



Stock Investing Made Easy 'Finding Hidden Gems' Continued



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Present

- The Space Between the Lines
- Help! I Married the Stock
- Why Did I Do That?





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The Space Between the Lines



Mary Enright
Heartland Chapter

November 30, 2022



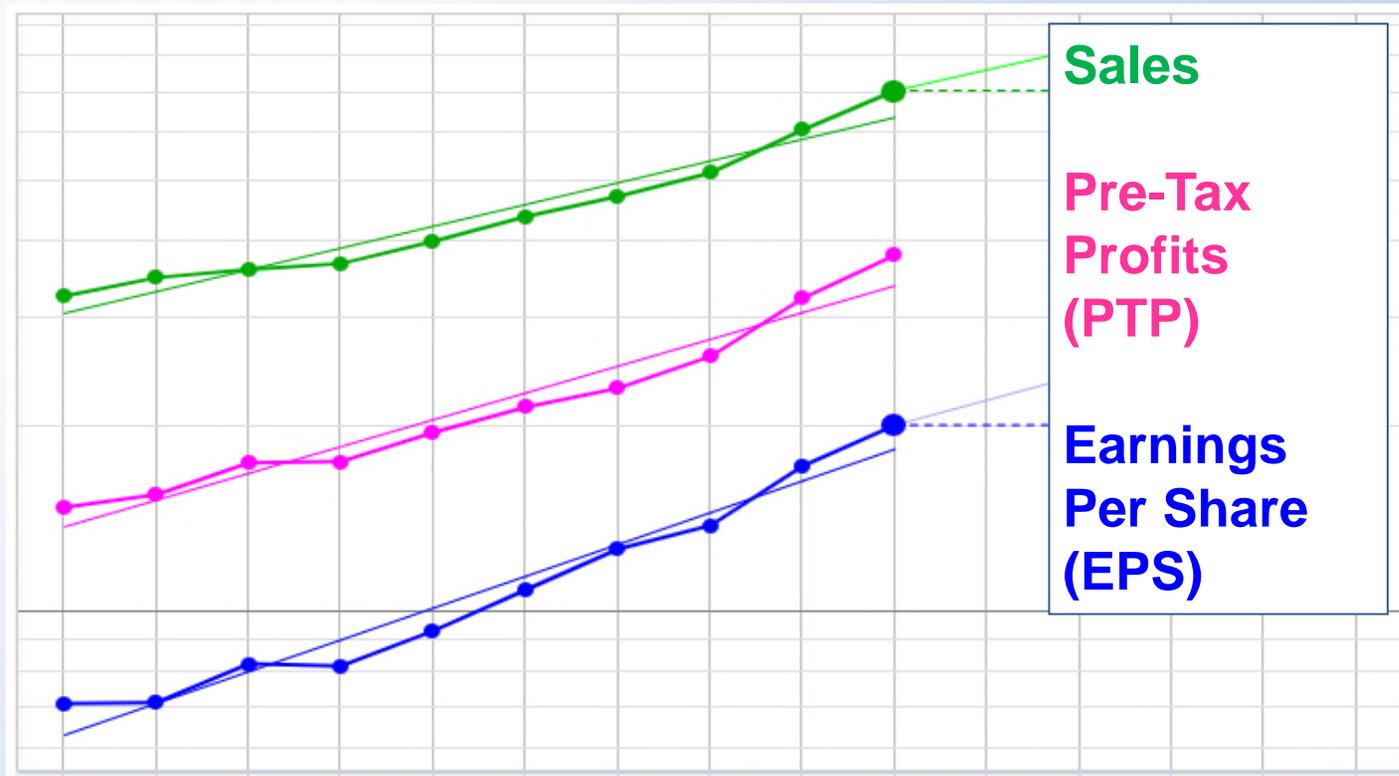
Objectives

- Learn to visualize expenses, taxes, and outstanding shares on the SSG
- Review Net Income/Net Profits on the SSG
- Understand the formula for a Simplified Income Statement



