS HAVE LESS ORGANIC GAINS

- By virtue of their size, no new product is likely to be "iPhone" & create major gains in revenues & earnings.
- Companies revert to acquisitions to boost growth.
- Companies diligently buy back shares to use capital.
- Companies constantly focus on margin improvements to boost EPS faster than sales.



MEGA-CAP RETURNS LIKE TO SHRINK

- Potential for sky-high capital appreciation is limited for largest companies.
 - Anomaly of “Magnificent 7” in 2023-25 notwithstanding.
- Stocks may see near-term large upward price moves, but not likely sustained over time.

INVESTORS STICK WITH FAMILIAR TOO LONG

Microsoft stock gained just 9.3% in total from 2000-2014.



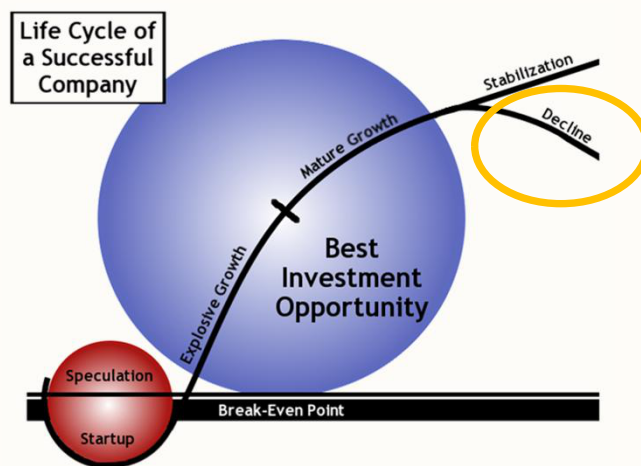


MANY MEGA-CAPS SELL AT PREMIUM

- Many investors like “blue chip” stocks & thus these shares always carry premium to other securities.
- As result, these stocks may be more expensive to purchase.
- May rarely sell at bargain & offer little in way of P/E expansion after purchase.



DECLINE CAN FOLLOW MATURE GROWTH

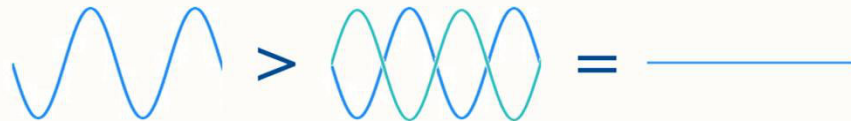


- Mature growth phase of life cycle offers best investment opportunity for many companies.
- However, companies that don't stabilize will go into **decline**.



MISS BENEFITS OF NON-CORRELATION

- In noise-cancelling headphones, waves of equal amplitude & opposite phase cancel out:

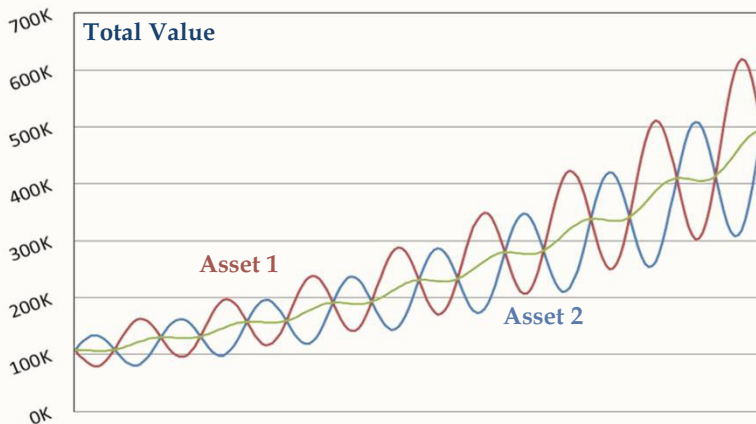


- In portfolio, ups & downs of small vs large companies can cancel each other out.
- But if ups & downs zero out, how does portfolio gain value?

