Pacific Northwest Chapter Annual Meeting: The Individual Investor's Edge

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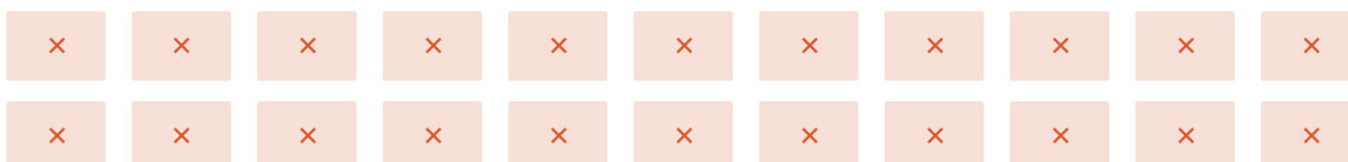
of 22 equity fund categories

had a majority of active managers beat their benchmark

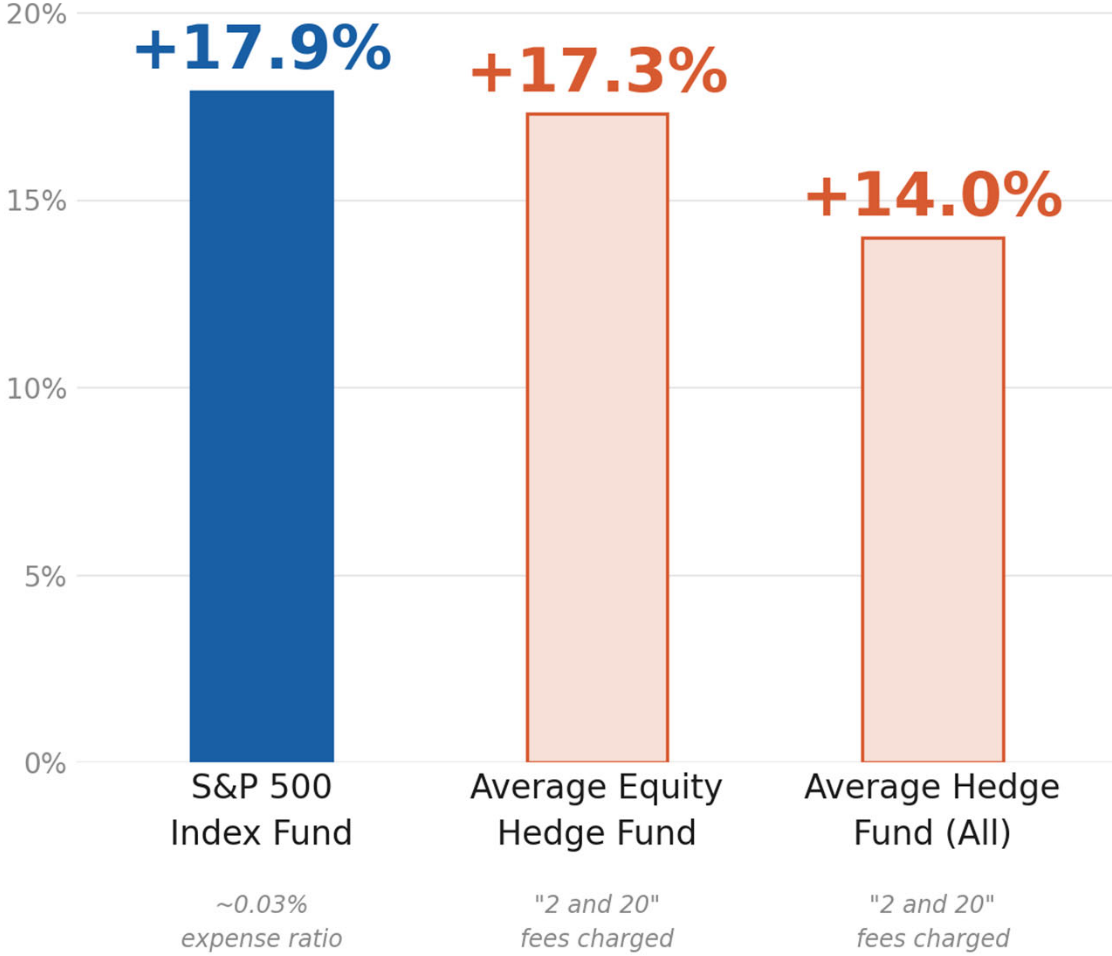
over the 15-year period ending December 31, 2025



79% of active large-cap U.S. equity funds underperformed the S&P 500 in 2025 alone

Source: S&P Dow Jones Indices. SPIVA U.S. Scorecard, Year-End 2025. Includes all funds — surviving and liquidated. Past performance does not guarantee future results.

2025 returns — hedge funds' best year since 2009, and the index still won



Best hedge fund year since 2009

2025 was a banner year for hedge funds — their strongest performance in 16 years.

The index fund still won.

