STOCK TO STUDY: Lockheed Martin Corporation, Top Gun in Defense Industry (p. 21)

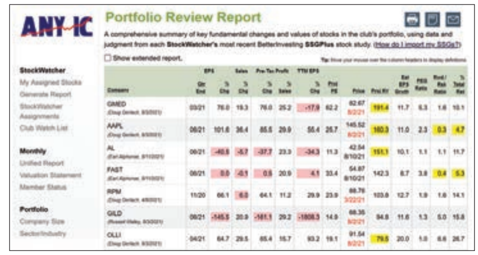
October 2021 VOL. 71, NO. 2 www.betterinvesting.org

BETTERINVESTING™ MAGAZINE

A Review of BetterInvesting's Principles

(p. 38)

Monitor Your Stocks with the Portfolio Review Report



The **Portfolio Review** (also known as **PERT**) **Report** is a key part of the BetterInvesting methodology. In **myICLUB.com**, the report can help investment club members regularly check key fundamental changes to the companies in the club's portfolio. The report highlights in yellow, red, and pink potential problem areas for the club to investigate, such as recent quarters that have not performed well or valuations that are out of normal range.

The **Portfolio Review Report** is often considered excessively complicated for many club members to properly utilize. That's why the version on myICLUB.com has been simplified to make it less overwhelming and easier to print. To show the complete report, simply click the checkbox to "Show extended report."

Finally, some values on the Portfolio Review Report are only displayed if an SSG is linked to a member's BetterInvesting Online Tools account, providing even more accurate and in-depth metrics.

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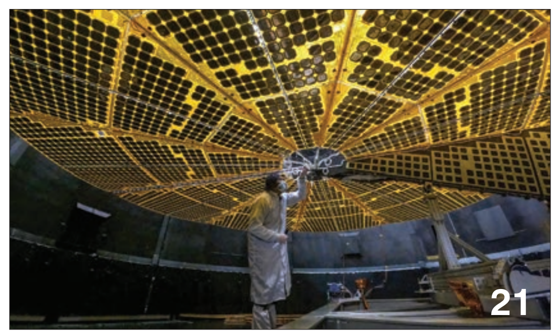
BetterInvesting's mission is to provide a program of sound investment information, education and support that helps create successful lifetime investors.

OUR PRINCIPLES

- Invest a set amount regularly.
- Reinvest earnings, dividends and profits.
- Invest in quality growth stocks and equity mutual funds.
- Diversify your investments.



CONTENTS | Inside | Upcoming Events | Online

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BetterInvesting *Online*

BetterInvesting members have the opportunity to expand their learning through online classes. Please join us for the following webinars. Most webinars last from one hour to 75 minutes. Register at: **www.betterinvesting.org/webinars**

StockUp: Reflections of a Lifelong Better Investor

Thursday, Aug. 26, 2021
OnDemand • Free

This month's StockUp is presented courtesy of BetterInvesting's Online Chapter. The chapter engaged Cy Lynch as the speaker for their 2021 Annual Meeting. Because of his popularity and excellence as an investment educator, the Online Chapter welcomed a collaboration with StockUp so Cy could share his investing wisdom with the entire BetterInvesting community. Cy, a longtime BetterInvesting member and educator, shares insights into how BetterInvesting has helped him successfully manage his own portfolio. Cy starts this session with a brief review of BetterInvesting's four principles, how they've impacted his life and how he applies them as he invests. Next, focus shifts to the Stock Selection Guide (SSG), starting with the proposition that not all sections of the SSG are equally important. Cy reviews SSG stock selection criteria and shares how his use of these metrics has evolved over nearly 40 years of using the form.

TickerTalk

Wednesday, July 21, 2021
OnDemand • Free

TickerTalk is a monthly online program that provides essential information to help you become a more confident, better investor. Short educational segments and multiple panelists are presented each month. Every session includes **Five in Five**, a regular feature in which the panelists offer up some stock ideas that may be worthy of further study. Panelists: Marion Michel, director, BetterInvesting's Silicon Valley Chapter; Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; and Ann Cuneaz, senior manager of education, BetterInvesting.

TickerTalk

Thursday, June 24, 2021
OnDemand • Free

TickerTalk is a monthly online program that provides essential information to help you become a more confident, better investor. Short educational segments and multiple panelists are included each month. Every session includes **Five in Five**, a regular feature in which the panelists offer up some stock ideas that may be worthy of further study. Topics: First Cut Stock Studies — More than Meets the Eye! Panelists: Mary Ann Rentsch, director, BetterInvesting's Northeast Ohio Chapter; Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; and Ann Cuneaz, senior manager of education, BetterInvesting.

StockUp: Analyst Consensus Estimates Made Easy

Thursday, June 17, 2021
OnDemand • Free

Experienced investors gather analyst consensus estimates (ACE) from several sources to support the forecasts made on a Stock Selection Guide (SSG). In this webinar, several websites offering ACE values are reviewed, highlighting key information found on each source. The importance of checking multiple sources and how to use this information is discussed. Useful features built into SSGPlus and CoreSSG, such as research links and detailed analyst estimates, are also presented. Instructor: Suzi Artzberger is BetterInvesting's director of information technology and the Online Stock Tools product manager. Suzi has successfully practiced the BetterInvesting method of stock selection and portfolio management for over 25 years.

Rebalancing Your Portfolio as Needed Should Be Sufficient Wizardry

Don't Let October Put a Spell on You

October typically is the month when attention turns to witches, goblins and horrifyingly large supermarket displays of Snickers, Skittles and candy corn.

This year the seasonal scariness extends to stocks and widespread warnings that investors are facing a market bubble that could burst at any moment, vaporizing large gains on assets accumulated during the historic bull run of 2009 to 2020 as well as the current bull market that began in March of last year.

The precise definition of a stock market bubble varies. Generally, the term speaks to a condition of stock prices rising far out of proportion to the underlying value of assets and their ability to grow or produce income. Once the disconnect becomes obvious, as behavioral psychologists explain, groupthink and herd behavior may suddenly pivot; buyers turn into sellers; prices collapse and tears begin to flow — except among the short-sellers.

Markets, in the short term, move up and down with no discernible pattern. Taking steps that precisely foretell a drop of 20% or more, the definition of a move from bull to bear territory, is a fool's errand. But expecting an eventual market flop and preparing for it are quite sensible. Financial planners worth their salt regularly warn clients that a major tumble is foreordained, thus minimizing the emotional turbulence once it happens.

The readers of this magazine already are better equipped than most to identify factors such as steady growth of revenue and income, intelligent deployment of debt and generous return of capital to shareholders. These are predicates to determining share prices that reflect fair value. Calculating the price when a stock becomes a sell is as important as determining when it's a buy.

Trading shares in the sell zone, also known as "keeping your powder dry," isn't a bad strategy when prices look too high. As became obvious following the events of March 2020, bargains appeared and astute shoppers have done well. With the rise of interest rates, rebalancing portfolios away from "exciting" tech stocks and in favor of "boring" — but dependable — categories seems sensible as well.

The current bull market, though young and populated with some pricey shares, can last for years. The best advice remains what it has always been: Keep investing on a regular schedule and in a disciplined fashion based on the study of financial fundamentals. Diversify. Avoid the craziness of meme stocks, cryptocurrencies and other fads — unless you're reconciled to losing money for the sake of entertainment.

And, for heaven's sake, don't let the children polish off too much candy on the first night of Halloween. One day they may want to sink their teeth into the stock market.

Find an Investment Club Near You

Visit your local chapter website and check out the Visit-A-Club and Model Investment Club pages to see what's available to you locally. You can also find online Model Investment Club meetings hosted by the Online Chapter. Our local chapters sponsor the Visit-A-Club program. It provides an opportunity to attend an actual stock investment club's live meeting to learn more about stock investment clubs and see what they are all about before starting your club.

www.betterinvesting.org/investment-clubs/find-a-club-near-you

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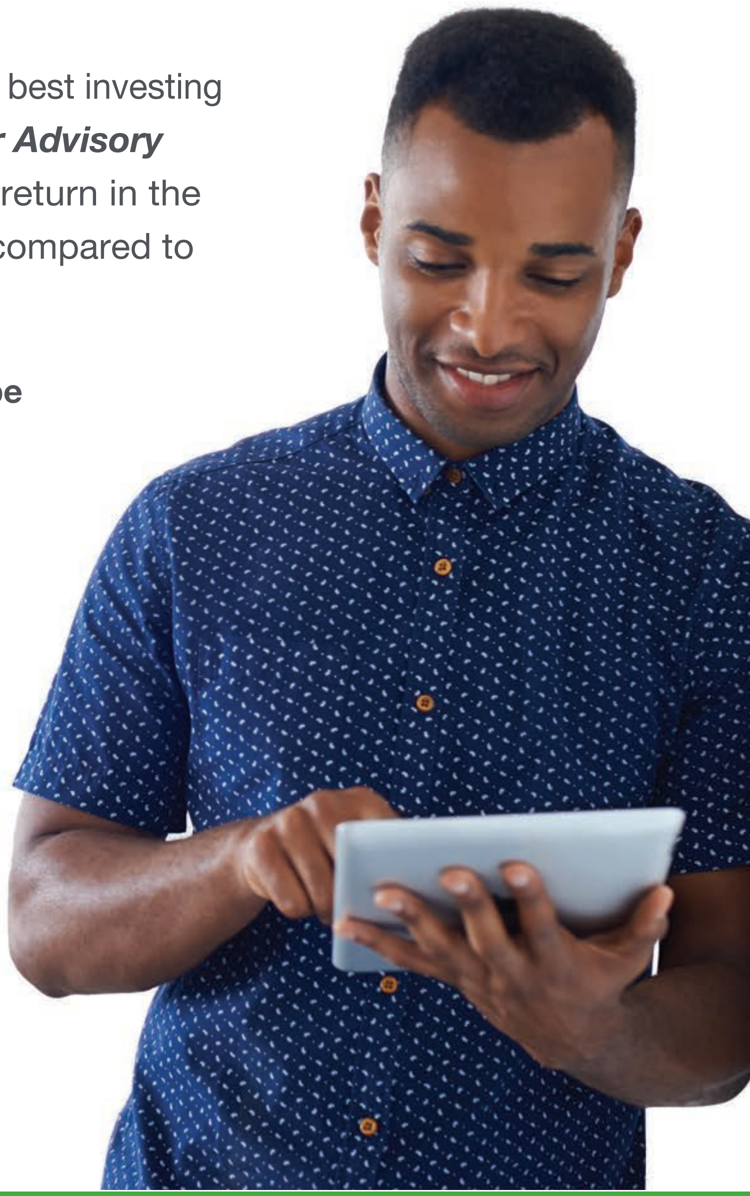

Performance Parameter	At 7/30/2021	5-Year Change Annualized
BetterInvesting 100 Index (BIXX)	575.54	16.18%
BetterInvesting 100 Index (BIXR — Total Return)	801.90	17.82
S&P 500 Equal-Weight Index (Total Return)	11,558.83	15.02
Vanguard Total Stock Market (CRSP U.S. Total Market)	110.31	17.26
Dow Jones Industrial Average (DJIA)	35,084.53	16.30
S&P MidCap 400 Index	2,703.67	13.42
Russell 2000 (Small-Cap Index)	2,226.25	14.31
Nasdaq Composite	14,778.26	24.49
MSCI EAFE (Europe, Australasia, Far East) Index	2,321.09	6.56
MSCI Emerging Markets Index	1,277.81	7.91
Value Line Arithmetic Composite	9,480.25	14.15
Consumer Price Index (February)	273.00	2.56

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

Most Active List

Here are the companies attracting the interest of the BetterInvesting community, according to about 2,030 transactions by users of myICLUB club accounting for the trailing eight weeks ended Aug 9.

Company (Ticker)	Buys-Sells
1. Apple (AAPL)	96-90
2. Nvidia (NVDA)	98-18
3. Amazon (AMZN)	73-28
4. Walt Disney (DIS)	63-21
5. Microsoft (MSFT)	54-26
6. PayPal (PYPL)	49-12
7. Home Depot (HD)	37-18
8. Ford Motor Co. (F)	51-3
9. Adv. Micro Devices (AMD)	40-14
10. AT&T (T)	22-31
11. Intel (INTC)	31-20
12. Verizon Comm. (VZ)	42-11

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

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**

Most Active List: Bubbling Under

Nos. 13-40 With Buy-Sell Ratio Over 2:1
Transactions for trailing eight weeks ended Aug. 9.

Company	Ticker	Buys	Sells	Total
Visa	V	33	13	46
Carnival Corp.	CCL	35	8	43
Moderna	MRNA	32	10	42
NIO Inc.	NIO	32	8	40
Facebook	FB	28	11	39
Lowe's Companies	LOW	32	6	38
AbbVie	ABBV	28	9	37
Vertex Pharma.	VRTX	27	10	37
PepsiCo	PEP	24	12	36
D.R. Horton Inc.	DHI	32	2	34
Salesforce	CRM	24	10	34
Boeing Co.	BA	24	9	33
Southwest Airlines	LUV	23	10	33
Airbnb Inc.	ABNB	24	8	32
Taiwan Semiconduct.	TSM	26	5	31
Square Inc.	SQ	24	7	31
Netflix Inc.	NFLX	21	10	31
Procter & Gamble Co.	PG	21	10	31
General Motors Co.	GM	23	6	29
Caterpillar Inc.	CAT	21	7	28
Tesla	TSLA	19	8	27
JPMorgan Chase	JPM	24	2	26
ChargePoint Holdings	CHPT	23	3	26
Dollar General Corp.	DG	21	5	26
Target Corp.	TGT	20	4	24
Bank of America	BAC	18	5	23
Micron Technology	MU	18	4	22
Nucor Corp.	NUE	19	2	21

Source: myICLUB

Rarely are stocks attracting the interest of BetterInvesting community as overwhelming slanted toward "buy" or "sell" as Ford Motor shares were during the eight weeks ending Aug. 9. Of the 54 transactions recorded, buyers outpaced sellers by a 51-3 margin. Has Ford been a hot performer of late? Hardly. Along with the rest of the industry, Ford's been struggling with a semiconductor chip scarcity that has resulted in lost sales of hundreds of thousands of vehicles, including its show horse, the profitable F150 full-size pickup. Yet commentators including CNBC's Jim Cramer have been touting Ford's prospects for gaining in share price. Perhaps investors are focusing on the new Mustang Mach-E battery-powered electric vehicle or the soon-to-debut F150 Lightning electric pickup that won President Biden's affection. *(Stocks are mentioned only for educational purposes; no investment recommendations are intended.)*

Simple Patching Can Bring Your Home Back to Perfection

Don't Join the Hole-in-the-Wall Gang

by Natasha Gural

Whether you're planning to sell or rent your home, or you just want it to look its best for your guests, repairing holes in the wall makes a tremendous impact. While gazing at a visible hole of any size can seem daunting, these minor improvements are simple do-it-yourself projects that require inexpensive materials.

Hiring a contractor to repair drywall damage ranges between $292 and $846, or a national average of $549, depending on the scope of the damage and where you live, according to HomeAdvisor. Minor repairs can be done at a major savings, with a few basic supplies and some patience. Professionals charge about $50 to $75 to fill holes averaging between a few eighths of an inch to about 4 inches across.

Sometimes the smallest imperfections annoy us most, even if visitors don't notice minuscule nail and screw holes on our walls. Thankfully, it's a quick, cheap DIY repair. You probably have one or more inexpensive steel putty knives in your basement, garage or tool shed, or you can acquire a top-rated Warner 2-inch Plastic Putty Knife, which is ideal for smaller jobs and is designed to behave like its steel counterparts, for a mere 98 cents. Sheetrock Brand 1.75 pints of Premixed All-purpose Drywall Joint Compound is plenty for this project and more, retailing for $3.57. Allow the area to dry, then sand lightly. An Armaly ProPlus 4.25-inch-by-9-inch Hand Sander for around $3.98 is ideal for this job. Do-it-yourself for $8.53, with plenty of supplies for future use, and save between $41.47 and $66.47.

Filling holes between one-half inch and 1½ inches in diameter requires a little more labor, as you will have to bridge the gap with a piece of adhesive-backed fiberglass mesh. At $5.48, a Marshalltown 4-inch-by-4-inch Drywall Repair Patch kit has enough mesh to fill multiple holes. For this project, you'll want at least a 4-inch drywall knife, such as the Warner 4-inch Plastic Putty Knife, which costs $1.48. Use the Armaly ProPlus 4.25-inch x 9-inch Hand Sander ($3.98) to hand-sand around the hole to smooth any rough spots. A damp cloth will remove any sanding dust. Cut a piece of fiberglass mesh to overlap the hole by at least 1 inch on all sides. Peel off the paper backing and press the mesh onto the wall. Spread a layer of Sheetrock Brand 1.75 pints of Premixed All-purpose Drywall Joint Compound ($3.57) or any joint or spackling compound over the patch with the drywall knife. Let it dry overnight, sand lightly, then apply a second thin layer. A third skim layer, applied after the second dries, may be necessary to achieve a smooth finish. Use the drywall knife to smear compound through the mesh and over each hole, permit it to dry, then sand lightly. Spend as much as $14.51 for supplies and save between $35.49 and $60.49 an hour on labor.

Sometimes it's the wind and sometimes it's our frantic action imploring us to slam a door. Doorknob punctures are common. Holes measuring between 1½ inches and 6 inches in diameter must be bridged with a more rigid material, such as the Strong-Patch 4-inch-by-4-inch Drywall Repair Patch ($3.98). Peel off the paper backing and press the patch to the wall, centered over the hole. Spread on three coats of compound such as Sheetrock Brand 1.75 pints of Premixed All-Purpose Drywall Joint Compound ($3.57), allowing each to dry thoroughly between coats. The final coat should spread out enough so the compound at the edges of the patch feathers out to the surrounding wall. If a hole can be covered with a patch, expect to pay a flat rate, spending mostly on labor. To repair holes larger than 4 inches across, expect to pay an average of $60 to $90 per hour for a handyperson's repair or save between $52.45 and $82.45 an hour on your own.

Fret not, as bigger holes don't necessarily mean more work. To repair a hole that's larger than 6 inches in diameter, you will need two short 1x3s (as little as $2.78 each) and a scrap piece of drywall, such as a Sheetrock Brand 23.625-inch-by-23.625-inch Drywall Repair Patch for $5.88. Cut the tattered hole into a square or a rectangle, slip one of the 1x3s into the wall cavity and screw it to the edge of the cutout, making sure it overlaps into the hole by 1¼ inches. Attach the second 1x3 to the opposite side of the cutout.

Cut a piece of drywall to fit into the cutout, apply a bead of construction adhesive (options start at $1.98) to the face of each 1x3. Fasten the patch to the 1x3s with 1¼-inch drywall screws ($6.58 for a pound). Spread a thick coat of joint compound such as Sheetrock Brand 1.75 pints of Premixed All-purpose Drywall Joint Compound ($3.57) around the edges of the patch. Once the compound dries fully, sand it smooth (Armaly ProPlus 4.25-inch-by-9-inch Hand Sander for $3.98) and apply at least two more thin coats. This project may be more time-consuming. At $180 for two hours, you'll pocket $177.45 doing it yourself in that time.

If you plan to fix multiple holes, expect to pay a professional as much as the national average of $549. When repairing multiple holes on your own, you will consolidate product expenses and save significantly more.

Due Diligence

A Critical Calculation: How Much to Siphon From Your Stash, as Inflation Kicks In

Does the 4% Rule for Retirement Withdrawals Still Work?

by Thomas D. Saler

In the early 1990s, the California-based financial planner William P. Bengen was repeatedly asked a similar question, a query for which he had no ready reply. A relative newbie to the planning business, Bengen considered it his professional duty to get an answer for his clients. At issue: How much can be withdrawn from retirement accounts each year while still retaining enough money to last through a post-work life that stretched 30 years? (*See article on Page 12*)

To find out, Bengen poured over inflation and asset-market total returns (large-cap stocks and intermediate-term government bonds) over the five decades from 1926 to 1976. His formula, which he later called "Safemax," was published in 1994 and became known as the 4% Rule. "Assuming a minimum requirement of 30 years of portfolio longevity, a first-year withdrawal of 4 percent, followed by inflation-adjusted withdrawals in subsequent years, should be safe," Bengen wrote (*see Websites of Interest*).

Here's how the 4% Rule doesn't work: You don't simply withdraw 4% of the aggregate value of your retirement accounts each year. Rather, withdrawals are based off an initial amount, and increased every year by the inflation rate. For example, if you have $400,000 in retirement savings when you leave the labor force — and inflation is 3% — you would withdraw $16,000 (4%) the first year, than $16,480, $16,974, and $17,483 in subsequent years, regardless of what your retirement assets are gaining or losing in market value. Though taxes don't come into play, withdrawals should be adjusted downward for any interest and dividends received in cash.

Nearly three decades later, Bengen not only stands by that 4% figure, but in a January 2021 interview with Barron's, raised it to 4.5%, assuming that investors added a third asset class (small-cap stocks) and that inflation stayed under control.

Some researchers questioned the 4% rate even before pandemic-related supply-demand imbalances sent inflation soaring. From at least the early 1960s through the mid-1970s, bond yields were significantly higher than they are now, allowing for more income to be available. Timing also is critical; retiring just as stocks or bond prices peak would deplete account balances more quickly.

Bengen addressed those concerns in a December 2020 online article. Drawing upon research from financial adviser Michael Kitces, Bengen refined his "rule" to reflect valuations, using Robert Shiller's cyclically adjusted price-earnings ratio (CAPE ratio) and inflation, thus providing investors with six withdrawal tables that reflect the current interplay of those two factors (*see Websites of Interest*). Figure 9 on Page 3 would seem the most timely, suggesting that a 4.5% withdrawal rate is easily justifiable.

Questions over what is a theoretically "safe" rate of account withdrawals are especially relevant now, since the pandemic recession accelerated retirements. For reasons ranging from safety concerns to a fast-shifting economy to a renewed appreciation for a slower-paced life that a locked-down economy instilled, 3.2 million Americans retired in the year to September 2020, about 50% above the long-run average and more than double the number from 2019.

