THE OFFICIAL PUBLICATION OF THE NATIONAL ASSOCIATION OF INVESTORS

BETTERINVESTING

January/February 2023
Vol. 72, No. 5

Grin and Bear It

How Savvy Investors Forage for Future Gains in Down Markets

THE FUNDAMENTALS ARE KEY
3 Pillars of Analysis to Help Ensure Future Success

UNDER INFLATIONARY PRESSURE
A Diversified Portfolio and 7 Asset Classes Are Tracked Over a 50-Year Span

STOCKS TO STUDY
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The Flip Side of the Coin

'Investing' in cryptocurrency isn't investing.

The concept of using encryption algorithms to create digital currency — popularly known as cryptocurrency or crypto — will strike some as novel and creative; to others the idea looks bizarre and disruptive, reeking of dishonesty.

The latter group's perspective on "crypto," as bitcoin and similar currencies are called, got a big boost with the collapse of FTX, a crypto exchange — now bankrupt — that was the brainchild of Sam Bankman-Fried. Now Bankman-Fried is the target of lawsuits claiming he's responsible for the loss of $11 billion; prosecutors no doubt are weighing the potential for criminal fraud charges.

As FTX toppled and faith in crypto crumbled, more than $1 trillion of value was wiped from the market.

Could a rebound happen?

In November 2021, one bitcoin was trading at $64,400; a year later its value had dropped to $16,400; it once cost less than a cent.

Estimates of the number of different cryptocurrencies runs into the thousands, with 300 million worldwide estimated to be owners.

FROM TULIPS TO MADOFF

Which shouldn't surprise thoughtful, seasoned investors. Every market cycle produces at least a few vast schemes to separate the naive and uninformed from their money. In the early 17th century, unbridled speculation over Dutch tulip bulbs culminated in a price collapse that has been studied by academics since. More recently, so called money manager Bernie Madoff accumulated a fortune via a Ponzi scheme that should have been transparent in light of the unrealistic returns promised to those he fleeced.

Blockchain technology, which enables the creation of cryptocurrencies, traces its roots to the 1980s. A mysterious person or group first used blockchain as a core component of bitcoin in 2009. Almost immediately, enthusiasts and early adopters were referring to crypto — grandiosely — as a new asset class. Criminals, smugglers and tax cheats bragged about how crypto payments were untraceable and unhackable.

The confusion and ignorance surrounding crypto is reflected by its regulation, partly federal and partly state. According to Investopedia, the Internal Revenue Service regards it as property, while the Commodities Futures Trading Commission calls it a commodity. Sophisticated software is required just to determine tax liability on trades. Whether this situation changes remains to be seen: in the meantime, buyer beware.

A BETTER APPROACH

If your desire is to risk money you can afford to lose against the chance of a stupendous — and unlikely — payoff, crypto may be the answer. A few gamblers legitimately have grown rich in Las Vegas.

If the plan is to grow wealthy, using fundamental analysis, patience and unglamorous investment techniques such as dollar-cost averaging, reinvestment of dividends and portfolio rebalancing, then global stock markets are still your first choice.

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A New Year — a New Look!

Magazine redesign, some inspiring responses to our annual survey all point to an exciting year ahead in 2023 for BetterInvesting.

by Ken Zendel, CEO, NAIC/BetterInvesting

A new year is upon us. With the turn of the calendar, an opportunity arises for a fresh start for each one of us. To take what we have learned in the past and apply it towards a better future.

With the new year, the magazine has a new look. This more contemporary design is also intended to make the magazine easier to read. What won't change — the great content the magazine brings into your home.

Satisfaction with the magazine and membership was apparent throughout the responses received from the 2022 Member Satisfaction Survey. I am pleased to report nearly 90% of respondents were "very satisfied" or "satisfied" with their membership. The results of the survey paint a picture of not only what the organization is doing well, but also what needs to improve. One of my primary responsibilities is to improve your membership experience and we are making changes, based on the responses provided, as our limited, nonprofit resources permit.

The survey also provided a glimpse into the composition of membership. More than half of survey respondents have been members of BetterInvesting for greater than 20 years; no doubt a confirmation of the significant benefit of membership.

The survey comments, of which I read every single one, repeatedly illustrate the value of belonging to our community of investors. When asked "how BetterInvesting has helped you achieve your financial goals through our education, tools and resources," the comments were inspiring. With their permission, here are a select few:

"I have experienced several market downturns and lived through them to see the market return. I sleep much better at night because of my NAIC friends." — Janice C.

"To a person, our (club's) members have stated that what they have learned is most important to them, even more important that the money itself." — Ted L.

"I completed my first SSG [Stock Selection Guide] in the mid-90s. Since then I have been a big fan because it helps identify the best companies to invest in and avoid the worst. The online videos have taught me a great deal." — Paul M.

"I started out with a club of like-minded friends. Unfortunately, the club dissolved a few years ago. But I remained a member (individual member) of BetterInvesting because I wanted to continue learning and investing. The magazine is great for that. I have also taken a few online courses as my schedule permits. All are great." — Anonymous

"I teach my grandchildren to invest by giving stock shares for Christmas and birthdays, graduation, with an SSG [Stock Selection Guide]. I model for my family the benefits of investing for the long term and not panicking during market downturns." — Janet L.

"We are a successful club. I owe that success to our members and to your magazine and tools." — Anonymous

"Before I discovered N.A.I.C. (BetterInvesting) my investments were sometimes profitable, sometimes not, with the balance being near zero. BetterInvesting taught me how to invest PROFITABLY in the stock market and, as a result, I was able to retire at age 60 (in 2008) and have not had any money problems since. Indeed, my income is far higher than my expenses and probably will be for the remainder of my life." — William P.

"BetterInvesting is not a product. It is a way of life, an attitude toward my/our future, a commitment to productivity, a test of reason over impulse, an art form." — Name withheld by request

"The online tools are invaluable. The BI membership and participation help to stay on track." — Anonymous

If you are not using the online stock selection and analysis tools, I encourage you to make a new year's resolution to start learning about, and using these tools, especially the Stock Selection Guide® (SSG®). Learn how to use these tools on your own via the Video Learning Library and other resources or reach out for help. Whether it is the Online Stock Tools Suite or live online classes or BetterInvesting Weekly or special discount programs, etc., membership has many benefits, but it is up to you to take advantage of all we have to offer.

Thank you for your membership and support, which allows us to further our mission. Happy New Year,

Ken Zendel

Invite-A-Friend to Your Investment Club

February tradition dating to 1955 helps educate friends, family.

As a month, February suffers a bit in comparison to its predecessors, December with the warm glow of the holidays and January with the razzle-dazzle of the new year. In many parts of the country, even the weather in the second month of the year leaves a bit to be desired.

Perhaps that's why BetterInvesting's early leadership chose February as Invite-A-Friend to Your Club. February does have Groundhog Day (seriously?), Valentine's Day and Presidents' Day, but still it could use a boost socially!

Our tradition was started by founder George Nicholson in 1955, only four years after NAIC/BetterInvesting was launched. While Invite-A-Friend isn't meant to be a recruitment tool, for 68 years it's served several purposes.

The custom adds excitement to your meeting, either online or in person, by bringing friends or family members to your investment club and demonstrating the financial education you've been talking about. It gives everyone a chance to meet and mingle with new people.

Your guests will be able to observe how your club reviews its portfolio and makes decisions. Perhaps your club might have an educational segment to share with visitors or give a demonstration of the Stock Selection Guide.

Guests may wish to attend a few more meetings and eventually join your club; perhaps they will invigorate your group with their fresh perspectives.

Above all, you'll have given an invaluable gift to those you care most about, your family, friends and neighbors.

"Your invitation could make the difference between investment literacy and illiteracy for someone you know," a 1967 article in *BetterInvesting Magazine* noted.

What was true in 1967 remains true 56 years later. By introducing your favorite folks to financial education through your club, you might put them on the path to a more secure future as they learn how to invest wisely in the stock market using the BetterInvesting methodology.

If you're meeting in person, you might serve a few snacks, too. Wise investing works up an appetite!

Nominations Sought for Nicholson, Wynn Awards

Leaders who promote BetterInvesting principles will be honored.

The NAIC/BetterInvesting Board of Directors seeks nominations for the George A. Nicholson Jr. Distinguished Service Award in Investment Education to honor individuals who have furthered the association's mission.

This illustrious award is named for the founding father of NAIC/BetterInvesting; George Nicholson was the creator of our principles and the Stock Selection Guide. The award is designed to recognize those who promote investment education or create educational programs, tools and resources dedicated to "starting a nation of investors."

For information including qualifications and eligibility, visit www.betterinvesting.org/about-us/awards. To nominate an individual or group inside or outside the BetterInvesting community for the Nicholson Award, email nicholsonaward@betterinvesting.org. This must include the nominee's name (and contact information if feasible), as well as a letter of support explaining the outstanding contributions this person or group has made in promoting investment education or advancing the organization's mission of empowering individual investors.

Past winners of this prestigious award have been: Donald Danko, Ralph Seger, the Beardstown Ladies, Gretchen Hurt, Avi Horwitz, Ken Kavula, Peggy Schmeltz, Joe Parks, Robert (Bob) Wynn II, Howard Johnson, Roger Ganser and Ann McNeill.

Perhaps you know an amazing investment club leader who doesn't fit the criteria of the Nicholson Award. CEO Ken Zendel is seeking nominations for the Robert Wynn Award for NAIC/BetterInvesting Club Leadership.

Through this award, BetterInvesting recognizes club leaders who exemplify Bob's leadership while guiding a BetterInvesting club; leaders who go above and beyond as advocates of BetterInvesting by facilitating investment education at a grass roots level, and by doing so, further the mission of BetterInvesting.

Any current BetterInvesting club member is eligible. Outstanding nominees should demonstrate innovative and enduring club leadership techniques, as well as successful recruitment and retention of new members. For information including qualifications and eligibility, visit www.betterinvesting.org/about-us/awards.

To nominate a club leader for the Wynn Award, email the nominee's name and contact information to ClubLeaderAward@betterinvesting.org with a letter identifying the leader's outstanding contributions made to promote investment education, especially the BetterInvesting mission and methodology, through club membership.

Nominations for both awards are due by March 1.

PERFORMANCE PARAMETER	AT 11/30/2022	5-YR CHANGE ANNUALIZED
BetterInvesting 100 Index (BIXX)	518.45	9.21%
BetterInvesting 100 Index (BIXR — Total Return)	734.54	10.71%
S&P 500 Equal-Weight Index (Total Return)	11,533.82	10.42%
Vanguard Total Stock Market (CRSP U.S. Total Market)	99.36	10.14%
Dow Jones Industrial Average (DJIA)	34,589.77	9.71%
S&P MidCap 400 Index	2,557.78	7.98%
Russell 2000 (Small-Cap Index)	1,886.58	8.64%
Nasdaq Composite	11,468.00	11.78%
MSCI EAFE (Europe, Australasia, Far East) Index	1,944.03	0.77%
MSCI Emerging Markets Index	972.29	2.80%
Value Line Arithmetic Composite	8,797.13	7.91%
Consumer Price Index (November)	297.71	3.83%

Sources: Yahoo Finance, Value Line, Bureau of Labor Statistics, MSCI, Standard & Poor's, Solactive, Google, FTSE Russell

MOST ACTIVE LIST: BUBBLING UNDER

Of the top 10 active stocks among users of myICLUB software, NVIDIA was the only one for the eight weeks ending Nov. 29 with more sellers than buyers. The other stocks, with a big margin favoring buyers, speak to a strong bear market rally during that period. What happened to NVIDIA, which was a Wall Street darling for much of 2021? The U.S. government restricted the sale of some of the company's chips to China, resulting in a potential $400 million hit to revenue. As of early December, NVIDIA shares were down about 45% from the beginning of the year — perhaps an attractive entry point.

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MOST ACTIVE LIST

Here are the companies attracting the interest of the BetterInvesting community, according to about 2,039 transactions by users of myICLUB club accounting for the trailing eight weeks ended Nov. 29.

Our thanks to ICLUBcentral for this information.

We maintain a Most Active List at BetterInvesting website's homepage, and a monthly list is published at:
www.myiclub.com

COMPANY (TICKER)	BUYS-SELLS
1. Amazon (AMZN)	200–36
2. Alphabet (GOOG)	167–38
3. Apple (AAPL)	87–65
4. Microsoft (MSFT)	97–34
5. Tesla (TSLA)	59–29
6. Disney (DIS)	53–29
7. Adv. Micro Devices (AMD)	44–34
8. Costco (COST)	66–10
9. NVIDIA (NVDA)	32–41
10. Intel (INTC)	41–23
11. Visa (V)	43–13
12. General Holdings (GNRC)	38–13

NOS. 13-40 WITH BUY-SELL RATIO OVER 2:1

Transactions for trailing 8 weeks ended Nov. 29

COMPANY	TICKER	BUYS	SELLS	TOTAL
Home Depot	HD	33	14	47
Verizon	VZ	33	12	45
AT&T	T	26	12	38
Procter & Gamble	PG	28	7	35
Qualcomm	QCOM	30	3	34
Taiwan Semiconduct.	TSM	29	4	33
Berkshire Hathaway	BRK.B	27	6	33
Chevron	CVX	29	2	31
Devon Energy	DVN	27	4	31
Exxon Mobil	XOM	24	6	30
Boeing	BA	19	8	27
Merck	MRK	26	0	26
NextEra Energy	NEE	20	5	25
Walmart	WMT	20	5	25
UnitedHealth Group	UNH	19	6	25
McDonald's	MCD	18	7	25
Skyworks Solutions	SWKS	17	8	25
CVS	CVS	20	4	24
JPMorgan & Chase	JPM	17	5	22
Coca-Cola	KO	18	2	20
Dollar General	DG	15	5	20
Starbucks	SBUX	14	6	20
Eli Lilly	LLY	19	0	19
General Motors	GM	13	5	18
PepsiCo	PEP	13	5	18
Duke Energy	DUK	16	1	17
Occidental Petroleum	OXY	15	2	17
Lowe's Companies	LOW	14	3	17

The list is presented as a source of stock study ideas. No investment recommendation is intended.

Source: myICLUB

Crowdfunded Real Estate

Fractional investing gains popularity due to market volatility.

by Jordan Chussler

Market volatility can help buy-and-hold investors secure steep discounts for portfolio additions. But for those looking to diversify outside of traditional markets, fractional investing and crowdfunding offer an alternative means of generating returns both near- and short-term.

With inflation near 40-year highs and interest rates rising after each meeting of the Federal Reserve, investing in traditional sources of passive income has become laden with barriers to entry. Look no further than mortgage rates, which in the U.S. have now eclipsed 7% for the first time since 2006.

One thing I have heard throughout my life is "put your money in the ground" — figuratively, of course. With elevated housing costs accompanying prohibitively steep mortgage rates, however, creating cash flow from rental income does not carry the same appeal it once did. But that doesn't mean real estate investing is entirely off the board.

With equity markets experiencing ongoing volatility dating back to the start of last year, there has been a marked increase in private equity investing. This builds on the back of a surge in private equity investing borne out of the pandemic.

In North America alone, the compound annual growth rate (CAGR) of private market fundraising grew from 9.2% between 2016–2022 to 21.6% from 2020–2021.

While private equity investing is not considered a risk-off approach — like selling small-cap stocks and rolling those funds into lower-risk assets like bonds — it offers an alternative to traditional markets and formerly safe-haven assets like precious metals that have underperformed over the past year:

- Gold and silver are down 7% and 18%, respectively, year over year.
- The S&P 500 shed nearly 20% in the past year.
- The traditional 60/40 diversification strategy had its worst year since 1936.
- Treasury bonds experienced their worst yearly performance in history.

Given those circumstances, investors are rightly looking elsewhere.

FRACTIONAL INVESTING

Fractional ownership has its risks, but it lowers entry barriers to otherwise unattainable assets. It's nothing new to the traditional equity space; brokerages like Schwab, Fidelity and TD Ameritrade have offered fractional shares for some time now. It's not just for equities, either. Fractional investing has opened opportunities across numerous assets, from memorabilia and luxury accessories to wine and whiskey.

It's garnered significant attention in the art world, where partial ownership is making investments in fine art and nonfungible tokens a possibility for the masses. But it's crowdfunded real estate that is noticeably on the rise.

CROWDFUNDING REAL ESTATE

While purchasing rental property is increasingly inaccessible for average investors, real estate crowdfunding offers a viable alternative. CAGR for opportunistic private real estate fundraising was just 1% from 2016–2020, but 56.8% from 2020-2021.

This is further evidenced by private equity firms increasingly bypassing banks in favor of direct funding rounds from prospective investors.

Those investors are taking note, too, as the shared cost structure enables more diversification and lower-priced entries with the risk similarly being split among shareholders. Best of all, investors don't have to worry about property maintenance or recurring utility bills and mortgage payments. Crowdfunding real estate enables investors to look for cash flow in commercial or residential projects, with many providing significant dividend payouts.

Numerous platforms allow users to redeem shares without fixed terms. Others offer fixed terms with various options for the required length of investment. There are downsides, of course. Some platforms charge management and advisory fees and limit divestments, making illiquidity a valid concern.

One of the more reputable platforms, Fundrise, allows minimum investments of $10 and has paid over $124 million in investor distributions. Since launching in 2012, it has invested over $5 billion of crowdfunded equity from over 170,000 individual investors in various real estate projects. The platform also allows users to request share redemption at any time, which eliminates the concern over divestment limitations. Like any investment, it's best to conduct due diligence on a range of options before settling on any.

However, private equity investing — and crowdfunding real estate in particular — presents a practical alternative to volatile markets, sky-high mortgage rates and the historic pace of the Federal Reserve's interest rate hikes.

Prepping Portfolios for Better Times Ahead

Investors may want to be ready for a stock market turnaround.

by Thomas D. Saler

By most measures, 2022 was an uncommonly stressful period for investors, with stock and bond prices under frequent attack and with few places to hide. Based on the so-called 60/40 stocks-bonds portfolio, the first nine months of the year was the worst stretch of performance for that mix of traditional financial assets in nearly 100 years, according to research from BofA Global (*see Websites of Interest*).

Though there could be more rocky times ahead — especially until the Federal Reserve gains control over inflation — history suggests that the worst could be over.

Since the late 1920s, stocks have fallen by double-digit amounts in consecutive years only five times. More common are powerful rebounds following large single-year declines, most recently the 35% bounce following the Great Recession-induced bear market in 2008.

In fact fixed-income, large consecutive-year selloffs aren't just rare, they are nonexistent. Over that same period through 2021, U.S. Treasury bonds never generated a negative total return bigger than the 11% decline in 2009. The worst year for investment-grade corporate bonds was the 15% loss in 1931.

Those numbers show that 2022 wasn't just bad, much of it was historically bad.

FOR A BUYER, BONDS OR STOCKS?

In large part, that's because the current bear markets in stocks and bonds overlapped, something that doesn't fit the usual investment cycle playbook. Most of the time, a looming recession will tend to push longer-term bond yields lower (and prices higher), even if short-term rates are climbing as the Fed tightens financial conditions. Not this time.

Beginning in early 2020, bond yields were held artificially low by the Federal Reserve's emergency response to the coronavirus pandemic. Not only were short-term rates stuck near zero, but the central bank also was buying Treasuries in the open market to contain longer-term borrowing costs. As such, bond yields were spring-loaded to shoot higher when "Team Transitory" at the Fed reversed course and began raising interest rates in March 2022.

The math here is important: a three percentage point rise in bond yields, say from 1% to 4%, has a much greater impact on a bond's price than a 3% rise would have if yields were higher to begin with, say from 4% to 7%. The bottom line: 2022 could turn out to be the worst-ever year for bonds.

So, might it be time to do some bargain hunting? Among equities, there could be fewer outright bargains than you might think. At the low in October, the S&P 500 was down "only" about 24%, making the 2022 bear market relatively mild by historical standards.

On the plus side, consumers still seemed able to pay inflated prices for goods and services, allowing companies to keep profit margins at their widest levels since 1950, despite higher input costs. But if the economy slows and demand destruction sets in, those record margins could prove unsustainable, creating a headwind for stock prices, particularly if short-term rates remain elevated.

As for bonds, those higher yields already seem enticing, even if conditions remain volatile.

Timing any market is a fool's game, of course, but with an unusually large stash of cash just waiting to come off the sidelines — $5 trillion, by one count — the rebound in stock and bond prices, when if comes, is likely to be unusually powerful.

You'll want to be there when it happens.

