

Stock Investing Made Easy
WHAT'S WRONG WITH THIS PICTURE?
Barry Detloff

Stock Investing Made Easy

What's Wrong With This Picture?



Barry Detloff
Northern Lights Chapter
detlo001@umn.edu

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1

Stock Investing Made Easy

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2

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3

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Objectives in Investing

- Find stocks to study
- Analyze and compare to see if a quality company
- Buy using proper position sizing
- Manage portfolio



4

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Company Basic Data

Be cautious of over concentrating in a sector/industry

Company Basic Data

Update Company Basic Data

Company Name:	Apple	Price/Date:	178.90	03/11/19
Exchange/Ticker:	NAS AAPL	High/Low Price:	233.47	142.00
Last Fiscal Year/Ends:	2018 September	Total Debt:	114,730	
Web Site:	http://www.apple.com	Pfd Stock/Div (\$M):	0.0	0.0
Industry:	Consumer Electronics	Basic Shares (M):	4,735.8	
Source/ADR:	BI Stock Data Serv ADR:	Indicated Dividends:	2.92	
Prepared by:		Insider Ownership %:	0.2	
Quality Source/Rating:		Institutional Holdings %:	92.1	
		Diluted Shares (M):	4,773.3	

5

5

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Create Portfolio Template

	Sector	Industry	Co/Ticker	Size	Expected Growth Rate	% of Portfolio
1						
2						
3						
4						
5						
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7						
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10						

Company: Medifast (MED)

Closing Price: 285.98 (07/02/21)
 Last Fiscal Year End: 12/2020

Industry: Personal Services
 Sector: Consumer Cyclical
 Company Size: Small <-\$1B in Sales

Description: Medifast Inc is a US-based company that produces, distributes and sells products concerning weight loss, weight management, and healthy living. The company generates its revenue from point of sale transactions executed over an e-commerce platform for weight loss, weight management, and other consumable health and nutritional products.

6

6

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Company Basic Data

Is this company liquid?

Company Basic Data

Update Company Basic Data

Company Name:	Independent Bank	Price/Date:	23.33	03/18/21
Exchange/Ticker:	NAS IBCP	High/Low Price:	24.73	9.19
Last Fiscal Year/Ends:	2020 December	Total Debt:	169	
Web Site:	https://www.independentbank.com	Pfd Stock/Div (\$M):	0.0	0.0
Industry:	Banks - Regional	Basic Shares (M):	21.9	
Source/ADR:	BI Stock Data Serv ADR:	Indicated Dividends:	0.84	
Prepared by:	DETL0FF	Insider Ownership %:	4.5	
Quality Source/Rating:		Institutional Holdings %:	72.5	
		Diluted Shares (M):	22.1	

IBCP INDEPENDENT BANK CORP MICHIGAN COM 23.85 +0.52 (+2.23%) B: 19.36 A: 26.00 ETB NASDAQ 11/11/21 +0.48

Underlying	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High
	23.85	Q +.52	19.36	Z 26.00	Q	0 x 1	425,738	23.24

7

7

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Company Basic Data

Is this company liquid?

Company Basic Data

Update Company Basic Data

Company Name:	Apple	Price/Date:	178.90	03/11/19
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Quality Source/Rating:		Institutional Holdings %:	92.1	
		Diluted Shares (M):	4,773.3	

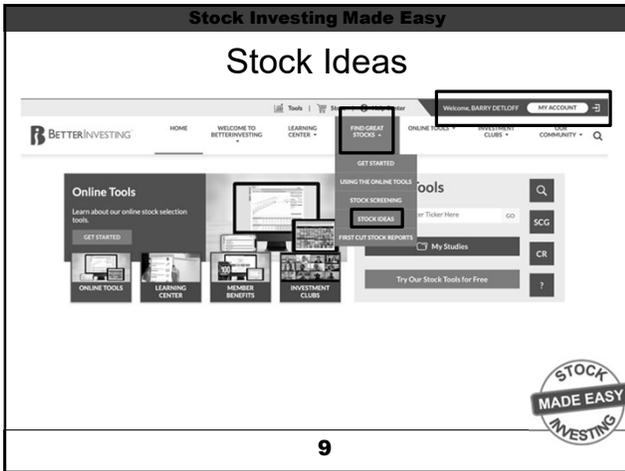
AAPL APPLE INC COM 119.95 -0.54 (-0.45%) B: 120.02 A: 120.05 ETB NASDAQ 11/11/21 +0.48