Efforts to identify an optimum withdrawal rate are important and useful. With interest rates unnaturally low, however, I'd be inclined to err on the safe side of "safe," at least for now. Historical numbers are one thing; an unbalanced post-pandemic economy and financial markets floating on an unsustainable river of liquidity are quite another.

But thanks for asking.

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Index Funds Created a Revolution in the Financial Industry

A Disco Era Launch, a Mega Hit Today

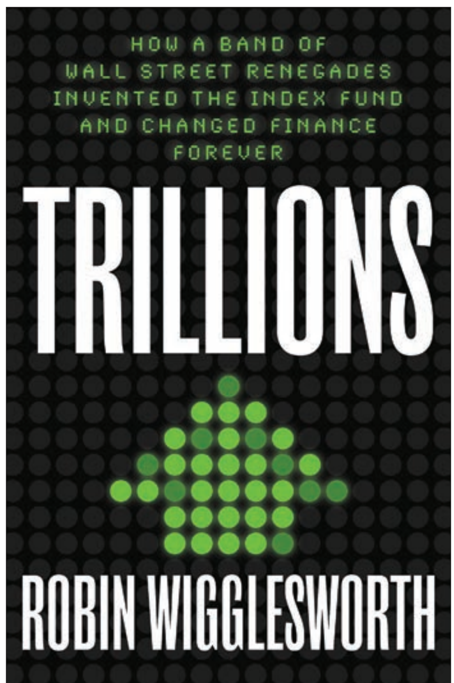
by Angele McQuade

The invention of index funds in the mid-1970s revolutionized the financial industry, offering low-cost, market-mimicking investment choices to challenge the often-bloated expenses of actively managed mutual funds. While I've always been personally grateful to Vanguard founder John Bogle and the others who popularized this investment innovation, I never thought much about its origin. That's the incredible story thoroughly told in "Trillions: How a Band of Wall Street Renegades Invented the Index Fund and Changed Finance Forever."

In "Trillions," author Robin Wigglesworth (global finance correspondent for The Financial Times) recounts the history of the small group of industry insiders who recognized the difficulty of even the most sophisticated investors and fund managers to beat the market indexes. This led to creating ways to simply invest in the market indexes themselves, reaping not just market-matching returns, but the benefits of ultra-low-cost expenses as well.

As I read, I was surprised to learn the history was not at all what I assumed. It wasn't Vanguard that pioneered the first passive investment fund, for example, but (depending on how you define both "pioneered" and "passive investment fund") either Wells Fargo, American National Bank or Batterymarch. However, Vanguard was the investment group that later broadened and popularized index investing. Other surprises were that index investing was very much not popular with investors in the beginning, and that it has grown more controversial recently, with concern over the ways the massive funds themselves may be affecting the market.

What I liked: the opening chapter, in which Wigglesworth weaves the tale of a famous $1 million, 10-year, winnings-donated-to-charity bet between Warren Buffett and Protege Partners founder Ted Seides that an S&P 500 index fund could beat any group of hedge fund managers Seides selected. (Spoiler alert: Buffett and the S&P 500 index won, 125.8% to 36.3%.)



"Trillions," Robin Wigglesworth, Portfolio/Penguin (October 2021), hardcover ($30) and ebook, 334 pages.

What I loved: the repeated confirmation through both anecdotes and statistics that investors who choose low-cost index funds (and now also exchange-traded funds) are making a very smart choice. As Wigglesworth reminds us, "Only 10-20 percent of active funds beat their benchmarks over any rolling ten-year period."

What makes "Trillions" worth buying: Wigglesworth's vibrant storytelling. Even with such a lengthy cast of characters (so many, in fact, that the book begins with five pages of short bios to remind readers who each is), the author skillfully infuses his descriptions of even those who make only a brief appearance with enough personality and motivation to make them memorable. From 19th century French mathematician Louis Bachelier, "arguably the index fund's intellectual godfather" to dozens of academics, financial managers and other industry players, Wigglesworth first sets his stage, then guides us through the decades-long history of both index mutual funds and later, ETFs.

Read "Trillions" if: you're a fan of detailed historical recountings and even more so if you're also a fan of economics, statistics or finance. This meticulously researched and heavily footnoted chronicle of the rise of index investing is the perfect immersive experience for anyone aching to dive deep into the inner workings of the investment industry.

Websites of Interest

Author Robin Wigglesworth

www.robinwigglesworth.com

Twitter: @RobinWigg

Instagram: @ChartCuterie

Angele McQuade has been *BetterInvesting*'s "Book Value" columnist for over 20 years. She is the author of two books, including "Investment Clubs for Dummies." She lives near Bethesda, Maryland, where she also writes picture books and novels for children. You can find her at: www.angelemcquade.com.

Understand How Inflation Impacts Your Investments

Real and Nominal Return: the Difference

by Matt Mondoux, CFA, CFP, CMT

Investment performance is an integral part of portfolio management. Return calculations become a monthly, quarterly and yearly ritual in which to evaluate how various portfolio holdings have done. But the simplistic return calculation: (Market Value – Cost Basis) / (Cost Basis) may not be giving the full performance perspective.

There are two primary performance measures to consider:

- **1. Nominal return:** The amount of money gained (realized or unrealized) from an investment before the consideration of fees, taxes and inflation.
- **2. Real return:** Takes the nominal return of an investment and adjusts it for inflation.

Most recent history has seen little deviation between nominal and real returns for investments due to the low level of inflation experienced since the global financial crisis. If the first half of 2021 is any indicator, however, investors may need to begin to evaluate their investment performance in the context of higher and increasing inflation. A failure to do so can leave investors losing purchasing power — or, at the very least, misunderstanding their portfolios' performance.

Calculating Real Return

The calculation of a real return is simple:

Real Return = ((1+Nominal Return) / (1+Inflation Rate)) – 1

Consider the following hypothetical example: A portfolio has a nominal return of 7% over the past year and inflation was measured at 3.5%. The **Real Return = ((1+0.07) / (1+0.035)) – 1 = 3.38%**. That hypothetical portfolio only returned 3.38% when inflation is factored in. The return that most would compute using portfolio statements would inadequately represent how the portfolio did when adjusted for inflation OR how the portfolio did in context of maintaining the investor's purchasing power, which is generally what matters most.

Nowhere are real returns more significant than when considering a portfolio's fixed income allocation. In general, bonds are near historic low yields, as of this writing (for reference, I'm looking at a U.S. 10-year Treasury yielding 1.2%).

If you're getting 8%-10% return in stocks, you may not worry about inflation too much, however, if you have a sizable allocation to bonds or cash, which return 0-4%, inflation over 2% may really do damage to a long-term purchasing power.

It's very important to consider all impacts to an investment's return. Inflation happens to be a "hot button" in 2021, but that is not the only cost to performance. There are also fees (e.g., advisory fees, expense ratios for mutual funds and exchange-traded funds) and taxes that eat into investment returns.

And be very aware, investment returns that are presented are very often shown in a nominal return format. A 5% return presented on a prospectus, in real return terms is likely to be a lot less — maybe even so much less you would forgo the investment opportunity all together.

"If persistent enough inflation can start to meaningfully eat into your investment returns."

Being armed with the right information is critical to Better Investment. Knowing how to calculate performance relative to your circumstance and what you're trying to achieve can help evaluate your investment strategy in a whole new light.

Remember: inflation doesn't just effect items at a grocery store or the cost of medicine and gas — if persistent enough it can start to meaningfully eat into your investment returns.

Matt Mondoux sits on the investment committee and is an adviser at Blue Chip Partners, Inc., a privately owned, registered investment advisory firm based in Farmington Hills, Michigan.

Visit www.bluechippartners.com

Should You Withdraw 4% or Even More Each Year?

Planning for Retirement Income

by Alexandra Armstrong, CFP, CRPC, and Christopher Rivers, CFP, CRPC

As financial planners we field questions on a wide variety of topics, including financing college education for children or grandchildren, buying a home, starting a business, saving for retirement or giving back, to name just a few. But the most common concern is the ability to retire in comfort. As clients approach retirement, they want to ensure that their money lasts as long as they do and perhaps have some left over for the next generation.

Our crystal ball is just as cloudy as anyone's. The future is unknowable and you can't achieve this goal with absolute certainty. But that doesn't mean you can't put yourself in position to have a great chance for financial security in your golden years.

The list of uncertainties that face each of us in retirement can seem daunting. How long is each of us going to live? How healthy will we be? Might we move to be closer to our children or grandchildren? How will stock markets perform and how will interest, inflation and tax rates change during our retirement years?

When Alex started in financial planning more than 40 years ago, the retirement income picture for most clients was somewhat simpler than it is today. Many people had pensions that provided reliable lifetime income, health care costs were lower and life expectancies were shorter. Social Security income appeared to be somewhat secure.

Today, most people don't have pensions and must rely on Social Security and their savings to provide retirement income. Although it appears that Social Security income will survive, it may meet less of your typical retirement expense than originally projected, particularly for younger people. Sadly, many don't save enough, choosing instead to spend now rather than save for a future that seems so far away.

The Search for a Magic Formula

Nearly 30 years ago Bill Bengen, a Massachusetts Institute of Technology graduate and financial planner in Southern California, attempted to come up with a formula that would provide the amount a retiree could safely draw from a portfolio without running out of money. He ran an analysis in which he studied retirement periods of 30 years' duration, beginning in 1926. He discovered that withdrawing 4% and adjusting the amount annually for inflation from a balanced (60% stocks/40% bonds) portfolio enabled someone to survive for every one of these periods, even starting at the worst possible time, just before the Depression. He later raised his recommended withdrawal rate to 4.5% by using a more diversified portfolio.

One valid criticism was that this testing was for a worst-case scenario and, therefore, was too conservative. In Bergen's studies, this worst-case scenario only occurred once during a 70-year period. Financial planning expert Michael Kitces refined Bengen's research and illustrated that for most historical periods you could have ratcheted your spending higher than 4% as the majority of historical market periods were far more rosy than the Great Depression.

In most scenarios, adhering to the 4% rule resulted in the retiree ending out with a significant excess of unspent wealth. The average initial withdrawal rate could have safely been 6%, or even higher, in many periods. The problem is how are you able to predict which period you'll spend your retirement in?

> **"Many advisers use what is commonly called the 'bucket approach.'"**

About 15 years ago, Jonathan Guyton, a financial planner from Minnesota, came up with the concept of dynamic spending strategies as opposed to just using a "safe" autopilot program that's never adjusted.

Guyton said that spending should be cut if withdrawals rose to be a dangerously high percentage of the then-current portfolio (because spending growth was outpacing portfolio growth). The "prosperity" rule allowed spending to be increased if the portfolio had done well.

In some ways this provides proof of what may seem like common sense — you should reduce spending if your retirement funds aren't doing well and allow yourself to spend a little more if they are doing well. During the 2008-2009 stock market debacle, we saw most of our clients, whether retired or not, reduce their expenses during this difficult period as well as postpone any unnecessary purchases.

Bengen and Kitces have also explored the idea of varying your withdrawal rate, based on the valuation of the stock market, and the current level of inflation. In late 2020, Bengen showed that historically, your annual withdrawal rate could have ranged between 4.5% and 13% (admittedly an extreme outlier), based on stock market valuation and inflation at the time of retirement.

Nearly 30 years after Bill Bengen tried to put a firm number in place, the debate continues. But we think 4% is important to keep in mind. If you're drawing less than 4% per year, you may be missing some opportunities that you could afford without jeopardizing your long-term plan. Likewise, a withdrawal rate significantly higher than 4% may indicate you need the markets and inflation to break just right, in order to make it through retirement.

The Bucket Approach

Many advisers approach the problem from a different angle, using what is commonly called the "bucket" approach. This approach recommends you segment your portfolio based on when you expect you'll need your money.

First you (or your planner) estimate your expenses for the first two years of retirement. From there, subtract your fixed sources of income, such as Social Security and pension income, and then set aside the remaining amount in a "two years expense bucket" holding cash and short-term bonds.

From there you will fill in two other "buckets." The first is more conservative, invested in intermediate bonds, and the second, longer-term bucket will hold stocks. The amount in each bucket depends on your age and risk tolerance.

As the first bucket is spent down on living expenses, it must be replenished. This can be accomplished in two ways. First, you have the interest and dividend income from buckets two and three paid into the first bucket. More commonly, you will rebalance the portfolio each year.

The third bucket, which contains the growth-oriented investments, will likely grow faster than buckets one and two over time. To keep the appropriate balance, you sell some from buckets two and three each year, and use the proceeds to replenish bucket one.

Thus your portfolio would remain in balance and you will have expenses covered for two years at any given time. This enables you not to worry so much about the impact of market fluctuations on the rest of your investments.

Three Phases of Retirement

Although it's nice to think there might be a "safe" annual withdrawal rate, whether it's 4% or 6%, the fact is people don't spend money in a linear fashion. A flat withdrawal rate doesn't take into account personal changes in health or lifestyle that occur with age. Over the years, we've found that spending patterns in retirement can be divided into three phases of about 10 years each. These are sometimes referred to as the "go-go," "slow-go" and "no-go" retirement years.

During the first, most active phase, people tend to make more one-time purchases that they may have postponed when they were too busy. Now that they have more free time, they might renovate their home, buy a vacation home or take that long-dreamed-of trip overseas.

As they shift to the next phase, big-ticket expenses settle down but day-to-day life remains relatively active. During the final phase, more money is spent on health care. In May 2021, Fidelity estimated that the average 65-year-old couple may need $300,000 to cover medical expenses in their lifetimes.

Our Advice to Retirees

While we agree that there's no "one size fits all," many planners including ourselves start the conversation with a withdrawal rate of 4% to 6% and then adjust as necessary based on the client's specific situation.

For some, simply spending down 5% each year will be enough. Others may prefer the structure of the bucket approach, to better segment their investments and define their budget.

Either way, real life tends to intervene. We must acknowledge that there's no magic formula. Rules of thumb are just that — general benchmarks that are a good start point for a deeper consideration of your personal situation. Simply owning a portfolio of investments is not a retirement plan. Properly balancing your spending with your portfolio, in the service of your lifestyle and goals, is where true financial planning begins.

Alexandra Armstrong is a CERTIFIED FINANCIAL PLANNER, professional and Chartered Retirement Planning Counselor and founder and Chairman Emeritus of Armstrong, Fleming & Moore, Inc. Christopher Rivers, a CERTIFIED FINANCIAL PLANNER professional and Chartered Retirement Planning Counselor and co-author of this article, is a principal of Armstrong, Fleming & Moore, Inc., located at 1800 M St. N.W., Suite 1010-S, Washington, D.C. 20036-5813, 202/887-8135.

Be Aware There's Little Regulatory Oversight in This Investment Class

NFTs: What You Need to Know

by Malik S. Lee, CFP, CAP, APMA

I think it is safe to say that the American economy has seen many changes since the Great Recession in 2008. One significant change is the amount of quantitative easing used to recover from both the housing crisis and a once-in-a-century pandemic.

> "NFTs reside specifically on the Ethereum blockchain."

Another significant change and one that feels more like a surprise is the rise in interest in and adoption of cryptocurrencies that use blockchain technology. As this new sector continues to evolve and develop on what feels like a daily basis, we should expect new innovations to spring from it. (*See Page 36.*)

Case in point: another new category known as non-fungible tokens or NTFs. NFTs are digital only collector items backed by the same blockchain technology that cryptocurrencies use. As NFTs increasingly consume attention and attract extremely high net worth buyers, it's worth understanding the basics of these alternative collectibles.

What Are NFTs?

Non-fungible tokens can be anything digital or anything tangible turned into a digital item. This includes artwork, memes, sports cards, video clips, music and photos. One example that took social media by storm was when Twitter's CEO, Jack Dorsey, sold the first tweet as an NFT for $2.9 million. NFTs are similar to cryptocurrency in how they reside on the blockchain, but what makes NFTs unique is that they are one-of-a-kind.

How Do They Work?

Just like you could make a copy of a baseball card or reproduce the Mona Lisa into a print poster, you could make a copy of a digital asset like Dorsey's tweet but by minting a non-fungible token, you can prove that a specific item is the original. Whoever holds the NFT can claim ownership of that original.

NFTs reside specifically on the Ethereum blockchain. This blockchain both publicly stores non-fungible tokens and creates records of any transactions related to them. This may actually be a downside to collectors who prefer to showcase their prized possessions; NFTs are digital records, not physical.

Use and Monetization of Non-Fungible Tokens

Non-fungible tokens brought dramatic change to the landscape for monetizing the work produced by artists and other creators in a more digital economy. Usually, artists can only sell their artwork at galleries and auction houses; now, those same artists can sell digital work directly to consumers with NFTs. This allows the artist to retain more profit and receive royalties on their artwork even if resold to a new owner.

Extremely high-priced NFTs, like tweets or clips of sports highlights that sold for millions, tend to garner a lot of media attention. It may feel like NFTs are just for high-end collectors, but that is not the case.

Individuals who were already major cryptocurrency advocates and some tech-savvy buyers may purchase NFTs as a way to support their favorite athletes or celebrities. Others buy NFTs through video games to enhance their playing experience.

There are also the meme stock investors who are in it for the enormous return potential. Per The New York Times, the NFT market grew by 299% in 2020, and per CNBC, sales in the first quarter of 2021 soared to more than $2 billion.

NFTs as an Investment

Technically, NFTs aren't brand-new. They've been around since 2014, but only in 2020 and 2021 has their market exploded. That's brought in extreme volatility and high risk for average investors.

The future of this asset class is still unknown and there's still a major lack of regulatory oversight. As a result, some unlucky buyers can purchase an expensive NFT only to find out years later that it is worthless or even fraudulent. As of now, NFTs also aren't readily exchangeable for cash, so liquidity can be a significant issue too.

NFTs are a testament to how much investment options have grown and flourished over the years. But just like any other investment within your portfolio, do your due diligence and make sure that your capacity for risk can withstand any potential volatility NFTs can thrust your way.

Malik S. Lee, CFP, CAP, APMA, is managing principal of Felton & Peel Wealth Management based in Atlanta and New York.

Reach him at www.FeltonandPeel.com

Do Not Send Money or Personal Data Without Verifying the Recipient

6 Tips to Help Spot Fraudulent Brokers

by Gerri Walsh, President, FINRA Foundation and Senior Vice President, Investor Education

While impersonation scams are certainly not new, there are surprising new variants every day. In a February 2021 report, FINRA observed an increase in cyber-related incidents, including fraudsters creating fake websites using the names and professional details of actual industry professionals (who have no connection to the imposter sites). And more recently in late July, the FBI and Securities and Exchange Commission issued a warning to investors about this problem (*see Websites of Interest*).

Impersonation is one of the oldest scams, but it can be difficult to spot unless you know what you're looking for. Here are six tips to help spot the fakes.

■ **1. Go to the source**. FINRA encourages investors to "ask and check" by using BrokerCheck before investing with an investment professional. Don't assume that the information you receive is legitimate. Go directly to the sources that collect the regulatory information to produce these reports, including FINRA's BrokerCheck, the SEC's Investment Adviser Public Disclosure and state registration databases. You can search both professionals and firms not only by name, but also by their registration number — known as a CRD number.

■ **2. Look for things that appear out of place.** Compare whatever BrokerCheck report or other documentation you receive from an individual or firm soliciting your business with the real reports you obtain yourself from BrokerCheck or the sources above. Be wary of typos, and look for differences in the reports. For instance, in a recent scam, the doctored information was in fonts that were different from fonts used in other parts of the report, items appeared to be pasted into the document, and the state of the branch office address was not included in the list of states where the individual was licensed.

■ **3. Verify information with an internet search.** Take a few moments to use a common search engine to type in the name of the individual who is soliciting your business and the firm name, and see what comes up. Does it match the information provided to you, including the contact information? If something doesn't look right, do a little more digging, including a map search on the address or a reverse lookup on the phone number. Be sure to check all this information against a reliable source such as BrokerCheck, where you can verify whether the phone number or website listed in the firm's Client Relationship Summary (Form CRS) matches. When scanning LinkedIn profiles, be aware that scammers often copy select information from a registered person's LinkedIn profile to create the appearance of legitimacy.

4. Do not send money or personal information without verifying the recipient. Don't ever send money or personal information, such as your driver's license, passport, Social Security number, date of birth or bank account information, until you verify who contacted you.

■ **5. Beware of the use of personal contact information.** Sometimes a scammer will ask you to send money or personal information to a personal (rather than a firm's) email address or to respond to phone numbers that are not listed as official firm contacts. One general rule all investors should follow: If you invest through an account at a financial firm, use BrokerCheck to verify that the firm is registered and send all deposits directly to the financial firm. If an individual pitches an investment opportunity that requires you to write a check directly to him or to a third party, proceed with caution.

■ **6. Be alert to the red flags of fraud.** Be cautious of guarantees, unregistered products, overly consistent or high returns, complex strategies, missing documentation, account discrepancies and pushy salespeople. The vast majority of investment professionals are trustworthy individuals, but there are always exceptions who might look to take advantage of your trust. Practice spotting the persuasion tactics that con artists use, and always exercise healthy skepticism. For instance, be wary of sales pitches that make exaggerated claims about performance. This is a red flag of fraud.

If you are suspicious about information you receive from an individual or firm soliciting your business, contact FINRA or another regulator BEFORE you send any personal or financial information. If you are an investment professional and have concerns that someone is using your name or information as part of a potential scam, contact your firm's compliance department, and alert FINRA by calling our BrokerCheck hotline at **(800) 289-9999** or emailing **BrokerCheck@finra.org**.

Websites of Interest

Online version of this FINRA article offering examples of fraudulent websites and a link to BrokerCheck
www.finra.org/investors/insights/broker-imposter-scams

Securities and Exchange Commission Investors Alert
https://bit.ly/3zL0TBV

FINRA is the largest independent regulator for all securities firms doing business in the U.S. Its chief role is to protect investors by maintaining the fairness of the U.S. capital market.