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His Prescription: Ask First, Pay Later

How to understand medical billing and even save money.

by Angele McQuade

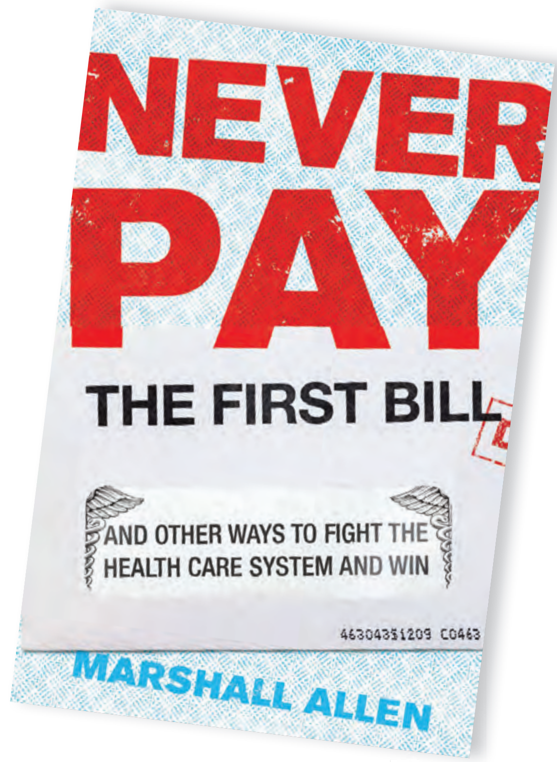
While this month's book is a year old, the information in it is as timely and potentially profitable as ever. In "Never Pay the First Bill: and Other Ways to Fight the Health Care System and Win," investigative reporter Marshall Allen exposes the many ways the American health care industry may be rigged against the consumer and also the many tools we can use to protect ourselves. "I've been continually astonished by the unfair nature of the American medical system," he writes. "It's outrageous that we pay more for health care than the citizens of any other country without getting our money's worth."

The author himself has fought back in numerous health care cases, including unraveling a tangle of medical billing and other errors charged to his father by an assisted living facility. This is a book filled with exposes of corporate greed and medical incompetence, but also tales of consumer victory Allen hopes will inspire us to begin wading into the murkiness of our own health care confusion. He even includes a section for employers in search of coverage that's lower priced for them and their employees while also providing better benefits. "This book is for anyone who's ever felt bullied by the health care system," Allen says, and honestly, that likely applies to every single one of us at some point in our lives.

WHAT I LIKED: How Allen shows over and over the ways the health care system considers itself — the insurance companies, medical providers, drug companies, etc.— to be its own most important customer. That leaves us, the patients who are paying for everything, at the mercy of a system created to draw every cent it can from our individual wallets. "Our health care system is not broken," he cautions. "It was made this way."

WHAT I LOVED: The book's list of questions we should ask to identify and then avoid unnecessary care in the first place, before a bill is even generated. (And if you do end up needing the care, the recommendation is to price the cost difference of paying cash versus going through insurance for prescriptions and procedures.)

WHAT MAKES "NEVER PAY THE FIRST BILL" WORTH BUYING: the steps Allen says we should take when we receive a new medical bill. This process includes reviewing bills for accuracy and potential price gouging, asking for an itemized bill and then comparing that to our insurance provider's Explanation of Benefits (EOB), disputing inaccuracies, filing appeals, negotiating with collectors, and possibly taking our case to regulators or small claims court when nothing else works. Allen explains with both skill and empathy each of the actions we need to take in the order we need to take them.



"Never Pay the First Bill: and Other Ways to Fight the Health Care System and Win," Marshall Allen, Portfolio/Penguin (2021), hardcover ($24) and ebook, 265 pages.

READ "NEVER PAY THE FIRST BILL" IF: you've ever felt confused or hopeless when dealing with your health care. It can be hard to fight back when you don't understand the system; this book teaches you how to do both.

Websites of Interest

Find more online: www.marshallallen.com
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Angele McQuade has been BetterInvesting's Book Value columnist for 23 years. She's the author of three books, including "Investment Clubs for Dummies" and BI's upcoming new youth investing handbook. Angele lives in Maryland, where she also writes children's picture books and novels. Have a book to recommend? Email: angelemcquadeauthor@gmail.com.

Higher Mortgage Rate Era Requires Buyers to Do Some Careful Research

Don't give up on your dream of a new home.

by Matt Mondoux, CFA®, CFP®, CMT®

2022 was not kind to the home buyer market. Mortgage rates increased to levels not seen since the mid-2000s, suddenly making monthly payments for many prospective home buyers more expensive than they imagined. Simply put, the interest expense on the loan increases across the term, which can mean that the same home could now be hundreds of dollars more expensive per month than last year, strictly because the buyer owes more interest. The reality of higher rates isn't a reason to throw in the towel on home ownership — if that is your goal. Adjusting to the new reality is necessary and there are a few simple tips to consider when planning for your next home purchase.

First and foremost, a buyer should increase the down payment as a percent of the overall purchase price. Meaning, either A) put more money down, or B) lower your purchase price. Option A likely means adjusting your time frame for purchase or accelerating savings with a focus on making a monthly payment more palatable for your monthly cash flow. Option B isn't any easier for buyers. It often means buying a smaller home, adjusting your geographical search, compromising on finishes and features, or a combination of all three. Option A and Option B are both sacrifices, but they are necessary sacrifices to make sure you do not ultimately get into a mortgage payment that you're uncomfortable with and/or cannot afford.

It's also more important now than ever to shop the mortgage around. Lenders' rates may vary slightly. There is often also a discrepancy in the fees they charge. The worksheet a lender presents has a laundry list of fees and charges, which were easier to overlook and dismiss when the 30-year mortgage was below 3.0%. With rates now being close to double what they were, it's time to take a second look and understand where money can be saved when closing on the loan.

PURCHASING POINTS AND ARMS

More and more I've heard of purchasing points. Essentially, when purchasing points, you're putting more money down on Day 1 to lower your interest rate for the whole term of the loan. Buying points can be costly — before doing so, you need to understand your break-even point. The breakeven point is the month or year in which you're better off for having bought the points on Day 1. It can take years before the cumulative excess interest is greater than the amount you paid up front to lower your rate. The risk here is that rates decrease before you break-even and you could refinance to the rate that you bought down to.

I'm generally not a proponent of getting an adjustable-rate mortgage (ARM) to get into more house than you can afford, however, if you plan well this can be an option. Planning is key, hoping for lower rates is not. When considering an ARM, you must have your eyes wide open — meaning a financial understanding of the worst case. In this case, the worst-case scenario is rates continue to increase and when the rate adjusts, it's now at a higher rate putting household finances in jeopardy.

STAY INFORMED

You don't need to be an expert in the mortgage markets to navigate higher rates. You do need to plan in ways that weren't as necessary over the past decade or so. Stay up-to-date with the mortgage climate, lenders seemingly recognize the difficulties buyers face and are offering interesting new programs and incentives to help them. Finally, remember that just because the short-term trend has been for higher interest rates, that doesn't mean that increasing rates is the new normal. Don't panic; rates can decrease or simply stabilize around a consistent level. Higher rates are not the end of the world and it's not time to scratch off a home purchase goal from your list due to higher rates.

1 Lenders' rates vary slightly.

2 Expect differences in fees.

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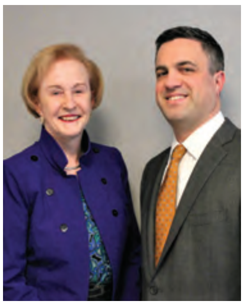
Charitable Giving With an Eye on Tax Time

Doing well by doing good: Various ways to aid your favorite causes.

by Alexandra Armstrong, CFP®, CRPC® & Christopher Rivers, CFP®, CRPC®



While changes to tax law over the past few years have reduced or eliminated many deductions in favor of a higher standard deduction, those who have the ability to give back still have an opportunity to do good and reduce their tax bill at the same time.

Two-thirds of American households donate to charity annually, according to the Philanthropy Roundtable, a network of charitable donors based in Washington, D.C. These charitable contributions can provide meaningful tax savings, but it is important to understand the rules and the strategies available to you to maximize the tax benefits related to your gifts.

THE STANDARD DEDUCTION VERSUS ITEMIZED DEDUCTIONS

For 2023, the standard deduction was increased to $13,850 for single taxpayers and $27,700 for married couples filing joint. With the state and local tax deduction limited to $10,000, you may need significant charitable contributions to get above the $27,700 standard deduction. Even if you will be below the standard deduction threshold, there are still strategies that you can employ to maximize tax savings from your charitable contributions. One is through a qualified charitable distribution (QCD) from your individual retirement account (IRA). The second is lumping several years' worth of donations into one tax year. We discuss each below, but first we review the tax implications for the various ways you can give.

GIVING CASH

The easiest way to give is to write checks to the charities of your choice. If you're still a taxpayer who is able to itemize deductions, the contribution amounts are subtracted from your taxable income, up to a maximum of 60% of your adjusted gross income. Thus, if you're in the 22% federal tax bracket*, for a donation of $10,000, you save $2,200 in federal taxes so that your actual out-of-pocket cost is $7,800. In addition, if you live in a state with income tax, the out-of-pocket cost is less, since you save state income tax as well. Although the easiest, this method is in fact the least tax-efficient way to make a charitable gift.

** In 2023, the 22% tax bracket is adjusted gross income above $89,450 if married or $44,725 if single.*

GIVING SHARES OF STOCK OR MUTUAL FUNDS

From a tax-efficiency standpoint, gifting appreciated securities is far more advantageous. Again, we'll assume you are in the 22% tax bracket. Several years ago, you invested $2,000 in a stock and it's now worth $10,000. If you sell it, you'd owe the 15% federal capital gains tax ($1,200) netting $8,800 after tax. You could then give the $8,800 to charity and receive a $1,936 deduction for a net savings of $736.

Instead, if you give the shares directly to charity, you'll receive a $10,000 tax deduction, which will save you $2,200 in federal income tax. In addition, you avoid the $1,200 in capital gains tax because you gifted the shares directly to the charity rather than sold them. The charity gets $10,000 instead of $8,800 and you save $1,464 more in taxes by giving shares rather than cash.

It's important to note the maximum deduction for giving appreciated securities is 30% of your AGI versus 60% for cash in any one year. If your gift of stock exceeds this limitation, the excess amount can be carried forward for up to five more years.

If giving appreciated shares, it's important to identify the shares with the lowest cost basis so that you're removing the maximum in capital gains from your portfolio. Brokerages don't do this by default, so we recommend you instruct them to do this in writing, as they may not even have a place on their forms for it.

Also, the shares you give must be held for more than one year or you get credit only for your cost basis of the security rather than for the appreciated amount.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCDS)

A qualified charitable distribution is created when you request that your required minimum distribution (RMD) from your IRA account go directly to a charity. This allows you to meet your distribution requirement and not recognize this income as taxable, since it's a direct donation to charity. Be aware that there are some limits on how to implement a QCD.

The contribution must be made by an individual, over age 70-1/2, and individuals are limited to $100,000 in qualified charitable distributions per year, although obviously you can give less.

Rather than receiving the distribution as income and itemizing the contribution as a deduction, the QCD goes straight to the charity and is not included in your gross income. Thus, QCDs are more effective than simply writing a check because the QCD allows you to lower your adjusted gross income, rather than simply offsetting AGI with a matching deduction. QCDs will likely become more popular going forward, as they enable you to reduce your income with a contribution, even in the case where you do not itemize deductions.

CHARITABLE 'LUMPING'

While QCDs can create significant tax benefits, in many circumstances a gift of appreciated shares still presents the largest potential tax savings. But with the standard deduction now $13,850 per person, it may take a significant charitable gift in order to get above the standard deduction hurdle and realize any tax benefit from the gift.

In order to clear the standard deduction hurdle, taxpayers can try and "lump" deductions into one year in order to increase tax saving.

You can't pay multiple years' worth of state taxes, real estate taxes or mortgage interest in one year. But you can lump multiple years' worth of charitable gifts into one year to maximize your deductions. Often gifts are made in the form of a multi-year pledge. In its simplest form, lumping those donations would mean accelerating the pledge and writing a check or gifting securities to donate the full amount in the current year.

For example, take the case of a married couple with state and local tax deductions of $10,000 and mortgage interest of $6,000. In addition, they have pledged a donation of $30,000 to their alma mater, spread out over five years ($6,000 per year). In this base case, the $5,000 donation would bring their total itemized deductions to $21,000. They would simply file using the $27,700 standard deduction and realize no tax benefit from the charitable donation.

Under a lumping strategy, they could accelerate their pledge, gifting $15,000 this year and $15,000 next year. Their itemized deductions would now be the $16,000 in taxes and interest plus the $15,000 deduction, for a total of $31,000. They would then itemize on their return and receive a tax benefit for a portion of their donation. Donating the full $30,000 in the current year would further increase the tax benefit.

DONOR-ADVISED FUNDS

However, you may not be comfortable donating your full pledge in the current year. And you may not have a single charity or pledge large enough to lump in this fashion to maximize the deduction. In many cases, our clients make smaller, regular donations to a handful of organizations each year.

Or what if you have an appreciated stock that you know you want to donate in the future, but don't want to decide which charities to give to at this time?

You can donate your stock to a donor-advised fund (DAF), which qualifies as an intermediary charity. You'll receive a full market value deduction in the year that you give the stock to the DAF. The DAF establishes a fund in your name. Thereafter, the DAF makes gifts to charities from your fund. Legally, you can't control these distributions, since you gave the stock permanently and irrevocably to the charity. But you retain the right to make "grant suggestions" as to who receives the distributions.

The DAF is entitled to accept or reject those suggestions, but in practice they are rarely rejected, provided the charities are public 501(c)(3) nonprofit organizations. As always, investigate and compare before selecting a donor-advised fund. Generally, DAFs are established with gifts of $5,000 and more. Charitable assets in DAFs jumped to $34 billion in 2021, as the strategy has become increasingly popular under the current tax regime. We will explore them in detail in our next column.

If giving appreciated shares, it's important to identify the shares with the lowest cost basis so that you're removing the maximum in capital gains from your portfolio.

CONCLUSION

A 2008 study by Harvard Business School found that giving money to someone else lifted participants' happiness more than spending it on themselves. These good feelings are reflected in our biology.

In a 2006 study, the National Institutes of Health found that when people give to charities, it activates regions of the brain associated with pleasure, social connection and trust, creating a "warm glow" effect. Scientists also believe that altruistic behavior releases endorphins in the brain, producing the positive feeling known as the "helper's high."

It can often feel difficult to find real world situations where "everybody wins." When taken together, the personal, social and monetary (tax) benefits make supporting causes you believe in a true benefit for all.

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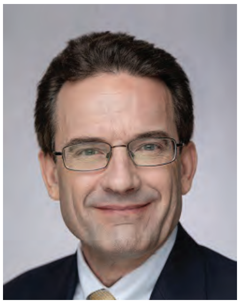
Growth That Glitters in the Golden Triangle

Missouri club's competitive game helps uncover new stock ideas.

by Daniel J. Boyle, CFA®



The Golden Triangle Investment Club of St. Peters, Missouri, was founded in 1997 by a group of individuals who saw an ad in the paper for those interested in forming investment clubs. Over 50 attended the meeting from the "triangle" — east, west and northern counties. Twenty decided to take the plunge. The group made plans to stay together into their "golden" years — hence the name of the club. Today six members, with one original, remain. It was a pleasure to take some time with the entire club to learn about their history, operations and portfolio. The members have a nice camaraderie and I could tell they really enjoy spending time together.

Club operations are typical, with monthly meetings on the second Thursday at a member's home or in a restaurant so members can eat lunch after discussing investments. The agenda is also the usual: devotional, approval of minutes, contributions (usually $25 or so), treasurer's report, existing holdings discussion, new stocks for purchase consideration and trading actions.

One challenge for the club is simply putting together the Stock Selection Guide, compounded by the transition of the PC-based Toolkit6 to online SSGPlus. I reminded them that the BetterInvesting website is a great source of online training and resources through the following link: **www.betterinvesting.org/learn-about-investing/our-classes**.

I suggested the club look over the offerings and set up a schedule where members can devote an additional hour between meetings to watch the videos and utilize the SSGPlus to practice. As a bonus, there are videos that analyze new stocks as they teach — the club might even find a worthy investment to boot!

I like how the club challenges each other with a fun game that can uncover interesting stock ideas. Every year each member picks three stocks by capitalization outside of the club portfolio — small, mid and large. Members kick in an extra $2 every month. At the end of the year the member selecting the best performing stock in each category gets a third of the pot. Games/side bets like this can harness the competitive nature in all of us

GOLDEN TRIANGLE INVESTMENT CLUB. From left to right: Letitia Marlow; Suzanne Jackson; Shirlee Mercer Meyer, original member; Mary Price; Pattie Homeyer and Sharon Navarrett. The club is based in St. Peters, Missouri.

to put forth the effort to find new stock ideas, never an easy task.

Upon examination of the portfolio, I'm impressed with the growth profile of each holding. BetterInvesting philosophy stresses looking for companies that have a history of consistent, steady earnings growth that can continue for many more years. I note that each stock in the portfolio is expected to grow earnings at least 12%, with a few 20% plus, with the average holding growing 15%. This is exactly the growth profile a portfolio needs where every stock has a chance to grow strongly as a few winners can easily cover a couple mistakes that are normal in stock picking.

I'm also impressed with the portfolio's sector diversification and the club focuses on making sure they have holdings spread across sectors. Six different sector groups are represented even though there are only 13 holdings in the portfolio. My only quibble is I'd like to see at least one stock in the financial sector, but even though **PayPal (ticker: PYPL)** and **Visa (V)** are in the information technology sector the industry they focus on is squarely in the financial sector as they are both payment processors.

2 SUGGESTIONS FOR THE GOLDEN TRIANGLE

However, I do have a couple of suggestions for the club that might help performance and further improve diversification. **First**, I find the trailing price-earnings ratios for many of these stocks more elevated than I'd like. The club's portfolio carries an average trailing P/E ratio of 39, more than double the 18 of the S&P 500. My rule of thumb is a growth stock is attractive when it can be purchased for roughly 1.0-1.5 times its earnings growth rate (its price to earnings growth, or PEG, ratio). The PEG rate of the club's portfolio is 2.6, quite a bit higher than I'd like and leaving less upside return if the stock performs as planned. As I review portfolio holdings, I'll be suggesting paring back or selling stocks that I consider too expensive.

Second, diversification has several dimensions, not just industry sector. In a typical investment club portfolio with limited holdings, there shouldn't be competitors providing essentially the same product or service targeting the same customer. Think **Coke** and **Pepsi** or **McDonald's** and **Wendy's**. PayPal and Visa are competitors in the payments market targeting the same customer. I personally know this as I have Venmo, owned by PayPal, on my iPhone and a Visa credit card in my wallet. My advice to the club is to examine each critically against the other and pick the one it thinks has the better risk/reward profile.

Another element of diversification is position weighting. In a 13-stock portfolio an average weight would be about 8%. There are five stocks in the portfolio that make up about three-quarters of total portfolio value, almost double the average expected weight of 40% (five positions times 8%). The other eight holdings are tiny in comparison, with an average weight of about 3%. There are a few of these smaller holdings I like quite a bit and think have excellent risk/reward profiles, but if they do well their small weights won't contribute much to portfolio return. Conversely, if one of these five mega holdings stumbles portfolio return suffers.

APPLE, FORTINET, NVIDIA, PAYPAL, VISA

The information technology sector has five holdings that command about half the portfolio, led by **Apple (AAPL)** at 23%. Apple has held up far better than its mega technology brethren in this bear market, but recent results and announcements are revealing some cracks. The iconic iPhone family, more than half the firm's revenue, is under pressure on several fronts. Outsized demand from consumers that snapped up electronic devices aggressively in response to sheltering in place during the pandemic has cratered and might remain muted as the global economy slows. Supply chain issues including COVID-19 lockdowns in Chinese production facilities and higher component costs are hitting the firm's most popular and profitable model, the iPhone 14 Pro. Cellphone carriers are cutting subsidies they have provided to smartphone manufacturers, hurting iPhone affordability. Services, a strong growth engine that carries far higher profit margins, is slowing and facing challenges that include an uneven advertising market, legal challenges to lucrative App Store fees and sluggish streaming growth for Apple TV+.

While Apple copes with these problems geopolitical tensions between the United States and China are increasing. Both the U.S. and China have implemented policies around technology knowhow that seek to gain the upper-hand from the other. This tit-for-tat is getting worse and it's unpredictable how further policy will unfold. China produces most of Apple's products and accounts for about 20% of the firm's revenue. I believe investors are underestimating how policy changes directed from China could substantially injure Apple.

Apple's valuation metrics look reasonable with annual earnings growth of 12% and a trailing P/E of 23. But a 23% position is almost three times a typical portfolio weight and with the risks I've outlined I'd suggest the club trim the position down to a normal weight.

There seems to be no shortage of bad actors attacking our technology networks and, as the world interlinks, our enemies continue to build their sophistication. **Fortinet (FTNT)** is taking advantage of bad apples by providing broad, integrated and automated cybersecurity solutions worldwide. It sells a wide variety of hardware and software solutions that include firewall, intrusion prevention, anti-malware, virtual private network, application control, web filtering, anti-spam and wide area network acceleration. The company sells to large and small customers, leveraging distributors that carry its relatively inexpensive products.

Growth has been robust and doesn't seem set to decelerate much, with recent revenue growth in the 30s and earnings benefiting from expense leverage and share repurchases. Analysts expect annual earnings growth of 20%, which seems about right, but the trailing P/E ratio of 53 is quite expensive. Usually I'd sell at this valuation, but its hard not to like the continued growth potential of the company. The below average weight of 4% does insulate the portfolio from some of this valuation risk.

NVIDIA (NVDA) is the leading developer of 3D graphics and multimedia chips used in PCs, servers, gaming consoles and other devices. Stand-alone 3D graphics chips have performance advantages over integrated graphics and processing chips, particularly for gaming, high performance computing and artificial intelligence applications. Demand for these applications has exploded and NVIDIA has been the main recipient of this growth.

The stock has lost about half its value this year, however, in response to the slowdown for gaming and the sudden decline in cryptocurrency mining. NVIDIA has seen growth for its server chips used to support cloud computing counteract some of its gaming sluggishness, but not enough to prevent outright declines in expected revenue for the next few quarters.