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NON-CORRELATING ASSETS



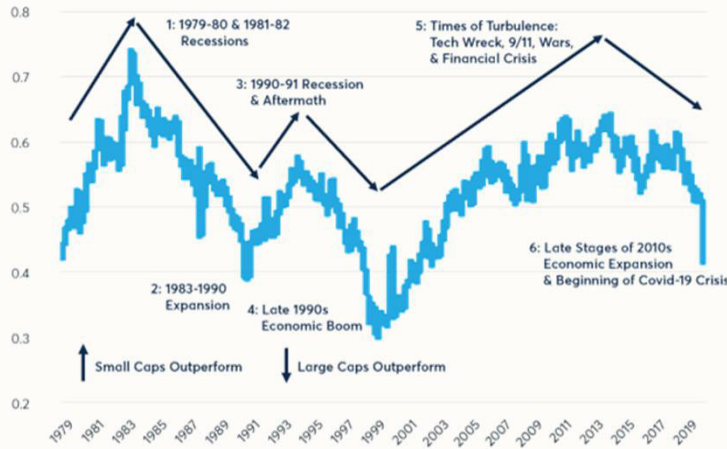
Source: prudentinvestors.com

- Well-selected securities fundamentals drive price over time despite short term price gyrations.
- Total portfolio value is thus "smoothed out" over time but still moves upwards.

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RUSSELL 2000 VS S&P 500 NON-CORRELATION



Source: plus-riche.com

Market sees long stretches when small outperforms & when large outperforms.

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INVESTORS MISS "SMID-CAP" RETURNS

- Small & mid-sized companies provide opportunities for greater returns than large-caps.
- Over 25-year period ending Jul 2025, S&P MidCap 400 & S&P SmallCap 600 both outperformed both large-cap stocks.

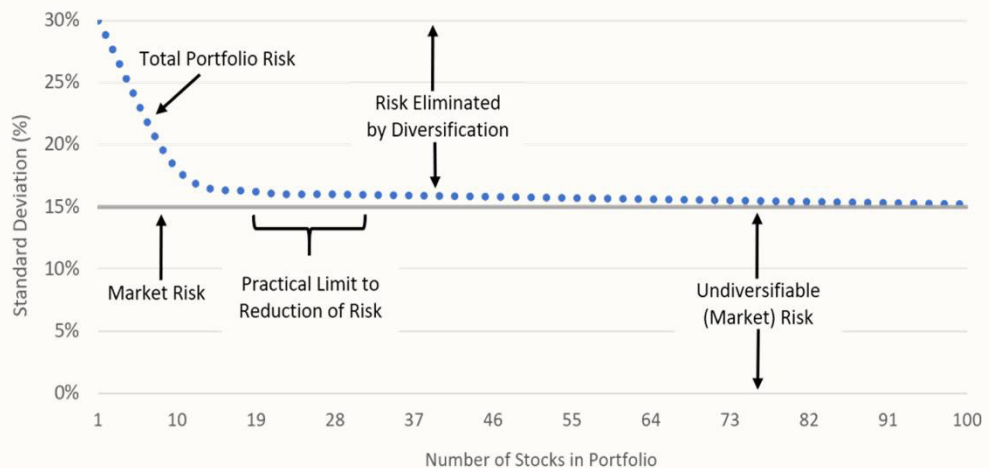


TOO MANY MEGA-CAPS TURNS PORTFOLIO INTO INDEX

- After ~30 large stocks added to portfolio, returns more unlikely to exceed market average.
 - Thus these portfolios function like index fund or ETF.
- Due to cost & complication of managing stock portfolio, investors would be better off simply owning index ETF or fund.



PORTFOLIO RISK AS FUNCTION OF # OF STOCKS





SMALL/MID/LARGE CHARACTERISTICS

- Small companies: higher risk & volatility, but higher returns.
- Large companies: lower risk & volatility, but typically “steadier” returns.
- Medium companies: less risk & volatility than small companies, higher returns than large companies.
- Mix together in large pot for delicious results!

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TARGET SMALL & MIDSIZED

- Adequate portfolio diversification by company size means that midsized companies become large, small companies become midsized.
 - And portfolio has new hole that smaller companies must fill.
- Keep active search underway for smaller companies.
- **Stock screeners** (SSG Plus, StockCentral MyStockProspector) are excellent, direct way to find companies of any size that meet SSG criteria.
- Create and regularly update watch list of small companies.