Long-Term Advice Includes Replacing ETFs With Stocks

Teton Club: Small Town, Big Portfolio

by Scott D. Horsburgh, CFA

Teton Investment Club (TIC) was founded in 1984 by a group of 17 friends in Choteau, Montana. The club's members make up about 1% of the population of tiny Choteau (population,1,684, according to the 2010 census). Even more interesting is that the Teton club is one of three to four in town! After 37 years, the club has retained five original members among its current roster of 20.

The club has an eclectic portfolio. The portfolio features a mix of contemporary stocks alongside old favorites. About 38% of the portfolio isn't invested in stocks, but in exchange-traded funds. The oldest purchase date of an ETF goes back to 2000, indicating funds have been part of the club's investment strategy for over half its long existence.

I would like to see the club pare back its investment in ETFs. While there isn't anything inherently wrong with ETFs as an investment vehicle, there is no educational value in them. The challenge is that good buying opportunities in this market are scarce so this isn't an ideal time to make a large-scale switch from ETFs to stocks. I'd like the club to discuss its long-term strategy and agree to look for opportunities to sell its ETFs when stock selections are more abundant. It doesn't have to be done all at once either.

My review will focus on the 61% of the portfolio invested in stocks. The club admits that selecting stocks for sale is difficult. That is indeed the greatest challenge for most clubs.

Apple, Alibaba, Amazon, Facebook, Nvidia, Ubiquiti

Technology stocks make up 47% of the stock portfolio.

Teton Investment Club

Company	Ticker	No. shares	Cost	July 29, 2021 Price	July 29, 2021 Value	Gain/ (loss)	%Gain/ (loss)	Quality rating*	% Growth estimate**	% of portfolio	Trailing P/E	Trailing EPS
Alibaba Group Holding	BABA	100	$ 8,556	$ 197.54	$19,754	$11,198	131	3	3	1.3	20	$ 9.70
Alnylam Pharmaceuticals	ALNY	100	8,373	181.83	18,183	9,810	117	4	46	1.2	N/A	N/A
Amazon	AMZN	20	16,840	3,599.92	71,998	55,158	328	1	25	4.6	64	55.86
Apple	AAPL	1400	30,317	145.64	203,896	173,579	572	1	12	13.1	33	4.46
CME Group	CME	400	31,713	214.70	85,880	54,167	171	1	7	5.5	40	5.33
Danaher	DHR	300	18,100	297.63	89,289	71,189	393	1	16	5.8	40	7.38
Facebook	FB	100	12,519	358.32	35,832	23,313	186	2	24	2.3	27	13.12
Generac Holdings	GNRC	140	17,040	419.30	58,702	41,662	244	3	12	3.8	52	8.13
Honeywell International	HON	100	13,823	232.88	23,288	9,465	68	1	10	1.5	31	7.50
Intuitive Surgical	ISRG	30	12,904	981.49	29,445	16,541	128	2	15	1.9	73	13.45
Marathon Petroleum	MPC	200	14,587	55.93	11,186	(3,401)	(23)	3	N/A	0.7	54	1.03
Mastercard	MA	300	36,360	388.81	116,643	80,283	221	1	21	7.5	61	6.34
Nvidia	NVDA	400	17,184	196.62	78,648	61,464	358	3	27	5.1	93	2.11
Penn National Gaming	PENN	200	19,517	69.63	13,926	(5,591)	(29)	4	20	0.9	25	2.83
Philip Morris International	PM	450	22,182	100.29	45,131	22,949	104	3	5	2.9	16	6.10
Square	SQ	80	18,756	255.28	20,422	1,666	9	4	56	1.3	226	1.13
Ubiquiti	UI	128	13,695	315.31	40,360	26,664	195	3	24	2.6	36	8.77
Invesco NASDAQ Next Gen 100 ETF	QQQJ	1000	33,869	34.10	34,100	231	1	N/A	N/A	2.2	N/A	N/A
Invesco QQQ Trust ETF	QQQ	230	22,544	366.48	84,290	61,747	274	N/A	N/A	5.4	N/A	N/A
PowerShares Global Funds NASDAQ	EQQQ	700	42,008	366.48	256,536	214,528	511	N/A	N/A	16.5	N/A	N/A
Vanguard Small-Cap Growth Index	VBK	300	27,367	286.76	86,028	58,661	214	N/A	N/A	5.5	N/A	N/A
Vanguard Small-Cap Index Fund	VB	100	13,059	222.78	22,278	9,219	71	N/A	N/A	1.4	N/A	N/A
Vanguard S&P 500 ETF	VOO	230	51,661	405.13	93,180	41,519	80	N/A	N/A	6.0	N/A	N/A
Cash			12,007		12,007			1		0.8		
Average									20		56	
TOTAL			**$514,979**		**$1,551,002**	**$1,036,022**	**201**			**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.

Including the **Nasdaq 100 (ticker: QQQ)** investments, well over half the portfolio is in tech. Considering the strong results reported by tech stocks, the club must be very satisfied with its results in 2020-2021. But nothing goes on forever.

Not surprisingly, **Apple (AAPL)** is the club's largest individual stock holding at about 13% of the total portfolio (21% of its individual stocks). After several years of subdued growth, Apple has taken off this fiscal year and looks poised to deliver earnings per share growth greater than 50%. The price-earning ratio of 33 is far higher than several years ago. Putting this together, it's hard to expect huge returns unless Apple maintains its recent growth trajectory, which Wall Street analysts are not projecting. The club has too much in Apple and should consider trimming the holding.

Chinese e-commerce and payments company **Alibaba (BABA)** had soared since inclusion in the TIC portfolio. The Chinese government has recently taken a hard-line approach to its tech giants, ordering them to share customer information and rendering shareholder interests subservient to the commands of the Chinese government and the Communist Party. This hostile environment makes it difficult to project the future. I would sell the stock.

At a trailing P/E of 64 and with the company voicing concerns about slowing growth, **Amazon (AMZN)** might not appear to be an ideal holding. Add to that the uncertainty created when founder Jeff Bezos turned over the reins to a lieutenant. But the company has such a tight grip on U.S. retailing that it is tough envisioning a sharp slowdown in growth.

Facebook (FB) and other tech giants have been confronted with potential government regulation because of their dominance. This appears to have held back its P/E to a reasonable 27. Absent the regulatory risk hanging over the company, I have to think the P/E would be much higher. "Political risk" is hard to quantify, but at this valuation I'd be inclined to stick with Facebook. At just 2.4% of the total portfolio (4% of the stock portfolio) it would be reasonable for TIC to evaluate increasing its Facebook holding.

Chipmaker **Nvidia (NVDA)** has been on a roll, with favorable industry conditions suggesting more growth to come. Its powerful graphics processors not only enable dazzling video games but also aid other intense applications such as Bitcoin mining and devices using artificial intelligence. The challenge for investors is how much of Nvidia's potential is already reflected in its sky-high P/E of 93. Even measured against EPS 12 months into the future, the P/E would still be 70. I know Nvidia is an immensely powerful company, but the valuation "discounts not only the future, but the hereafter" as my mentor Ralph Seger used to say. Taking some profits would be warranted.

Ubiquiti (UI) makes wireless networking equipment. It sells its products worldwide with a reputation for quality equipment and low prices. But the company seems to find itself frequently enmeshed in controversy. Years ago the company was defrauded out of $48 million when someone posing as the CEO gave Ubiquiti's treasury office orders to wire out the money. At present, there is an Securities and Exchange Commission investigation of company comments from earlier this year. The CEO, Robert Pera, is a brilliant man, but doesn't seem to accept standard behavioral norms. The company has been quietly going private for years, using its ample cash flow to buy back stock. All the controversies, and the fact that it is primarily an equipment manufacturer, have left its P/E below many other tech companies although still a lofty 36. The company's buybacks seem to put a cushion below its share price so perhaps the club can still hold on and see the endgame.

Mastercard, CME Group, Square

Financial stocks comprise 23% of the stock portion of the TIC portfolio. About half its financial holdings consist of **Mastercard (MA)**. Mastercard's P/E is elevated at 61 due to pandemic-related earnings weakness that is going away. If not for COVID-19, its P/E might be around 39. While that is still a bit high, Mastercard remains a premiere growth company that should post years of high-teens earnings growth even after the economy has fully rebounded.

CME Group (CME) operates derivatives markets (options and futures) in foreign exchange, agricultural commodities and financial indexes. Reduced market volatility over the past year has lowered the returns on derivatives, hitting CME's revenue and profits. Still, the stock is flirting with its all-time high. CME's P/E is about 40x depressed EPS, but still 36x peak EPS. 2021 will be the fourth year of EPS approaching $6 a share. The reason to own CME is that much of its business is not correlated with the stock market; that is the essence of diversification. But is a P/E of 36 to 40 reasonable for flat earnings on the off chance that the commodities markets will zoom, CME with them? The P/E suggests CME stock has already zoomed without the benefit of stronger underlying markets.

Here's another way to look at a Stock Selection Guide of a company that has suffered from a recession or other nonpermanent adverse events. Compare CME's pretax profits from 2019 (before COVID-19) to the earliest observation (2012) on a per-share basis. I calculated 6% annual growth rate in pretax profits per share over those seven years. The reason to use pretax profits instead of EPS is that a reduction in corporate tax rates caused CME's tax rate to fall about in half. The pressure is now for corporate taxes to be increased, not cut again. Project 6% growth for six years (2020-2025) off peak EPS of $5.91 in 2019, bridging over the weaker period in 2020-2021. Plug the resulting EPS of $8.38 into your SSG as your projection five years out. If you like what you see, perhaps it is a buy. If you don't like what you see, maybe it's time to cut bait on the stock.

The club's smallest financial holding is the most recent, **Square (SQ)**. Square offers small credit-card readers that enable any business to accept card payments by plugging the Square device into their phones. Square also developed the Cash App that allows people to pay each other through a phone app. The challenge is that the company sports a market capitalization of $124 billion despite barely being profitable. The stock trades at a trailing P/E of 226, or a stunning 200x free cash flow. Revenue growth has been amazing, but a company still has to bring home profits in the form of EPS or free cash flow. Investors are enthralled with its recent acquisition of Australia's Afterpay for $29 billion. Afterpay allows customers to defer payments with a short-term loan that involves no fees if paid off in full in four monthly installments. Sounds fine, but Afterpay is hemorrhaging money and is about break-even on a generous cash-flow basis. Maybe this will work out for Square, but I'd take my gain and reinvest elsewhere.

Danaher, Generac Holding, Honeywell

Manufacturing stocks comprise 11% of the TIC portfolio (18% excluding ETFs). Its largest manufacturing holding is **Danaher (DHR)**. Danaher acquires growth companies and has spun off its more volatile businesses in traditional manufacturing (**Fortive Corp.**) and its slower-growing dental business (**Envista Holdings Corp.**). The reimagined portfolio caused Danaher's business to take off. The trailing P/E of 40x seems elevated, but more reasonable at 33x earnings estimates for full-year 2021. It would be hard to buy at these levels, but given the reinvigorated portfolio it's a much easier stock to hold just to see where it goes.

Generator maker **Generac Holding (GNRC)** is also in the TIC portfolio. More volatile weather has stoked demand for standby electricity. Generac's long-term sales growth was running in the low double-digits but has surged to a robust 44% over the past 12 months. Earnings have risen faster and the stock has become a Wall Street darling. The trailing P/E is now over 50. Looking ahead, does one give more weight to its solid, but unspectacular, long-term growth in the low teens or the 44% growth rate of the past 12 months? Targeting growth in the middle and using historical P/E ratios, the return from here appears unspectacular. It is going to take growth trends closer to recent observations to make this a winning stock going forward. But it is impossible to argue with tripling one's money in less than two years as TIC has done with Generac.

Honeywell (HON) has been a decent stock for the club during the almost four years TIC has owned it, but the long-term business results have been modest. Even before COVID-19, revenue was generally flat for years while cost-cutting and a changing mix of businesses helped margins. The company has improved its growth profile by acquiring faster-growing businesses and divesting slower-growing ones, but Honeywell appears to be a single-digit grower. It isn't a value either at a trailing P/E of 31 against depressed earnings and 29x peak EPS from 2019.

Intuitive Surgical, Alnylam Pharmaceuticals, Penn National Gaming, Marathon Petroleum, Philip Morris International

The remaining 8% of the portfolio consists of five stocks in the medical, consumer and energy fields. **Intuitive Surgical (ISRG)** is a fascinating company that has revolutionized surgery. After a lull in procedures and instrument placements during the pandemic, results have soared once again as surgical procedures rebounded. The company had been a low double-digit growth company prior to the pandemic and this needs to be factored in. A P/E of 73x earnings is hard to justify if one believes the future will resemble the past.

Alnylam Pharmaceuticals (ALNY) is one of many early-stage drugmakers. These are lottery ticket investments. A few will work out spectacularly while most will end up ripped up into shreds of paper out of frustration. But at least this company made it out of the initial trials and has products on the market. The cost of marketing its products has outstripped the revenue from selling them. There is a lot of potential in these companies, but the odds of failure remain high.

Legalized online sports betting has taken off and TIC got into the action with **Penn National Gaming (PENN)**, purchased earlier this year. Considering the investment success of **DraftKings (DKNG)**, which has a market capitalization of $20 billion even though it is hemorrhaging money, Penn National Gaming may have seemed like a reasonable "bet." But DraftKings is down one-third from its all-time high and Penn National has come down with it. Right now it seems like there is a land-grab going on in sports betting and it is impossible to tell who will be the winners. Penn National at least has a business capable of making money, with the Barstool Sports online business as added potential. But this is a speculative holding.

The club has lost money on **Marathon Petroleum (MPC)** and it represents just 0.8% of the portfolio. If you believe in the stock, put more money into it. I don't like capital-intensive businesses like refining oil and believe there are better places to invest although oil has a good year every now and then.

And lastly we come to **Philip Morris International (PM)**, the longest-held stock in the portfolio. The club has a modest capital gain to show for its investment plus significant dividends over the years. Sales trends are flat to down over the long-term as price increases for cigarettes are more than offset by declining consumption. Philip Morris doesn't fit the rest of this growth-oriented portfolio.

Wrapping Up

Teton Investment Club has put together an aggressive portfolio including several companies that would not fit a stock study using BetterInvesting guidelines. But those stocks are also the ones that have performed the best in this growth-at-any-cost market. But stocks, like water, eventually seek out their own depth. The club has done a great job hitting the market's sweet spot and has been rewarded handsomely. I'd like to see TIC address its challenge of knowing when to sell by adopting more skepticism toward companies that have rewarded it so well.

The club admits that it tends to sell underperforming stocks "rather than one that has really done well and would provide a nice profit." That is textbook investing — cutting one's losses while letting the winners run. The problem is that in this market the winners appear to have run so far that it is hard to measure the potential for future gain. Intuitive Surgical, Generac and Square appear to fit that description. Redo SSGs using reasonable forecasts and see whether these stocks still offer good potential.

To a lesser extent, Apple and Nvidia could stand scrutiny to see if some profit-taking is in order. With its high-growth portfolio, the Teton club will periodically find some holdings have strayed far beyond the buy zone. While it shouldn't automatically sell, the club does need to revisit whether holdings have enough remaining profit potential.

Certain other stocks appear to be "legacy" holdings that don't fit a high-growth portfolio. These are Honeywell, Marathon and Philip Morris. I'd kind of throw CME Group in there as well.

There are better stocks to fill these slots in the portfolio. In addition, Alibaba has unique and unpredictable risks and I'd prefer to see it replaced in the portfolio.

Potential challengers include **D.R. Horton (DHI)**, **CarGurus (CARG)**, **Concentrix (CNXC)**, **1-800-FLOWERS (FLWS)** and **Western Alliance Bancorporation (WAL)**. And I'd rather see the club increase the position in Facebook at the expense of its ETF holdings. Longer term, after the club is finished pruning the portfolio, I'd like to see more investment in stocks and less in ETFs. This is a multiyear project, but one the club should commit to.

The author and/or clients of his firm may have positions in some of the stocks mentioned in this article. No investment recommendations are intended for stocks mentioned in this article.

Scott D. Horsburgh, CFA, president of Provident Investment Management of Novi, Mich., co-authors the Investor Advisory Service newsletter.

Visit www.investprovident.com

Club Accounting

The Entire Club Is Spared Tax Reporting if Shares Are Transferred

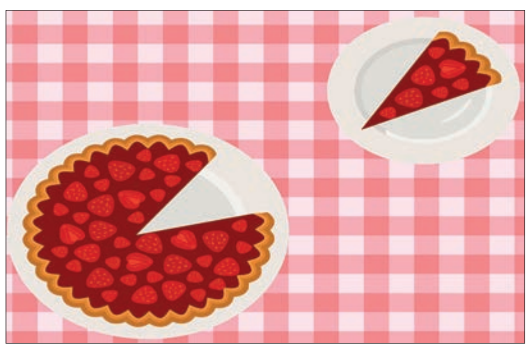
Using Appreciated Stocks to Fund Club Withdrawals

by Russell Malley, Club Accounting Adviser, ICLUBcentral

Using the transfer of appreciated stock to fund member withdrawals generates many questions. Among those is: What happens to the unrealized gains of the appreciated stock? I'll address that question in this article and some of the benefits of using appreciated stock to fund withdrawals.

The club has an incentive to use appreciated stock to pay a withdrawal. It allows the club to conserve cash. Stock transfers also allow the club to use the appreciated value to pay the withdrawing member and defers the realization of capital gains. It does not remove the realization of capital gains. To show how it defers gain rather than eliminates it, I have found it best to compare the results of selling the stock to transferring it.

If the stock is sold, all members would report their share of the capital gain on their personal income tax return. Their share would be included in the capital gain line(s) of their personal Schedule K-1.



Because nearly all investment clubs are taxed as partnerships, each member would have their cost basis in the club increased by their share of realized gains as part of the allocation of income process at year-end.

This adjustment to a partner's basis in the partnership is required by tax law. When the member fully withdraws, the gain from their club investment will be less by the amount of the gain from the stocks sold rather than transferred in a withdrawal. Selling the appreciated shares to fund a withdrawal gives members a current gain but reduces their club gain in the future.

Transferring Appreciated Shares

Compare this to transferring the appreciated shares to fund a withdrawal. With no sale, the remaining members do not have a realized gain for the year of the withdrawal from selling these additional shares. This means their cost basis is NOT adjusted higher at year-end by their share of the gain that would have been realized by selling the transferred shares. With no higher cost basis, when these members fully withdraw from the club, they will have a higher capital gain from their club investment equal to their share of the unrealized gains of the transferred shares. The remaining members just defer their share of the realized gains to when they withdraw. Also, instead of being reported as their annual share of club income on a K-1, the gain is part of their investment in the club. The gain from the club investment is not reported on a K-1. It is reported on the Member Withdrawal report.

> "The remaining members just defer their share of the realized gains to when they withdraw."

It is important to give a withdrawn member a copy of the Member Withdrawal report so that it can be used in filing personal tax returns in the year of withdrawal.

The same process applies to the withdrawing member to an extent. If a sale to generate cash is used rather than a transfer of stock, then the withdrawing member also gets a current year (K-1 reported) additional capital gain.

The member's cost basis in the club also increases, so the gain from club investment is decreased by the same amount as the K-1 reported gain is increased. With transferred stock, in a full withdrawal, the withdrawing member gets a cost basis in the shares received equal to her cost basis in the club, minus any cash received.

For example, your cost basis in the club is $10,000 and the value of your club interest is $20,000. You receive an all-stock full withdrawal. Your total basis in the stock received is $10,000.

This is true no matter what the club's cost basis in the transferred stocks was. The club's basis could have been zero and your basis would still be $10,000 in this case. You also have no gain from your club investment until you start selling the shares received for more than your cost basis. When you do start selling part of the gain will be from your share of the gain from the appreciated stock received.

Continued on Page 35

F–35 Lightning Remains Chief Line for World's Largest Defense Firm

Lockheed Martin Corporation

Lockheed Martin Corporation (ticker: LMT) hasn't garnered much investor enthusiasm lately. The defense contractor's stock has trailed well behind the S&P 500.

The share price bottomed out in February. Analysts surmised results of the November election drove the decline. With a Democrat in the White House and his party controlling Congress, investors suspected defense cuts might follow. Lockheed Martin is almost entirely dependent on U.S. defense orders and, to a lesser extent, foreign military sales.

Such concerns may have been overblown, however. The perception that many Democrats in Congress oppose military spending doesn't hold water, based on their voting records; defense-related facilities and associated jobs exist in many congressional districts, after all, and defense budgets consistently draw bipartisan support.

Historically, defense cuts haven't targeted the advanced military technologies that are the focus of prime contractors such as Lockheed Martin. Defense expenditures have remained consistent through recessions, budget deficits and changes of administration, with deep cuts only occurring after major armed conflicts.

After regaining some ground the stock reversed direction in June. The downward trend continued following release of second quarter results. A $225 million charge on a classified, unspecified aerospace project eroded earnings somewhat. Nevertheless, the second quarter results barely missed meeting analyst projections.

The stock has displayed weak performance despite the company's several strong points. Lockheed Martin ended 2020 with a $147.1 billion order backlog, for example. That's not out of the ordinary; defense contracts typically cover several years, sometimes decades.

The backlog included ongoing production of the F-35 Lightning II joint strike fighter. In fiscal 2020 (ended Dec. 31, 2020) the F-35 accounted for 28% of total net sales. The U.S. Department of Defense will eventually employ about 2,500 of the stealth aircraft, with additional orders coming from foreign governments. Lockheed Martin will provide parts and services to keep them flying until 2070.

Lucy in the Sky With Asteroids. NASA's Lucy's mission is ready to begin a 12-year journey in October to study seven different Trojan asteroids, which trail Jupiter and are possibly remnants of the earliest days of our solar system. The project is designed, built and operated by Lockheed Martin.

The acquisition this year of a major defense contractor could fuel earnings growth. In December Lockheed Martin announced an agreement to acquire Aerojet Rocketdyne Holdings, a rocket engine manufacturer. The cash deal was valued at $4.4 billion and should close soon.

