

Improving Your Returns Using Portfolio Management

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Agenda

- What is Portfolio Management?
- Focus on several concepts
 - Asset Allocation
 - Diversification
- Are you buying growth companies – Do your SSG!
- Is your position size too large or small?
- Investing in smaller companies
- Selling or trimming stocks
- Creating a portfolio management process
- Summary

What is Portfolio Management (PM)?

An illustration on a light blue background depicting financial management. A person stands on the left, looking at a document. In the center, there are several stacks of coins and a large, dark blue arrow pointing upwards and to the right, symbolizing growth. To the left of the arrow is a large calculator. In the background, there is a grid pattern representing a window or a data table.

Portfolio Management

[pɔrt-'fō-lē-,ō 'ma-nij-mənt]

The art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution.

Why is Portfolio Management Important?

- If your portfolio doesn't meet your goals and risk tolerance, will you stick to that strategy?
- Research shows following a process and sticking with it is important to financial success.
- Determining your risk tolerances and goals is key. Less key for clubs.



Three Elements of Portfolio Management

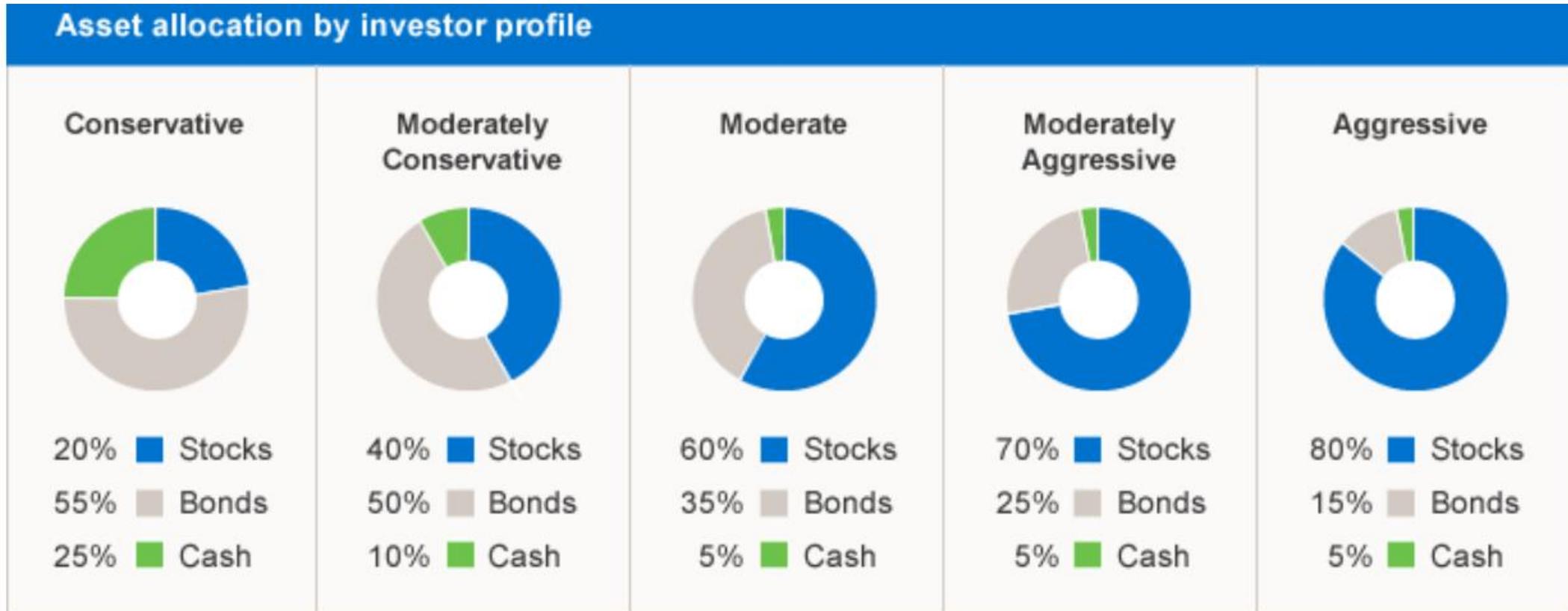
- Asset Allocation
- Diversification
- Rebalancing – Focus on selling and trimming
- We will focus on these first two elements.
- We will also review some portfolio tune-up process/questions to ask.

