Improving Your Returns Using Portfolio Management

SF Chapter Education Day

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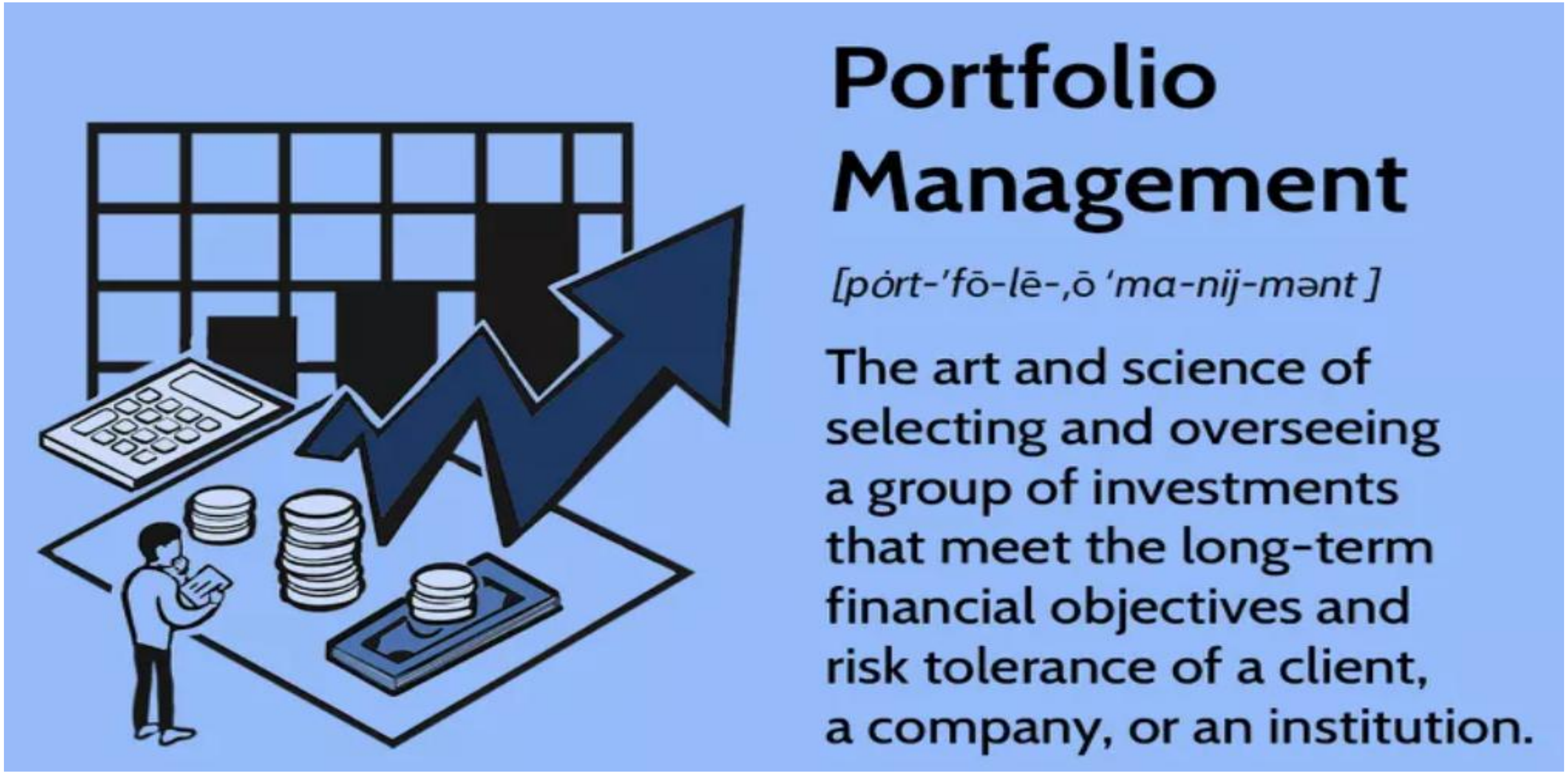
Agenda

- What is Portfolio Management?
- Risk and diversification.
- Are you buying growth companies?
- Is your position size too large or small?
- Investing in smaller companies.
- Selling or trimming stocks.
- Creating a portfolio management process.
- Summary

Questions, reach me at Craigbraemer1@gmail.com

What is Portfolio Management (PM)?