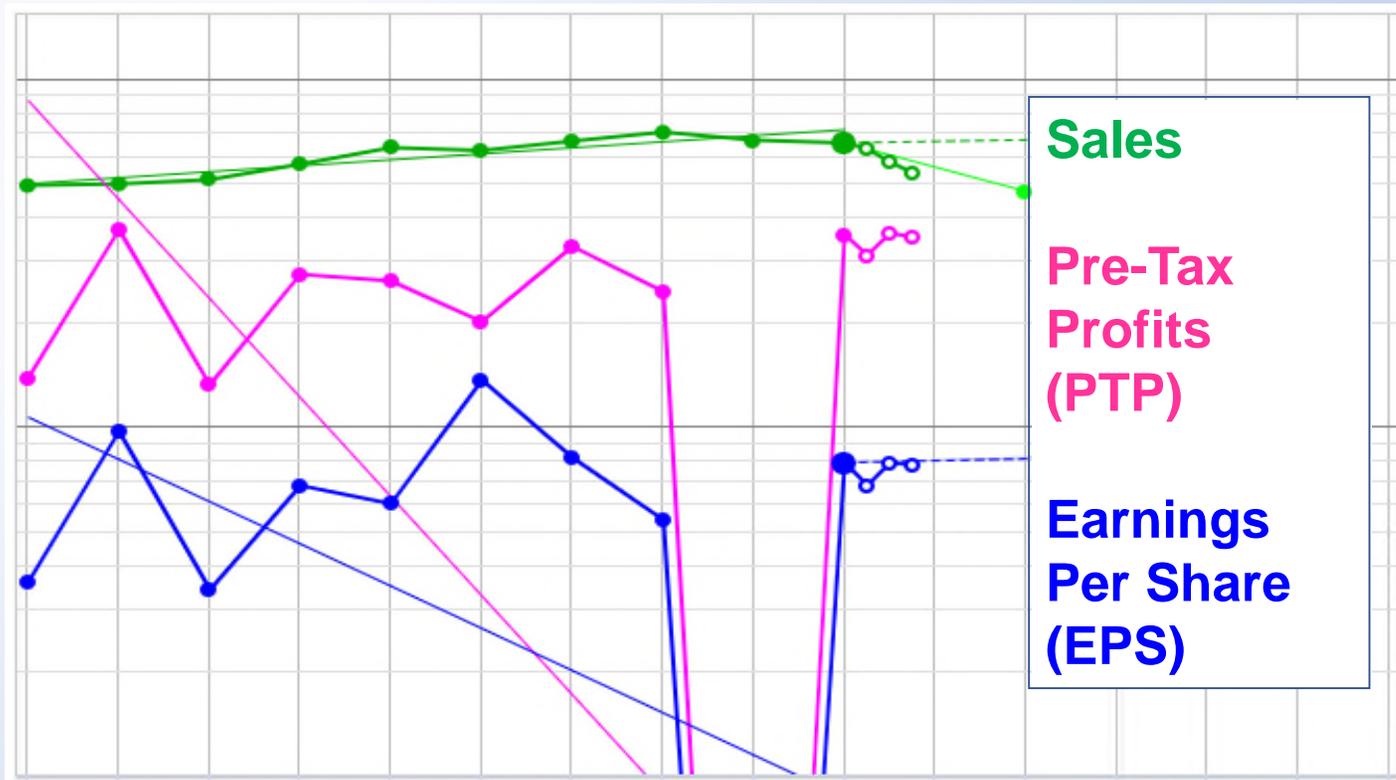


Up, Straight, Parallel



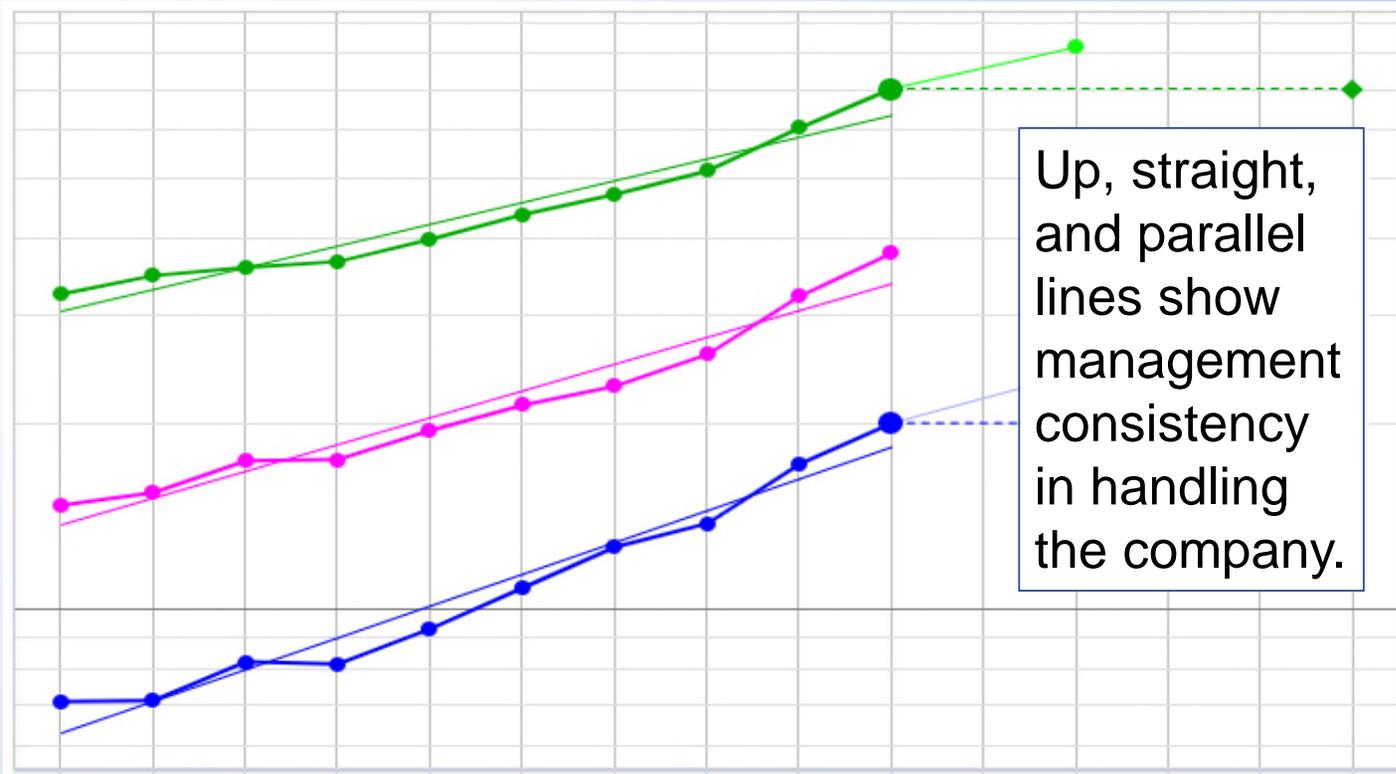


This SSG Graph – yikes



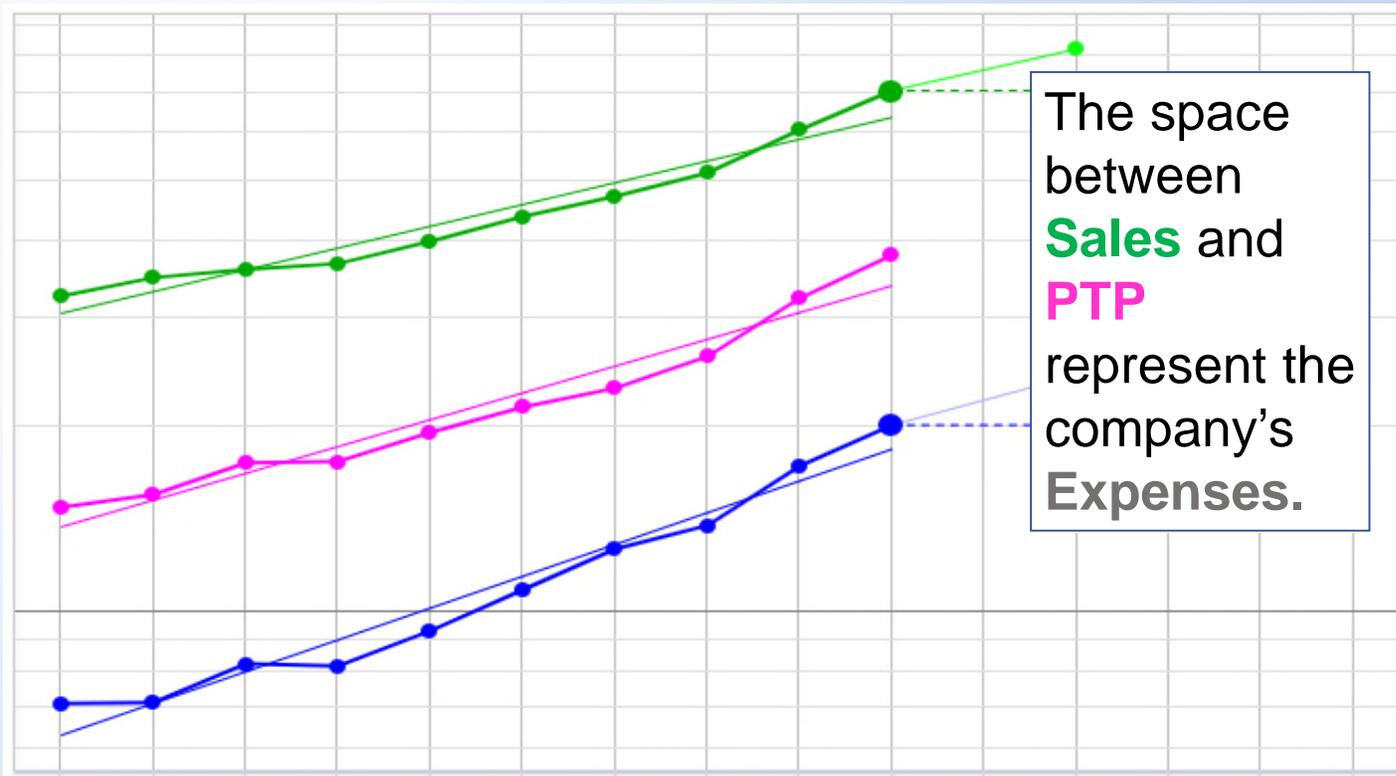


Up, Straight, Parallel





Expenses on the SSG





Simplified Income Statement - Part 1

Sales

minus

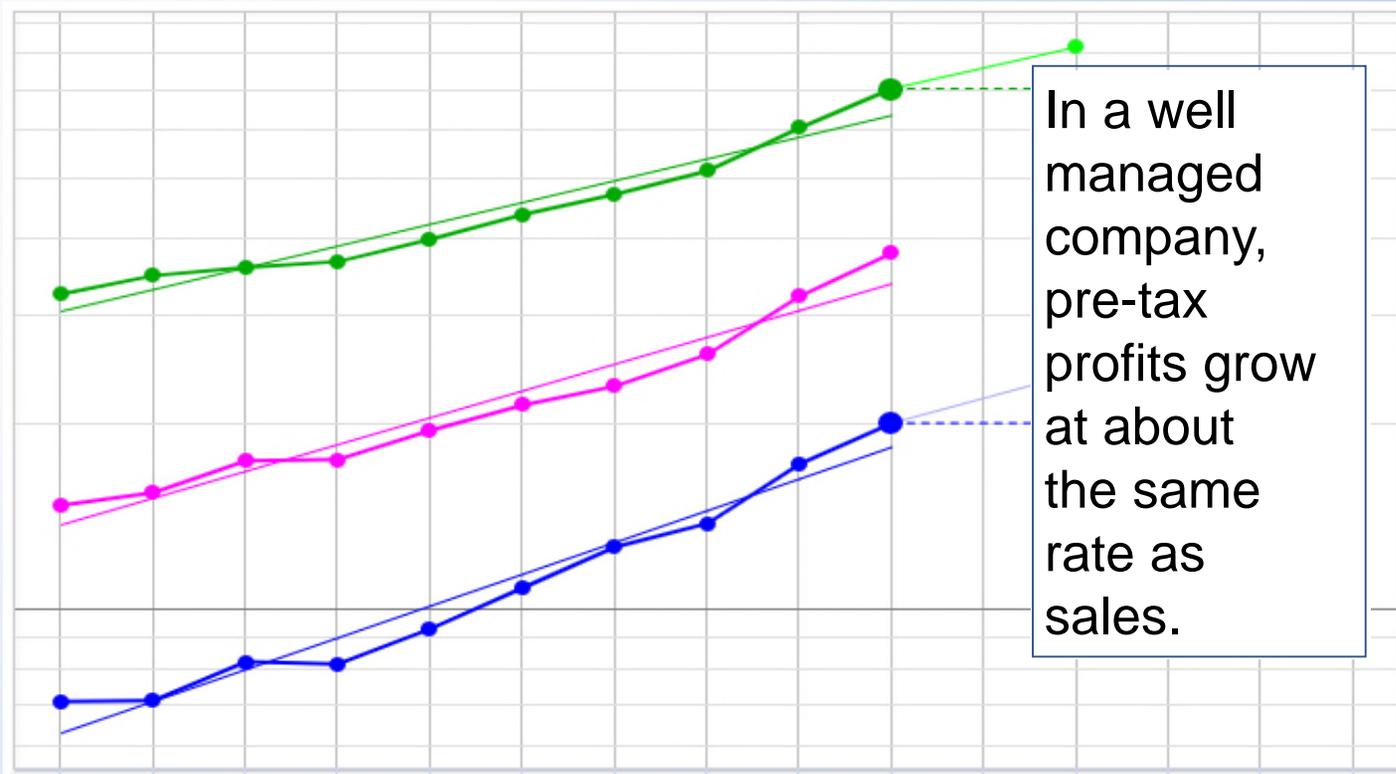
Expenses

equal

Pre-tax Profit



Expenses on the SSG

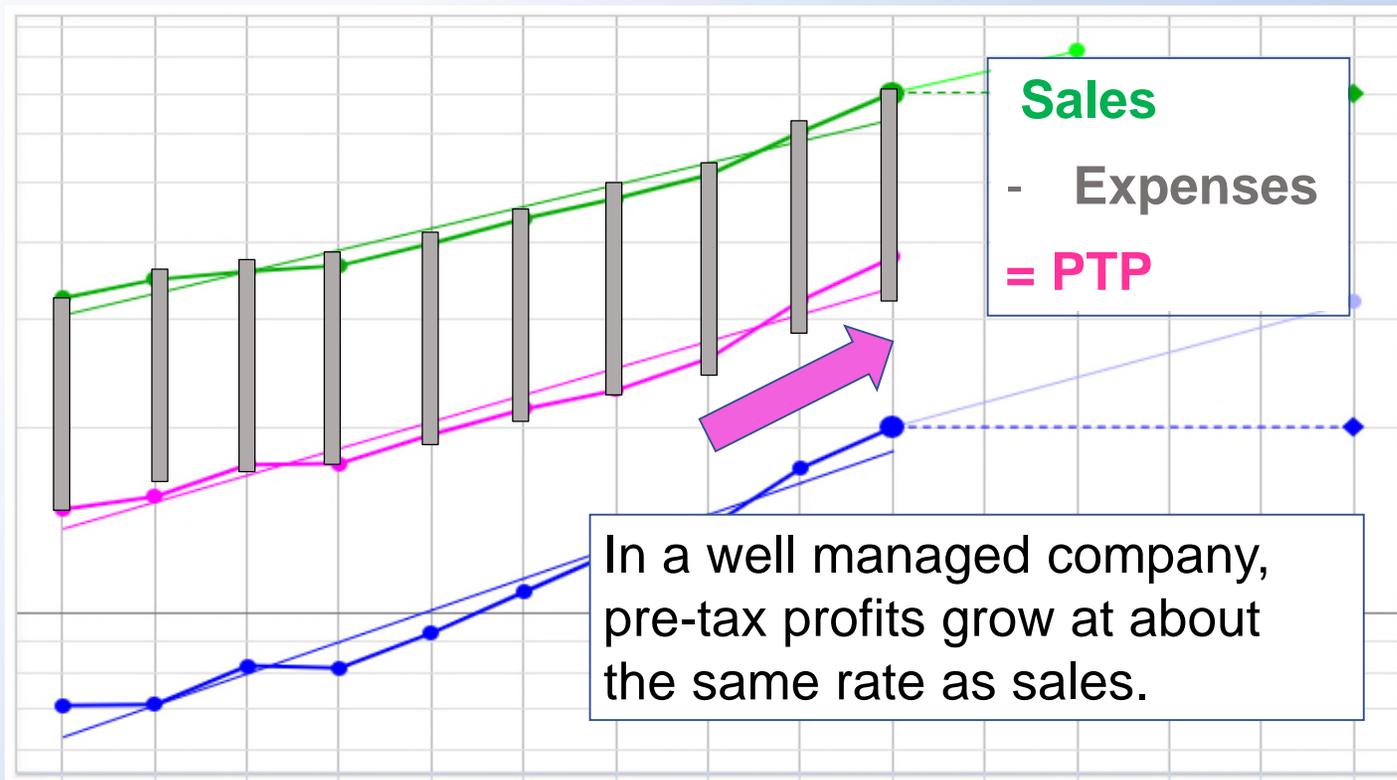


In a well managed company, pre-tax profits grow at about the same rate as sales.





Expenses on the SSG





Expenses on the SSG

In a well managed company, the **pre-tax profits** grow at the same rate or faster than **sales**.

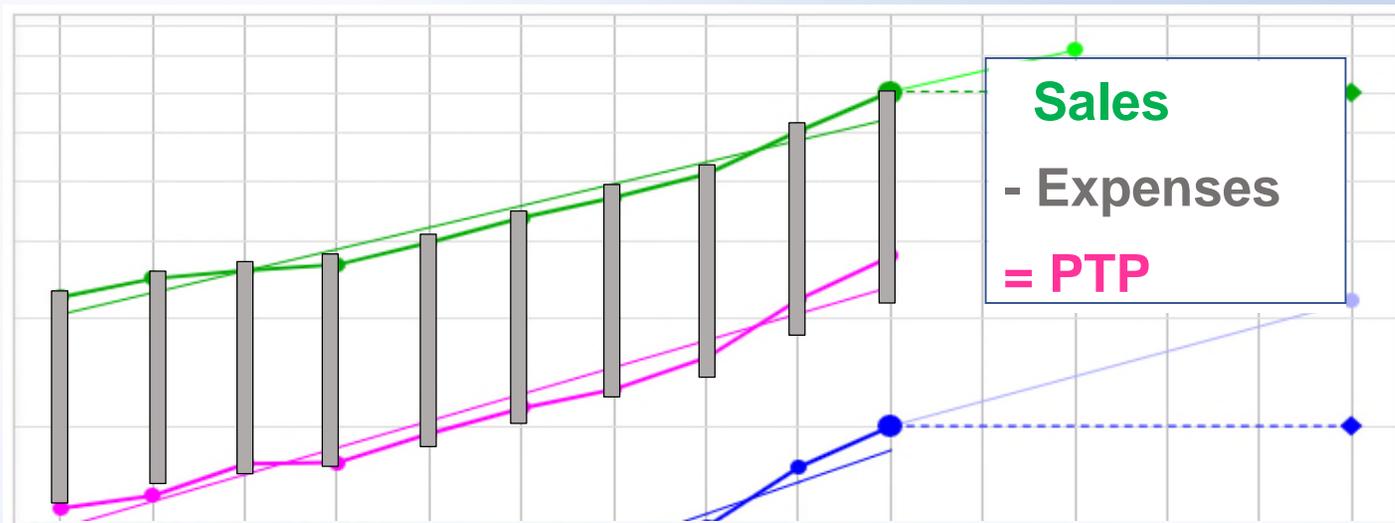
We could also say:

In a well managed company, the **expenses** grow at the same rate or slower than **sales**.





Expenses on the SSG



Fundamental Company Data

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Historical Sales (\$M)	105,156	112,640	116,199	118,719	129,025	141,576	152,703	166,761	195,929	226,954
Historical EPS (\$)	4.63	4.65	5.37	5.33	6.08	7.09	8.26	9.02	11.27	13.14
Pre-Tax Profit (\$M)	3,051	3,197	3,604	3,619	4,039	4,442	4,765	5,367	6,680	7,840



