




## 2<sup>nd</sup> Annual Investing Fundamentals – Ready to Roll!

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### Round 1: Basic Stock Analysis


November 9, 2021



AFL                      NNN                      SAFE

**Our Presenters Today Are**  
Craig Braemer, San Francisco Chapter  
Marcia Couey, Golden West Chapter

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# Basic Stock Analysis

## Marcia Couey & Craig Braemer



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## Check the Handouts Pane in Your Control Panel



### First Cut Stock Study Report

Please complete this form for your First Cut stock study. Click on each grayed area and enter your information. Fields will expand as you type. Save file as FC-yyyyymmdd-clicker.doc (i.e. FC20200516AAPL.doc). Create a PDF of the SSG (see instructions on last page). Please return this completed form as a Word doc and the SSG in PDF format to: [FirstCut@betterinvesting.net](mailto:FirstCut@betterinvesting.net)

☐ Check here to grant BetterInvesting the right to post this First Cut Stock Study Report and associated SSG on the BetterInvesting website.

Company Name:	Ticker:
Date of Study:	Price: \$
Your Name:	
Email address:	<input type="checkbox"/> Consent to post email on web.
City:	State:
Chapter Name (if applicable):	

Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.


Briefly describe how the company makes money:

Projected growth rate for sales: %  
Why did you select this rate? Discuss from where future growth will come.

Projected growth rate for earnings per share: %  
Why did you select this rate?

Projected High P/E:   
Why did you select this value?

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Projected Low P/E:   
Why did you select this value?

Projected Low Price: \$   
Why did you select this value?

At the current price, the stock is a (check one):  
☐ Buy or ☐ Hold or ☐ Sell

At the current price, the upside-downside ratio is: to 1

Compound Annual Return – Using Forecast High P/E: %

Your final recommendation (check one):  
☐ Buy or ☐ Hold or ☐ Sell

Explain:

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## What we are going to talk about

- What is the Stock Selection Guide (SSG)?
- 5 Sections
  - Section 1. Visual analysis - sales & earnings history and your projections
  - Section 2. Evaluating management
  - Section 3. Price and Earnings History
  - Section 4. Risk and Reward & your projections
  - Section 5. 5-Year Potential Return
- Judgment Basics Summary
- Online Tools You Can Use (throughout 1-5)
- “Bonus” Round

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## What is the Stock Selection Guide (SSG)?

We use an SSG to help find a quality growth company selling at a **reasonable price**

The SSG Aids in —

- judging quality of management
- deciding if the stock is selling at a **reasonable price** to earnings *and when compared to competitors*
- estimating the potential return

It is not a “black box.” It requires judgment.

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## The Stock Selection Guide (SSG)

looks at historical data...

Section 1	Section 2	Section 3
Sales	PTP as % of Sales	PEs: Hi/Low, Average and Current
Earnings	% ROE	TTM (Current) EPS
Price (Hi/Low)	% Debt to Capital	EPS \$: 5-years
PTP \$		Price: 5-years Hi/Low, 52-week Hi/Low
		Dividend history (if any)

... and provides potential return results based on your 5-year projections.

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Section 1 AKA:  
Visual Analysis  
Sales & Earnings  
10 yr.s History &  
5 yr Projections

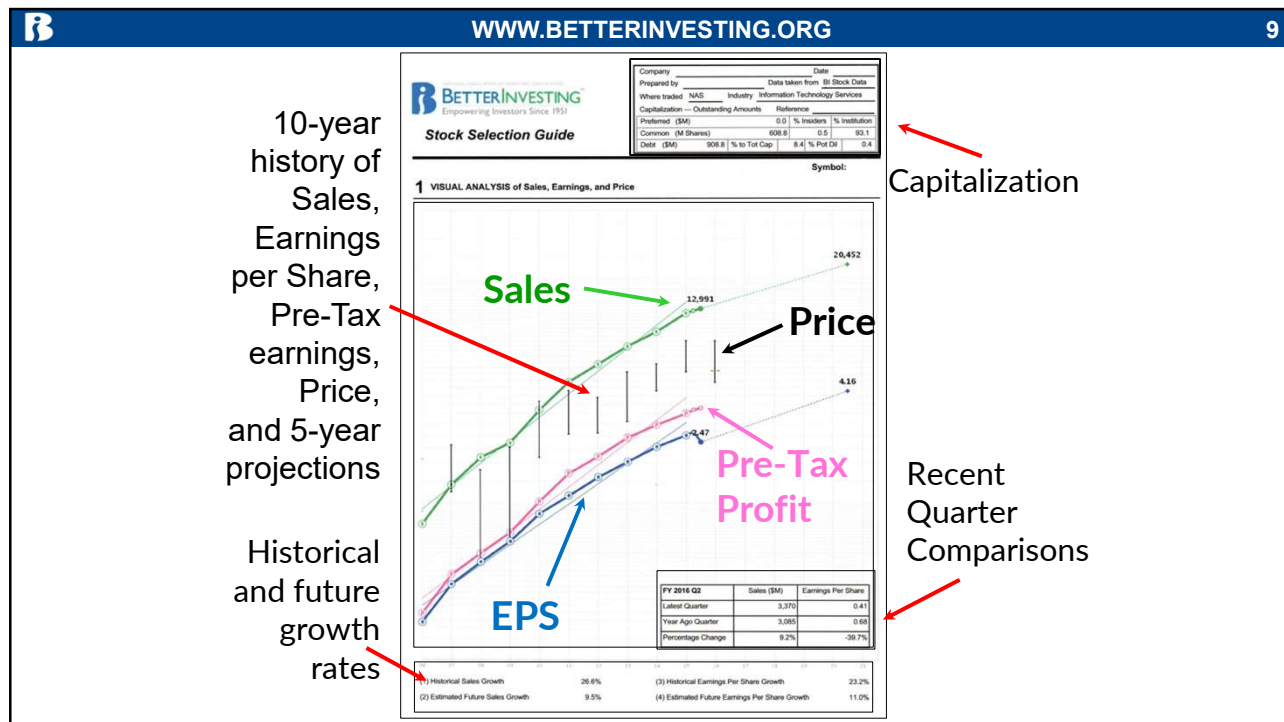
SSG Visual Analysis

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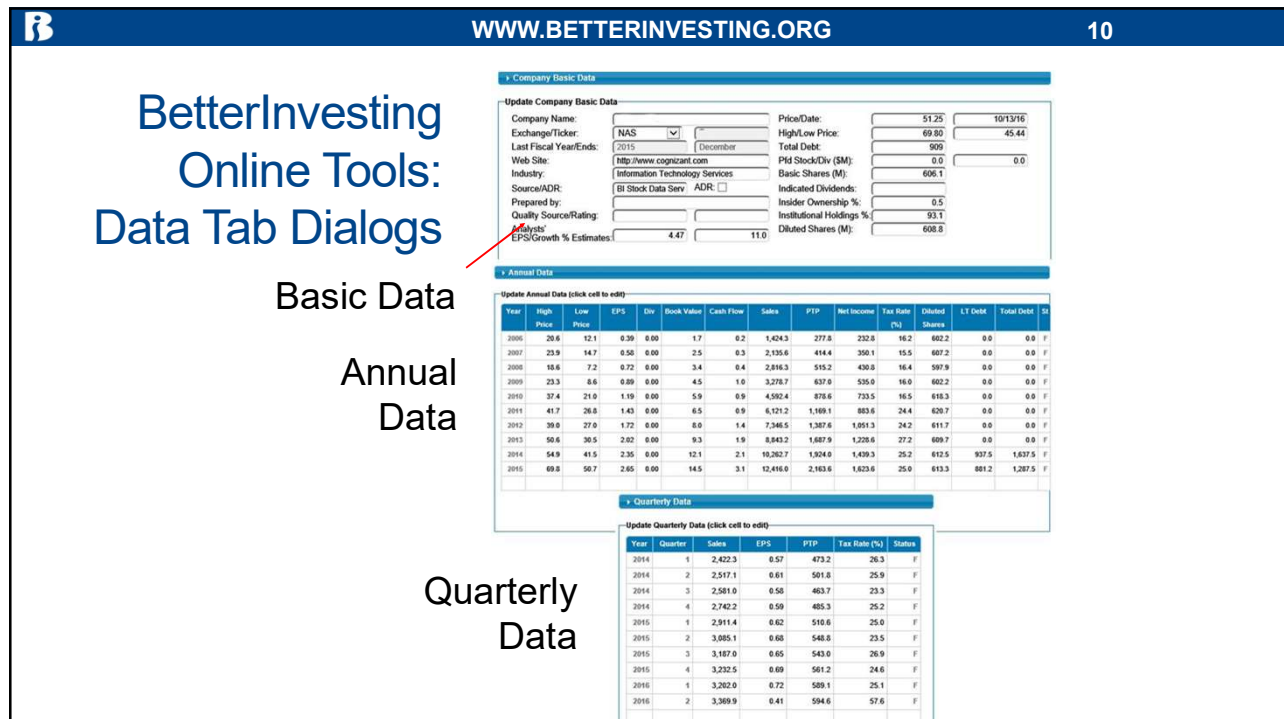
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# Basic Stock Analysis