Underlying	Last X	Net Chng	Bid X	Ask X	Size	Volume	Open	High
	119.99	Q -.54	120.02	P 120.05	P	1 x 33	185,549,5...	119.00

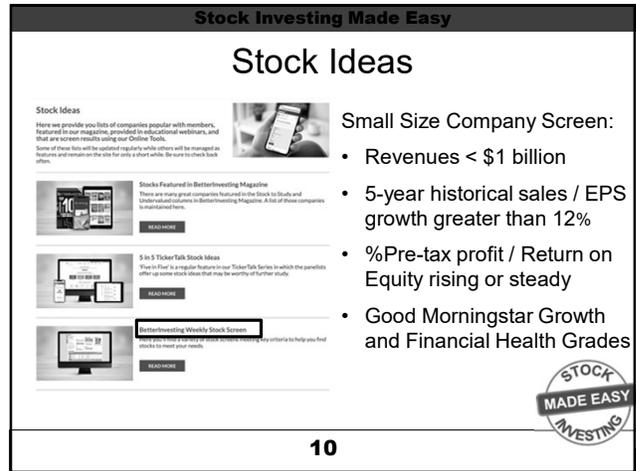
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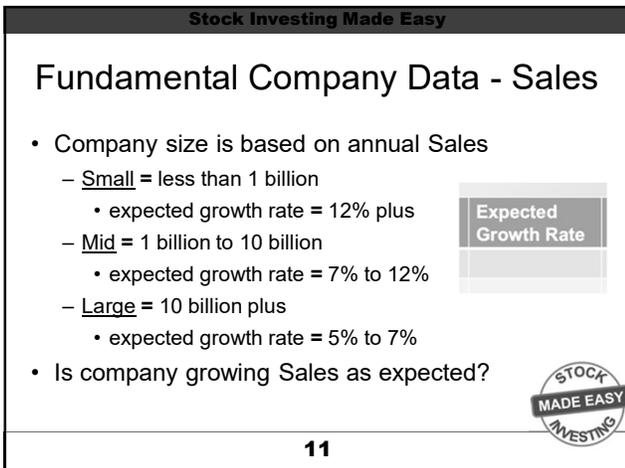
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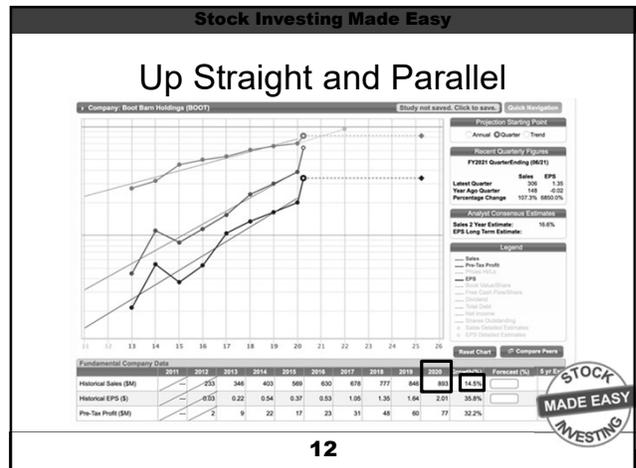
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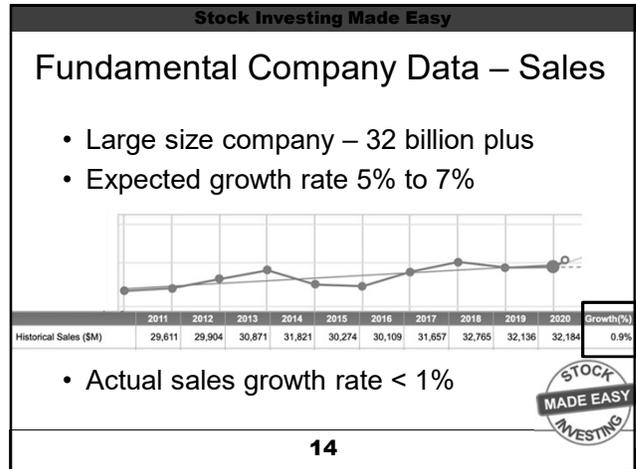