Asset Allocation

- The goal is to spread out your assets by owning different asset classes that behave differently from each other over time.
- Individuals must determine their asset allocation level.
- Clubs are focused on growth and thus stocks are typically our choice.



Example of Risk Levels



Source: Portfolio Japan

More risk = more stocks = higher long term potential returns

Double Your Investment – Rule of 72

Rule of 72	
Rate of Return	Years to Double Your Money
6%	12 Years
7%	10.3 Years
 8%	9 Years
9%	8 Years
10%	7.2 Years
11%	6.6 Years
12%	6 Years
 15%	4.8 Years

Formula: 72 Divided by Rate of Return =
Years to Double Your Money

Example: $72 \div 15 = 4.8$ Years

**Equity
allocation
typically
increases as
investors try to
generate higher
returns.**

Sales Are BI's Diversification Focus

Diversification is the idea of spreading out your assets vs investing in one or just a few companies/assets.

Sales	Size	Acceptable Growth Rate	Amount of Risk
< \$1 billion	Small	At Least 12%	More
\$1 billion to \$10 billion	Medium	7% - 12%	Average
>\$10 billion	Large	5% - 7%	Less

Company size and acceptable growth may be a factor in a company's ability to grow.

Note: Company size is based on annual Sales or Revenues

Diversification Other Than Sales

- **Diversify by market capitalization.**
 - Stock price times the shares outstanding.
 - Consider smaller companies.
- **Geographic diversity** – Not done often at clubs, but individuals typically own international funds.
- **Diversify by industry or sector.**
 - Calculate your sector weight and compare with S&P 500 Index weights.

Compare Sector Weights To The S&P 500

- Since most clubs tend to have larger stocks in their portfolio, the S&P 500 index is a good index to compare with.
- The S&P 500 Index has 11 sectors.
- Compare your sector weights with the S&P 500.
- Did you know technology at 28% is the largest weight in the S&P 500 Index?

Compare Your Portfolio To The Market

- Break your holdings into sectors by hand or the SSGPlus will do this for you.

BETTER INVESTING
SSG PLUS

Portfolios and Studies

Show entries

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Actions	Name	Date Created	Description	Account Name	Study Count
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Report Details

