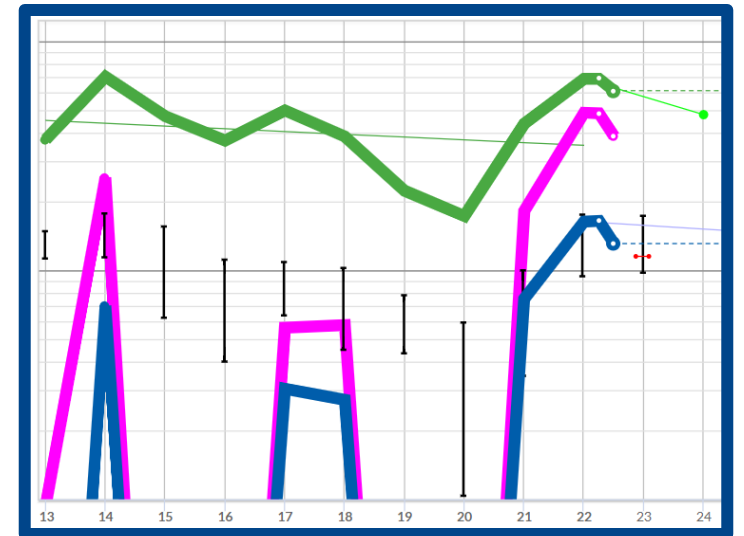


FORECASTING TIPS FOR STOCKS THAT DON'T LOOK GREAT ON THE SSG[®]

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Disclaimer

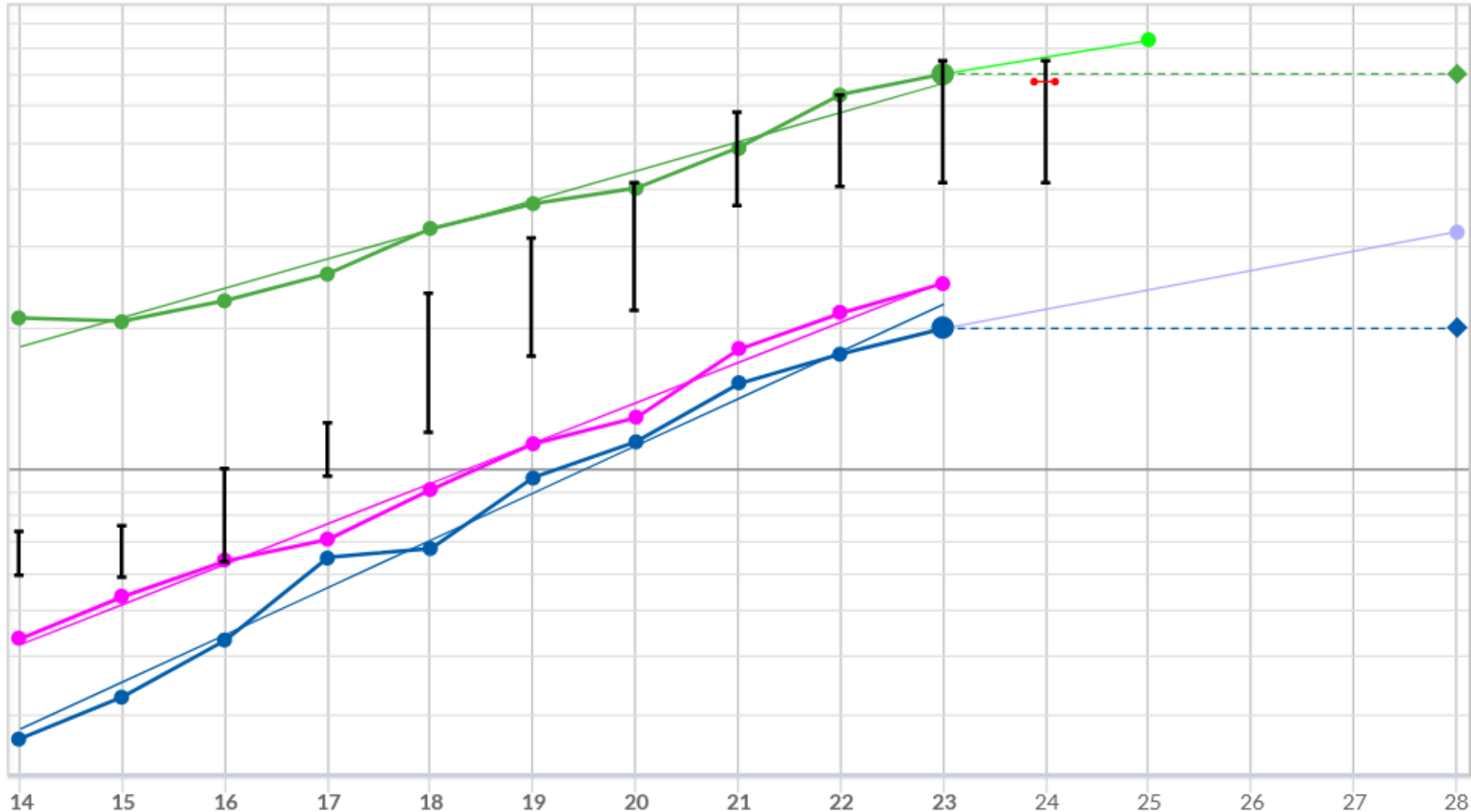
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Today's Session:

1. The Stock Selection Guide works best on companies that look good on the Visual Analysis...
2. Examples of companies that don't visually look 'good' on the SSG and suggestions for what to do...

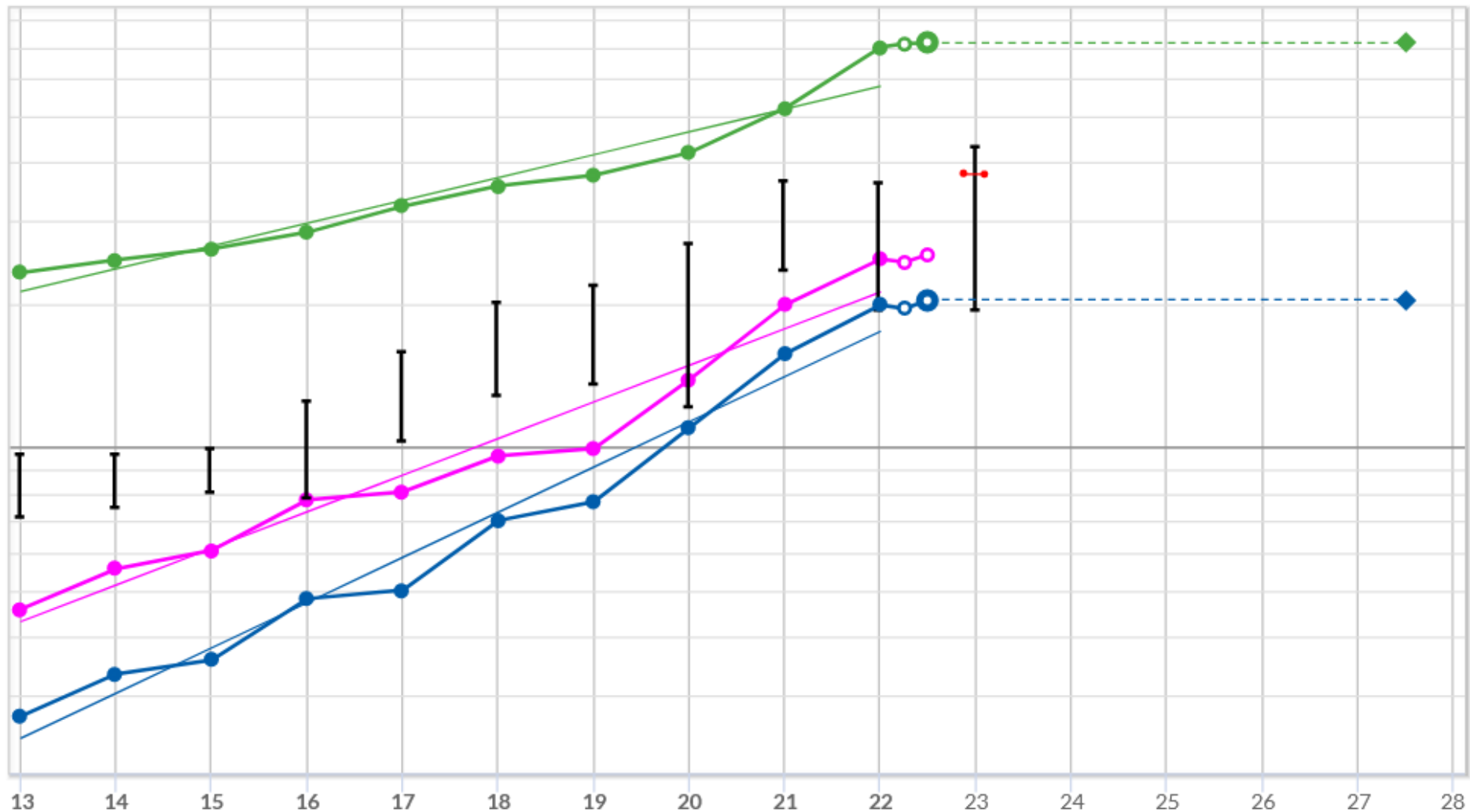
Great Looking Companies on Visual Analysis

Company: Copart (CPRT)



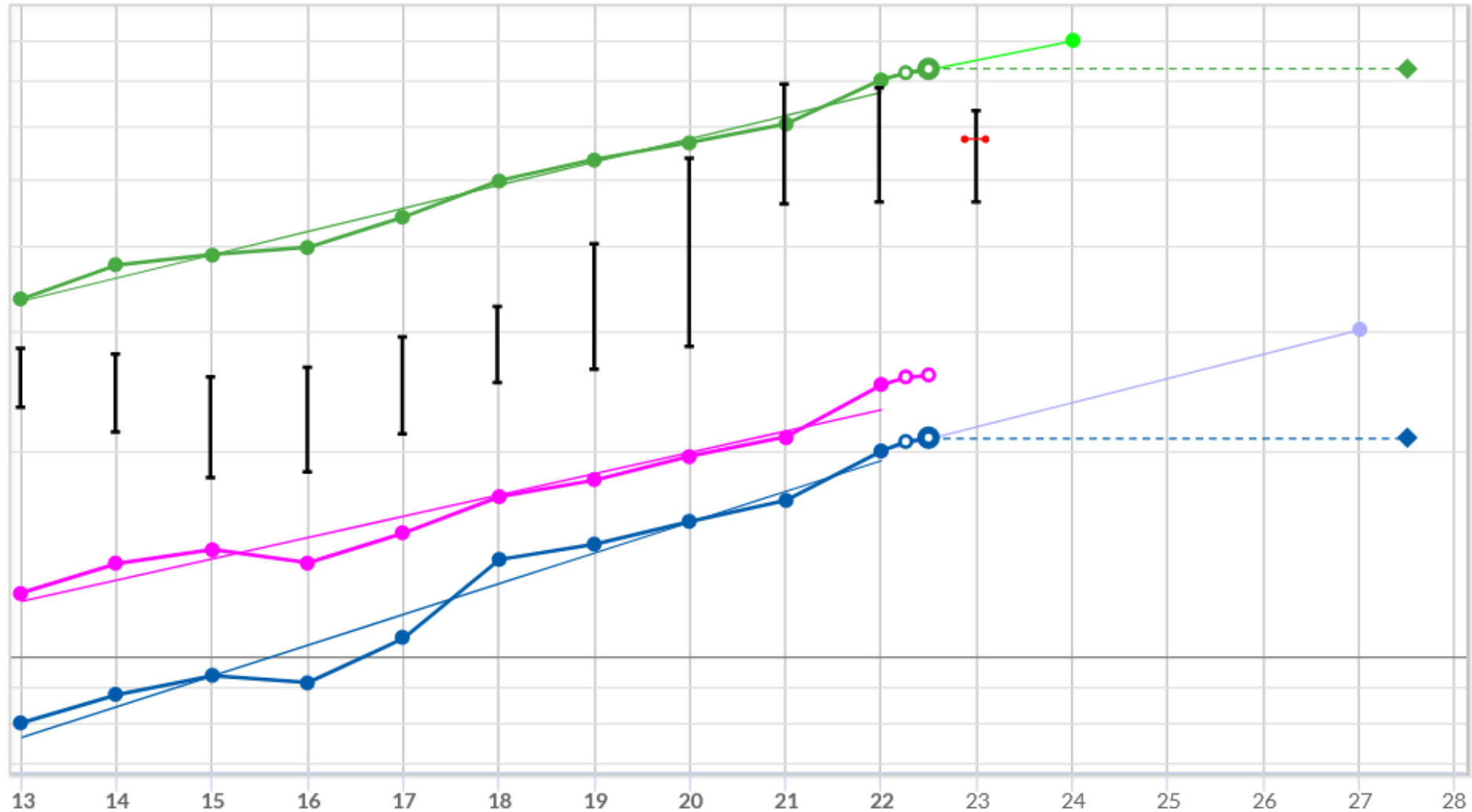
Great Looking Companies on Visual Analysis

