

# What They Don't Teach at BINC

## Why the Tortoise Sometimes Wins



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# What We Will Talk About

- What we are looking for in a stock
- Where Total Return comes from
- The importance of Portfolio Management



# What We Are Looking For?

- Why would you invest in any stock?
  - High Quality
  - Good Value



# The Tortoise and The Hare

- We often think of fast-growing companies as being the best prospects
  - Stronger Growth
  - High Quality?



## Tortoises: Why?

- Can a company with only moderate growth prospects offer both high quality and good value?
  - Absolutely!

# Tortoises: Why?

- You shouldn't expect larger companies to grow rapidly
  - BetterInvesting Stock Selection Handbook suggests 7% to 10% growth as reasonable for large companies
- Considering slower growing companies gives you more investment possibilities



# Slow And Steady

- Sometimes the tortoise, slow and steady, wins the race



- Slower growing companies can be the Tortoise that wins the race

# What Is a Good Value?

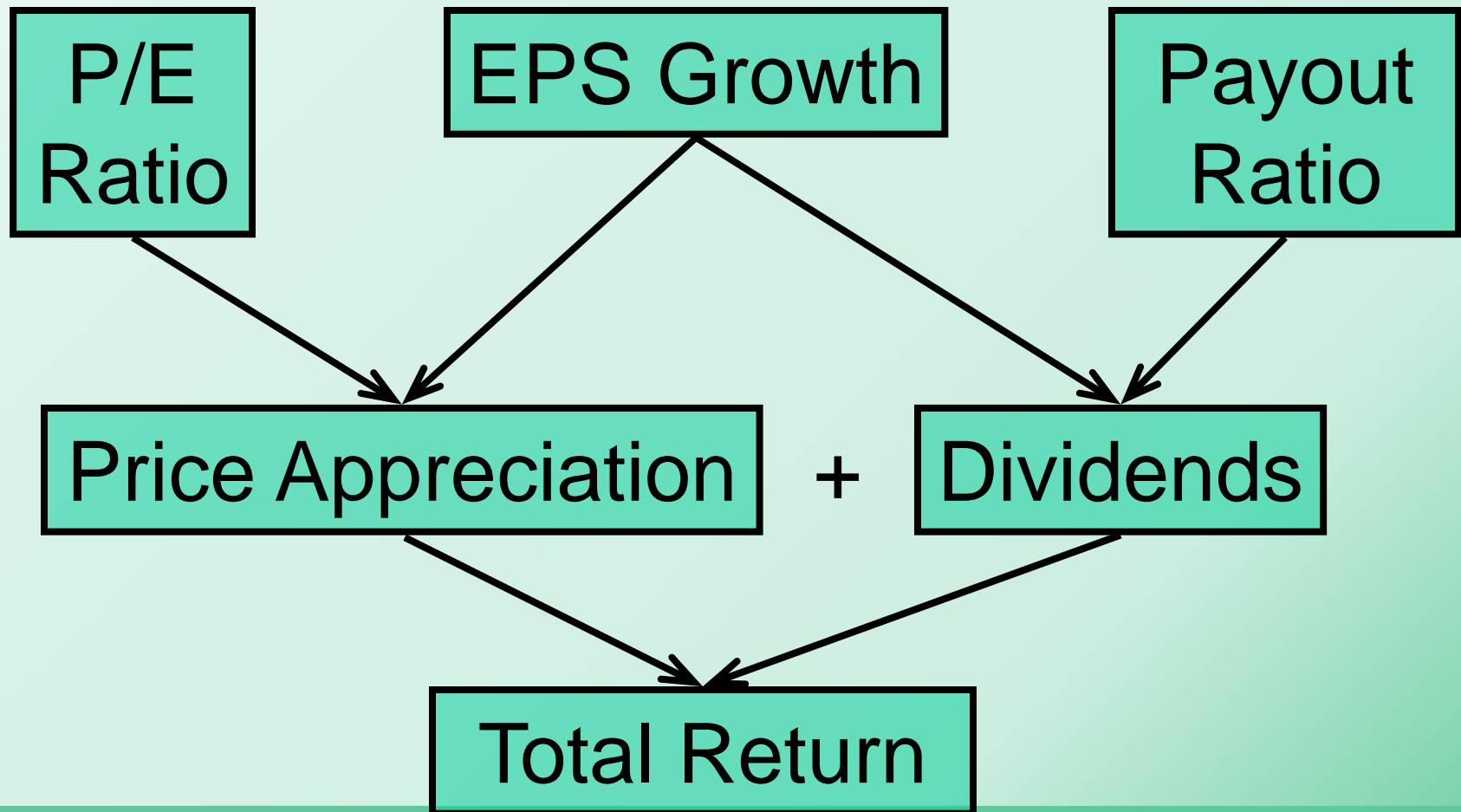
- A stock investment is a good value because of the potential for it to be worth more in the future
- Total Return is used to measure value on the Stock Selection Guide (SSG)

# Total Return Comes From ...

- Price Appreciation — driven by:
  - Earnings growth (EPS)
  - P/E ratio (optimism about the future)
- Dividends — driven by:
  - Earnings growth (EPS)
  - Payout ratio (the percentage of earnings paid to shareholders as dividends)



## Components of Total Return



# Dividends

$$\boxed{\text{EPS}} \times \boxed{\text{Payout Ratio}} = \boxed{\text{Dividend}}$$

Tortoises tend to have a larger  
Payout Ratio

# Dividends

- Dividends tend to play a more significant role in Total Return for Tortoises
- Tortoises tend to have a larger payout ratio
  - More of EPS used to pay dividends
  - Less of EPS used to fund future growth
- A secure dividend may add some safety for slower growing stocks

# Is the Dividend Secure?

- Dividends come from earnings
  - A secure dividend requires secure earnings
- Consider financial strength of company