Aerojet recorded about $2 billion in 2019 revenue. Its propulsion systems have long been part of the supply chain for Lockheed Martin aeronautics, missile, fire control and space systems. The acquisition should allow Lockheed Martin to better integrate Aerojet in its operations and achieve cost reductions.

Lockheed Martin has increased its cash dividend for 19 consecutive years. The latest increase was an 8.3% hike to $2.60 from $2.40 (*see table*). The dividend yield was 2.9% on July 28.

Members of the Editorial Advisory and Securities Review Committee suggested the stock's anemic performance has helped create a compellingly low valuation. They conceded it's not a typical choice for a study. Lockheed Martin caught their notice, however, because it contrasted with so many well-known stocks sporting much loftier valuations.

The stock's $372.81 close reported July 28 was 7.3% below the 52-week high of $402.38 recorded on Aug. 25, 2020. Its trailing 12-month price–earnings ratio was 14.5 (*see table),* the ratio for the S&P 500 index was 34.3.

CSIMarket, a financial data service, set the TTM ratio average for the aerospace and defense industry at 60.5. The P/E average was 20.4 for Lockheed Martin and three competitors named by Morningstar, based on figures Yahoo Finance reported.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 4.0 for Lockheed Martin, based on an average five-year expected earnings growth rate. A range of 1.0 to 1.5 is generally considered desirable.

The Stock to Study goal is a doubling in investment value (market price appreciation plus dividends) within five years. *BetterInvesting Magazine* is profiling Lockheed Martin for educational purposes only. No invest-

Lockheed Martin Corporation

	2020 (ended 12/31/20)	2019 (ended12/31/19)	% change	FY 2021 Q2	FY 2020 Q2	% change	FY 2021 year to date	FY 2020 year to date	% change
Net sales	$65.4 billion	$59.8 billion	9.3%	$17.0 billion	$16.2 billion	5.0%	$33.3 billion	$31.9 billion	4.4%
Net income*	$6.9 billion	$6.2 billion	10.6%	$1.8 billion	$1.6 billion	11.6%	$3.7 billion	$3.3 billion	9.2%
Diluted EPS*	$24.50	$21.95	11.6%	$6.52	$5.79	12.6%	$13.08	$11.87	10.2%
Declared dividends	$9.80	$9.00	8.9%	$2.60	$2.40	8.3%	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	7.5%
Ticker symbol	LMT	Consensus long-term earnings growth estimate (24 analysts)	5.1%
Price at time of selection	$374.73	Consensus EPS growth rate for FY ended December 2021	8.5%
Past year's price range	$319.81 – $402.38	Consensus EPS growth rate for FY ended December 2022	4.5%
Recent market price	$372.81	Recent price-earnings ratio**	14.5x
Market capitalization	$103.6 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $25.71 for the four quarters ended June 27.

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

ment recommendation is intended.

Humble Start

The company traces its beginnings to 1912, when Glenn Martin and Allan and Malcolm Lockheed launched two aircraft manufacturing businesses independently in California. Martin got started in August that year.

He had constructed his first airplane in a former church building and made a successful flight in 1909.

In December the Lockheed brothers set up in a garage and finished building their first seaplane. The business was originally known as Alco Hydro-Aeroplane; the brothers later renamed the company Lockheed Aircraft.

The two firms grew steadily, developing and producing both military and commercial passenger aircraft. Military contracts awarded during World War II provided major boosts.

The companies remained direct competitors for almost 50 years. However, Lockheed gradually became the stronger of the two in aviation. By 1960 Martin was exclusively producing rockets and missiles.

In 1961 Martin merged with American-Marietta, a manufacturer of chemical products, paints, inks, household products and construction materials.

Over the following two decades Martin Marietta became well-known for its space projects while also manufacturing aluminum, chemical and construction products.

The company divested its non-aerospace operations in the mid-1980s and subsequently began producing energy, electronics communication and information systems.

Lockheed and Martin Marietta merged in March 1995, adopting the current corporate name.

The company has since been involved in several well-known projects. They included the Hubble Space Telescope, the space shuttles, the space station Freedom, the Motorola Iridium satellite telecommunications system, the Titan and Atlas space launch vehicles, and the F-22 Raptor stealth tactical fighter.

Defense Lineup

Today Lockheed Martin is the world's largest developer and manufacturer of defense, security and intelligence products. In 2020 it derived about 74% of revenues from the U.S. government, with 64% attributable to the Department of Defense. Foreign governments accounted for 25.1%, and commercial customers, 1%. Products constituted 84% of net sales and services, 16%.

The company operates four reportable segments. Aeronautics generated fiscal 2020 net sales of $26.3 billion — 40.2% of the total. The unit's chief line is the F-35, which accounted for 69% of the segment's revenue. The segment also produces the C-130 Hercules transport and F-16 Fighting Falcon aircraft. It provides parts and services to sustain the F-22. Sales of combat aircraft and related services constituted about 33% of the company's total net sales in 2020.

Rotary and Mission Systems constructs military and commercial helicopters, near-shore combat ships, and mission systems for surface ships, submarines, and rotary and fixed-wing aircraft. Among its chief programs are the Black Hawk and Seahawk helicopters and Aegis, a fleet defense missile combat system. The unit accounted for 2020 net sales of $16 billion — 24.5% of the total.

Space produced revenue of $11.9 billion — 18.2%. The segment chiefly fabricates satellites, space transportation systems and strategic, advance strike and defense systems. Projects include the upcoming Orion Multi–Purpose Crew Vehicle, a NASA spacecraft designed for missions beyond low earth orbit. Orion will carry the crew for NASA's planned lunar mission in 2024.

Missiles and Fire Control accounted for $11.3 billion — 17.2%. The segment provides missiles and their targeting systems. Leading projects are PAC–3, the Patriot Advanced Capability–3 for air defense; and THAAD, the Terminal High Altitude Area Defense system for protection against ballistic missiles.

James D. Taiclet Jr., 61, joined Lockheed Martin as CEO and president in June 2020 and also became chairman in March 2021. He earlier was chairman, CEO and president of American Tower (AMT), an owner of telecommunications real estate.

Competitors include General Dynamics (GD), L3Harris Technologies (LHX) and Northrop Grumman (NOC), Morningstar reported.

Final Notes

Lockheed Martin hasn't previously been featured in *BetterInvesting Magazine*. The stock ranked No. 78 in the Top 200 Survey of investor holdings for 2020 (*see the April issue*). An estimated 113 clubs owned shares.

The company underwent a 3-for-1 stock split in 1983, 2-for-1 split in 1999 and 163-for-100 split in 1995. The company offers a dividend reinvestment and direct stock-purchase plan.

The share count has fallen for at least 16 consecutive years, Value Line reported. Lockheed Martin repurchased about $1.5 billion worth of its shares during the first half of this year and $1.1 billion in 2020.

More background on Lockheed Martin 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, Lockheed Martin Corporation, 6801 Rockledge Drive, Bethesda, MD 20817–1803.

The author of this profile doesn't directly own shares of Lockheed Martin.

— Reporting by contributing editor Kevin J. Lamiman

The Editorial Advisory and Securities Review Committee met on Sept. 1. The Stock to Study and Undervalued Stock that its members selected were announced shortly afterward. Look for the Stocks to Study box on the right-hand side of the homepage. The link will take you to the announcement at the BetterInvesting Newsroom: www.betterinvesting.org/about-us/news-releases

SSG Study Notes

During your analysis of the Lockheed Martin Corporation (ticker: LMT) you might consider the following comments, data points and questions for further study.

- **Capitalization section:** Capital spending per share has increased steadily over the last decade from $2.37 a share in 2010 to $6.33 a share in 2020. However, capex is expected to decline slightly in 2021 to $6.15 a share and to $6.25 a share in 2022, according to Value Line. Total debt stood at $12.2 billion as of April 1. Debt as a percentage of total capital has averaged about 87% for the past years, higher than its peers and the industry average.

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** The rate of Lockheed Martin's sales for the past decade increased at an annual rate of 3.7%, significantly above the industry average of 2.2%. Northrop Grumman was the only peer whose sales grew faster, at a slightly higher average rate of 3.9%. Historical earnings per share grew at an annual rate of 12.1%, above the industry average of 9.5%. The company's share price rose steadily over the period, from a low of $66.36 to a high of $442.53.

- **Section 2 (Valuation and Return):** Pretax profit on sales averaged 11.24% over the five-year period ending in 2020. The industry's average pretax profit on sales was 10.13% for the period. LMT's return on equity has fluctuated during the past five years, averaging about 213%, outpacing the industry average of 61%.

- **Section 3 (Price-Earnings History):** For the past five years the high P/E for LMT shares has averaged 25.5, roughly equal to its peer group. Low P/E averaged 18, somewhat higher than its peers. Compared to other big defense contractors, LMT has paid out a larger percentage of its profits as dividends, averaging about 59% compared with a bit over 30% for both of its relevant peers. According to Value Line's report from early June, shares trade at a reasonable valuation and risk-adjusted expected returns out 18 months and out to five years are decent. From June to mid-August, the share price declined nearly 7% with the P/E at about 14.

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. The company's 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 analysis of sales, earnings and 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 the time to study further.

The company's 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. This is the section in which you provide the first two primary judgments. 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.

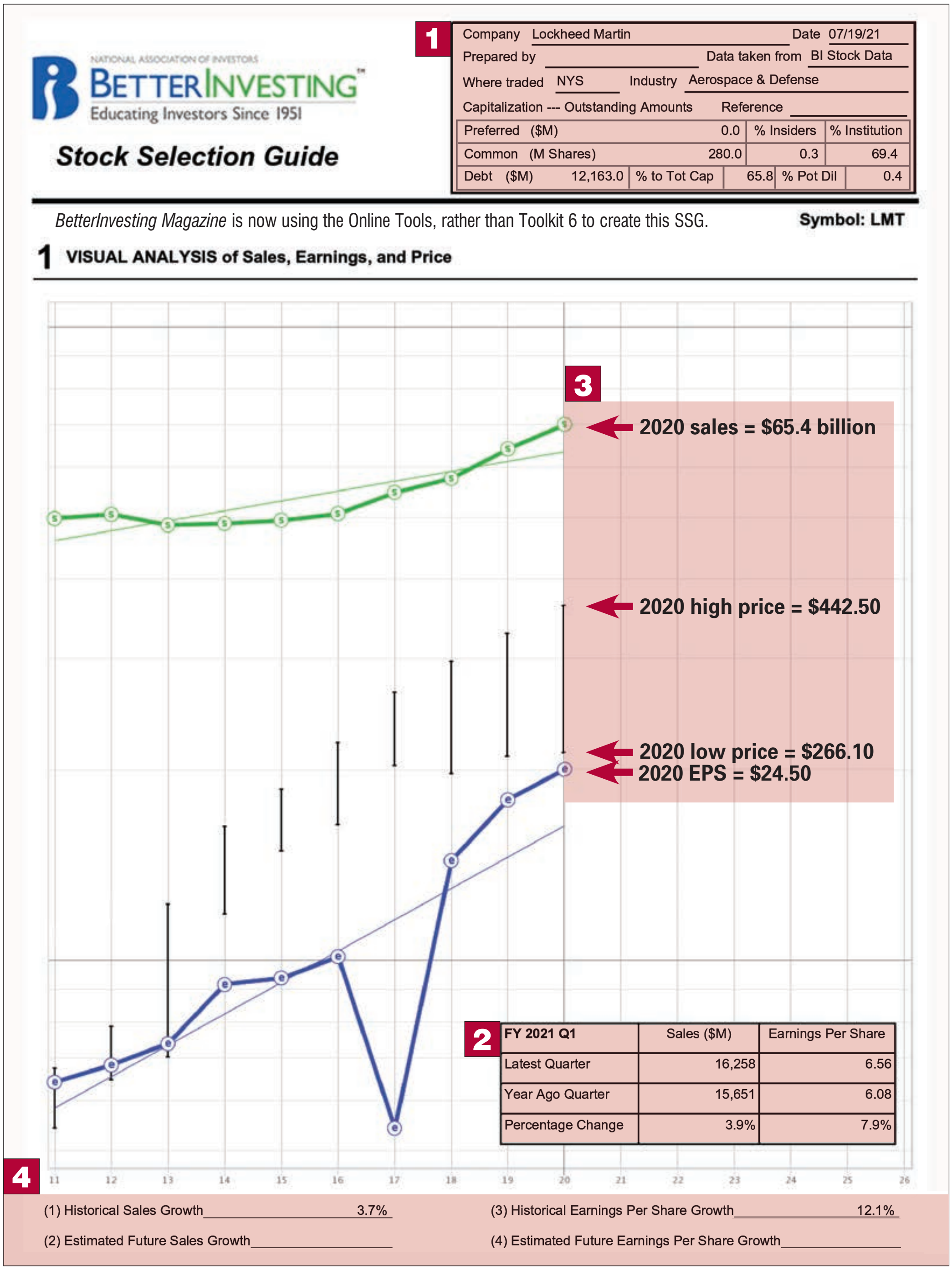
The first step is to forecast sales growth. The company's historical performance is useful information, but you'll need to research the company and decide whether its revenue growth will continue at the historical level, slow down or possibly speed up.

After estimating sales growth, the next step is to forecast growth in earnings per share. In many cases you can estimate EPS growth that's similar to the rate you 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.

Remember, however, that even though a company can grow earnings faster than sales by cutting costs or buying back shares, this can't last forever. EPS growth eventually will drop to the same rate as sales.

You'll use the estimated growth rate for earnings to forecast the earnings per share five years from now. On the second page of the SSG, you'll use the future EPS to determine the stock's potential high price.

A key question to ask yourself is whether the company is growing at a sufficient rate relative to its size. Look for higher growth rates for small companies compared with medium-size and large companies.


NATIONAL ASSOCIATION OF INVESTORS
BETTERINVESTING™
Educating Investors Since 1951

Stock Selection Guide

1

Company	Lockheed Martin			Date	07/19/21
Prepared by				Data taken from	BI Stock Data
Where traded	NYS	Industry	Aerospace & Defense		
Capitalization --- Outstanding Amounts				Reference	
Preferred ($M)		0.0	% Insiders	% Institution	
Common (M Shares)		280.0	0.3	69.4	
Debt ($M)	12,163.0	% to Tot Cap	65.8	% Pot Dil	0.4

BetterInvesting Magazine is now using the Online Tools, rather than Toolkit 6 to create this SSG.

Symbol: LMT

1 VISUAL ANALYSIS of Sales, Earnings, and Price

2

FY 2021 Q1	Sales ($M)	Earnings Per Share
Latest Quarter	16,258	6.56
Year Ago Quarter	15,651	6.08
Percentage Change	3.9%	7.9%

4

(1) Historical Sales Growth 3.7%

(2) Estimated Future Sales Growth

(3) Historical Earnings Per Share Growth 12.1%

(4) Estimated Future Earnings Per Share Growth

Editor's note: The Value Line and Morningstar company and industry reports are available in the Analyst Reports and Other Resources section of the BetterInvesting website for your use in conducting stock studies. You'll need Adobe Acrobat software to read the Portable Document Format files.

2 EVALUATING MANAGEMENT

Company Lockheed Martin (LMT)

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	7.8	8.6	9.2	11.5	10.9	10.3	10.3	10.9	12.1	12.6			
B	% Earned on Equity (E/S ÷ Book Value)	86.2	6880.7	227.2	77.5	124.3	154.0	90.2	524.5	158.4	138.5			

5

3 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	2016	269.9	200.5	12.38	21.8	16.2	6.77	54.7	3.4
2	2017	323.9	248.0	6.64	48.8	37.3	7.46	112.3	3.0
3	2018	363.0	241.2	17.59	20.6	13.7	8.20	46.6	3.4
4	2019	400.0	256.8	21.95	18.2	11.7	9.00	41.0	3.5
5	2020	442.5	266.1	24.50	18.1	10.9	9.80	40.0	3.7
6	TOTAL								
7	AVERAGE								
8	AVERAGE PRICE EARNINGS RATIO				9 CURRENT PRICE EARNINGS RATIO				

6

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE — NEXT 5 YEARS
Avg. High 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) 9
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell)
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 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) ______ = ______ = ______ (5B) %
Present Price $ ______

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

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. The stock's P/E history will inform your 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, you can 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 and have 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.

Figure 5

Evaluating management. The key to successful investing is finding well-managed companies whose stocks are reasonably priced. The company's 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. We 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 the money share-holders have invested in the company. Again, 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

Editor's note: Those who want to learn more about estimating future growth rates, predicting a stock's potential return and other issues regarding the SSG are urged to contact their local chapter for a schedule of classes. See the Regional Notices section in this issue for a list of chapters and contact information. A number of resources also are available at the BetterInvesting website. Among them is the Introduction to the SSG Series, a webinar series available free to members. The sessions explain how to select the best companies, determine a fair price, estimate future growth and project future P/Es. Go to the Video Learning Library in the Learning Center on the website to access these classes.

A Stock That Could Get Fizzier

PepsiCo Inc.

Like other giants in its industry, PepsiCo, Inc. (ticker: PEP) faces a constant challenge to adapt its merchandise mix to shifting consumer preferences. The company has developed a reputation for strong management, including adeptness at maintaining a well-balanced brand portfolio.

That nimbleness was illustrated by PepsiCo's recent agreement to divest its majority stake in leading juice brands marketed in North America and Europe. In early August the company announced formation of a joint venture involving the sale of Tropicana, Naked and other juice brands to PAI Partners, a private equity firm. PepsiCo reported it would receive pretax proceeds of $3.3 billion and retain a 39% stake in the partnership. The deal was valued at about $4.5 billion.

The divestment was part of PepsiCo's pivot toward drinks, snacks and other foods with more growth potential. Those include energy drinks, bottled water, teas and ready-to-drink coffee, and merchandise focused on health and wellness.

Consumers increasingly disdain sugary drinks such as fruit beverages. The Beverage Marketing Corporation has estimated that in 2020 U.S. consumption of fruit juices and fruit drinks fell 3% from the year before.

In contrast, ready-to-drink coffee consumption grew 13%, likely because many Americans were staying home during the pandemic.

Hurt by pandemic-related lockdowns, the stock lagged early this year before regaining ground. The continuing distribution of coronavirus vaccines and the gradual reopening of restaurants, theaters, stadiums and event venues should aid PepsiCo's near-term financial results. Current cost-cutting initiatives could also boost earnings.

Members of the Editorial Advisory and Securities Review Committee noted that PepsiCo is raising prices in response to higher costs, even though many analysts believe the nation's inflation spike will be transitory. The price increases could trigger margin expansion, committee members observed.

At its $156.49 close on July 28, the stock was 1.4% below the 52-week high of $158.66 reported on July 27. Its trailing 12-month price–earnings ratio was 26.4 (*see table*). The ratio for the S&P 500 was 34.3. CSIMarket, a financial data service, set the TTM ratio average for the nonalcoholic beverages industry at 28.3. The average was 26.5 for PepsiCo and three competitors named by Morningstar, based on figures Yahoo Finance reported.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 3.4, based on an average five-year expected earnings growth rate. A range of 1.0 to 1.5 is generally considered desirable.

BetterInvesting Magazine is profiling PepsiCo for educational purposes only. No investment recommendation is intended. The goal for an Undervalued Company is a 20% increase in investment value (market price appreciation plus dividends) within 18 to 24 months.

Cola Still Rocks. Pepsi-Cola still remains an important part of PepsiCo's brand mix, although no longer as preeminent.

Corporate Blend

Management has estimated that PepsiCo is the world's second-largest producer of branded food and beverages, excluding ingredients and pet products. It recently was marketing 23 brands.

In fiscal 2020 (ended Dec. 26, 2020) PepsiCo derived 42% of its net revenue from international operations. In descending order, its chief overseas markets are the following: Mexico, Russia, Canada, the United Kingdom, China and South Africa.

Domestically, Walmart (WMT) is the largest customer. It accounted for 14% of net revenue in 2020.

Information Resources, a leading market research firm, has reported that PepsiCo recently was the leader in domestic beverages.

The agency estimated that in 2020 PepsiCo held a 22% retail sales share in the U.S. liquid refreshment beverage category. That was just ahead of the 20% share of archrival Coca–Cola (KO), the January 2021 Stock to Study.

PepsiCo Beverages North America accounted for $22.6 billion of 2020 revenues — 32.1% of the total. The unit produces and markets beverage concentrates, fountain syrups and finished products under multiple brands: Pepsi, Mountain Dew, Gatorade, Mist Twist, Amp Energy, Naked juice, Izze, SoBe Lifewater and Aquafina. The company also sells ready-to-drink coffee and tea products through joint ventures with Starbucks (SBUX) and Lipton, owned by Unilever (UL).

Frito–Lay North America generated $18.2 billion — 25.8%. The segment produces some of the best-selling lines of snack foods, including Fritos corn chips, Lay's

PepsiCo Inc.									
	2020 (ended 12/26/20)	2019 (ended 12/28/19)	% change	FY 2021 Q2	FY 2020 Q2	% change	FY 2021 year to date	FY 2020 year to date	% change
Net revenues	$70.4 billion	$67.2 billion	4.8%	$19.2 billion	$15.9 billion	20.5%	$34.0 billion	$29.8 billion	14.1%
Net income*	$7.1 billion	$7.3 billion	(2.6%)	$2.4 billion	$1.6 billion	43.3%	$4.1 billion	$3.0 billion	36.5%
Diluted EPS*	$5.12	$5.20	(1.5%)	$1.70	$1.18	44.1%	$2.94	$2.14	37.4%
Dividends	$4.02	$3.79	6.1%	$1.08	$1.02	5.1%	—	—	—

Stock exchange	Nasdaq	Value Line long-term earnings growth estimate	6.5%
Ticker symbol	PEP	Consensus long-term earnings growth estimate (23 analysts)	9.0%
Price at time of selection	$157.94	FY ended December 2021 consensus EPS growth estimate	10.3%
Past year's price range	$128.32 – $158.66	FY ended December 2022 consensus EPS growth estimate	8.0%
Recent market price	$156.49	Recent price-earnings ratio**	26.4x
Market capitalization	$216.3 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $5.92 for the four quarters ended June 12.