Analysts expect annual earnings growth of 22%, but in the next year or two earnings are much more likely to sharply contract than grow. The trailing P/E of 47, already expensive, is understated against expected earnings over the next year. I think there is further downside risk and with a small position I'd be inclined to look for other opportunities.

I'll discuss PayPal, 5% of the portfolio, and Visa, 16%, together. Both firms have a common focus on processing payments but there are some differences. PayPal has a greater focus on eCommerce customers, a heritage pioneered during its years supporting eBay, and has staked out a position in mobile payments with its popular Venmo application. Visa is the world's largest retail electronic payments network and runs one of the world's largest ATM networks, Visa PLUS. Visa processes more swipes than its three closest competitors (**American Express**, **Discover Financial Services** and **MasterCard**) combined.

PayPal has historically carried a higher valuation than Visa and investors have endured a sharp fall in the stock as second quarter financial results disappointed. Even so, the trailing P/E of 39 is still higher than Visa's 29, although PayPal's trailing earnings per share reflects a write-down in its investment portfolio. Analysts expect similar annual earnings growth, but I think Visa holds the greater potential as its merchant network is hard to replicate and the return of cross-border travel should provide some tailwind compared to eCommerce weakness. For diversification I'd look to replace PayPal, perhaps by a challenger in the financial sector like **BlackRock (BLK)** or the **Charles Schwab Corp. (SCHW)**. As for Visa, I'd be inclined to trim the position to a normal weight.

EDWARDS LIFESCIENCES, ELI LILLY, RESMED

Health care makes up 29% of the portfolio across three holdings. **Edwards Lifesciences (EW)** is the leading company targeting structural heart disease with about two-thirds of its revenue coming from repairing or replacing heart valves. Second quarter results were poor, held back by procedure delays due to hospital staff shortages, Japanese business held back by COVID-19 impacts and the strong U.S. dollar that removed 6% of revenue growth. But the firm should be able to continue growing its annual earnings 12% through a combination

GOLDEN TRIANGLE INVESTMENT CLUB

COMPANY	TICKER	NO. SHARES	COST	NOV. 7, 2022 PRICE	NOV. 7, 2022 VALUE	$GAIN/ (LOSS)	%GAIN/ (LOSS)	QUALITY RATING*	% GROWTH ESTIMATE**	% OF PORTFOLIO	TRAILING P/E	TRAILING EPS
Alphabet	GOOGL	25.0	$3,322	$88.49	$ 2,212	($1,110)	(33.4)	1	17	2.2	18	$ 5.04
Amazon	AMZN	25.0	3,051	90.53	2,263	(788)	(25.8)	1	25	2.3	83	1.09
Apple	AAPL	161.3	3,810	138.92	22,403	18,594	488.1	1	12	22.7	23	6.11
ArcelorMittal S.A.	MT	50.0	1,477	24.04	1,202	(275)	(18.6)	4	12	1.2	2	13.54
Copart	CPRT	80.0	5,213	57.09	4,567	(646)	(12.4)	2	12	4.6	25	2.27
Edwards Lifesciences	EW	48.0	3,585	68.77	3,301	(284)	(7.9)	2	12	3.3	30	2.32
Eli Lilly	LLY	40.0	7,530	365.07	14,603	7,073	93.9	1	12	14.8	56	6.57
Fortinet	FTNT	75.0	4,052	47.86	3,590	(462)	(11.4)	3	20	3.6	53	0.91
Heico	HEI	71.0	3,534	156.67	11,124	7,590	214.8	3	12	11.3	63	2.47
NVIDIA	NVDA	15.0	2,895	143.01	2,145	(750)	(25.9)	3	22	2.2	47	3.05
PayPal	PYPL	60.0	5,748	77.66	4,660	(1,088)	(18.9)	3	14	4.7	39	1.97
ResMed	RMD	50.0	2,107	212.64	10,638	8,531	404.9	3	14	10.8	40	5.35
Visa	V	78.6	6,093	200.10	15,727	9,633	158.1	1	16	15.9	29	6.99
Cash			237		237			1		0.2		
Average									15		39	
TOTAL			$52,654		$98,671	$46,018	87.4			100		

*Based largely on rankings published by Value Line. **As estimated by the author, with data from Thomson Financial Network.
Note: Numbers in the table have been rounded.

PORTFOLIO TUNEUPS

Would your club like a review of its portfolio? Send your valuation statement and a description of club challenges to Repair Shop. If you have a focused photo showing everyone's face, forward a high-resolution digital image or print. Include the names of the members, in order, plus the names of those not pictured. Send digital photos via CD or email them to janj@betterinvesting.org.

of revenue growth and share repurchases. A P/E of 30, while not inexpensive, isn't unusually high for medical device companies. I'd recommend the club add to its 3% weight.

One look at the SSG for **Eli Lilly (LLY)** isn't impressive as the 10-year average of revenue and earnings growth are only 2.3% and 3.0%, respectively. The drugmaker's P/E of 56 is also unimpressive. I'd recommend the club look at some challengers, including **Abbott Laboratories (ABT)** and **Vertex Pharmaceuticals (VRTX)**.

Chronic obstructive pulmonary disease (COPD), associated with obesity and smoking, is a medical condition with an estimated 480 million worldwide sufferers. Emphysema and chronic bronchitis are the most common side effects of COPD. Sleep apnea, a condition where breathing starts and stops while asleep, has been observed in many patients with COPD and is thought to exacerbate the condition. **ResMed (RMD)** is the leader in treating sleep apnea, along with its main competitor, **Philips**. ResMed gets 88% of its revenue from selling continuous positive airway pressure (CPAP) machines and 12% from software-as-a-service patient monitoring.

Growth has slowed over time through a combination of a maturing market and competition from Phillips, but ResMed is getting a boost from Phillips' machines that have been pulled from the market due to a manufacturing defect. It has yet to be seen if the defect can be rectified and Phillips' reputation in the market restored. Expected annual earnings growth of 14% implies faster than historical growth and a P/E of 40 is quite elevated. I'd recommend the club reduce the stock's weight to a normal level and follow the competitive dynamics.

COPART, HEICO

Two industrial holdings make up 16% of the portfolio. **Copart (CPRT)** is the leader in vehicle auctions that focus on insurance company sellers of damaged total loss vehicles and used vehicle dealer and dismantler buyers that break down the wreck for parts. Higher electronics content in vehicles continues to drive up the price point where an insurance company declares a vehicle a total loss, providing a long-term tailwind. Expansion in traditional vehicle auctions and international markets adds to growth prospects. I'd recommend the club move the stock to a full weight.

Heico (HEI) specializes in aerospace, defense and electronics parts primarily for the commercial aviation and defense industries. Results have taken a turn up lately as pent-up travel demand restores flights. But expected annual earnings growth of 12% is far too modest for a P/E of 63. I'd suggest the club consider an outright sale or at least a trim of the holding.

ALPHABET

Alphabet (GOOG) is the lone communication services sector stock and the undisputed leader in search across the internet. Weak global conditions have led to a slowdown in advertising, particularly brand, but the firm's cloud computing offering continues to grow strongly. Analysts are calling for 17% annual earnings growth, perhaps a tad aggressive, and the firm certainly has the scrutiny of regulators looking at its leading advertising auction network. The P/E of 18 is inexpensive for a high-quality company with multiple growth opportunities. I'd recommend the club add to the position.

AMAZON AND ARCELORMITTAL

Everybody knows **Amazon (AMZN)**, the world's largest online retailer and the lone stock representing the consumer discretionary sector. The company expanded too aggressively during the pandemic, leading to recent revenue shortfalls that have depressed earnings. I'm not sure the firm at its current size can continue to grow its eCommerce capabilities much faster than the economy, especially with heightened competition from **Walmart** and others. It is the leader in cloud computing, a market that continues to grow rapidly and commands far more lucrative profits. I've always been skeptical of the stock given its valuation, especially a trailing P/E of 83. At a 2% weight the stock won't do much either way for portfolio returns.

The last holding in the portfolio, **ArcelorMittal (MT)**, represents the materials sector and is the world's largest integrated steel company. Its SSG looks like I would expect, reflecting a long-term trend of stagnant sales and EPS performance tied to commodity prices. I'd look for an upgrade of this small 1% position.

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Tax Season Odds and Ends to Consider

Keep an eye out now for problem securities, broker record issues.

by Russell Malley

Soon clubs will be receiving their Form 1099-B from their brokers. I thought this would be a good time for some reminders related to problem securities and differences that may arise between club records and broker records. I'll start with problem securities.

Holding some securities in a club portfolio can give treasurers and the club problems. The main issue is extra work for the treasurer but can include delayed filing of a club tax return. Real estate investment trusts (REITs) are a minor headache for treasurers. They involve extra work to categorize the true nature of the distributions made during the year. These distributions are normally first entered as dividends but in fact are a combination of multiple types of distributions.

The actual type of distribution is often not known until the arrival of the 1099. The original entries for these distributions then need to be edited to reflect the true nature of the distributions. Some small additional work is also required for the annual allocation of earnings for REITs to distinguish between qualified dividends and Section 199A dividends for tax reporting.

Publicly traded partnerships (PTPs) require much more work for treasurers. The bulk of this is entering the club's share of the PTP income as reported on a Schedule K-1. This is not directly supported by the myICLUB platform. Contacting support is usually required; see **www.iclub.com/support/new_ticket.aspx**.

In addition, the club may not receive the K-1 until March 15, the deadline to file club taxes. This may delay filing club tax returns. While many PTPs distribute K-1s to unit holders weeks earlier than March 15, the legal requirement is March 15 so there is no guarantee the club's K-1 will be available before the club's filing deadline. Clubs holding a PTP in their portfolio should be ready to request an extension to file their Form 1065.

SOME EXCHANGE-TRADED FUNDS ARE TRICKY

Some exchange-traded funds (ETFs) are also much more work for treasurers to accurately account for the holding. These ETFs are those that hold physical commodities as their sole or major asset. For example, ETFs that hold physical gold, silver and platinum would be included in this group. This is due to the commodity being treated as a "collectible" by the Internal Revenue Service. The tax rate on gains from collectibles is different than for securities and is reported separately on tax forms. The separate reporting of collectible gains is not supported by ICLUBcentral tax software. In addition, such ETFs sell some of the commodity regularly to pay expenses. Each sale is considered a pro-rated sale by all shareholders. To be completely accurate, club treasurers need to enter a sell transaction each time the ETF made a commodity sale. In addition, these ETFs often charge shareholders an expense fee. In this case the proceeds of the sale would then be used to pay for this expense in the club books.

WHEN CLUB RECORDS AND BROKER RECORDS DIFFER

Differences between club records and broker records give treasurers anxiety. Usually, club records should match broker records for cost basis of shares and gains realized. There are some transactions that can generate differences where both the club and broker can be considered accurate. These are transactions where a fair market value (FMV) component is involved in calculating the cost basis after the transaction.

Spinoffs are one of these transactions. The other common one is a merger where both shares and cash are part of the merger consideration. The culprit is the inexact definition of FMV in the tax code. In my experience, I have seen at least six different ways companies have determined FMV. When the FMV is calculated has also come into play. When instructions are written to help clubs enter these transactions, we cannot know what method their broker is using.

In addition, myICLUB users use a variety of brokers. It's impossible to match every broker's method all the time. Inevitably, a difference will arise with a customer at some point. If it happens to your club, don't panic. The IRS knows this is possible.

The differences are usually small and there is a place on tax forms to report this difference. Following the directions for using the ICLUBcentral Tax Printer will complete these sections of the tax forms automatically.

POSSIBLE GOOD NEWS ON THE TAX FRONT

I wanted to end the column with some possible good news. Last year, two new schedules related to foreign income were introduced by the IRS. These were schedules K-2 and K-3 and they made club federal tax returns very long. Recently, the IRS posted new draft instructions for these schedules. While detailed analysis has not been completed as I write this, the IRS added some expanded criteria for being exempt from including these two schedules. It's possible most clubs will meet the requirements to be exempt from filing these schedules. Details will come after the detailed analysis is completed. I'm hoping my first impressions hold true!

Ulta Beauty, Inc.

As pandemic fears fade, shoppers race back to retailer.

For consumers stuck working from home during the pandemic, looking frumpy may not have seemed all that bad. With easing pandemic conditions, however, many employers have ordered a return to the office — so spiffing up is a priority again.

Aside from the work place, people are getting out more often. High school students are back in class. People are attending social events again. Restaurants and other businesses serving large crowds are open.

Demand for beauty products has consequently roared back after the drought experienced early in the pandemic. That has helped boost results for industry leader Ulta Beauty, Inc. (ticker: ULTA).

Members of the Editorial Advisory and Securities Review Committee noted several consumer friendly strategies helping Ulta's results. Those include astute discounting, free shipping for e-commerce purchases and promotions in its member loyalty program.

Ulta's recent results have exceeded analysts' consensus expectations.

In upcoming quarters, members cautioned, challenges facing management include the higher costs — especially for shipping — that have squeezed margins. And if predictions of a 2023 recession prove true, consumers facing financial pressures might reduce purchases of discretionary items such as beauty products.

The early pandemic knocked the stock back on its heels; the share price hit a five-year bottom just below $150 in March 2020. The stock has clawed its way back to new heights since then. Some analysts argue shares have potential for more growth in 2023 and beyond.

The stock's $440.50 close reported Nov. 18 was 0.2% below the 52-week high of $451.30 recorded Sept. 12. The stock outperformed the S&P 500, which over the same time frame decreased 17.7% to 3,965.34 from a Jan. 4 high of 4,818.62.

The stock's trailing 12-month price-earnings ratio was 20.6 (*see table*); the ratio for the S&P 500 also was 20.6.

CSIMarket, a financial data service, reported a TTM P/E ratio average for the specialty retail industry of 49.8. Based on figures Yahoo Finance reported, the P/E average was 38.0 for Ulta and three competitors named by Morningstar.

For P/E to projected growth, or PEG, Ulta had a ratio of 1.9. A range of no more than 1.0 to 1.5 is generally considered desirable.

RETAIL MAKEUP

Ulta reportedly is the country's largest distributor of beauty merchandise. The company markets about 25,000 products from more than 600 brands, including its private label Ulta Beauty Collection. It offers one-stop shopping: Ulta reportedly is the only retailer offering a full spectrum of beauty products, unlike competing department store, specialty shop and drugstore chains focusing on particular categories.

Ulta distributes merchandise such as cosmetics and fragrances; salon hairstyling tools; nailcare, haircare, skincare, and bath and body products; and makeup bags and cases. Also featured are salons providing hair, skin, makeup and brow services.

DEALING IN BEAUTY. Ulta offers consumers one-stop shopping for full-spectrum beauty care products.

Cosmetics represented 43% of net sales for 2021. The sales contributions of other categories were as follows:

- Haircare products and styling tools, 20%
- Skincare, 17%
- Fragrance and bath, 14%
- Services, 3%
- Accessories and other, 3%

At the close of fiscal 2021 (ended Jan. 29, 2022), Ulta was operating 1,308 stores in 50 states. That was up 3.5% from 1,264 outlets the year before. Management has projected freestanding stores will ultimately total 1,500 to 1,700. In 2021 the company established 44 new stores, in keeping with a recent trend of opening about 50 outlets per year. Ulta conducted nine remodeling projects and relocated seven stores.

In 2019 management announced plans to enter the Canadian market, which would have been Ulta's first international initiative. The company suspended those plans in September 2020, however.

Ulta generally leases its store sites, most of which are located in high-traffic strip malls; only about 10% of its outlets are in enclosed malls. The typical store

ULTA BEAUTY, INC.

	2021 (ENDED 1/29/22)	2020 (ENDED 1/30/21)	% CHANGE	FY 2022 Q2	FY 2021 Q2	% CHANGE	FY 2023 YEAR TO DATE	FY 2022 YEAR TO DATE	% CHANGE
Net Sales	$8.6B	$6.2B	40.3%	$2.3B	$2.0B	16.8%	$4.6B	$3.9B	18.9%
Net income*	$985.8M	$175.8M	460.7%	$295.7M	$250.9M	17.8%	$627.1M	$481.2M	30.3%
Diluted EPS*	$17.98	$3.11	478.1%	$5.70	$4.56	25.0%	$12.00	$8.66	36.6%
Declared dividends	–	–	–	–	–	–	–	–	–

Stock exchange	Nasdaq
Ticker symbol	ULTA
Price at time of selection	$434.70
Past year's price range	$330.80 – $451.30
Recent market price	$440.50
Market capitalization	$22.6B

Value Line long-term earnings growth estimate	15.5%
Consensus long-term earnings growth estimate (31 analysts)	10.6%
Consensus EPS growth rate for FY ended January 2023	18.8%
Consensus EPS growth rate for FY ended January 2024	7.9%
Recent price-earnings ratio**	20.6x

*Excluding nonrecurring and special items.
**The P/E ratio is based on diluted EPS of $21.35 for the four quarters ended July 30, 2022.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

encompasses about 10,500 square feet of retail space. That's significantly larger than the average capacities of competitors, allowing Ulta to offer its broader range of merchandise and services.

Many Ulta stores devote space to salon services — skin treatments, haircuts, hairstyling and hair coloring. Salons serve as growth drivers: Although a minority of store visitors use salon services, they tend to be among Ulta's best customers. They shop about twice as often and buy about three times as much as customers who don't patronize the salons.

Comparable results in 2021 — net sales for stores open at least 14 months, plus e-commerce — rose 37.9%. In 2020 comparable sales dipped 17.9% year over year, largely because of temporary store closures from the pandemic.

Richard E. George, former president of Osco Drug, was the driving force behind Ulta's launch. Envisioning a one-stop, discount business model for marketing beauty products, he and Terry J. Hanson persuaded about a dozen fellow Osco executives to join them in the new retail venture.

They tapped an $11.5 million venture capital investment in 1990 and opened the first store in Bolingbrook, Illinois, still the company's headquarters city.

By 1995 Ulta was operating 50 stores in six states. Despite fierce competition from other retail beauty distributors, the business continued to grow rapidly. Initially known as Ulta3, the company became Ulta Salon, Cosmetics & Fragrance at year-end 1999 and adopted its current name in January 2017. It first issued publicly traded stock in October 2007.

David C. Kimbell, 55, was named CEO in 2021, taking over from chief executive Mary N. Dillon. Kimbell joined the company in 2014 after serving as a senior executive at United States Cellular (USM); privately held Seventh Generation; Quaker Foods and Beverages, a unit of PepsiCo (PEP); and Procter & Gamble (PG). Lorna E. Nagler, 64, became chairman in 2022, having joined the board in 2009. Nagler previously was CEO of apparel marketer Christopher & Banks (CBKCQ).

Competitors include Amazon (AMZN), CVS Health (CVS) and Macy's (M), Morningstar reported.

DIGITAL DANCE CARD

Management is focusing on several technology-driven marketing strategies. For example, recently about 38 million customers — 95% — were members of the company's Ultamate Rewards loyalty program and held Ultamate credit cards. In 2021 e-commerce represented 25% of net sales, up from 20% the year before.

Ulta's UB Media unit allows brand partners to connect with customers through videos, advertising and social media influencers. The platform provides Ulta with an added revenue stream from brand partners building such digital campaigns. The collaborations can also prompt customers to make additional Ulta purchases.

In November 2020 Ulta and Target (TGT) announced a strategic "store within a store" partnership under which Ulta would operate Target shops marketing beauty merchandise. The two chains are urging customers to link their reward memberships, potentially gaining each retailer new members. By mid-2022 Ulta had opened 186 such outlets, aiming to have 250 by year-end. Management anticipates establishing up to 800 such Target sites.

Management recently launched a wellness initiative. Ulta has established wellness shops providing health supplements and "spa services at home" offerings in select stores.

FINAL NOTES

BetterInvesting Magazine featured Ulta as the Stock to Study for January 2018 and as the Undervalued Company for June 2020. The company ranked No. 61 in the Top 100 Survey of investor holdings for 2021 (*see the April 2022 issue*). A projected 133 clubs owned shares.

Ulta doesn't offer a direct stock purchase plan. It hasn't undergone any stock splits to date and has never paid cash dividends.

Note that the partially completed Stock Selection Guide available at the BetterInvesting website uses Morningstar data, which reports fiscal year share pricing. (Ulta's fiscal year ends in January.)

In contrast, Value Line offers calendar-year pricing information. The following are Value Line's rounded calendar-year price ranges for the past five years:

- $188.00 to $314.90 (2017)
- $191.70 to $322.50 (2018)
- $222.00 to $365.50 (2019)
- $124.10 to $304.70 (2020)
- $276.00 to $417.80 (2021)

The share total has declined annually over the past nine years, Value Line reported.

In 2021 the company repurchased 4.2 million shares valued at $1.5 billion. In March Ulta's board authorized a new $2 billion repurchasing authorization with no expiration date.

More background on Ulta and its industry, including the Value Line analyst and Value Line industry reports, can be found in the Analyst Reports and Other Resources section of the website.

For more information, contact Investor Relations, Ulta Beauty, Inc., 1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440–4708.

— Reporting by contributing editor Kevin J. Laminan

NEXT MONTH'S STOCK TO STUDY AND UNDERVALUED STOCK

The Editorial Advisory and Securities Review Committee met Jan. 10. The Stock to Study and Undervalued Stock that its members selected were announced afterward. The link takes you to the announcement at the BetterInvesting Newsroom: **www.betterinvesting.org/about-us/news-releases**

SSG Study Notes

During your analysis of Ulta Beauty, Inc. (ticker: ULTA) you might consider the following comments, data points and questions for further study.