- Monitor dividend, yield, payout ratio
  - SSG section 3

# What They Don't Teach at BINC

## Is the Dividend Secure?

BETTER INVESTING  
**SSG PLUS**

File Data Print Research Tools Logout CoreSSG

Analyze Growth and Quality Valuation and Return Quarterly Data Ratios Notes

Company: RPM International (RPM) Study Name: Jan Stock Up RPM 12/26/16

Quick Navigation

3. PRICE EARNINGS HISTORY as an indicator of the future

CLOSING PRICE (12/23/16): 54.01

HIGH THIS YEAR: 55.92

LOW THIS YEAR: 36.78

Year	A Price		B	C Earnings	D Price Earnings Ratio		F Dividend	G % Payout	H % High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100	
2011	27.7	17.2	1.65	16.8	10.4	0.85	51.8%	5.0%	
2012	34.2	24.8	0.74	46.2	33.5	0.89	120.3%	3.6%	
2013	45.5	30.8	2.18	20.9	14.2	0.94	43.3%	3.1%	
2014	52.0	39.6	1.78	29.2	22.2	1.02	57.3%	2.6%	
2015	51.6	36.8	2.63	19.6	14.0	1.08	41.3%	3.0%	
AVERAGE		29.8		26.5	18.9		62.8%		
CURRENT/TTM			2.72			1.20	44.1%		

AVERAGE PRICE EARNINGS RATIO: 22.7      CURRENT PRICE EARNINGS RATIO: 19.9

Show / Hide Price/Earnings Chart

Compare Peers



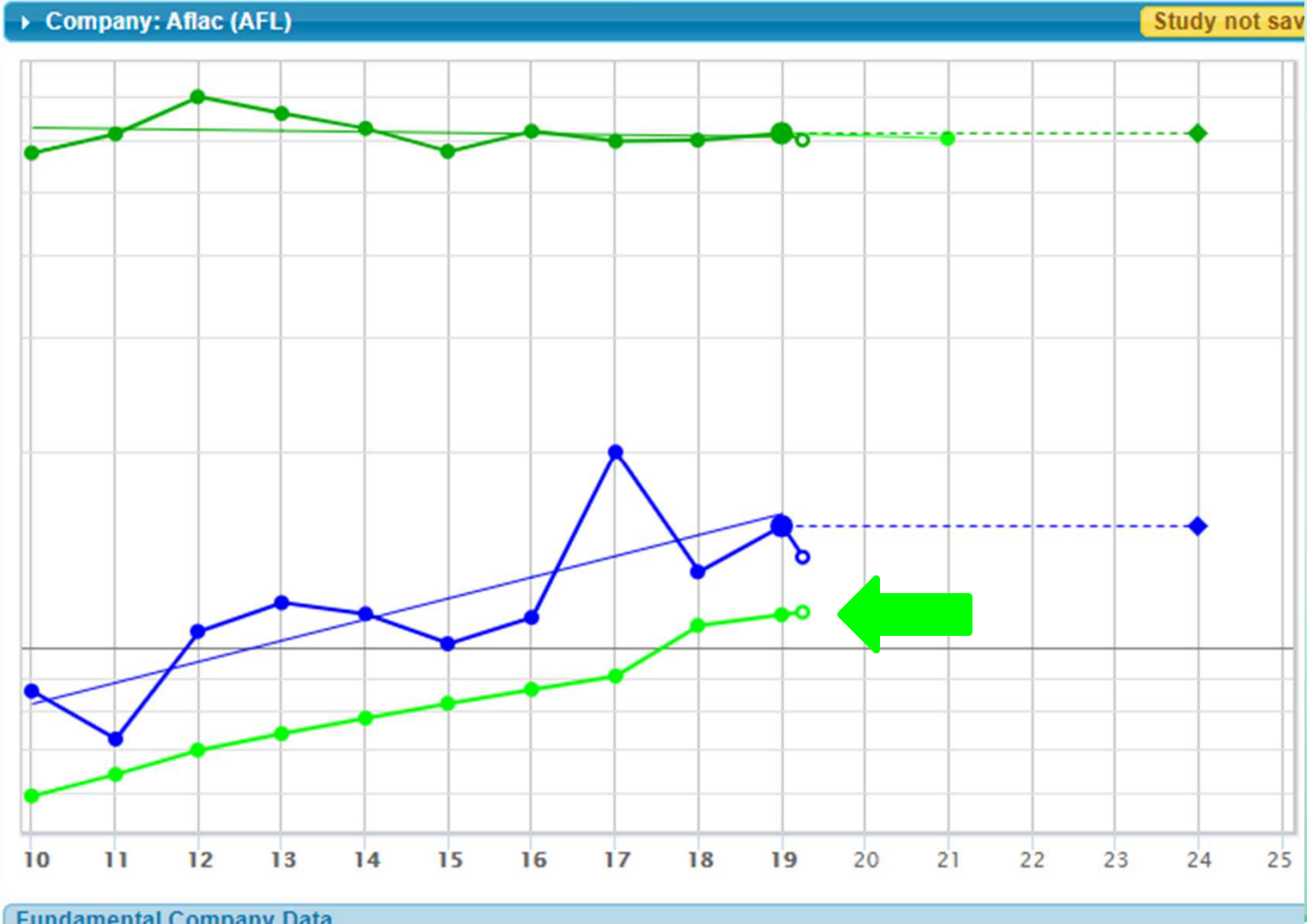
# What They Don't Teach at BINC

## Is the Dividend Secure?



# What They Don't Teach at BINC

## Is the Dividend Secure?



# What They Don't Teach at BINC

## Is the Dividend Secure?



File Data Print Research Tools Logout CoreSS

Analyze Growth and Quality Valuation and Return Quarterly Data Ratios Notes: 2

Company: Aflac (AFL)

Study not saved. Click to save.