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

and Ruffles potato chips, Doritos and Tostitos tortilla chips, Cheetos cheese-flavored snacks and Santitas tortilla chips.

Quaker Foods North America produced $2.7 billion — 3.9%. The unit markets Cap'n Crunch and Life ready-to-eat cereals, hot cereals, grits, and rice and pasta side dishes.

Europe produced net sales of $11.9 billion — 16.9%. The segment markets PepsiCo food and beverage products.

The remaining three segments are the following: Latin America; Africa, Middle East and South Asia; and Asia Pacific, Australia and New Zealand, and China.

- **LatAm,** $6.9 billion, 9.9%
- **AMESA,** $4.6 billion, 6.5%
- **APAC,** $3.4 billion, 4.9%

The company originated in 1898 when Caleb Bradham developed Pepsi-Cola, seeking to mimic the success of Coca-Cola. He initially marketed the beverage to his pharmacy customers in New Bern, North Carolina, and by 1902 was devoting his attention exclusively to selling Pepsi-Cola. Consumers responded favorably and sales grew. Bradham lined up more and more independent bottlers to supplement his own factories.

World War I rationing, however, disrupted access to a key ingredient — sugar. The commodity's price skyrocketed when controls were lifted and the business became unprofitable. It entered bankruptcy in 1923 and Bradham sold the trademark. Successor businesses also struggled and it took until the late 1930s for the brand to once again be profitable. Following the turnaround, Pepsi-Cola went public in 1941.

Going into the second half of the century, the company fueled its growth by aggressively advertising, expanding overseas, introducing new beverage brands, acquiring businesses for diversification and developing innovative packaging. In 1965 Pepsi-Cola moved beyond beverages by merging with Frito-Lay, a marketer of salty snacks, and adopted the current corporate name.

During the 1980s and 1990s, PepsiCo introduced or acquired nine beverage lines, both carbonated and noncarbonated. Management also ramped up overseas expansion efforts.

It acquired — and later divested — several restaurant chains.

Ramon L. Laguarta, 57, became CEO in October 2018 and also chairman in February 2019. The 25-year PepsiCo veteran joined the company in 1996. A native of Barcelona, Spain, he previously was an executive at Chupa Chups, a Spanish confectionery company.

Competitors include Coca-Cola, General Mills (GIS) and Keurig Dr Pepper (KDP), Morningstar reported.

Shaking Things Up

Although carbonated soft drinks remain the company's most popular beverage category, management is swinging toward other beverages with better growth prospects.

Management has expanded the lineup of Mountain Dew varieties. That recently included PepsiCo's expansion into the market for alcoholic beverages.

In mid-August PepsiCo announced a partnership with Boston Beer (SAM) to produce and market Hard Mountain Dew. Coming in three flavors, the concoction will contain 5% alcohol. The new line is expected to reach store shelves in early 2022.

In March PepsiCo introduced Mountain Dew Rise, an energy drink offered in six flavors. Management announced it recruited NBA superstar LeBron James as ambassador for the new Mountain Dew variety.

Among recent acquisitions was a March 2020 deal to acquire Rockstar Energy Beverages for almost $3.9 billion.

In December 2018 the company acquired SodaStream, a leading producer of sparkling water makers. The transaction was valued at $3.2 billion.

PepsiCo formed a strategic partnership with privately held Refresco, a soft drink producer, in November 2019. The deal included the transfer of two PepsiCo factories in Spain, allowing Refresco to produce more of PepsiCo's beverages. The two companies were already bottling partners in the United States and three other European countries.

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Final Notes

BetterInvesting Magazine hasn't previously featured PepsiCo. The company ranked No. 18 in the Top 200 survey of investor holdings for 2020 (*see the April issue*). An estimated 364 clubs owned shares.

PepsiCo has undergone six stock splits — 3-for-1 splits in 1944, 1977, 1986 and 1990; and 2-for-1 splits in 1967 and 1996. The company offers a dividend reinvestment and direct stock-purchase plan.

PepsiCo has paid a cash dividend for 56 consecutive years and has raised the amount annually for 49 years. In June the quarterly dividend was increased 5.1% to $1.08. On July 28 the dividend yield was 2.8%.

The share tally has fallen each year since 2010. The company repurchased $2 billion worth of shares in 2020. Management has projected only $0.1 billion in buybacks this year, however.

More background on PepsiCo 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, PepsiCo, Inc., 700 Anderson Hill Road, Purchase, NY 10577-1401.

Websites of Interest

PepsiCo, Inc.
www.pepsico.com

The Beverage Marketing Corporation
www.beveragemarketing.com

The author of this profile doesn't directly own shares of PepsiCo.

— Reporting by contributing editor Kevin J. Lamiman

A Great Success Story? Be Careful of Paying a High Price

Forecasting Growth Rates

by Sam Levine, CFA, CMT, Contributing Editor

If we think about analyzing stocks at the most basic level, everything we do boils down to answering three questions. They are: "How much money will the stock earn?," "When will that happen?" and "What are we willing to pay?"

No problem, we say to ourselves, at least at first. But then we start thinking about how uncertain the future really is. Consider new car sales. Car demand disappeared during the pandemic, but now autos are routinely selling at list price or even at premiums. Will that continue? With so many workers continuing to work from home, will there be less demand for cars? Will auto sales decline? How about gas prices? If you're not into investing into auto manufacturers, what about pharmaceutical companies? Their profits are tied to possible blockbuster drugs that often fizzle before making it to market.

Even stocks that are so-called "sure things" really aren't. Before there was Facebook, Apple, Amazon Netflix and Google, there was America Online, AT&T, IBM and General Electric. Those stocks were believed by many to be sure things. In the 1960s and 1970s, there was a list of blue chip growth stocks called the "Nifty Fifty" that were pitched as "buy until you die." Nifty Fifty examples include Digital Equipment Corporation, S.S. Kresge (the parent of Kmart), Polaroid, Eastman Kodak and Xerox. Though many of those companies survive today or have successfully merged with other companies, quite a few have languished or gone bankrupt as well. The lesson here is that nothing lasts forever, nor is anything guaranteed.

How Growth Rates Affect Stock Values

There's a formula analysts use to estimate the "true" value of a share of stock. It discounts the projected future cash flows according to risks and what an investor could get in a risk-free investment. Rather than bury readers in math, here's an example of what a stock with average risk would be worth if it were paying 25 cents in dividends (*see table*). For you finance majors, we're using a single stage dividend discount model with a CAPM (capital asset pricing model) derived discount rate when the 10-year Treasury is at 1.3%, beta is 1 and the market risk premium is 5.5%, leading to a 6.9% discount rate. You don't need to be a finance major to look at that table to see the impact of different growth rates on stock values. You can imagine why any news related to the outlook for a company's long-term profitability has a big effect on the stock price.

Growth of dividend	0	3%	6%
Stock value	$3.62	$6.60	$29.44

What You Need to Know About Forecasting Growth

Truth is, nailing a company's growth rate is mighty difficult, so we do the best we can and accept we'll often be wrong. Investors often start with the Street's average forecast and nudge it up or down according to whether they feel more optimistic or pessimistic than other investors. Unfortunately, that ignores studies that indicate Wall Street estimates are notoriously optimistic. You might do better erring on the conservative side of any nudging. Small misses on near-term earnings forecasts usually don't have a large impact on stock valuations. There might be a short-term blip as the market digests the news. If that miss is tied to a potentially longer-term phenomenon, then it can have a larger impact when the market lowers its long-term estimates.

The biggest mistake you can make can come assuming a phenomenal growth rate will continue indefinitely. Companies face competition and consumers' tastes change. Regulators may decide a company is engaging in monopolistic practices or simply seek to reduce its power, as we're seeing with Google and Facebook today. Executives can make mistakes. Firms can certainly grow profits at rates of 10% or 20%, but not forever.

Another reason to avoid forecasting that astronomical perpetual growth rate is the limit imposed by how quickly an economy can grow. The United States' gross domestic product, a broad measure of economic activity, has grown at a rate of less than 2% in the post-WWII era. Given enough time, a company growing at a rate substantially faster than the U.S. economy would be larger than the total economy. That's paradoxical.

Rapid growth is allowed, but only for a finite amount of time. Analysts have a few tools in their kit to account for periods of high growth. They might divide growth into two or even several stages. At first, a company might grow at an unusually high rate and then taper off or even begin to decline.

Most of us don't want to bother with those formulas, nor is it usually worth the additional trouble because, again, it's unlikely we'll be spot on anyway. But what we can do is be very cautious before we believe a company can grow at astronomical rates forever. We must be wary of paying exorbitantly high prices for good growth stories, because that means the Street has bought into those imaginary growth rates. We know better.

Starbucks, Skechers Are Among Companies Recovering From Pandemic

Tuning Up the Portfolio With MKS Instruments

by Cy Lynch

Portfolio Overview

Reviewing Historical Stock and Portfolio Returns

The model portfolio's relative return since it began in October 2006 stayed about the same since our last article at 2.9%, based on its annualized total return of 13.8% compared to 11% for the stock market represented by the Vanguard Total Stock Market exchange-traded fund (ticker: VTI).

As I've noted before, this relative return is short of our goal of beating the market return by 5%, but it still reflects a significant advantage over the market and most alternative investments. The percentage of selections outperforming the stock market increased a little to 53.3%, well within our goal range of 50% to 55%.

Reviewing Fundamental Projections in Light of Latest Financial Reports

Less than half of the 27 companies in the portfolio issued new financial reports since my last column. All in all, the 11 compnies reporting outperformed our projections, including several that reversed recent negative trends in revenues, earnings per share or both.

Notably, Skechers (SKX) and Starbucks (SBUX) are examples of two companies hit hard by the COVID-19 pandemic whose latest results confirm strong recoveries from their spring 2020 lows. The recoveries that we previously noted at Gentex (GNTX) and Charles Schwab Corp. (SCHW) have continued with strong growth in sales and increases in EPS.

We've been watching MSC Industrial Direct (MSM). In the quarter ending June 30, 2021, sales grew and EPS increased for the first time in seven quarters. While sales growth is below our projection, EPS increased well above our expectations. We will continue to monitor MSM to see if these positive trends continue.

The portfolio's overall projected sales growth increased slightly to 9.6% (*see graphic*). Value Line's "Median Price Appreciation Potential" (VLMAP) over the next three to five years for its standard edition stocks remains unchanged for the third straight column at a nominal 35% (7.8% annualized).

The minimum target return for the model portfolio is 12.8%, 5 percentage points over the expected market return. Current overall total return for the model portfolio is 14.1%, comfortably above our target.

Supporting Semiconductor, Industrial Tech Industries

This month's feature, MKS Instruments, Inc. (MKSI), headquartered in Andover, Massachusetts, describes itself as a global provider of technologies that enable advanced processes and improve productivity in several markets including semiconductor, industrial technologies, life and health sciences, and research and defense.

Specifically, MKSI develops, manufactures and supplies instruments and components used to measure, control and analyze gases used in semiconductor manufacturing. In recent years, the company expanded on this core business supporting semiconductor manufacturing to produce instruments for manufacturers of fiber optics, flat-panel displays, gas lasers and solar cells.

MKSI also provides services to install, maintain and repair their products. They also train customers in using these products.

> **"As a supplier to semiconductor manufacturers, MKS Instruments' business is somewhat cyclical."**

As a supplier to semiconductor manufacturers, the company's business is somewhat cyclical, but historical sales growth is strong averaging 16.9% over the last 10 years. Growth over the trailing 12 months exceeded 30%. While EPS over the last 10 years have been more volatile than sales, they have also increased faster than sales, averaging over 20% during that time. I project sales to grow at 12% over the next five years.

Historical pretax profit margins range from a high of 23.4% in 2017 to a low of 9.4% in 2019. The trailing 12-month pretax profit margin is 21.2, significantly above the five-year average of 16.8%.

A core part of management's growth strategy since 2015 has been to expand beyond the company's foundational market selling to semiconductor manufacturers into what management terms "advanced markets," including industrial and advanced electronics manufacturers, life sciences and research and defense.

A principal means to this end has been buying companies in the desired new markets with debt, followed by paying the debt off using MKSI's strong cash flow. Consequently, the company's debt to capital ratio has bounced around from 33% in 2015 to 15.7% in 2017 and back up to about 30 % currently. These vacillations in debt cause the return on equity to be somewhat volatile, as well. The 2020 return on equity of 15.7 % is strong and a little above the five-year average of 15%.

I used 20% as my projected pretax profit margin, about midway between that for FY 2020 (18.2%) and that for the 12 months ending June 30, 2021 (21.2%). My projected income tax rate five years out is 18%, a slight increase over current levels, but in line with management's projections. Diluted shares have stayed relatively steady historically and I will use Value Line's projection that diluted shares will stay about the same at 55.5 million over the next five years.

These projections lead to EPS of $14.03 in five years. Price-earning ratios have been relatively volatile over the past five years, and I chose to use 30x (in line with the average high P/E over the last two years and a little above the average high P/E over the last five years) as my projected high P/E. These projections lead to a forecast high price of $421.60 and potential total return of 22.9%, including a projected dividend yield of 0.7%.

Adding our regular $1,000 in MKSI to our model portfolio increases our portfolio potential total return to 14.2% and leaves our portfolio projected sales growth unchanged at 9.6%.

Companies are mentioned only for educational purposes. No investment recommendations are intended. The author owns several stocks in the model portfolio but does not own MKSI.

MKS Instruments' New Customers Include Makers of Fiber Optics, Solar Cells

Stock	5/21/2021 value	% of portfolio before MKSI	% of portfolio after MKSI	Proj. sales growth	Proj. total return	Hist. return relative to market
Axos Financial	$ 1,061.88	0.6%	0.6%	17.0%	24.9%	0.7%
NetEase	11,814.99	6.3	6.3	11.0	23.4	821.4
Bristol-Myers Squibb	2,908.60	1.6	1.5	8.0	22.2	(8.7)
AbbVie (purchased 7/31/20)	8,776.14	4.7	4.7	12.0	20.0	(5.2)
AbbVie (purchased 10/9/20)	2,851.70	1.5	1.5	12.0	20.0	4.3
II-VI (purchased 12/5/18)	1,955.27	1.0	1.0	14.0	18.9	34.0
II-VI (purchased 10/10/19)	12,394.11	6.6	6.6	14.0	18.9	70.2
C.H. Robinson (purchased 5/31/13)	1,888.87	1.0	1.0	6.0	18.8	(105.4)
C.H. Robinson (purchased 6/30/14)	2,902.88	1.5	1.5	6.0	18.8	(75.3)
C.H. Robinson (purchased 7/6/15)	4,609.13	2.5	2.4	6.0	18.8	(59.0)
Maximus	8,101.25	4.3	4.3	12.0	17.9	(10.5)
Gentex (purchased 9/5/14)	4,342.22	2.3	2.3	10.0	17.0	31.4
Gentex (purchased 7/6/15)	6,571.49	3.5	3.5	10.0	17.0	10.2
Skechers	2,103.80	1.1	1.1	12.0	15.5	35.5
MSC Industrial Direct	1,540.28	0.8	0.8	7.0	14.5	(127.1)
Alphabet (Google)	6,219.62	3.3	3.3	16.0	13.7	343.3
CVS Health (purchased 7/27/16)	5,691.51	3.0	3.0	8.0	13.5	(109.5)
CVS Health (purchased 2/7/18)	4,938.51	2.6	2.6	8.0	13.5	(44.0)
Anthem	5,754.30	3.1	3.1	7.0	12.9	173.8
Regeneron Pharmaceauticals	1,239.04	0.7	0.7	9.0	12.7	17.9
Charles Schwab (purchased 4/15/19)	8,320.36	4.4	4.4	8.0	12.5	7.7
Charles Schwab (purchased 7/31/20)	7,510.08	4.0	4.0	8.0	12.5	77.5
Starbucks	9,682.16	5.2	5.1	9.0	12.2	35.9
T. Rowe Price	2,973.90	1.6	1.6	9.0	11.9	67.1
Cognizant (purchased 6/3/08)	4,426.35	2.4	2.3	7.0	11.3	44.4
Cognizant (purchased 8/6/10)	3,312.94	1.8	1.8	7.0	11.3	(114.1)
Booking Holdings (purchased 8/31/18)	1,134.66	0.6	0.6	14.0	11.3	(36.1)
Booking Holdings (purchased 4/15/19)	5,182.31	2.8	2.7	14.0	11.3	(28.8)
LKQ	5,077.92	2.7	2.7	9.0	11.0	(20.8)
Aflac (purchased 8/31/11)	4,274.40	2.3	2.3	5.0	10.4	17.5
Aflac (purchased 7/6/15)	6,093.67	3.2	3.2	5.0	10.4	(6.6)
Genpact Limited	1,204.30	0.6	0.6	9.0	8.6	10.0
First Financial Bankshares	4,958.66	2.6	2.6	9.0	8.5	17.1
Fastenal	6,212.70	3.3	3.3	9.0	7.6	88.8
eBay (purchased 3/7/14)	3,030.97	1.6	1.6	7.0	7.4	54.7
eBay (purchased 6/30/14)	6,378.27	3.4	3.4	7.0	7.4	119.5
EPAM Systems, Inc.	2,925.75	1.6	1.6	12.0	6.0	101.1
TJX Companies	7,164.82	3.8	3.8	9.0	5.6	25.6
Totals before MKSI	**187,529.84**			**9.6**	**14.1**	
MKS Instruments	1,000.00		0.5	12.0	22.9	
Portfolio Totals	**188,529.84**			**9.6**	**14.2**	

It's Always a Wise Idea to Keep a Close Eye on Your 401(k)

Proprietary Retirement Plans: Follow Your Money

by Danielle Schultz, CFP, CDFA, Contributing Editor

Two words you should never believe in investing: Trust me. Yet that is what you're being asked to do by some employers regarding your retirement plan.

If you work for a publicly traded company, a large nonprofit, a university or a hospital chain, you probably have options for investments in your plan. You might not have every possible investment, REIT funds (real estate investment trusts) are often missing, and you may wish lower cost funds were included, but in general large plans hit the basics: U.S. stock funds, international funds and bond funds.

In recent years, seeking to ensure employees make "prudent" investments, you'll also see a long list of target-date retirement funds. In these plans, you should be able to review prospectuses and access performance records over various periods. Best of all if your plan uses mutual funds that are publicly traded: You can look up all the data your heart desires on Morningstar, Yahoo Finance and MarketWatch. It's easy to ride herd on your investments, if you so choose (and you should).

But there are wilder beasts out there. Some employers offer a proprietary program where it is much more difficult to make choices — or you may have very little choice at all. For example, I've seen people with plans that have been preselected after scrutinizing investments consistent with their belief system. With some of these plans, the employee doesn't contribute at all — only the employer makes a contribution. Maybe your first reaction is, so what? Then it's all their money. But rein in that thought — it's definitely part of your whole compensation package.

If your employer is a large bank or financial firm with a significant trust or investment management division, they may put together and manage investments with little or no input or choice offered to the employee.

Invariably when I ask clients how these proprietary plans are doing, the answer is, "Very well. I think." But they really have no idea except happy talk from Human Resources. Whether proprietary or publicly traded, you should be aware of how your retirement plans are performing. What information should you get?

Summary Plan Description

This is a basic legally mandated description of the plan: what are the rules of the plan, financial information, some idea of the investment trust. It does not necessarily include information on specific investments or performance. Operators of such plans often claim that they don't want their secret sauce exposed to public investors, but I suspect they may not want to be held accountable for their performance. These summaries are often the only information my clients have.

Summary Annual Report

An annual report must be filed with the U.S. Department of Labor delineating plan assets, also known as Form 5500 reports. If your employer cannot give you a copy, you can request one from the DOL. Often these are difficult to obtain or employees are afraid to paw the dust in fear for their jobs.

I first became aware of the difficulty of obtaining this information while working with plan information from a financial services company. It's very interesting that in November 2020 and June 2021, the company is being sued by employees over their proprietary investments.

From the lawsuit complaint:

> *"Defendants breached their fiduciary duties by failing to prudently select and monitor the plan's investment options," said the complaint in the June lawsuit. "In disregard of their fiduciary duties, defendants loaded the plan with poorly performing proprietary funds…and then kept these funds on the plan's investment menu…despite their continued underperformance."*

It's very important that you do what you can to examine just how your money is being invested and seek accountability for performance. Never just assume that your employer is benevolently taking care of you.

Your Annual Statement

You must be given an annual statement of your individual account. You should scrutinize this for at least a rough estimate of how you're doing. Look for a "rate of return" calculator on the internet that will allow you to input your one-year-ago balance, your contributions in the past year and your current balance. You should be able to get an estimated rate of return. If possible, try out the same calculations using longer time periods, depending on how long you've been contributing.

Is it doing about as well as a publicly traded target date fund would do for you? Look up what a Vanguard or Fidelity or T. Rowe Price fund is doing for your appropriate age group. If the publicly traded fund returned 6% and yours returned 5.5%, you're probably fine. If, on the other hand, yours returned 3%, there's cause for concern. Then it becomes important to scrutinize longer time periods.

Advocating for Better Options

A number of universities and other employers are beginning to develop awareness of the need to improve their plans. If you discover your proprietary plan is seriously underperforming, use any opportunity to participate in plan discussions and evaluations. If your plan offers a number of funds, but they are high cost, load or only actively managed, learn what avenues are open to advocate for better choices. Some employers have a volunteer employee investment committee — no one ever wants to join, but as a *BetterInvesting Magazine* reader, you have more expertise than average.

Ideally, your plan should offer target-date retirement funds with forward dates in five-year increments. You should also have a selection of no-load index funds for the U.S. stock market, international stock market and total bond market. It's nice if it expands from there, but those are the minimums.

Why not just a target-date fund? That can be fine when you're just starting out or don't have many investments. Once you accumulate investments outside the workplace account, you may want to cull from the herd, choosing the best tax-favored home for specific types of investments.

If your outside investments are stock heavy, you may want your tax-sheltered workplace investments to be slanted toward bonds. You can tweak which target-date fund mix you select, but it's easier to have access at that point to individual asset class funds.