The "2 and 20" math

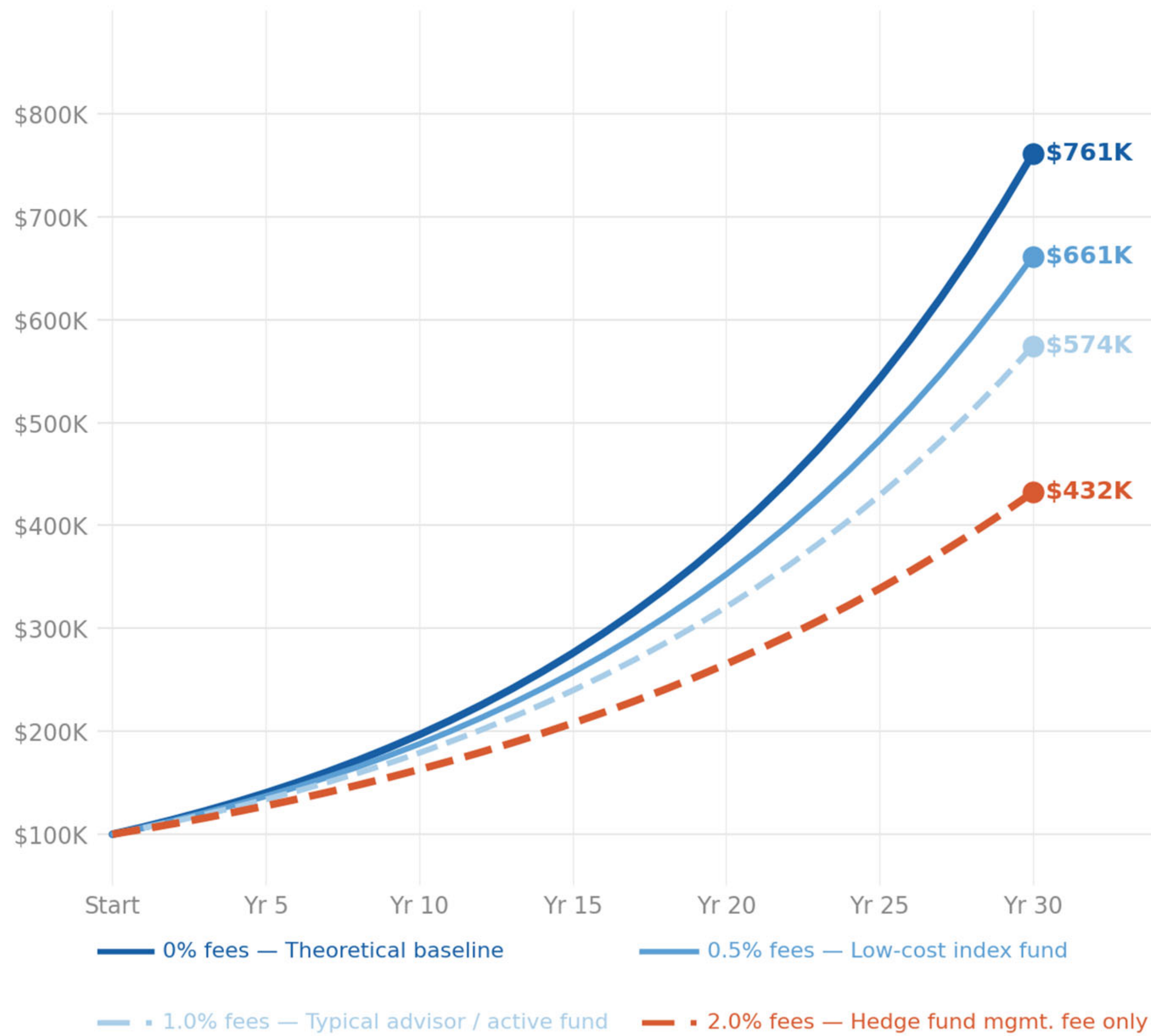
With 2% mgmt. + 20% of gains, a fund must return ~24.9% gross just to deliver 17.9% net — nearly 7 points above the S&P 500.

Even their best year couldn't clear that bar.

Sources: S&P Dow Jones Indices (S&P 500 total return 2025: +17.9%). HFRI equity hedge fund average: +17.3%; HFRI Fund Weighted Composite: ~+14% (RIABiz / HFR).

Past performance does not guarantee future results.