Quick Nav

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

CLOSING PRICE (06/19/20): 36.60

HIGH THIS YEAR: 57.18

LOW THIS YEAR: 23.07

Year	A Price		B	C Earnings	D Price Earnings Ratio		F Dividend	G % Payout	H % High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100	
2015	33.3	25.7	2.92	11.4	8.8	0.79	27.0%	3.1%	
2016	37.3	27.3	3.21	11.6	8.5	0.83	25.9%	3.0%	
2017	44.9	33.3	5.77	7.8	5.8	0.87	15.1%	2.6%	
2018	48.2	41.4	3.77	12.8	11.0	1.04	27.5%	2.5%	
2019	57.2	44.3	4.43	12.9	10.0	1.08	24.4%	2.4%	
AVERAGE		34.4		11.3	8.8		24.0%		
CURRENT/TTM			3.97			1.12	28.2%		
AVERAGE PRICE EARNINGS RATIO: 10.0					CURRENT PRICE EARNINGS RATIO: 9.2				

Show / Hide Price/Earnings Chart

Compare Peers

# Price Appreciation

Faster growing stocks can produce adequate price appreciation from EPS growth alone

$$\boxed{\text{EPS}} \quad \times \quad \boxed{\text{P/E}} \quad = \quad \boxed{\text{Price}}$$

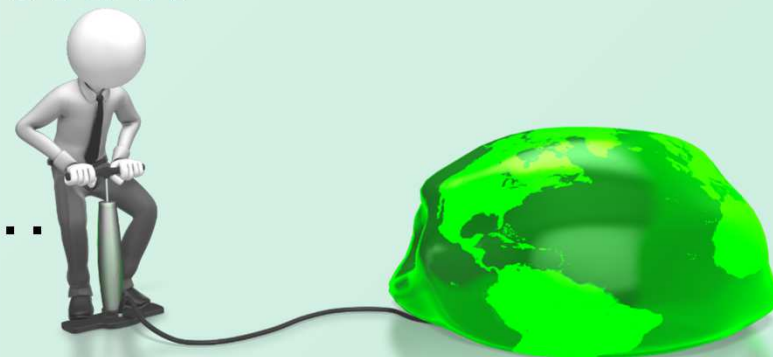
Tortoises need help from *P/E expansion*

# Price Appreciation

- Potential for future P/E to be higher is critical for tortoises
  - Stock price tends to follow earnings growth
  - With a constant P/E ratio, slower growth produces less price appreciation
- Especially important for tortoises
  - Buy when P/E ratio is below average

# P/E Expansion

P/E expansion means ...



... the Price-to-Earnings ratio moves higher than when you bought the stock

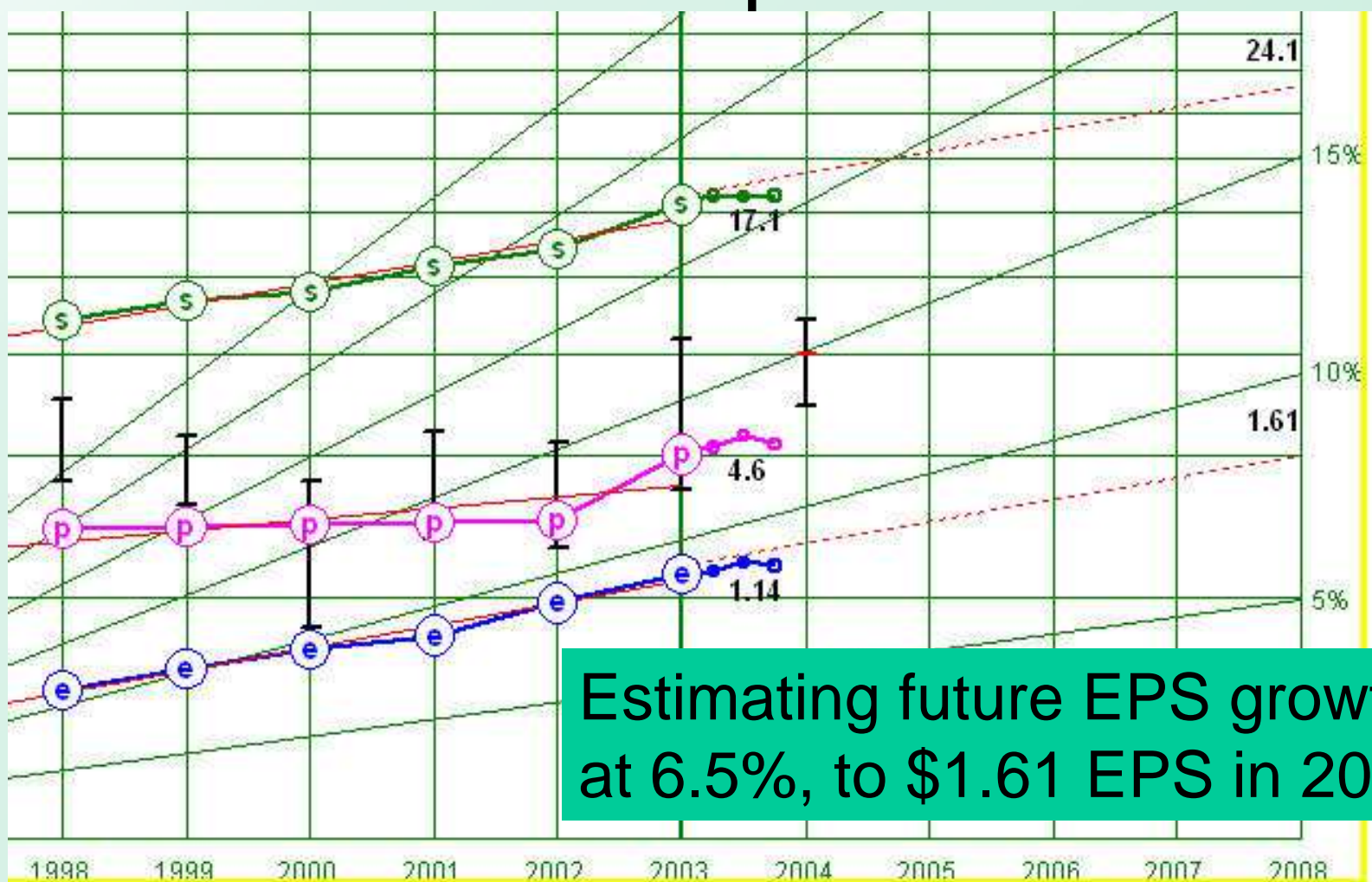
Buying when there is potential for P/E expansion is always important — even more so for tortoises