▶ Company: Simpson Manufacturing (SSD)



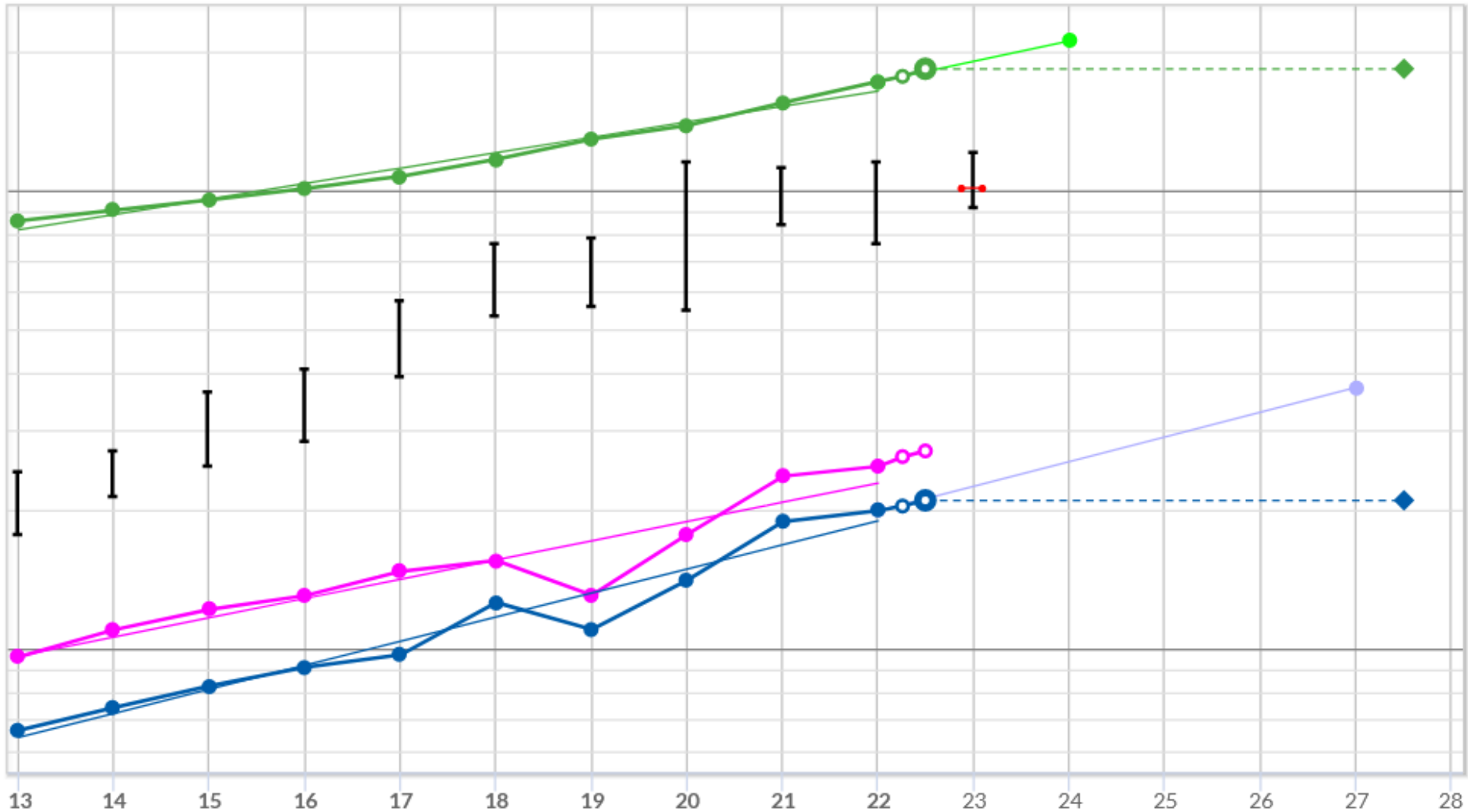
Great Looking Companies on Visual Analysis

Company: Fastenal (FAST)



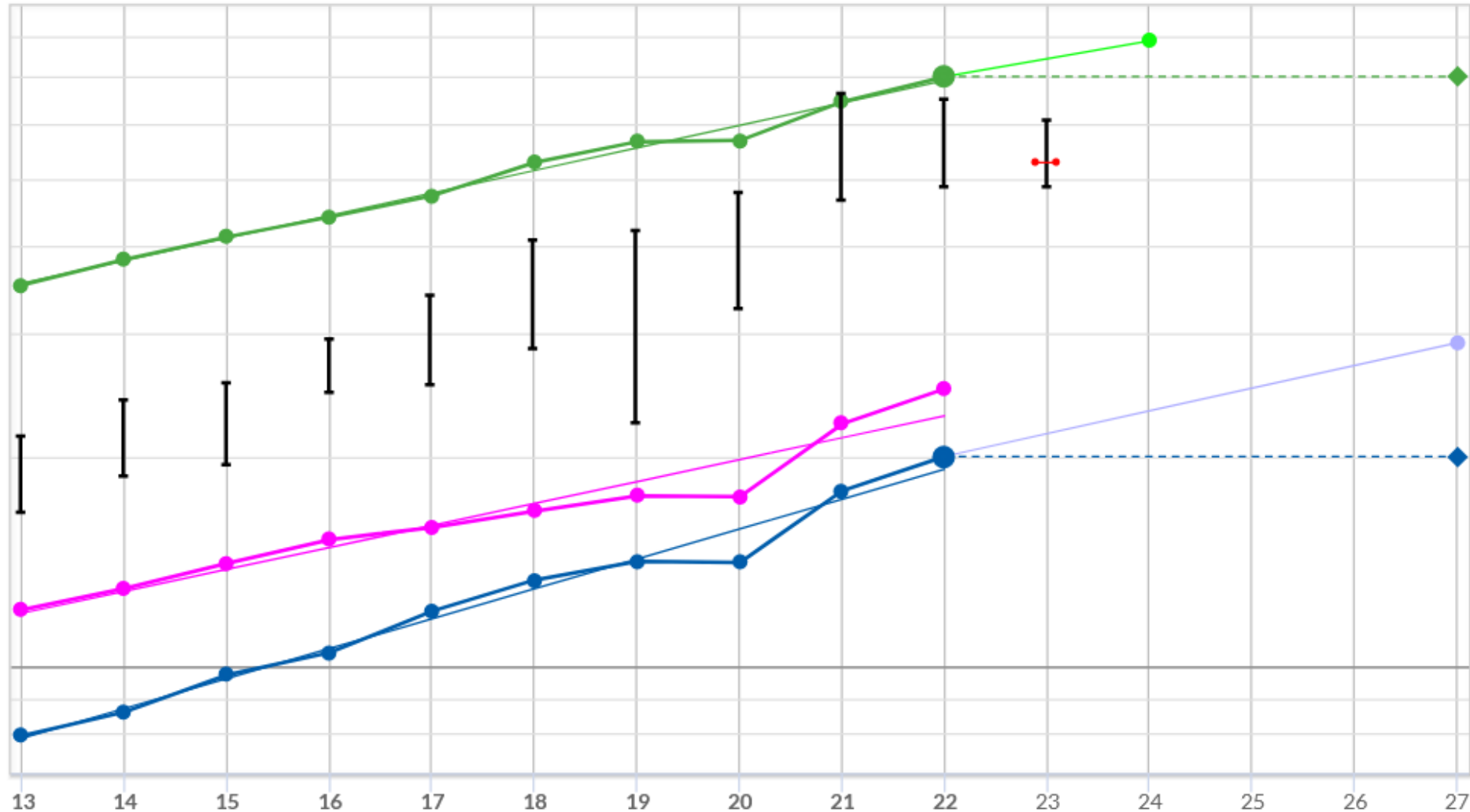
Great Looking Companies on Visual Analysis

▶ Company: Rollins (ROL)



Great Looking Companies on Visual Analysis

Company: Paychex (PAYX)