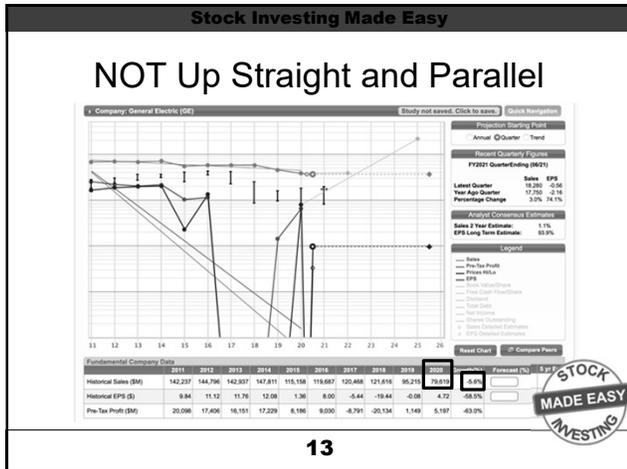
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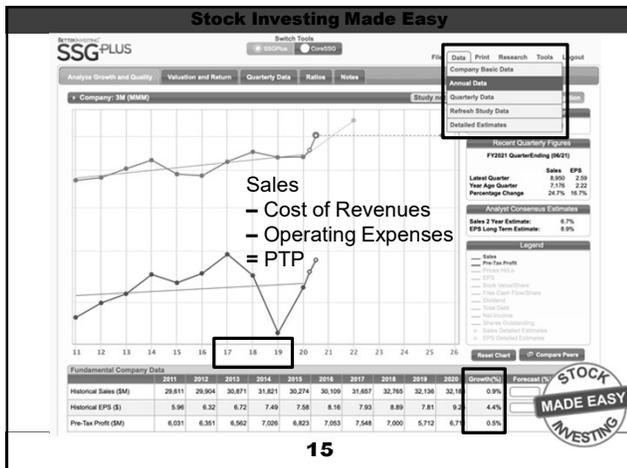
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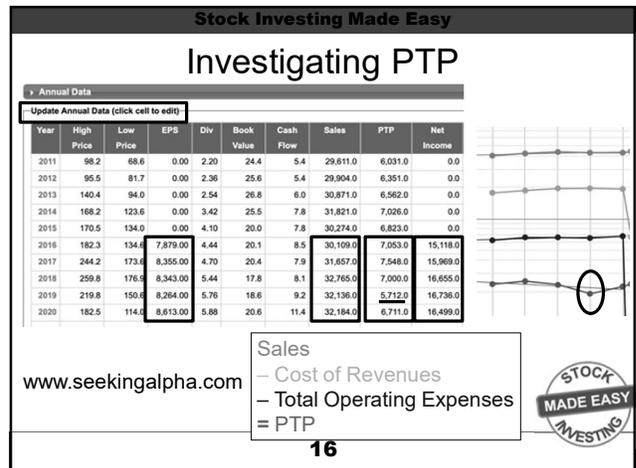


13

14



15



16

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Editing Company Data

Update Annual Data (click cell to edit)