# P/E Expansion is Limited

- P/E expansion can't continue forever!
- After the P/E has moved up to 'normal', future Total Return is limited ...
  - ... by the future EPS growth rate!
- When you run out of potential for P/E expansion, you should consider selling

# What They Don't Teach at BINIC

## Example



Estimating future EPS growth at 6.5%, to \$1.61 EPS in 2008

6.4 %	(3) Historical Earnings Per Share Growth	6.7 %
<b>6.5 %</b>	(4) Estimated Future Earnings Per Share Growth	<b>6.5 %</b>



## What They Don't Teach at BINC

# Example – 6.5% EPS Growth

8	AVERAGE PRICE EARNINGS RATIO	14.0	9	CURRENT PRICE EARNINGS RATIO	16.7	
4	Proj. P/E [15.75] Based on Next 4 qtr. EPS [1.25] Current P/E Based on Last 4 qtr. EPS [1.17]					
EVALUATING RISK and REWARD over the next 5 years						
<small>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.</small>						
A HIGH PRICE -- NEXT 5 YEARS						
	Avg. High P/E	16.3	Estimate High Earnings/Share	1.61	= Forecast High Price \$	26.9

Potential high P/E set to current P/E -  
we assume no P/E expansion ...

Price appreciation = EPS growth rate

	Average Yield	2.4%
	Annual Appreciation	6.5%
	% Compd Ann Rate of Ret	8.9%

# Let's Review

- Slower growing stocks can produce good returns
- Total Return comes from:
  - Price Appreciation + Dividends
- For Tortoises (vs. faster growing Hares)
  - Dividends are a bigger factor
  - Potential for P/E expansion is even more important than usual



Questions?



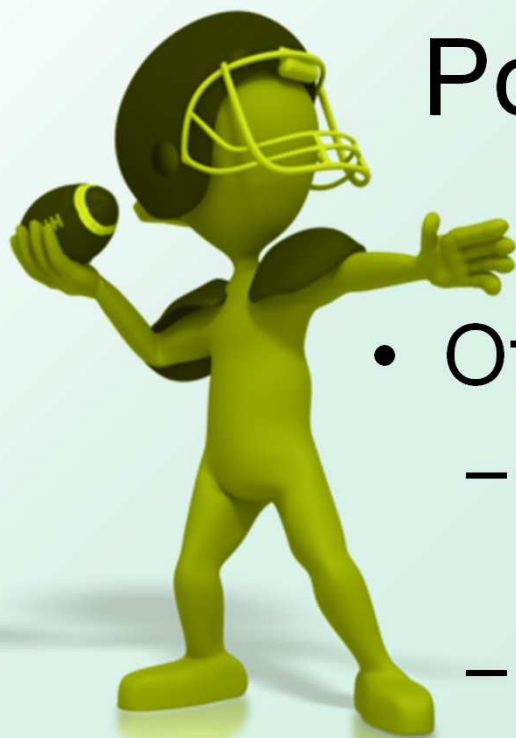
# The Importance of Portfolio Management

- For slower growing stocks, more active Portfolio Management can improve return
- If you just buy and hold, what is the very long-term potential for Total Return?
  - EPS growth rate + dividend yield
- For slower growers that may be inadequate

# Portfolio Management

- BetterInvesting thinking embraces the concept of Defensive/Offensive Portfolio Management
  - Defense = Quality
  - Offense = Value
- Defense – don't own poor quality stocks
  - Maintain a good average level of quality
  - Sell stocks that are clearly poor quality





# Portfolio Management

- Offense – monitor Total Return
  - Maintain an adequate average Total Return level
  - Replace low Total Return stocks as you identify significantly better opportunities
  - Very important for slower growers!

## Offensive Portfolio Management

From Section 5 of your SSGs

Company Name	Ticker	Shrs	Price/shr 3/2/05	~current Value	% of portfolio	Proj Tot Ret'n	Sector (S&P GICS)
Brinkers International	EAT	70	38.18	\$2,673	10%	8.3%	Consumer Discretionary
Costco	COST	50	45.02	\$2,251	9%	15.8%	Consumer Staples
CVS	CVS	70	50.06	\$3,504	13%	4.7%	Consumer Staples
Dollar General	DG	80	\$22.16	\$1,773	7%	15.3%	Consumer Discretionary
Harley Davidson, Inc	HDI	20	\$61.48	\$1,230	5%	15.8%	Consumer Discretionary
Home Depot	HD	80	\$39.98	\$3,198	12%	21.4%	Consumer Discretionary
Johnson & Johnson	JNJ	11	\$66.96	\$737	3%	13.5%	Health Care
Microsoft	MSFT	170	\$25.26	\$4,294	16%	10.1%	Information Technology
Neogen	NEOG	125	\$18.00	\$2,250	9%	14.8%	Health Care
Starbucks	SBUX	35	\$52.81	\$1,848	7%	17.4%	Consumer Discretionary
Wendy's International	WEN	19.3	\$38.02	\$734	3%	7.1%	Consumer Discretionary
Yankee Candle	YCC	50	\$31.22	\$1,561	6%	13.3%	Consumer Discretionary
			Sum =====>	\$26,052		12.8%	<== Weighted Ave Ret'n