Up, Straight and Parallel Recap

CPRT

SSD

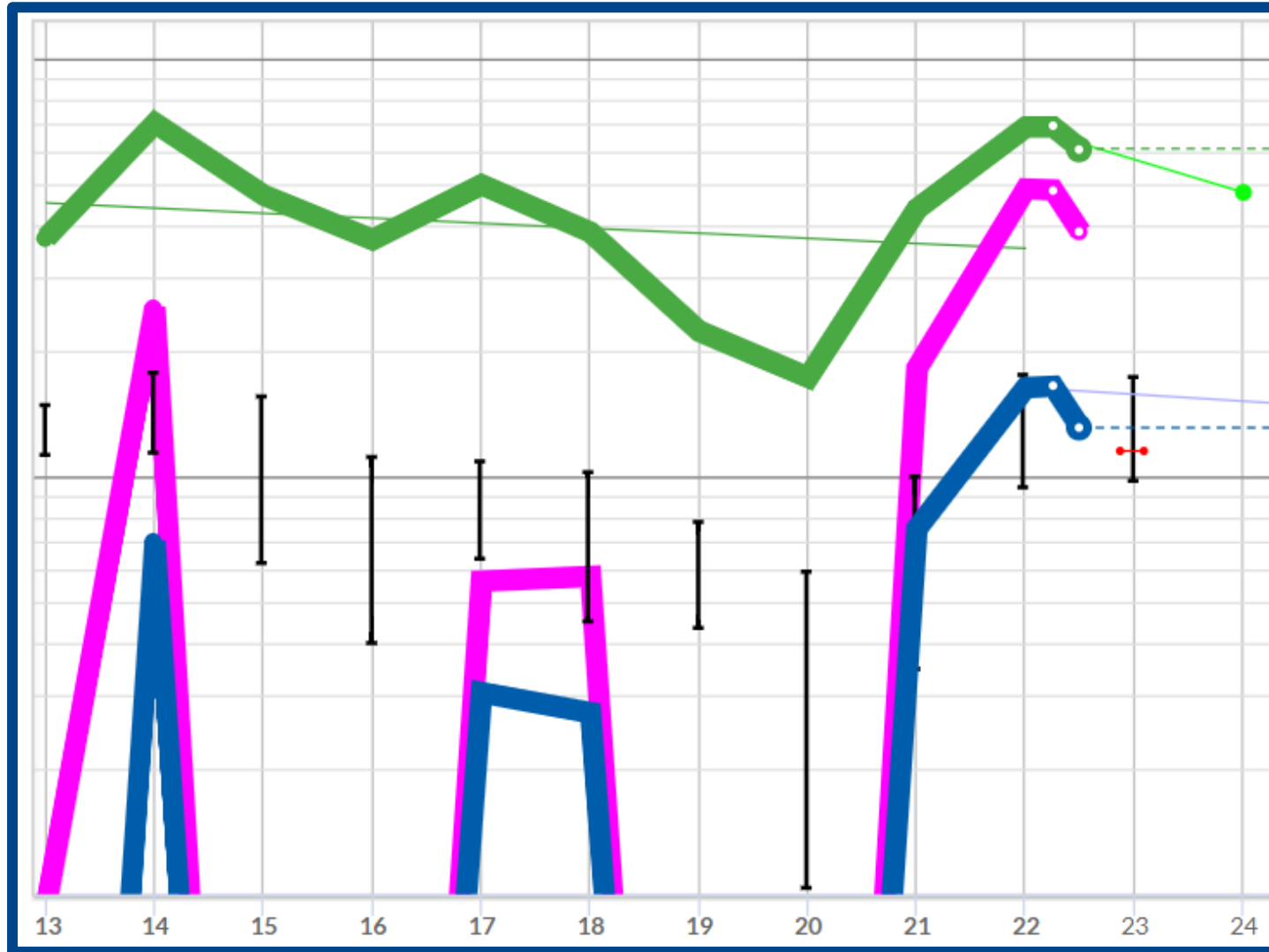
FAST

ROL

PAYX

And Many,
Many
More!

But My Company Looks Like This... 😞



A Recent Email...

Dear BetterInvesting Educators,

{Member} wants to know how to account for stocks with negative numbers on the SSG? One stock in particular is {ticker XYZ}, which has a negative 2 year sales estimate of: -14.5% He knows we encourage members to stay away from stocks with negative data, but he already owns stock in this company and wants to do a study on it. How should he proceed?

The Response...

'The SSG is designed to analyze high-quality growth companies. The structure just doesn't work well for companies that are highly cyclical, troubled (declining sales and/or EPS), or have inconsistent sales and EPS (no discernable trend – historical data is all over the place).'

Scenarios

1. You are asked to do a Stock Selection Guide on a hot, popular or recommended company.
2. Your investment club already owns the company, the company's performance has declined and the club's operating agreement says there should be an updated SSG for every holding.
3. You 'inherited' the company in a spinoff, club closure or other scenario.



Let's Dig In

Things to Consider

- Be **flexible** – think of it as a puzzle
- Acknowledge this is **harder**
- You'll need to do **more research**
- You'll need to **follow the company more closely**
- There is no right solution but there might be ***your* acceptable solution**
- These techniques are typically not for the beginner to the SSG – but beginners **can try** and, in the process, **learn new things!**

The First Consideration

YOU DON'T HAVE TO OWN THIS COMPANY.

**SELL THE COMPANY AND BUY STOCK IN A
DIFFERENT COMPANY.**

EXAMPLES & STRATEGIES

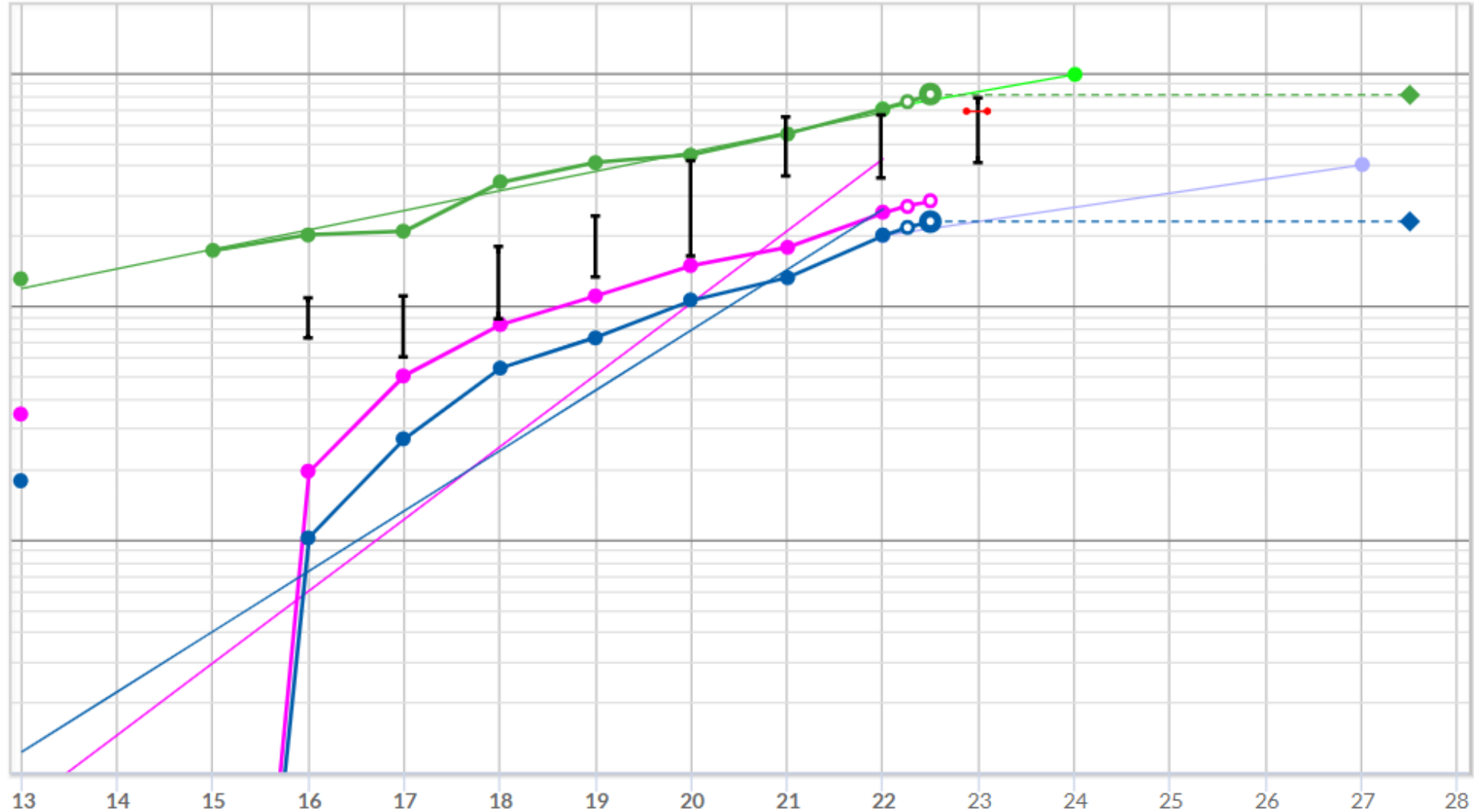
Demonstrated Live in the SSGPlus

1 - Companies with Poor Fundamentals in the Past

- Companies with low sales growth/no growth 6-10 years ago
- Companies with no earnings 6-10 years ago
- Much lower margins in the past

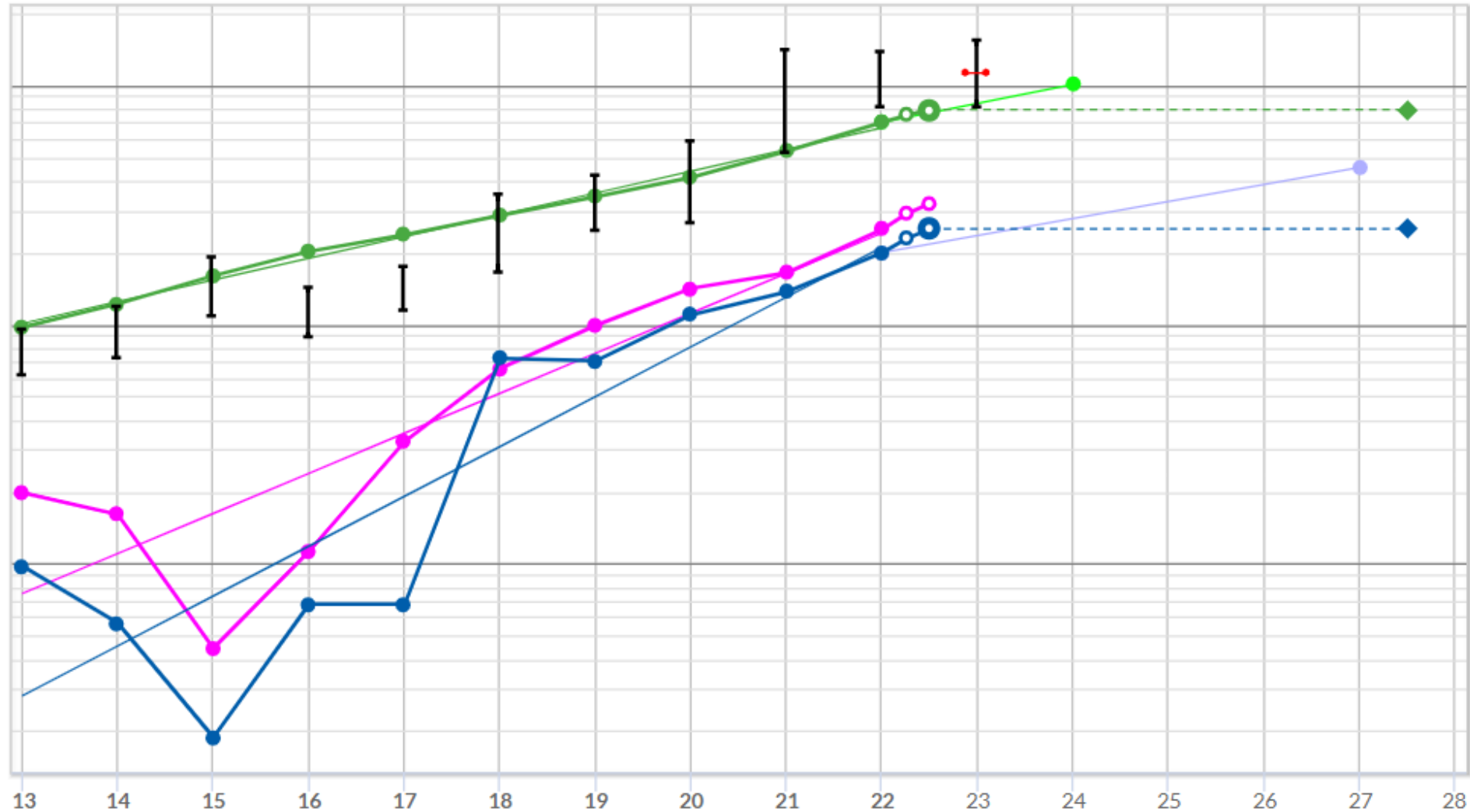
1 - Companies with Poor Fundamentals in the Past

▶ Company: Medpace Hldgs (MEDP)