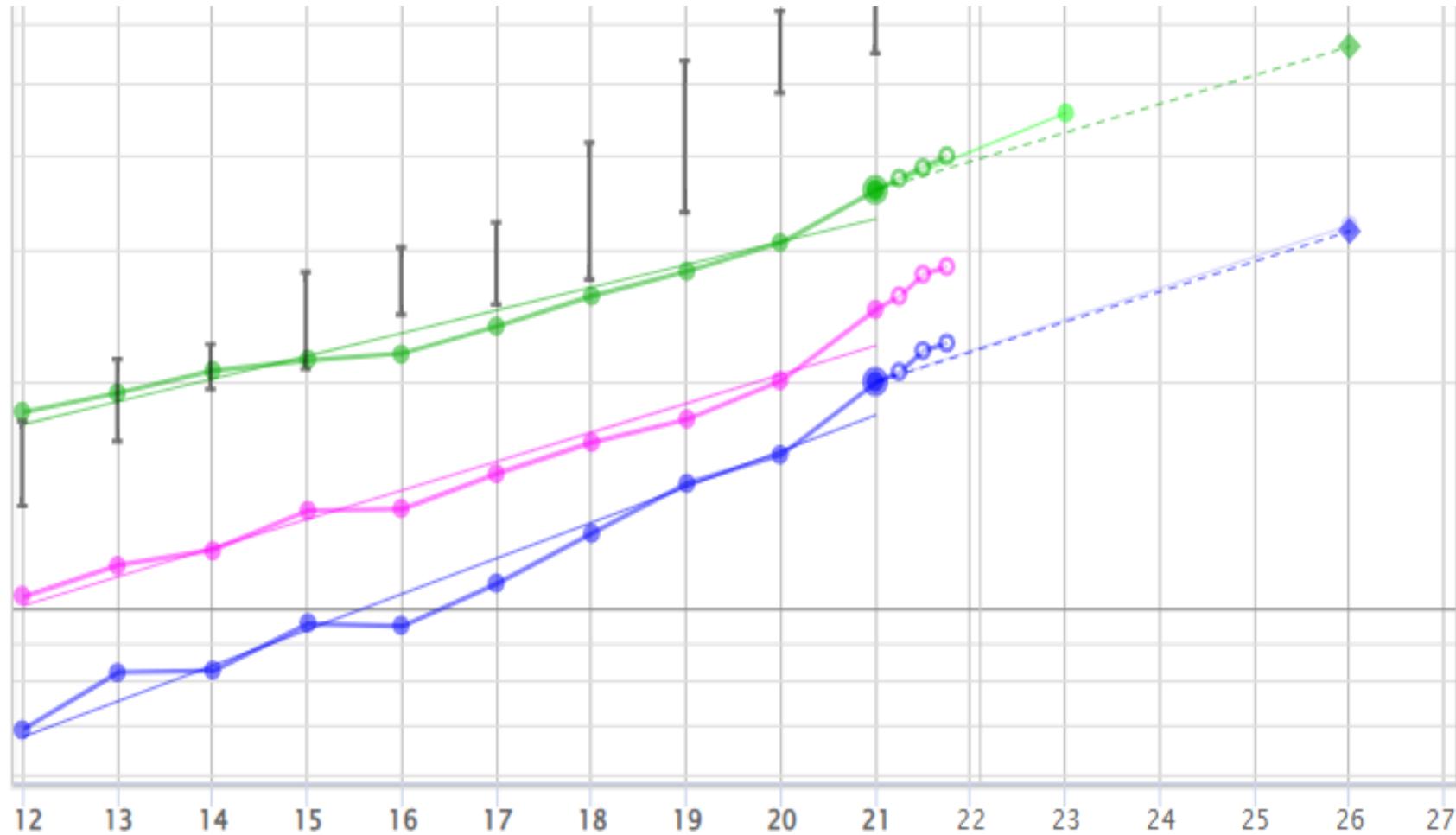
Sector & Industry Diversification Report