$100,000 invested for 30 years at 7% gross return — what fees actually cost



1% fee vs. no fee

-$187K

Each 1% in annual fees costs you ~$187K on a $100K investment

2% mgmt. fee vs. 0.5%

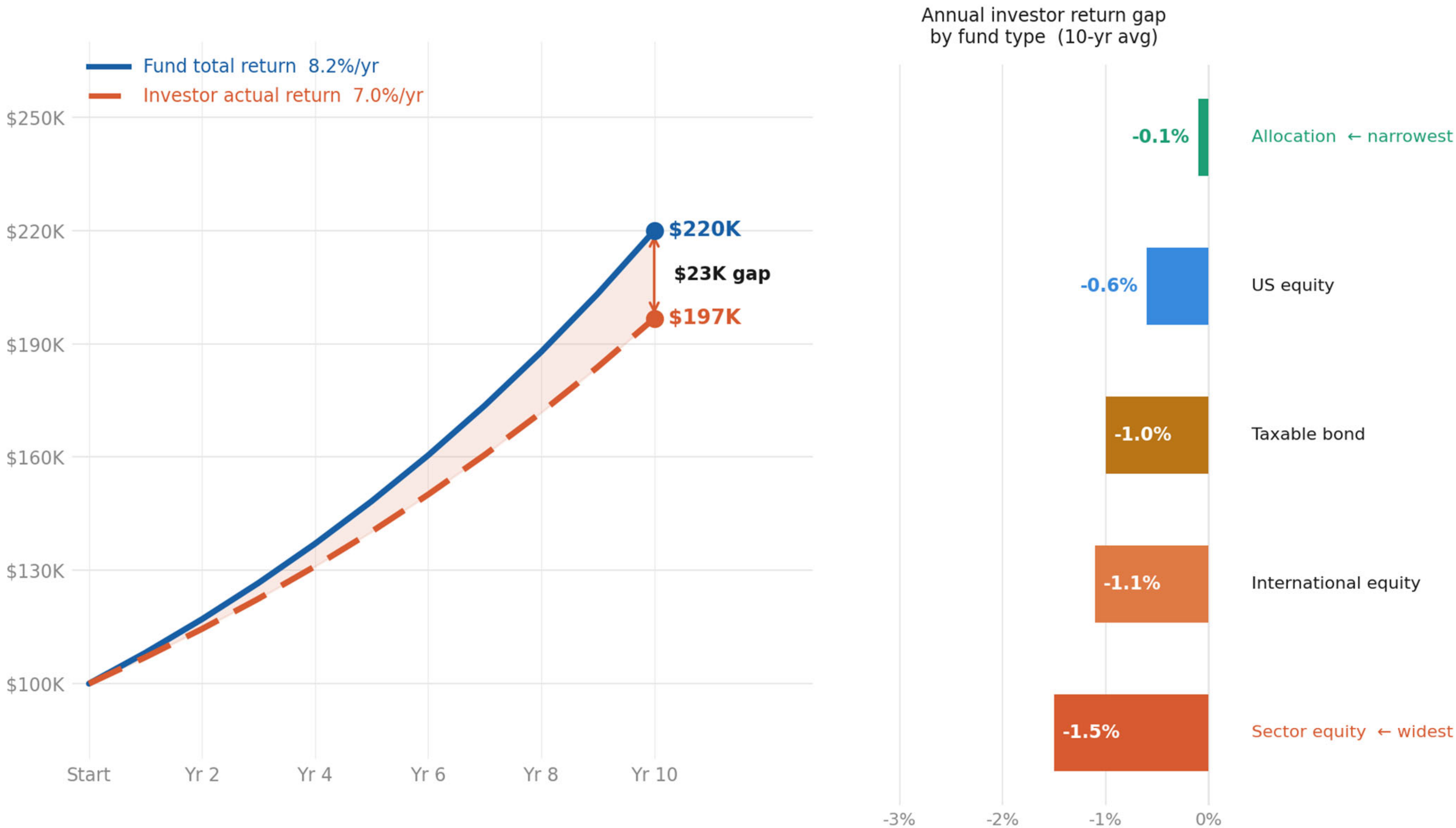
-$229K

Before performance fees. The investor pays 2% whether the fund wins or loses.

Assumes $100,000 initial investment, 7% gross annual return, no additional contributions, 30-year horizon.

Fee scenarios are illustrative. Actual returns and fees vary. Past performance does not guarantee future results.

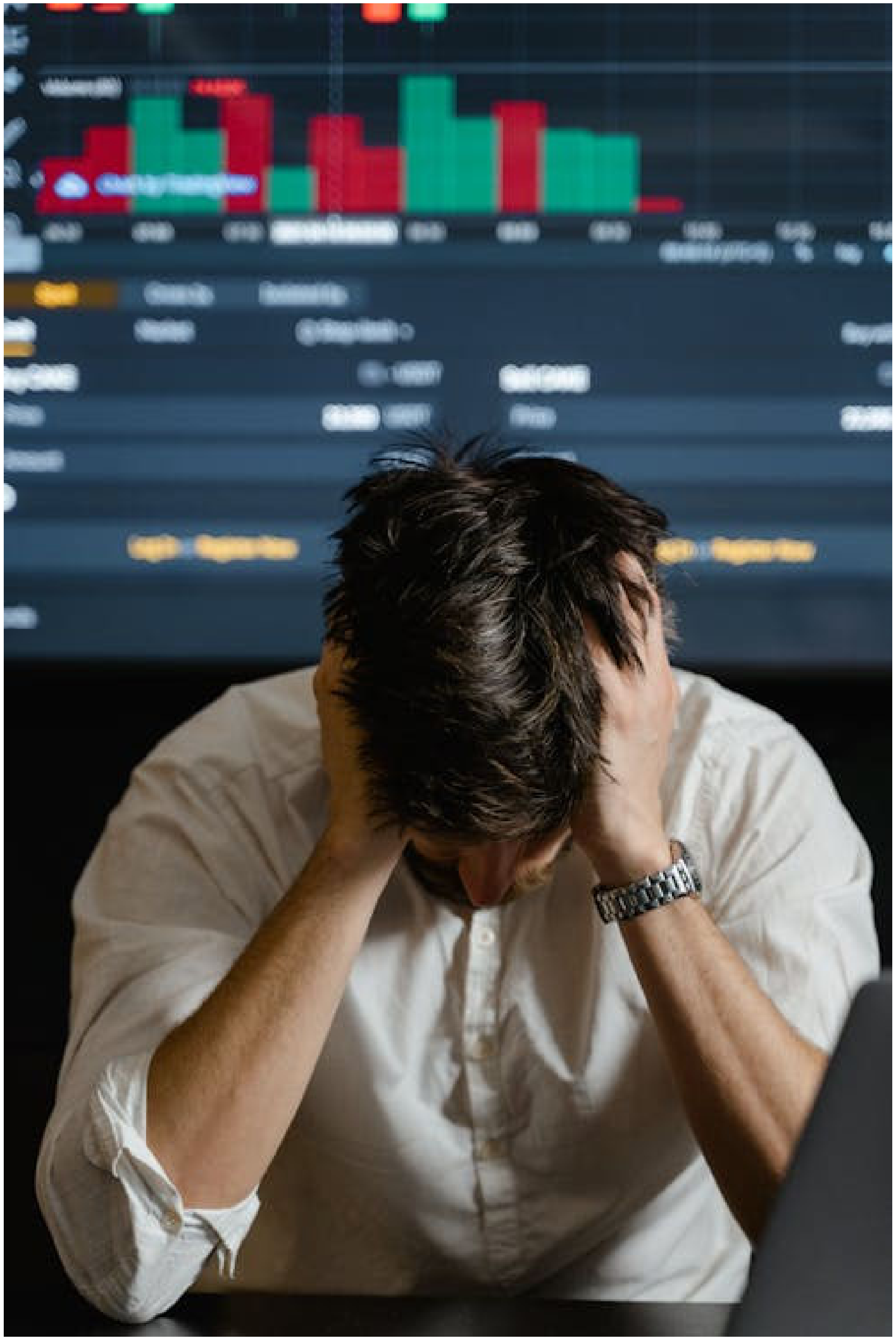
The fund returned 8.2%. You earned 7.0%. Same fund — different behavior.