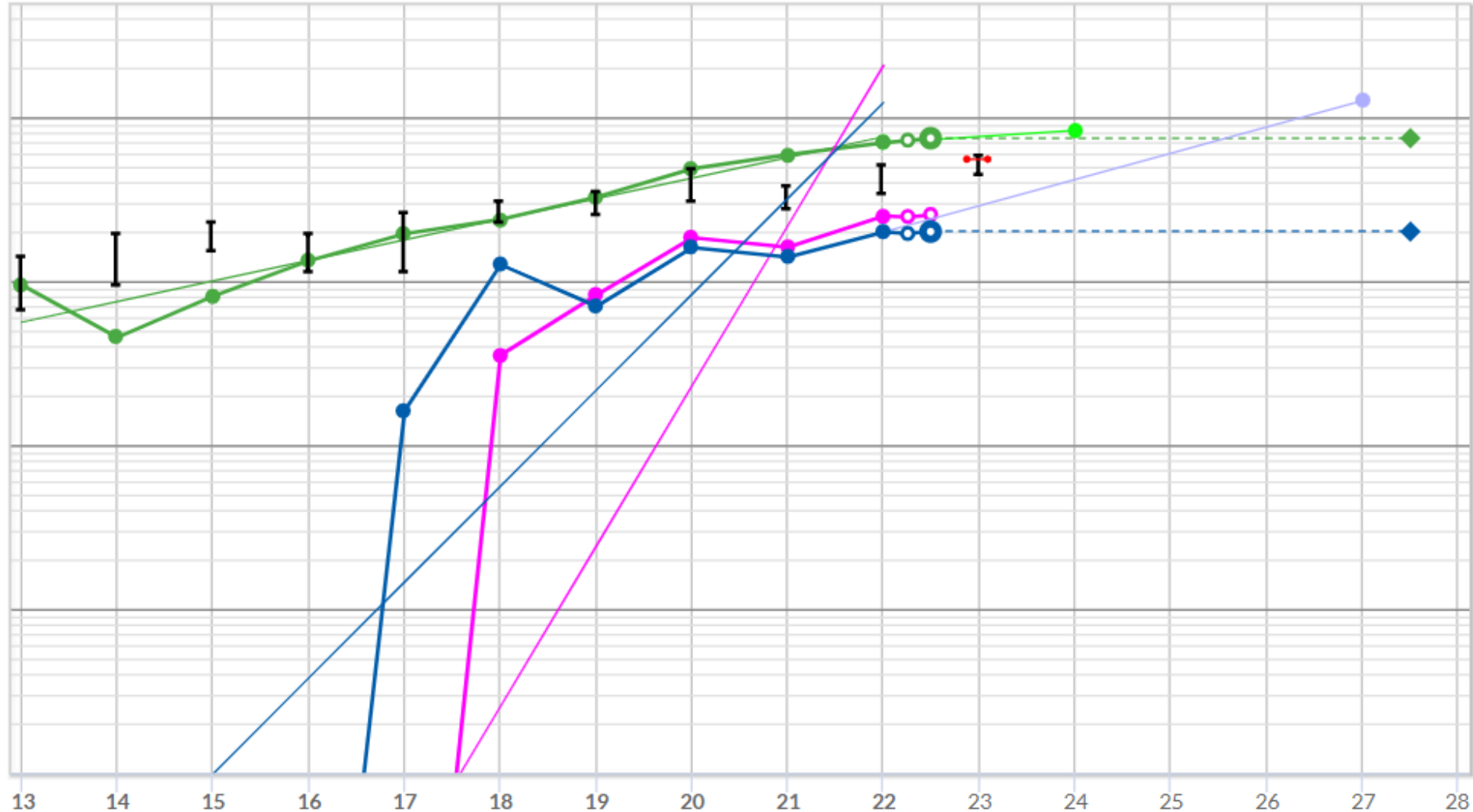
1 - Companies with Poor Fundamentals in the Past

▶ Company: Fortinet (FTNT)



1 - Companies with Poor Fundamentals in the Past

Company: Vertex Pharmaceuticals (VRTX)



1 - Companies with Poor Fundamentals in the Past

Strategies

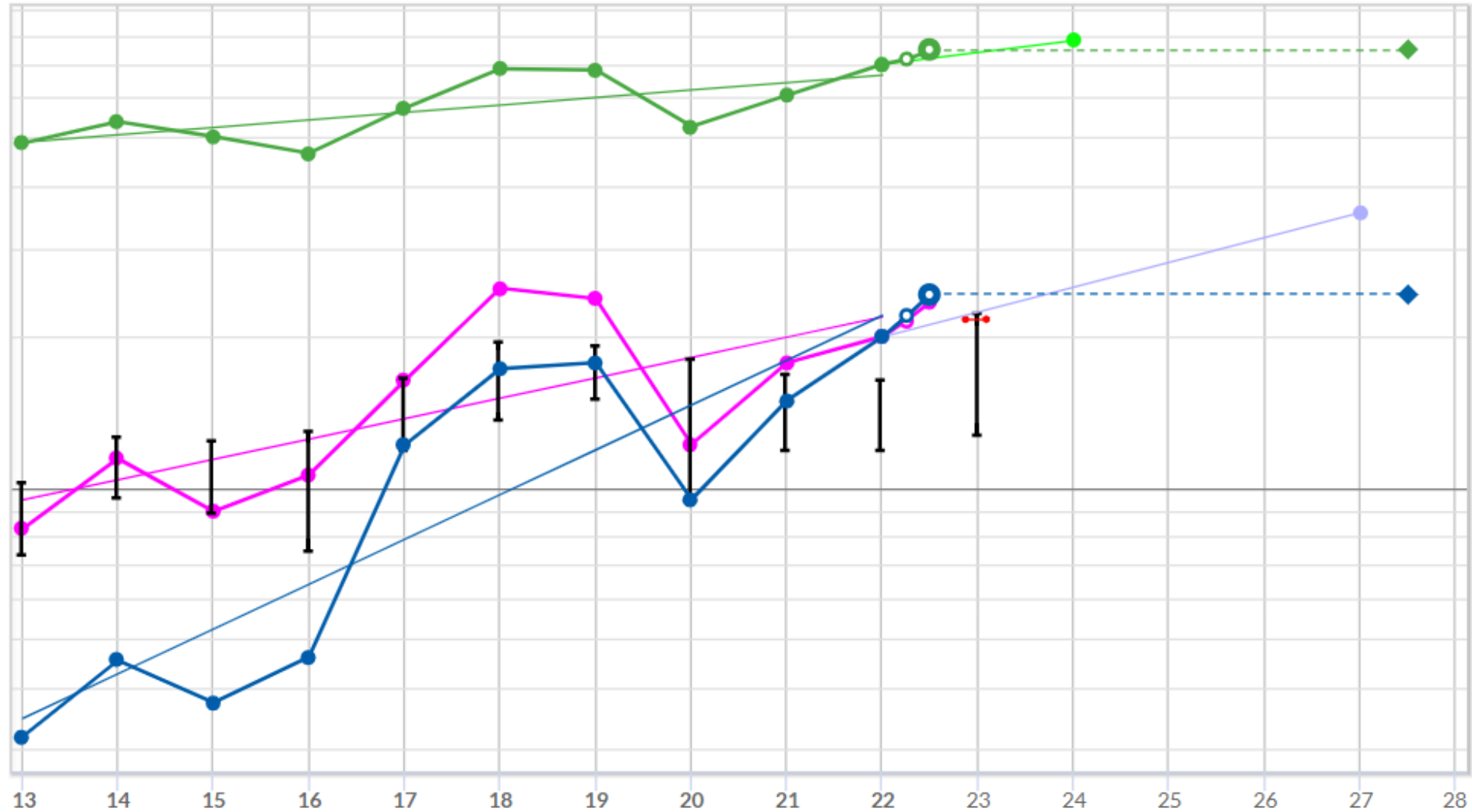
- **Research** the company's market position and revenue growth prospects and look for **robust growth potential**.
- If the company has demonstrated they can produce consistent recent results, remove the anomalous early years as outliers. Continue with your SSG study.

2 - Cyclical Companies

- Companies with cyclical revenue patterns. They may be combined with cyclical earnings patterns.
- May be part of a traditionally cyclical sector; Consumer Cyclical/Discretionary, Financial Services, Energy, Industrials
- Cyclical company data may also show other data patterns such as poor fundamentals from the past or negative growth patterns.

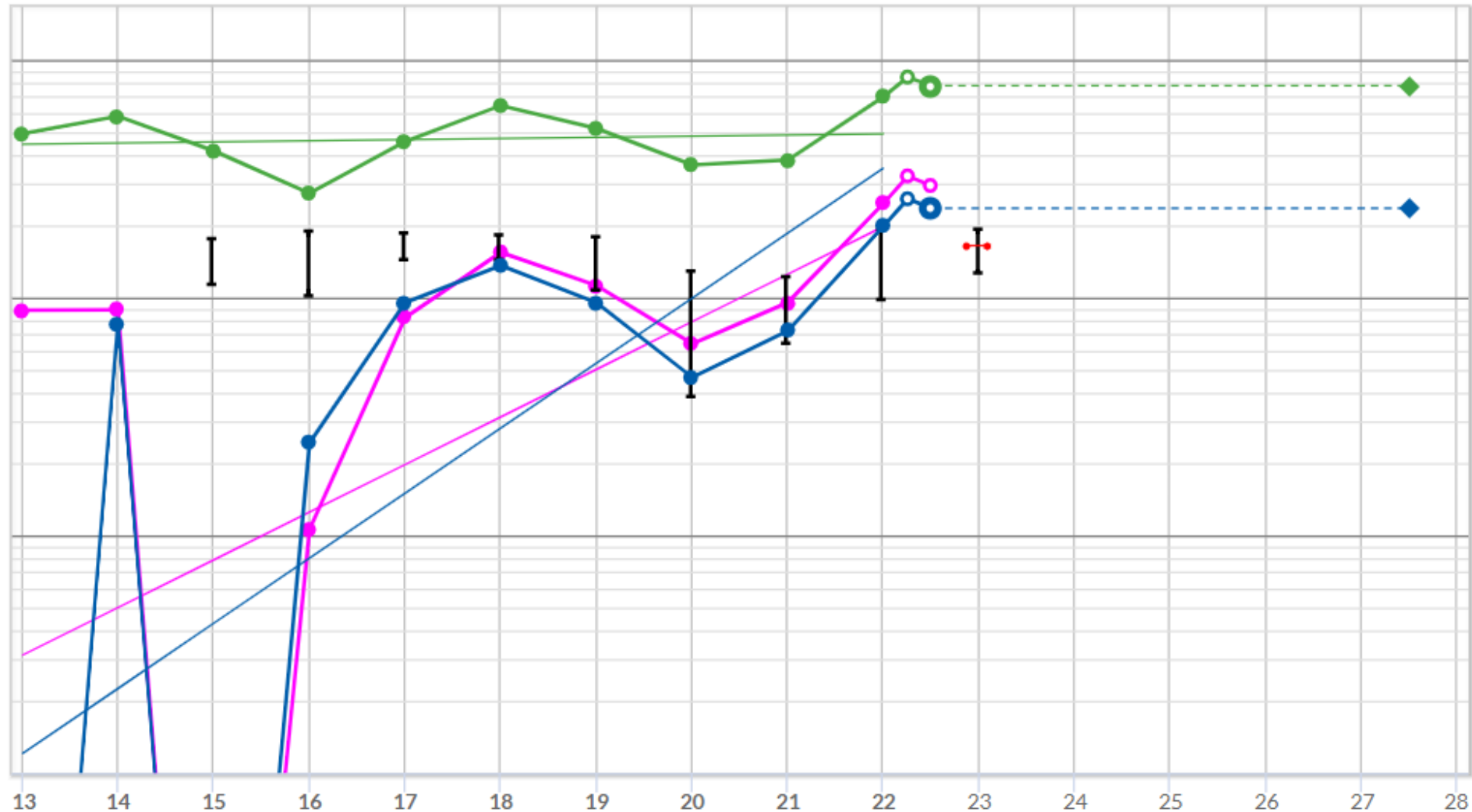
2 - Cyclical Companies

▶ Company: Allison Transmission (ALSN)