i
14

▶ Determine EPS 5 Year Forecast

Select 5 Year Forecast EPS Growth Rate: _____

Projection Starting Point: ANNUAL [EPS = 13.14, Sales = 226,954]

Your EPS Growth Rate Forecast: % 5 Year Estimate: ---

Analyst Estimate:

Preferred Procedure Growth Calculation: 5 Year Estimate: 12.69

Preferred Procedure Calculation

Restore Defaults

	Defaults	Judgments	Result
Projected 5 Year Sales Growth Rate (Your Forecast):	---	<input type="text" value=""/>	226,954
Less Expenses (5 Year Avg. % Pre-Tax Profit Margin):	3.3%	<input type="text" value="3.3"/>	-219,465
Less Taxes (Last Year Tax Rate):	24.6%	<input type="text" value="24.6"/>	-1,842
Less Preferred Dividends (Current Preferred Dividend):	0.0	<input type="text" value="0.0"/>	0
equals Projected 5 Year Total Earnings of:			5,647
÷ Shares Outstanding (Current Diluted Shares in Mil.):	444.6	<input type="text" value="444.6"/>	12.7
5 Year Compound Annual EPS Growth Rate:			-0.7%

Update Study

Historical Data

▶ Sales

▼ Pre-Tax Profit Margin



2013	2.9%
2014	2.8%
2015	3.1%
2016	3.0%
2017	3.1%
2018	3.1%
2019	3.1%
2020	3.2%
2021	3.4%
2022	3.5%