Managing Contributions and In-Service Withdrawals

It's important that you contribute enough to your employer plan to get the full employer match — after all, that's usually a 100% or 50% return, immediately. But if you have a really bad plan, maybe you want to limit it to that.

After getting the match, you should next fund your individual retirement account or Roth if you're eligible. If your income is too high to be eligible, you might consider a deferred annuity. While I rarely recommend annuities, a high-income earner with a poor workplace retirement program might be one of the few instances. While you won't get any tax deduction for contributing to it, it's one way to choose your own investments and get tax- free growth until you withdraw in retirement. As with any insurance product (and annuities are) be very careful you understand the fees and try to choose a straightforward one you understand. If you can't explain how it will work, don't buy it. Many of the big investment houses offer these products — do some comparison shopping and maybe get the help of a financial planner.

Find out if your plan will allow rollovers to individual accounts even if you are still employed, also known as in-service rollovers. This is not taking a loan, which has to be paid back if you leave, but a complete switch from your corporate account to an individual one. It's rare, and your employer may not allow it, but if it's available you should consider whether you'd have better options in an individual IRA. If it's available, it shouldn't stop your participation in the employer plan for the future. It doesn't hurt to ask and some clients have been able to roll out very large accounts to their own management. If the option isn't currently available, this may be another option to request be considered.

Other 'Defaults' to Avoid

Some few employers seem to have concluded that it doesn't matter what they offer as employees don't pay any attention anyway. Don't be that employee! Make sure you take a look at your statements. Employers have been known to deposit contributions into the wrong funds or to direct your contributions to a traditional 401(k) when you elected a Roth. Employer contributions will always go to the traditional side.

Because many employers are now making a specific salary percentage contribution the default option for employees, they have to put it somewhere if the employee doesn't designate investments. More and more this default choice has become a target-date fund selected for you by your age, which may or may not be appropriate (they're not in on your financial planning). Even worse, the default may be a money market or so-called stable value fund, where currently you will get practically no return on your money.

If you are given the option to choose funds, don't do what the vast majority of employees do: Look down the list and choose the one with the highest return for the past year. Rather, think about your risk tolerance, and whether and what mix of asset classes makes sense for your individual situation.

Finally, look at the different time periods of returns: 1 year tells you about recent history; 3 year gives you perspective on the recent past; 5 year tells you how the fund has weathered some ups and downs; and 10 and 15 years may give you a feel for how the investment has performed over both really bad and really good markets. You want something that has been at least average for the type of investment over all these periods. Compare it to a similar publicly traded index fund.

Don't ignore your retirement account, and don't give up on it. For many people, it builds into the largest investment asset they have. Building wealth is saddled up by savings, but spurred on by returns. Make sure your fund offers a good ride.

Danielle L. Schultz, CFP, CDFA, is a fee only financial adviser with Haven Financial Solutions, Inc., based in Evanston, Illinois. She can be reached at:
www.HavenFinancialSolutions.com

The Long-Term Secret to Success: Keeping Your Money in the Market

BetterInvesting's (Unwritten) Fifth Principle

by Sam Levine, CFA, CMT, Contributing Editor

We have four core principles (*see the cover story on Page 38*) that guide our investing strategy. But four principles on any topic can rarely cover every nuance. The markets have evolved substantially since the 1951 formation of the National Association of Investors Corporation, now the National Association of Investors aka BetterInvesting.

At the risk of stating what might appear to be obvious — at least to BetterInvesting members — I'd like to shine a light on a fifth, unwritten core principle that has contributed to our long-term success. That secret sauce is "We maintain a 100% long position in stocks." That simple maxim covers a broad set of potential investment actions. I'll discuss them here and look forward to any comments readers care to send my way via my email, **samlevinemi@gmail.com**.

We Stay Fully Invested

I don't know what you throw in your garbage can, but cash sure isn't trash. It's handy for bills and emergencies. But we believe it's a shame to let it sit uninvested for decades. It's true that cash reduces volatility in portfolios, but we manage risk through diversification, systematic investing and thorough research.

If we're asked to predict the market, our answer is along the lines of what J.P. Morgan allegedly replied: We expect the market to fluctuate. We don't believe the market will fluctuate randomly, however. We expect it to fluctuate along an upward path.

The longer we stay invested in the market, the more likely it is we'll make a worthwhile sum. It's difficult to consistently predict whether the market will fluctuate up or down over the short term, so we don't bother trying to reduce market exposure when we think the market will weaken, nor will we invest more money when we believe the market is attractive.

Some investors sell options on their stock to get a bit of additional income. We're not fans of that practice because, first, it requires extensive work to do it right, and second, it could lead to the frustrating experience of being taken out of a stock when it's skyrocketing.

We Don't Go 'Short'

Sometimes in our search for potential adds to our portfolios, we uncover stocks that seem overvalued or even on the cusp of collapse. Investors can profit on stocks declining by selling them "short." That involves selling a stock you don't own and promising to replace it later. If you can replace it at a lower price than what you received for selling it, you get to keep the profit.

Selling stock short seems like a good way to use information that you would otherwise toss in the circular file. After all, if you've done all that work to find out a stock appears overvalued, shouldn't you be able to profit on it? But that ignores that upward bias of the market. When we go short, we need to be more right about the decline because we must account for that bias of markets to go up. When we buy a stock, we have the wind at our back. When we go short, we're doing the opposite.

We Only Invest in Stocks

Stocks aren't the only investment option. People can do well investing in bonds, funds, commodities, collectibles and even foreign currencies under the right circumstances. When we're investing alongside other BetterInvesting members in a club, we only invest in stocks, because first, that's the focus of our methodology and, second, we believe we are more effective focusing on one asset class.

We could, if we want, systematically invest in stock mutual funds that mimic the BetterInvesting methodology. But that would rob us of the experience of investing and learning about the markets with other like-minded people.

We enjoy researching companies and feeling challenged. Funds are fine for individuals, but they aren't desirable for investment clubs.

We Don't Leverage Our Portfolios

This speaks to buying on margin, which can allow us to invest well over 100% of our portfolio's value. The market is upwardly biased, but it's not predictable enough for us to be more than 100% invested.

Accounts with high margin can be forced to sell stock at inopportune times or, in extreme but not unusually rare cases, can be wiped out entirely.

Going on margin also means surrendering control. Though this will be most likely done under extreme conditions or when they don't hear from you, brokerages reserve the right to sell whichever position in your account they choose if an account is under a certain level of equity.

The stocks they sell are unlikely to be the ones you would choose.

Discipline Goes Beyond Following Simple Principles

After reading through this long list of what we don't do, you might feel a bit shackled. Take heart, kind reader. There are still plenty of ways to build a portfolio with some zing without violating the BetterInvesting Principles, even this alleged unwritten one.

The question you will have to answer, at least to yourself, is whether you want to apply these strategies. They may not violate the letters of our principles, but I'd argue they violate the intentions behind them.

Instead of buying on margin, we can overweight high beta stocks. Beta, as you remember, measures how a stock's price has moved compared to the market.

Stocks with betas of 1 would be expected to have the same potential returns and volatility as the broad stock market. Stocks with a beta of below 1 would more likely provide snoozier returns. Any stock with a beta of 2 could be less predictable than Elon Musk at a press conference, but have matching potential upside, too.

We can also pursue higher returns through financial leverage. There's nothing in the principles that prohibit us from buying stocks with high debt to equity ratios. Companies with high growth have little to fear from leverage, provided they can make their interest payments and keep growing.

But when revenue dries up, shareholders have the last claim on whatever revenue comes in.

Small-cap stocks, too, are more volatile and have higher historical returns than the more conservative S&P 500. There's also more upside in being right due to fewer investors following those stocks.

The trade-off is that you can be brilliantly correct in your investing thesis, but no one notices enough to bid up the stock you so diligently researched.

> **"There are plenty of ways to build a portfolio with some zing without violating the BetterInvesting Principles."**

I'll Take a Heaping Helping Of Longevity, Please

My experience writing for *BetterInvesting Magazine* tells me that chances are good that you and your fellow club members are faithfully following both the letter and spirit of all the BetterInvesting Principles, or at least being judicious when you do stray from them.

The unwritten principle of "staying 100% long in stock" isn't my own. It's what I notice we're already doing. We adhere to it because it keeps us focused on what we can do well — researching and buying high quality growth stocks — while steering us away from some temptations that have led to disappointing outcomes.

Even though we've been racking up huge numbers from an extended bull run, those profits are never found money. We earned it. We want to protect it, and we want it to grow even more.

That phantom "fifth principle" reinforces what we've always believed and incorporate into our decisions. B

THE CLUBHOUSE

Continued from Page 20

The Benefits for the Club

Using appreciated stock for funding withdrawals is advantageous for the club. The club conserves cash, benefits from the gains in paying the withdrawing member and defers realized gains from the transferred stock. This is true for both full and partial withdrawals. The withdrawing member gets more control over when and how much gain to realize from the club investment when receiving stock for the withdrawal. The benefits for the withdrawing member are not as great when receiving stock for a partial withdrawal. For a partial withdrawal, the member's cost basis of shares received is the same as the club's basis.

A detailed discussion of all the options for funding a withdrawal are available to myICLUB users. There are several links to a Withdrawal calculator. All members of the club have access to the link located at **Accounting > Utilities > Withdrawal** calculator. This link is at the top of the main Accounting Utilities page, not in the left navigation column. Another link is available to treasurers and administrators at **Accounting > Member** withdrawal. The withdrawal calculator link is in the first sentence under the page name **Record a Withdrawal.**

The ICLUBcentral support FAQs has several articles on withdrawals. This FAQ discusses how the cost basis of transferred securities is allocated to the withdrawing member:

www.iclub.com/faq/Home/Article?id=414&category=18&parent=8

Since clubs have told us brokers often use market value or the club's cost basis for the withdrawn member's basis in the transferred shares, we prepared a memo clubs can use to convince brokers to use the cost basis figures on the Member Withdrawal report. The FAQ version of that memo is here:

www.iclub.com/faq/Home/Article?id=672&category=1&parent=0

This memo is also available as a PDF file. The PDF version is at:

www.iclub.com/tps/ICLUBcentral-StockTransferBasisMemo.pdf B

Are Bitcoins Gambling Without the Casino?

A Curmudgeon on Cryptocurrency

by Vitaliy N. Katsenelson, CFA, CIO of Investment Management Associates

This article from Vitaliy Katsenelson includes discussion of stocks and assets mentioned only for educational purposes; no investment recommendations are intended. Go to Vitaliy's Contrarian Edge website (www.contrarianedge.com) for more articles. You can sign up at the site to receive articles by email.

In mid-April I picked my 15-year-old daughter Hannah and her friend Sarah up from school and took them to Barnes & Noble. Sarah found out that I "do stocks" for a living and immediately asked me about crypto. She wondered what cryptocurrency she should buy and if she should open a Robinhood account.

I'll tell you about the advice I gave her in a bit. But a few days later I got three calls in one day from my wife's side of the family — from my sister-in-law (a pharmacist) and my wife's cousins (both are barbers). They were all asking me about crypto. I told them, you don't ask my advice on which number to put your chips on when you play roulette in Vegas; cryptocurrencies fall into the same category.

No matter what asset class you are discussing, it feels a bit "toppy" when people far removed from investing start asking you for advice about it, all at once.

I feel like an old curmudgeon writing this. I know "I don't get it." Crypto lovers look at me as if I am defending silent movies and treating "talkies" as unwelcome, short-term imposters. Curmudgeon I am.

Blockchain Technology Is Another Story

When we discuss crypto, we need to separate blockchain technology from the so-called currencies. Though I have yet to see a mainstream application of blockchain, I get a feeling they are coming. However, just because a technology is useful, has a lot of applications, and is widely accepted doesn't automatically mean that you can use it to create a genuine currency.

Here is an example. Venmo, which is owned by PayPal, is a very useful technology that many Americans use weekly or even daily. The benefits of widespread usage of Venmo, however, accrue to PayPal's shareholders and don't lead to appreciation of the U.S. dollar or whatever other currency it transacts in.

When we talk about cryptocurrencies we have to make clear which one. Many consider Bitcoin their god and savior. However, there are thousands of these "currencies" out there, with dozens created every week.

Until recently Bitcoin looked like a clear winner; even Elon Musk was touting it, and Tesla bought $1.5 billion worth of it. Then Musk also shared with us his love of Dogecoin — a joke of a currency (literally, it was created to mock cryptocurrencies), and Dogecoin exploded in price. A few weeks later Musk realized that Bitcoin is "Beanie babies powered by coal." Because of Bitcoin's decentralized nature, solving useless math problems to mine more bitcoins consumes more electricity than Argentina. Musk announced that until Bitcoin starts consuming less energy, Tesla will not be accepting it as a payment for cars. If you are an ESG-oriented pension and don't want to own Exxon ("evil Big Oil"), I want to see how you justify owning Bitcoin.

Arguably, Bitcoin is worse for the environment than internal combustion engine cars if you adjust for CO_2 production in relation to societal utility (at least cars get you places). For the energy cost of processing one bitcoin, Visa can process 810,000 transactions, about 370 times faster.

Impact on the U.S. Dollar

I've spilled a lot of ink explaining that one of the biggest assets the U.S. government has in its arsenal is the U.S. dollar being the world's reserve currency. Control over our own currency gives politicians the ability to make promises and not keep them, by constantly running budget deficits and printing and borrowing money to pay for these promises. We are able to run trillion-dollar deficits because the U.S. government has a dollar-printing press. The U.S. government will not give it up without a fight. We've started wars over less.

Cryptocurrencies are a clear and present danger to the U.S. dollar. There is a very high probability that the U.S. government will outlaw the use of cryptos as currencies. Sounds far-fetched? The U.S. government did this in 1933 with gold. That was less than 100 years ago. India is threatening to ban bitcoin. South Korea already did.

I am sympathetic to some cryptocurrency investors, especially after seeing what we are doing with our fiat currency. However, for most people they are just speculative vehicles. My wife's relatives pay little attention to the U.S. Government's or Fed's balance sheets. They are interested in bitcoin for one reason only — it is going up. Cryptos present these "unique" opportunities for people to pour their life savings into bits and bytes on servers far far away with a hope that they'll magically turn their lives into paradise on the beach.

When you go to the casino you are not cashing out your life savings and borrowing from your mother-in-law, unless you are a degenerate gambler. You don't do that because the casino doesn't try to masquerade as a place where you invest. If you have an ounce of common sense, you know you are in a casino, a place where people gamble, the air is pumped in, you hear the unending ring of slot machines, and you can't readily find an exit. A reasonable person will only take as much money to Vegas as he can afford to lose.

Cryptocurrencies are a different beast. You buy them on platforms that resemble your brokerage account, where (hopefully) you invest. Also, you're not gambling with casino chips, you are buying "currencies." Suddenly, crypto is competing not with your Vegas purse but with your 401(k). This domain confusion is dangerous.

My advice on crypto has been consistent: Gamble with as much money as you can afford to lose. But remember, even when you are winning — actually, especially when you are winning — you are not investing, you are gambling, and thus approach it as a trip to Las Vegas, not a visit to your 401(k).

Now to the advice I gave to Sarah (my daughter's 15-year-old friend). I told her, first of all, don't open an account on Robinhood. This platform has merged the worst that social media and the casino have to offer into one interface. You are too young to gamble.

If you'd like to invest, then you have to accept that it's not a get-rich-fast but rather a get-rich-slow activity. Once Sarah heard "get rich slow," I think she lost interest in whatever advice I had to offer. Luckily we arrived at Barnes & Noble, so she did not have to go on listening to this curmudgeon.

I'll leave this discussion with a quote by one of my favorite thinkers, Nassim Taleb: "[Investing/speculating in cryptocurrencies is] the idea that a collection of people would get rich at the expense of society for the sole privilege that the world is adopting their currency and not another."

A Few More Thoughts

P.S. I want to do a small follow-up to my article above. I received many emails from readers explaining to me that I had ignored the revolutionary nature of blockchain as a technology. I did not. I am actually fascinated by what blockchain may be able to accomplish. The more I learn about it, the more I realize that bitcoin was a revolutionary invention as a technology, but far from a perfect one.

There are many other strong rivals that are faster, more energy efficient, and smarter (programmable), which are trying to unseat it. This is why there are now thousands of "currencies" (technologies) out there with new ones coming weekly.

A Review of BetterInvesting's 4 Principles

by Sam Levine, CFA, CMT, Contributing Editor

The kernel of BetterInvesting's four core principles is a list of three principles that were quoted to good effect by co-founder George Nicholson, a Harvard-educated securities analyst to members of the budding Mutual Investment Club of Detroit. The club, including the two other National Association of Investment Clubs co-founders, Tom O'Hara and Fred Russell, made its first stock purchase in 1940. The original three principles were:

- ***Invest regularly**, without trying to guess which way the market is going.*
- ***Make money on money** by not taking out interest or dividends and letting it compound.*
- ***Invest only in companies** that seem to offer the potential to double in value every five years.*

By 1951, the investment clubs Nicholson mentored formed the National Association of Investment Clubs, today's National Association of Investors, commonly known as BetterInvesting. Somewhere in its journey from 1951 to 2001, when the organization's history was published in a book, BetterInvesting had rewritten its principles and tagged on a fourth.

— Editor's note, information from *The NAIC News* and "Main Street Millionaires" by Mike Wendland.

BetterInvesting's four core principles transformed bleeding edge investment techniques of the 1920s and 1930s into simple maxims accessible to anyone willing to do research and be patient. The principles owe a debt to famed investors Benjamin Graham and David Dodd. To give some idea of Graham and Dodd's influence, famed investor Warren Buffett studied under Graham at Columbia University. He continues to apply Graham's focus on value today.

BETTERINVESTING'S CORE PRINCIPLES

■ **Invest a set amount of money regularly**. Do so regardless of the swings in the market. This will help you maintain a lower and more favorable average cost per share of stock.

■ **Reinvest all earnings**. By reinvesting all your dividends and profits from the sale of stock, you'll fully leverage the power of compounding.

■ **Buy stock in high-quality growth companies.** Search for growth companies that increase earnings consistently over time.

■ **Diversify your portfolio.** Spreading your stock investments over a number of different companies of differing sizes and industries will help reduce the risk of being in the stock market.

Graham rejected chart reading, which was becoming increasingly popular at the time, saying that it could never be a science. Instead, he promoted managing risk through diversification and selecting stocks according to both numerical and qualitative factors that evaluate stock primarily as ownership in a company. Instead of merely buying stock and hoping it will go up because it has in the past, Graham was concerned about buying the most future cash flow he could get at the lowest possible price.

Though the field of stock analysis has evolved drastically over the years — some might even say it's come full circle from the 1940s, BetterInvesting's principles have stayed consistent because they've proven successful for millions of investors. In this 70th anniversary year, let's review these four principles and how they contribute to stock market success.

Why We Invest a Set Amount Regularly and Reinvest All Earnings

The process of building wealth divides into two phases. The first phase is when the growth in your portfolio comes from your savings. The second — and much more fun — part comes from when the portfolio gains come the benefits of compounding. As your principal grows, the market gains on your portfolio will hopefully dwarf your regular contributions. Then those gains start compounding. Your profits make more profits.

It's hard to understate the benefits of compounding. At right is a graph that compares saving $100 a month for 20 years with no growth against doing the same saving with 9% growth, a reasonable expectation for the S&P 500's long-term performance.

If you're starting from scratch, there's no way around the need to save. You need to build enough savings to see meaningful growth from your portfolio.

By establishing a predictable investing schedule, you'll find it easier to stick to the plan long enough to reap the rewards of compounding gains.

Another reason BetterInvesting encourages disciplined investing comes from how it smooths the impact of down markets. You want to buy low. When the market declines, you will get more stock for the set amount you invest. If the market is high, you'll buy fewer shares. That's called "dollar-cost averaging." Aside from being financially sound, it's a morale booster that kicks in right when you might need it the most. It would be fun to take profits out of the account occasionally. But we reinvest earnings because it would be a shame to deny our dollars the chance to make even more money. But wait! That's not all.

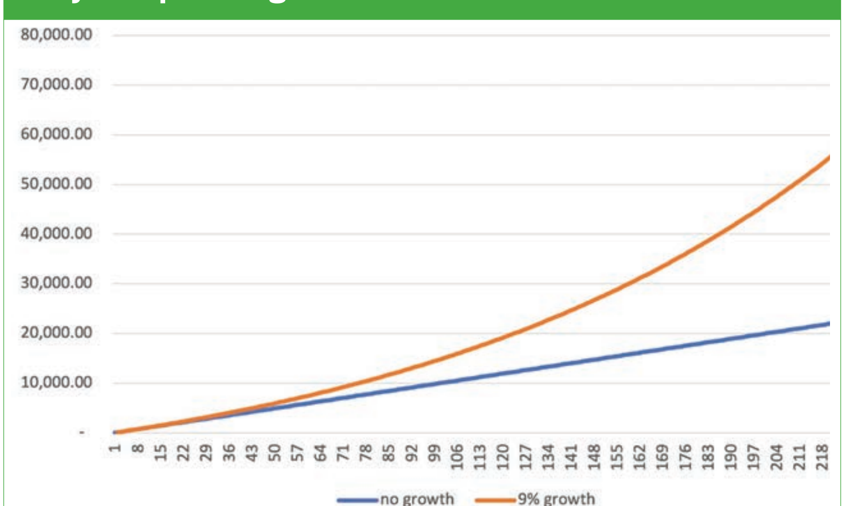
We understand that even if the long-term trend is up, market gains can and do temporarily reverse themselves. Market survival means making sure those reversals stay temporary. When we take out all our gains, losses will erode our original savings to zero. Reinvesting profits builds that safety net.

Why We Buy Stock in High Quality Growth Companies

There are as many ways to invest in stocks as there are investors. You could look for stocks trading below their asset values. You could buy stocks with high price momentum. Maybe you believe the economy will accelerate or decelerate and you want stocks that will do well under that condition.

BetterInvesting stresses buying solid companies with the ability to consistently grow profits. Yes, we want to buy them at a low price but, above all, we want that growth and

Why Compounding Matters



quality. But why? With all the investment philosophies to choose from, what makes quality growth better than, say, deep value or momentum investing?