## What They Don't Teach at BINC

# Offensive Portfolio Management

Company Name	Ticker	Shrs	Price/shr 3/2/05	~current Value	% of portfolio	Proj Tot Ret'n	Sector (S&P GICS)
Brinkers International	EAT	70	38.18	\$2,673	10%	8.3%	Consumer Discretionary
Costco	COST	50	45.02	\$2,251	9%	15.8%	Consumer Staples
Commerce Bancorp	CBH	115	29.97	\$3,447	13%	19.0%	Financials
Dollar General	DG	80	\$22.16	\$1,773	7%	15.3%	Consumer Discretionary
Harley Davidson, Inc	HDI	20	\$61.48	\$1,230	5%	16.8%	Consumer Discretionary
Home Depot	HD	80	\$39.98	\$3,198	12%	21.4%	Consumer Discretionary
Johnson & Johnson	JNJ	11	\$66.96	\$737	3%	13.5%	Health Care
Microsoft	MSFT	170	\$25.26	\$4,294	17%	10.1%	Information Technology
Neogen	NEOG	125	\$18.00	\$2,250	9%	14.8%	Health Care
Starbucks	SBUX	35	\$52.81	\$1,848	7%	17.4%	Consumer Discretionary
Wendy's International	WEN	19.3	\$38.02	\$734	3%	7.1%	Consumer Discretionary
Yankee Candle	YCC	50	\$31.22	\$1,561	6%	13.3%	Consumer Discretionary
			Sum =====>	\$25,995		14.7%	<== Weighted Ave Ret'n



## What They Don't Teach at BINC

# Toolkit 5 Offense Report

COMPANY	TICKER	QTR END	RELATIVE VALUE	PROJECTED REL VAL	U/D RATIO	TOTAL RETURN	TARGET RETURN
BEAZER HOMES USA INC	BZH	09/04	51.7	48.0	13.8	31.8	15.0
BISYS GROUP INC	BSG	09/04	79.5	68.8	6.5	26.4	15.0
BEST BUY CO INC	BBY	11/04	77.1	69.3	2.8	23.8	15.0
BB&T CORP	BBT	09/04	101.4	91.2	4.4	21.4	15.0
BED BATH & BEYOND INC	BBBY	11/04	70.1	60.6	5.7	20.5	15.0
BAXTER INTERNATIONAL INC	BAX	09/04	86.3	80.2	2.3	17.1	15.0
Biomet	BMET	11/04	100.4	87.3	1.9	16.6	15.0
BJS WHOLESALE CLUB INC	BJ	10/04	97.4	86.6	1.8	16.1	15.0
Boston Scientific	BSX	12/04	60.5	57.9	4.6	14.8	15.0
BARR LABORATORIES INC	BRL	09/04	93.2	85.1	2.1	14.6	15.0
ANHEUSER-BUSCH COS INC	BUD	12/04	82.0	79.2	7.2	13.0	15.0
BEMIS CO	BMS	09/04	125.8	121.7	1.2	5.2	15.0

# Let's Review Again!

- Total Return comes from:  
Price Appreciation + Dividends
- For tortoises:
  - Dividends are a bigger factor
  - Potential for P/E expansion is critical for adequate price appreciation
- P/E expansion can't continue forever!
- Good Offensive Portfolio Management is key to success

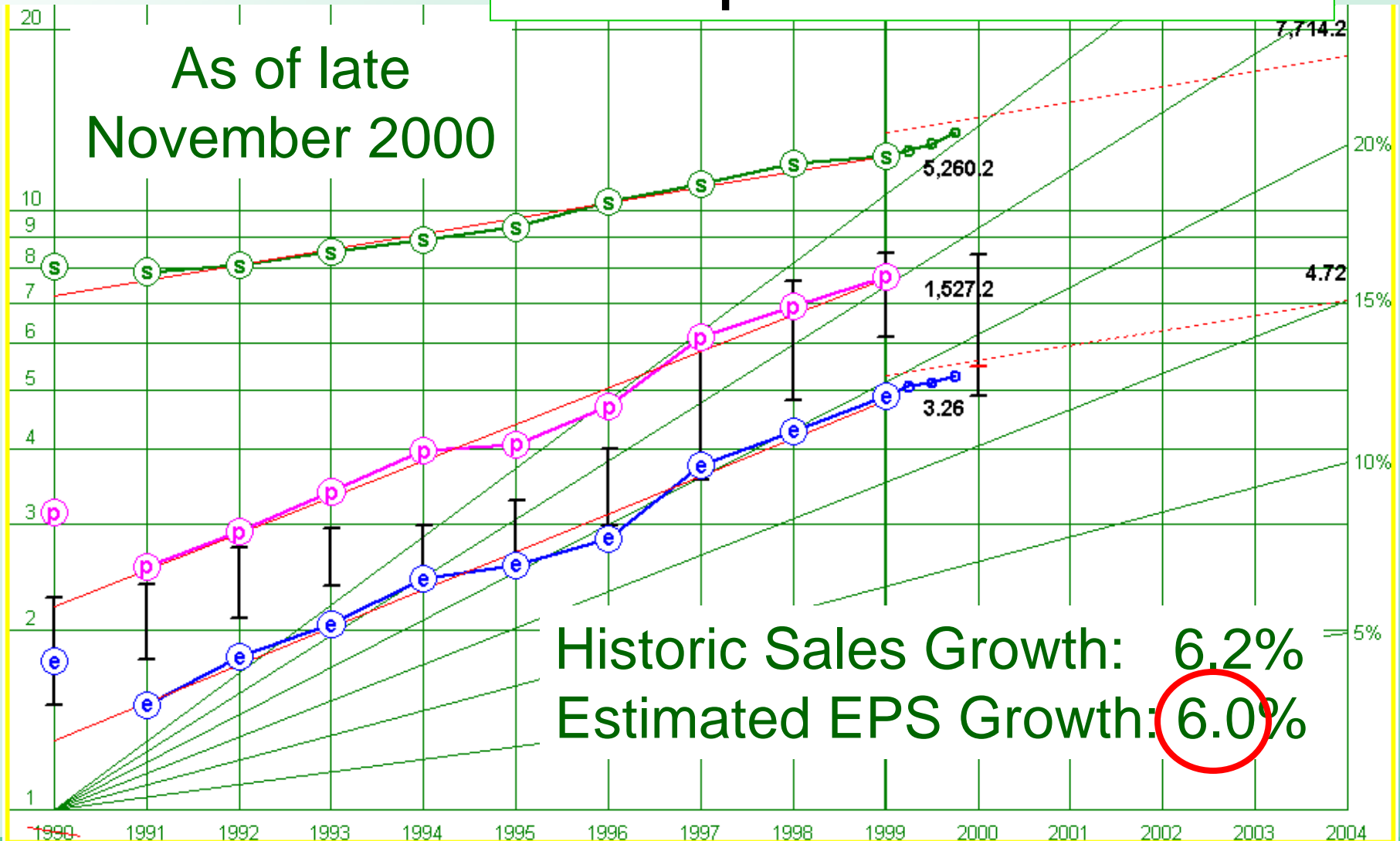
Questions?