## Marcia Couey & Craig Braemer



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## Data Sources on the Online SSG Research Tab

The screenshot displays the 'Research' tab on the BetterInvesting website. It features a navigation menu with options: File, Data, Print, and Research. The main content area is organized into several sections:

- Company Summaries:** Includes links to Google Finance Summary, Morningstar Summary, Motley Fool Summary, MSN Money Summary, and Yahoo Summary. A red star is placed next to the Google Finance Summary link.
- Filings and Transcripts:** Includes links to Seeking Alpha Call Transcripts, SEC EDGAR Filings - 10-K, SEC EDGAR Filings - 10-Q, and SEC EDGAR Filings - ALL.
- Financial Statements:** Includes links to Morningstar Financials and Reuters Financial Statements.
- Key Statistics:** Includes links to Finviz, Morningstar Key Ratios, and Yahoo Key Statistics.
- Price Charts:** Includes links to Big Charts 5 Year Chart and StockCharts Weekly Chart. A red star is placed next to the Big Charts 5 Year Chart link.
- Analyst Estimates:** Includes links to CNN Money Analyst Estimates, MarketWatch Analyst Estimates, Morningstar Analyst Estimates, NASDAQ Analyst Summary, Seeking Alpha Estimates, Yahoo Analyst Estimates, and Zacks Detailed Estimates. A red star is placed next to the Analyst Estimates link.
- BetterInvesting (resources):** Includes links to Company Research, BI Magazine, Member Sentiment, and Search BI Website for Ticker. A red star is placed next to the Member Sentiment link.
- Company Website:** Includes a link to Company Website.

\* free resources.

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## "Premium" Data Sources

The screenshot displays the Morningstar Investment Research Center website for T.J. Companies, Inc. (TJX). The page includes a price chart, a table of financial ratios, and a table of company statistics. A red star is placed next to the 'Premium' data sources.

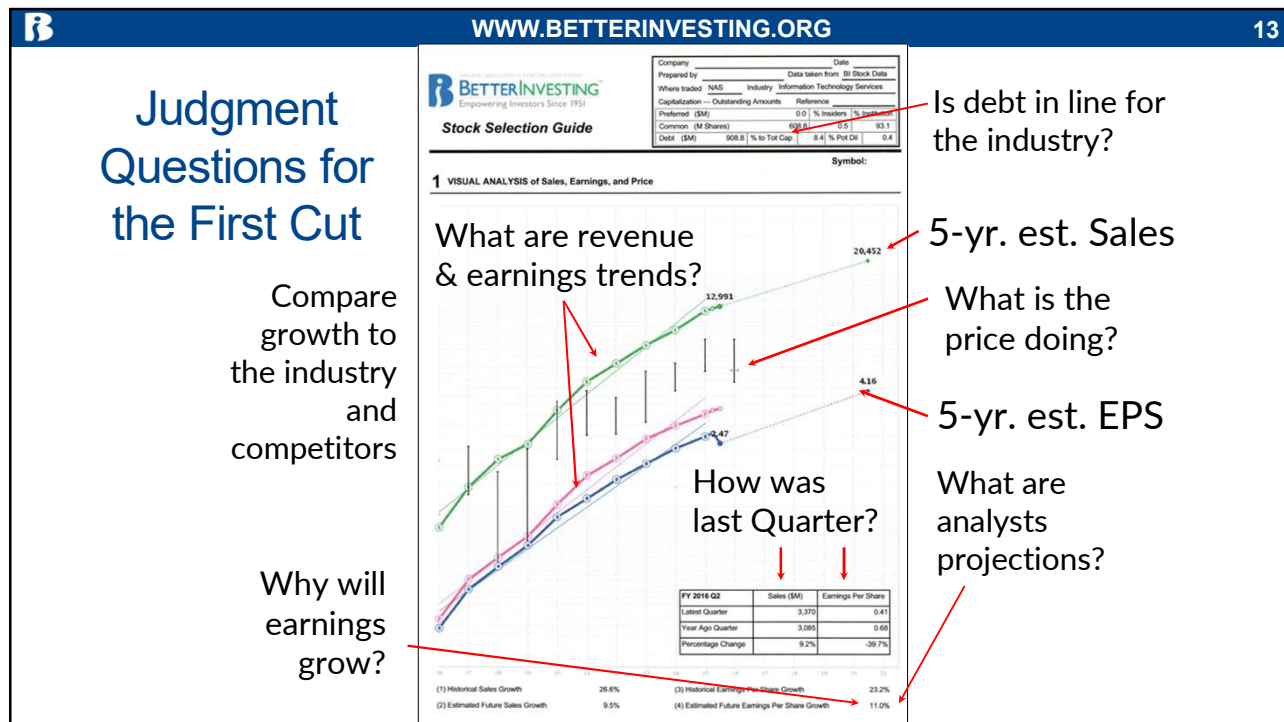
**Company Information:** T.J. Companies, Inc. (TJX) is a company in the Retail - Apparel & Accessories industry. The company's stock is listed on the New York Stock Exchange (NYSE) under the ticker symbol TJX.

**Valuation:** The company's current price is \$58.19. The fair value is \$50.00. The price-to-fair value ratio is 1.16. The price-to-earnings ratio is 15.1. The price-to-book value ratio is 2.1. The price-to-sales ratio is 1.1. The price-to-cash flow ratio is 1.1. The price-to-dividend ratio is 1.1. The price-to-book value ratio is 2.1. The price-to-sales ratio is 1.1. The price-to-cash flow ratio is 1.1. The price-to-dividend ratio is 1.1.

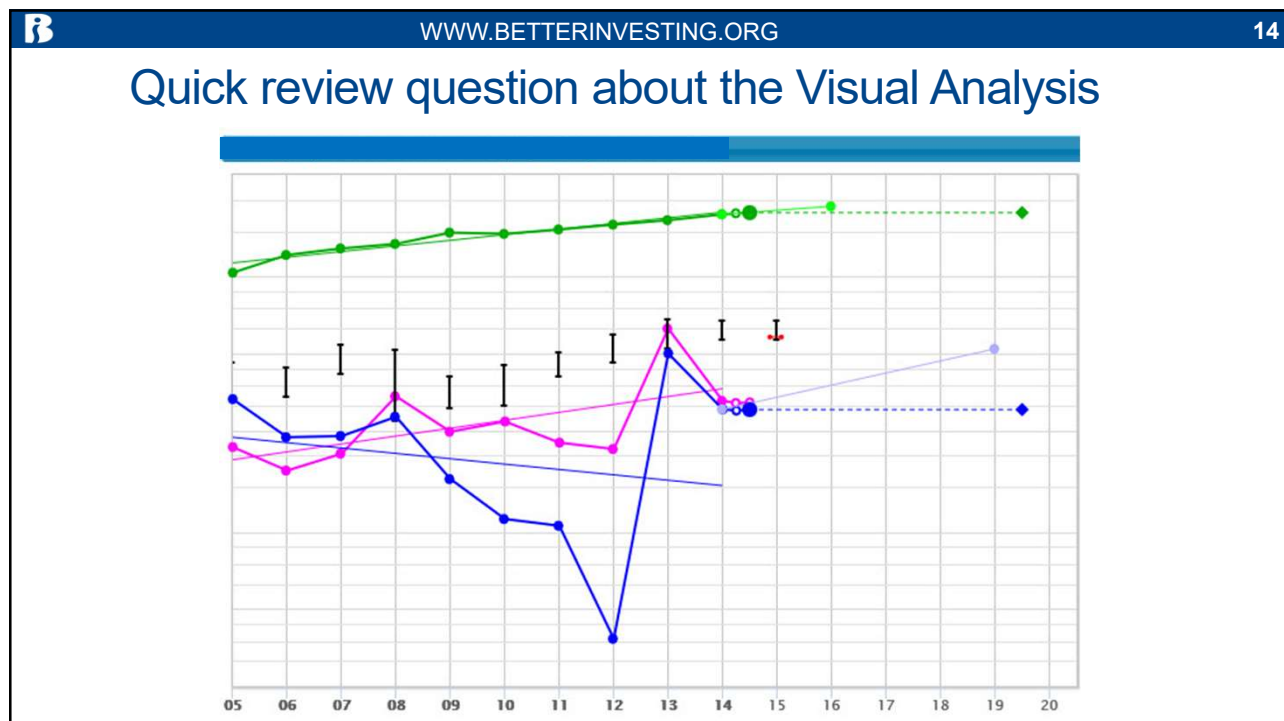
**Company Statistics:** The company's market capitalization is \$1.1 billion. The company's revenue is \$1.1 billion. The company's net income is \$1.1 billion. The company's operating income is \$1.1 billion. The company's earnings per share is \$1.1. The company's dividend per share is \$1.1. The company's return on equity is 1.1%. The company's return on assets is 1.1%. The company's return on capital is 1.1%.