LEARN ABOUT WHAT YOU INVEST IN

- Don't only "invest in what you know."
- Avoid analysis paralysis – research judgment items used in SSG framework.
 - Most spend more time researching new refrigerators or new cars than new stocks.
- Look at company presentations investor relations websites:
 - Industry growth trends.
 - Size of global/domestic addressable market.
 - Information about peers & competitors.
 - Drivers of growth for company's products/services.



RESOURCES FOR SMALL COMPANY ANALYSIS

- SeekingAlpha.com offers coverage of many smaller companies.
- *Investor Advisory Service & SmallCap Informer* newsletters from ICLUBcentral cover smaller companies frequently.
- Look at holdings of top-performing managed small & mid mutual funds.



QUARANTINE SPECULATIVE COMPANIES

- BI Founder George Nicholson suggested setting aside 5%-10% of portfolio for higher-risk/more speculative stocks.
- Manage the downside closely.
- Gains can be impressive, but many/most of these may be net losers.



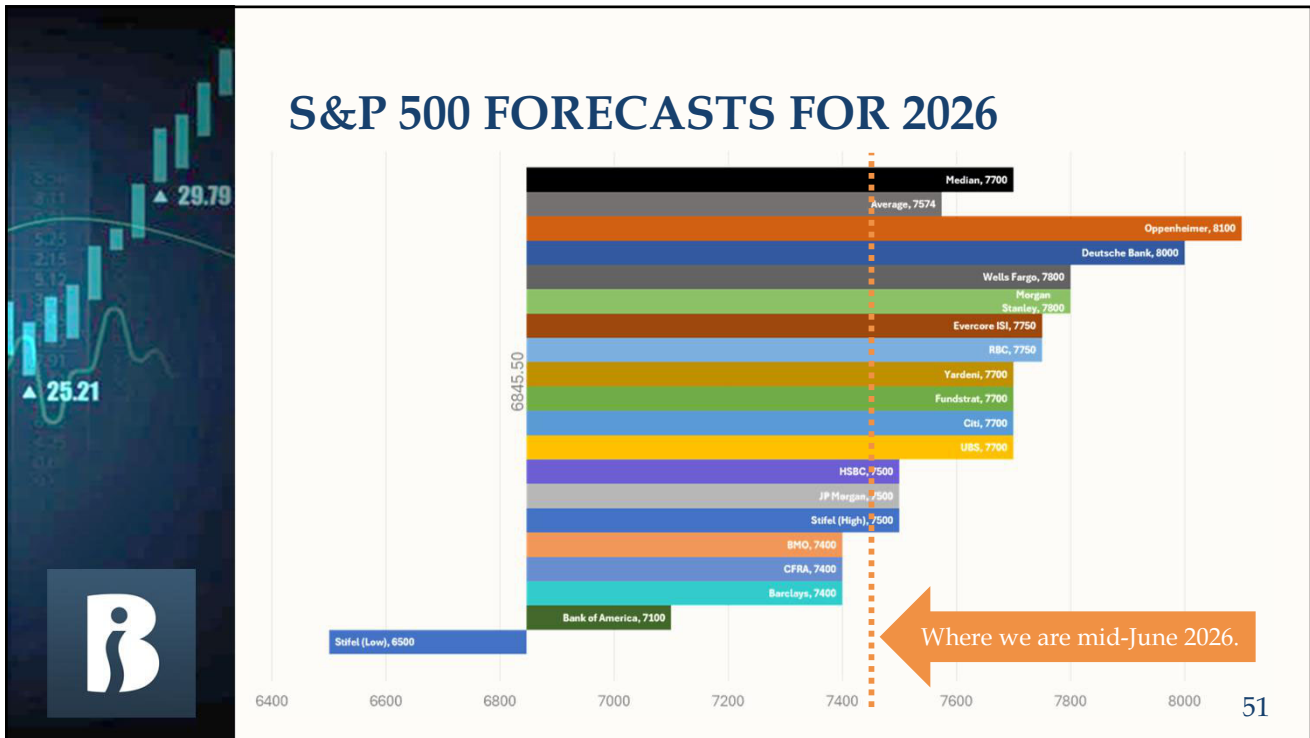
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OUTLOOK FOR 2026



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SMALL-CAPS & THE ECONOMY

- Small companies are perceived as being more susceptible to **recessions & higher interest rates/borrowing costs**.
- In uncertain times, investors stick with known names & **leave behind small companies**.
- Opportunities in these small companies are **magnified** after macroeconomic improvements.