▶ Taxes

▶ Diluted Shares Outs

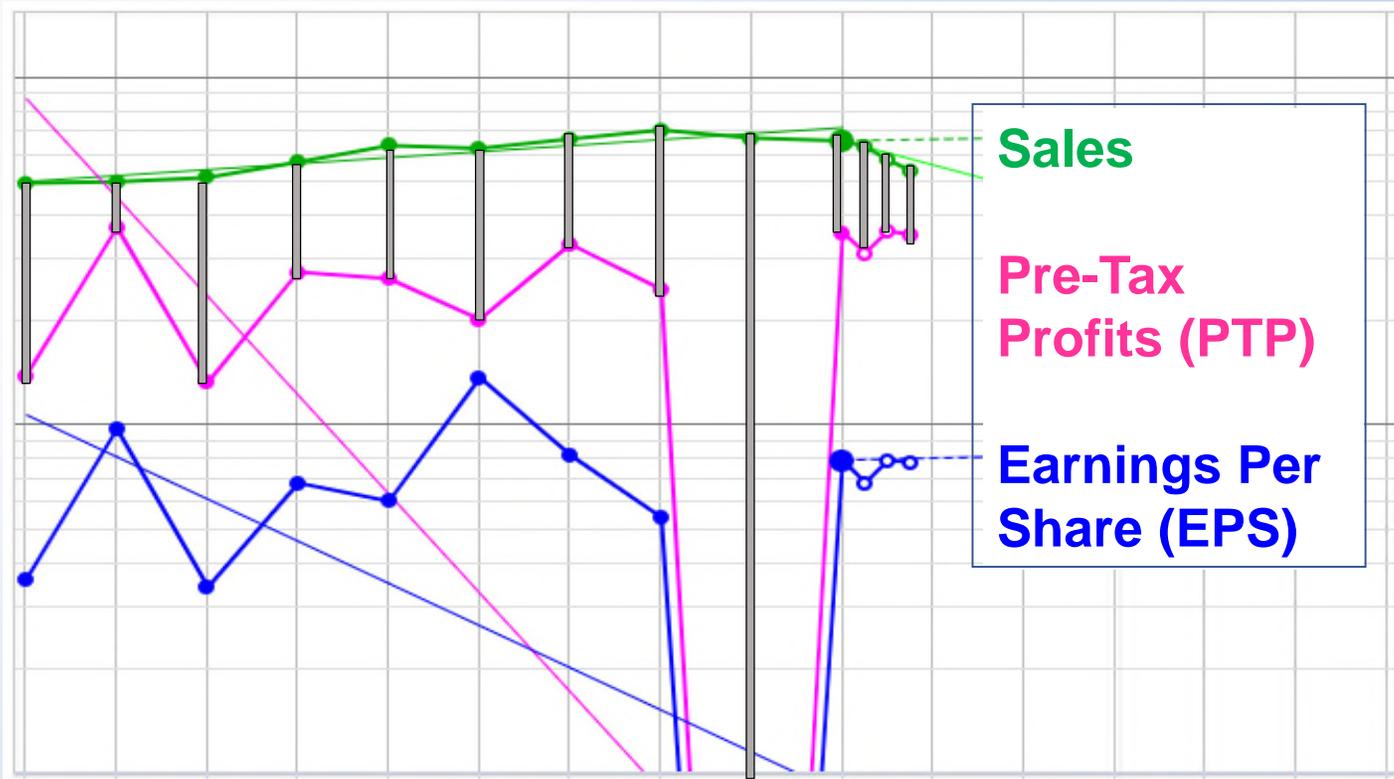
▶ Sales Growth Trend

▶ EPS Growth Trend

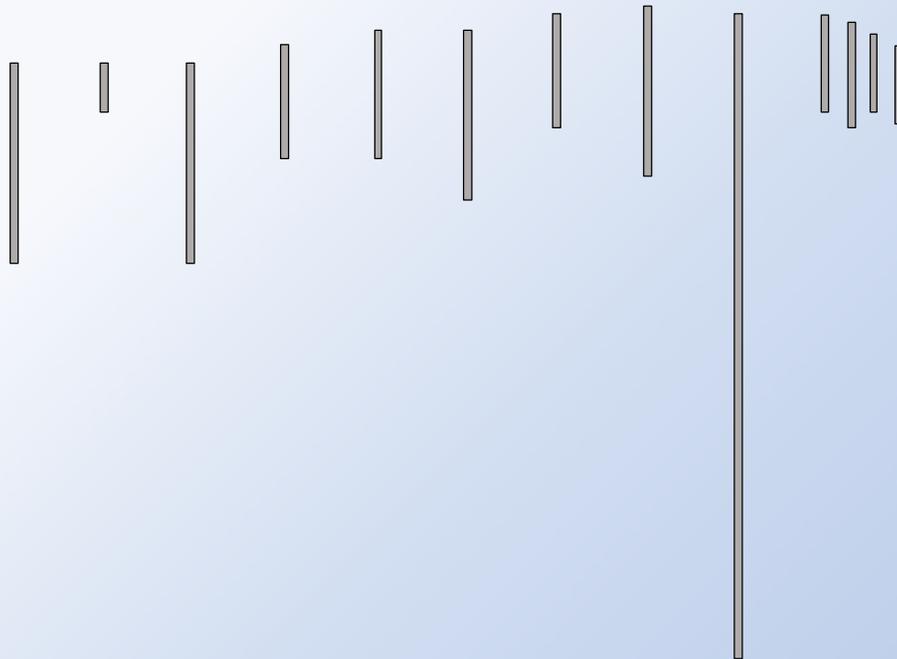




Expenses on the SSG



Expenses on the SSG



Interesting to see the difference in the expenses for each year without the graph behind them....