# What They Don't Teach at BINC

## Example: Gannett Co.

As of late  
November 2000



Historic Sales Growth: 6.2%  
Estimated EPS Growth: 6.0%

(1) Historical Sales Growth ——— 6.2 %  
(2) Estimated Future Sales Growth ——— **6.0 %**

(3) Historical Earnings Per Share Growth ——— 15.6 %  
(4) Estimated Future Earnings Per Share Growth ——— **6.0 %**

# What They Don't Teach at BINIC

## C ZONING

$\frac{108.6}{(4A1)} - \frac{41.0}{(4B1)} = \frac{67.6}{(C)}$  Range.  $\frac{1}{3}$  of Range =  $\frac{16.9}{(4CD)}$   
 (4C2) Lower 1/3 =  $\frac{41.0}{(4B1)}$  to  $\frac{57.9}{(Buy)}$  **Note: Ranges changed to 25%/50%/25%**  
 (4C3) Middle 1/3 =  $\frac{57.9}{(Maybe)}$   
 (4C4) Upper 1/3 =  $\frac{91.7}{(4A1)}$  to  $\frac{108.6}{(Sell)}$   
 Present Market Price of  $54.000$  is in the **Buy** Range (4C5)

## D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

$\frac{\text{High Price } (4A1) \ 108.6 - \text{Minus Present Price } 54.000}{\text{Present Price } 54.000 - \text{Minus Low Price } (4B1) \ 41.0} = \frac{54.6}{13.0} = \frac{4.2}{(4D)}$  To 1

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

$\frac{\text{High Price } (4A1) \ 108.6}{\text{Present Market Price } 54.000} = (2.011) \times 100 = (201.1) - 100 = \frac{101.1}{(4E)}$  % Appreciation

Relative Value: 78.1% Proj. Relative Value: 73.6%

## 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** Present Full Year's Dividend \$  $\frac{0.880}{\text{Present Price of Stock } \$ 54.000} = 0.016 \times 100 = \frac{1.6}{(5A)}$  Present Yield or % Returned on Purchase Price  
**Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.**

**B AVERAGE YIELD OVER NEXT 5 YEARS**  
 Avg. Earnings Per Share Next 5 Years  $4.20 \times \text{Avg. \% Payout } (3G7) \ 31.9 = \frac{134.0}{\text{Present Price } \$ 54.000} = \frac{2.5}{(5B)}$  %

## C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) $\frac{101.1}{5} = 20.2$ %	Average Yield	Average Yield Annual Appreciation	Tot. Ret
Average Yield (5B) $2.5$ %			
Average Total Annual Return Over the Next 5 Years (5C) $\frac{22.7}{(5C)}$ %	% Compd Ann Rate of Ret		<b>16.4%</b>

- 16.4% potential Total Return
- Mostly from EPS growth and P/E expansion

### Example: Gannett Co.

- Fast-Forward 15 months, to Feb 2002
- Stock price rose from \$54 to \$74
- From EPS growth?
  - No
- EPS for 2001 was disappointing, below estimate on original SSG
- There was significant P/E expansion

# What They Don't Teach at BINC

		PRESENT PRICE <u>74.090</u>		HIGH THIS YEAR <u>75.460</u>		LOW THIS YEAR <u>53.000</u>					
Year	PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100			
	A HIGH	B LOW		HIGH A ÷ C	LOW B ÷ C						
1	1997	61.8	35.0	2.50	24.7	14.0	0.740	29.6	2.1		
2	1998	75.1	47.6	2.86	26.3	16.6	0.780	27.3	1.6		
3	1999	83.6	60.6	3.26	25.6	18.6	0.820	25.2	1.4		
4	2000	81.6	48.4	3.63	22.5	13.3	0.860	23.7	1.8		
5	2001	71.1	53.0	3.12	22.8	17.0	0.890	28.5	1.7		
6	TOTAL		244.6		121.9	79.5		134.3			
7	AVERAGE		48.9		24.4	15.9		26.9			
8	AVERAGE PRICE EARNINGS RATIO			20.1	9	CURRENT PRICE EARNINGS RATIO			23.7		

**4** Proj. P/E [22.03] Based on Next 4 qtr. EPS [3.36] Current P/E Based on Last 4 qtr. EPS [3.12]  
**EVALUATING RISK and REWARD over the next 5 years** PEG=283

*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 ~~24.4~~ 21.0 X Estimate High Earnings/Share 4.54 = Forecast High Price \$ 95.3