Source: Investopedia/Sidney Saporito

Why is Portfolio Management Important?

- If you aren't meeting your goals and risk tolerance - will you stick to that strategy?

- Determining risk tolerances and goals are key.

- Research shows following an investing process is key to financial success.

Three Elements of Portfolio Management

- Asset Allocation
- Diversification
- Rebalancing – Focus on selling and trimming

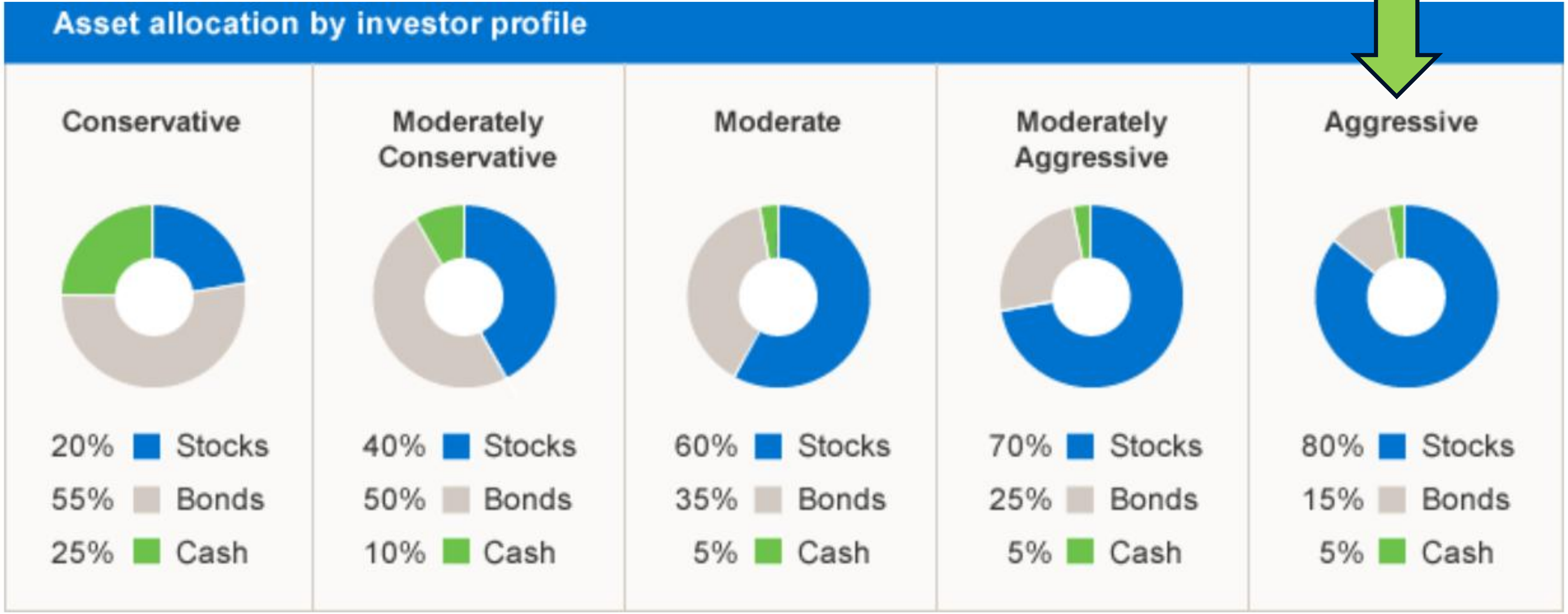
Review basic portfolio tune-up ideas or questions to ask.

Asset Allocation

- The goal is to spread out your assets by owning different asset classes that behave differently from each other.
- Individuals must determine their asset allocation level.
- Clubs are focused on stocks for growth.