SF

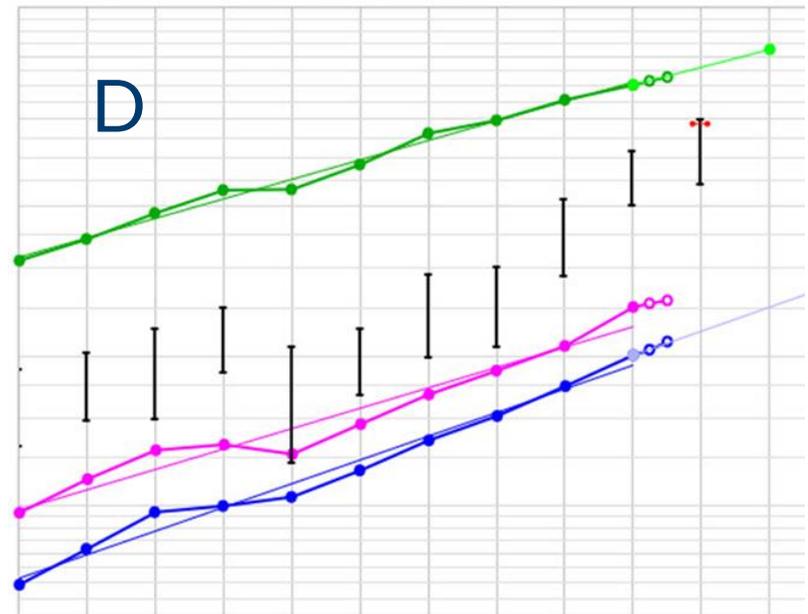
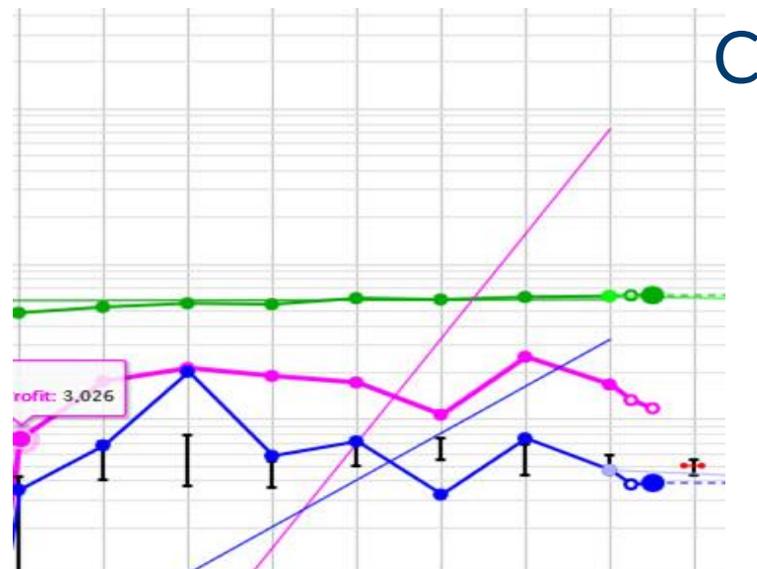
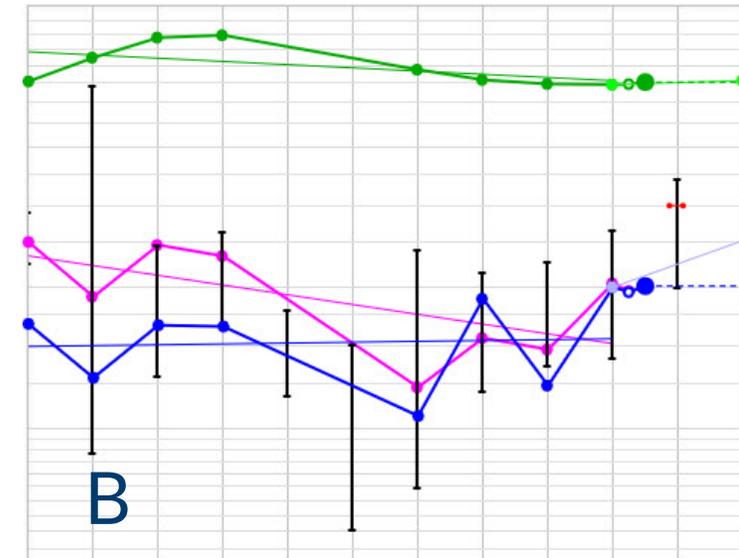
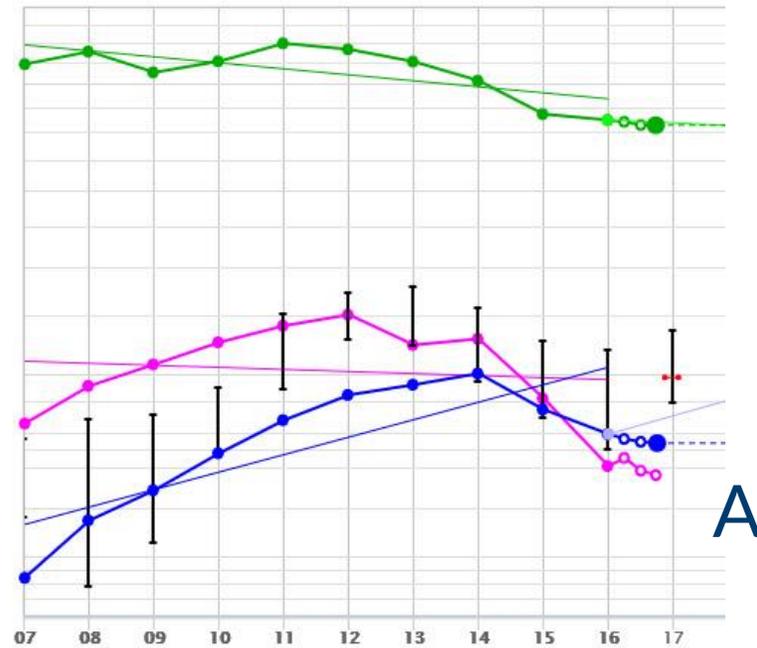
Study data