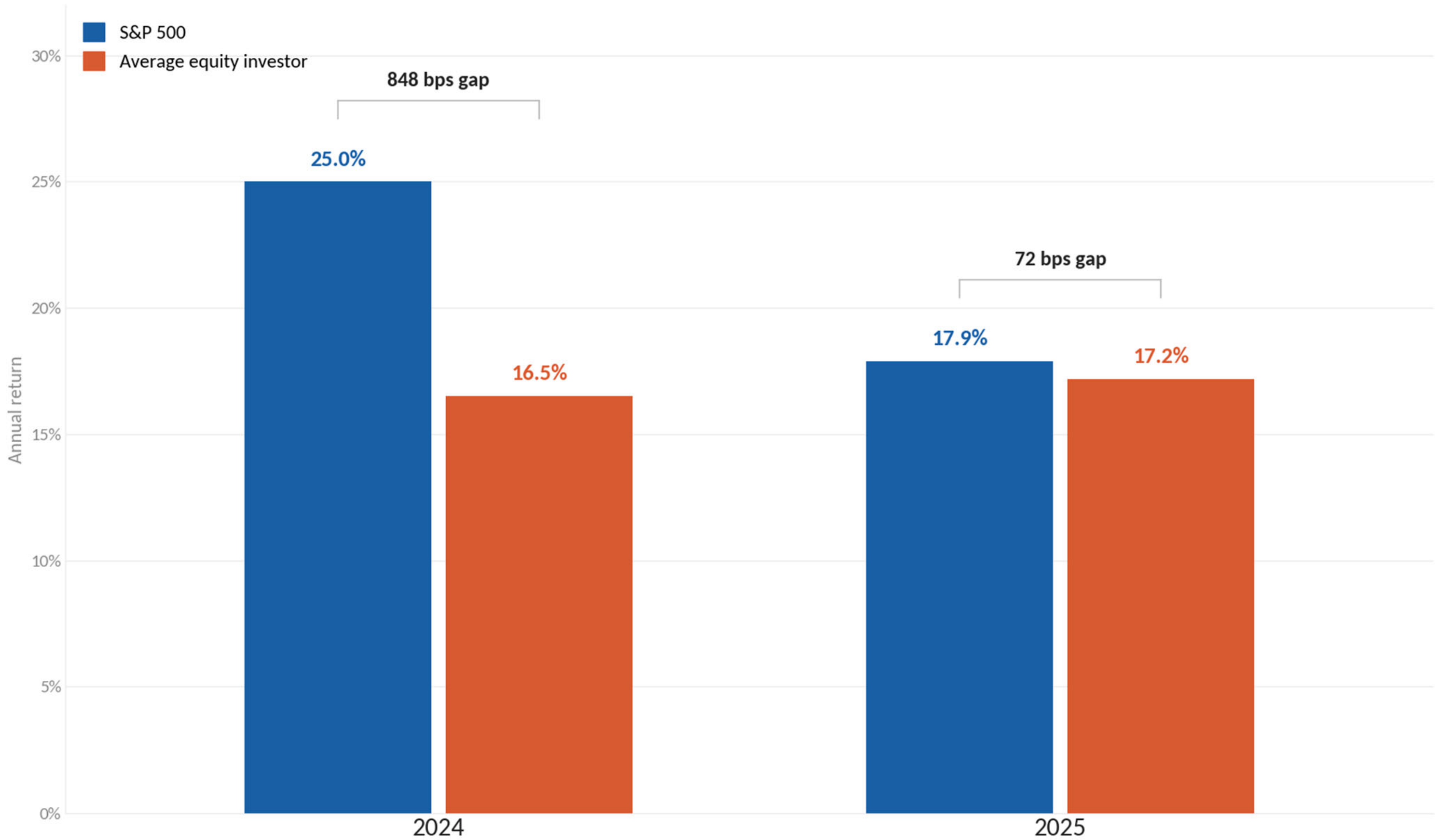


$100,000 initial investment. Fund return: 8.2% annualized. Investor return: 7.0% annualized. 10-year period ended Dec. 31, 2024.

Source: Morningstar Mind the Gap 2025. >25,000 U.S. mutual funds and ETFs. 10-year period ended Dec. 31, 2024.