Example of Risk Levels

Investment Clubs



Source: Portfolio Japan

More risk = more stocks = higher long term potential returns

Double Your Investment – Rule of 72

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

Equity allocation increases as investors try to generate higher returns.

We Use Sales As Our Tool For Diversification

Diversification = Spreading out your assets vs investing in one or just a few companies or assets.

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

Company size and its ability to grow is a factor in a firm’s ability to grow.

Note: Company size is based on annual Sales or Revenues

Other Ways To Diversify

- Diversify by market capitalization.
  - Stock price times the shares outstanding.
  - Consider smaller companies.
- Geographic diversity – Not done often at clubs.
  - Individuals tend to own international funds.
- Diversify by industry or sector.
  - Calculate your sector weight and compare with S&P 500 Index.

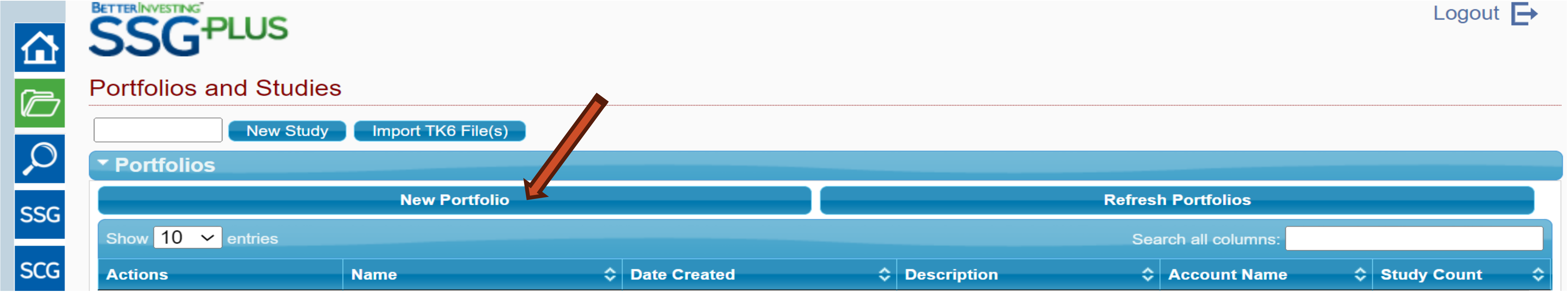
Compare Sector Weights To The S&P 500

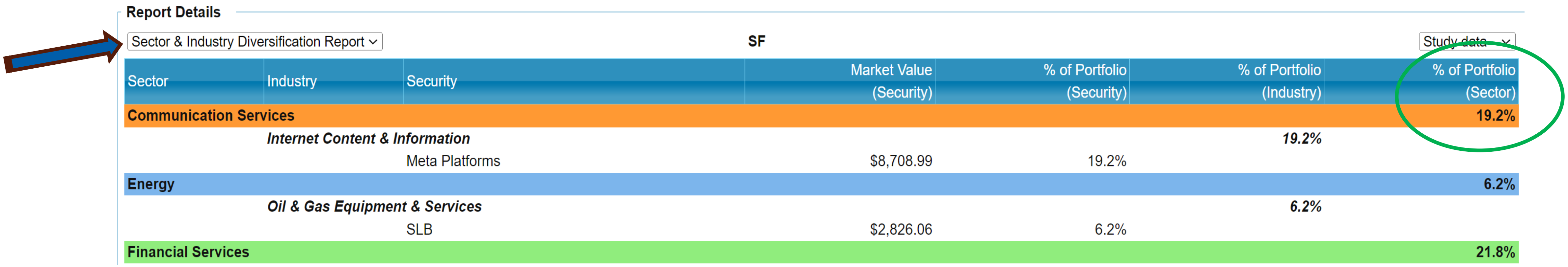
- Clubs tend to have larger stocks in their portfolio. The S&P 500 index is a good comparison index.
- Compare your sector weights with the S&P 500 Index has 11 sectors.
- Did you know the technology sector was over 30% of the S&P? It is also the Index's largest weight.