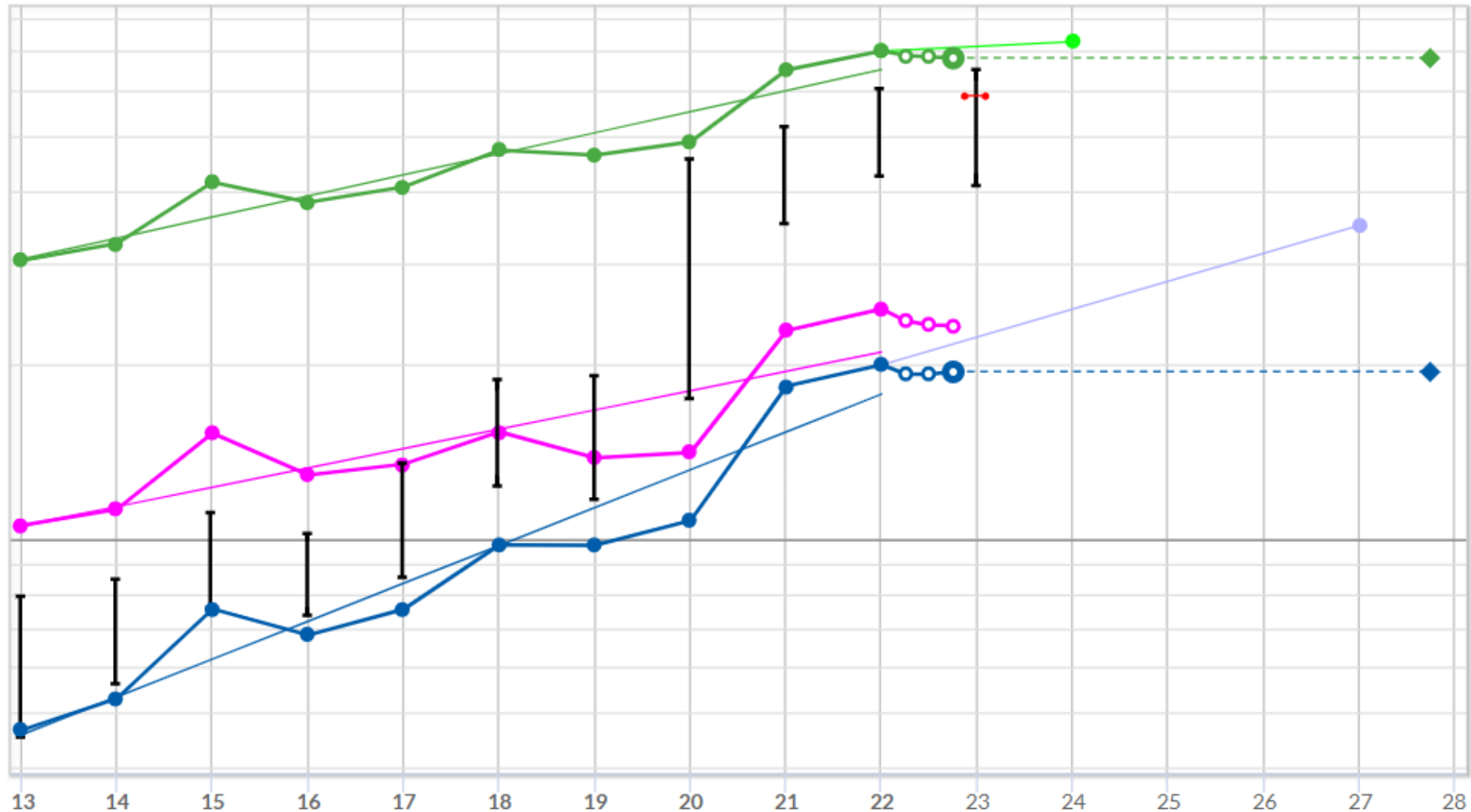
2 - Cyclical Companies

▶ Company: Black Stone Minerals (BSM)



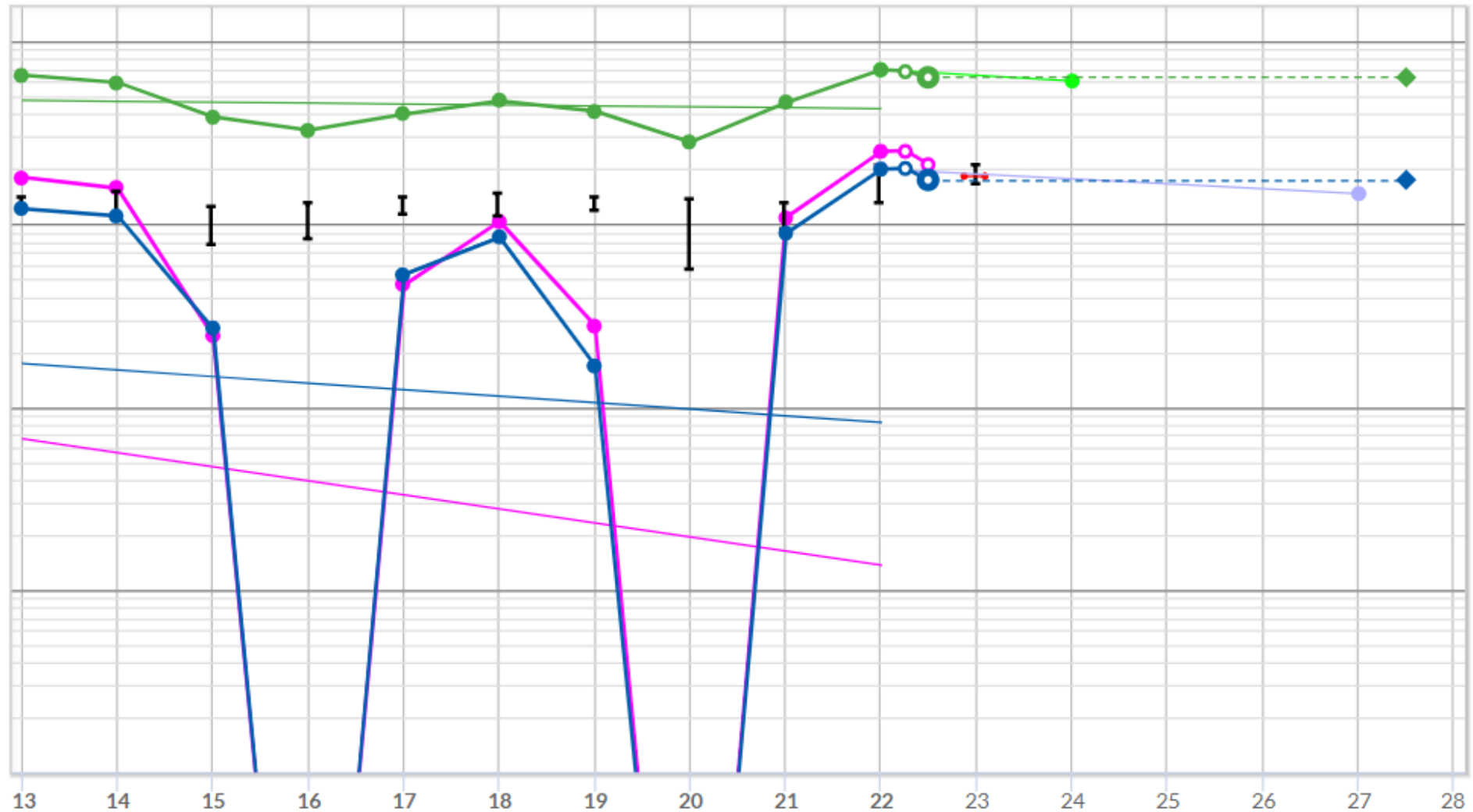
2 - Cyclical Companies

▶ Company: Apple (AAPL)



2 - Cyclical Companies

▶ Company: Chevron (CVX)



2 - Cyclical Companies

Strategies

- **Research** the company's market position and revenue growth prospects and look for **long-term** robust growth potential.
- Research **why** the company is cyclical.
- Project from the growth **trend lines** rather than the last quarter or last fiscal year.
- Check your sales and earnings forecasts against the short-term **detailed estimates**.
- Check your sales and earnings forecasts against the company's **quarterly data results**.

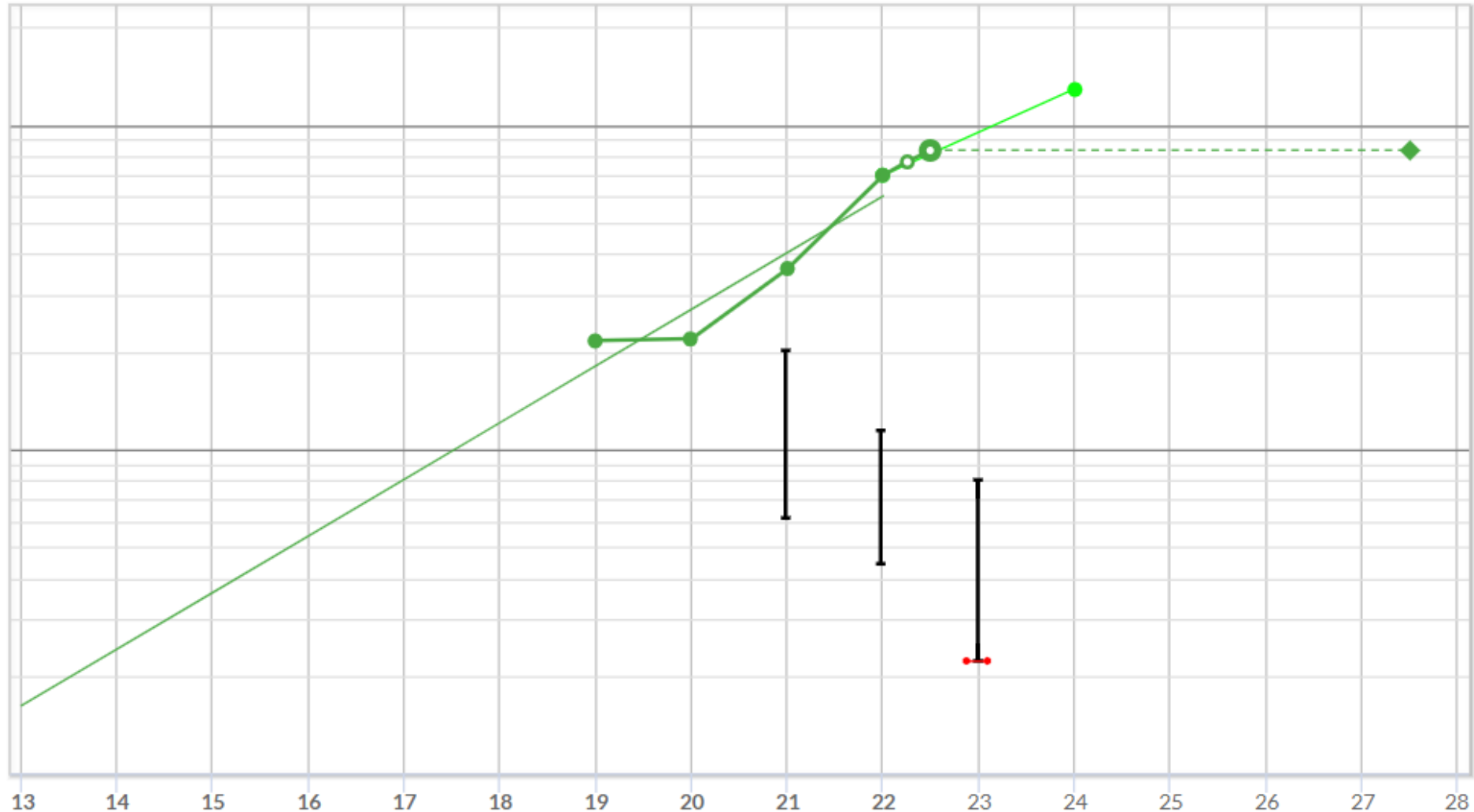
3 - Companies with Negative EPS in Latest Period