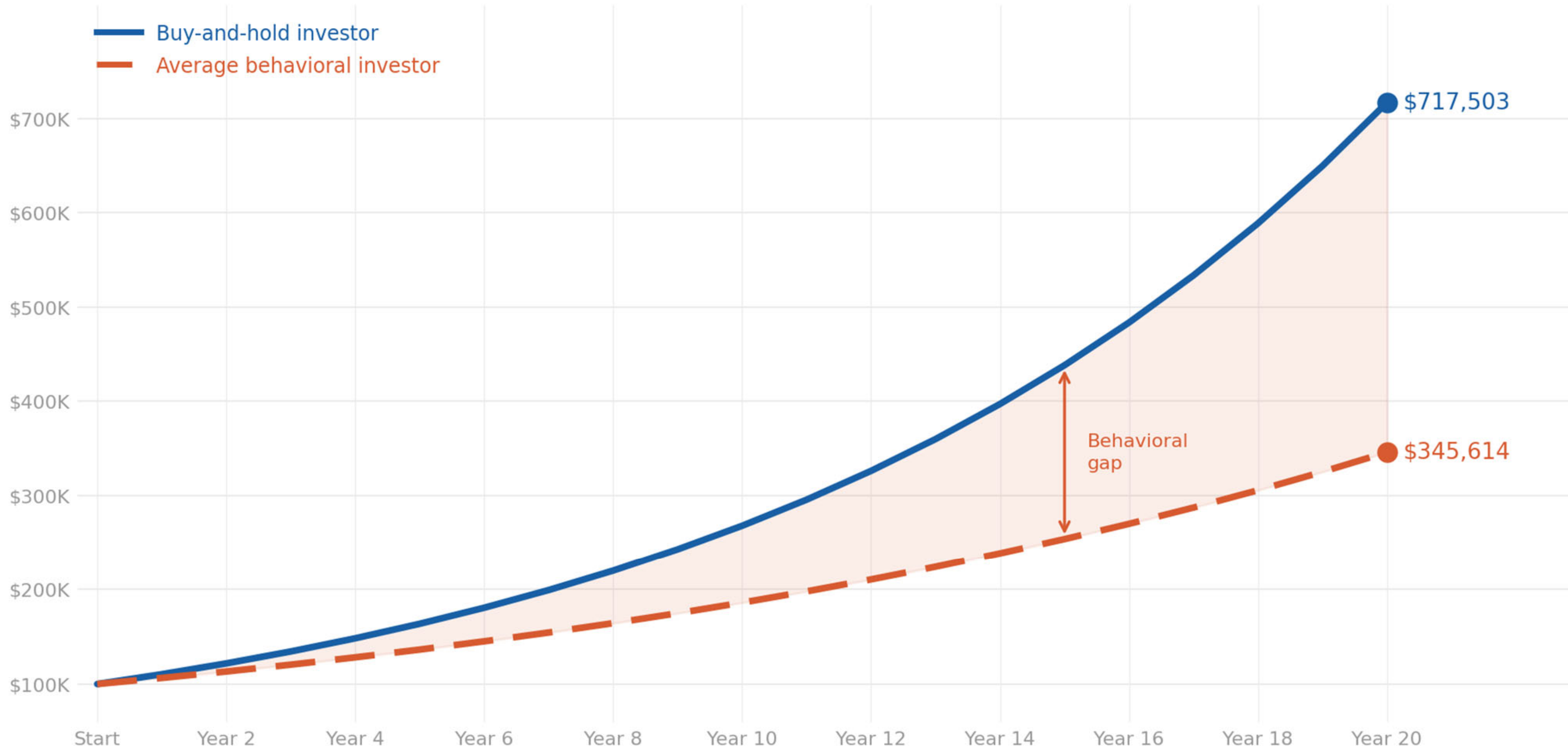
Past performance does not guarantee future results.





Source: DALBAR Quantitative Analysis of Investor Behavior (QAIB) 2026. Annual returns: S&P 500 vs. average equity investor. Past performance does not guarantee future results.

BUY-AND-HOLD INVESTOR	AVERAGE BEHAVIORAL INVESTOR	THE GAP — SAME MARKET, 20 YEARS
$717,503	$345,614	$371,889
10.35% annualized — S&P 500	Timing & trading losses	Lost to behavior, not the market



Source: DALBAR Quantitative Analysis of Investor Behavior (QAIB) 2025. 20-year period ending December 31, 2024. $100,000 initial investment. Past performance does not guarantee future results.

The three behavioral traps that destroy returns

Source: DALBAR Quantitative Analysis of Investor Behavior 2025 | Barber & Odean (2000), 66,465 household accounts

Trap 1

Buy high. Sell low.

25%

Guess Right Ratio — 2024

In 2024, investors correctly timed market moves just 1 in 4 times — tying a record low (DALBAR).

Fund outflows occurred in every quarter of 2024. The largest withdrawals came just before the market's biggest surge.

Trap 2

Trade too much.

75%

Annual portfolio turnover

The average individual investor turns over about 75% of their stock portfolio every year — matching the turnover rate of actively managed funds.

The most active traders earned 11.4% a year — the market returned 17.9%.

Trap 3

Don't hold long enough.

4.79 yrs

Avg. equity fund hold — 2024

The average investor held their equity funds less than 5 years in 2024 — often not long enough for a business thesis to play out.

Compounding requires time. Exits before year 7–10 forfeit most of it.

Together, these three traps cost the average investor $371,889 over 20 years — not the market, not fees. Behavior.

Investors who win aren't smarter. They have a process.

Sources: Coval, Hirshleifer & Shumway (2005) | Barber & Odean (2000), 66,465 household accounts

Principle 1

Research before buying.

0.5%

monthly edge — skilled top 10%

They study the business before committing capital. Decisions are grounded in data, not headlines or price momentum.

They know what they own and why they own it.

Principle 2

Trade less. Own more.

6.5

points a year lost to heavy trading

Low turnover is a feature, not a limitation. Every unnecessary trade adds cost in commissions, taxes, and timing risk.