Source: Charles Schwab, IVV - 500 Index.

Compare Your Portfolio To The Market

- Break your holdings into sectors by hand or the SSGPlus will do this for you.



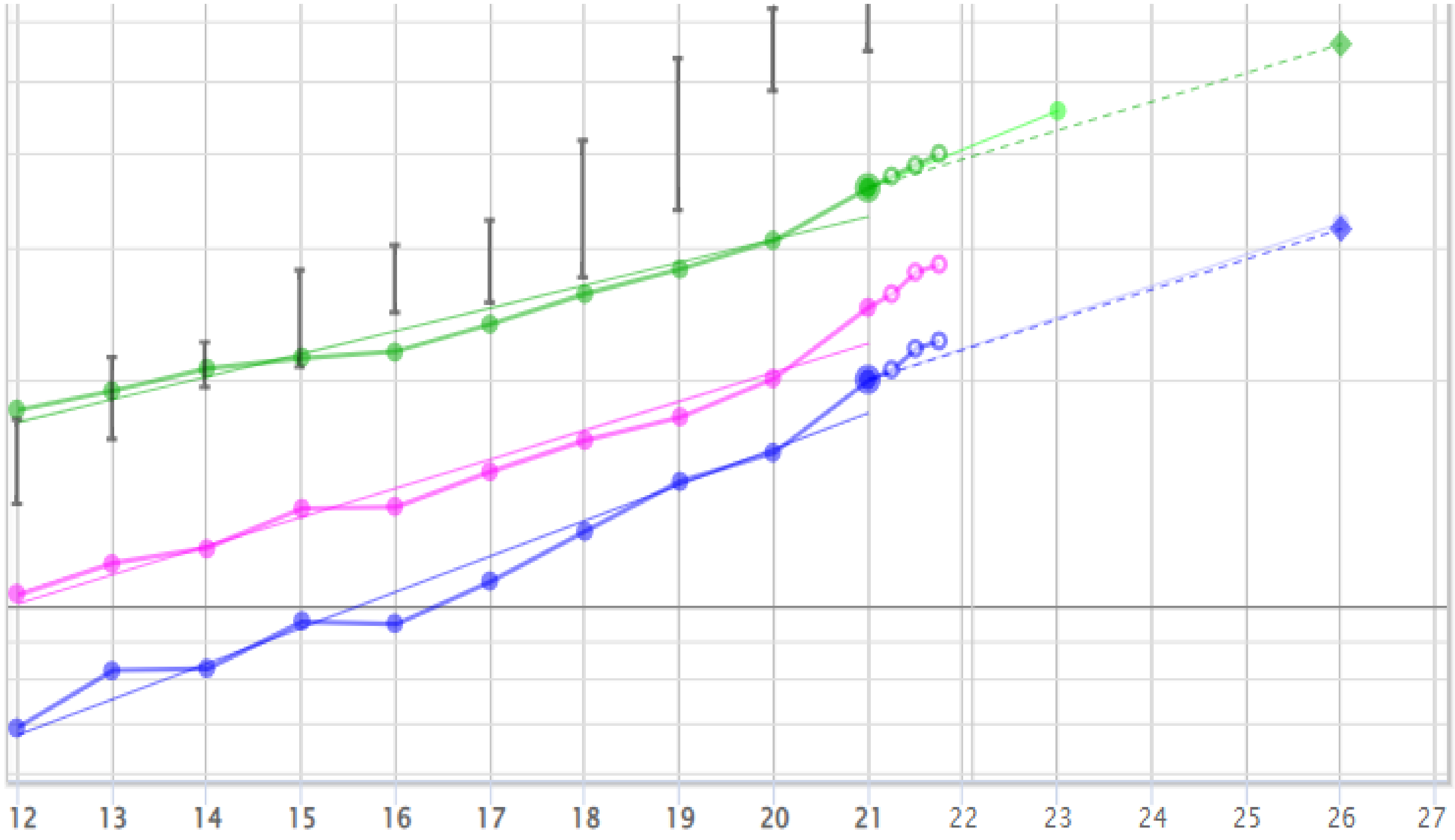


Report Details

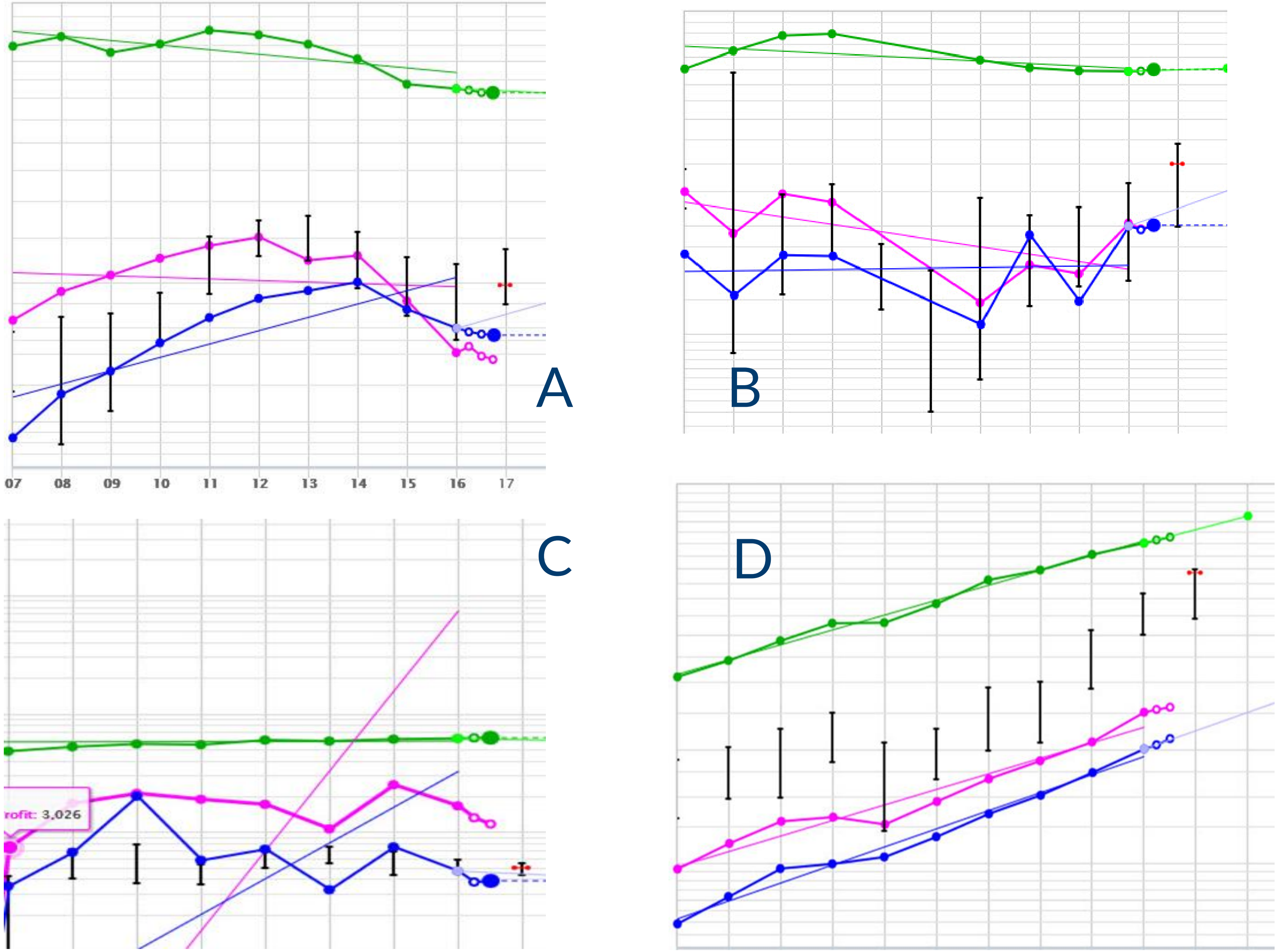
Sector & Industry Diversification Report — SF — Study data