- Due to early-stage growth needs for capital
- Due to a one-time 'event'
 - Global or US economic conditions
 - One-time business costs

3 - Companies with Negative EPS in Latest Period

▶ Company: ChargePoint Hldgs (CHPT)

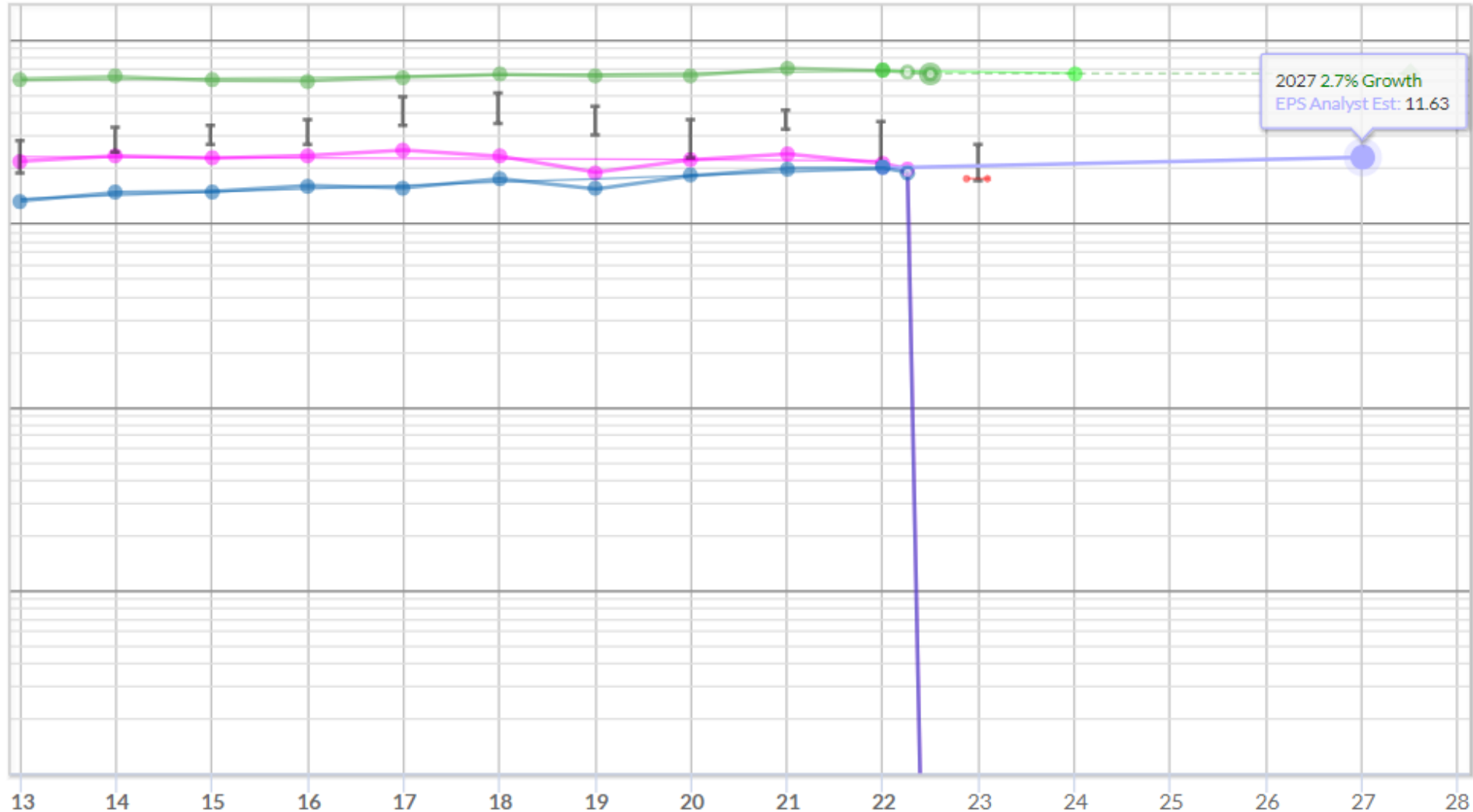
WARNING! The EPS projection starting point is negative. The projected growth rate is NOT MEANINGFUL. Click



3 - Companies with Negative EPS in Latest Period

▶ Company: 3M (MMM)

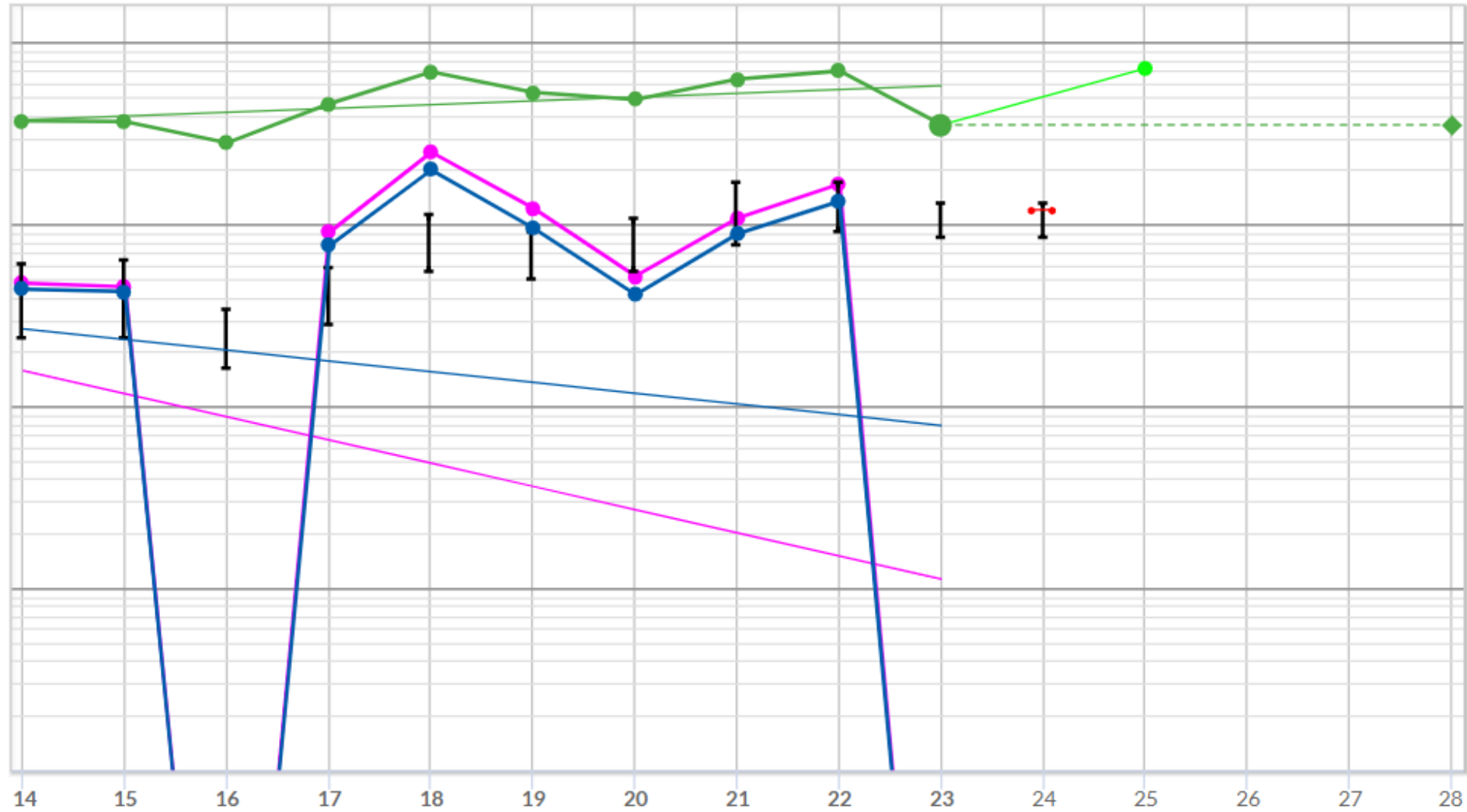
WARNING! The EPS projection starting point is negative. The projected growth rate is NOT MEANINGFUL. Click



3 - Companies with Negative EPS in Latest Period

Company: Micron Technology (MU)

WARNING! The EPS projection starting point is negative. The projected growth rate is NOT MEANINGFUL. Click