Sector	Industry	Security	Market Value (Security)	% of Portfolio (Security)	% of Portfolio (Industry)	% of Portfolio (Sector)
Communication Services						
	<i>Internet Content & Information</i>				19.2%	19.2%
		Meta Platforms	\$8,708.99	19.2%		
Energy						
	<i>Oil & Gas Equipment & Services</i>				6.2%	6.2%
		SLB	\$2,826.06	6.2%		
Financial Services						
						21.8%

Visual Analysis – Is this a Growth Company?



**Which
company
would
you like
to
study?**



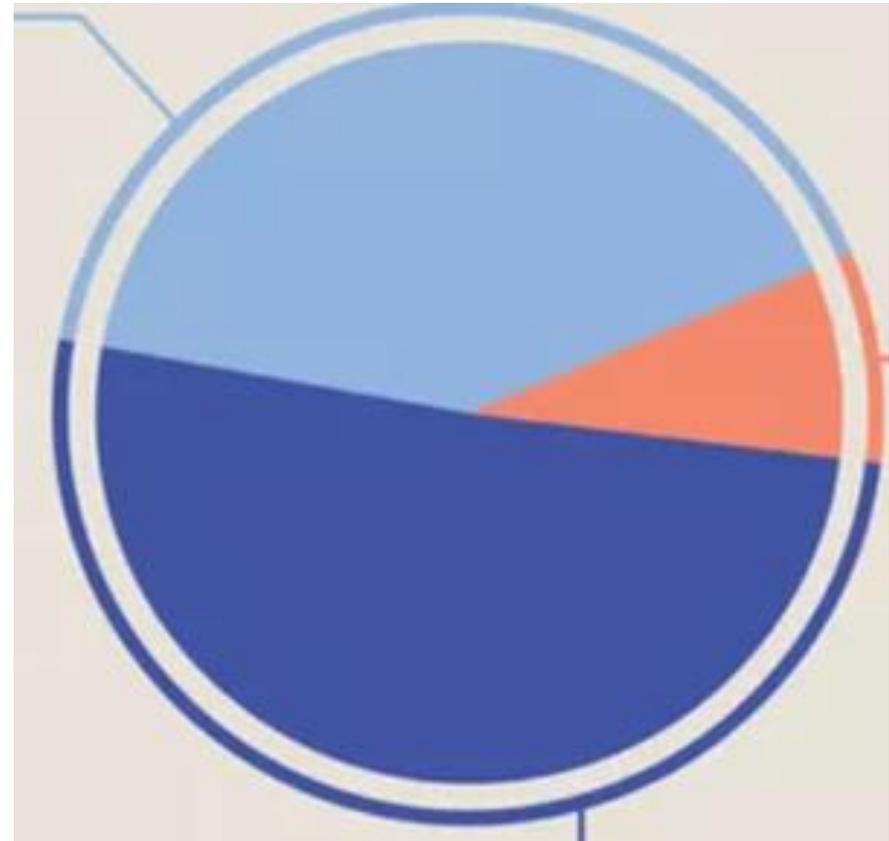
Sectors Where I have Found Growth Names in My Past

- Lots of Growth
 - Information Technology
 - Health Care
 - Consumer Discretionary
 - Industrials
- Some Growth
 - Consumer Staples
 - Energy
 - Financials
 - Communications
 - Materials
- Few Growth Names
 - Utilities
 - Real Estate

BetterInvesting focuses on growth companies historically.