Sector	Industry	Security	Market Value (Security)	% of Portfolio (Security)	% of Portfolio (Industry)	% of Portfolio (Sector)
Communication Services						**19.2%**
	Internet Content & Information				***19.2%***	
		Meta Platforms	$8,708.99	19.2%		
Energy						**6.2%**
	Oil & Gas Equipment & Services				***6.2%***	
		SLB	$2,826.06	6.2%		
Financial Services						**21.8%**

Visual Analysis – Is this a Growth Company?



Which company would you like to study?



Sectors Where Growth Has Been Found in Past

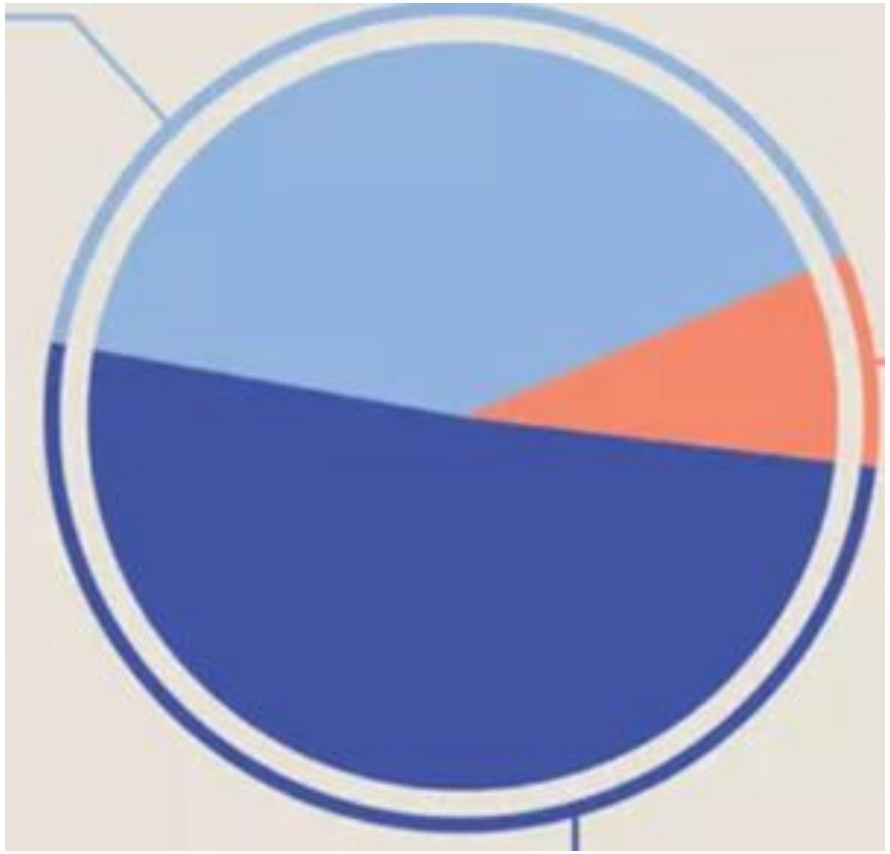
- Lots of Growth
  - Information Technology
  - Health Care
  - Consumer Discretionary
  - Industrials
- Some Growth
  - Consumer Staples
  - Energy
  - Financials
  - Communications
  - Materials
- Few Growth Names
  - Utilities
  - Real Estate

BetterInvesting focuses on growth companies historically.

It is Time for Your Questions?

Next Portfolio Management Topic

- Position Sizes
  - Too big
  - Too small
  - Average size
  - 2x average size
  - Selling or trimming
  - The small question



How Many Stocks per Club Member?

- Determine how many stocks each club member is following.

- If for example, the portfolio held 14 stocks and you have 12 members, you cover 1.2 stocks/person.
- Formula: (14 stocks / 12 members)

- Most clubs average between 1-2 stocks per person.