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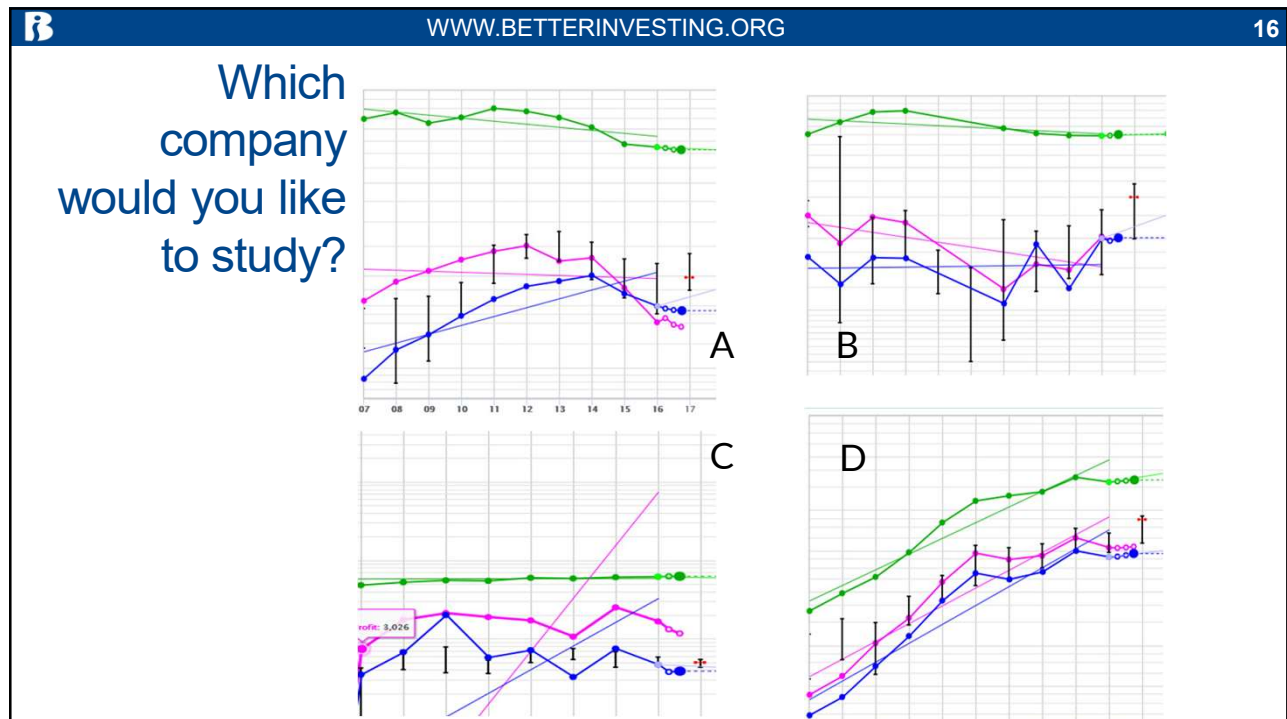
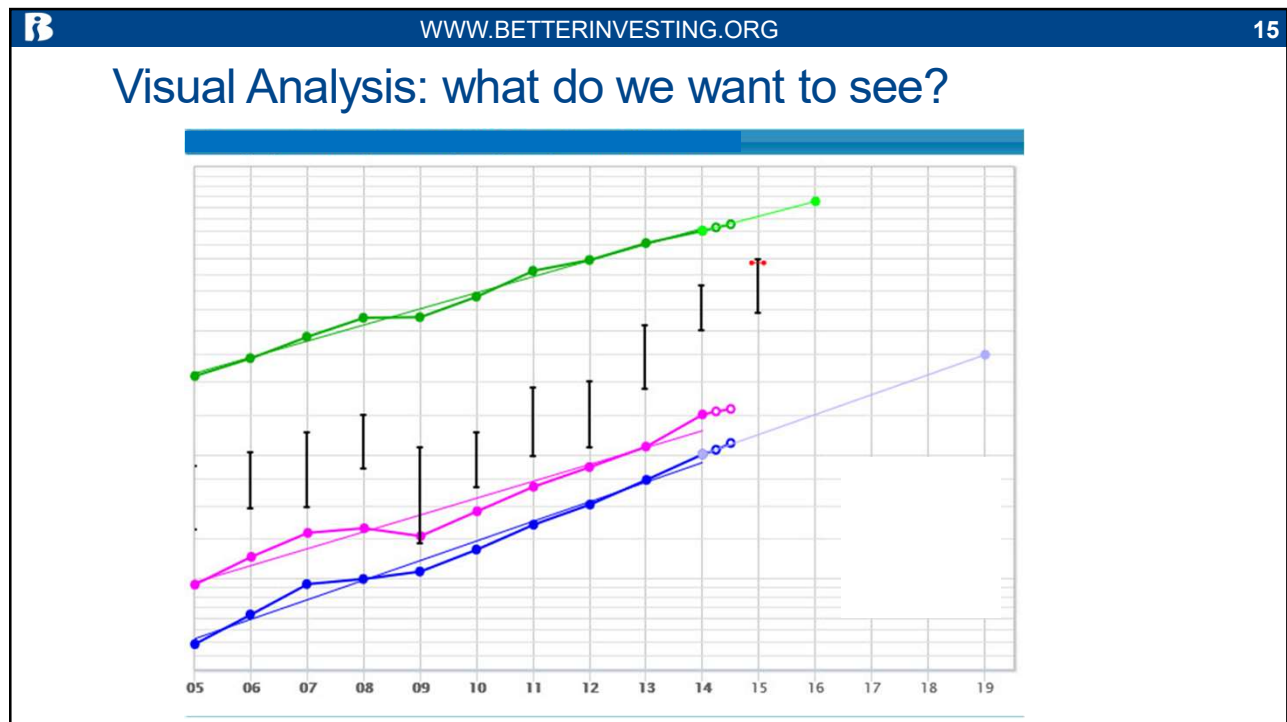