Simplified Income Statement - Part 2

Pre-tax Profit

minus

Taxes

equals

Net Income or Net Earnings

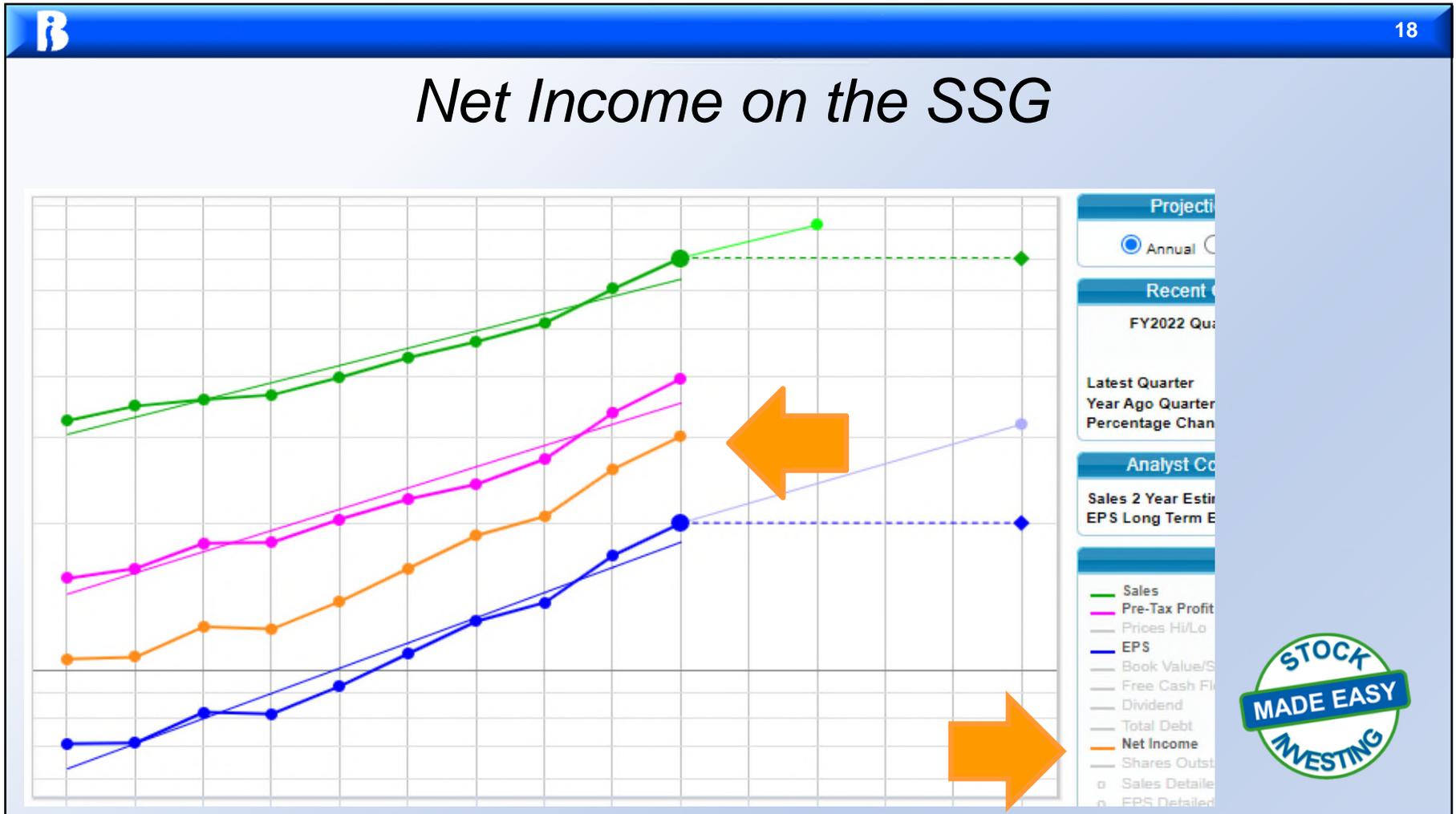
divided by

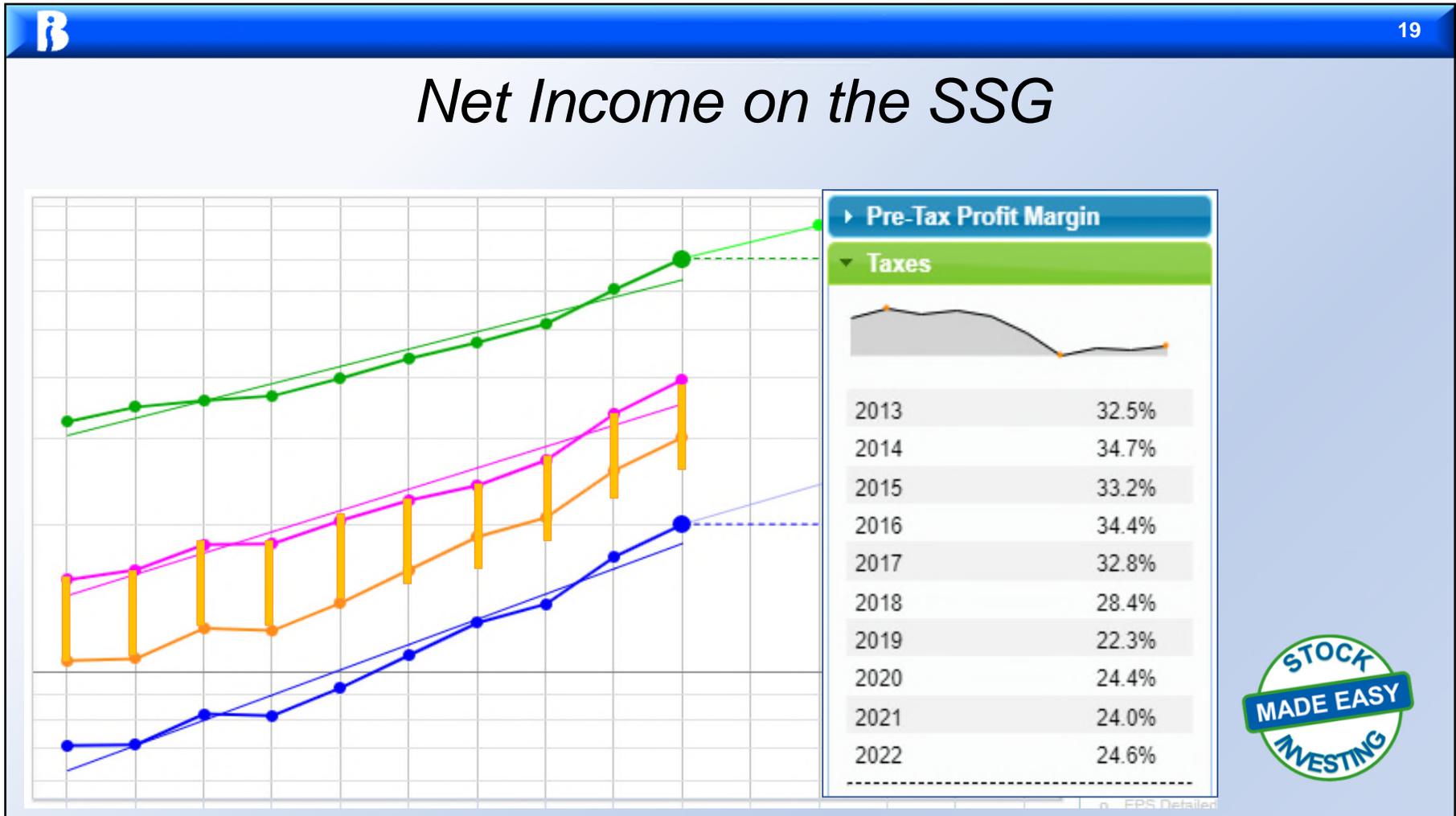
Shares Outstanding

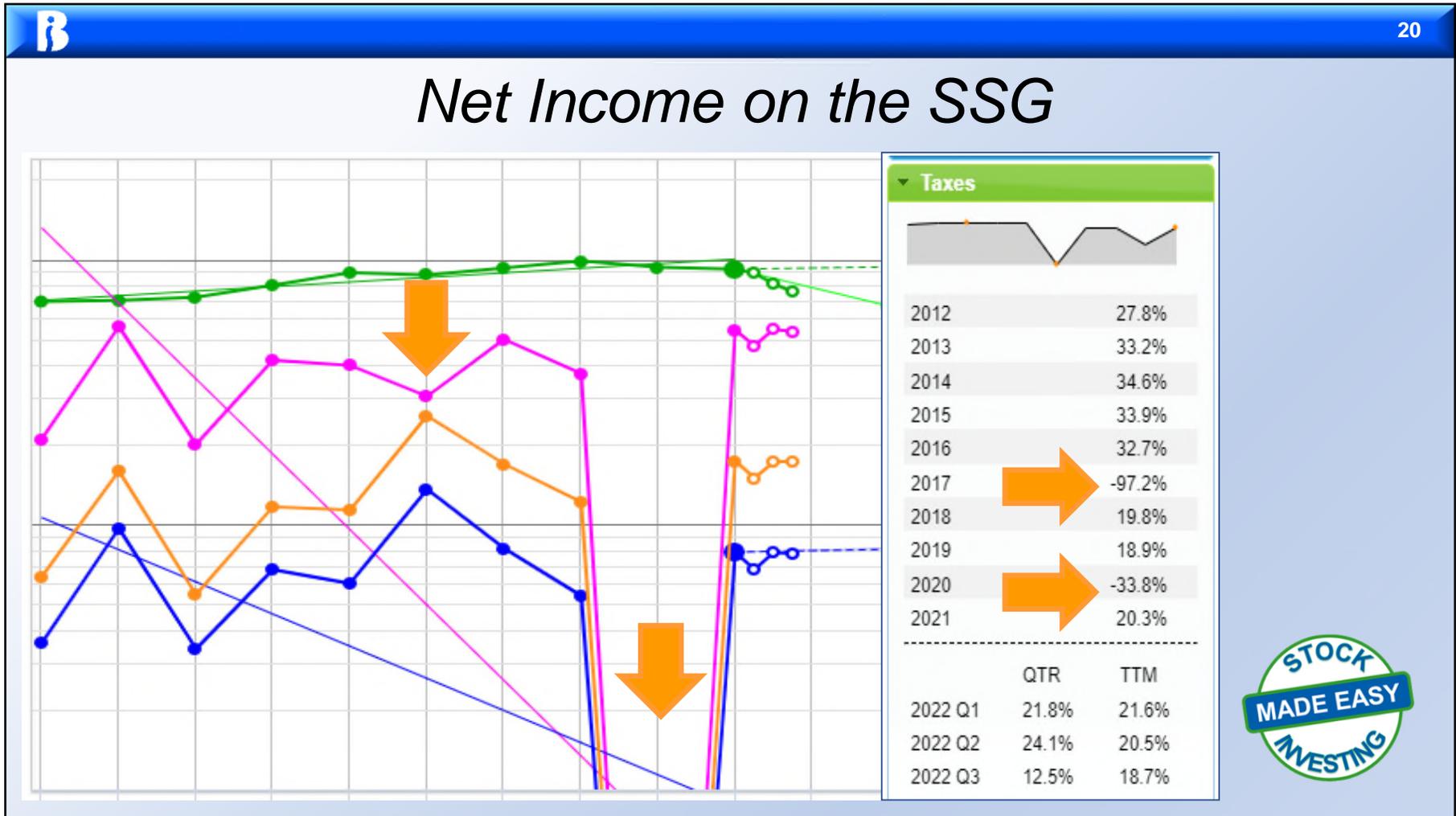
equals

Earnings Per Share



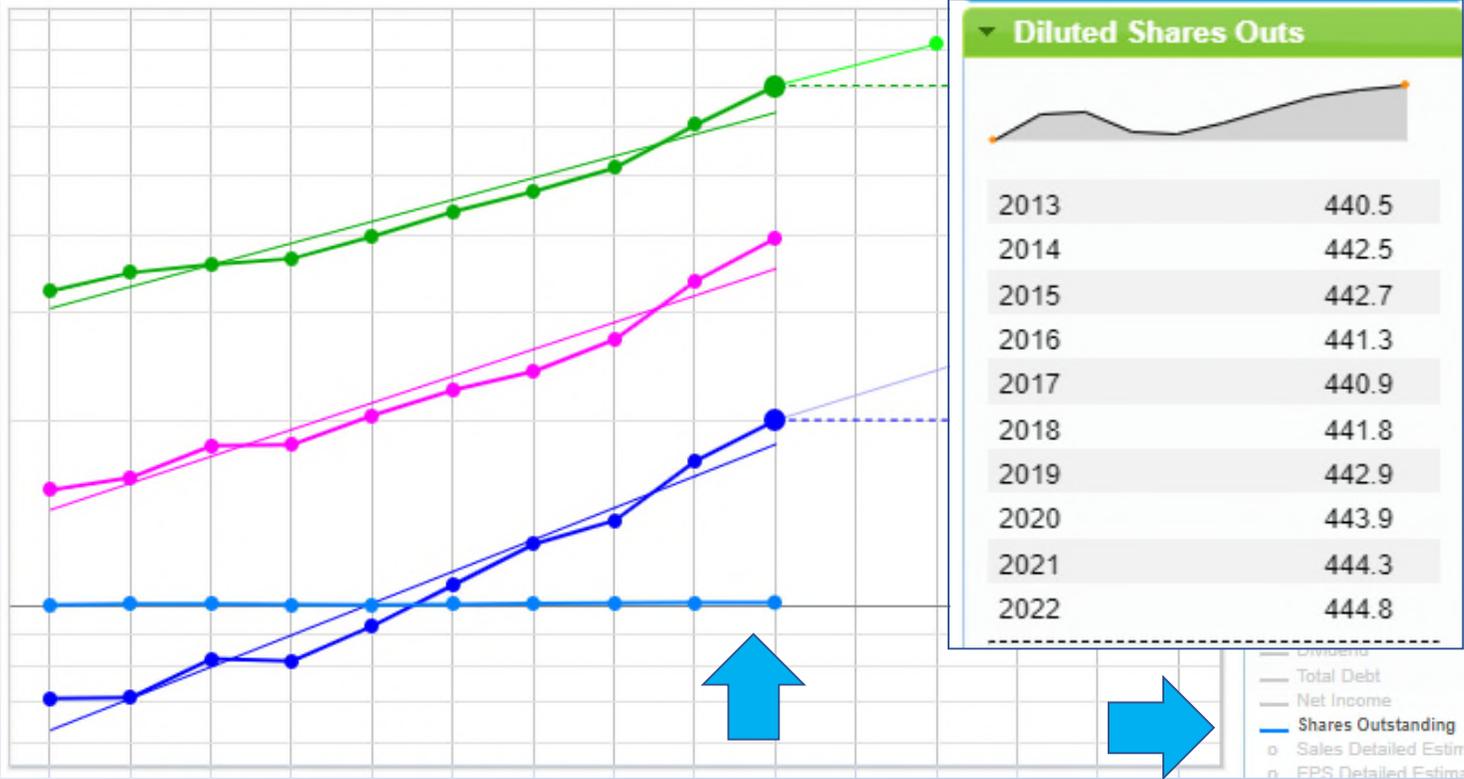






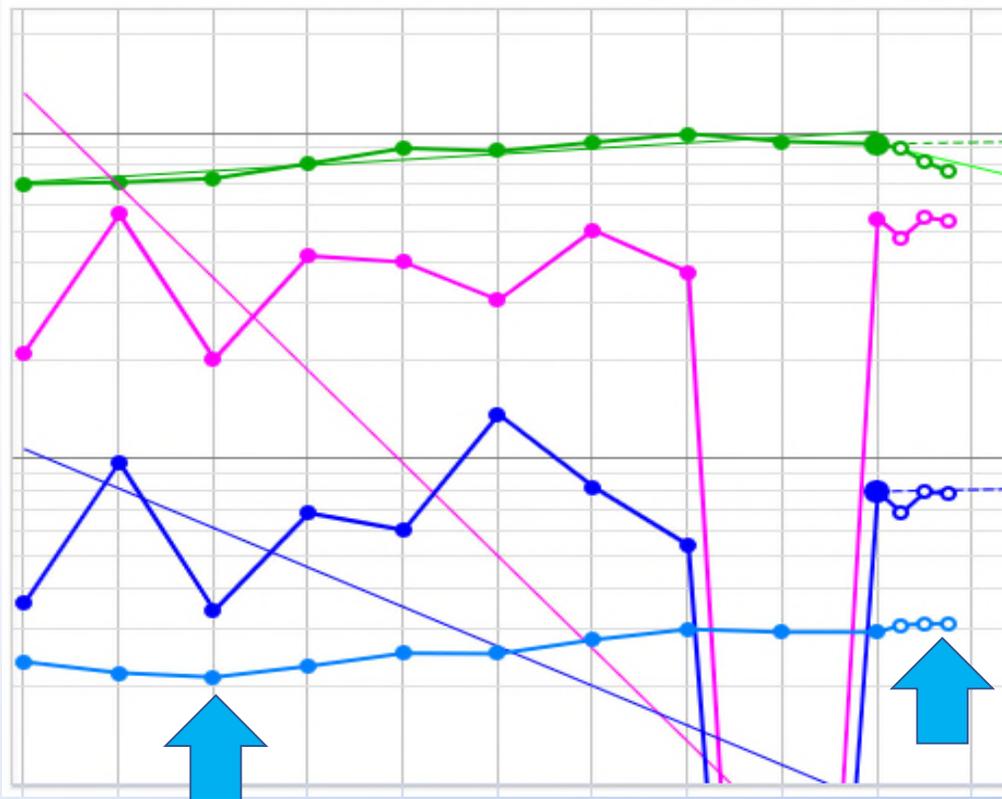


Shares on the SSG





Shares on the SSG



Diluted Shares Outs

2012	5,821.0
2013	5,385.0
2014	5,221.0
2015	5,646.0
2016	6,189.0
2017	6,183.0
2018	6,806.0
2019	7,348.0
2020	7,183.0
2021	7,199.0

2022 Q1	7,556.0
2022 Q2	7,611.0
2022 Q3	7,647.0





Simplified Income Statement - Part 2

Pre-tax Profit

minus

Taxes

equals

Net Income or Net Earnings

divided by

Shares Outstanding

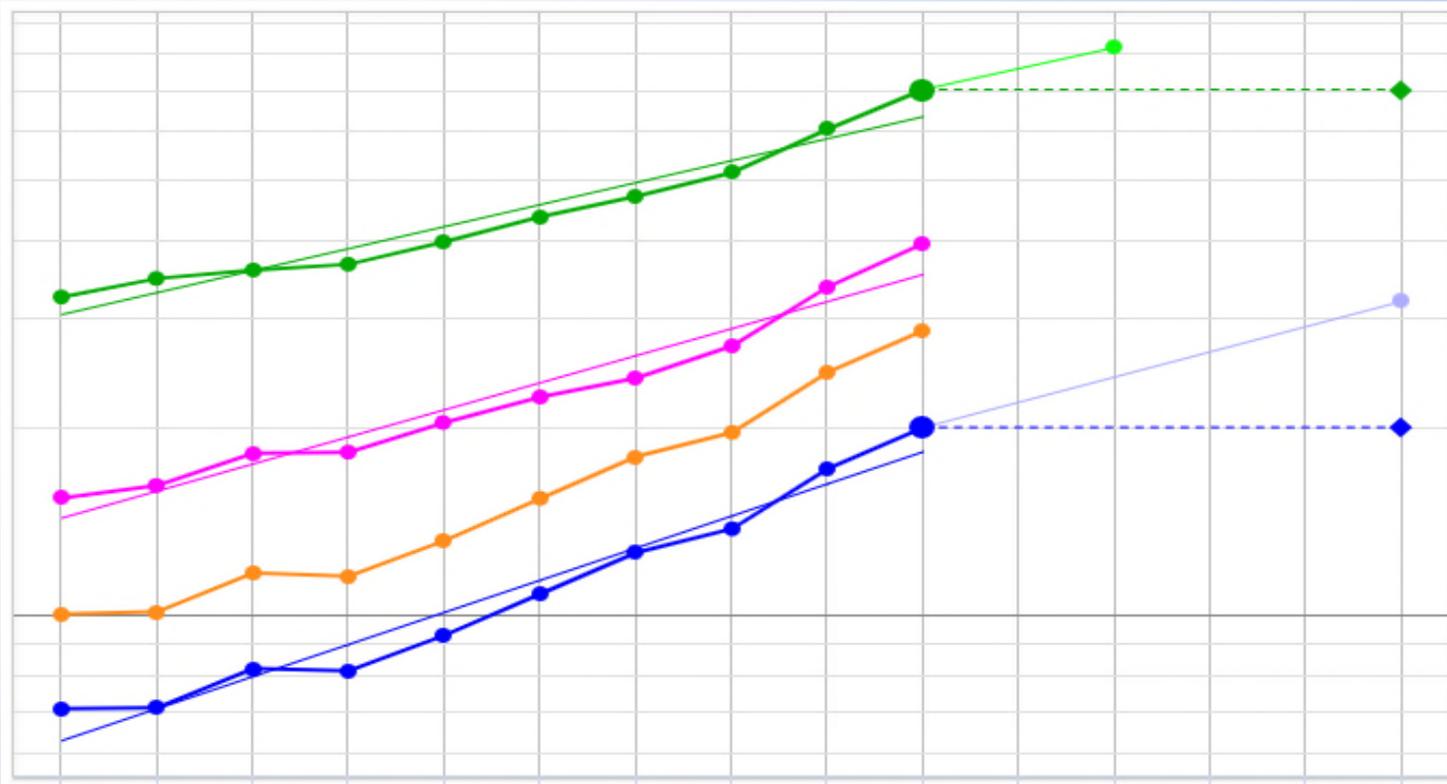
equals

Earnings Per Share





Consistent SSG Graph





Simplified Income Statement

Sales

- Expenses

= **Pre-tax Profit**

- Taxes

= **Net Income/Net Earnings**

÷ **Shares Outstanding**

= **Earnings Per Share**



Summary

In this session we:



- Discussed how to visualize **expenses, taxes,** and **outstanding shares** on the SSG graph