Year	High Price	Low Price	EPS	Div	Book Value	Cash Flow	Sales	PTP	Net Income	Tax Rate (%)	Diluted Shares	LT Debt	Total Debt	St	Lk
2011	98.2	68.6	5.96	2.20	24.4	5.4	29,611.0	6,031.0	4,283.0	27.8	719.0	4,363.0	0.0	U	<input type="checkbox"/>
2012	95.5	81.7	6.32	2.36	25.6	5.4	29,904.0	6,351.0	4,444.0	29.0	703.3	4,967.0	0.0	U	<input type="checkbox"/>
2013	140.4	94.0	6.72	2.54	26.8	6.0	30,871.0	6,562.0	4,659.0	28.1	693.6	4,364.0	0.0	U	<input type="checkbox"/>
2014	168.2	123.6	7.49	3.42	25.5	7.8	31,821.0	7,026.0	4,966.0	28.9	662.0	6,790.0	0.0	U	<input type="checkbox"/>
2015	170.5	134.0	7.58	4.10	20.0	7.8	30,274.0	6,823.0	4,833.0	29.0	637.2	6,799.0	0.0	U	<input type="checkbox"/>
2016	182.3	134.6	8.16	4.44	20.1	8.5	30,109.0	7,053.0	5,050.0	28.3	618.7	10,723.0	0.0	U	<input type="checkbox"/>
2017	244.2	173.6	7.93	4.70	20.4	7.9	31,657.0	7,548.0	4,858.0	35.5	612.7	12,156.0	0.0	U	<input type="checkbox"/>
2018	259.8	176.9	8.89	5.44	17.8	8.1	32,765.0	7,000.0	5,349.0	23.4	602.0	13,486.0	0.0	U	<input type="checkbox"/>
2019	219.8	150.6	7.81	5.76	18.6	9.2	32,136.0	5,712.0	4,570.0	19.8	585.1	18,236.0	0.0	U	<input type="checkbox"/>
2020	182.5	114.0	9.25	5.86	20.6	11.4	32,194.0	6,711.0	5,384.0	19.6	582.2	16,891.0	0.0	U	<input type="checkbox"/>

Update Study

To add a new year of data, enter it in the blank row. The year will automatically be filled.
 Status (St): * = Final Data *P = Preliminary Data *U = User Modified Data
 If Lock (Lk) checkbox is checked, then data in the row is not updated when data is refreshed.

17

17

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Fundamental Company Data – EPS (Earnings Per Share)

PTP
 - Taxes
 ÷ Shares Outstanding
 = EPS

18

18

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EPS with No Share Buy Back

Update Annual Data (click cell to edit)

Year	High Price	Low Price	EPS	Div	Book Value	Cash Flow	Sales	PTP	Net Income	Tax Rate (%)	Diluted Shares
2011	98.2	68.6	5.96	2.20	24.4	5.4	29,611.0	6,031.0	4,283.0	27.8	719.0
2012	95.5	81.7	6.18	2.36	25.6	5.4	29,904.0	6,351.0	4,444.0	29.0	719.0
2013	140.4	94.0	6.72	2.54	26.8	6.0	30,871.0	6,562.0	4,659.0	28.1	719.0
2014	168.2	123.6	6.47	3.42	25.5	7.8	31,821.0	7,026.0	4,966.0	28.9	719.0
2015	170.5	134.0	6.72	4.10	20.0	7.8	30,274.0	6,823.0	4,833.0	29.0	719.0
2016	182.3	134.6	7.02	4.44	20.1	8.5	30,109.0	7,053.0	5,050.0	28.3	719.0
2017	244.2	173.6	6.75	4.70	20.4	7.9	31,657.0	7,548.0	4,858.0	35.5	719.0
2018	259.8	176.9	7.43	5.44	17.8	8.1	32,765.0	7,000.0	5,349.0	23.4	719.0
2019	219.8	150.6	6.35	5.76	18.6	9.2	32,136.0	5,712.0	4,570.0	19.8	719.0
2020	182.5	114.0	7.48	5.86	20.6	11.4	32,194.0	6,711.0	5,384.0	19.6	719.0

