

CH-CH-CH CHANGES

Questions and Answers

Note: There were very few questions directly related to the materials. There were some questions about BetterInvesting's methodology. These will be answered at the end.

Q1: What is the difference between “cost of sales” and “selling and operating expenses”? How come they both refer to sales?

A1: Let's start with “cost of sales”. Cost of sales is also called “cost of goods sold”. These are the direct costs to produce or acquire the product the company sells. These costs can also include the salaries paid to people making the product and any materials that go into the product.

“Selling and operating expenses” are two different things. We normally refer to “SG&A” which stands for selling, general and administrative expenses. These are costs of running the business. These don't include the costs to produce the product, which is cost of sales. However, it includes the costs incurred running the normal operations of the business. It includes general expenses, such as utilities, phone, and administrative expenses, such as the salaries of the officers of the company. Selling expense refers to the cost of selling the product. This would include salesman salaries, advertising the product, etc.

“Operating expenses” refers to all the expenses of running the business. It includes the cost of producing the product, SG&A, and any costs of the normal operations. It doesn't always appear as a total. All the expense categories may be shown individually and then subtracted from the income.

Q2: Can you give examples of preferred shareholders?

A2: Preferred shareholders are the owners of preferred stock. Preferred stock, as the name implies, has some preference. Preferred shareholders are entitled to receive their dividends before the common shareholders. Preferred shareholders usually cannot vote on corporate governance matters. If the company liquidates, preferred shareholders have a higher claim on the company's assets than the common shareholders do. Preferred stock is like a hybrid of common stock and bonds. It pays a fixed dividend, similar to the interest rate on a bond. It also can appreciate in price, similar to common stock.

Q3: What rate of EPS is generally considered a 'great investment'?

A3: BetterInvesting's methodology targets finding companies that will allow you to double the value of your investment in 5-years. Essentially that works out to a rate of return of about 15%.

There are two parts to return on investment that we consider. One is dividends, the other is price appreciation. Price appreciation comes from Earnings Per Share and what investors are willing to pay for each dollar of earnings. Dividends usually make up a small portion of the 15% we would like as return on our investment. That means that the company's earnings have to grow fast enough so that together with any increase in what investors are will to pay for each dollar of earnings, it makes up the remainder of the 15% not made through dividends. It is really company dependent and rather than target a specific Earnings Per Share growth rate, we judge whether it is sufficient in context of trying to get 15% return on our investment.

Q4: Can I please get direction again on how to move the net income line up?

A4: In SSG Plus, you simply click on the line and drag the line.

Q5: Can I replay this webinar at a later time?

A5: Yes, a link to a recording should be sent out within a few days.

Q6: What does SSG stand for?

A6: SSG is an acronym that stands for Stock Selection Guide. It is BetterInvesting's primary tool for evaluating a stock as an investment.

Q7: Does SSG apply for new companies which don't have a history?

A7: The recommendation is that you have at least 5 years of company history available. The SSG is built around determining what is normal for the company in terms of growth rate for Sales, Pre-Tax Profit and Earnings Per Share. It also looks at what is normal for the company in terms of Price (based on the normal Price-Earnings Ratio). You need to be able to see the trend in each of those and without sufficient history it is very difficult to read what is normal for the company.

If you want to learn more about Investing the BetterInvesting way, go to BetterInvesting's Open House, which can be found at:

https://hello.betterinvesting.org/openhouse?_ga=2.73131539.1845032765.1603761493-321813759.1537541231. You can sign up for a free trial of BetterInvesting and learn more about our methodology for investing. You can also contact your local chapter for additional help.