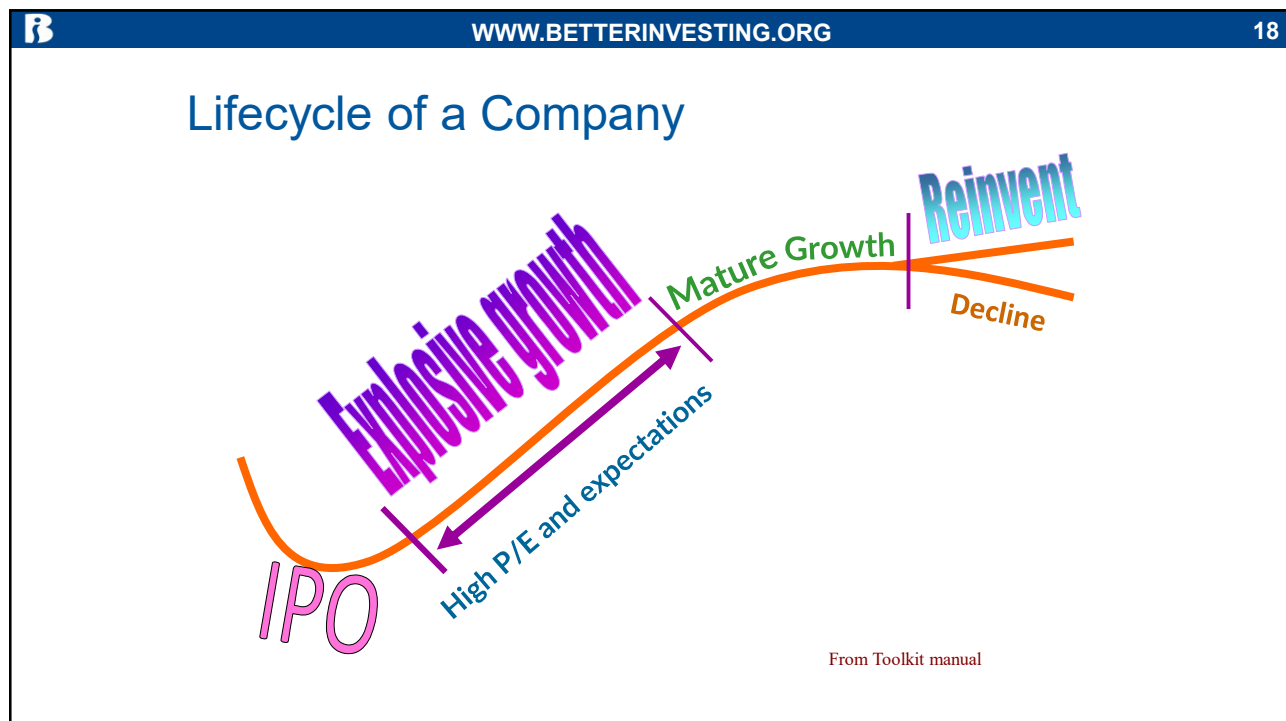
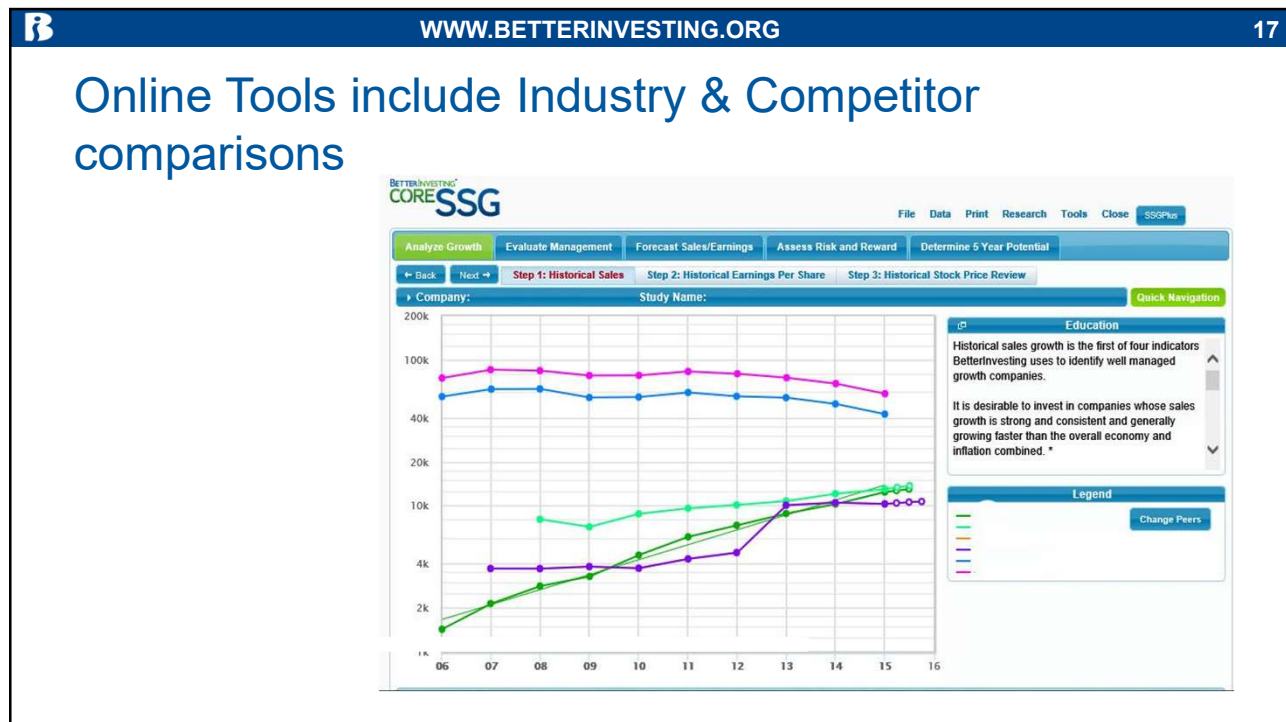
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## Company Size & Acceptable Growth

may be a factor in a company's ability to grow

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

Note: Company size is based on annual Sales/Revenues for BetterInvesting investors

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## SSG<sup>PLUS</sup> Data Tab: Detailed Estimates Dialog Box

► Detailed Estimates

Update Detailed Estimates

Fiscal Year	Sales Estimate (\$M)	Num of Sales Est	EPS Estimate (\$)	Num of EPS Est	Source	St	Lock
2021	68,490.8	4	22.97	5	Morningstar ACE ▼	D	<input type="checkbox"/>
2022	70,943.7	4	27.65	5	Morningstar ACE ▼	D	<input type="checkbox"/>
2023	72,197.6	2	29.45	2	Morningstar ACE ▼	D	<input type="checkbox"/>
2024					Select... ▼		<input type="checkbox"/>
2025					Select... ▼		<input type="checkbox"/>

2 Year Sales Avg Est (%)	Num of Sales Est	Long-Term EPS Avg Est (%)	Num of EPS Est
4.2	4	2.5	1

Source	St	Lock
Select...		<input type="checkbox"/>
CFRA Analyst		<input type="checkbox"/>
CNN Money		<input type="checkbox"/>
Inv Advisory Service		<input type="checkbox"/>
Member Sentiment		<input type="checkbox"/>
Morningstar ACE		<input type="checkbox"/>
Morningstar Analyst		<input type="checkbox"/>
Seeking Alpha		<input type="checkbox"/>
Value Line Analyst		<input type="checkbox"/>
Yahoo ACE		<input type="checkbox"/>
Zacks ACE		<input type="checkbox"/>
Other		<input type="checkbox"/>

Update Study

Status (St): 'D' = Default Data 'U' = User Modified Data  
If the Lock checkbox is checked, then data in the row is not updated when the data is updated.

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## SSG Online Tools: Notes Tab

Notes

New Note
Select: ☒ My Study/My Community Notes ☒ Staff Notes ☒ Community Notes
Search:

[Click Here To Learn About Notes](#)

Date Created	Subject	Description
10/27/21	My projected growth rate	<p>Projected growth rate for sales: 4%</p> <p>Why did you select this rate? Discuss from where future growth will come.</p> <p>Analysts' estimates for 2022:</p> <p>Zacks: 4.6%</p> <p>Yahoo: 2.9%</p> <p>Seeking Alpha: 2.9%</p> <p>ValueLine: 1.5%</p> <p>BI Member Sentiment: 3%</p> <p>Although this is a bit optimistic compared to the analysts, I have chosen 4% because I believe the new leadership's vision will be more effective than the company has been, as suggested by the most recent company guidance.</p> <p>From the company's Q&amp;A about a quarterly conference call: At the midpoint, our guidance implies net sales growth of approximately 11% over the prior year on a reported basis as compared to the prior outlook of 2%...As compared to rebased 2019, at the midpoint of our full-year 2021 guidance, which includes higher levels of brand marketing investment as well as higher cost and inflation pressures, net sales are expected to increase 13% and adjusted operating profit is expected to increase 9%. This compares to the prior outlook for sales and adjusted operating profit growth of 4% and 1%, respectively.</p>

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## Use the Quarterly Data Tab

- Also known as the PERT-A Report
  - The (Interactive) Quarterly Growth Trend Graph
  - The Quarterly Growth Trend Data Table
- Available on the online SSG<sub>PLUS</sub>.