Net Income divided by Diluted Shares equals adjusted EPS

19

19

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EPS with / without Share Buy Back

Diluted Shares
 Growth(%)

20

20

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EPS, Price Bars and PE

Year	A		B		C		D		E	
	High	Low	Per Share	High A / C	Low B / C	High A / C	Low B / C	High A / C	Low B / C	
2016	182.3	134.6	8.16	22.3	16.5					
2017	244.2	173.6	7.33	33.8	21.9					
2018	259.8	179.5	8.89	29.2	19.9					
2019	219.8	150.6	7.81	28.1	19.3					
2020	182.5	114.0	9.25	19.7	12.3					

Average PE about 20 using actual EPS:

'11- 5.96*20=119.2	'16- 8.16*20=163.2
'12- 6.32*20=126.4	'17- 7.93*20=158.6
'13- 6.72*20=134.4	'18- 8.89*20=177.8
'14- 7.49*20=149.8	'19- 7.81*20=156.2
'15- 7.58*20=151.6	'20- 9.25*20=185.0

21

21

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Portfolio Total Return

- Total Return:
 - Capital appreciation from increase in price
 - P/E ratio expansion when buying at lower P/E
 - Dividends if any

22

22

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Portfolio Management

- Manage using fundamentals
 - Sell zone / Relative Value
- Advance Methods / Future Class:
- Manage using technical analysis
 - Trailing stop loss if overvalued
 - Other technical indicators
- Manage using options
 - Buy put option as insurance on stock/portfolio

23

23

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What's Right With This Picture

Company reducing expenses

Easy to see that PTP is the 'Parent' to EPS

Financial Comparison Data	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Growth (%)	Forecast (%)
Historical Sales (\$M)	251	346	403	569	630	678	777	846	893	14.5%		
Historical EPS (\$)	0.05	0.22	0.54	0.37	0.53	1.05	1.35	1.64	2.01	35.8%		
Pre-Tax Profit (\$M)	2	9	22	17	23	31	48	60	77	32.2%		

24

24

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Questions? 



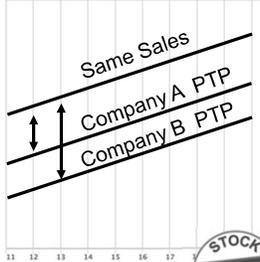
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25

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%PTP (Pre-Tax Profit Margin)

- Distance between Sales and PTP reflects %PTP
- Investigate competitors in the same industry
- Is the company better than its industry average?
- %PTP is specific to Industry





26

26

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Finding Competitors

- Know company Sector and Industry – Template slide 6
- Use BI Screener
- Select your Sector
- Sort on Industry
- Ticker column provides list of likely competitors





27

27

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Create Portfolio Template

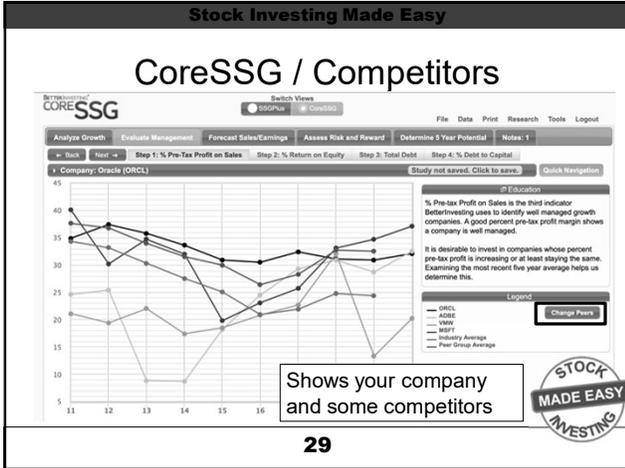
	Sector	Industry	Co/Ticker	Size	Expected Growth Rate	% of Portfolio
1						
2						
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28