- Reviewed **Net Income/Net Earnings** on the SSG graph
- Understand the formula for a Simplified Income Statement





Another Learning Opportunity

Simplified Income Statement

January 2023

Avi Horwitz





Questions



Contact Info:

Mary Enright

contact@heartland.betterinvesting.net

Please include the title of this class session in the subject line of your email.





Help! I Married the Stock



Avi Horwitz

November 30, 2022



Objectives

- Learn why a decrease in price is so damaging
- Understand the logic of stock price on the SSG
- Discuss some lessons we might want learn
- Review a real-world example



The Cost of Not Selling

- *How much do you have to earn to get back to where you started??*
 - In order to recoup a loss, the percentage gain must be greater than the percentage loss!



Offsetting Losses

\$100



50% LOSS

\$50





Offsetting Losses

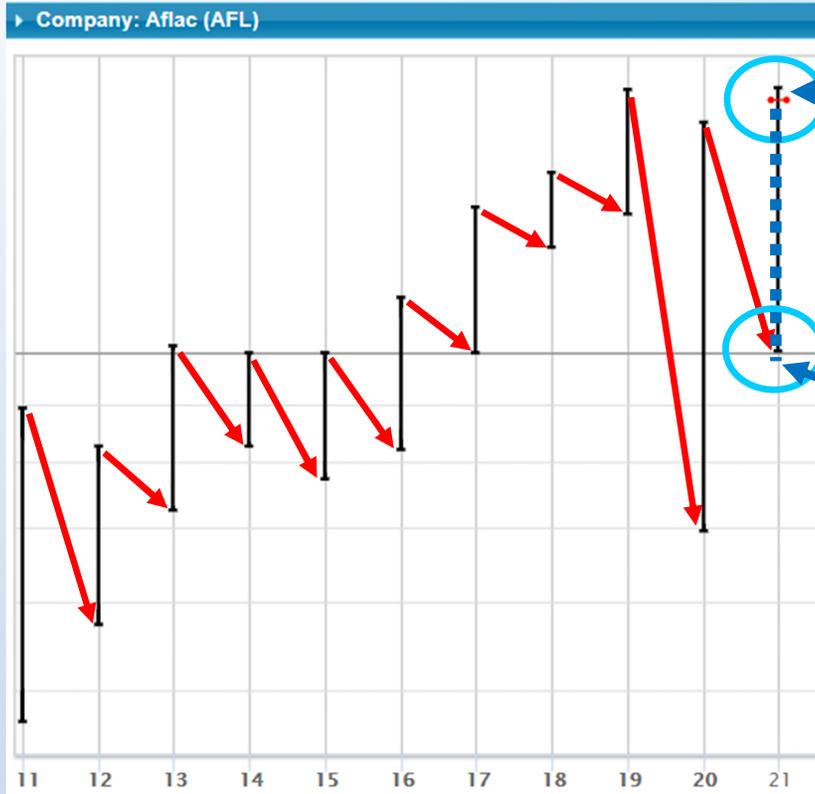
100% GAIN

\$100

\$50



I Started Wondering Why



High Price

Low Price





Lesson #1

Many of us stink at selling

- We don't know how
- We become attached

Don't be afraid
to sell !!