Next Portfolio Management Topic

- Position Sizes
 - Too big
 - Too small
 - Average size
 - 2x average size
 - Selling or trimming
 - The small question



How Many Stocks per Club Member?

- To determine how many stocks each club member is following. If for example, the portfolio held 14 stocks.
- Example with 12 members, you cover 1.2 stocks/person.
(14 stocks / 12 members)
- Most clubs average between 1-2 stocks per person.

Average Position Size

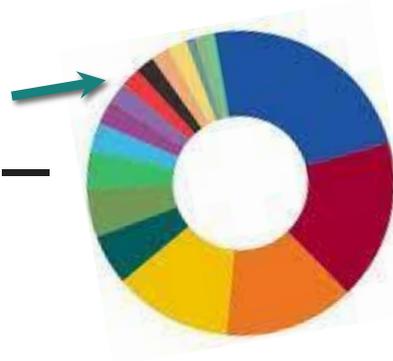
- The number of stocks in the club determines the average holding size. (100%/holdings)
- Example a portfolio has 12 stocks = 8.3%.
- Formula = $100\% / 12$ holdings
- This can be a very useful statistic to use in portfolio management. Both for tiny and large positions.

How Big is Too Big Of A Position?

- If the average position weight is 8.3%. What is too big?
- For me, a position is too big when a holding is 2X greater than an average weight. In this case, 16.6%.
- Why 2X? Based on some analysis, it seemed like an appropriate level to reduce risk.
- Do you hold – sell - trim? This is your decision. However you should be aware of your risk.
- I actively use trimming with wide economic moat stocks versus outright selling. Typically with big position sizes.

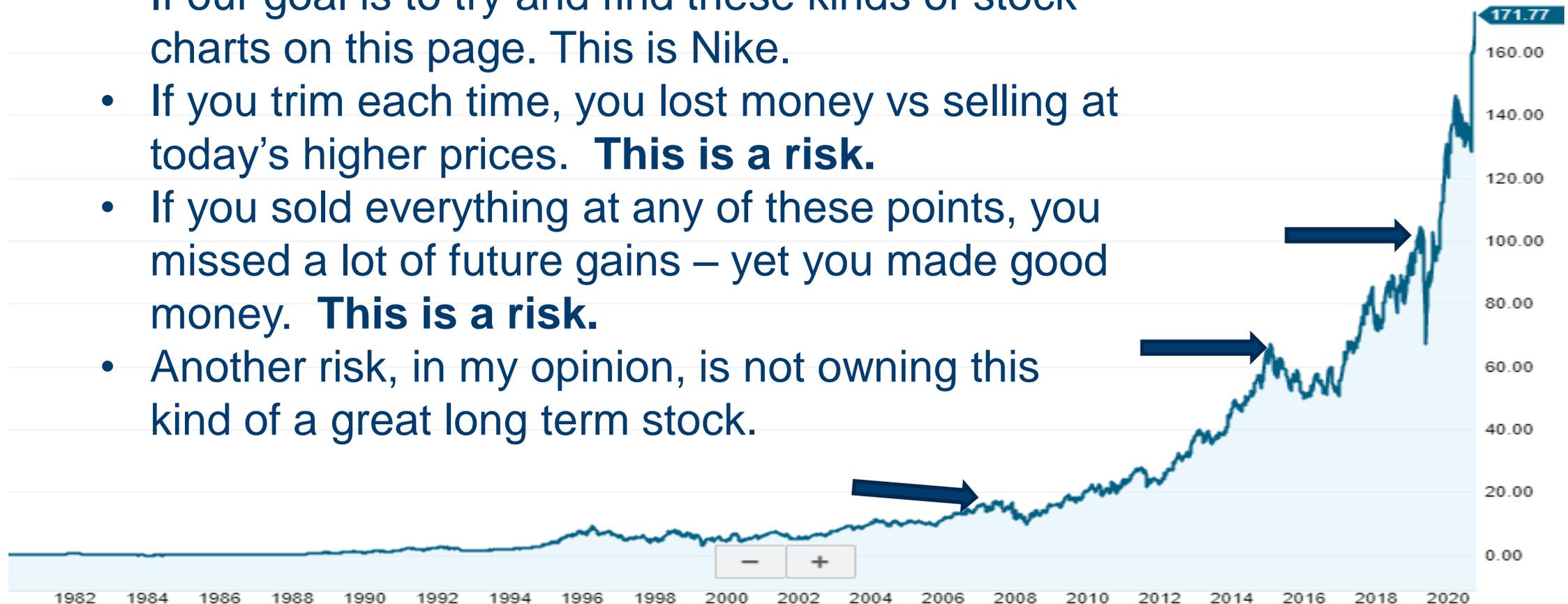
Tiny Holdings – Action Time?