28

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29

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% Return on Equity (ROE)

<https://www.betterinvesting.org/members/learning-center/video-learning-library/stockup/dissecting-return-on-equity/dissecting-return-on-equity>

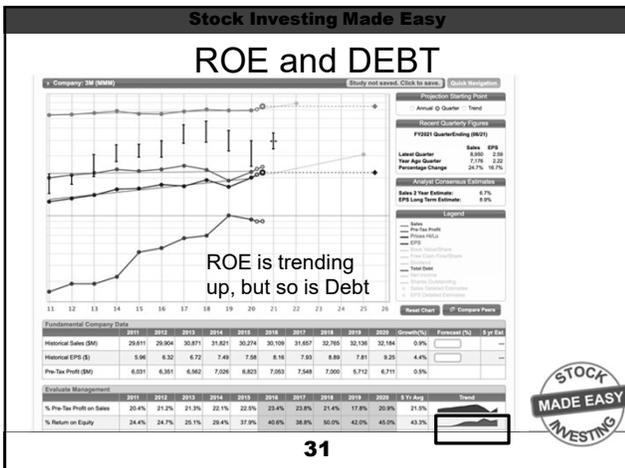
Three components determine ROE:

1. Net Profit Margin
2. Asset Turnover Ratio
3. Financial Leverage

When company borrows money, ROE should increase due to financial leverage
 (assuming other two components remain constant)

30

30



31

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% Return on Equity (ROE)

- $ROE = (EPS / \text{Book Value}) * 100$
- Book Value (BV) decreases when company borrows money
- BV is ROE's denominator, ROE, in turn, will increase
- Example:
 - $10/5 = 2$ before debt (ROE = 2)
 - $10/4 = 2.5$ after debt (BV goes down, ROE goes up)

32

32

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% Return on Equity (ROE)

- When company pays off debt:
 - Book Value will increase
 - BV is ROE's denominator, ROE, in turn, will decrease
- Paying off debt decreases ROE (other two components being equal)
- Example:
 - $10/5 = 2$ before debt paid off (ROE = 2)
 - $10/6 = 1.66$ after paid off (BV goes up, ROE goes down)
- If ROE is up or down, investigate all three components

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33

33

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Paying off Debt, ROE steady or increasing

Historical Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg
Historical Sales (\$M)	3,637	4,354	6,259	8,025	10,824	12,157	14,091	16,068	17,583	20,311	21.2%
Historical EPS (\$)	0.23	2.77	1.33	1.50	2.03	2.36	2.74	3.81	4.29	6.41	27.6%
Pre-Tax Profit (\$M)	12	243	658	814	1,123	1,354	1,602	2,000	2,125	2,983	55.3%
% Return on Equity	2.8%	25.8%	11.0%	11.0%	13.3%	13.8%	13.8%	16.7%	16.4%	21.1%	16.3%
% Debt To Capital	38.4%	41.0%	46.4%	41.9%	39.3%	32.9%	27.0%	26.3%	25.3%	26.7%	27.6%

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34

34

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Industry Averages

ICLUBcentral
Software and tools for investors and investment clubs

Home Products Support Learning **Investing**

Sector	Industry	Avg 5Yr PTP / Sales	Avg 5Yr ROE	Avg Debt /Equity	Avg 5Yr Rev Growth	Avg 5Yr EPS Growth	Avg EPS PE	Avg EPS Pred R2

- Go to ICLUB.com, Investing tab, Industry Averages
- There you will see a list of industry averages
- Find your Sector and Industry
 - see their averages
 - compare those to your company