Quarterly Growth Trend Graph

Select Data Type
Show Reference Lines
Graph Options

Quarterly ☒ Trailing 4 Quarters
Sales Growth ☒ EPS Growth ☒ Zero Growth
Last 5 Years Only ☒ Limit 50% Growth

◆ Sales
◆ PreTax Profit
◆ Earnings
◆ % PreTax Profit/Sales

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## Forecasting Sales on the SSG

1. Briefly describe how the company makes money.
2. Where will future growth come from?
3. What is the Sales trend? Up. Even. Down
4. Is your sales forecast in line or below the analysts?
5. Is your forecast in line with, less than, or more than historical results? **Why?**
6. How do the Sales growth rates compare to competitors? and/or to the industry?\*\*\*

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## Forecasting Earnings

1. Are earnings tracking sales?
2. Is there sufficient sales & earnings growth for the size of the company?
3. Is your forecast in line with, less than, or more than, historical results? **Why?**
4. Is your earnings forecast in line, above or below analysts forecasts? **Why?**
5. How do earnings growth rates compare to competitors and/or to the industry?\*\*\*

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## Manage your Expectations: Ask Yourself

1. Are you setting expectations too high for sales and earnings growth rates?  
Tip: Use the SSG Notes in order to help document Analyst estimates and to help justify your Sales & Earnings estimates.
2. Are your growth expectations too low? Are they at least 7%?
3. If a small company – is growth at least 12%?

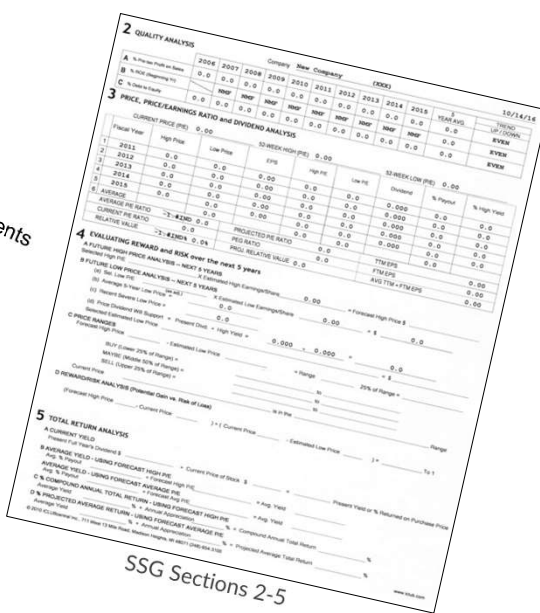
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Sections 2-5  
Hi/Lo P/E Judgments  
Low Price  
Buy/Sell Ranges  
Potential Returns



SSG Sections 2-5

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## Page 2 Sections

2. Evaluating management
3. Price earnings history
4. Evaluating Risk & Reward over the next 5 years
5. 5-year potential

### 2 EVALUATING Management

	2007	2008	2009	2010	2011	2012	2013	2014	2015	Last 5 Year Avg.
Pre-tax Profit on Sales	19.5%	19.4%	18.3%	19.4%	19.1%	18.9%	19.1%	18.7%	17.4%	18.6%
% Earned on Equity	22.9%	22.6%	21.3%	19.9%	20.1%	21.9%	21.4%	19.4%	18.3%	20.5%
% Debt To Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.5%	12.2%	5.9%

### 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

	A	B	C	D	E	F	G	H
2012	Price	Earnings	Price Earnings Ratio	Dividend	% Payout	% High Yield		
2011	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2010	41.7	26.8	1.43	29.3	18.8	0.00	0.0	0.0
2009	34.0	27.0	1.22	22.7	15.7	0.00	0.0	0.0
2008	50.6	30.5	2.00	25.1	15.1	0.00	0.0	0.0
2007	54.9	41.5	2.35	23.4	17.7	0.00	0.0	0.0
2006	69.6	50.7	2.65	26.3	19.1	0.00	0.0	0.0
AVERAGE		35.3		25.4	17.3			
CURRENT/TTM		2.47						
AVERAGE PRICE EARNINGS RATIO	21.3							
CURRENT PRICE EARNINGS RATIO	20.7							

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## FC Section 2 Questions: Evaluating Management

### 2 EVALUATING Management

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Last 5 Year Avg.
Pre-tax Profit on Sales	19.5%	19.4%	18.3%	19.4%	19.1%	19.1%	18.9%	19.1%	18.7%	17.4%	18.6%
% Earned on Equity	22.9%	22.6%	21.3%	19.9%	20.1%	21.9%	21.4%	21.7%	19.4%	18.3%	20.5%
% Debt To Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.5%	12.2%	5.9%

**2A % Pre-tax profit margin**

1. Is management controlling costs effectively?
2. Is Management outperforming the industry?
3. How are they achieving results?
4. Better products, service and controls or are they reducing inventories or spending less on R&D?

**2B % Return on equity**

Is ROE increasing or at least staying the same?

**2C % Debt to Capital**

Is debt at manageable levels? If higher than 33% ask more questions.

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## Section 2: Evaluating Management

### 2 EVALUATING Management

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Last 5 Year Avg.
Pre-tax Profit on Sales	19.5%	19.4%	18.3%	19.4%	19.1%	19.1%	18.9%	19.1%	18.7%	17.4%	18.6%
% Earned on Equity	22.9%	22.6%	21.3%	19.9%	20.1%	21.9%	21.4%	21.7%	19.4%	18.3%	20.5%

**2A Pre-tax profit margin**  
Measures how profitable a company is annually.

1. Is management controlling costs effectively?
2. Is Management outperforming the industry?
3. How are they achieving results?  
Better products, service and controls?  
reducing inventories? spending less on R&D?

**2B Return on equity**  
Measures how well a company manages their assets.

1. Is ROE increasing or at least staying the same?

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## Section 2: Evaluating Management

### 2 EVALUATING Management

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Last 5 Year Avg.
Pre-tax Profit on Sales	19.5%	19.4%	18.3%	19.4%	19.1%	19.1%	18.9%	19.1%	18.7%	17.4%	18.6%
% Earned on Equity	22.9%	22.6%	21.3%	19.9%	20.1%	21.9%	21.4%	21.7%	19.4%	18.3%	20.5%
% Debt To Capital	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.5%	12.2%	5.9%

**2C Debt**

1. Is debt at manageable levels?
2. **BetterInvesting** suggests you want this metric to be 33% or lower.
3. With interest rates so low these days, it is not surprising to see debt levels increasing as companies take on inexpensive debt.

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## Tip: Evaluate Management & Compare Peers

**Steps**

1. Pre-tax profit
2. ROE
3. Total Debt \$
4. %Debt/Capital

**Tutorial**

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## Questions or Comments for Sections 1 & 2?

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<https://investors.aflac.com/home/default.aspx>

**NATIONAL RETAIL PROPERTIES**  
NYSE: NNN

NNN is a REIT, a real estate investment trust, which leases its properties to retail businesses. Size: small.

<https://investors.nnnreit.com/investor-information/default.aspx>

**Safehold**  
NYSE: SAFE

SAFE is a REIT, a real estate investment trust, which manages ground leases for commercial building owners. Size: small.

<https://ir.safeholdinc.com/>

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## Price to Earnings Ratio

$$\frac{\text{Share Price}}{\text{Earnings per Share}} = \text{P/E Ratio}$$


Stock price is \$50 Earnings per share is \$2.50 = 20X

What is the P/E ?

Stock price is \$50 Earnings per share is \$5.00 = 10X

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## Which is a Better Value?