- Current PE has grown:
  - from 15 (in late 2000)
  - to close to the historic average high P/E
- Not much room for further expansion

# What They Don't Teach at BINC

## Time to Replace

### C ZONING

95.3 (4A1) High Forecast Price Minus 40.6 (4B1) Low Forecast Price Equals 54.7 (C) Range. 1/3 of Range = 13.7 (4CD)  
 (4C2) Lower 1/3 = (4B1) 40.6 to 54.3 (Buy) **Note: Ranges changed to 25%/50%/25%**  
 (4C3) Middle 1/3 = 54.3 to 81.6 (Maybe)  
 (4C4) Upper 1/3 = 81.6 to 95.3 (4A1) (Sell)  
 Present Market Price of 74.090 is in the Hold (4C5) Range

### D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price (4A1) 95.3 Minus Present Price 74.090  
21.2 = 0.6 To 1  
 Present Price 74.090 Minus Low Price (4B1) 40.6  
33.5 (4D)

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

High Price (4A1) 95.3  
 Present Market Price 74.090 = ( 1.286 ) X 100 = ( 128.6 ) - 100 = 28.6 (4E) % Appreciation

## 5 5-YEAR POTENTIAL

Expected Annual Price Appreciation was close to the expected EPS growth rate

**A** Present Full Year's Dividend \$  
 Present Price of Stock \$

### B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 3.91 X Avg. % Payout (3G7) 26.9 = 105.2 = 1.4 %  
 Present Price \$ 74.090 (5A)

### C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) <u>28.6</u>					
Average Yield (5B) <u>5.7</u> %					
Average Total Annual Return Over the Next 5 Years (5C) <u>7.1</u> %					
				<b>Average Yield Annual Appreciation</b>	<b>1.3%</b>
			<b>% Compd Ann Rate of Ret</b>		<b>5.2%</b>
				<b>Tot. Ret.</b>	<b>6.4%</b>



# Gannett --- Result?

- Stock held for 15 months
- What return did we get on our money?
  - 30% compound annualized return
    - (a 39% increase in 15 months)
- This sometimes happens with Offensive Portfolio Management and tortoises:
  - There is a bit more portfolio activity



# Gannett – Hypothetical?

- Was this a real-world case?
- Yes:
  - Based on real data, using this approach
- No:
  - I didn't personally buy and sell shares of Gannett and actually make this return

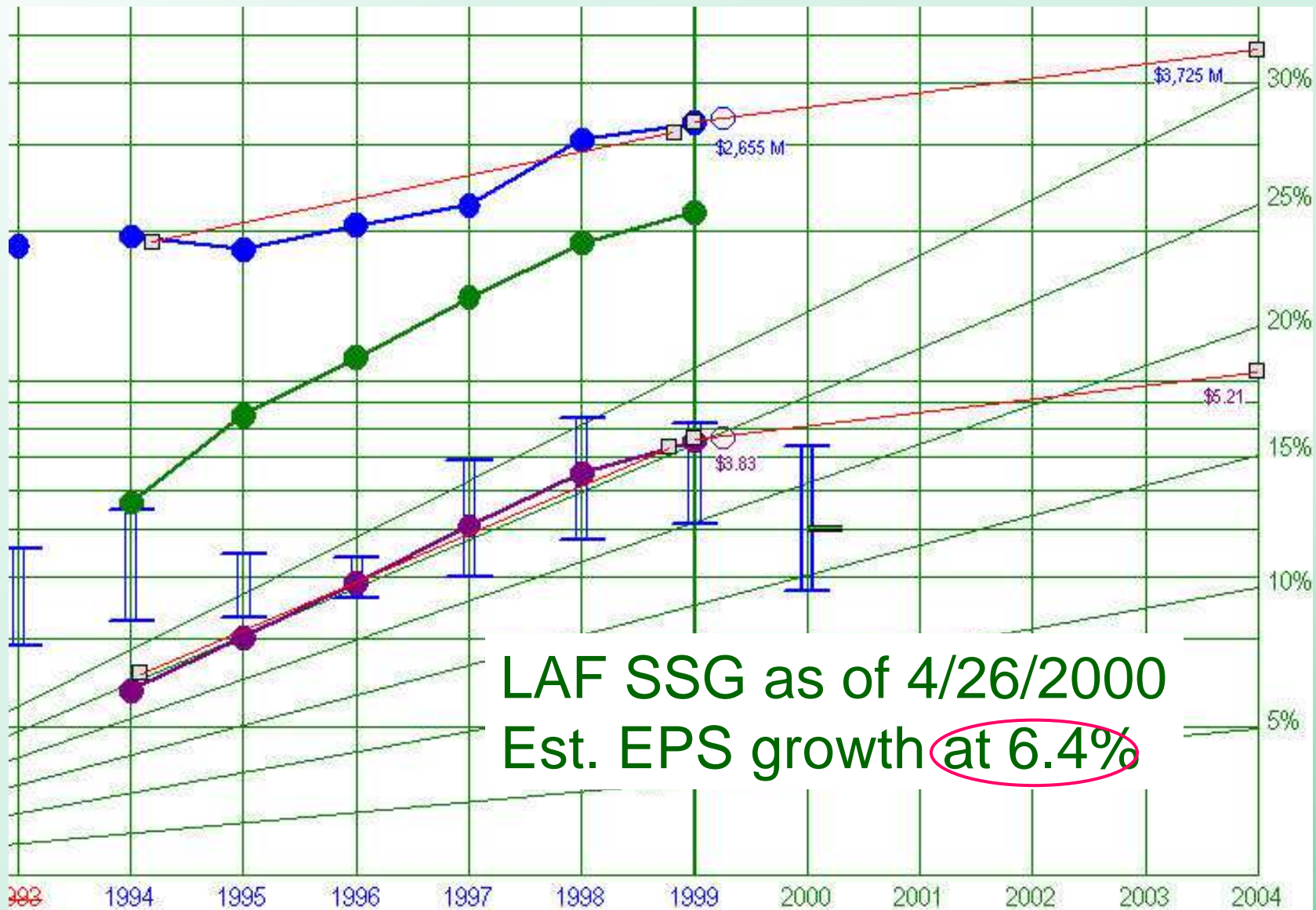


# LaFarge (LAF)

- Purchased LAF shares on 4/26/2000 at \$24.94 per share (P/E 6.5)
- Sold all shares on 3/4/2002 at \$41.30 per share (P/E 14.3)
- Collected \$1.20 per share in dividends
- 33% compound annualized return
  - (69% increase over 22 months)