Lesson #1

Buy @ \$70.30 Projected High @ \$131.70

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Price Appreciation	13.4%
Average Yield	1.6%
Annualized Rate of Return	15.0%

15%
For 5 years

1 year later @ \$123.03 Projected High @ \$131.70

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Price Appreciation	1.7%
Average Yield	1.6%
Annualized Rate of Return	3.3%

3.3%
Next 4 years



**WE BUY TO HOLD...
NOT TO FORGET**

**Don't be afraid
to sell !!**



Lesson #2

Don't be greedy!

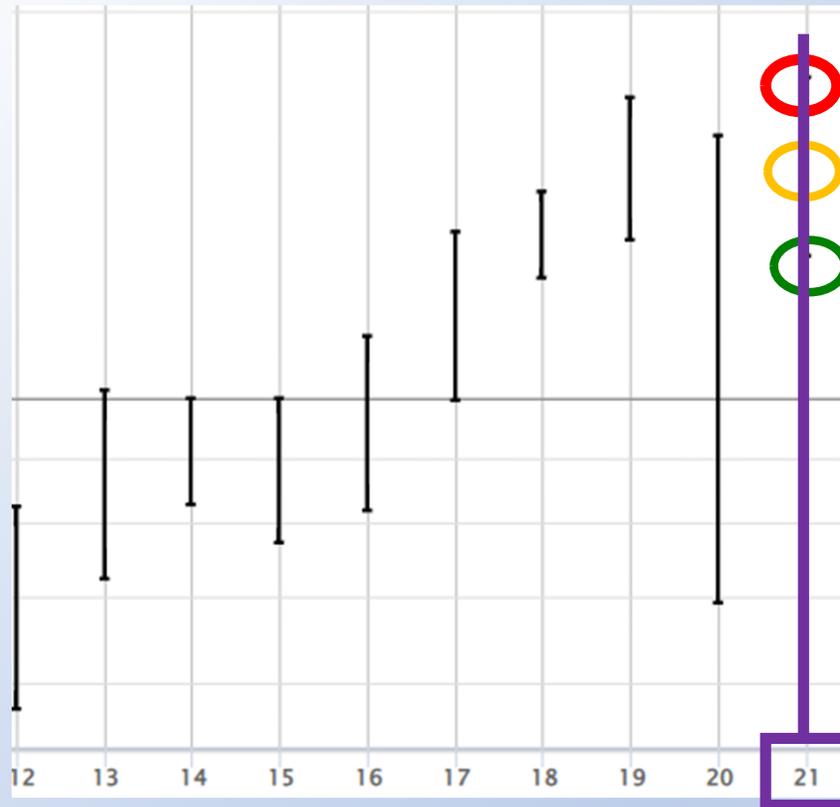
- I've gotten greedy
 - Held on to TMP at end of March 2021 over 50¢ at \$92 [Now \$79.38]



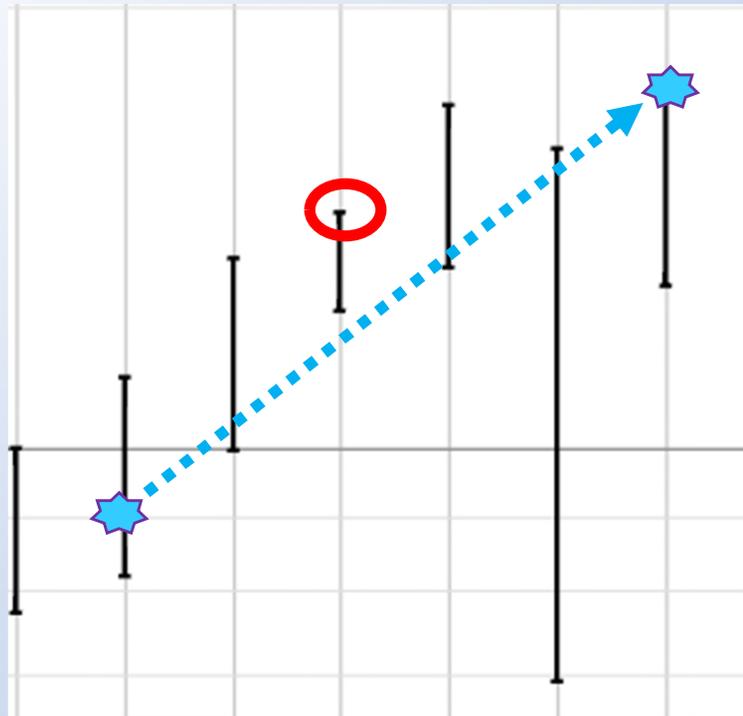
***It might be better to hold cash
than to ride P/E down !!!***

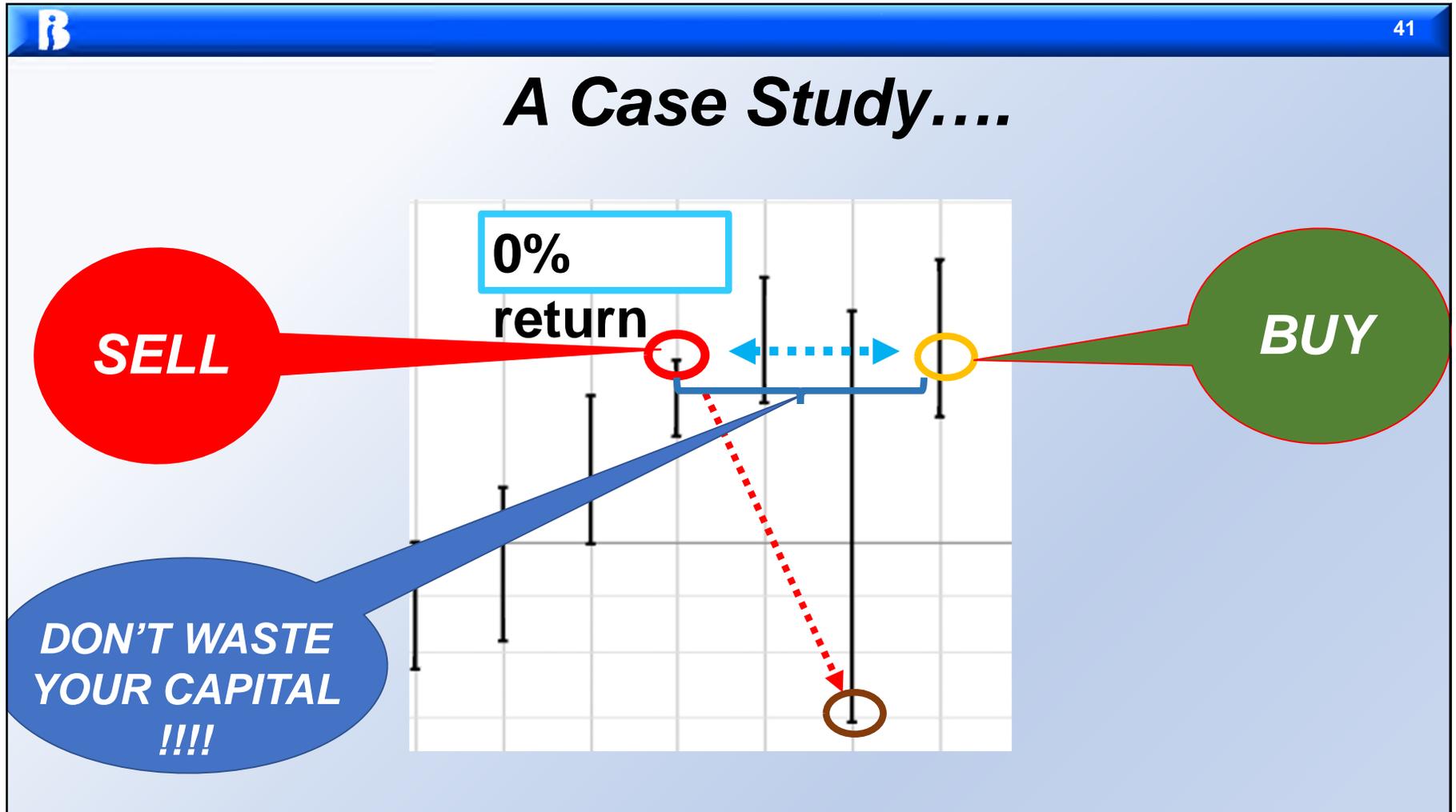


A Case Study....



One Final Thought....