3 - Companies with Negative EPS in Latest Period

Strategies

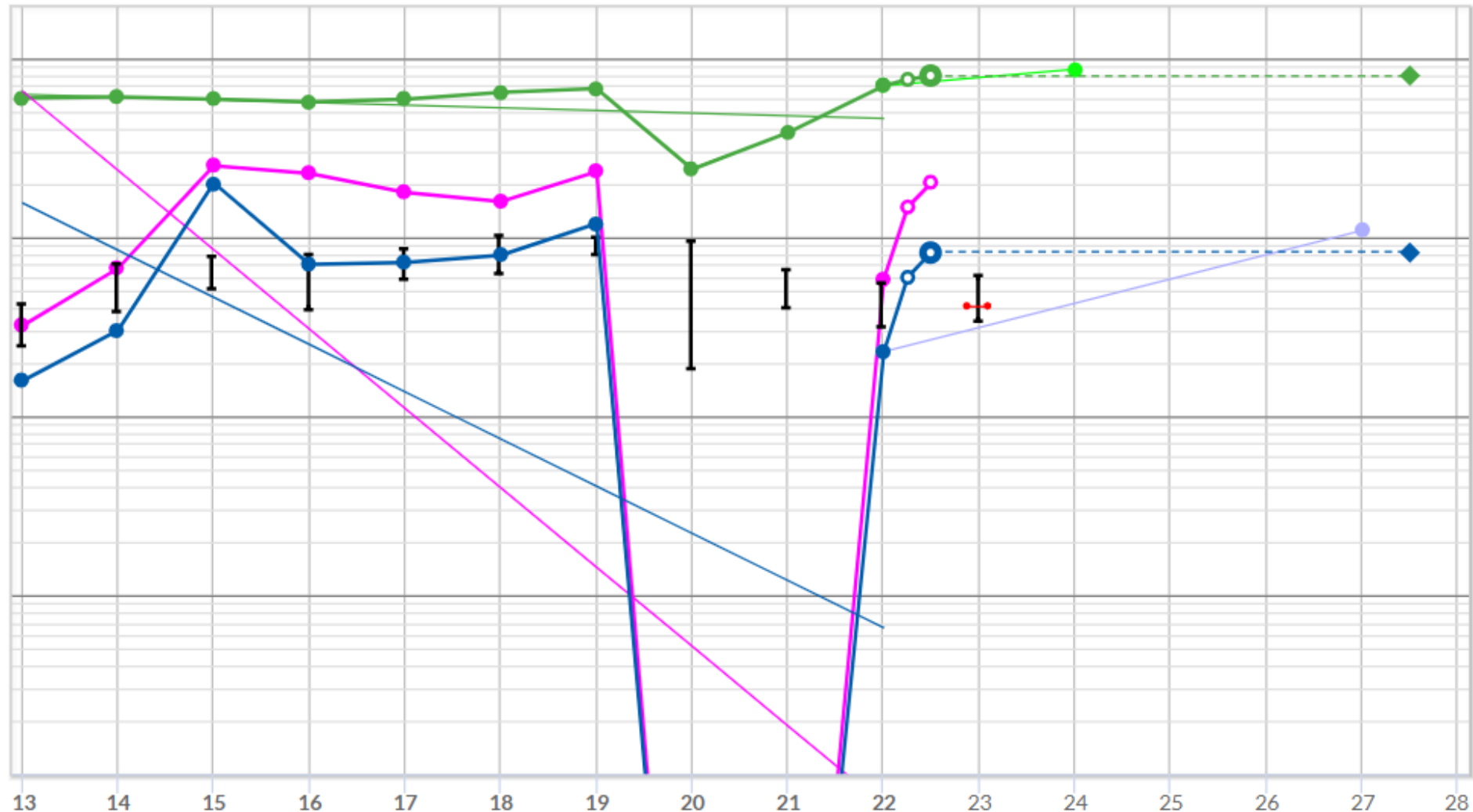
- **Research** the company's market position and revenue growth prospects and look for robust growth potential.
- Use market (price) action to obtain **clues** about how serious the downturn in EPS is to the company.
- If the company provides adjusted EPS, consider adjusting the data to **use the adjusted EPS value**.
- Adjust your projection to start from the end of the **trend line**.
- Check your sales and earnings forecasts against the short-term **detailed estimates**.
- Don't assume the fundamentals will magically recover to previous levels.

4 - Companies with Inconsistent Fundamentals

- Due to a one-time 'event'
 - Global or US economic conditions
 - One-time business costs
- Due to poor company management
- Due to declining sales, poor product management

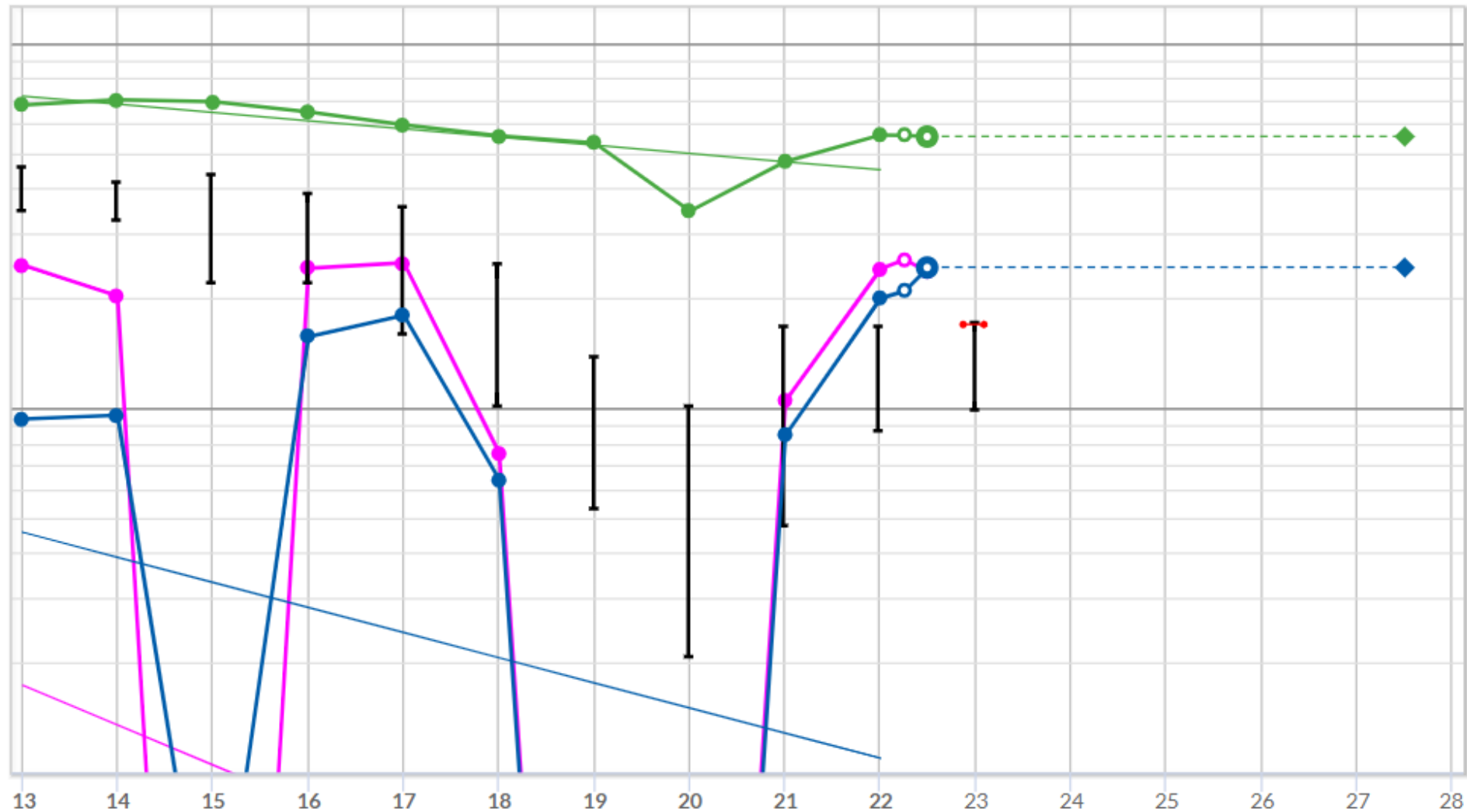
4 - Companies with Inconsistent Fundamentals

▶ Company: United Airlines Hold (UAL)



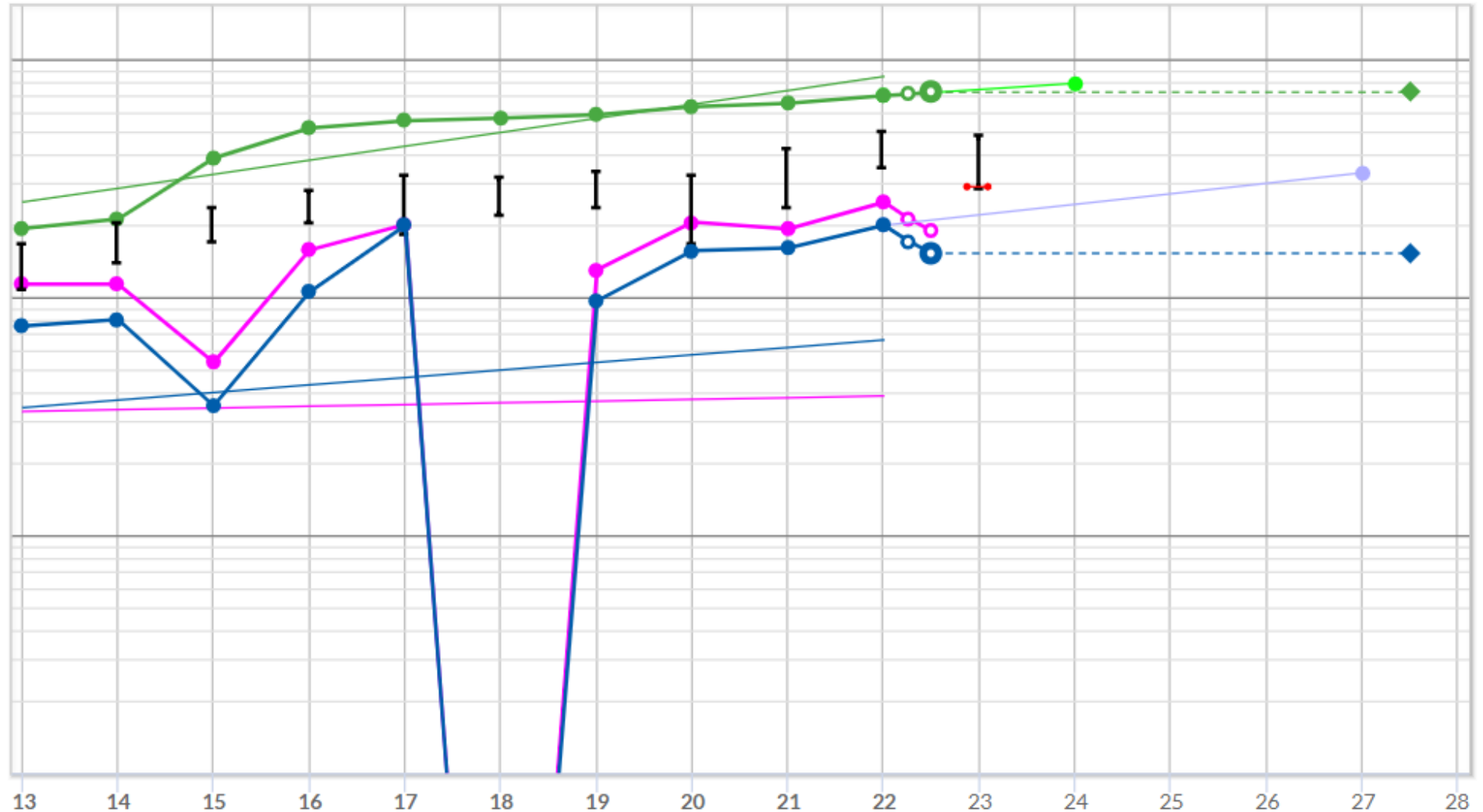
4 - Companies with Inconsistent Fundamentals

▶ Company: Chico's FAS (CHS)



4 - Companies with Inconsistent Fundamentals

▶ Company: Dollar Tree (DLTR)