- **Capitalization section:** ULTA is one of those unusual companies that has no debt. The company also doesn't pay a dividend, yet its growth rate for the past 10 years averages just less than 16%. Ulta's cash position is down 50% from two years ago. With interest rates currently on the rise, does the company's management of cash and debt make the stock more attractive? Shares outstanding have been falling for the past two years, with the management signaling it will continue to buy back shares — does this policy indicate that management is confident its shares are a good value at the current price?

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** The visual analysis of sales, earnings and price from BetterInvesting's Stock Selection Guide (SSG) shows a sales dip for 2020, understandable given the pandemic, yet the earnings decline is much steeper. How should an investor confirm that profitability has returned to its previous level? Value Line indicates that Ulta's recent profit margin actually is higher than pre-pandemic. Is that level sustainable, and what accounts for it? The share price has been on a march upward that outpaces the S&P 500. What are the characteristics that have made Ulta popular with investors; and how long can the trend last?

- **Section 2 (Evaluating Management):** Roughly speaking, Ulta's price-earnings ratio for the past five years has averaged between a low of just below 20 and a high of almost 30. How does that compare with the S&P 500 or other major indices? In early November, Ulta shares were trading around $418, which put them in the BUY zone, according to BetterInvesting's methodology, as analyzed by a member of the Securities Review Committee. Shares moved higher in early December to about $480 a share. According to the analysis, shares would be in the HOLD zone once they reached $560. Are these figures still valid, or is a new SSG analysis necessary, possibly using latest sales and earnings figures?

- **Section 3 (Price-Earnings History):** Guessing earnings for the next several quarters and the next several years, in order to calculate a good projection for the share price and return, might involve using past growth rates or averaging them. Major outlets like Value Line and Morningstar also provide forecasts. Do you feel more comfortable with a third-party or trying to come up with your own forecast, which might be influenced by additional factors such as your own observations or beliefs about the company? Or some combination of third-party and your own?

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Ulta Beauty, Inc.

Stock Selection Guide

Figure 1

Capitalization information.
Besides background about the company, including the data source used for the study, this section provides information about the number of common and preferred shares and the percentages held by insiders and institutional investors. Total debt and the percentage of debt to total capital also are detailed.

Figure 2

Recent sales and earnings results.
This section contains the company's most recent quarterly results along with a comparison of results from the same quarter a year ago.

Figure 3

Visual view of sales/earnings/price.
The graph provides a quick view of the company's financial results. A long-term history of consistent sales and earnings growth at relatively high rates indicates the company is well-managed and worth further study. Historical sales growth is plotted on the green line and historical earnings growth is represented by the blue line. The black bars provide information about the stock price. For each year, the top of the bar is the annual high price, while the bottom is the low price.

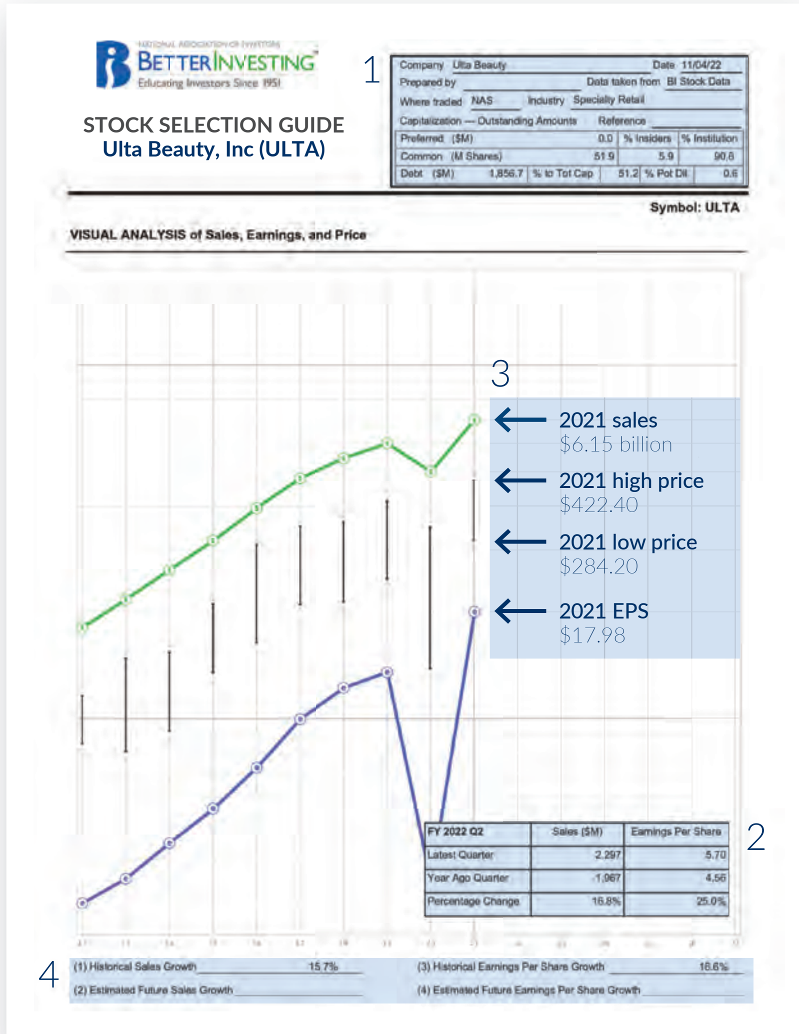

Figure 4

Forecasting future sales and earnings growth rates.
The core of the BetterInvesting methodology is this: Sales growth drives earnings growth, and earnings growth drives stock price. Using the Stock Selection Guide, you'll forecast growth rates and determine the stock's potential high and low prices over the next five years.

Step one is to forecast sales growth. The company's historical performance is helpful, but you'll need to do some research to decide whether revenue growth will remain at the historical level, slow down or speed up.

After estimating sales growth, the next step is to forecast earnings per share growth. Often you can estimate EPS growth at a similar rate used for sales. EPS growth can differ from sales because of rising or falling expenses, an increasing or decreasing number of outstanding common shares and changing tax rates. Even though a company can grow earnings faster than sales by cutting costs or buying back shares, this can't last. EPS growth and sales growth eventually equalize.

Use the estimated growth rate for earnings to forecast the earnings per share five years from now. On the second page of the SSG, use the future EPS to determine potential high price. Ask yourself if the company is growing at a sufficient rate relative to its size; higher growth rates for small companies, compared with medium and large caps.

Editor's note: The Value Line and Morningstar company and industry reports are found at the website's homepage under the Learning Center tab, BetterInvesting Magazine *section, for your use in conducting stock studies. You'll need Adobe Acrobat software to read the PDF files.*

Ulta Beauty, Inc.

Stock Selection Guide

EVALUATING MANAGEMENT Company **Ulta Beauty, Inc.** **(ULTA)**

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	12.6	12.3	12.7	12.9	13.5	13.4	12.8	12.2	3.8	15.0			
B	% Earned on Equity (E/S ÷ Book Value)	24.2	21.8	21.5	23.0	27.9	33.8	35.4	37.6	9.4	47.3			

5

PRICE-EARNINGS HISTORY as an indicator of the future

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

PRESENT PRICE ______ HIGH THIS YEAR ______ LOW THIS YEAR ______

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2017	314.9	188.0	8.96	35.1	21.0	0.000	0.0	0.0
2	2018	322.5	191.7	10.94	29.5	17.5	0.000	0.0	0.0
3	2019	368.8	222.0	12.15	30.4	18.3	0.000	0.0	0.0
4	2020	310.5	124.1	3.11	99.8	39.9	0.000	0.0	0.0
5	2021	422.4	284.2	17.98	23.5	15.8	0.000	0.0	0.0
6	TOTAL								
7	AVERAGE								
8	AVERAGE PRICE EARNINGS RATIO				9 CURRENT PRICE EARNINGS RATIO				

6

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 ______ (3D7 as adj.) X Estimate High Earnings/Share ______ = Forecast High Price $ ______ (4A1) 7

B LOW PRICE — NEXT 5 YEARS
(a) Avg. Low P/E ______ (3E7 as adj.) X Estimated Low Earnings/Share ______ = $ ______
(b) Avg. Low Price of Last 5 Years = ______ (3B7)
(c) Recent Severe Market Low Price = ______
(d) Price Dividend Will Support Present Divd. / High Yield (H) = ______ = ______
Selected Estimate Low Price ______ = $ ______ (4B1) 8

C ZONING
______ (4A1) High Forecast Price Minus ______ (4B1) Low Forecast Price Equals ______ (C) Range. 1/3 of Range = ______ (4CD)
(4C2) Lower 25% = (4B1) ______ to ______ (Buy)
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell) 9

Present Market Price of ______ is in the ______ (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) ______ Minus Present Price ______ / Present Price ______ Minus Low Price (4B1) ______ = ______ = ______ (4D) To 1 10

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
High Price (4A1) ______ / Present Market Price ______ = (______) X 100 = (______) - 100 = ______ (4E) % Appreciation

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.
Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ ______ / Present Price of Stock $ ______ = ______ X 100 = ______ (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
Avg. Earnings Per Share Next 5 Years ______ X Avg. % Payout (3G7) ______ = ______ / Present Price $ ______ = ______ (5B) %

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS
5 Year Appreciation Potential (4E) ______ / 5 = ______ %
Average Yield (5B) ______ %
Average Total Annual Return Over the Next 5 Years (5C) ______ % 11

Figure 5

Evaluating management.

The key to successful investing is finding well-managed companies with reasonably priced stocks. Historical growth rates provide evidence of good management, as do the numbers in this section. Pre-tax profit margins represent how much of each sales dollar a company keeps before taxes. Look at pre-tax margins because companies have limited control over their tax rates. Look for stable or growing margins. Return on equity indicates how well the company manages shareholders' investments. Remember, look for stable or growing returns.

Figure 6

Price-earnings ratio history.

Section 3 includes information you'll use in Sections 4 and 5. Columns D and E detail the high and low P/Es for each of the past five years. You can also see the average P/E for the last five years as well as the current P/E. Information about the dividend yield also is offered.

Figures 7 & 8

Forecasting the high and low prices.

P/E history will inform judgments about the potential high and low prices. Multiply your predicted high P/E by the high EPS you calculated on the first page to determine the potential high price. Multiplying the expected low P/E by the low EPS (for a growth company, this often is the most recent year's earnings) is one way to predict the future low price.

Figures 9 & 10

Buy-Hold-Sell zones and upside-downside ratio.

After calculating the potential high and low prices, use the SSG to determine whether the stock is reasonably priced. The upside-downside ratio compares the potential price increase to the potential price drop. Look for stocks that are both in the Buy zone with an upside-downside ratio of at least 3 to 1; beware of abnormally large or small ratios.

Figure 11

Estimated average annual return over the next five years.

In this final section, you'll learn about the stock's potential return over the next five years. This figure includes both the expected return from increases in the stock's price and predicted dividends.

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Gentex Corporation

Anticipated spike in auto production may rev up supplier's results.

Long-standing supply chain shortages — especially of semiconductors — triggered by the pandemic have constrained production of light vehicles worldwide. That has had carryover effects on suppliers such as Gentex Corporation (ticker: GNTX), which has reported soft results in recent quarters. As supply disruptions forced automakers to throttle back production, their orders for components sank in tandem.

The auto industry's supply chain choke points now appear to be easing open; things therefore may be looking up for Gentex, the global industry's dominant provider of automatically dimming rearview mirrors. Analysts estimate the company commands a market share falling between 90% and 94%.

In addition to making dimming mirrors, Gentex manufactures a range of related safety components and microelectronics for use by drivers and passengers. The increasing use of sensors in vehicles to enhance safety, adjust lighting and improve comfort could become a key growth driver, suggested members of the Editorial Advisory and Securities Review Committee.

Like many manufacturers, Gentex in recent quarters has contended with multiple headwinds, committee members said. For example, with many of its customers located overseas, the strong dollar means the company's results suffer from adverse currency translation. Inflation has pushed up the costs of factors such as shipping and raw materials, compressing its profit margins.

The stock's $28.73 close reported Nov. 18 was 22.3% below the 52-week high of $36.97 recorded Nov. 23, 2021. The stock underperformed the S&P 500, which during the same time frame decreased 17.7% to 3,965.34 from a Jan. 4 high of 4,818.62.

The stock's trailing 12-month price-earnings ratio was 21.4 (*see table*); the ratio for the S&P 500 was 20.6.

CSIMarket, a financial data service, reported a TTM P/E ratio average of 39.0 for the company's industry. Based on figures Yahoo Finance reported, the ratio average for Gentex and three competitors named by Morningstar was 42.9.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 1.1 for Gentex based on an average five-year expected earnings growth rate. A range of no more than 1.0 to 1.5 is generally considered desirable.

CORPORATE REFLECTIONS

In 1974 Fred T. Bauer launched Gentex to produce fire protection products. He started the business with proceeds from the sale of Simicon, which he had established in the late 1960s to manufacture electronic furnace control units. Gentex first issued publicly traded stock in 1981.

Under Bauer's leadership, Gentex initially manufactured burglar alarms and smoke detectors for use in mobile homes. The company developed expertise in electro-optics — photoelectric sensing devices and associated circuitry.

In 1982 Gentex tapped that background to develop the world's first automatically dimming rearview mirrors for passenger cars and other light vehicles.

The first-generation interior mirrors were installed primarily in American luxury cars. They employed photoelectric sensors to detect headlight glare from oncoming vehicles, actuating small motors to change mirror angles for safer night driving.

RUGGED ROADSTER. Gentex's modified 2021 Chevrolet Silverado Trail Boss (2LT), transformed into an overland vehicle.

In 1987 Gentex introduced its second-generation mirror technology. Gentex electrochromic interior mirrors automatically darken upon detecting headlight glare. Sold under the brand name Night Vision Safety, the products eliminated the noise and distraction of motor-driven mirrors.

Employing glass-encased gel that darkens when electrically charged, the mirrors continuously vary their reflectivity in response to changing levels of glare from approaching vehicles.

Gentex introduced an exterior electrochromic mirror in 1991.

Automotive products produced $1.7 billion of net sales in fiscal 2021 (ended Dec. 31, 2021). That was 98.0% of the total. Of that, automotive mirrors accounted for $1.6 billion — 90.3%.

GENTEX CORPORATION

	2021 (ENDED 12/31/21)	2020 (ENDED 12/31/20)	% CHANGE	FY 2022 Q3	FY 2021 Q3	% CHANGE	FY 2022 YEAR TO DATE	FY 2021 YEAR TO DATE	% CHANGE
Net Sales	$1.7B	$1.7B	2.5%	$493.6M	$399.6M	23.5%	$1.4B	$1.3B	8.7%
Net income*	$354.9M	$343.6M	3.3%	$72.7M	$76.7M	(5.2%)	$232.6M	$276.6M	(15.9%)
Diluted EPS*	$1.50	$1.41	6.4%	$0.31	$0.32	(3.1%)	$0.99	$1.15	(13.9%)
Declared dividends	$0.48	$0.48	—	$0.12	$0.12	—	—	—	—

Stock exchange	Nasdaq
Ticker symbol	GNTX
Price at time of selection	$28.51
Past year's price range	$23.28 – $36.97
Recent market price	$28.73
Market capitalization	$6.7B

Value Line long-term earnings growth estimate	10.0%
Consensus long-term earnings growth estimate (9 analysts)	15.8%
FY ended December 2022 consensus EPS growth estimate	(8.0%)
FY ended December 2023 consensus EPS growth estimate	31.9%
Recent price-earnings ratio**	21.4x

*Excluding nonrecurring and special items.
**The P/E ratio is based on diluted EPS of $1.34 for the four quarters ended September 30, 2022.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

Advanced features for automotive interiors include compass displays, microphones, forward safety camera displays and lighting systems in addition to automatically dimming and nondimming rearview mirrors. Exterior mirror features include turn signals and side blind-zone indicators.

Another product line is SmartBeam, introduced for the 2005 model year. SmartBeam headlight-assist systems automate high- and low-beam switching, improving nighttime driving safety.

Toyota Motor (TM) was the company's largest customer in 2021, accounting for 15% of net sales. Volkswagen (VWAGY and VWAPY) produced 13%, and General Motors (GM), 11%.

Product lines outside the automotive segment contributed net sales of $34.0 million — 2.0%. The company's original product lines — fire protection devices — are the chief nonautomotive category.

Gentex manufactures photoelectric smoke detection alarms for use in both homes and commercial buildings, plus carbon monoxide detection alarms. Gentex also produces dimmable passenger windows for certain commercial aircraft models produced by Boeing and Airbus.

Domestic customers produced net sales of $542.7 million — 31.3% of the 2021 total. International business accounted for $1.2 billion — 68.7%.

Germany was the largest single foreign market in 2021, accounting for $235 million in net sales — 13.6% of the total. Japan followed with $211.4 million — 12.2%. Mexico produced $111.8 million — 6.5%. Other international markets accounted for $596.3 million — 34.4%.

HomeLink modules generated $133.8 million — 7.7% of net sales. The products allow drivers to employ radio frequency technology to remotely activate garage doors, entry door locks, home lighting, security systems and other home features.

In 2015 Gentex negotiated a deal to install TransCore's Universal Toll Module technology in vehicle mirrors. The TransCore transponder eliminates the need to attach multiple toll tags to a vehicle's windshield, simplifying payment.

Steven R. Downing, 44, was elected CEO in January 2018. He joined Gentex in 2002.

Richard O. Schaum, 74, a board director since 2011, was named chairman in 2022. His career included service as a senior executive at startup WaveCrest Laboratories, and at DaimlerChrysler and its predecessor company Chrysler.

Competitors include Aptiv (APTV), Lear (LEA) and Magna International (MGA), Morningstar reported. Magna reportedly is the company's chief competitor.

SHINING A LIGHT ON NEW MARKETS

The company lately has been tapping its expertise to develop products for customers in other industries.

On the medical front, Gentex has partnered with the Mayo Clinic to develop smart lighting for use in surgical suites and patient-care units. Company engineers are also exploring adaptations of Gentex camera technology to help the visually impaired.

Products employing nanofibers are another area of research. In February 2021 Gentex acquired Vaporsens, a startup developing nanofiber-based chemical sensing technology. Terms of the transaction weren't disclosed.

Nets of porous, microscopically thin nanofibers absorb targeted molecules from sampled gas and identify them rapidly from changes in electrical resistance. The technology could have applications in a variety of areas, including automotive, aerospace, agriculture, chemical manufacturing, food and beverage processing, medical, military, security, and worker safety.

Gentex lately has pulled off some other small acquisitions. For example, in March 2021 the company purchased Guardian, an Israeli research and development concern developing in-cabin sensing technologies for the automotive industry. The deal was a $12.0 million all-cash transaction.

In December 2020 Gentex closed on another all-cash transaction, acquiring remaining shares of Argil for $3.7 million. Gentex had previously invested $4.2 million in the California business, which specializes in electrochromic technology.

New competition for the company's mainstay product lines could come in the form of video camera displays designed to replace rearview mirrors. To date the deployment of such products has been held up by caution among regulatory bodies in several countries; some analysts suggest widespread use of the technology could be 10 or more years away.

Regardless, Gentex already has related expertise in the form of its Full Display Mirror product. FDM is a hybrid device allowing a driver to rapidly select either a rearward LCD camera display or a reflective mirror view.

FINAL NOTES

BetterInvesting Magazine profiled Gentex as the Stock to Study for September 2014 and as the Undervalued Company for May 2016. The company ranked No. 100 in the Top 100 Survey of investment club holdings for 2021 (*see the April 2022 issue*). A projected 83 clubs owned Gentex shares.

The company doesn't offer a dividend reinvestment and direct stock purchase plan. Gentex shares underwent five 2-for-1 splits, in 2014, 2005, 1998, 1996 and 1993.

The share count has declined annually over the seven years since 2015, Value Line reported. In 2021 Gentex repurchased 9.6 million shares for $324.6 million. Spending on buybacks totaled $287.3 million in 2020 and $332.0 million in 2019.

Gentex has a long history of increasing its dividend. The cash payout to shareholders rose in 12 of the past 15 years, Value Line reported.

More background on Gentex and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website. For more information contact Investor Relations, Gentex Corporation, 600 N. Centennial St., Zeeland, MI 49464–1374.

Websites of Interest

Gentex Corporation
www.gentex.com

— Reporting by contributing editor Kevin J. Lamiman

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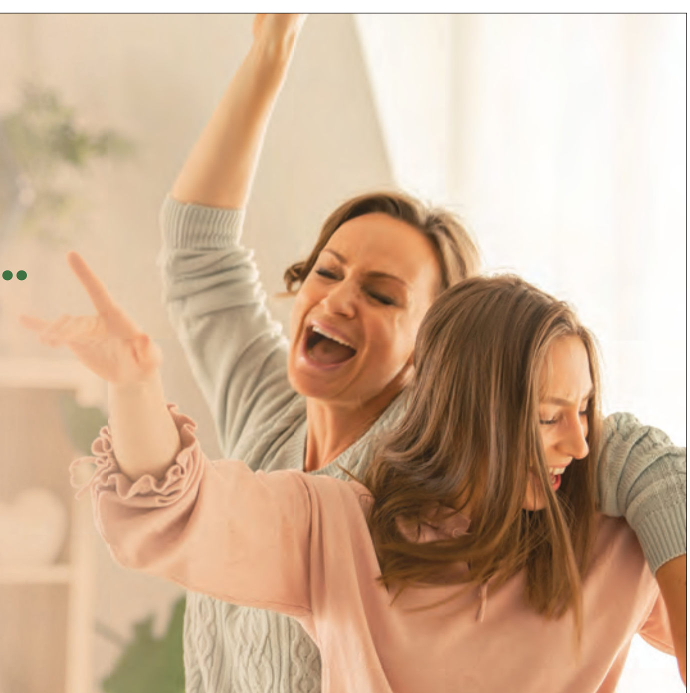

ICON PLC

Helping drug companies jump through regulatory hoops.