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35

35

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Picture of Debt and ROE

Historical Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg
Historical Sales (\$M)	27,682	27,687	28,766	31,641	33,419	34,462	35,555	37,025	38,277	39,586	4.1%
Historical EPS (\$)	5.27	5.36	5.56	4.82	5.44	6.37	7.04	7.86	8.37	8.24	4.2%
Pre-Tax Profit (\$M)	6,912	6,979	6,285	7,372	6,586	6,886	6,974	7,816	6,976	6,141	-1.3%
% Return on Equity	46.9%	47.1%	38.1%	39.1%	52.4%	48.2%	49.2%	48.2%	46.4%	46.9%	45.8%
% Debt To Capital	48.9%	47.1%	46.8%	53.8%	71.3%	103.8%	152.4%	182.4%	182.8%	182.8%	182.8%

- McDonald's has been borrowing money:
 - to buy back shares
 - to improve EPS
- To increase price even though Sales growth rate is declining

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36

36

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BBBY % Debt to Capital

Evaluate Management	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
% Pre-Tax Profit on Sales	16.5%	15.0%	14.0%	12.7%	11.0%	8.7%	5.6%	-1.3%	-6.9%	-3.6%
% Return on Equity	24.4%	25.9%	24.7%	27.7%	31.1%	25.6%	15.8%	-4.8%	-33.8%	-9.7%
% Debt To Capital	0.0%	0.0%	0.0%	35.4%	36.9%	35.4%	34.1%	36.8%	68.1%	70.6%

- Overleveraging - when a business borrows too much and is unable to pay interest, principal, or operating expenses due to debt
- Paying back the loan without increased cash flow can limit funding of operations and investing in future growth
- Can lead to bankruptcy

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37

37

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Dividends and Free Cash Flow

XOM paying dividends with borrowed money

Year	Price	Volume	Price Change	High/Low	Low 52/1C	Per Share	F/C 100	% Change
2016	85.5	71.5	1.88	88.8	38.1	2.98	108.5%	4.2%
2017	85.3	78.0	4.82	19.2	16.4	3.08	58.5%	4.2%
2018	89.3	66.7	4.88	18.3	13.2	3.23	66.2%	5.0%
2019	83.3	68.3	3.36	28.4	19.7	3.43	102.1%	5.2%
2020	71.4	30.1	8.26	N/A	N/A	3.43	N/A	11.6%

AVERAGE PRICE EARNINGS RATIO: 23.1 CURRENT PRICE EARNINGS RATIO: 207

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38

38

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Summary of What's Wrong With This Picture?

In this session we've touched on:

- Company Basic Data and Template
- Growth rates performance in Sales, PTP, EPS, and Price in section one of the SSG
- Management scorecard using %PTPM, ROE, and Debt in section two of the SSG
- Dividends and Free Cash Flow in section three of the SSG

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39

39

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Make A Difference In Someone's Life

If you have benefited from **BETTERINVESTING**, please pick up some **BETTERINVESTING** materials and introduce others to this dynamic investment education opportunity!

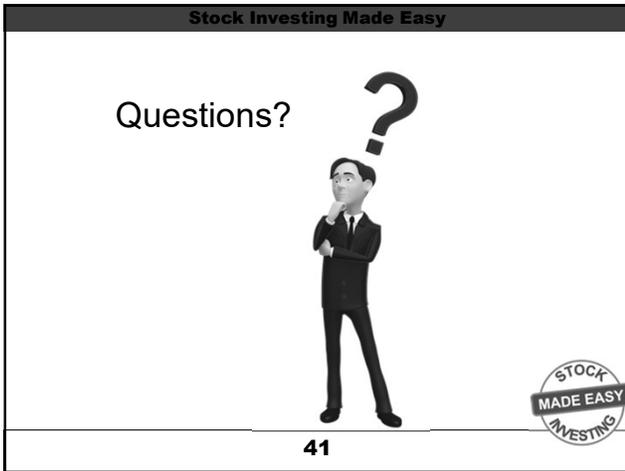
Pay it forward!

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40

40

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41