- Tiny position sizes won't help your portfolio performance too much due to their small size.
- What is too small? Half the average weight or smaller.
- The decision tree with tiny holdings is: Hold – Add – Sell.
- Get the position to a size that will help performance – Consider the average weight in the portfolio.



Selling or Trimming?

- If our goal is to try and find these kinds of stock charts on this page. This is Nike.
- If you trim each time, you lost money vs selling at today's higher prices. **This is a risk.**
- If you sold everything at any of these points, you missed a lot of future gains – yet you made good money. **This is a risk.**
- Another risk, in my opinion, is not owning this kind of a great long term stock.



Core Decision Tree - If You Should Sell or Trim

- The long term outlook for the company is unfavorable
- Deteriorating corporate financial condition
- Time and original thesis didn't work

Probably Sell

- *Temporary declining profit margins*
- *Bloated current asset balance sheet – Inventories (Maybe Buy)*
- *Adverse management change*
- *Increasing competition impacting profits*
- *Dependence on a single product*

Trim or Sell

- **High valuation of a quality stock**
- **Position size has become too large – this is a risk too**

Trim



The Smaller Question

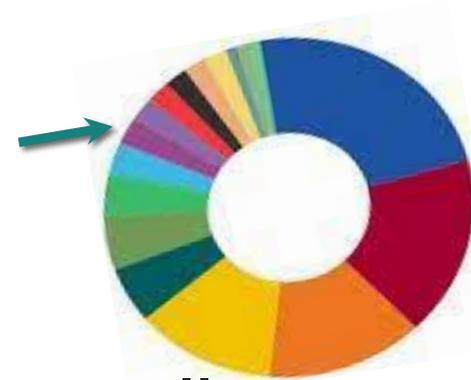


- Is the club trying to find smaller companies?
- Smaller companies tend to perform better than larger stocks over longer time periods.
- They also tend to have more price volatility.
- Mid-sized companies tend to look better on an SSG versus smaller companies.
- Finding smaller companies is harder, you might want to consider leveraging off the pros.

Small Stock Process

BI recommends 75% of the portfolio in smaller and mid-sized sales companies.

- Create a goal of owning several smaller companies consistently, or
- Carrying a certain portfolio weight to get exposure to smaller companies, or
- Leveraging the pros by just buying an ETF in the small space.
- Buy a newsletter that recommends smaller companies like: the SmallCap Informer from IClub Central.
- Looking for ideas? See what an ETF owns in their portfolios.



Leverage off the Professional's Ideas

Use a smaller company ETF and check out their stocks

REGL - ProShares S&P MidCap 400 Dividend Aristocrats ETF

Top Ten Holdings as of 01/03/2024

Holding Weightings		Today's Price Performance	
Symbol	Description	% of Net Assets ▼	Sector
UBSI	United Bankshares Inc	2.69%	Financials
OZK	Bank OZK	2.57%	Financials
UMBF	UMB Financial Corp	2.54%	Financials
PB	Prosperity Bancshares Inc	2.51%	Financials
WSM	Williams-Sonoma Inc	2.38%	Consumer Discretionary
CBSH	Commerce Bancshares Inc	2.38%	Financials
CSL	Carlisle Companies Inc	2.38%	Industrials
EVR	Evercore Inc Class A	2.38%	Financials
LECO	Lincoln Electric Holdings Inc	2.38%	Industrials
CFR	Cullen/Frost Bankers Inc	2.36%	Financials