The answer comes from who we are. Most of us aren't paid to stare at stock screens all day. We're busy building our careers or raising our families. We look forward to our monthly club meetings, but we have plenty of other priorities too. So, once we've done all the research and made the decision to buy a stock, we want to hold it for as long as possible.

Not just for a few months or even a few years. We hope to hold on to a stock forever. It's challenging enough to find a few great buy candidates without having to constantly replace them. If the company is on a path to continued growth, we prefer to hold onto it. When we aren't confident in a stock's growth potential, we look to replace it.

Since we're not trying to time the market or trade for pennies, we need companies that we believe can survive downturns in the economy and the occasional business misstep. That requires financial resources. We look at the debt ratio to ensure the company isn't overleveraged and then we examine profit growth for reassurance that the company has cash flow to continue to grow and build shareholder wealthBetterInvesting's greatest asset is its members, but the Stock Selection Guide comes in a close second for the structured analysis it offers.

But we won't stop with a few ratios. We consider the attractiveness of the products and services our target companies offer, the industries they compete in and the strengths or weaknesses of management teams. We compare the target companies to their competitors. We read the financial filings, in particular the management discussions and analyses that tell us what keeps a company's CEO awake in the middle of night.

Price Still Matters

We love quality, and we adore growing profits. But we still don't want to overpay for a stock. Buying the right company at the wrong price might mean years of waiting for the company's performance to catch up to what we paid. Luckily, the SSG's method of assessing risk and reward helps us spot when a great stock is priced at a reasonable entry point or when one of our stocks has become so overvalued that it's time to harvest profits and move on to the next opportunity.

> "Owning a portfolio of several stocks in different industries reduces the risk of being wrong and so wrong that our wealth won't ever recover."

Why We Diversify

It's hard to find stocks that meet all our criteria but holding only one or a couple of stocks is accepting unnecessary risk. We can be diligent in our research and right about why we bought a stock, but its price can still decline. We also must be realistic about how accurate we can be looking into the future.

Stocks react to different economic and business factors. Cyclical stocks, such as auto companies, do better when disposable income is increasing and interest rates are low. Defensive stocks outperform the rest of the market when the economy is expected to decline. Health care stocks may be driven by government policy or, Heaven forbid, another health crisis.

We could attempt to shift between different sectors to capitalize on our perceptions about the economy, but studies show it's difficult to be right often enough to justify the effort. And we'd rather focus our limited time and efforts toward investing in companies we believe in, regardless of where we are in the economic cycle.

Owning a portfolio of several stocks in different industries reduces the risk of being wrong and being so wrong that our wealth won't ever recover. Diversifying to smooth portfolio returns helps us remain confident in our long-term expectations and stick it out through inevitable challenges.

We know that staying fully invested is the surest route to long-term stock market success and we want to make it as easy as possible without accepting lower returns than what stocks can provide.

Consistency Is Our Secret Formula

We follow these principles because they have proven their worth to several generations of investors and give club members a common framework to evaluate stocks. They also follow established financial theory.

We understand there are different ways to invest and may even utilize additional tools in our investment decisions beyond the SSG.

But we try not to follow investment fads or switch strategies midstream, because we've seen enough people get whipsawed chasing strategies. We would rather miss out some of the time than risk missing out all the time by being late to every party.

Is it boring to always follow these rules? Wouldn't it be more fun to be "creative" or maybe it would be easier to invest according to a hunch? Maybe. But there are plenty of other ways for us to be creative.

When it comes to investing our hard-earned money, we'd rather do it right.

To learn more about BetterInvesting's guiding principles, history and resources, visit www.betterinvesting.org.

Launched in 1927, Rhode Island Group Joined BetterInvesting to Mark 1,000th Meeting

One of BI's Newer Clubs May Be the Nation's Oldest

As told to Angele McQuade by Edmund Nickerson and the members of the IGWE Trust, Providence, Rhode Island.

IGWE Trust was formed in July 1927 in Providence, Rhode Island. Our name is an acronym for In God We Trust. The club was founded by stockbroker/financial adviser Robert C. Chapin to bring together local business leaders to share knowledge about their respective industries and make investments for profitable gain.

Its diverse membership is comprised of business leaders in Rhode Island and Southeastern New England, representing a broad spectrum of businesses and disciplines. The club started with 25 members and today has 27.

The original members were executives, attorneys, accountants, industrialists, financial professionals and heads of area companies.

Past and current members include presidents, owners and managers from the banking, financial, accounting, industrial, publishing, real estate, legal, medical, asset management, chemical, hospitality, communications, construction, utilities, education, legal and architectural fields and the arts.

The club's history has been passed on by word-of-mouth at meetings and, of course, our voluminous archives dating to 1927. From those archives, it appears the club survived the stock market crash of 1929 and the Great Depression by soldiering on month in/month out buying and selling securities. The club has also survived World War II (noted in the minutes as "the Shooting War with Germany"), the Korean Conflict, assassinations, Vietnam, Watergate, impeachments, the energy crisis, 9/11, the war in Afghanistan, inflation, deflation, stagflation, market highs and market lows, and so much more. It's a testament to its membership and tenacity that IGWE Trust has soldiered through it all and prospered.

IGWE Trust: Front row: Ray Mathieu, Alice Westervelt, Fran Gammell-Roach, Kay Chapin, Dan Rosenbach and Sam Chase. Second row: Lance Bay, John Howell, Barry Fain, Jerry Weinstein, Charlie Chapin, Ed Nickerson and John Trevor. Third row: Geoge Shuster, Jeff Giguere, Tony Carcieri, John Hynes, Rich Powers, Lucien Agniel and Don Gralnek. Not pictured: Ned Capozzi, Al Degen, John Farnum, Ted Fischer, Ed Hackman, Ted Howell, Steve Laffey and Ged Parsons.

> **"The club survived the stock market crash of 1929 and the Great Depression by soldiering on month in/month out buying and selling securities."**

Upon admission, new members currently remit a buy-in fee of $10,000. Over the years, that fee has ranged from $1 a month in 1927 to $20,000 in the mid-2000s, depending on market levels. Our stock was split a few years ago to a-chieve a more popularly-priced entry leel. Additionally, members are required to pay an annual contribution of $1,200 into their account in January of each year, which is used to make additional investments. Additional voluntary investments by members are welcome at any time of year.

Meeting Every First Friday Since 1927

The club has met at noon on the first Friday of every month since 1927, first at the Turk's Head Club in downtown Providence until 1990, then at The University Club on historic Benefit Street until 2007 and for the past 14 years at the Providence Art Club. We were forced by the COVID-19 pandemic to meet by Zoom in April and May of 2020. We moved to an open-air Providence restaurant venue from June until October, then "hybrid" Zoom and in-person meetings from November 2020 until April 2021. Mercifully, our in-person meetings commenced again in May.

Our many guest speakers have included governors, senators, the secretary of the Navy, state treasurer, corporate investor relations representatives, CEOs, chief financial officers and a multitude of investment professionals. Interesting monthly discussions, informative guest speakers and field trips all help to keep interest high. Delicious luncheons help, too!

In the 1990s, IGWE Trust spawned a spin-off called IGWE Trust Art, LLC, formed by several members for education and investments in art. Trips to museums and galleries were a treat, with destinations including Newport, Rhode Island; Boston, Salem and Cape Cod, Massachusetts; and Old Lyme, Connecticut; with purchases and sales of artworks, largely historic marine art.

In the Books. IGWE Trust's archives date back to 1927 and include the years of WWII, referred to as "the Shooting War with Germany."

Long-Term Investors With 'Long-Term Views'

As of May 28, the value of our portfolio of 46 stocks was $3,025,051. While no stocks remain from the original portfolio, it's not unusual for us to hold onto stocks for a period of 10 to 15 years. As we are all long-term investors with long-term views, we do not make payouts. Any cash-outs are generally triggered by relocation, death or incapacitation of a member.

One of our all-time winners is Lowe's. Brought to us by a member whose family was one of the earliest investors in the company and first purchased in 1998, it continues to be one of our largest holdings and is up 8,284% since being added to our portfolio.

We often invest in locally based companies, such as CVS, Hasbro, GTech, Textron and one of our all-time success stories, LIN Broadcasting Co. LIN was originally a local broadcaster that missed the boat for growth by not making investments in the cable TV industry. Determined not to miss the next boat for growth, they applied for cellphone licenses in major metropolitan areas around the country — and won them! It was extremely profitable and they sold themselves to McCaw Cellular Communications, for which we got stock. Then AT&T bought 51% (more stock), then an auction for the remaining 49% was bought by AT&T (more stock and cash). The original broadcast television station group was spun-out back to the stockholders and later sold to Media General (still more stock). IGWE Trust (and many members privately) benefited handsomely for years.

Joining BetterInvesting in 2020 as a 'Special Dividend'

The club enjoys a remarkable camaraderie among its membership, and new members are most often introduced by current members. Potential members are typically invited to attend a luncheon meeting to witness the club in action.

Investment Clubbing in Texas in the 1890s

IGWE Trust could be the oldest operating investment club in the U.S. but a Texan who contacted the National Association of Investment Clubs News in 1955 may have organized the oldest or one of the very oldest investment clubs.

The NAIC News' March 31, 1955, edition notes that: "Mr A. L. Brooks of Port Neches Texas reports he started his first investment club in 1898 in Corsicana, Texas…He was one of 12 young men and he put in $5.00 per month of his $35.00 salary into his club … he saved his first $1,000 via the investment club route…In 1923, he organized another club known as the first National Company. Its net worth grew to be larger than the capital of his bank, organized in 1920. This 'never-say-die' investment clubber is abundantly evident in the organization of his third investment club at the age of 75." Brooks was invited to attend the Fifth Annual NAIC Convention in November 1955, but it was not reported if he did so.

NAIC, of course, is the forerunner of BetterInvesting.

Based on the data given, Brooks would have been born circa 1880 and was therefore about 18 when he started his first club. The money he invested in the 1898 club was worth about $160.10 out of his $1,120.70 monthly salary in today's money, leading to a savings of $32,020.06, according to the website Historical Currency Conversions.

The article noted that young Brooks worked seven days a week, from 12 to 16 hours a day, in the 1890s.

If there's interest, they're invited back the next month to allow members the opportunity to better know them, their interests and expertise, and then the following month, a vote is taken on admission.

We celebrated our 1,000th meeting in January 2020 with our traditional "first Friday of the month" luncheon, complete with a special 1,000th meeting anniversary cake and candles, a complimentary two-year membership to BetterInvesting for all club members, a customized shot glass, customized IGWE "million dollar bill" candy bars and satchels of gold candy coins.

We joined BetterInvesting to provide our members with a subscription to an appropriate and educational investing resource as a "special dividend" on the occasion of that 1,000th meeting.

Parts of the celebration, unfortunately, were truncated by the pandemic, which halted plans for a visit and luncheon at the New York Stock Exchange. We still plan to visit the Exchange when visitors are allowed access to the building and trading floor, and to hold a special celebration dinner at one of Rhode Island's finest restaurant venues with members' spouses later this year.

A Call to Order. This gavel has been used by IGWE Trust of Providence, Rhode Island, since 1927 and is engraved with the names of all the investment club's presidents. The club has just begun to meet in person again since the pandemic began.

Advice to Other Clubs? Patience and Passion!

We have additional (evening) social gatherings, often incorporated into a field trip to a special venue, such as a visit, tour and dinner to the Naval War College in Newport, Rhode Island, national food purveyor Blount Seafood Co. in Fall River, Massachusetts, the touring Gotham Silver Show at the Rhode Island School of Design Museum, and the like.

The club has taken an evening "trip to the country" each August to the Anawan Club, an 1898 hunting lodge in the woods on a reservoir in Rehoboth, Massachusetts, to which spouses are also invited to dine and hear a guest speaker.

Our best advice to other clubs when markets get shaky? Stay the course! Follow established club protocols. Continue buying good, quality companies with solid management at bargain prices.

Patience, patience, patience. Long-term horizons, maturity and a reluctance to fad investing and panic selling carry the day every time. We've been through every kind of event in the past and time has shown that it will all pass.

It is helpful to bring together people with a common interest —say, investments, in this case. You need to have a commitment, not just a passing interest in the organization. Passion, passion, passion!

Angele McQuade is the author of two books, including "Investment Clubs for Dummies." She lives near Bethesda, Maryland, where she also writes picture books and novels for children.

If you'd like to be featured in a future profile, please contact Angele through: www.angelemcquade.com

Watch Your Email for Details on Livestreaming BINC

70th BINC in Dallas: Can't Get There? Attend Online!

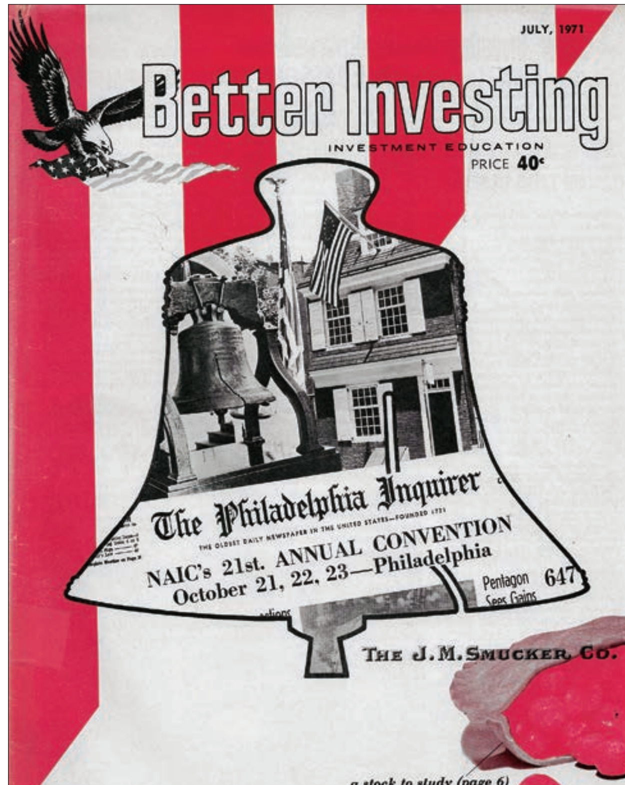
by Deane Jaeger, Chairperson, 70th BetterInvesting National Convention

The 70th BetterInvesting National Convention (BINC) is a must-attend event. New this year is the four-class series for Beyond Beginners and the special two-class High-Net-Worth Investor series. In addition, to accommodate those who cannot attend BINC physically, we will be streaming portions of BINC over the internet.

1951 was the year George Nicholson mentored three investment clubs, ultimately forming the National Association of Investment Clubs, later known as BetterInvesting. We are celebrating 70 years of investment education with the 70th BetterInvesting National Convention in Dallas, Oct. 21-24, 2021. You can attend physically or, new this year, attend virtually.

Can't Attend Physically? 70th BINC Goes Online

The 70th BINC is going to be an event to remember and we want to make sure everyone has an opportunity to enjoy the fun of BINC. A recent survey showed 75% of people who normally attend a BetterInvesting webinar were not planning to attend this year's BINC. Whether it is time, money or COVID-19, we want to offer the excitement of the 70th BINC to everyone. Therefore, we have arranged to live-stream portions of BINC via the internet for those who cannot physically attend. We are still working out the details, so watch your email for registration and cost information.



BINC 50 Years Ago. This old BetterInvesting Magazine cover promotes NAIC's 21st Annual Convention held in October 1971 in Philadelphia.

What You Can Expect In-Person at BINC?

The 70th Anniversary BetterInvesting National Convention will offer something for everyone. On Thursday there will be a luncheon exclusively for chapter volunteers followed by several breakout sessions on chapter operations and organization. Starting at 5 p.m., there will be a BINC orientation for first-time attendees to introduce them to BINC, what they can expect and how to get the most out of the three-and-a-half-day convention. Next, everyone is invited to attend the welcome reception for meeting old and new friends.

BINC is meant to be an educational and a social event that brings like-minded investors together to share and network. The Opening Bell celebration, a corporate presentation and the very popular "Let's Talk Stocks" round out the evening.

The fun continues on Friday morning with registration, breakfast and a corporate presentation. Then it is time to sample a few of the dozen classes scheduled for the morning session. Lunch follows with keynote speaker, Spencer McGowan, and another session of classes in the afternoon.

The afternoon wraps up with a reception and the opening of the Corporate Expo with door prizes.

Saturday is Public Day. The public is invited to attend select BINC classes, including the Financial Empowerment series. The day begins with breakfast and a series of concurrent corporate presentations, allowing attendees to interact and learn about our corporate sponsors. More classes, a visit to the Corporate Expo area, a lunch with keynote speaker Danielle Shultz, and more classes round out the day.

Sunday again starts with breakfast and presentations followed by 15 more classes before gathering for the door prizes and the closing bell ceremony.

There will be over 60 classes presented during the convention. The two new classes, Beyond Beginners and High-Net-Worth Investors, as well as the Stock Selection Guide for Beginners series require advanced registration. A full list of classes, class descriptions, handouts, registration material and a schedule of events can be found at **www.Betterinvesting.org/binc**.

Whether you attend physically or virtually, the 70th BINC will be an event to remember.

70th Annual BINC 2021: Dallas, Oct. 21-24

The 70th Annual BetterInvesting National Convention is a must-attend event. Here is a sampling of the 60-plus scheduled classes.

Let's Talk Stocks	BI Gals Talk Stocks
Beginner Series I-V	New: Investing for High-Net-Worth Individuals I & II
New: Beyond Beginner Hands-On Workshop I-III	Advanced Stock Analysis I & II
Trim a Stock or Is It Time to Sell?	Introduction to Investing in REITs
Bonds of Many Flavors: a Primer	ETFs: Investing in Stocks in the 21st Century
Total Return Versus the Upside/Downside Ratio	Let's Talk P/E's
Successful Investing I & II	Managing Health Care Expenses in Retirement
Owning Stocks With Growing Dividends	What's New in Online Tools
The Power of Quarterly Graphs	Analyst Estimates: Know All the Angles
Owning a Moat Can Improve Your SSG	Small-Cap Stock Clinic
Estate-Planning Decisions	Building a Stronger Financial Future
Live Repair Shop	What Is an SSG Anyway?
Roundtable at BINC	Buying Bank Stocks? Nontraditional Performance Measures
Regulatory Update From the SEC	Trust Your SSG
Best Practices for Keeping Your SSG Current	Building a Retirement Paycheck I & II
Two Guys Talk Stock	Buy the Best With the SCG
When to Sell	Investing in the Technology Sector
Company Debt	Preferred Procedure
Technical Analysis and the SSG	5 Keys to Building a Defensive Stock Portfolio
Using ETFs to Diversify a Portfolio	Investor Advisory Service
Analyzing Quality Using Profit Margins	Smart Investing in Today's Environment
News and Noise	The Texas Energy Gold Rush
Nuggets: Research Tab on SSGPlus	Two Keynote Speakers

To register for BINC at the Westin Dallas Park Central, visit www.BetterInvesting.org/BINC

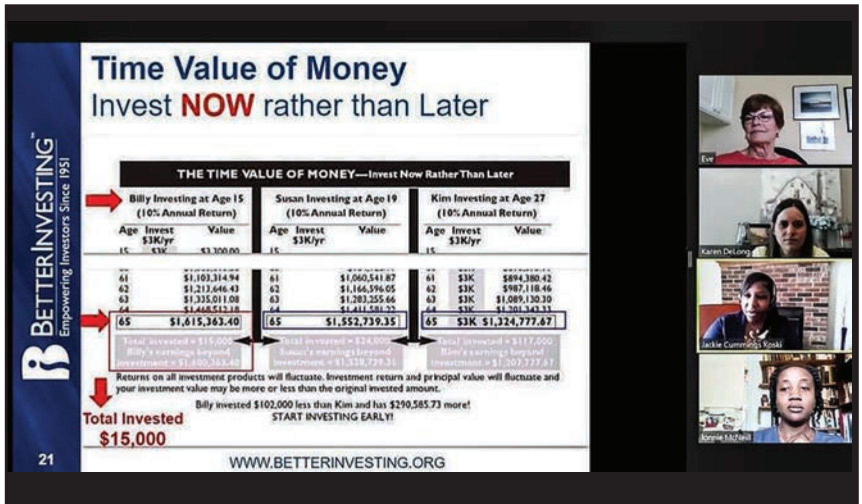
To view information about the classes and keynote speakers, visit https://hello.betterinvesting.org/binc2021-learn-more

BI Board Members Emphasize the Importance of Buying Stocks While Young

Volunteers! 3 Directors Teach Investing to UT Class

by Jan Jeffres, Managing Editor

When three members of the BetterInvesting Board of Directors were drafted to guest teach investing to 17 college students taking a Futures and Options Markets class at the University of Tennessee, Knoxville's Agricultural and Resource Economics Department, the BI team's choice of some stocks to study seemed natural.



BetterInvesting Goes to College. Teaching the webinar to students at the University of Tennessee, Knoxville were (from top) Eve Lewis, chair of the NAIC/BetterInvesting Board of Directors; Dr. Karen DeLong, the professor of the class; Jackie Cummings Koski, treasurer of the NAIC Board of Directors; and Ionnie McNeill, a member of the NAIC Board of Directors.

In a game during the webinar, the students from the home of the Tennessee Volunteers were asked to pick a favorite among Deere & Co. (ticker: DE), Tractor Supply (TSCO), Scott's Miracle-Gro (SMG), Archer-Daniels-Midland (ADM) and Duluth Holdings (DLTH).

But then, the choice of which BetterInvesting leaders to instruct the students seemed natural, too. Board of Directors Chair Eve Lewis is the aunt of the students' professor, Dr. Karen DeLong. Lewis tapped board Treasurer Jackie Cummings Koski and Director Ionnie McNeill to join her in explaining to the spring class the merits of building a portfolio now, while they're young.

"We had the opportunity to encourage this class of juniors and seniors to become long-term investors since the BetterInvesting methodology is logical and deploys the business principles they understand — look for sales growth and growing profits," Lewis said.