The most active traders earned 11.4% a year — the market returned 17.9%.

Principle 3

Let time work.

7–10

years for a thesis to fully play out

A business thesis takes years to play out. Exits before year 7–10 forfeit most of the compounding.

Compounding requires time. Patience is the structural edge.

The edge isn't intelligence — it's discipline. The skilled top 10% persistently outperform by about 0.5% a month.

Three advantages no institutional manager can buy

Source: S&P Dow Jones Indices SPIVA 2025

Advantage 1

No quarterly pressure.

4–5 yrs

avg. fund manager tenure

Institutions are evaluated every 90 days. You answer to no one. Patience is free to you — and invaluable in markets.

Advantage 2

No liquidity constraints.

Small caps

where big funds can't follow

Big funds move prices before their trades complete, so the smallest, least-liquid names sit off-limits to them. You can own the overlooked companies where the edge still exists.

Advantage 3

No mandate constraints.

90%

of large-cap funds underperform over 15 years

Style boxes and benchmark mandates force herding. You can go where the data leads — full stop.

These advantages are structural — not dependent on skill, luck, or timing.

The BetterInvesting approach — four principles, 75 years

The same principles the data has been pointing to all along

01

Invest regularly.

Regardless of market conditions.

Commit to a fixed amount on a fixed schedule. Dollar-cost averaging keeps your average cost lower and removes the temptation to time the market.

The antidote to the behavioral gap.

02

Reinvest all earnings.

Dividends, income, and profits.

Every dollar reinvested works for you immediately. This is how $100,000 becomes $761,000 — compounding requires fuel. Reinvesting is the fuel.

The engine behind the fee drag chart.

03

Invest in quality growth companies.

Consistent earnings growth over time.

This is where BetterInvesting spends most of its energy. The Stock Selection Guide answers this question directly — in four structured sections.

The SSG is principle 3 made systematic.

04

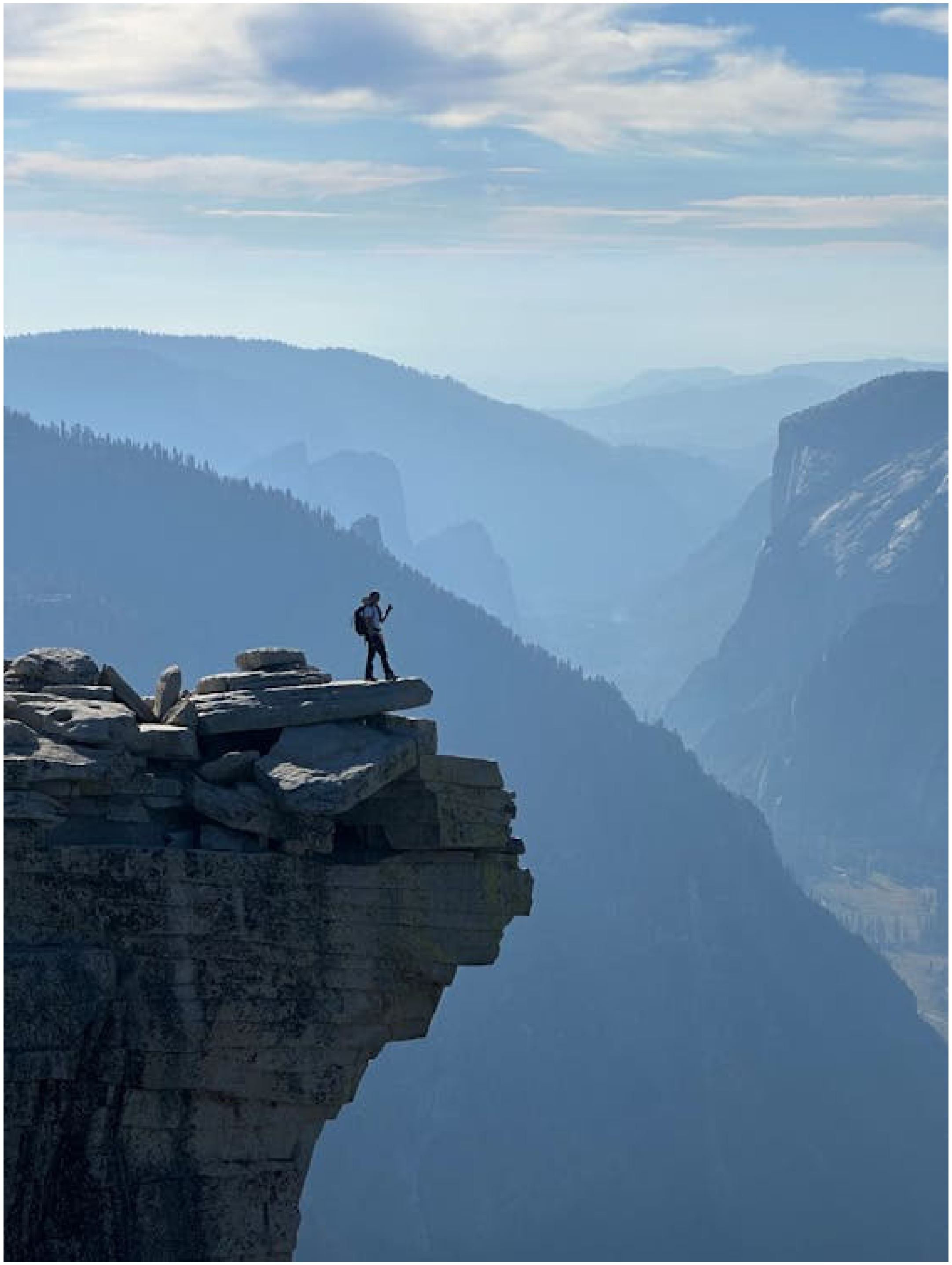
Diversify.