\$1.35



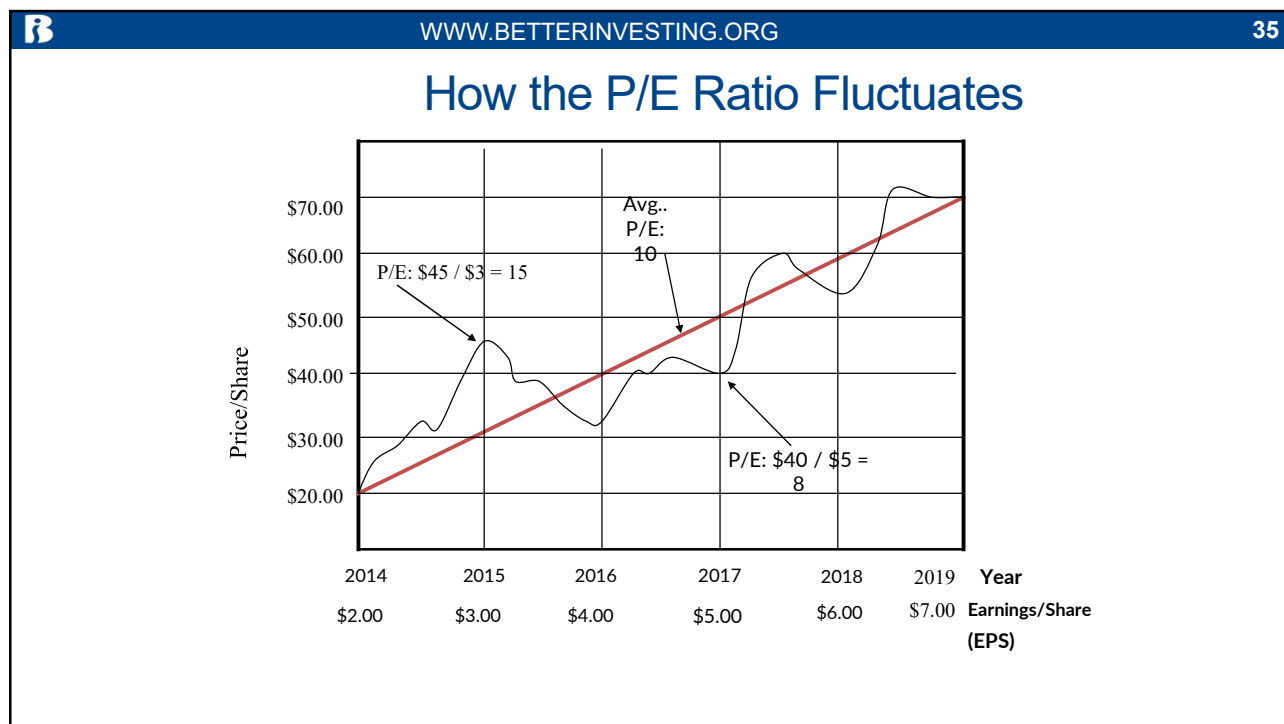
15 oz.  
\$.09 / oz.

\$.80



8 oz.  
\$.10 / oz.

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## The Relationship of Price to Earnings

Why are earnings so important?

- Long term EPS drives stock prices
- Investors pay more for anticipated growth of earnings

Short term expectations of earnings per share and news items can move stock prices on a daily basis

What about Sales?

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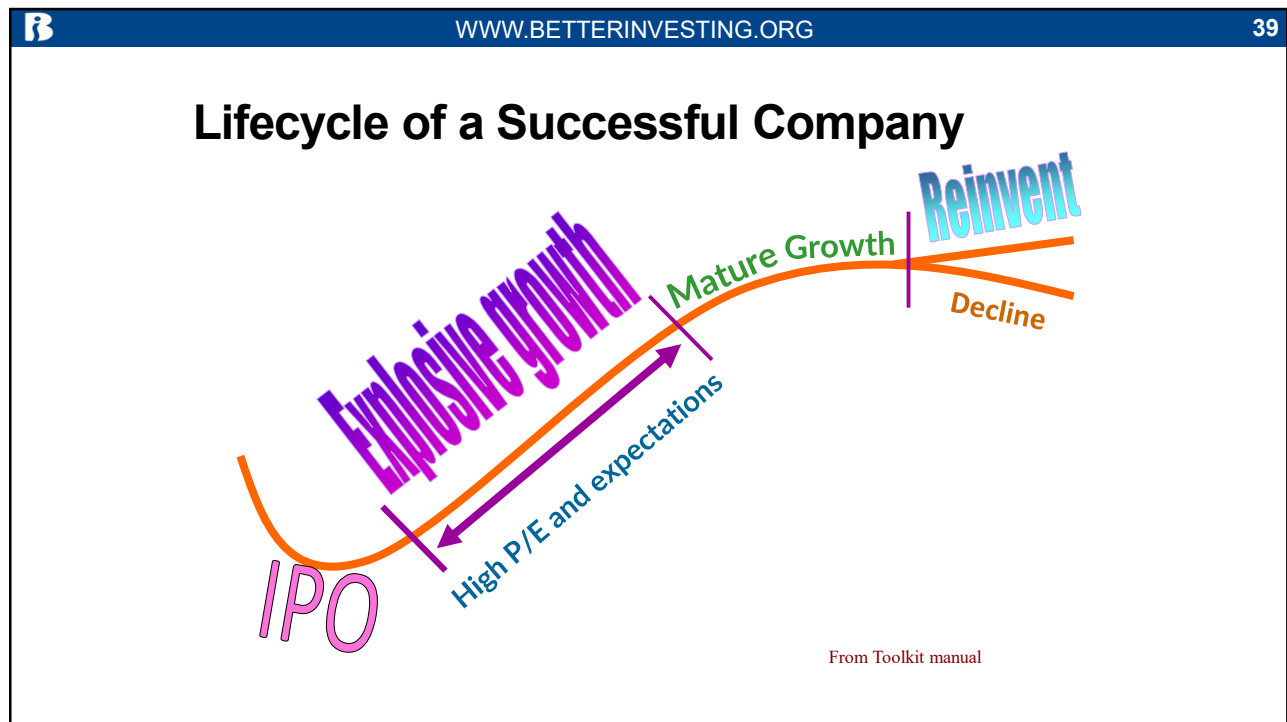
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## Which company would you buy?

	Company 1				Company 2		
	Earnings	Earnings	% Growth		Earnings	Earnings	% Growth
	Millions	Per Share			Millions	Per Share	
2010	10,000	0.10			10,000	0.10	
2011	14,000	0.14	40%		10,650	0.11	6%
2012	18,900	0.19	35%		11,609	0.12	9%
2013	24,476	0.24	30%		15,091	0.15	30%
2014	30,105	0.30	23%		18,864	0.19	25%
2015	35,524	0.36	18%		21,505	0.22	14%
2016	40,142	0.40	13%		24,730	0.25	15%
2017	44,156	0.44	10%		29,677	0.30	20%
2018	47,247	0.47	7%		38,580	0.39	30%
2019	50,082	0.50	6%		50,153	0.50	30%
2020	53,087	0.53	6%		65,199	0.65	30%
2021	56,272	0.56	6%		84,759	0.85	30%
2022	59,648	0.60	6%		110,187	1.10	30%
2023	63,227	0.63	6%		143,243	1.43	30%
2024	67,021	0.67	6%		186,216	1.86	30%

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## How Changes in P/E Affect Returns

Current Situation

PE	Earnings	Price
25	5.00	125

Possible Situations with Earnings Doubling

PE	Earnings	Price	Change %
15	10.00	150	+ 20%
20	10.00	200	+ 60%
25	10.00	250	+ 100%
30	10.00	300	+ 140 %
35	10.00	350	+ 180%
40	10.00	400	+ 220%

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How PE Changes Affect Risk of Loss			
Current Situation			
PE	Earnings	Price	
40	5.00	200	
Possible Situations with Earnings Doubling			
PE	Earnings	Price	Change %
15	10.00	150	- 25 %
20	10.00	200	0 %
25	10.00	250	+ 25%
30	10.00	300	+ 50%
35	10.00	350	+ 75%
40	10.00	400	+ 100 %

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<b><i>Don't Overpay Today for Anticipated Growth Tomorrow</i></b>	
“How much should future earnings be discounted?”	
<i>Also don't be too conservative!</i>	

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## Section 3 Price-Earnings History

### 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 51.25 (10/13/16)		HIGH THIS YEAR 69.80		LOW THIS YEAR 45.44				
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2014	41.7	26.8	1.43	29.3	18.8	0.00	0.0	0.0
2015	39.0	27.0	1.72	22.7	15.7	0.00	0.0	0.0
2016	50.6	30.5	2.02	25.1	15.1	0.00	0.0	0.0
2017	54.9	41.5	2.35	23.4	17.7	0.00	0.0	0.0
2018	69.8	50.7	2.65	26.3	19.1	0.00	0.0	0.0
AVERAGE		35.3		25.4	17.3			
CURRENT/TTM			2.47					
AVERAGE PRICE EARNINGS RATIO: 21.3					CURRENT PRICE EARNINGS RATIO: 20.7			

**Compare Current P/E to P/E Range**  
Or -- A look at the past to look into the future  
P/E - Dividends - Earnings - Stock Price

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### 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

CLOSING PRICE 51.25 (10/13/16)		HIGH THIS YEAR 69.80		LOW THIS YEAR 45.44				
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2014	41.7	26.8	1.43	29.3	18.8	0.00	0.0	0.0
2015	39.0	27.0	1.72	22.7	15.7	0.00	0.0	0.0
2016	50.6	30.5	2.02	25.1	15.1	0.00	0.0	0.0
2017	54.9	41.5	2.35	23.4	17.7	0.00	0.0	0.0
2018	69.8	50.7	2.65	26.3	19.1	0.00	0.0	0.0
AVERAGE		35.3		25.4	17.3			
CURRENT/TTM			2.47					
AVERAGE PRICE EARNINGS RATIO: 21.3					CURRENT PRICE EARNINGS RATIO: 20.7			