For pharmaceutical, biotechnology and medical devices companies, gaining regulatory approval for new therapies can be a lengthy, expensive process. For example, under U.S. rules a developer must demonstrate through four stages of clinical trials that a therapy is safe and effective.

Given the complexities, companies developing new therapies often farm out the testing and related functions. A leader among contractors providing such services is ICON PLC (ticker: ICLR), based in Ireland.

With a global network of clinical testing centers and participating physicians, ICON markets its services as attractive alternatives to in-house efforts. Its massive database of information about roughly 580 million patients is another attraction. Corporations turn to contract research organizations (CROs) such as ICON when their managements conclude outsourcing some or all of a development project is the most efficient approach.

The cost of developing a therapy and then gaining permission to market it can be daunting. In a 2020 study published in the Journal of the American Medical Association, the median cost was pegged at $985 million, while the average was $1.3 billion.

Members of the Editorial Advisory and Securities Review Committee noted that CRO services such as those ICON provides constitute a relatively stable business. They cited predictions that outsourcing demand is likely to grow, representing long-term opportunity.

In July 2021 ICON climbed in its industry's rankings through a major acquisition, its purchase of competitor PRA Health Sciences. Measured by revenues, the combination raised ICON to the No. 2 spot behind IQVIA Holdings (IQV). Including PRA's results immediately prior, the transaction almost doubled ICON's annual revenue.

Committee members observed that with the addition of PRA's results, the acquisition somewhat complicates comparisons of ICON's recent financials. The acquisition also had significant — but temporary — effects on ICON's balance sheet. For example, the company funded the deal partially with debt, raising its total indebtedness to about $5 billion.

Corporate management historically has been conservative with balance sheets; the company immediately began paying down the heightened net debt.

By the end of third quarter 2021 the company owed $4.9 billion. That was down to $4.2 billion in third quarter 2022.

In late 2020 ICON mobilized to assist the accelerated testing of vaccines being developed to combat the spread of COVID–19. Ironically, the pandemic contributed to anemic financials. Travel restrictions, patient reluctance to join trials and related obstacles led to delays and cancellations of clinical testing. Revenue and earnings consequently fell.

The stock's $214.69 close reported Nov. 28 was 31.4% below the 52-week high of $313.00 recorded Dec. 23, 2021. The stock underperformed the S&P 500, which over the same time frame decreased 17.7% to 3,963.94 from a Jan. 4 high of 4,818.62.

The stock's trailing 12-month price-earnings ratio was 38.1 (*see table*); the ratio for the S&P 500 was 20.6.

HELPING FIND SOLUTIONS. Ireland-based ICON has contributed to the approval of 20 medicinal products for pediatric patients.

CSIMarket, a financial data service, reported a TTM P/E ratio average for the medical laboratories industry of 23.2. Based on figures Yahoo Finance reported, the P/E average was 27.9 for ICON and three competitors named by Morningstar. For P/E to projected growth, or PEG, ICON had a ratio of 0.4. A range of no more than 1.0 to 1.5 is generally considered desirable.

CLINICAL TRIAL SHEPHERD

ICON works with pharmaceutical and medical device corporations, but the largest proportion of its business reportedly is with biopharmacy firms. ICON recently was operating 93 locations in 41 countries. The company's expertise includes familiarity with regulations in multiple jurisdictions.

In addition to running clinical trials, ICON offers a wide range of related services. It consults with clients about compound selection and regulatory affairs, designs studies, manages clinical data, provides laboratory services and conducts biostatistical analysis. (The company doesn't publish breakdowns of its revenue categories.)

Once a company obtains a drug patent, the clock starts ticking on the 20 years of exclusivity for sales of

ICON PLC

	2021 (ENDED 12/31/21)	2020 (ENDED 12/31/20)	% CHANGE	FY 2022 Q3	FY 2021 Q3	% CHANGE	FY 2022 YEAR TO DATE	FY 2021 YEAR TO DATE	% CHANGE
Net Sales	$5.5B	$2.8B	95.9%	$1.9B	$1.9B	4.1%	$5.8B	$3.6B	60.7%
Net income*	$153.2M	$327.7M	(53.3%)	$160.2M	($94.3)M	–	$387.9M	$76.7M	405.6%
Diluted EPS*	$2.25	$6.15	(63.4%)	$1.94	($1.17)	–	$4.71	$1.22	286.1%
Declared dividends	–	–	–	–	–	–	–	–	–

Stock exchange	Nasdaq
Ticker symbol	ICLR
Price at time of selection	$219.00
Past year's price range	$171.43 – $313.00
Recent market price	$214.69
Market capitalization	$17.5B

Value Line long-term earnings growth estimate	14.0%
Consensus long-term earnings growth estimate (16 analysts)	14.2%
Consensus EPS growth rate for FY ended December 2022	21.0%
Consensus EPS growth rate for FY ended December 2023	6.5%
Recent price-earnings ratio**	38.1x

*Excluding nonrecurring and special items.
**The P/E ratio is based on diluted EPS of $5.63 for the four quarters ended Sept. 29, 2022.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

the product under U.S. regulations. The lengthy process of gaining regulatory approval reduces the number of years when the patent holder can profit before competition from generic equivalents kicks in. Speed — with accuracy — is essential to maximize profits. That's a major reason CROs specializing in clinical trials can attract clients.

ICON recruits clinical trial participants by offering access to novel therapies for their illnesses. Under U.S. rules, a proposed therapy enters a small-scale Phase I trial involving just a few patients and lasting up to a year to test for safety and effectiveness.

A Phase II trial lasting up to three years involves as many as 200 people. Phase III runs at least two years and tests several hundred patients at hospitals and clinics in multiple countries. Once a therapy receives approval and is marketed, a Phase IV trial is conducted for further confirmation of safety and effectiveness.

ICON has been diversifying its customer base. Since its inception ICON has done a lot of business with Pfizer (PFE), which in the past delivered up to a third of its revenues. In 2021, however, the company's top customer accounted for just 8% of revenues. The top five customers collectively delivered 32%.

The United States remains ICON's largest market, accounting for revenues of $2.6 billion in 2021 — 47.1% of the total. Results from other categories were:

- Ireland: $1.4 billion, 24.9%
- Rest of Europe: $1.2 billion, 21.4%
- Other: $0.4 billion, 6.5%

In 1990 John Climax and Ronan Lambe launched ICON in Dublin, still the company's headquarters location. Over the following five years the company established offices in the United Kingdom, the United States and Japan. ICON first issued publicly traded stock in 1996.

Climax remains a board member. He previously served as chairman, 2002 to 2009; and CEO, 1990 to 2002. Dr. Steven A. Cutler, 62, became CEO in March 2017. He joined the company in 2011 after a stint as CEO of privately held Kendle International. Ciaran Murray, Cutler's predecessor, remains on the board as non-executive chairman.

The CRO industry is highly fragmented, with several hundred mostly small, limited-service providers. ICON is among a handful of large-scale operators. In addition to IQVIA Holdings, competitors include Charles River Laboratories International (CRL) and Syneos Health (SYNH), Morningstar reported.

LEVERAGING UP MORE LABS

ICON's 2021 acquisition of PRA Health Sciences was among the largest in its history. The cash- and stock-based transaction was valued at $12 billion. At that price, ICON reportedly paid a 30% premium. Annual cost-saving synergies from the combination were projected to reach up to $150 million in the initial four years. PRA reported revenue of $2.9 billion in 2018.

To date ICON has completed at least 29 acquisitions this century. The transactions were typically smaller than was the case for PRA. No deals have occurred since mid-2021, but analysts predict management will resume negotiating acquisitions once integration of PRA has moved further along.

The company typically acquires businesses intending to expand or complement existing service offerings. In 2019, for example, the company acquired three such businesses: Symphony Clinical Research, a provider of at-home patient services and site-support services; MediNova, an integrated network of clinical research sites in the Europe, Middle East and Africa region; and Molecular MD, a provider of molecular diagnostic testing and immunohistochemistry services.

FINAL NOTES

BetterInvesting Magazine hasn't previously featured ICON. The company didn't appear in the Top 100 Survey of investor holdings for 2021 (*see the April 2022 issue*).

ICON shares have undergone two reverse stock splits: 1-for-10, 2019; and 2-for-9, 1993. Bonus share issuances — effectively, 1-for-1 splits — occurred in 2008, 2006 and 1993. The company doesn't offer a direct stock purchase plan, nor does it pay cash dividends.

Value Line reported the share total has fluctuated over the past 15 years, rising significantly in 2021, coincident with the PRA acquisition. Through repurchases the share tally declined annually over the seven years through 2020. That year the company bought back 1.2 million shares valued at $175 million. ICON didn't buy back any shares in 2021.

More background on Icon and its industry, including the Value Line analyst and Value Line industry reports, can be found in the Analyst Reports and Other Resources section of the website. For more information, contact Investor Relations, ICON Public Limited Company, South County Business Park, Leopardstown, Dublin 18, Ireland.

— Reporting by contributing editor Kevin J. Lamiman

NEXT MONTH'S STOCK TO STUDY AND UNDERVALUED STOCK

The Editorial Advisory and Securities Review Committee met Jan. 10. The Stock to Study and Undervalued Stock that its members selected were announced afterward. The link takes you to the announcement at the BetterInvesting Newsroom: **www.betterinvesting.org/about-us/news-releases**

SSG Study Notes

During your analysis of ICON PLC (ticker: ICLR) you might consider the following comments, data points and questions for further study.

- **Capitalization section:** The $12 billion PRA acquisition took ICON from a company with $350 million in debt to a company with about $5.4 billion in debt at the end of 2021. ICON has signaled that it will pay back debt continuously, though the company will stay highly leveraged for some time, which could have a negative impact on earnings, especially with the recent spike in interest rates. Although ICON's operating margin was higher in 2021, its return on capital was appreciably lower. Common shares outstanding went from about 53 million in 2020 to about 82 million the following year.

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** Sales in 2021 jumped, as would be expected, following the acquisition. Likewise, profitability got hit as the company used resources to pay down debt. Whether the combined companies can more than pay for the acquisition with high profit and lower cost ultimately could be the key to stock price and return over the next five years. Analysts are generally positive on the company's prospects to increase earnings and shareholder value, though it may take three to five years to realize the combined companies' potential.

- **Section 2 (Evaluating Management):** Prior to the acquisition, the nine-year compound annual growth rate of sales was still a healthy 12.6%. Historical earnings per share prior to the let-down in 2021 was strong at a CAGR of 25.5% since 2012. Stock price highs and lows on annual basis have also tracked higher during the nine years prior to the acquisition. Pretax profit on sales prior to 2021 were growing at a 15.4% CAGR. Return on equity was strong as well. Digging deeper into the management of the newly combined companies may reveal how much talent was gained by combining with PRA.

- **Section 3 (Price-Earnings History):** To forecast ICON's potential P/E and earnings performance, a member of BetterInvesting's Securities Review Committee removed from consideration the high and low P/Es from 2021, since they reflected a distorted earnings picture owing to financial moves made strictly in connection with the acquisition. Accordingly, the average high and low P/Es from 2017 to 2021 remained fairly stable. The estimate of a possible high EPS of nearly $40 within five years would be about four times what the company earned in 2021. Does this seem likely? Unlikely? Possible? Your judgment on potential EPS five years from now will have a big impact on whether the company is a BUY at its current price.

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ICON PLC

Stock Selection Guide

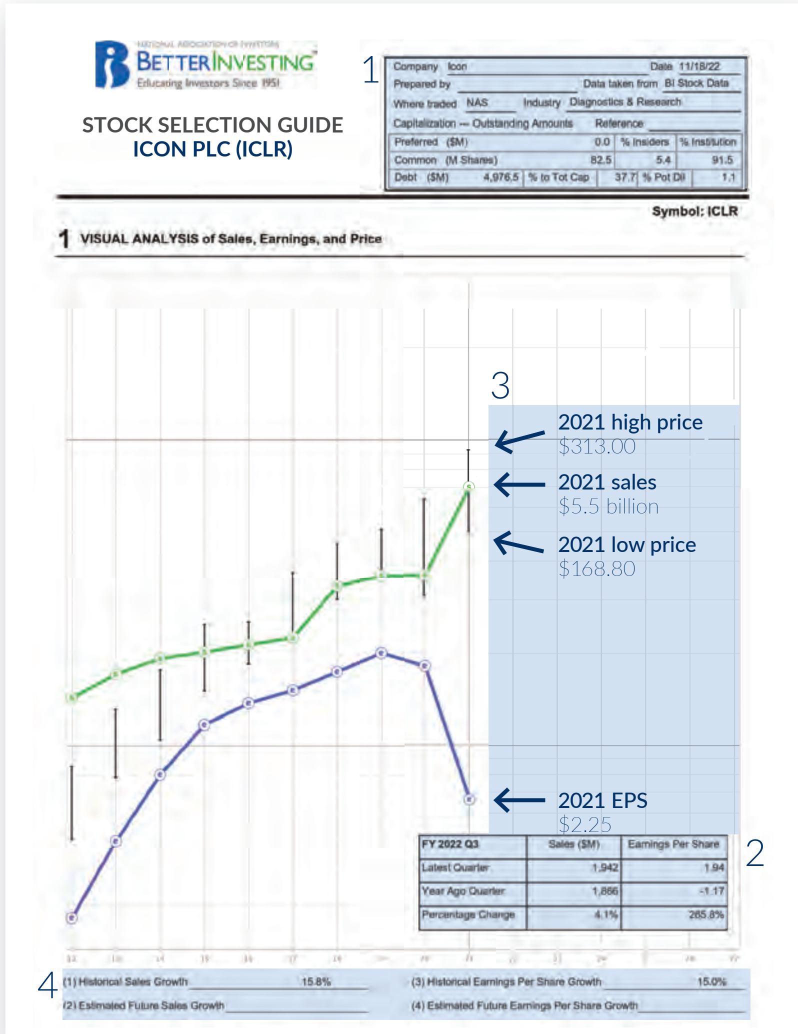

Figure 1

Capitalization information.

Besides background about the company, including the data source used for the study, this section provides information about the number of common and preferred shares and the percentages held by insiders and institutional investors. Total debt and the percentage of debt to total capital also are detailed.

Figure 2

Recent sales and earnings results.

This section contains the company's most recent quarterly results along with a comparison of results from the same quarter a year ago.

Figure 3

Visual view of sales/earnings/price.

The graph provides a quick view of the company's financial results. A long-term history of consistent sales and earnings growth at relatively high rates indicates the company is well-managed and worth further study. Historical sales growth is plotted on the green line and historical earnings growth is represented by the blue line. The black bars provide information about the stock price. For each year, the top of the bar is the annual high price, while the bottom is the low price.

Figure 4

Forecasting future sales and earnings growth rates.

The core of the BetterInvesting methodology is this: Sales growth drives earnings growth, and earnings growth drives stock price. Using the Stock Selection Guide, you'll forecast growth rates and determine the stock's potential high and low prices over the next five years.

Step one is to forecast sales growth. The company's historical performance is helpful, but you'll need to do some research to decide whether revenue growth will remain at the historical level, slow down or speed up.

After estimating sales growth, the next step is to forecast earnings per share growth. Often you can estimate EPS growth at a similar rate used for sales. EPS growth can differ from sales because of rising or falling expenses, an increasing or decreasing number of outstanding common shares and changing tax rates. Even though a company can grow earnings faster than sales by cutting costs or buying back shares, this can't last. EPS growth and sales growth eventually equalize.

Use the estimated growth rate for earnings to forecast the earnings per share five years from now. On the second page of the SSG, use the future EPS to determine potential high price. Ask yourself if the company is growing at a sufficient rate relative to its size; higher growth rates for small companies, compared with medium and large caps.

Editor's note: The Value Line and Morningstar company and industry reports are found at the website's homepage under the Learning Center tab, BetterInvesting Magazine *section, for your use in conducting stock studies. You'll need Adobe Acrobat software to read the PDF files.*

ICON PLC

Stock Selection Guide

Figure 5

Evaluating management.

The key to successful investing is finding well-managed companies with reasonably priced stocks. Historical growth rates provide evidence of good management, as do the numbers in this section. Pre-tax profit margins represent how much of each sales dollar a company keeps before taxes. Look at pre-tax margins because companies have limited control over their tax rates. Look for stable or growing margins. Return on equity indicates how well the company manages shareholders' investments. Remember, look for stable or growing returns.

Figure 6

Price-earnings ratio history.

Section 3 includes information you'll use in Sections 4 and 5. Columns D and E detail the high and low P/Es for each of the past five years. You can also see the average P/E for the last five years as well as the current P/E. Information about the dividend yield also is offered.

EVALUATING MANAGEMENT — Company: ICON (ICLR)

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	6.0	9.0	13.5	17.7	18.0	18.7	14.0	15.2	13.6	3.6			
B	% Earned on Equity (E/S ÷ Book Value)	7.4	11.9	16.2	25.3	25.6	24.6	23.8	24.2	19.0	2.3			

5

PRICE-EARNINGS HISTORY as an indicator of the future

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

PRESENT PRICE ______ HIGH THIS YEAR ______ LOW THIS YEAR ______

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2017	124.5	74.3	5.13	24.3	14.5	0.000	0.0	0.0
2	2018	154.1	101.2	5.89	26.2	17.2	0.000	0.0	0.0
3	2019	172.5	118.1	6.79	25.4	17.4	0.000	0.0	0.0
4	2020	215.3	104.3	6.15	35.0	17.0	0.000	0.0	0.0
5	2021	313.0	168.8	2.25			0.000	0.0	0.0
6	TOTAL								
7	AVERAGE								
8	AVERAGE PRICE EARNINGS RATIO					9 CURRENT PRICE EARNINGS RATIO			

6

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 ______ (3D7 as adj.) X Estimate High Earnings/Share ______ = Forecast High Price $ ______ (4A1) 7

B LOW PRICE — NEXT 5 YEARS
(a) Avg. Low P/E ______ (3E7 as adj.) X Estimated Low Earnings/Share ______ = $ ______
(b) Avg. Low Price of Last 5 Years = ______ (3B7)
(c) Recent Severe Market Low Price = ______
(d) Price Dividend Will Support Present Divd. / High Yield (H) = ______ = ______
Selected Estimate Low Price ______ = $ ______ (4B1) 8

C ZONING
______ (4A1) High Forecast Price Minus ______ (4B1) Low Forecast Price Equals ______ (C) Range. 1/3 of Range = ______ (4CD)

(4C2) Lower 25% = (4B1) ______ to ______ (Buy)
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell) 9

Present Market Price of ______ is in the ______ (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) ______ Minus Present Price ______ = ______ = ______ To 1 (4D) 10
Present Price ______ Minus Low Price (4B1) ______

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
High Price (4A1) ______ / Present Market Price ______ = (______) X 100 = (______) - 100 = ______ % Appreciation (4E)

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.
Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ ______ / Present Price of Stock $ ______ = ______ X 100 = ______ (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
Avg. Earnings Per Share Next 5 Years ______ X Avg. % Payout (3G7) ______ = ______ / Present Price $ ______ = ______ % (5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS
5 Year Appreciation Potential (4E) ______ / 5 ______ %
Average Yield (5B) ______ %
Average Total Annual Return Over the Next 5 Years (5C) ______ %

11

Figures 7 & 8

Forecasting the high and low prices.

P/E history will inform judgments about the potential high and low prices. Multiply your predicted high P/E by the high EPS you calculated on the first page to determine the potential high price. Multiplying the expected low P/E by the low EPS (for a growth company, this often is the most recent year's earnings) is one way to predict the future low price.

Figures 9 & 10

Buy-Hold-Sell zones and upside-downside ratio.

After calculating the potential high and low prices, use the SSG to determine whether the stock is reasonably priced. The upside-downside ratio compares the potential price increase to the potential price drop. Look for stocks that are both in the Buy zone with an upside-downside ratio of at least 3 to 1; beware of abnormally large or small ratios.

Figure 11

Estimated average annual return over the next five years.

In this final section, you'll learn about the stock's potential return over the next five years. This figure includes both the expected return from increases in the stock's price and predicted dividends.

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Williams–Sonoma, Inc.

Share buybacks continue apace, while dividends are still rising.

Williams–Sonoma, Inc. (ticker: WSM) might be considered the hare rather than the tortoise in its industry's race to establish the strongest e-commerce retail channels. It reportedly is the country's largest online marketer of home furnishings.

Corporate management has adopted a digital-first business model; in fiscal 2021 (ended Jan. 30, 2022) e-commerce accounted for about two-thirds of net revenues.

Online sales are complemented by marketing done through direct-mail catalogs and brick-and-mortar outlets in the company's several retail chains. In addition to its domestic operations, Williams–Sonoma does business in several foreign countries.