Across companies, sizes, industries.

Spread risk across a number of holdings. Individual investors can diversify into small- and mid-cap companies that institutions can't touch.

Your liquidity edge makes this possible.

BetterInvesting has taught these four principles since 1951. The data in this talk is why they work.



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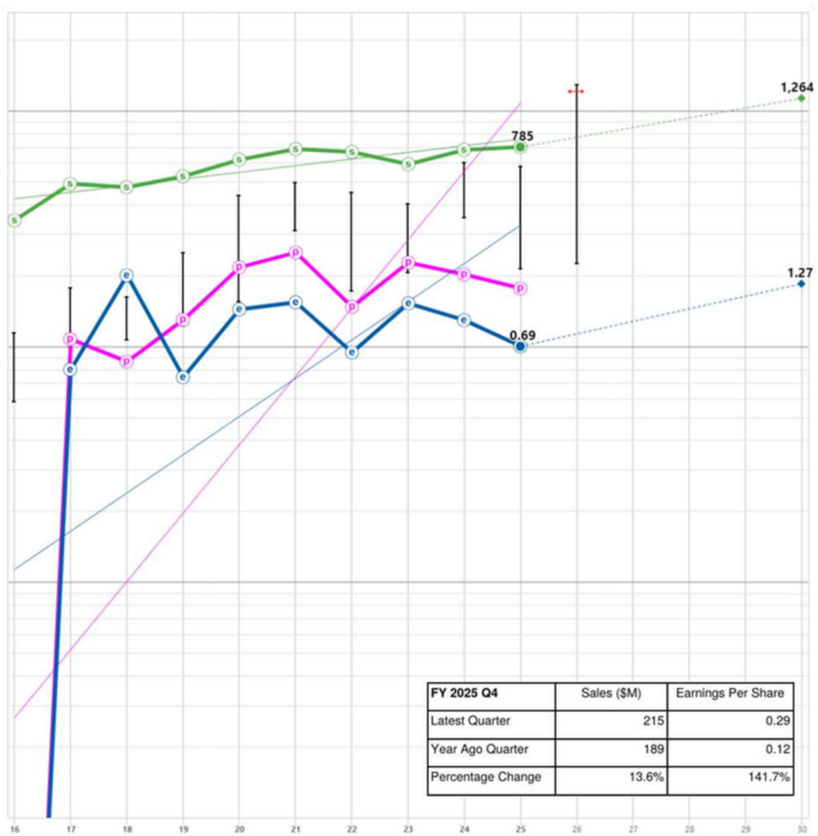
Stock Selection Guide

Company	FormFactor			Date	04/16/26
Prepared by	Thorp			Data taken from	BI Stock Data
Where traded	NAS	Industry	Semiconductor Equipment &		
Capitalization --- Outstanding Amounts				Reference	
Preferred ($M)	0.0			% Insiders	% Institution
Common (M Shares)	80.2			1.9	70.3
Debt ($M)	32.4	% to Tot Cap	3.0	% Pot Dil	3.4

Symbol: FORM

1 VISUAL ANALYSIS of Sales, Earnings, and Price

Q1 — Is it growing?



FY 2025 Q4	Sales ($M)	Earnings Per Share
Latest Quarter	215	0.29
Year Ago Quarter	189	0.12
Percentage Change	13.6%	141.7%

(1) Historical Sales Growth	6.7%	(3) Historical Earnings Per Share Growth	45.3%
(2) Estimated Future Sales Growth	10.0%	(4) Estimated Future Earnings Per Share Growth	13.0%

2 EVALUATING Management

Q2 — Is management efficient?

FormFactor

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Last 5 Year Avg.
% Pre-tax Profit on Sales	-13.1%	7.7%	6.4%	8.7%	12.3%	12.8%	7.7%	13.5%	10.4%	8.8%	10.6%
% Earned on Equity	-1.7%	8.8%	20.9%	6.3%	10.7%	10.6%	6.2%	9.7%	7.2%	5.3%	7.8%
% Debt To Capital	25.6%	18.7%	10.0%	12.8%	8.5%	7.2%	5.9%	5.0%	4.0%	3.0%	5.0%

3 PRICE-EARNINGS HISTORY as an indicator of the future

Q3 — Is the price reasonable?

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

CURRENT PRICE 127.72 (04/16/26) **52-WEEK HIGH** 136.00 **52-WEEK LOW** 23.79

	A	B	C	D	E	F	G	H
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
2021	52.4	32.7	1.06	49.4	30.8	0.00	0.0	0.0
2022	47.5	18.2	0.65	73.0	27.9	0.00	0.0	0.0
2023	42.4	21.7	1.05	40.4	20.7	0.00	0.0	0.0
2024	63.6	37.2	0.89	71.5	41.8	0.00	0.0	0.0
2025	61.1	22.6	0.69	88.6	32.7	0.00	0.0	0.0
AVERAGE		**26.5**		**64.6**	**28.0**		**0.0**	
CURRENT/TTM			0.69	197.1	34.5	0.00	0.0	
AVERAGE PRICE EARNINGS RATIO: 46.3					**CURRENT PRICE EARNINGS RATIO: 185.1**			

4 EVALUATING RISK and REWARD over the next 5 years

Q4 — Risk vs. reward?