Average Position Size

- The number of stocks in the club determines the average holding size. (100%/holdings)
- Example a portfolio has 12 stocks = 8.3%.
- Formula = 100% / 12 holdings
- This can be a very useful statistic to use in portfolio management. Both for tiny and large positions.

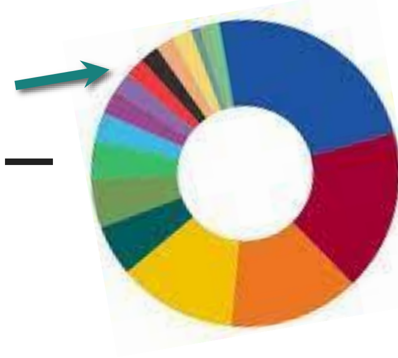
How Big is Too Big Of A Position?

- If the average position weight is 8.3%. What is too big?
- For me, a position is too big when a holding is 2X greater than an average weight. In this case, 16.6%.
- Why 2X? Based on my analysis, it seems an appropriate risk level.

- Do you hold – sell - trim? This is your decision.
- At least be aware of your risk.
- I actively trim wide economic moat stocks versus outright selling. Typically the ones with big position sizes.

Tiny Holdings – Action Time?

- Tiny position sizes won't help your portfolio performance too much.
- What is too small? Less than half the average weight.
- The decision tree with tiny holdings is: Hold – Add – Sell.
- Get the position to a size that will help performance – Consider the average weight in the portfolio.



Selling or Trimming?

Our hope is to find these kinds of stock.

- There are several risks with this kind of a stock:
- Every time you trim, it hurts financially versus waiting.
- Selling everything at any point, causes you to miss a lot of future gains.
- The biggest risk, in my opinion, is not owning this kind of a great long-term stock.

Core Decision Tree - If You Should Sell or Trim

- The long-term outlook for the company is unfavorable
- Deteriorating corporate financial condition
- Time and original thesis didn't work

Probably Sell

- *Temporary declining profit margins*
- *Bloated current asset balance sheet – Inventories (Maybe Buy)*
- *Adverse management change*
- *Increasing competition impacting profits*
- *Dependence on a single product*

Trim or Sell

- **High valuation of a quality stock**
- **Position size has become too large – this is a risk too**

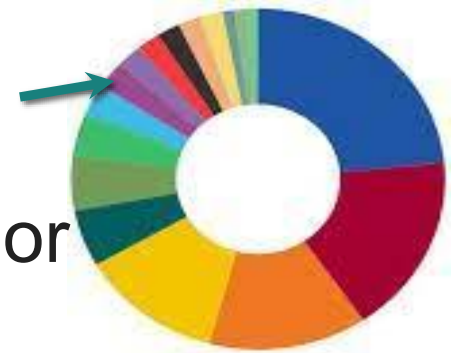
Trim

The Smaller Question

- Is the club trying to find smaller companies?
- Smaller companies tend to perform better than larger stocks over longer time periods.
- They also tend to have more price volatility.
- Mid-sized companies tend to look better on an SSG versus smaller companies.
- Finding smaller companies is harder, you might want to consider leveraging off the pros.

Small Stock Process

BI recommends 75% of the portfolio in smaller and mid-sized sales companies.



- Make a goal of always owning several smaller companies, or
- Target a certain portfolio weight to get exposure to smaller companies.
- To Find New Ideas:
- Leverage what the pros doing, buy an ETF in the small space.
- Buy a newsletter that focuses on smaller companies like: the SmallCap Informer from IClub Central.
- Looking for ideas? See what an ETF owns in their portfolios.