### 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 upside-downside ratio is the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS** Avg. High P/E  X Estimate High Earnings/Share  = Forecasted High Price \$ 104.1

**B LOW PRICE - NEXT 5 YEARS** (a) Avg. Low P/E  Estimate Low Earnings/Share  = Forecasted Low Price \$ 45.1

(b) Avg. Low Price of Last 5 Years 35.3

(c) Recent Market Low Price 41.5

(d) Price Dividend Will Support  Indicated Dividend  =  0.00 = 0.0

**C ZONING** using 25%-50%-25%  Selected Forecasted Low Price \$

Forecasted High Price 104.1  25% of Range 14.7

Buy Zone

Hold Zone

Sell Zone

Present Market Price of  Zone

**D UPSIDE/DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)**  To 1

**E PRICE TARGET** (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price  % Appreciation

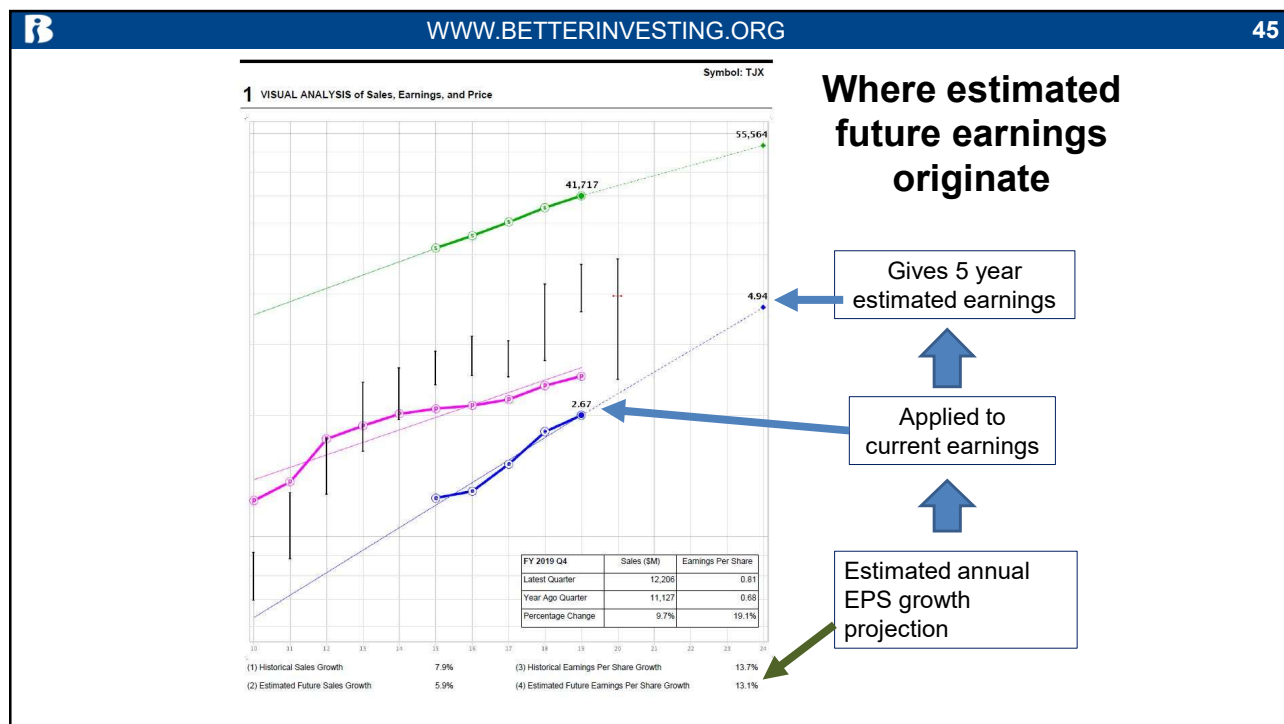
Closing Price

Section 4  
Evaluating  
Risk & Reward  
over the next  
5 years

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# Basic Stock Analysis

## Marcia Couey & Craig Braemer



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## Section 4A Estimate High Price

### 3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

2014 CLOSING PRICE 51.25 (10/13/16) HIGH THIS YEAR 69.80 LOW THIS YEAR 45.44

Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2014	41.7	26.8	1.43	29.3	18.8	0.00	0.0	0.0
2015	39.0	27.0	1.72	22.7	15.7	0.00	0.0	0.0
2016	50.6	30.5	2.02	25.1	15.1	0.00	0.0	0.0
2017	54.9	41.5	2.35	23.4	17.7	0.00	0.0	0.0
2018	69.8	50.7	2.65	26.3	19.1	0.00	0.0	0.0
AVERAGE		35.3		25.4	17.3			
CURRENT/TTM			2.47					

AVERAGE PRICE EARNINGS RATIO: 21.3 CURRENT PRICE EARNINGS RATIO: 20.7

### 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 upside-downside ratio is the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS**

Avg. High P/E 25.0 X Estimate High Earnings/Share 4.16 = Forecasted High Price \$ 104.1

From Section 1 of the SSG

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## Section 4 Estimate Low Price

Selecting the low price is just as important as selecting the high price

**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 upside-downside ratio is the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS**

Avg. High P/E	25.0	X Estimate High Earnings/Share	4.16	=	Forecasted High Price \$	104.1
---------------	------	--------------------------------	------	---	--------------------------	-------

**B LOW PRICE - NEXT 5 YEARS**

(a) Avg. Low P/E	17.0	X Estimate Low Earnings/Share	2.65	=	Forecasted Low Price \$	45.1
(b) Avg. Low Price of Last 5 Years	35.3					
(c) Recent Market Low Price	41.5					
(d) Price Dividend Will Support		Indicated Dividend	0.00	=	0.0	
		High Yield	0.00%	=		
					Selected Forecasted Low Price \$	45.1

It chooses year end.

4B (a) Avg. Low P/E **17**      For growth stocks

(b) Avg. low price last 5 years **\$35.30**      For cyclical stocks

(c) Severe market low **\$41.50**      For severe down market

(d) Price dividend will support **\$0**      For high dividend yield

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## Sections 4C, 4D, and 4E

**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 upside-downside ratio is the key to evaluating risk and reward.

**A HIGH PRICE - NEXT 5 YEARS**

Avg. High P/E	25.0	X Estimate High Earnings/Share	4.16	=	Forecasted High Price \$	104.1
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**B LOW PRICE - NEXT 5 YEARS**

(a) Avg. Low P/E	17.0	X Estimate Low Earnings/Share	2.65	=	Forecasted Low Price \$	45.1
(b) Avg. Low Price of Last 5 Years	35.3					
(c) Recent Market Low Price	41.5					
(d) Price Dividend Will Support		Indicated Dividend	0.00	=	0.0	
		High Yield	0.00%	=		
					Selected Forecasted Low Price \$	45.1

**C ZONING** using 25%-50%-25%

Forecasted High Price	104.1	Minus Forecasted Low Price	45.1	=	59.0	Range.	25% of Range	14.7
Buy Zone		45.1	to	59.8				
Hold Zone		59.8	to	89.3				
Sell Zone		89.3	to	104.1				
Present Market Price of	51.25		is in the					

BUY Zone

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

High Price	104.1	Minus Present Price	51.25	=	52.80	=	8.6	To 1
Present Price	51.25	Minus Low Price	45.1	=	6.15	=		

**E PRICE TARGET** (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price	104.1	=	2.0303	X 100	=	203.03	- 100	=	103.0	% Appreciation
Closing Price	51.25									

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## Section 4C Zoning: Buy — Hold — Sell

Forecasted High Price	104.1	Minus Forecasted Low Price	45.1	=	59.0	Range.	25% of Range	14.7
Buy Zone	45.1	to	59.8					
Hold Zone	59.8	to	89.3					
Sell Zone	89.3	to	104.1					
Present Market Price of	51.25	is in the	<b>BUY</b>		Zone			

Forecast high 104.10 – forecast low 45.10  
Difference is  $59/25\% = 14.75$   $104.10 - 14.75 = \$89.40$

---

Forecast low:  $\$45.10 + 14.75 = \$59.85$

\$104.10

\$89.40

\$89.30

\$59.85

\$59.85

\$45.10

Sell

Hold

Buy

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## Section 4D Upside-Downside Ratio Potential Gain vs. Loss