4 - Companies with Inconsistent Fundamentals

Strategies

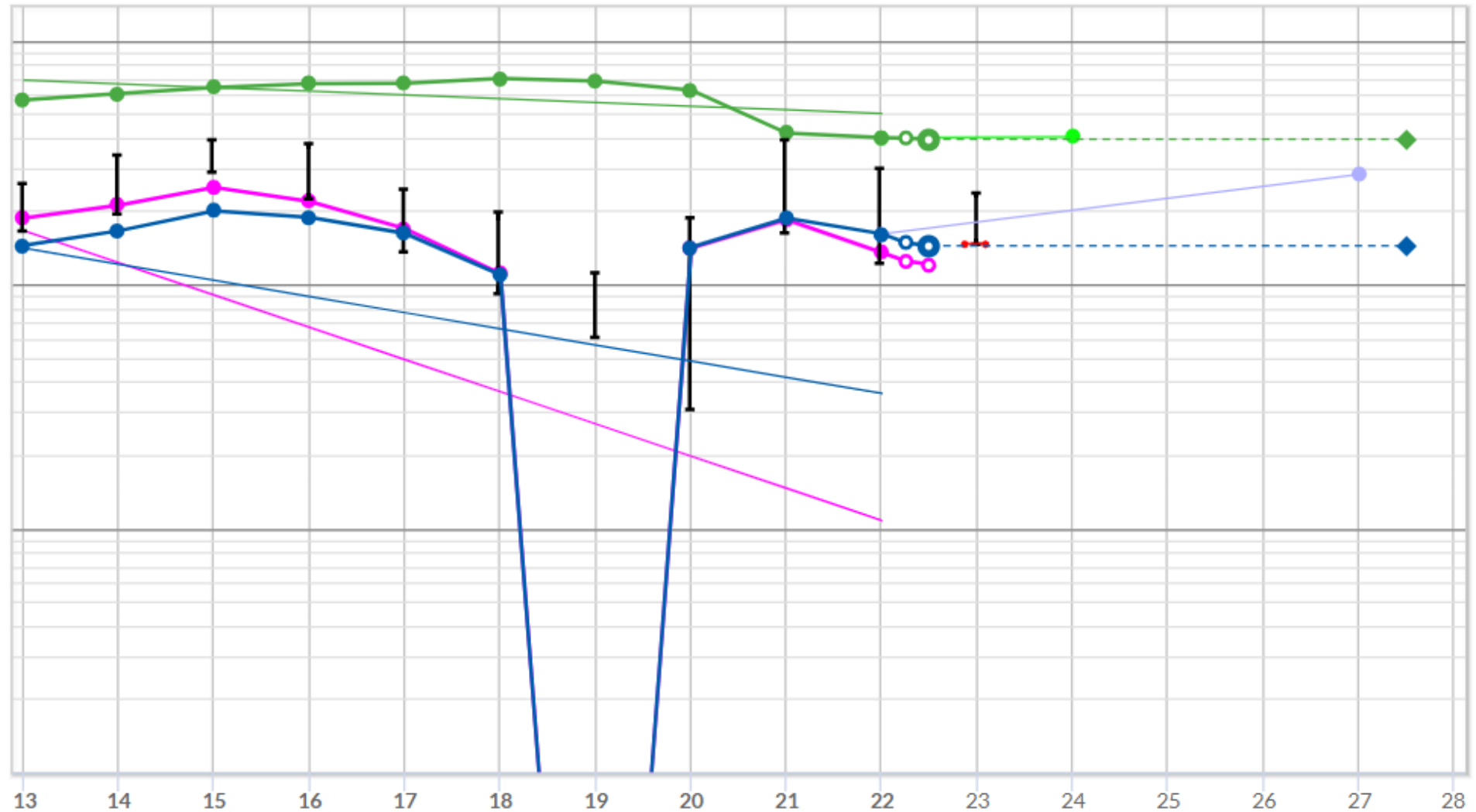
- **Research** the company's market position and revenue growth prospects and look for **robust growth potential**.
- Research the company's reason for inconsistent performance. Be alert for **mergers, acquisitions and divestitures**.
- If the company provides adjusted EPS, consider adjusting the data to **use the adjusted EPS value**.
- Remove inconsistent data as outliers **if appropriate**.
- Don't ignore multiple inconsistencies. **This company may not be worth holding or buying**.

5 - Companies with Negative Growth

- Caused by
 - divestitures
 - poor product management
 - increased competition
 - poor company management
- These companies are sometimes owned as value stock investments or investments purchased for the dividend

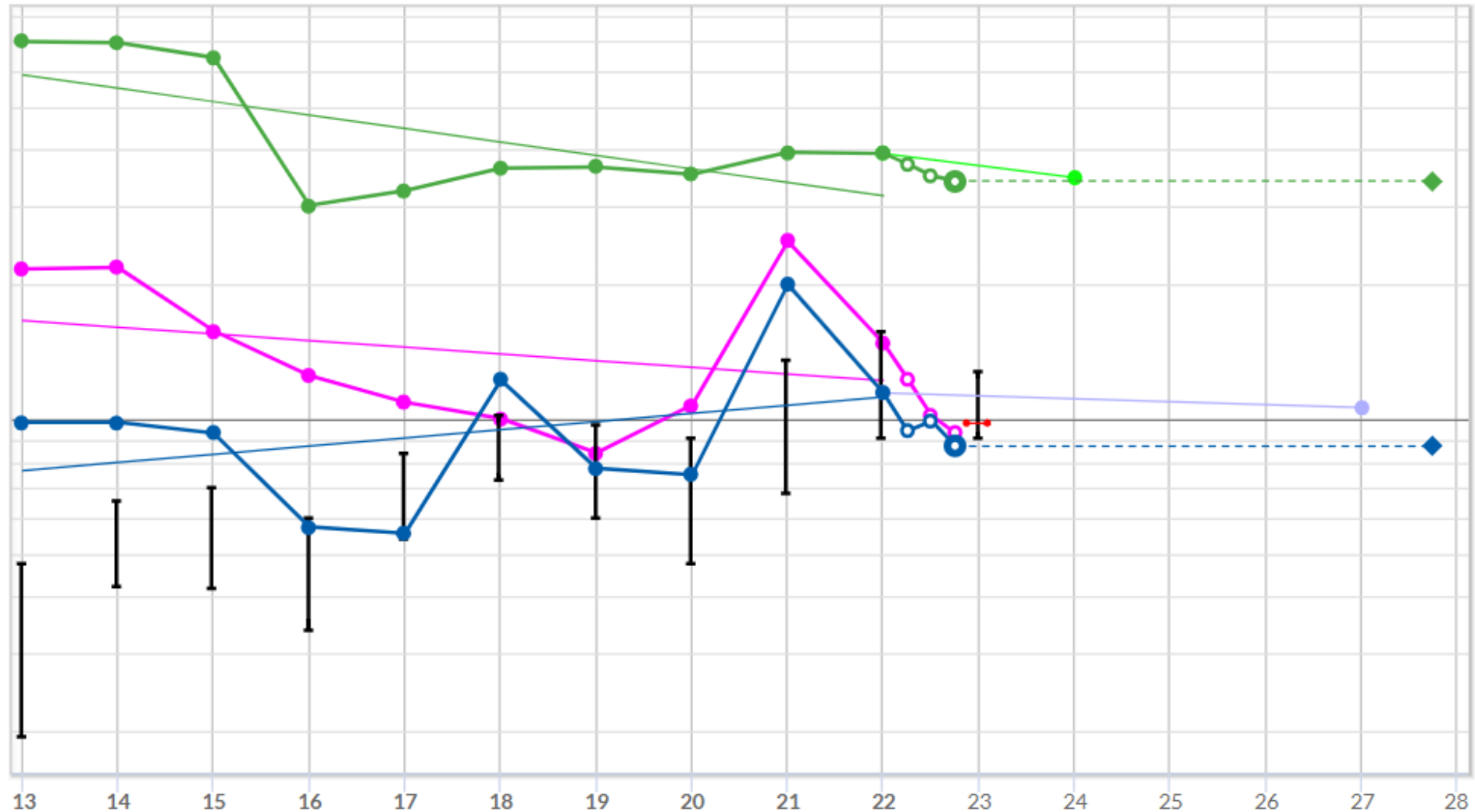
5 - Companies with Negative Growth

▶ Company: Bath & Body Works (BBWI)



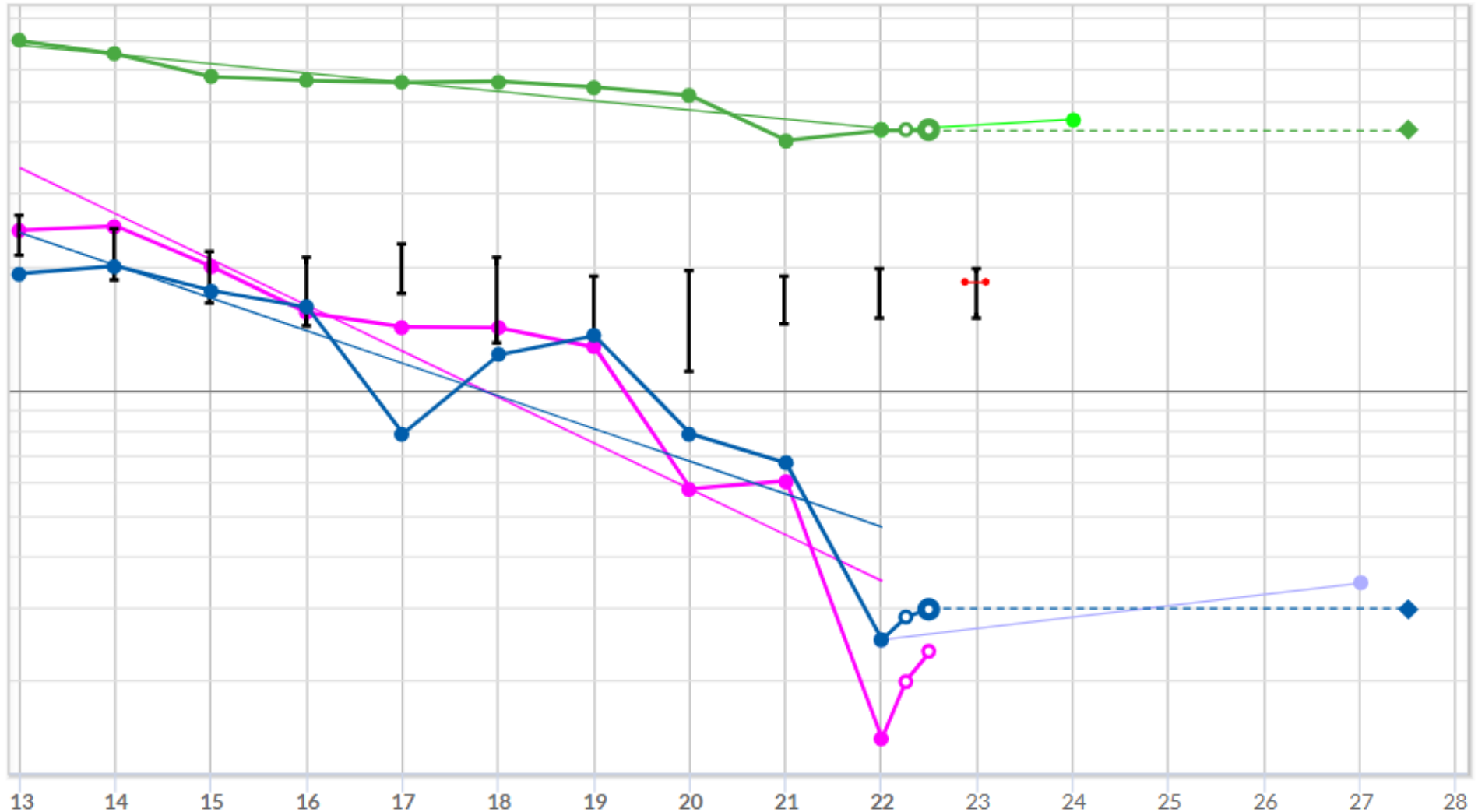
5 - Companies with Negative Growth

▶ Company: HP (HPQ)



5 - Companies with Negative Growth

Company: IBM (IBM)



5 - Companies with Negative Growth

Strategies

- **Research** the company's market position and revenue growth prospects and look for **robust future growth potential**.
- Research the company's reason for negative growth performance. Be alert for **divestitures**.
- Accept that the **SSG will not give meaningful results** for this company.
- Accept that this company is a **speculative investment** based on the SSG.
- If owned, consider **selling the stock**

Question and Comments



Forecasting Tips for Stocks That Don't Look Great on the SSG

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