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 56.8 X Estimate High Earnings/Share 1.27 = Forecasted High Price $ 72.1

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 22.6 X Estimate Low Earnings/Share 0.69 = Forecasted Low Price $ 15.6

(b) Avg. Low Price of Last 5 Years 26.5

(c) Recent Market Low Price 22.6

(d) Price Dividend Will Support $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{0.00}{0.00\%} = 0.0$

Selected Forecasted Low Price $ 15.6

C ZONING using 25%-50%-25%

Forecasted High Price 72.1 Minus Forecasted Low Price 15.6 = 56.5 Range. 25% of Range 14.1

Buy Zone	15.6	to	29.7
Hold Zone	29.7	to	58.0
Sell Zone	58.0	to	72.1

Present Market Price of 127.72 is in the **SELL** Zone

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

$\frac{\text{High Price}}{\text{Current Price}} \frac{72.1}{127.72} \frac{\text{Minus Current Price}}{\text{Minus Low Price}} \frac{127.72}{15.6} = \frac{-55.58}{112.12} =$ Invalid To 1

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

$\frac{\text{High Price}}{\text{Current Price}} \frac{72.1}{127.72} = 0.5648 \times 100 = 56.48 - 100 = -43.5$ % 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 $\frac{\text{Indicated Annual Dividend}}{\text{Current Price}} \frac{0.00}{127.72} = 0.0000 = 0.0\ \%$ Current Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{0.0\ \%}{56.80} = 0.0\ \%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{0.0\ \%}{39.70} = 0.0\ \%$

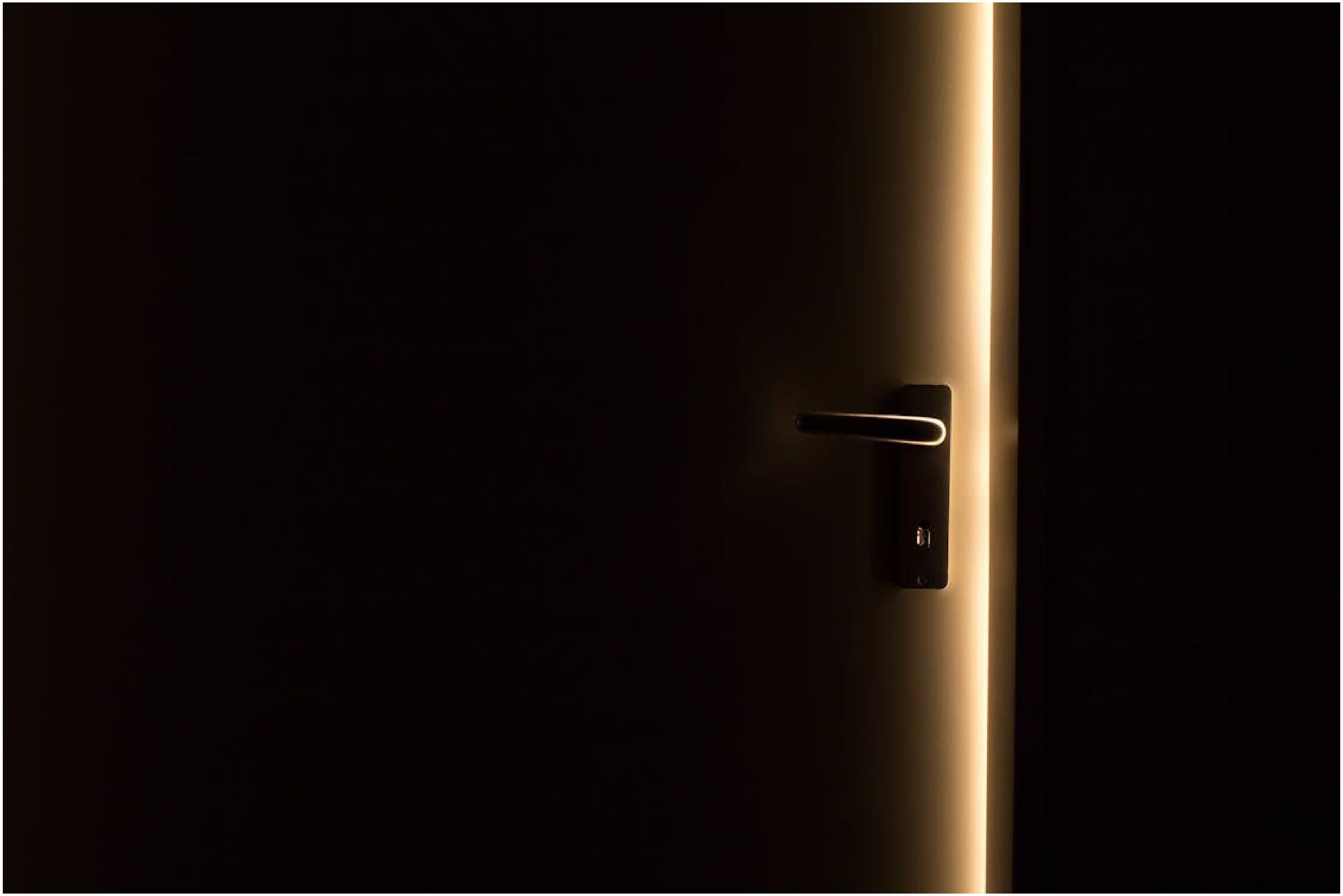
C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation	-10.8 %
Average Yield	0.0 %
Annualized Rate of Return	-10.8 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation	-17.0 %
Average Yield	0.0 %
Annualized Rate of Return	-17.0 %


5
kg



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