E-commerce contributed significantly to the strong results reported in recent quarters. The company may, however, encounter some near-term setbacks, suggested members of the Editorial Advisory and Securities Review Committee.

Consumers may crimp their spending on home furnishings as they adjust to chronic inflation, especially in costs for food and, to a lesser degree, fuel. Also, the recession widely expected for 2023 would further discourage such discretionary spending. The macroeconomic environment has produced malaise throughout the retailing industry, committee members said.

Another impediment has been this year's slowdown in housing starts. Costlier mortgages driven by higher interest rates have priced many home seekers out of the market. That means fewer purchases of furnishings for new digs.

Industry observers don't anticipate a housing turnaround in the immediate future.

Overall, new home construction declined significantly over the 12 months through the third quarter, reported the National Association of Homebuilders.

Reflecting the slump in construction, the association's homebuilder sentiment index declined every month this year.

In a related vein, significant pullbacks in mortgage refinancings and issuance of personal loans may have indirectly hurt home furnishing sales.

Committee members remarked that the stock's valuation seemed shockingly low despite their generally positive assessments of the company's longer-term prospects. The near-term challenges may help account for the stock's perceived undervaluation.

The stock's $116.49 close reported Nov. 28 was 44.5% below the 52-week high of $209.76 recorded Nov. 29, 2021. The stock underperformed the S&P 500, which during the same time frame decreased 17.7% to 3,965.34 from a Jan. 4 high of 4,818.62.

The stock's trailing 12-month price-earnings ratio was 7.1 (*see table*); the ratio for the S&P 500 was 20.6.

CSIMarket, a financial data service, reported a TTM P/E ratio average for the furniture and fixtures industry of 19.6. Based on figures Yahoo Finance reported, the ratio average for Williams–Sonoma and three competitors named by Morningstar wasn't meaningful.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 0.9 for the company based on an average five-year expected earnings growth rate. A range of no more than 1.0 to 1.5 is generally considered desirable.

EVERYTHING HOMEY. Williams-Sonoma is the country's largest online marketer of home furnishings, such as these plates.

One of the stock's appeals, committee members observed, is its above-average dividend. On Nov. 28, when the committee met, the dividend yield stood at 2.6%. The dividend has been increased in all but one of the past 16 years, Value Line reported.

CORPORATE FURNISHINGS

The company is believed to hold a 7.1% share of the $200 billion U.S. home furnishings market, according to Standard & Poor's.

The company operates stores in 41 states, plus Puerto Rico and Washington, D.C. At year-end 2021 the company had 544 stores overall. In the wake of some store closures, that was down 6.4% from 581 outlets the year before. The company maintained distribution and manufacturing facilities in 12 states. Management leases store sites and practically all other of its facilities rather than owning the real estate.

Comparable brand results including sales in outlets open at least 12 months were strong in 2021, showing overall growth of 22.0%. That was an improvement from 17.0% the year before. The West Elm chain was

WILLIAMS-SONOMA, INC.

	2021 (ENDED 1/30/21)	2020 (ENDED 1/31/20)	% CHANGE	FY 2022 Q3	FY 2021 Q3	% CHANGE	FY 2022 YEAR TO DATE	FY 2021 YEAR TO DATE	% CHANGE
Net revenues	$8.2B	$6.8B	21.6%	$2.2B	$2.0B	7.1%	$6.2B	$5.7B	8.3%
Net income*	$1.1B	$0.7B	65.4%	$251.7M	$249.5M	0.9%	$772.9M	$723.4M	6.8%
Diluted EPS*	$14.75	$8.61	71.3%	$3.72	$3.29	13.1%	$11.09	$9.40	18.0%
Declared dividends	$3.12	$2.60	20.0%	$0.78	$0.71	9.9%	–	–	–

Stock exchange	NYSE
Ticker symbol	WSM
Price at time of selection	$122.42
Past year's price range	$101.58 – $209.76
Recent market price	$116.49
Market capitalization	$7.8B

Value Line long-term earnings growth estimate	11.5%
Consensus long-term earnings growth estimate (20 analysts)	4.9%
Consensus EPS growth rate for FY ended January 2023	10.7%
Consensus EPS growth rate for FY ended January 2024	(10.9%)
Recent price-earnings ratio**	7.1x

*Excluding nonrecurring and special items.
**The P/E ratio is based on diluted EPS of $16.44 for the four quarters ended October 30, 2022.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

the standout, with year-over-year comparable growth of 33.1% in 2021.

One of management's most recent initiatives has been a move into business-to-business (B2B) marketing. The company promotes B2B accounts for clients such as chefs, purchasing agents, set designers and stagers, interior design businesses, architecture firms, real estate developers and small-business owners.

In 2019 management took measures to strengthen its leadership in digital marketing. The company refreshed its website and launched a Buy Online Pickup In-Store program. And like most large retail chains, Williams–Sonoma encourages customers to join its free loyalty program.

Corporate management oversees several chains in addition to the legacy store network.

Pottery Barn, the largest as measured by sales, accounted for revenue of $3.1 billion — 37.8% of the 2021 total. The chain comprised 188 stores marketing furniture, bedding, lighting, rugs, table essentials and decorative accessories.

West Elm produced revenue of $2.2 billion — 27.1%. The chain consisted of 121 outlets. The stores stock furniture, textiles, lighting, decorative accessories and tabletop items. Management has projected the 20-year-old chain will eventually deliver $3 billion a year in revenue.

Namesake chain Williams Sonoma produced $1.3 billion — 16.3% of total net revenues. It comprised 174 stores. The chain distributes a wide range of home furnishings for cooking, dining, entertaining and decorating. Product categories include cookware, cutlery, cookbooks, tools, tabletops, and small electric appliances; and bar and outdoor furniture.

Pottery Barn Kids and Teen generated $1.1 billion — 13.8%. Offerings in the chain's 52 stores include bedding and furniture designed to appeal to younger customers.

Other retail stores and brands accounted for $405.0 million — 4.9%. The category included the Rejuvenation chain, with nine outlets featuring authentic reproduction lighting and high-end door and cabinet hardware.

The company's Mark and Graham brand comprises gift items such as jewelry; home decor items; small leather goods; men's and women's accessories; and bar, travel, entertaining and seasonal merchandise.

Outward, acquired in 2017, is a 3D imaging and augmented realty platform used in the home furnishings and decor industry. The platform aids product visualization and digital room design.

Williams Sonoma was the brainchild of Chuck Williams, who set out to market the French cookware that had intrigued him during visits to Europe. In 1956 he opened the first store in Sonoma, California, initially focusing on French cookware that hadn't been readily available in the United States.

Laura J. Alber, 53, is CEO and president. She joined the company in 1995 and took the top job in 2010.

Scott A. Dahnke, 57, joined the board in 2019 and was named chairman in 2020. He's global co-CEO of private equity firm L Catterton and served a stint as CEO of privately held infoGROUP.

Competitors include Bed Bath & Beyond (BBBY), RH (RH) and Wayfair (W), Morningstar reported.

INTERNATIONAL PICTURE

In addition to its domestic outlets, the company operated 20 stores in Canada, 19 in Australia and three in the United Kingdom at year-end 2021. Williams–Sonoma also franchises its brands to third parties. In 2021 there were 139 franchised locations in India, Mexico, the Philippines, South Korea and several countries in the Middle East.

Revenue results from international business didn't appear to be have been broken out. Management did report, however, that 11.8% of 2021 pretax profits came from overseas.

In 2021 about 65% of merchandise was sourced from overseas vendors located chiefly in Asia and Europe. Williams–Sonoma reportedly was the 13th-largest U.S. importer of shipping containers, a status that gave management greater control of its supply chain than would be possible for smaller importers.

Management has reported facing challenges this year from shortages of containers coming out of Asia. An August port closure in China was a further complication. Surges in COVID–19 infections in Vietnam and Indonesia also delayed merchandise deliveries.

FINAL NOTES

BetterInvesting Magazine hasn't previously profiled Williams–Sonoma. The company didn't appear in the Top 100 Survey of investment club holdings for 2021 (*see the April 2022 issue*).

The company doesn't offer a dividend-reinvestment and direct stock purchase plan. Its shares underwent 2-for-1 stock splits in 1997, 1993 and 1975; a 3-for-1 split in 1996; a 10,000-for-8,152 split in 2012; and a 1,000-for-918 split in 2001.

The share count has declined annually over the past 12 years. In 2021 the company repurchased 5.1 million shares for $899.4 million.

Williams–Sonoma's balance sheet for 2021 proved interesting. Cash and cash equivalents totaled $850.3 million; there was no outstanding debt.

More background on Williams–Sonoma and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website. For more information contact Investor Relations, Williams–Sonoma, Inc., 325 Van Ness Ave., San Francisco, CA 94109.

Websites of Interest

Williams-Sonoma, Inc.
www.williams-sonomainc.com

— Reporting by contributing editor Kevin J. Lamiman

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The 3 Pillars of Fundamental Analysis

Understanding how superstar companies stay at the top.

by Jordan Chussler

Twenty-two years ago, the top 25 S&P 500 companies included very familiar names. Over two decades later, 12 remain on that list. To understand how they made it to the top — and remained there — you need to understand fundamental analysis.

If you look at the S&P 500's 25 largest companies in 2001, it's a list of unsurprising names, including Microsoft (ticker: MSFT), Exxon Mobil (XOM) and Johnson & Johnson (JNJ). If you look at the top 25 S&P 500 companies today, nearly half are still on that list. So how did those 12 companies manage to accomplish this amid decades of countless initial public offerings, mergers and acquisitions and a handful of market pullbacks and recessions? And how did MSFT, XOM and JNJ shareholders set themselves up for returns of over 337%, 150% and 264%, respectively, 22 years later?

FUNDAMENTAL ANALYSIS

Fundamental analysis, as opposed to technical analysis, determines an equity's intrinsic value via three pillars of evaluation. Whereas technical analysis aims to identify opportunities based on trading activity trends like share price, moving averages and volume, fundamental analysis focuses on establishing fair market value.

By combining quantitative financial data with qualitative scrutiny of a company's management, corporate governance and competitive advantages, fundamental analysis produces ratios and other metrics used to determine a security's overall strength. That determination is made through the lens of three factors.

PILLAR NO. 1: ECONOMIC ANALYSIS

Beginning with the broadest, economic analysis examines macroeconomic indicators. These include consumer expenditures, inflation indicators like the Consumer Price Index (CPI) and Producer Price Index (PPI), and comprehensive measures of an economy like gross domestic product.

Consumer expenditures, for example, are reported by the U.S. Bureau of Labor Statistics and specify where and how much consumers spend. For example, spending on transportation saw a year-over-year increase of 11.6% in 2021 as the country emerged from the pandemic (full-year data for 2022 isn't yet available).

Through this data, industry trends are easily identifiable. Transportation's literally driven by energy. As COVID-19 cases waned and Americans started spending more on moving around, shares of Exxon Mobil rose over 86% from March 2020 through the end of 2021.

PILLAR NO. 2: INDUSTRY ANALYSIS

PepsiCo (PEP) and Coca-Cola (KO) form a veritable duopoly that's resulted in minimal market share threats from potential competitors. In any fast-food chain in America, you'll see one company's products or the other's. The situation is similar for Pfizer (PFE) and Merck (MRK), two other companies on the list with a near-duopoly in pharmaceuticals.

These companies manage to scale seamlessly and do so because they've built enormous bargaining power with suppliers, unwavering brand loyalty and are in industries largely unaffected by recession or inflation. In fact, consumer staples and health care are two of the most inelastic, recession-resistant sectors of the S&P 500's 11 divisions. That's because when economic conditions force consumers to reevaluate purchases, staples like beverages and medicine are budgeted necessities.

Coca-Cola's sales are healthy in any environment, leading it to a global carbonated beverage market share of over 48%. Due to its tremendous sales, the company's able to maintain large profit margins, which result in maximized shareholder returns. Management also repurchased over $1 billion in shares from 2020-22. Like consumers of its soda, investors are loyal and happy.

The stronger the industry's demand, the stronger the case is for its companies.

This isn't uncommon among strong companies in high-demand industries that are part of historically resilient sectors. The stronger the industry's demand, the stronger the case is for its companies.

Continued on Page 45

Inflation and Asset Performance

What the past half century reveals.

by Craig Israelsen, Ph.D.

The past does not predict the future. Then why have a credit score? Why have preseason football rankings? The past gives us clues — and those clues can be helpful even if they are not fully predictive.

This article examines the nominal performance (gross pre-inflation returns) of seven core asset classes from Jan. 1, 1972 to Dec. 31, 2021 — a period of 50 years. Perhaps a half-century of performance might provide some hints about what performance might look like in the years ahead.

Shown in the table below are the asset classes being reviewed: large-cap U.S. stock, small-cap U.S. stock, non-U.S. stock, U.S. bonds, U.S. cash, real estate and commodities. Inflation, as measured by the Consumer Price Index (CPI), is also included. In the far-right column is the performance of a seven-asset portfolio that includes all seven asset classes. Allocations to each asset class are shown in the table's footnote. The three best performing asset classes in each 10-year period are highlighted by green type.

The historical performance of large-cap U.S. equities was represented by the S&P 500 index, while the performance of small-cap U.S. equities was captured by using the Ibbotson Small Companies Index from 1972-1978 and the Russell 2000 Index from 1979-2021. The performance of non-U.S. equities was represented by the Morgan Stanley Capital International EAFE Index (Europe, Australasia, Far East). U.S. bonds were represented by the Ibbotson Intermediate Term Bond Index from 1972-75 and the Bloomberg Aggregate Bond Index from 1976-2021. Cash was represented by three-month Treasury bills.

The performance of real estate was measured by using the annual returns of the NAREIT Index from 1972–1977 and from 1978-2021 the annual returns of the Dow Jones U.S. Select REIT Index. Finally, the historical performance of commodities was measured by the S&P Goldman Sachs Commodities Index (ticker: GSCI).During the 10-year period from 1972-1981 inflation grew at an

NOMINAL ANNUALIZED RETURNS BY 10-YEAR PERIODS (1972–2021)

3 best performing individual asset classes during each 10-year period in green type.

10-YEAR PERIODS FROM 1972–2021	LARGE U.S. STOCK	SMALL U.S. STOCK	NON-U.S. STOCK	U.S. BONDS	CASH	REAL ESTATE	COMMODITIES	CONSUMER PRICE INDEX (INFLATION)	DIVERSIFIED PORTFOLIO*
1972–1981	6.50%	15.84%	9.29%	5.35%	8.04%	14.90%	15.47%	8.62%	10.62%
1982–1991	17.59	12.44	18.00	14.09	7.82	10.26	14.59	3.91	15.00
1992–2001	12.94	11.51	4.46	7.23	4.59	11.54	2.11	2.51	9.56
2002–2011	2.92	5.62	4.67	5.78	1.83	10.12	5.64	2.48	5.69
2012–2021	16.55	13.23	8.03	2.90	0.59	10.70	(5.50)	2.14	8.66
YTD 2022 (Sept. 30)	(23.86)	(25.10)	(27.10)	(14.62)	1.00	(29.32)	21.79	6.65	(15.96)
50-year Annualized Returns (Jan. 1972 — Dec. 2021)	11.15	11.68	8.78	7.00	4.53	11.49	6.17	3.90	9.87
50-Year Standard Deviation of Annual Returns (Jan. 1972 — Dec. 2021)	17.18	20.82	21.18	6.46	3.62	19.33	25.46	3.05	10.34

*Diversified portfolio allocations: 30% large U.S. stock, 10% small U.S. stock, 10% non-U.S. stock, 20% bonds, 10% cash, 10% REIT (real estate investment trusts), 10% commodities. Allocations maintained by annual rebalancing.

annualized pace of 8.62%. The three best performing individual asset classes were small-cap U.S. stock, commodities and real estate. The seven-asset portfolio produced a 10-year return of 10.62% versus a return of 6.50% for the S&P 500.

The 10-year period from 1982-1991 was clearly dominated by U.S. equities, both large and small. Commodities continued to perform well inasmuch as inflation was still a factor. The seven-asset portfolio turned in a 10-year annualized return of 15.00%.

From 1992-2001 the three best performing asset classes were large-cap U.S. stock, small-cap U.S. stock and real estate. Inflation during this 10-year period tempered to an annualized rate of 2.51%. The multi-asset portfolio had a return of 9.56%.

For the 10-year period from 2002-2011 (much of which was during a period often referred to as the "lost decade") we observe a collapse in the performance of U.S. large-cap stock. The best performers were U.S. bonds, real estate and commodities. The multi-asset portfolio had a return of 5.69%, which was nearly double the return of the S&P 500.

From 2012-2021 U.S. equity was king again, with the S&P 500 index producing a 10-year return of 16.55% and small-cap U.S. stock producing a 10-year return of 13.23%. Real estate registered a return of 10.70%. With inflation at 2.14% over the 10-year period, the performance of commodities tanked.

As we review this particular 50-year period we note that U.S. equity (large and small) were among the three best performing asset classes in three of the five 10-year periods. Real estate was on the podium four times, and commodities medaled three times. Clearly, individual asset classes have seasons of success and distress. However, when individual asset classes are combined into a multi-asset portfolio, we see stabilized performance and a material reduction in standard deviation of returns…aka volatility.

Now we turn our attention to the behavior of these seven core asset classes in 2022 (through Sept. 30 when this article was written). In short — a rough year so far. During short run "moments" the behavior of asset classes can vary widely from their longer-term averages, as is clearly the case for each of the stock indexes, U.S. bonds and real estate. Cash is doing OK in 2022 and commodities are having a banner year so far.

One of the hardest things associated with investing is enduring periods of time when our investments are doing poorly — such as 2022! Think of it this way: If the value of your home declines it would not be logical to look in the mirror and say, "Gee, I think I'll sell my home now because the value has declined!" We need to take the same approach with our investments. If they have declined, we might consider buying some more because they are "on sale" now. Or at least we can consider rebalancing, which is a counter-intuitive method of selling high and buying low — which is why it works to our advantage over time.

A WORD ABOUT VOLATILITY

As we study the information in the table, several characteristics stand out. First, the "growth" asset classes (equities and diversifiers) have a standard deviation of return that is considerably higher than the average annualized returns. For instance, the 50-year return of the S&P 500 index from 1972-2021 was 11.15% and the standard deviation of those 50 annual returns was 17.18%. Those two numbers produce a fairly wide "bell curve." By contrast, the bell curve of returns for U.S. bonds is more narrow based on a standard deviation of 6.46%.

Volatility matters because human beings react to it. As a result, portfolios are intentionally built with asset classes that have different behavior patterns such that the overall return pattern is stabilized. We see this clearly in the 50-year metrics of the multi-asset portfolio, which produced an annualized return of 9.87% and a 50-year standard deviation of return of 10.34%. The two figures are very near each other — precisely the goal of asset allocation.

The key is to keep our focus on the performance of the overall multi-asset portfolio and not emotionally react to the natural fluctuations of the underlying components. If a portfolio can achieve equity-like returns with a standard deviation of return of roughly the same size, we will have done well.

BUILDING — AND STAYING IN — A DIVERSIFIED PORTFOLIO

Each of the asset classes (based on the indexes noted) in the table can be invested in via a mutual fund and/or an exchange traded fund (ETF). Whether you shop for funds at Vanguard, Fidelity, Charles Schwab, T. Rowe Price, iShares, etc., you will be able to assemble a diversified portfolio of funds that include U.S. stocks (large, mid and small), non-US stocks (developed countries and emerging countries), bonds, real estate and commodities.

The key is to stay committed to the diversified mix of funds — even when some of them are misbehaving. Diversification is not painless — patience and persistence are required. You'll know you have a low-correlation, diversified portfolio of funds when some of them are performing well and others are not. That is the only way low correlation happens. On a final note, if you believe inflation is here to stay for awhile don't shy away from a mutual fund that provides exposure to commodities.

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Bear Markets Might Be Good for Most Investors

Buying shares at a bargain can lead to healthy gains in the future.

by Craig Braemer, CFA®, CFP®

About 20 years ago, at Berkshire Hathaway's annual meeting, Warren Buffett said something that stuck with me. Basically, it was "bear markets are great for most investors." This is correct if you have a long time investment horizon until the time that you need the money. However, if your time horizon is closer and you need the money sooner, bear markets are very tough on investors and their wealth. (*For more on this topic, see Page 42.*)

I thought about Buffett's comments and embraced the concept of investing during bear markets or basically not selling many investments during a bear market into my investment philosophy. To explore this further, let us discuss two investment ideas: One is investing during a bear market for the long term and the second is how to potentially protect your investment by building a suitable emergency portfolio or potentially holding short-term conservative assets.

THE STATEMENT

As I mentioned earlier, the general statement that I heard Warren Buffett make at his annual meeting was "bear markets are great for most investors." This is a simple assertion at one level, but it is complicated at another. When I first heard this, it did not make sense to me: Losing money in a bear market is good for me? Then, I thought about it and came to the realization that of course it is good for me. Why? Two reasons: First, with regard to time, I had many years ahead of me before retirement when I would need this money; and second, the old "buy low and sell high" theory. Buffett went on to explain why this made sense and addressed both reasons.