Source: Charles Schwab, 1/7/2024

SMDV - ProShares Russell 2000 Dividend rows ETF

Top Ten Holdings as of 01/03/2024

Vi

Holding Weightings		Today's Price Performance	
Symbol	Description	% of Net Assets ▼	Sector
HY	Hyster-Yale Materials Handling Inc Class A	1.17%	Industrials
WS	Worthington Steel Inc	1.15%	Materials
ATRI	Atrion Corp	1.14%	Health Care
WOR	Worthington Enterprises Inc	1.13%	Consumer Discretionary
CNS	Cohen & Steers Inc	1.11%	Financials
GFF	Griffon Corp	1.11%	Industrials
HBNC	Horizon Bancorp (IN)	1.11%	Financials
MATX	Matson Inc	1.09%	Industrials
CCOI	Cogent Communications Holdings Inc	1.06%	Communication Services
BCPC	Balchem Corp	1.05%	Materials

Securities are for educational purposes only

Final Portfolio Management Thoughts

- Rule of Five
- The individual stock
- Economic Moats



Additional Portfolio Management Thoughts

- How many big winners or losers in the portfolio?
- I typically find 1 or 2 big winners in a portfolio and one loser.

Rule of Five

- If there are a number of losing stocks in the portfolio – review your research and purchase process.
- How are you valuing a non-profitable company?
- Create and track a company's investment thesis?

The Individual Stock

- Finally in BetterInvesting, we focus on growth companies with:
 - Consistent sales and EPS growth,
 - Businesses that typically are industry leaders,
 - A competitive edge due to unique products – a moat,
 - Decent to good management teams.
- The SSG, Sections 1 & 2, is a good tool for this analysis.
- Remember, don't overpay today for anticipated future growth.
How much should future earnings be discounted?
- Finally, don't be too conservative!



Another Tool – Tracking Economic Moats

- I track them for club tune-ups, I think moats are very powerful.
- Many clubs own mostly wide + narrow moat stocks.
- Morningstar is the leader on moats.
- In selling or trimming, if it is a wide moat stock, I lean towards trimming.
- In theory, wide moat stocks should be stronger companies for a longer time.
- “No moat” stocks can do well, you might have to trade them more frequently.



Last Area: Creating A Continuous Process

- Help you create a portfolio management process that you can use going forward with your Club.



Creating A Portfolio Management Process

- So far, we have been asking the basic questions for a club's Portfolio Tune-up to answer. Here is a list:
- How many stocks is each club member tracking?
- Determine the average position size in the portfolio.
- Are they invested in growth sectors?
- Are they diversified – sales or size
- Determine how diversified they are by sectors.
- What is the breakdown by economic moat analysis?
- Are most of the names in the portfolio winners?



Example of The Process with a Real Club

- **I have created a standard portfolio management process that I have just described that I use on a club visit where we perform a Portfolio Tune-up.**
- Determine how many stocks each club member is following. With 16 members, you cover 1.2 stocks/person. Average position size is roughly 5.3%.
- Depending on how many members and stocks in the club will determine how many stocks per person and the average holding size. (# stocks/members) and (100%/holdings)
- With 19 stocks, you are diversified in 7 sectors – technology, communications, health care, financials, industrial, consumer staple and discretionary. Largest sectors - consumer discretionary – 32.5%, tech 18.8%, and industrial 16%.
- Your portfolio runs from small to large companies. Many are profitable companies and industry leaders.
- 6–Wide Moat stocks, 6-Narrow, 1-None, **6-N/A (Smaller companies)**
- Only one stock in the portfolio was losing money.

Summary

- I have found most clubs are performing well.
- Comparing your portfolio versus an index might help your portfolio management.
- Diversification helps investors over time.
- Manage both large and small holdings sizes.
- Focusing on your individual holdings is key.
- Think about the quality of your companies.
- Asset allocation can help individual investors.

Questions or Comments?

- Improving Your Returns Using Portfolio Management

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