Leverage off the Professional's Ideas

Use a smaller company ETF and check out their stocks

REGL - ProShares S&P MidCap 400 Dividend Aristocrats ETF

Weight	Ticker	Description
2.87%	EVR	EVERCORE INC - A
2.48%	PII	POLARIS INC
2.29%	SEIC	SEI INVESTMENTS COMPANY
2.26%	R	RYDER SYSTEM INC
2.24%	THO	THOR INDUSTRIES INC

SMDV - ProShares Russell 2000 Dividend rowers ETF

Weight	Ticker	Description
1.34%	SPTN	SPARTANNASH CO
1.07%	MTRN	MATERION CORP
1.03%	PII	POLARIS INC
1.03%	TR	TOOTSIE ROLL INDS
1.03%	FULT	FULTON FINANCIAL CORP

Source: ProShares, 7/8/2025

Securities are for educational purposes only

Final Portfolio Management Thoughts

- Rule of Five
- The individual stock
- Economic Moats
- You need money

Additional Portfolio Management Thoughts

- How many big winners or losers in the portfolio?
- I typically find 1 or 2 big winners in a portfolio and one loser.

Rule of Five

- If there are a number of losing stocks in the portfolio – review your research and purchase process.
- How are you valuing a non-profitable company?
- Create and track a company's investment thesis?

The Individual Stock

- BetterInvesting focuses on growth companies with:
  - Consistent sales and EPS growth,
  - Businesses that typically are industry leaders,
  - A competitive edge due to unique products – a moat,
  - Decent to good management teams.

- Sections 1 & 2 of the SSG is a good tool for this analysis.
- Remember, don’t overpay today for anticipated future growth. Finally, don’t be too conservative!

Another Tool – Tracking Economic Moats

- I track them for club tune-ups.
- Moats are very powerful.
- Clubs own mostly wide + narrow moat stocks.
- **Morningstar is the leader on moats.**
- I tend to just trim wide moat stocks vs selling.
- Wide moat stocks historically have been stronger companies longer.
- "No moat" stocks can do well, but they might require more trading activity.

Steps To Consider If Your Club Needs Cash

- Consider trimming your largest holdings because of size
- Consider selling your losing stocks
- Consider selling your tiny holdings
- Consider selling a company or stock that you are losing confidence

Last Area: Creating A Continuous Process

- Create a portfolio management process that you can use going forward with your Club.

Creating A Portfolio Management Process

- We have been asking the basics for a club's Portfolio Tune-up to answer. Here are some of them:

- How many stocks is each club member tracking?
- Determine the average position size in the portfolio.
- Are they invested in growth sectors?
- Are they diversified?
- How diversified are they?
- What is the breakdown by economic moats?
- Are most of the stocks in the portfolio winners?

Example of The Process with a Real Club – Overview

Handout Example

I have created a standard portfolio management process that I have been describing that is used on a club visit where we perform a Portfolio Tune-up.

- Determine how many stocks each club member is following. With 16 members, you cover 1.0 stocks/person. Average position size is roughly 6.25%.
- <u>Depending on how many members and stocks in the club will determine how many stocks per person and the average holding size. (# stocks/members) and (100%/holdings)</u>
- With 19 stocks, you are diversified in 7 sectors – technology, communications, health care, financials, industrial, consumer staple and discretionary. Largest sectors - consumer discretionary – 32.5%, tech 18.8%, and industrial 16%.
- 6–Wide Moat stocks, 6-Narrow, 1-None, **6-N/A (Smaller companies)**

Company Analysis and Q's

Handout Example

- You have a diverse portfolio of size based companies. If desired, BI likes to propose 75% of the portfolio in smaller and mid sized companies.
- You have 7 big winners (list tickers). Many long term holdings. 4 flat or negative stocks – (list tickers).
- Why own XXXX if it is worthless? Take the tax loss?
- How do you value XXX? How did you find XXX? Low profit margin companies – 4 companies (List tickers).
- You have a number of unique 6 names (List tickers) I don't usually see. Stumped me with 3 names (List tickers).

Summary

- Most clubs are performing well.
- Compare your portfolio versus an index.
- Diversification helps investors over time.
- Manage both large and small holdings sizes.
- Focusing on your individual holdings is key.
- Think about the quality of your companies.
- Asset allocation can help individual investors.

Questions or Comments?

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