TIME IS AN INVESTOR'S BEST FRIEND

As an investor, **time** is an important commodity. In this simple example, I had a long time, roughly 20 plus years, before needing this money. This fact is key. If I needed the money sooner, then a bear market would not be a good thing. Thus, Buffett's specification of "most investors" focuses on time. If you read most financial literature, people with a long time horizon in front of them should potentially consider investing more aggressively. This usually means having a higher allocation of equities. Why? Historically, equities have shown higher returns than other asset classes over long time horizons, but they have done this with higher volatility. This is not a problem until you begin closing in on the end of your time horizon. When you are five to 10 years away from the point of needing an asset, consider becoming more conservative. Using market rallies to gradually reallocate your holdings to more conservative investments as you get closer to the end of your time horizon — even if the market is continuing to go up. Buffett went on to explain why this made sense: In essence, unless you need the money sooner, bear markets let you buy securities and build wealth on the cheap. Thus, you do not want the bull market to come for a long time or until just before you need the money. It is a nice idea but that is not how markets work. Markets are volatile over shorter time periods, but over longer periods, the markets have generally risen when you look back over the past 100 years.

ANOTHER SIMPLE CONCEPT

What I believe Mr. Buffett was commenting on was the simple concept of "buy low and sell high." During bear markets, stock prices tend to be lower than they are during bull markets. So, potentially buy all you can stand during a bear market and wait for the prices to appreciate in the next bull market. When that happens, then consider potentially selling some at hopefully higher prices. It is an easy statement to say, but it can be hard to execute.

As investors, what do we have to do? Make intelligent guesses based upon historical data (e.g., the Stock Selection Guide) that will hopefully lead us to a good investment. Could the stock you choose fall further than you expect? Sure, but if you have the right time frame in mind, you should not abandon your strategy of potentially buying more, even though your stock fell. Yet, every place I look, people are talking about cashing out or saying they cannot afford to lose another 15%. This confuses me. If I were shopping for something, and the store I was about to enter suddenly announces it is having a 30% sale — I and others would rush in to buy their goods. Yet when this happens with the stock market many investors do the opposite. They sit on cash or sell stocks out of fear of losing more money in the short term. Yet if you do not need the money for a long time, that makes no sense. Fear is powerful and causes people to do irrational things.

HOW DO YOU FIGHT FEAR WHEN INVESTING?

Have your assets positioned in a way that short-term market volatility will not impact you. If you do not need the money for a while, and have invested in a high-quality company, why are you selling? Is it to upgrade to a better-quality stock? Is this stock overpriced? Or are you just afraid the stock could drop another 15% and you do not want to lose more money? One way to fight the urge to sell during a bear market is building an emergency fund and potentially investing additional money in safer and more conservative categories like money market mutual funds, savings accounts or certificate of deposits (CDs) that can be used if needed rather than selling your depressed stocks. This approach helps to keep people from harming themselves financially during bear markets. The goal of these conservative assets is to provide safety, liquidity and hopefully a little bit of a return for you. With this year's recent rise in interest rates, these types of investments are starting to generate a nominal return for the first time in several years. Again, this investment category's job is not to make tons of money, but to safeguard your money so it will be there when you need it. Another conservative approach, would be to include bonds in your portfolio to support a cash flow requirement. This might prevent the need to sell assets at distressed prices if they produce the cash flow needed. Thus, allowing the rest of your money to focus on growth without you worrying about running out of funds.

LET'S TALK ABOUT A PERSON'S RETIREMENT ASSET

This is usually one of the larger financial planning assets a person has as they get closer to retirement. The same strategies described above to protect your portfolio assets can be applied here, but I do not see it done very often. In many cases, people will work for decades putting money into their retirement plans but not plan how they will get their assets out of this particular investment vehicle — potentially hurting themselves in the long run.

Ideally, when you are within 10 years of retirement, your retirement account should be set to grow at a risk level you are comfortable with while still including equities. During this last 10 years, the investments within your retirement account should gradually become more conservative. To do this, use market rallies (maybe after a decent market move), consider trimming a portion off your volatile assets, and move it into cash or conservative assets like bonds. When you are within five years of retirement, re-examine your plan — is your retirement date still the same or has it changed? If it is still the same, make sure your calculations for the amount of money you will need in retirement are still valid and work to provide the lifestyle you want within the world you will be living in during retirement. ("What is happening with inflation?" and "What about Social Security?" are among the many questions you should be asking at this time and adjust your portfolio accordingly.)

When you are within the last year or two before your chosen retirement date, you should be careful and re-examine your plan more closely. This is because bear markets can hurt you more now. In this situation, many people consider looking to "rollover" the funds in their retirement account to an IRA outside of their employer's supported retirement plan. A rollover is a transaction where funds in a tax-advantaged retirement account are moved into another tax-advantaged retirement account — this is called an IRA rollover.

Typically, when you initiate a rollover, many employers will send you a check for your retirement balance to complete the transaction into your IRA rollover account following your retirement. Because the rollover usually takes place soon after your retirement date, this activity usually makes your retirement date the end of the investing time horizon for your retirement account. At this point, you and the market will control how much money you will receive from your retirement account. One scenario to be prepared for is: If the market is high at the time of your retirement, consider raising more cash. A possible plan to achieve this is that by your retirement date, you convert your retirement account holdings into cash that is waiting to be rolled over. Your risk if you do this, the market moves higher while you are in cash. Another strategy when you retire, is to leave your funds growing in your retirement account at your employer because it does not have to be moved. If you are planning to rollover, use the market to your advantage. Sell the more volatile securities in your account during rallies and move the returns from those sales to cash. Otherwise, if you wait **you are rolling the dice** and selling it all on the day you request the rollover — this means you could have more money or a lot less money than you had thought depending upon the market conditions at that time.

Basically, when you have roughly three to six months left at your job before you officially retire, it is important that you are planning to ensure your retirement account is heavier in cash and bonds rather than stocks — this will reduce the volatility you will experience during the rollover. Everyone's circumstances will be different, so review your situation carefully prior to retiring from the workforce. In my experience, I tend to see the exact opposite situation where people are fully invested in riskier assets in their retirement plan. Yet, they are retiring soon and looking to take a withdrawal from that account. My point is that you can control what your assets look like when you leave the workforce. Manage your retirement plan in a manner that seeks the results you want from your money.

READING BETWEEN THE LINES

In short, if you are a long-term investor with a long time horizon ahead of you, bear markets are great for accumulating wealth and then watching it recover to new heights in the next bull market. If you are closer to retirement, be more careful because the markets can hurt you financially due to this time constraint. The old adage of "buy low and sell high" still works and you should use it to your benefit. Have your investment plan ready prior to the time you want or need to withdraw funds from your investment portfolio or retirement accounts so you do not hurt yourself financially.

Craig Braemer, CFA®, CFP®, is an experienced financial manager with over 35 years in the financial services industry. He is currently a portfolio manager at Blossom Wealth Management LLC, a Registered Investment Adviser in Alamo, California. He is also an active teacher for BetterInvesting at the national and local levels.

Elections, Political Parties and the Market

History shows the impact on the S&P 500 isn't monumental.

by George D. Rahal

With all the hewing and hawing of our current election ending (hopefully), we can now see if claims by candidates blaming market declines on one party or the other have any merit. To do this, let's look at history and compare the winner's party margin of victory in U.S. Congressional elections since 1789 (the founding of the republic) to the return of the S&P 500 for the following two-year period (the duration of the elected Congress).

The goal is to see if there is any correlation between the "party margin" in Congress and subsequent stock market return.

The stock answer to this question, by economists, is "No." Political parties, despite candidate claims to the contrary, blaming one party or the other for economic woes, do not determine bull or bear markets.

Why use the S&P 500 index when the index didn't exist before 1927? To be useful to investors I use the implied S&P history as a proxy for the stock market. The S&P did not exist before 1927 but academics, including the source cited, have created methodologies for implied historical prices. The German website Stooq.com has been vetted and used by academics for historical S&P data and I use it here.

First, let's see exactly how divided Congress truly is. Chart 1 at the bottom of the page may be hard to see but shows the percentage of total U. S. Senate seats held by the majority party since the founding of the Republic and the subsequent return of the S&P 500.

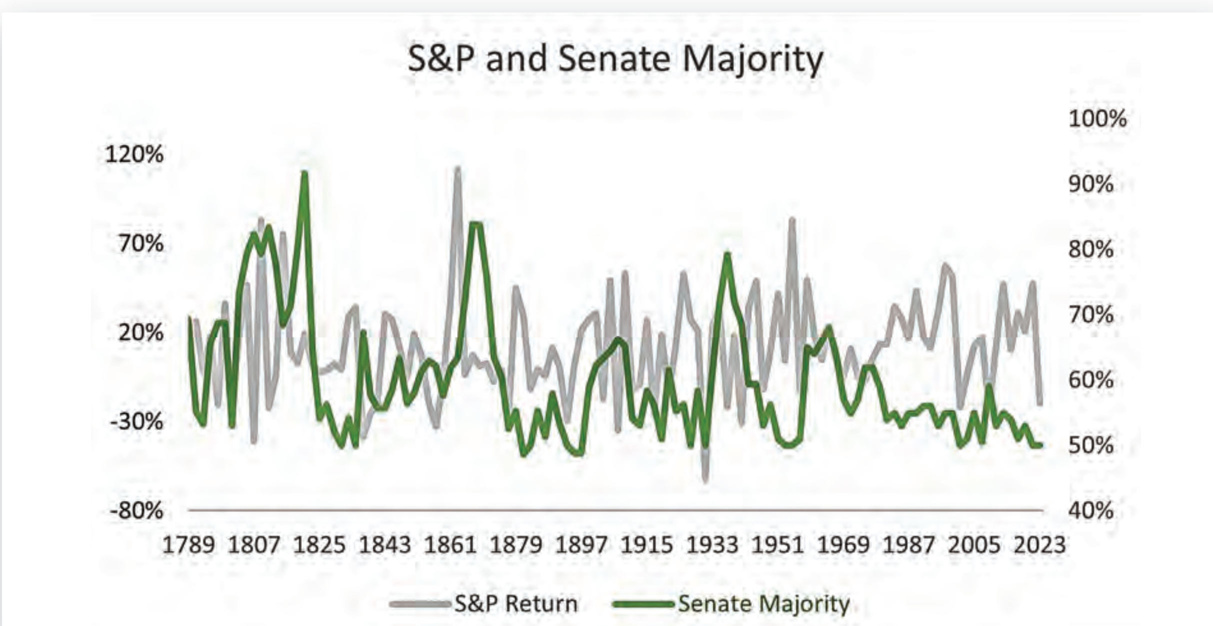
Note the graphic doesn't show the name of the parties holding the majority, just the extent of the dominance. The three Senate peaks are:

- ***1821***, when early "Democratic Republicans" held 44 and Federalists held 4 of 48 seats in the Senate and, in 1820, when James Monroe was elected president unopposed;
- ***1869***, just after the Civil War, when Republicans held 62 seats and Democrats held 12 of 74; and
- ***1937***, in the midst of the Great Depression, when Democrats held 76 and Republicans held 16 (plus other parties 4) of 96 seats total.

MAJORITY RULE

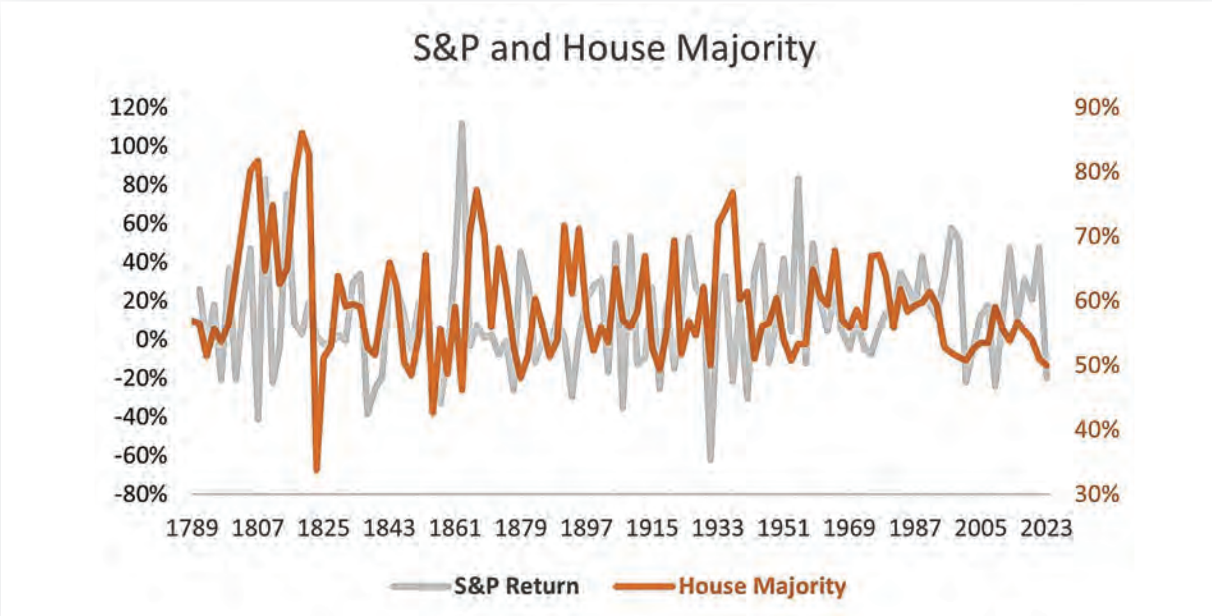
Political parties have held supermajorities (veto proof, greater than 60%) throughout history. The last supermajority was when Democrats held 61 seats in 1977 nearly 50 years ago. The 60-year trend toward evenly divided politics is clear in this chart as capped by our

Chart 1: Percentage of U.S. Senate Seats Held by the Majority Party and the Return of the S&P



Sources: Stooq.com and www.senate.gov/history/partydiv.htm

Chart 2: Percentage of U.S. House Seats Held by the Majority Party and the Return of the S&P 500



Sources: Stooq.com and https://history.house.gov/institution/party-divisions/party-divisions/

most recent mid-year election results. Oddly enough, stock markets have been in an epic bull market with the S&P 500 rising from 95.10 on Dec. 31, 1977, to its 3748.57 close on Nov. 10, 2022.

Maybe isolated indexes appear to be causal, but the actual correlation coefficient of Senate Majority and S&P return is -0.015, indicating near perfect independence. Suppose you want better data, starting 1925 to present: The correlation is -0.10, still only slightly negative.

A HOUSE PARTY

Let's look at the U.S. House of Representatives in Chart 2 above. The picture here isn't much different than what we see in the Senate. Let's start with the S&P 500. The correlation coefficient of the House majority to the S&P 500 is a slightly negative -0.04. Again, no correlation between House majorities and market returns. The 1925 to present coefficient is -0.05. Again, another barely negative number.

Of note here is that the U.S. House went from a nearly uncontested chamber in 1821 to near chaos in 1823 where "Adams Clay Republicans" carried only 74 or 34% of the 213 seats. "Jackson Republicans" held 64 seats.

The rest were divided by four parties. John Quincy Adams was elected president the next year, 1824, by the House of Representatives. No candidate won a majority of either the popular vote or of the electoral college. Talk about divided government!

While government was challenged in the 1820s, markets grew roughly 20% in the decade.

A final note: "The last time the S&P 500 Index produced negative returns during the 12 months after a midterm election was 1939 — a time of tremendous economic contraction and uncertainty as the U.S. battled the Great Depression and World War II began in Europe," as written in "How midterm elections affect the stock market," by the U.S. Bank Financial Perspectives.

We've just completed (or nearly completed, as of the date of this writing) a very exhausting mid-term election season so, mercifully, we can wait for 2024 to examine the presidential elections.

Grin and Bear It

How savvy investors forage for future gains in down markets.

by Jeffrey Steele

Much like the average wilderness-trekking outdoors-person fears bears, most investors fear bear markets. Investors pour money into the market, after all, to reap returns they don't believe they will capture elsewhere. They no more want to see the value of their investments plummet than a hiker wants to come face to face with a ravenous grizzly.

That said, a case might be made that an investor's response to steep sell-offs in the financial markets is among actions that differentiate successful investing from so-so investing.

The ability to stay the course, riding out a sweeping stock market collapse, doesn't just mean avoiding panic selling. It can also signal the kind of unemotional response to ups and downs that enables great investors to acquire equities when they are on sale and take profits off the table when others are giddily scooping up stocks at elevated prices.

FEELING DISCOMFORT

If you can tolerate the kind of bear market we saw in 2022, these are the opportune moments to invest, said Dan Casey, CEO of Bridgeriver Advisors in Bloomfield Hills, Michigan. "These are the good times, the opportunities to get into the market and do very, very well," Casey said. "The problem is I find a lot of people's risk tolerance varies dramatically depending on whether it's an up or down market. It's super emotional. A lot of clients, against my guidance, sell in these markets. And it drives me crazy."

Casey recalls once working in a day trading firm, and watching newcomers arrive and trade with play money

during their training. "Playing with a house account, they almost always made money," he said. "When they traded with their own money, the stakes were much higher, and they would sell at the wrong time because of emotion."

Robert Johnson, chair and CEO at Omaha, Nebraska-based Economic Index Associates, reported behavior obstacles lead investors to underperform. More specifically, individual investors tend to grow exceptionally comfortable investing in the wake of market gains. The converse is also true. They grow increasingly uncomfortable and sell when markets have recently fallen. Seasoned investors, he added, recognize the wisdom of adhering to Warren Buffett's dictum, "Be greedy when others are fearful and fearful when others are greedy." That, Johnson said, "is a path to investment success. Unfortunately, too many investors do the opposite and essentially 'buy high and sell low.'"

One remark often heard during market downturns is that investors go to cash for safety.

Those cash-seeking investors believe cash is king, but that statement is among the biggest money myths around, Johnson said. In the long run, keeping significant assets in cash ensures holders of that cash will endure substantial opportunity losses.

"When it comes to building wealth, one can either sleep well or eat well," he said. "Investing conservatively allows one to sleep well, as there isn't much volatility. But it doesn't allow you to eat well in the long run, because your account won't grow much."

He points to data from Ibbotson Associates demonstrating that large capitalization stocks, such as those listed in the S&P 500, returned 10.3% compounded annually from 1926 to 2020. Over the same duration, long-term government bonds returned 5.7% annually and Treasury bills 3.3% annually. To put this in perspective, he said, a dollar invested in the S&P 500 at the start of 1926 would have grown to $10,944.66 with all dividends reinvested. The same dollar invested in T-bills would have grown to $21.71. The lesson: The surest way to build wealth over long horizons is investing in a diversified portfolio of common stocks. Those with long time horizons shouldn't keep exposure to money market instruments; yet many do, fearing stock market volatility.

SAVER, INVESTOR

There's simply no underestimating the importance of investor behavior during all market cycles, said Stephen J. Taddie, a partner at San Diego, California-based wealth management advocate HoyleCohen, LLC.

Taddie feels "the core of the issue" of behavior depends on whether the person involved is a saver or an investor. Generally, he said, the former are reactive, the latter proactive. The two types of individuals take different courses of action when faced with identical circumstances. And those actions are most observable during market inflections, he said. When stocks sell off, market participants Taddie identifies as "savers" watch their net worth declining, dread seeing even more loss, and

sell into market weaknesses. The same set of circumstances will lead those he terms "investors" to modestly adjust their holdings, to manage through the market decline without having to sell into the weakness. What's more, those investors possessing good cash flow or holding "dry powder" tend to seize the opportunity to selectively add to their portfolios.

Savers appear obsessed with short-term rates of absolute return, Taddie said. That inclination turns out to be self-defeating for a great many of them. The general valuation of earnings at the market or industry level is a major determinant of a stock holding's value. If a company is increasing revenues at a rate of 15% to 20% a year, showing profit margins of 15% and possessing a decent balance sheet, that company is potentially a good investment, he said. If the overall market valuation ratio falls, it's generally the case that the valuation ratio of an individual company will similarly decline.

If for instance, with all things remaining the same, a company that has kept a valuation 19 times trailing earnings then drops to a valuation 15 times earnings during a market down cycle, few would advance the argument that means it's a bad company.

"With a stock price down likely 20%, a saver — a short-term-return-obsessed individual — may cut and run, while an investor uses the same decline as an opportunity to buy," Taddie said. "After a prolonged run-up in stock prices, comparison shopping past rates of return and [feeling] the fear of missing out on future returns has many people chasing the market. This is the greed part of the fear-and-greed analogy."

Dumping stock after a sell-off and purchasing in the wake of a run-up typically destroys long-term rates of return, Taddie said. "The price spikes caused by behavior at inflection points in the market increase the emotional reactions to fear and greed. Some people cannot help themselves, which is where an adviser can make a valuable difference. Sometimes the job of an adviser is part psychologist, part investment adviser."

On the other hand, some people are able to stay the course calmly. When interviewing potential clients, Taddie reported he can tell a lot about the investor psychology of an individual when he reviews his or her portfolio. For instance, when he spots a potential client's portfolio displaying embedded gains in many positions held for long durations, he's inclined to believe these people are long-term investors. These individuals, he said, tend to be, "more willing to ride through the expected storms, and more willing to commit more money to investments when the chips are down."

BEST STRATEGIES

There is an old saying that anyone can make money in bull markets. But making money during steep dives in the stock market requires far greater skill, said Scottsdale, Arizona-based Richard Gardner, CEO at Modulus Global, which develops advanced technology for Nasdaq, Goldman Sachs and others. Still, the opportunities exist in bear markets for those with the ability to identify deep sell-offs and the resources to take advantage.