# What They Don't Teach at BINC



LAF SSG as of 4/26/2000  
 Est. EPS growth at 6.4%

11.6%

7.0%

(User set)

(3) Hist. EPS Growth

25.1%

(4) Est. Future EPS Growth

6.4%

(User set)

44

# What They Don't Teach at BINIC

## LAF on 4/26/2000

Current Price: \$24.94 52 Wk High: \$36.77 52 Wk Low: \$18.81 Dividend: \$0.60

Year	A PRICE		B	C Earnings Per Share	D Price Earnings Ratio		E Dividend Per Share	F % Payout F+C X 100	G % Hi. Yield F+B X 100
	HIGH	LOW			HIGH (A+C)	LOW (B+C)			
1 1995	\$22.30	\$16.60		\$1.51	14.8	11.0	\$0.38	25.2%	2.3%
2 1996	\$21.90	\$18.10		\$1.95	11.2	9.3	\$0.40	20.5%	2.2%
3 1997	\$34.30	\$20.10		\$2.54	13.5	7.9	\$0.42	16.5%	2.1%
4 1998	\$42.10	\$23.80		\$3.24	13.0	7.3	\$0.51	15.7%	2.1%
5 1999	\$40.80	\$25.70		\$3.77	10.8	6.8	\$0.60	15.9%	2.3%
6 TOTAL		\$104.30			63.3	42.4		93.9%	
7 AVG.		\$20.86			12.7	11.0		18.8%	
8 AVERAGE PE				40.6	9.0				
9 CURRENT PE						6.5		EPS=\$3.83	RV=72.4

Projected Values: PE=6.5 EPS=\$5.93 RV=72.4 Q=0 PEG Ratio=1.02

### 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 PE 11.0 X Est. High EPS \$5.21 = Forecast Hi Pr \$57.31  
(3D7 as adj.) (4A1)

# LAF on 4/26/2000

### C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

Avg. 5 Year Appreciation Potential = $\frac{129.8\% \text{ (4E)}}{5} =$	<u>Simple</u>	<u>Compounded</u>
Average Yield (5B)	26.0%	18.1%
Average Total Annual Return Over the Next 5 Years (5C)	+ 3.4%	+ 3.4%
	= 29.3%	= 21.5%

- Potential Total Return: 21.5%
- 18.1% of that is potential price appreciation
- What part of the 18.1% is from EPS growth?
- 6.4% (SSG page 1)
  - Expecting lots of P/E expansion

# What They Don't Teach at BINC

## LAF on 3/4/2002

Current Price: \$41.30 52 Wk High: \$43.10 52 Wk Low: \$28.45 Dividend: \$0.60

Year	A PRICE		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F+C X 100	H % Hi. Yield F+B X 100
	HIGH	LOW		HIGH (A+C)	LOW (B+C)			
1 1996	\$21.90	\$18.10	\$1.95	11.2	9.3	\$0.40	20.5%	2.2%
2 1997	\$34.30	\$20.10	\$2.54	13.5	7.9	\$0.42	16.5%	2.1%
3 1998	\$42.10	\$23.80	\$3.24	13.0	7.3	\$0.51	15.7%	2.1%
4 1999	\$40.80	\$25.70	\$3.77	10.8	6.8	\$0.60	15.9%	2.3%
5 2000	\$28.30	\$16.70	\$3.51	8.1	4.8	\$0.60	17.1%	3.6%
6 TOTAL		\$104.40		56.6	36.1		85.8%	
7 AVG.		\$20.88		11.0	7.2 7.0		17.2%	
8 AVERAGE PE			9.0					
9 CURRENT PE								

Projected Values: PE=14.3 EPS=\$2.88 RV=159.3 Q=0 PEG Ratio=1.47

### 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 PE 11.0 X Est. High EPS \$4.59 = Forecast Hi Pr \$50.49  
(3D7 as adj.) (4A1)

# LAF on 3/4/2002

### C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

Avg. 5 Year Appreciation Potential =  $\frac{22.3\% \text{ (4E)}}{5} =$

Average Yield (5B)

Average Total Annual Return Over the Next 5 Years (5C)

	Simple	Compounded
	4.5%	4.1%
+	1.5%	1.5%
=	6.0%	5.6%

- Potential Total Return: now just 5.6%
- 4.1% of that is potential price appreciation
- Current P/E is so high that we actually expect *P/E contraction* from here
  - Time to replace



# Summary

- Slower growing stocks can make sense
- One approach to investing in tortoises:
  - Buy quality stocks when P/E is below average.
  - Consider selling when future Total Return is inadequate (P/E is above average)
  - Or, if you're satisfied with a lower return continue to hold; it's up to you!



# Summary

- Does it always work out as easily and nicely as in the examples?
- Of course not!
- But the approach can work well
- And, it expands your investment possibilities



## What They Don't Teach at BINC

A big thank you to

**BRIAN LEWIS** and **JIM THOMAS**

who both taught this material before me and contributed so much to the class material.

**THANK  
YOU**



# Make A Difference In Someone's Life

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*Pay It Forward*



# Questions or Comments?

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