High Price	104.1	Minus Present Price	51.25	=	52.80	=	8.6	To 1
Present Price	51.25	Minus Low Price	45.1	=	6.15			

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price	104.1	=	2.0303	X	100	=	203.03	-	100	=	103.0	% Appreciation
Closing Price	51.25											

Forecast high price → \$104.10

Upside-Downside ratio: 8.6 to 1

Current price → \$51.25

Selected low price → \$45.10

Forecast upside (potential profit)  
 $\$104.10 - \$51.25 = \$52.85$  (103%)

$52.85/6.15 = 8.6$   
Upside 8.6 / Downside 1

$\$51.25 - \$45.10 = \$6.15$   
Downside Risk \$6.15

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## Sections 4E and 5A, 5B, 5C

**E PRICE TARGET** (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price	104.1								
Closing Price	51.25	=	2.0303	X	100	=	203.03	-	100
								=	103.0 % Appreciation

### 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**A**

Indicated Annual Dividend	0.00				
Closing Price	51.25	=	0.0000	=	0.0 % Current Yield

**B AVERAGE YIELD - USING FORECAST HIGH P/E**

Avg. % Payout	0.0 %	=	0.0 %
Forecast High PE	25.00	=	0.0 %

**C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E**

Annualized Appreciation	15.2 %
Average Yield	0.0 %
Annualized Rate of Return	15.2 %

**AVERAGE YIELD - USING FORECAST AVERAGE P/E**

Avg. % Payout	0.0 %	=	0.0 %
Forecast Average PE	21.00	=	0.0 %

**COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E**

Annualized Appreciation	11.3 %
Average Yield	0.0 %
Annualized Rate of Return	11.3 %

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## Section 5C: Compound Average Return

### 5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

**C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E**

Annualized Appreciation	15.2 %
Average Yield	0.0 %
Annualized Rate of Return	15.2 %

**COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E**


Annualized Appreciation	11.3 %
Average Yield	0.0 %
Annualized Rate of Return	11.3 %

**Concept:**

**Compound** Return of 15% annually will  
double your money in 5 years.

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## Double Your Investment

**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 ÷ 15 = 4.8 Years

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## Online SSG<sub>PLUS</sub> Ratios Tab

### Sample Valuation Ratios Dialog

**Valuation Ratios**

**RELATIVE VALUE** ?  
Current PE: 19.7 / Average 5 Year PE: 20.2 X 100 = 97.4%

**PROJECTED RELATIVE VALUE** ?  
Projected PE: 17.4 / Forecast Average P/E: 16.0 X 100 = 108.8%

**PEG Ratio** ?  
Projected PE: 17.4 / Forecast EPS Growth Rate: 13.1% = 1.3  
[View Calculation Reference](#)

The PEG ratio compares a stock's projected P/E with forecasted earnings growth to establish a broader valuation ratio that includes projected growth on the theory that the market is willing to pay for high-quality growth. PEG can be compared to others in the same industry, to other stocks in a portfolio in a study of the stock's value. Some people have guidelines for maximum PEG ratios.

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## First Cut Inputs From Your SSG Sections 3-5

After completing your SSG, transfer this data to your First Cut:

- Your projected High P/E ratio
- Your projected Low P/E ratio
- The projected Low Price
- Is your stock a Buy – Hold – Sell?
- What is your Upside/Downside Ratio (UDR)
- Compound Annual Return – Using the Forecast High P/E
- What is your recommendation? Buy – Hold – Sell?
- Explain (your recommendation.)



First Cut Stock Study Report

Company Name:		Ticker:	
Date of Study:		Price:	

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## Summary of Judgment Basics

When choosing a stock, look for:

1. consistent sales and EPS growth
2. industry leader
3. competitive edge due to unique products
4. great management

Use reasonable valuations

Compare the company:

1. P/E, earnings growth, and margins to its historical norms
2. To the industry, and compare the...
3. Industry to the market

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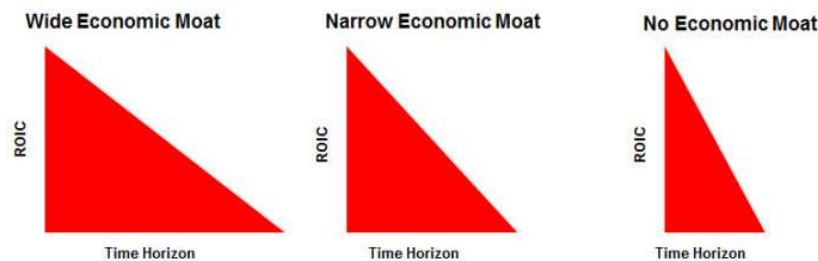
## Bonus Round: Economic Moats



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## Economic Moat Thought Process

- Economic Moats = SSG Sections 1 & 2 = Business model.
- Wide moat stocks should have higher margins longer.
- Although “no moat” stocks can do well, you might have to trade it more frequently.



Source: Pat Dorsey, Morningstar.

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## A Wide Economic Moat = a Good SSG

- Moats help identify sustainable competitive advantages.
- Section 2 of the SSG is key to a company's long-term stock performance.
- By looking at this, it can help:
  - Hold stocks longer of good, quality companies.
  - You to understand the SSG numbers.
  - Generate better returns over long time periods.
  - Only 200/1500 companies considered to have wide moats



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## No Moat (Kohl's) vs Wide Moat (Adobe) - Section 2

Evaluate Management												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	9.9%	8.1%	7.4%	7.1%	5.5%	4.7%	5.8%	5.2%	4.5%	-3.4%	3.4%	
% Return on Equity	16.3%	15.7%	14.6%	14.7%	11.8%	10.6%	17.1%	14.7%	12.8%	-3.5%	10.3%	
% Debt To Capital	39.5%	42.9%	44.8%	44.3%	46.2%	47.1%	45.4%	38.8%	52.9%	56.5%	48.1%	

Evaluate Management												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	24.6%	25.4%	8.8%	8.7%	18.2%	24.5%	29.3%	30.9%	28.7%	32.5%	29.2%	
% Return on Equity	14.0%	12.3%	4.1%	3.9%	9.0%	15.8%	20.4%	28.6%	28.2%	44.3%	27.5%	
% Debt To Capital	20.8%	18.5%	18.4%	18.3%	21.4%	20.4%	18.2%	30.6%	28.2%	26.2%	24.7%	

*Securities are for educational purposes only*

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Narrow Moat (VMware) vs Wide Moat (Adobe) - Section 2													
Evaluate Management													
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg	Trend	
% Pre-Tax Profit on Sales	21.1%	19.4%	22.0%	17.4%	18.5%	20.8%	22.7%	32.1%	13.3%	20.2%	21.8%		
% Return on Equity	16.0%	12.8%	15.4%	11.8%	13.1%	14.0%	6.7%	22.0%	108.3%	24.0%	35.0%		
% Debt To Capital	8.6%	7.3%	6.2%	16.5%	15.9%	15.6%	35.3%	88.5%	48.1%	39.4%	45.4%		
Evaluate Management													
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg	Trend	
% Pre-Tax Profit on Sales	24.6%	25.4%	8.8%	8.7%	18.2%	24.5%	29.3%	30.9%	28.7%	32.5%	29.2%		
% Return on Equity	14.0%	12.3%	4.1%	3.9%	9.0%	15.8%	20.4%	28.6%	28.2%	44.3%	27.5%		
% Debt To Capital	20.8%	18.5%	18.4%	18.3%	21.4%	20.4%	18.2%	30.6%	28.2%	26.2%	24.7%		
Securities are for educational purposes only													

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## Thank You for Joining Us!

Craig Braemer [craigbraemer1@gmail.com](mailto:craigbraemer1@gmail.com)

Marcia Couey [marciathewriter@gmail.com](mailto:marciathewriter@gmail.com)

Round 2: Wednesday, November 10 at 6:30 pm PT, Free

SSG Stock Study on Lockheed Martin (LMT)

We will complete a Stock Study together using a First Cut

Register for Round 2: <https://attendee.gotowebinar.com/register/2814101473173382671>

Round 3: Sunday, November 14, 4:00 – 5:15 pm, PT, \$10

Observe a BetterInvesting California Club Portfolio “Repair Shop” Live!

Attend a live “Repair Shop” conducted by Scott Horsburgh, a co-author of **BetterInvesting Magazine’s** very popular “Repair Shop” feature, which provides insights about club portfolios.

Register for Round 3: <https://cachapters2021.eventbrite.com>