Let's Go to the Numbers - AFL

	<u>Date</u>	<u>High</u>	<u>Low</u>
<i>2019 High Price</i>	2019-07-15	\$57.18	\$56.52
<i>Lowest Price after 2019 High</i>	2020-03-18	\$28.59	\$23.07
<i>My Purchase</i>	2020-07-20	\$36.15	\$35.54
<i>Next Time Reached 2019 High</i>	2021-05-10	\$57.35	\$56.03
<i>My Sale</i>	2022-01-11	\$63.24	\$62.41



Let's Go to the Numbers - AFL

- 2019 High Price – July 15, 2019 – \$57.18
- Reached Again – May 10, 2021 – \$57.35

**How much did AFLAC's price appreciate
in a little less than 2 years?**

.3%





Let's Go to the Numbers - AFL

- 2019 High Price – July 15, 2019 – \$57.18
- Subsequent Low – Mar. 18, 2020 – \$23.07

**How much did AFLAC's value decrease if
you held it about 8 months through
March 18, 2020?**

-60%





Let's Go to the Numbers - AFL

- My purchase – Jul. 10, 2020 – \$36.15
- My sale – Jan. 22, 2022 – \$63.24

Do you still think I overpaid for AFLAC?

75%



Let's Go to the Numbers - AFL

- High: April 21, 2017 – \$37.35
 - High: April 21, 2022 – \$67.20
 - Approximately 2.5% Dividend Yield
 - 5 Years
- ↑ 80%
- 12.5%
- ↑ 93%





Let's Go to the Numbers - AFL

- Sold July 15, 2019 – \$57.18
- Repurchase May 10, 2021 – \$57.35
- Missed 2 Years Dividends –

12.5% - 5% = 7.5% Dividends

7.5%

- Price Appreciation

↑ 88%

↑ 80%





Let's Go to the Numbers - AFL

- AFLAC – Holding **93%**
 - AFLAC – Sell and Repurchase **88%**
 - Return on AFLAC Dollars from Sell to Repurchase **15%**
- ↑ 103%**



***THERE IS A TIME
TO SELL***



Summary

In this session we touched on:

- Why it is so important to learn to sell
- How not selling can hurt our portfolio's performance



Questions or Comments



Avi Horwitz
AH @ CPABE.COM





Why did I do that?



Tim Janneck
Alaska Chapter

November 30, 2022



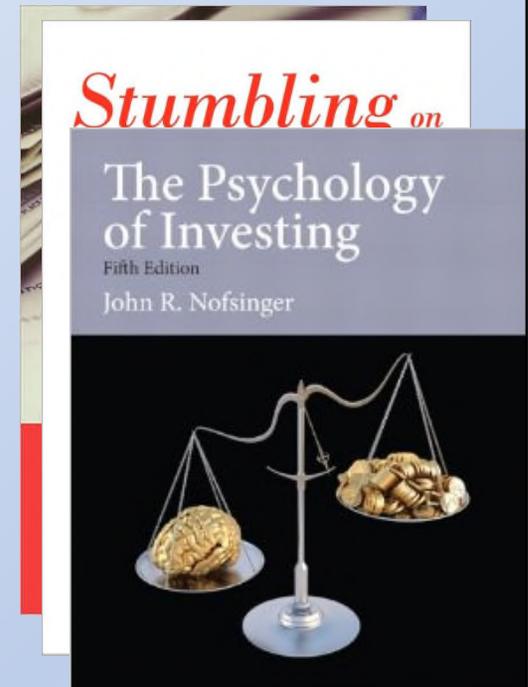
Objectives

- Introduce behavioral finance.
- Discuss some effects and biases that might hurt our investment efforts.
- Provide examples of how the effects might manifest themselves.
- How we might avoid the pitfalls of these biases and effects.

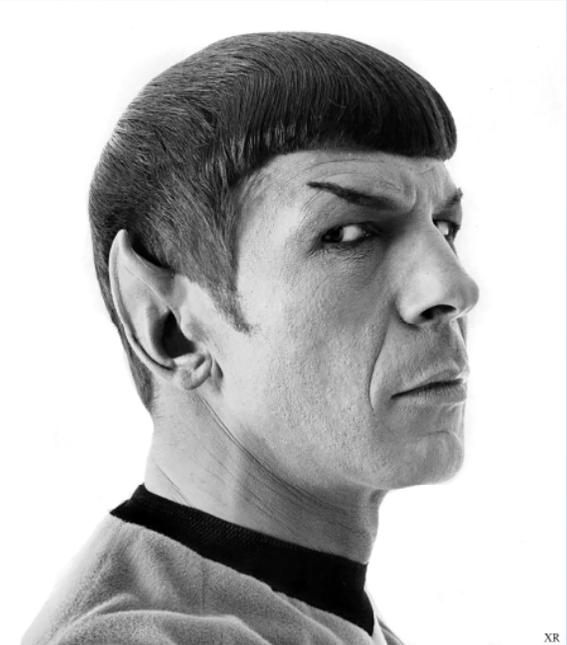


References

- “Going Broke” targets the issue of debt and money management.
 - By Connecticut College professor psychologist Stuart Vyse.
- “Stumbling on Happiness” more general treatment of peoples’ difficulty predicting what makes them happy.
 - By Harvard psychologist Daniel Gilbert.
- “The Psychology of Investing” 5th Edition.
 - By UAA professor John Nofsinger.



How we see ourselves ...



https://www.flickr.com/photos/x-ray_delta_one/23650415969/in/photostream/

How we might appear at times ...





Behavioral finance

Traditional finance was based on two assumptions:

- People make rational decisions.
- People are unbiased in their predictions about the future.

Oops.

This presentation introduces some examples of how our behavior makes these assumptions look bad.





Presentation content

- Overconfidence.
- Overconfidence and risk.
- Illusion of knowledge.
- Prospect theory.
- Endowment effect.
- Disposition effect.



Overconfidence

We overestimate our knowledge,
underestimate risks,
and we exaggerate our ability to control events.

Two aspects:

- Miscalibration.
- Better-than-average effect. Compared to other drivers on the road, are you better-than average, average, or below average?





Overconfidence and risk

- Rational investors try to maximize return while minimizing risk.
- Overconfident investors misinterpret the level of risk they take.
- They purchase higher risk stocks.
- They also tend to under-diversify their portfolios.





Illusion of knowledge

- There is a tendency for people to believe that the accuracy of their forecasts increases with knowledge.
- Valuable information may increase forecast accuracy, but it can also increase confidence faster than accuracy.



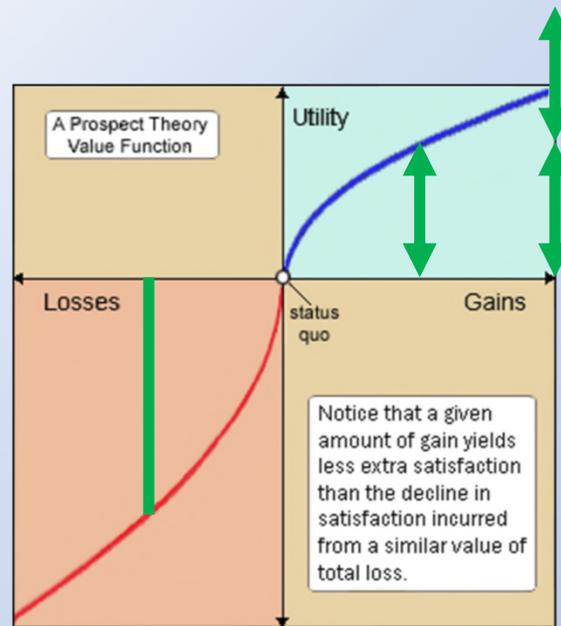


Prospect theory

- When faced with choices, we compare to present circumstances.
- Will we gain or lose relative to status quo?
- We value loss and gain differently.



Prospect theory



Graph from http://www.unc.edu/depts/econ/byrns_web/Economicae/Figures/Prospect.htm





Endowment effect

- Similar to “Status quo bias”.
- Objects gain value once you own them.
- You might demand more in payment for these items than you paid for them.
- Not necessarily the case once they are no longer in your possession.





Disposition effect

- “Seeking pride” – looking for opportunities to be or appear successful.
- “Fearing regret” – not wanting to accept or acknowledge a failure (loss).
- Investors suffering from this effect often sell winners too soon,
- and hold on to losers way too long.



Beating the biases!



- Understand the biases.
- Know why you are investing. Avoid vague goals where possible (be specific), avoid negative goals (“I don’t want to be poor”).
- Establish quantitative investment criteria – and stick to it.
- Diversify.
- Control your investing environment (when you monitor stocks, when you make trades, an annual review).



Summary

In this session we:



- Introduced behavioral finance.
- Discussed some effects and biases that might hurt our investment efforts.
- Provided examples of how the effects might manifest themselves.
- Made suggestions as to how we might avoid the pitfalls of these biases and effects.





Questions

Contact Info:

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Stock Investing Made Easy Webinar Series

Don't miss the next webinar in the series

Next webinar: ***Preferred Procedure Simplified***
Jan. 30, 2023 - 8:30 pm Eastern Time

Preferred Procedure is used to determine future EPS growth using a simplified income statement to project what EPS will be in the future. This session will touch on what we look for, how it relates to our SSG, and how it ties into to the company's Income Statement.

To quote one attendee, "I have been doing this for 30 years and now I finally understand Preferred Procedure."



**THANK
YOU**

For attending