BEAR CASE FOR SMALL-CAPS IN 2026

- Small-caps have had long stretch of underperformance relative to large-caps – are market forces significantly changed yet?
- While much has been made of long-term underperformance of small-caps relative to large-caps, continued strength in large-cap stocks *may* keep interest in small-caps low.
- Volatility may increase in 2025, affecting small-cap stocks to greater degree than large-caps.

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BULL CASE FOR SMALL-CAPS IN 2026

- **Small-caps have led large-caps since April 2025.**
- Improving economy should drive small company EPS.
- Interest rate reductions & regulatory changes may boost small company fundamentals as well.
- Low stock valuations offer lots of upside.
- Demand for discretionary purchases (RVs, boats, swimming pools) *may* have reached bottom, & unlocked consumer spending could boost these companies.

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FTM BEAR CASE FOR SMALL-CAPS

- Much has been made of long-term underperformance of small-caps relative to large-caps, but continued strength in mega-cap stocks may keep interest in small-caps low.
- Volatility may increase, affecting small-cap stocks to greater degree than large-caps.

55



FTM BULL CASE FOR SMALL-CAPS

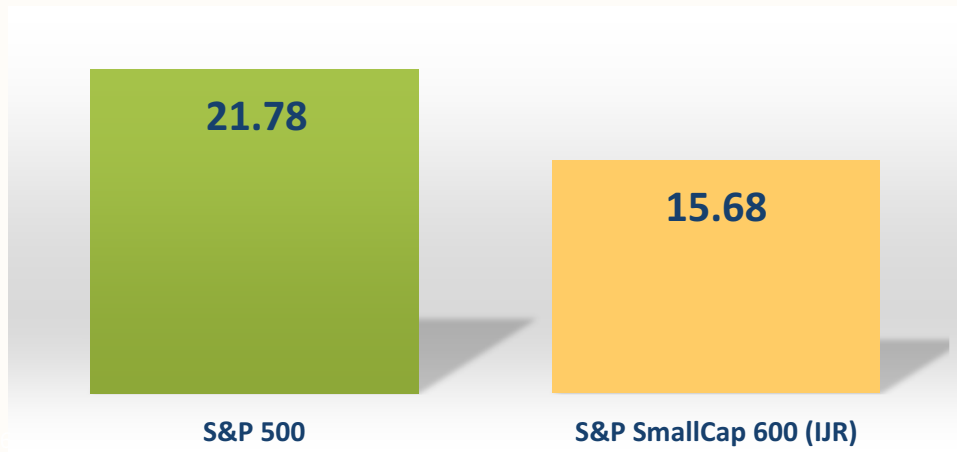
- Small-caps haven't outperformed large-caps since 2020, so some say they are due for a win.
- Improving economy should drive small company EPS.
- Interest rate reductions & regulatory changes may boost small company fundamentals as well.
- Low stock valuations offer lots of upside.
- Demand for discretionary purchases (RVs, boats, swimming pools) may have reached bottom, & unlocked consumer spending could boost these companies.

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PROJECTED P/Es SMALL VS. LARGE

- Will overextended large-caps retreat?
- Will undervalued small-caps thrive?



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REGARDLESS OF COMPANY SIZE

- Focusing on well-managed companies with tangible growth drivers, solid fundamentals, & reasonable valuations is key to success in any market.

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COMPANY IDEAS FROM THE *SMALLCAP INFORMER*



THIS PAGE FOR NOTES



QUESTIONS?

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GERLACH@ICLUB.COM



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