"As most investors flee the market due to fear, these special few are often able to use their understanding of macroeconomic conditions and other indicators to identify market lows and long-term opportunities, resulting in significant gain," he said.

Similar sentiments are voiced by Alexander Harmsen, CEO of San Francisco, California-based Global Predictions, which provides the underlying technology and infrastructure that powers portfolio management systems. In bull markets, everyone feels they should make money and many of them view themselves as geniuses. While it's possible to make money and lose money in downturns, it's lots harder to lose money in up markets.

"The spread of outcomes is much larger in down markets," Harmsen said. "You have to think about risks you're comfortable with, and understand how exposed your portfolio is to liquidity considerations, inflation changes, credit risk and country exposures . . . I often hear the best advice is to not panic sell, hold on and just ride it out. I don't think that's bad advice, but I also feel throughout market cycles you should be thinking about the risks you're comfortable with. Be as neutral as you can be to macro conditions."

For his part, Lance J. Sherry, wealth advisor for Chicago-based Kovitz, is of the belief the only time investors can really generate outsized returns is during periods of market volatility and downturn. This doesn't mean, he added, that investors can't be successful with such strategies as dollar-cost averaging. But he's quick to point out success versus outsized returns are two entirely different concepts. Many are scared out of the market by reading headline news day after day. Many suffer paralysis by analysis wondering when the best opportunities will present themselves.

"But investors with the courage to stick it out and who have a longer time horizon can do well for them-

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selves when others do not fare as well," he observed.

Sam Boughedda, equities trader and lead stock market news writer at AskTraders.com, noted that while the notion of purchasing at the low end of a stock market trough is the ideal, pinpointing the bottom is a very daunting task, one that makes risk management especially crucial. He added that how investors react in bear markets is part of what separates successful investors from less successful ones, this is just one slice of the larger picture. "Downturns, of course, provide opportunities to buy and build wealth over time," he said. "But there are various factors, such as what a successful investor does before, during and after a position, that helps separate them from the rest. Market pullbacks are just part of the game. And investors should always consider that there will be a decline at some point, even if it seems the bull market will never end."

For the great majority of investors, the wisest money management move is investing in the market at all times. So said Ben Waterman, co-founder and chief operations officer at London-based Strabo, a global portfolio tracker. Missing the best 10 days in the stock market each year between 1999 and 2018 would have, on average, cut investors returns in half, he said, citing JP Morgan's Retirement Impact Guide in 2019.

"Few, if any, have the ability to time these peaks and troughs," he said. "So investing savants aside, it's better to avoid spontaneous sell-offs. That being said, a risk averse portfolio will almost always have a portion held in cash. Given the discount applied to even stocks with strong fundamentals during downturns, periods of economic difficulty represent great opportunities to deploy this cash and invest into the market.

"Many famous investors have gained their edge with strategies similar to this. And all did so by keeping an eye on strong opportunities when the prices were high and the market was strong, so that they knew what to do when the opportunity arose."

Many portfolios will benefit over time from holding at least a small allocation to cash or cash equivalents, said investor and wealth consultant Kavan Choksi. How much investors keep in cash outside the financial markets depends heavily on their individual target risk-return profile. Place too much cash outside and, "it can drag on returns, particularly for investors who are leveraged and pay a borrowing cost," he said, adding he personally allocates 3% to 5% to cash.

Many one-time market participants have girded for a recession for a while and have now exited the stock market, Johnson said, adding the opportunity cost of doing so is substantial. Instead, people should invest consistently, "whether the market is up, down or sideways," he said, suggesting that investors employ a dollar-cost averaging strategy.

"Dollar-cost averaging is a simple technique that entails investing a fixed amount of money in the same fund or stock at regular intervals over a long period of time," he said. "For the vast majority of investors, the KISS mantra – keep it simple, stupid — should guide their investment philosophy."

How best to keep it simple?

"The easiest way to ensure investment success is to invest early and often," he said.

FUNDAMENTALS OF INVESTING

Continued from Page 35

PILLAR NO. 3: COMPANY ANALYSIS

This is where hard numbers are factored, resulting in metrics that gauge companies' financial wellbeing. Income statements, balance sheets and cash flow are used to determine total revenue, gross profits and earnings per share (EPS), among others. This data's extrapolated to determine a company's financial safety. For example, a price-to-earnings ratio (P/E) can tell investors if a company's shares are overpriced or underpriced. Generally, P/E ratios range from 15-30. The higher the ratio, the more likely the equity is overvalued. The lower the ratio, the more likely it's undervalued. Tesla (TSLA), a relative newcomer to the list, had a P/E ratio of 66.9 heading into Q4 2022. Long-time member Exxon Mobil's? 10.24.

Another approach is determining a company's EPS growth rate. While reported earnings are rear-facing, EPS growth rate can help determine the direction in which shares are heading. An EPS growth rate of ~15% is strong. In 2022, despite an enormous sell-off in tech, Microsoft managed an EPS growth rate of 19.76%. In 2021, that figure was 40%. In 2020, despite peak COVID-19, it managed a rate of 13.41%. And in 2019, it was an astounding 141.43%. Through these metrics, companies demonstrate how financially sound they are.

DO YOUR HOMEWORK

The value determined by fundamental analysis goes a long way in determining an investment's worthiness. This isn't to say technical analysis is without its merits. Some combination of technical indicators along with fundamental analysis will further ensure investors are able to make timely decisions in solvent companies with staying power.

However, without a working knowledge of fundamental analysis, investing becomes a guessing game. Understanding how to analyze a company from a fundamental perspective is essential in finding long-term value and enjoying the gains that accompany it.

Through this data, industry trends are easily identifiable. Transportation's literally driven by energy. As COVID-19 cases waned and Americans started spending more on moving around, shares of Exxon Mobil rose over 86% from March 2020 through the end of 2021.

Sea Glass, Along With Stocks

A few things that add value to a former BetterInvesting Board member's life.

As told to Angele McQuade by Eve Lewis of Milford, Ohio, who served on the NAIC/BetterInvesting Board of Directors from 2008 through late 2022, departing due to term limits.

Eve Lewis

A LITTLE ABOUT MY FAMILY AND HOME: I'm a widow with three grown children. I live in Milford, Ohio, a Cincinnati suburb, where work brought me 40 years ago. I grew up on a farm in Southeast Michigan established in 1876.

A LITTLE ABOUT MY WORK AND HOBBIES: In 2015, I retired after a 36-year career in sales, marketing and product development for Cengage (formerly South-western Publishing). I'm an active golfer. My family likes to gather at our Michigan vacation home on Lake Huron both summer and winter. We are "boat nerds"—followers of Great Lakes freighters. I also take long walks searching for sea glass along the shore.

SOMETHING I'M ESPECIALLY PASSIONATE ABOUT: In 2008, my husband died of cancer. Fortunately, our family finances were secure so life could go on without the worry of how to pay the mortgage and finance my daughter's final years of college. We could grieve without financial stress.

HOW I FOUND BETTERINVESTING: As a young working mother in the early 1990s, I was the family money manager and curious about investing. Having grown up on our family's farm, I only knew about livestock, not stock investing. When an article in my local newspaper featured the educational benefits of BetterInvesting, I joined.

A FEW FAVORITE INVESTMENTS: Because my roots are in agriculture, I like to follow the food industry and have invested in John Deere, Tractor Supply and Nutrien, among others.

ADVICE I'D GIVE TO NEWER INVESTORS: Investment clubs are a great way to learn. By learning together and pooling your money, your partnership shares risk and reward. Clubs often research and purchase local companies because we work in the industry or know the company's story. Most Cincinnati clubs have held Procter & Gamble, Kroger, GE and Cintas stock at one time or another.

MY BIG FINANCIAL DREAM: I'm living my dream! Thanks to BetterInvesting's teachings, I was able to retire early. Financial security allows me the freedom to join my big extended family's frequent Michigan and East Coast gatherings.

ONE LAST THING ABOUT ME: I recently concluded my service on the BetterInvesting Board of Directors. It was truly an honor to work with so many passionate board members from all walks of life. George Nicholson's daughter, Beth Hamm, welcomed me to the board in 2008. I loved hearing stories of her dad's vision and influence on building NAIC into the respected organization that recently celebrated its 70th anniversary.

Board members are entrepreneurs, successful executives and distinguished philanthropists who are committed to giving back. BetterInvesting's Home Office staff and the BetterInvesting Volunteer Advisory Board members are the lifeblood of the organization. I'm so fortunate to be able to count these devoted people as my friends.

Over the last two years, I've teamed with current Board Members Jackie Koski and Ionnie McNeill to present the benefits of BetterInvesting to the University of Tennessee's Futures and Options course. The professor is my niece and a BetterInvesting member who includes the basics of personal investing in her curriculum.

Angele McQuade has been BetterInvesting's Book Value columnist for 23 years. She's the author of three books, including "Investment Clubs for Dummies" and BI's upcoming new youth investing handbook. Angele lives in Maryland, where she also writes children's picture books and novels. Email: angelemcquadeauthor@gmail.com.

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision.

2 Join BetterInvesting Board of Directors

New members are Indiana senior bank vice president, Wisconsin entrepreneur.

Patricia Gamble-Moore, of Indianapolis, and Daniel G. Guerra, Jr., of Madison, Wisconsin, were recently named to the Board of Directors of BetterInvesting. Each will serve a four-year term.

Eve Lewis, of Milford, Ohio, a long-time Board member and most recently the vice chair, was term limited.

Gamble-Moore is senior vice president, market manager for PNC Community Development Banking in Indiana. She is responsible for developing relationships and growing community development loans, investment and services that meet the needs of low- and moderate-income communities.

"We are excited to have Pat and Daniel join us, each bringing years of diverse professional experience and community involvement to our board of directors," said NAIC/BetterInvesting Board of Directors Chair Cy Lynch. Lynch continued, "Pat's extensive volunteer community involvement and professional focus on financial education of youth, seniors and at-risk populations will bring new perspectives to our efforts to increase our effectiveness in reaching varied demographic groups. Daniel's entrepreneurial spirit and focus on problem-solving will contribute to BetterInvesting's ability to assure that our services match the needs of prospective members of tomorrow."

Patricia Gamble-Moore

Daniel G. Guerra, Jr.

PATRICIA GAMBLE-MOORE

Gamble-Moore brings to the BetterInvesting Board knowledge gained from 30 years of experience in banking, affordable housing, community economic development, nonprofit consulting and philanthropy.

She is a vital member of her community and currently serves on numerous boards and committees, including as chair of board of Second Helpings of Indianapolis; vice chair of the board of New Hope of Indiana; secretary of the board of Volunteers of America Ohio & Indiana; chair of the board of Housing and Economic Concepts, Indianapolis Housing Trust Fund Advisory Committee; United Way of Central Indiana, Human Services Professional Renewal and Capital Funds Project committees; and the Ball State University Miller Leadership Academy Advisory Board.

She is a member of Alpha Kappa Alpha Sorority, Inc., Alpha Mu Omega Chapter and Impact 100. She is an active member of the I2K Ivy Investment Klub, serving as the portfolio manager. Gamble-Moore received the 2021 Hamilton County (Indiana) Leadership Academy Impact Award, where she led the creation of its first DEI Committee. In 2020 she was named an "Indianapolis Business Journal" Woman of Influence. She also received Prosperity Indiana's Michael Carroll Community Economic Development Leadership Award in 2018.

DANIEL G. GUERRA, JR.

In Madison, Wisconsin, Guerra is the founder of ArgusX, a software enabled stock trading company; Altus, a training and compliance company for health care professionals; and SDMCentral, which develops tools for patients and doctors to make better care decisions together. Guerra says his immigrant father's challenging health care journey fuels his passion for innovations for patients and the dedicated workers in clinics, hospitals and other facilities.

Guerra has a long history of volunteering. He served as chairperson of the board of directors Madison's Community Development Authority from 2011 to 2019. The agency champions redevelopment efforts for the city and oversees the Section 8 federal housing program and the city's public housing program that assists 1,800 people.

Chapter Contacts

Contact your local chapter for specific details on an event or visit www.betterinvesting.org/chapters.

USING THIS SECTION

Seeking to network with other long-term investors? Use these resources for information about programs in your community. Meetings provide investment education for individuals of all ages and experience levels. Each BetterInvesting chapter is listed with its website and contact information. We urge readers to contact the chapter directly for complete details about any event.

For those not covered by an area chapter, please see the Online Chapter listing for information or assistance.

Upcoming Investors Fairs, Educational Fairs, Annual Meetings and other major events are listed at the end of this section. These regional programs are the heart of BetterInvesting's educational effort. Some request a modest fee to defray costs, while others are free.

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WYOMING
See Colorado, Rocky Mountain

The 2021 Kenneth Janke Award for Lifetime Achievement: San Francisco Chapter's Craig Braemer

Craig Braemer was nominated by the San Francisco Chapter for his 25 years of outstanding service as a chapter director. He has been a member of Better-Investing for more than 30 years and is a national and regional educator.

Beginning in 1998 and through the present time, he has served several times as president of the San Francisco Chapter. The chapter's 20-year-old model club disbanded in 2010. Craig felt it was important for the chapter to have a model club for members and others to be able to observe the investing process and how a BetterInvesting club operates. He also felt it would be a good place to recruit volunteers. Craig took the lead to start a new model club. Due to him the model club is in its 11th year.

The chapter's annual Ed Day event and webinars would not be the same without Craig teaching classes. In 2021, 500-plus people attended his webinars at the San Francisco Library.

Marion Michel, who oversees the NORCAL (Northern California) webinars, says: "Craig is also great in a crisis. I remember when he called me about a year ago [2020] and said we urgently needed to do a quick NORCAL to address the market panic that the pandemic was causing. He had a presentation ready to go, too. Thanks to him, I think we were among the first to feed the BI webinar pipeline with information urging members to stay calm and continue using BI principles."

INVESTOR EVENTS

COLORADO

Rocky Mountain

9 a.m. – 12:30 p.m., Jan. 14, online

Intro to Investing: Learn the Basics, Risks, Principles of Growth and More! Sessions: **Why Invest in Stocks,** demonstrates why investing in stocks offers the best reward over time. **Understanding the Jargon**, explains basic financial terms critical for the investor. **Using Value Line (VL)**, a tour of the Value Line data sheet. **Introducing the Stock Selection Guide.** Presenters are volunteers and directors of the Rocky Mountain Chapter. Cost: $51. Register through the Colorado Free University, via website below. Contact: contact@rockymtn.betterinvesting.net.

www.betterinvesting.org/rockymountain

Rocky Mountain

9 a.m. – 2:30 p.m., Jan. 28, online

Evaluate Stocks the Investment Club Way with BetterInvesting. Introduces the beginner to the Stock Selection Guide. The sessions are: **Selecting the Best Companies**, learn to recognize high-quality growth stocks with the SSG. **Determining a Fair Price**, the SSG and determining the potential return of a stock. **Estimating Future Growth**, guidance on how to make reasonable projections of future sales and earnings growth rates. **Estimating Future P/Es**, guidelines to make reasonable projections for future high and low P/Es and determine if the stock is a buy, sell or hold. **Practice Session.** Cost: $51. Sessions presented by volunteers and chapter directors. Register: Colorado Free University, via website below. Contact: contact@rockymtn.betterinvesting.net.

www.betterinvesting.org/rockymountain

DISTRICT OF COLUMBIA

D.C. Regional

7:30 p.m. – 9 p.m., third Tuesdays online, including Jan. 17, Feb. 21, March 21 and April 19

Money Matters Book Discussion. The Financial Book Discussion Group meets monthly and is open to all. While pre-reading of the selection is encouraged, summaries are provided and the presentations permit everyone to follow along. The topic schedule is at www.signupgenius.com/go/10c0545a8a622a75-better. No registration required. Access the event at the website below. Cost: free. Contact: join.money.matters@gmail.com.

www.betterinvesting.org/dcregional

DISTRICT OF COLUMBIA AND MARYLAND

D.C. Regional and Maryland

7 p.m. – 8:15 p.m., Jan. 23, online

Digging Into the BI Magazine — Review. Just as you review your portfolio's performance, we'll check the winners selected from the 2021 Digging Into the BI Magazine webinars to see how our judgments held up. This webinar will benefit anyone who wants to improve their judgment on the Stock Selection Guide (SSG). Presenters will come from the model investment clubs in the Mid-Atlantic region. Cost: free. Register at the website below. Contact: digging.into.bi@gmail.com.

www.betterinvesting.org/dcregional

FLORIDA

South Florida

10 a.m. – 11 a.m., first Saturdays concluding Feb. 4, online

Deep Dive 5-Part Series: Discounted Cash Flow Components. Examines each of the discounted cash flow components in the SSG's Preferred Procedure. Learn how to refine revenue, expense and tax projections; as well as revenue, expense and tax projection in the capital structure; and how to compare the five-year free cash flow projections with projected earnings. Presenter: Sofia Bitela, chapter volunteer and finance professional. Cost: free, open to all. Registration and information: www.betterinvesting.org/chapters/south-florida/local-events.

www.betterinvesting.org/southflorida

South Florida

7:30 p.m. – 8:30 p.m., first Tuesdays, Feb. 7 and March 7, online

Equity Research Reports. Examines each of the major types of equity research reports —economic, industry and company quarterly reports — to inform and assist investors in analyzing stocks and arriving at judgments in the Stock Selection Guide (SSG) and the Stock Comparison Guide (SCG). Learn how to use data and how to refine projections in the SSG. Cost: free, open to all. Presenter: Sofia Bitela, chapter volunteer and finance professional. Registration and information: www.betterinvesting.org/chapters/south-florida/local-events.

www.betterinvesting.org/southflorida

South Florida

9:30 a.m. – noon, March 25, online

Club Portfolio Competition Review and Evaluation Seminar. Benefit from the close examination of portfolio competition entries. Gain portfolio management tips through interactive session and acquire specific actions needed for your portfolio. Presenter: Phil Keating, CFP, chapter founder and director, and *BetterInvesting Magazine* Editorial Advisory and Securities Review Committee member. Cost: $20, open to all. For future registration and information see website below.

www.betterinvesting.org/southflorida

MISSOURI

St. Louis

7 p.m. – 8:30 p.m., Jan. 23, online

Let's Talk Stocks — January. A round table discussion of stock study ideas considered worthy of future study by BetterInvesting standards. The discussion for each company includes the Stock Selection Guide, Value Line and internet resources. Bring your ideas. Cost: free. Register at the website below. Contact: contact@stlouis.betterinvesting.net.

www.betterinvesting.org/stlouis

Westinghouse Air Brake Technologies Corporation; Carnival Corporation & PLC

Reviewing past Stock to Study and Undervalued selections.

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

Westinghouse Air Brake Technologies Corporation

Ticker: WAB

Company Description: Westinghouse Air Brake Technologies Corporation is a provider of value-added, technology-based products and services for the rail industry. It provides products and services through two main business segments — Freight and Transit. The company generates revenue chiefly from the Freight segment.

Price at Time of Selection: $76.43
High Price During Past Five Years: $115.40
Closing Price 5 Years Later: $99.16
Total Return at 5-Year Price (Including Dividends): 33.0%
S&P 500 5-Year Total Return: 53.2%
Value Line Long-Term Earnings Growth Estimate When Featured: 12.0%.
Consensus Long-Term Earnings Growth Estimate When Featured: 7.6%
Five-Year Sales Growth Rate: 21.5%
Five-Year EPS Growth Rate: (1.7%)
Five-Year Pretax Profit on Sales: 7.9%
Five-Year Return on Equity: 6.6%

Comment: Increased spending on rail transportation technology, a strong management track record and the anticipated start of a new industry growth cycle were among reasons for the company's selection. In addition, a sharp dip in the share price following release of anemic quarterly results made the stock's valuation more appealing. The five-year total return of 33.0%, however, fell well short of the Stock to Study goal of doubling over that time span. At the five-year high of $115.40 on Sept. 10, 2018, the stock's total return was 54.8%.

UNDERVALUED STOCK

Carnival Corporation & PLC

Ticker: CCL

Company Description: The world's largest cruise company, Carnival recently had a 91-ship fleet. Eight of its nine brands were set to be fully redeployed by year-end 2022. Its brands comprise Carnival Cruise Lines, Holland America, Princess Cruises and Seabourn, North America; Holland America Princess Alaska Tours, Alaska and Canadian Yukon; P&O Cruises and Cunard Line, United Kingdom; Aida, Germany; Costa Cruises, Southern Europe; and P&O Cruises, Australia. Carnival hosted about 13 million guests in 2019, pre-pandemic.

Price at Time of Selection: $26.68
High Price During Past 18 Months: $31.52
Closing Price 18 Months Later: $9.47
Total Return at 18-Month Price (Including Dividends): (64.3%)
S&P 500 18-Month Total Return: (4.9%)
Value Line Long-Term Earnings Growth Estimate When Featured: N.A.
Consensus Long-Term Earnings Growth Estimate When Featured: N.A.
Most Recent Quarter Sales Growth: 688.6%
Most Recent Quarter EPS Growth: 74.0%

Comment: Given pent-up travel demand and the anticipated resumption of scheduled cruises as pandemic conditions eased, Carnival appeared poised for a recovery, committee members suggested. The total return of (64.3%) fell significantly short, however, of the goal for an Undervalued Company — a 20% increase over 18 to 24 months. At the 18-month high of $31.52 on June 8, 2021, the total return would have been (70.0%).

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recomended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer or contributors in a personal portfolio or those of their clients.

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