Koski said the April webinar was a chance for the UT students to hear three financially savvy women talking openly about "investing, compound growth, and understanding the confusing world of the stock market."

The five stock picks were part of an investing game. "You can imagine what fun the students had discussing the companies and we helped them along with some of the stock analysis we use from BetterInvesting. At the time, the clear winner was DLTH!" she said.

McNeill explored the concept of why the college students need to start investing as early as they can, including the benefits of opening a Roth individual retirement account, which they can use as a first-time home buyer and for a retirement nest egg.

"Ultimately, what I hope they took away from the experience is that they currently have the biggest advantage, which is time, even if they don't feel like they have a lot of money. I hope that they left the presentation deciding to do at least one thing towards becoming a long-term, educated investor," she said.

One of the students Taylor Thompson, 23, of Columbia, Tennessee, now a graduate student in agricultural economics at Purdue University, says he has a Roth, but now mostly invests in bitcoin. Thompson said he appreciated the BetterInvesting seminar's "practical approach to investing."

He plans to buy stocks and said he learned to "invest in good companies before investing in trends in the market." "In terms of retirement, starting earlier with less is better than starting later with more," he said the webinar taught him.

DeLong, who received a BI membership from Lewis as a doctoral graduation gift in 2014, has plans for the webinar to be repeated each year, as long as the BetterInvesting teachers are willing to return.

"It was a definite highlight of their class! To exemplify how much the students genuinely appreciated the BI panel members' candid presentation, discussion after the class had officially ended lasted another 45-minutes!" DeLong said.

Lewis agreed that the students were engaged with the content. "You could tell they like to discuss money and the wheels were turning when thinking about the future. We encouraged them to form investment clubs to stay in touch with classmates after graduation. I think we planted some good seeds that day," she said.

Katrina Survivors Eager to Meet in Restaurants Again in Post-Pandemic Era

Financial Divas: a Millionaire Club in New Orleans

by Carole Corte, Founding Member, Financial Divas Investment Club, New Orleans

The Financial Divas Investment Club (FDIC), of New Orleans, was officially founded on Sept. 10, 2001. We all signed our partnership agreement the day before 9/11!

We were 25 strong the first few years, then in August 2005, Hurricane Katrina hit and we lost many members. But we have never stopped meeting and continue today via GoToMeeting. We have 14 members; six of us from the original group. We are all members of BetterInvesting and the LA/MS Chapter, and have followed the principles and guidelines of NAIC from the beginning.

The impetus to start an investment club came after I had felt the terrible impact of losing money in mutual funds selected by a financial adviser in the dot-com crash of 2000. I felt if I were ever going to lose that much money again I would be the one responsible; I wasn't going to let someone else do it for me! But how and where to learn to invest on my own was revealed serendipitously when I saw a "Today Show" appearance by the Beardstown Ladies Investment Club. They were promoting their new book and the success they were having investing together as a club using the NAIC tools.

Financial Divas Investment Club of New Orleans. Top row left to right: Aimee Hingle (our youngest and newest member and a new mother), *Jean Moreau, Georgette Lastrade, *Karen Selenberg, Stacey Kreller, *Elizabeth Jackson, *Carole Corte. Middle row: Sabrina Wiese. Seated: Anne Hafkesbring, Donna Block, *Diana LeBlanc, and *Betty-Gail Patureau. Not pictured: Leslie Braud and Carole Carroll. The * indicates original members. The picture was taken at the club's Million Dollar Dinner at Vincent's restaurant, which is where the club met during its first few years.

With Help of the LA/MS Chapter

It was thanks to the wonderful volunteers of the LA/MS Chapter that we first learned how to form our partnership and conduct our educational programs and stock studies. I was the founding member and original president. We have had such wonderful experiences investing together these past 19 years. We are an equal partnership and all members rotate responsibility for selecting stocks to study using Value Line and the Stock Selection Guide.

We share responsibility for running the club when we elect officers every two years, except for the treasurer, who is regularly, happily reelected. And each of us is responsible for following and reporting on one or two stocks at least quarterly.

We have 10 meetings a year on the second Monday of each month from 6 p.m. to 9 p.m. Before the pandemic, we were fortunate to find restaurants with meeting rooms so that we could enjoy a fine meal, our growing friendships and a lively meeting discussing the day's news and which stocks to buy, hold or sell. We plan to return to our favorite restaurants when we can. We alternate meetings with studying one or two new stocks, updating and reviewing our portfolio, and listening to BetterInvesting educational online classes and webinars. We are big fans of Ken Kavula!

> "We alternate meetings…with listening to BetterInvesting online classes and webinars. We are big fans of Ken Kavula!"

We surpassed a $1 million in our portfolio of 16 stocks in the fall of 2020! As of Friday, Dec.13, 2020, the market value was $1,128,477.16 and our AIRR on investments (excludes cash) was 16.2%.

Using This Section

In this section readers seeking to network with other long-term investors will find resources for information about programs in their communities. Meetings provide investment education for interested individuals of all ages and experience levels.

We've listed each BetterInvesting chapter along with the chapter's website, contact information and whether the chapter offers:

NEW – new meetings listed at the chapter website

MC – model club meetings for learning about club operations and stock selection

CV – club visits during which a chapter volunteer can answer questions about operations and portfolio management

SSG – upcoming classes on the Stock Selection Guide and related stock study forms

SOFT – upcoming seminars on using computers and BetterInvesting-related software

TREAS – upcoming classes for club treasurers and those interested in club accounting

CG – Computer Group

Upcoming Investors Fairs, Educational Fairs, annual meetings and other major events are listed at the end of this section. For current details on any meeting, go to the relevant chapter's website.

We urge investors to contact the chapter for full details about any event and to learn of any changes in time or location.

The regional programs described in this section are the heart of BetterInvesting's educational effort. Some request a modest fee to defray costs, while others are free.

BetterInvesting's objective is to help people learn about long-term investing in an atmosphere in which they are free from pressure to buy anything.

CHAPTER CONTACTS

ALABAMA

Alabama/Emerald Coast — Northeast Alabama
Barb Gierloff
256/582-7718
barb.gierloff@yahoo.com
www.betterinvesting.org/alabama
CG • CV • NEW • SOFT • TREAS

So. Alabama/Emerald Coast
Dr. Frank Sansone
850/474-3581
drfrank1611@gmail.com
www.betterinvesting.org/alabama
CG • CV • MC

NW Alabama
John Ingwersen
256/757-5325
jlingwersen@gmail.com
www.betterinvesting.org/alabama
CG • CV • SSG

Central Alabama
Martha Rudd
205/913-2660
www.betterinvesting.org/alabama
CG • CV

ALASKA

Alaska
Tim Janneck
907/346-2792
www.betterinvesting.org/alaska
CG• CV • SSG

Contact your local chapter for details such as changes in time or location. You may also go to the BetterInvesting website at **www.betterinvesting.org** and visit **My Chapter**.

ARIZONA

Arizona
Madeline Carragher
602/358-8009
contact@arizona.betterinvesting.net
www.betterinvesting.org/arizona
NEW • CV• MC

CALIFORNIA

Channel Islands
Chapter contact:
contact@channelislands.betterinvesting.net
Registrar and hostess for events/model club:
Arla, abjcrane@aol.com or 805/987-2000
www.betterinvesting.org/channel
NEW • MC • CV

Golden West (includes Nevada)
Anita Widmayer
657/223-1853
contact@goldenwest.betterinvesting.net
www.betterinvesting.org/goldenwest
NEW • MC •SOFT

Sacramento Area
Dan O'Donahue
916/967-9631
djosacbi@gmail.com
Model Investment Club
Carol Crosta
916/771-7222
www.betterinvesting.org/sac
MC • CV

San Francisco Bay Area
Vivian Thomas
viviannee@yahoo.com
www.betterinvesting.org/sanfran
NEW • MC

Silicon Valley
Lee Milde, 408/268-4070
contact@silicon.betterinvesting.net
www.betterinvesting.org/silicon
NEW • MC • CV

COLORADO

Rocky Mountain, includes Northern New Mexico, Utah and Wyoming
Jane Nelson, 303/579-1016
j.nelson@rmchapter.org
www.betterinvesting.org/rockymountain
NEW • CV • SSG • SOFT

DISTRICT OF COLUMBIA

D.C. Regional
Kathleen Emmons
kathy@emmonsgroup.com
703/915-2299
www.betterinvesting.org/dcregional
NEW • CV • SSG • MC

FLORIDA

So. Alabama/Emerald Coast
Dr. Frank Sansone
850/474-3581
drfrank1611@gmail.com
www.betterinvesting.org/alabama
CG • CV • MC

South Florida – Broward/ Charlotte/ Collier/Lee/ Martin/Miami-Dade/Monroe/ Palm Beach/St. Lucie
Barbara Foor Larson, secretary
secretary@southflorida.betterinvesting.net
lonnie McNeill, vice president
561/352-4967
www.betterinvesting.org/southflorida
NEW • SSG • SOFT

North Florida
Brent Campbell, Chapter President
850/894-2345
President@spacecoast.betterinvesting.net
Phil Crocker
908/472-0374
www.betterinvesting.org/space

Sunshine
Dave Yearwood
904/708-2529, call or text
yearwood@aug.com
Barbara Drake, Model Club liason
904/504-4953
bjdrake45@hotmail.com
www.betterinvesting.org/sunshine
NEW • MC

GEORGIA
Georgia
Cynthia McCrary
256/223-3633
mccr102@bellsouth.net
contact@georgia.betterinvesting.net
Facebook: betterinvestinggachapter
ACME Model Club contact:
Larry Reno
770/856-2542
Central GA Model Club contact:
Jim Vandersall
478/714-8167
jvandersall@gmail.com
Facebook: CGMIC
www.betterinvesting.org/georgia
MC • CV

IDAHO
(also see Washington)
Southwest Idaho
Terry Monasterio
208/859-8912
23windy@gmail.com
www.betterinvesting.org/swidaho
CV • SSG •

ILLINOIS
Chicagoland
Information Voice Mail
208/606-0630
Information Email
Chicagolandbi4u@gmail.com
www.betterinvesting.org/chicagoland
NEW • MC

Heart of Illinois
Bobbie Kincaid
309/267-0471
Betty Sinnock, a Beardstown Lady
309/543-4950
contact@heartofillinois.
betterinvesting.net
Model Club: Prairie Investment
Partnership (PIP)
www.betterinvesting.org/hoic
NEW • CV • MC

INDIANA
Central Indiana
Diane Byron, 317/696-0227
dkrbyron@gmail.com
Charles Barker, 317/844-7022
ckbarker@prodigy.net
www.betterinvesting.org/indiana
NEW • MC • CG • CV

OKI Tri-State
Southeastern Indiana
Marty Eckerle
mjeckerle@gmail.com
812/584-9369
www.betterinvesting.org/okitri
NEW • MC • CV

IOWA
Heartland
Nancy Allen
nallen@heartland.betterinvesting.net
Charlotte Hurley
515/276-9019
www.betterinvesting.org/heartland
NEW • MC • CV

KANSAS/MISSOURI
Kansas City Area
Janice Stonestreet
816/324-4939
www.betterinvesting.org/kansas
NEW • CV • MC • SOFT • TREAS

KENTUCKY
OKI Tri-State
Northern Kentucky
Linda Miller
sciclim@gmail.com
859/360-3311
www.betterinvesting.org/okitri
NEW • MC • CV

Tennessee/Kentucky
Cindy Hansen
tenn797@gmail.com
www.betterinvesting.org/tenken
CV

LOUISIANA/MISSISSIPPI
LA/MS
Greater New Orleans Area
Kaye Clingan, 601/853-4689
president@lams.betterinvesting.net
www.betterinvesting.org/lams

Greater Baton Rouge Area
Eric Resweber, 225/788-2528
secretary@lams.betterinvesting.net
www.betterinvesting.org/lams

Greater Lafayette Area
Dennis Malcolm, 337/298-1896
contact@lams.betterinvesting.net
www.betterinvesting.org/lams

North Mississippi Area
Joe Farrell, 601/331-8896
contact@lams.betterinvesting.net
www.betterinvesting.org/lams

Mississippi Gulf Coast Area
David Arnold, 601/268-3549
contact@lams.betterinvesting.net
www.betterinvesting.org/lams

MARYLAND
(also see D.C. Chapter)
Maryland
contact@maryland.betterinvesting.net
www.betterinvesting.org/md
NEW • MC • CV • TREAS

MICHIGAN
Mid-Michigan
Includes all counties in the Lower Peninsula except Wayne, Oakland, Macomb, Southern St. Clair, Monroe, Washtenaw and Livingston
Ken Kavula
810/640-2231
kkavula1@comcast.net
www.betterinvesting.org/midmich
NEW • MC • CV

Southeastern Michigan
Jane Bellaver
248/685-8246
maryjanebe@aol.com
www.betterinvesting.org/semich
NEW • MC • CV

MINNESOTA
Northern Lights
Pam Eilertson, 608/797-1008
www.betterinvesting.org/
northernlights
NEW • MC • CV • SSG • SOFT

MISSOURI
(also see Kansas City)
St. Louis
Fred Tonnies, President
573/864-0707
President@StLouis.
BetterInvesting.net
www.betterinvesting.org/stlouis
NEW • MC • CV

NEBRASKA
Heartland
Nancy Allen
nallen@heartland.betterinvesting.net
Charlotte Hurley
515/276-9019
www.betterinvesting.org/heartland
NEW • MC • CV

NEVADA
See Golden West, California

NEW JERSEY
(also see Pennsylvania)
New Jersey
Pam Deisher, pdeish@gmail.com
Carla Krasnick, 856/235-0813
www.betterinvesting.org/newjersey
NEW • MC • SSG • CV

NEW MEXICO
Northern, see Colorado, Rocky Mountain

NORTH CAROLINA
North Carolina, includes S.W. Virginia
Terry Gilbert
president@northcarolina.
betterinvesting.net
contact@northcarolina.
betterinvesting.net
www.betterinvesting.org/ncarolina
NEW • MC • CV

OHIO
Northeast Ohio – Cleveland
Aire Roche
216/291-2207
www.betterinvesting.org/neohio
NEW • MC • CV

Northeast Ohio – Akron
Louise Gregory
330/666-8513
NEW • MC • CV

Northwest Buckeye
Jane Sullivan
419/841-6196
janesull@gmail.com
Marilyn Adams
419/865-6061
www.betterinvesting.org/nwohio
NEW

OKI Tri-State
Cincinnati
Mary Thomas
mcthomasp@fuse.net
www.betterinvesting.org/okitri

OHIO, CONT'D.

Columbus
Dan Kuhl
dbekuhl@att.net

Dayton
Gene Senter
gmiddle43@gmail.com
937/256-7858

Northern Kentucky
Linda Miller
sciclllm@gmail.com
859/360-3311

Southeastern Indiana
Marty Eckerle
mjeckerle@gmail.com
812/584-9369
www.betterinvesting.org/okitri
NEW • MC • CV

OKLAHOMA

Oklahoma
Carol Clemens
405/348-8681
carcleme4@aol.com
Joe Whitaker
405/478-7990
www.betterinvesting.org/oklahoma
NEW • CV • SSG

OREGON

(also see Washington)
Portland
John Radford
503/490-7296
contact@portland.betterinvesting.net
www.betterinvesting.org/portland
NEW • MC • CV

PENNSYLVANIA

Central Pennsylvania
Bruce Kennedy
president@centpenn.
betterinvesting.net
www.betterinvesting.org/centpenn
MC • SOFT • TREAS • CV • NEW • SSG

Philadelphia Area
Gloria Mankonen
215/796-1214
contact@philly.betterinvesting.net
www.betterinvesting.org/philly
NEW • MC • CV • SSG

Pittsburgh
Larry Robinson
412/461-7120
lc_robinson@comcast.net
www.betterinvesting.org/pgh
MC • CV • CG

State College Area
John and Donna Diercks
814/234-8775
dmhdiercks@aol.com
MC • CV

SOUTH CAROLINA

South Carolina
Allan Steinkuhl
812/204-6274
contact@southcarolina.
betterinvesting.net
www.betterinvesting.org/sc

SOUTH DAKOTA

Heartland (Sioux Empire)
Nancy Allen
nallen@heartland.betterinvesting.net
Charlotte Hurley
515/276-9019
www.betterinvesting.org/heartland
NEW • MC • CV

TENNESSEE

Tennessee/Kentucky
Cindy Hansen
tenn797@gmail.com
www.betterinvesting.org/tenken
CV

TEXAS

North Texas
Dave Swierenga
214/509-9931
contact@northtexas.
betterinvesting.net
www.betterinvesting.org/northtexas
NEW • MC • CV • SOFT

Houston
Jerry Pillans
281/984-7306
gpillans@comcast.net
www.betterinvesting.org/houston
MC • CV

West Texas – Lubbock
Richard Mills
806/786-3875
richardmills@suddenlink.net
www.betterinvesting.org/westtex
NEW • MC • CV

UTAH

See Colorado, Rocky Mountain

VIRGINIA

S.W. Virginia
see North Carolina
www.betterinvesting.org/ncarolina
CV

D.C. Chapter
www.betterinvesting.org/dcregional
NEW • MC

WASHINGTON

Inland Empire
Paula Riccelli
contact@inlandempire.
betterinvesting.net
Megan McKinlay
509/327-1848
president@inlandempire.
betterinvesting.net
www.betterinvesting.org/
inlandempire
NEW • MC • CV

Puget Sound
Class Hotline, 206/935-0861
contact@puget.betterinvesting.net
www.betterinvesting.org/puget
NEW • MC • CV • SSG

WISCONSIN

Wisconsin
Michele Rinka
414/616-1086
michele.rinka@gmail.com
contact@
wisconsin.betterinvesting.net
www.betterinvesting.org/wisconsin
NEW • CV • SOFT

WYOMING

See Colorado, Rocky Mountain

BetterInvesting's **Online Chapter** offers support both to members and clubs without a local chapter and to the public. The chapter's leadership provides a variety of high-quality programming and support.

The leadership of the **Online Chapter** is Jane Chatterjee, Chair; Dan Perlman, President; Hany Michael, Executive Vice President; Susanne Koster, Secretary; Cliff Trent, Treasurer; Howard Johnson, VP–Club Support; Jie Eagleson, VP–Communications; Joe Farrell, VP–Model Clubs and Visit-A-Club; Saul Seinberg, VP–Education; Linda Hunt, VP–Outreach Programs; Susanne Koster, Director of Satellite Operations. Visit the **Online Chapter** at **www.betterinvesting.org/online**

ANNUAL MEETINGS

CALIFORNIA

Silicon Valley
7 p.m. – 9 p.m., Sept. 27, online
Annual Meeting. At this annual planning meeting, we will plan, discuss and review activities in support of members of our chapter for the coming year and approve board members' terms. Visitors are welcome to attend, ask questions and make suggestions. Cost: free.
For information:
contact@silicon.betterinvesting.net.
Register at the website below.
www.betterinvesting.org/silicon

COLORADO

Rocky Mountain
7 p.m. – 8:30 p.m., Sept. 15, online
Annual Meeting. Annual meeting and election of directors. An education presentation follows the business meeting. All are welcome to listen in. Cost: free.
For information:
contact@rockymtn.betterinvesting.net.
Register at the website below.
www.betterinvesting.org/rockymountain

MINNESOTA, WISCONSIN

Northern Lights
9 a.m., Sept. 16, online
Annual Meeting and Elections, Followed by Board Meeting. Current and future chapter plans will be reviewed as well as the election of officers and discussion of volunteer opportunities. No registration required.
GoToMeeting link is: https://global.gotomeeting.com/join/873064197.
Or dial in using your phone: 872/240-3212 and use access code 873-064-197.
If you wish to be nominated for an office or serve as a volunteer please email:
contact@northernlights.betterinvesting.net.
www.betterinvesting.org/northernlights

OREGON AND SOUTHWEST WASHINGTON

Portland
9 a.m. – 11 a.m., Sept. 11, online
4 Steps for Building That Great Club Portfolio (Works for Individual Portfolios, Too) and Annual Meeting. Join us for our 2021 Annual Meeting and Education Event. Our educational speaker for the event is Allen Holdsworth. Allen's class is based on over 90 Better-Investing Club Portfolio Reviews he has conducted in the past seven years. See website below for details and registration. Cost: free.
Contact John Radford at:
president@portland.betterinvesting.net
or leave a message at 503/660-3247.
www.betterinvesting.org/portland

PENNSYLVANIA

Philadelphia
7 p.m., Sept. 9
Giant Food Store
Second Floor Conference Center
315 York Road, Willow Grove
Annual Meeting. Cost: free. For information contact: Gloria Mankonen, 215/796-1214 or contact@philly.betterinvesting.net or visit the Local Events area of the chapter website below.
www.betterinvesting.org/philly

INVESTOR EVENTS

FLORIDA

North Florida
7:30 p.m. – 8:30 p.m., Oct. 5, online
Stock Investment Workshop — October
A sequence of sessions alternating between bringing the beginner investor in individual stocks up to speed with tips, tricks, and techniques for those more experienced. Topics will be chosen from those requested by you earlier and selected by those most requested. Experienced instructors have been selected based on their experience with the topic. Cost: free.
Contact: Dan Harter, biscc.bod@gmail.com.
Register at website below.
www.betterinvesting.org/space

MISSOURI

St. Louis
7 p.m. – 8:30 p.m., Sept. 27, online
Let's Talk Stocks — September. This is a round table discussion of stock study ideas considered worthy of future study by Better-Investing standards. The discussion for each company includes the Stock Selection Guide, Value Line and internet resources. Bring your ideas and discuss how they meet Better-Investing guidelines for a quality growth company. Cost: free.
For information:
contact@stlouis.betterinvesting.net
Register at website below.
www.betterinvesting.org/stlouis

OHIO

Northeast Ohio
8:30 p.m. – 9:45 p.m., Sept. 30, online
Stock Investing Made Easy: What's Wrong With This Picture? Instructor: Barry Detloff of the Northern Lights Chapter. Our SSGs give us a visual insight into the companies we are studying or already in our portfolio. This class explores what our SSG picture should look like. The skill achieved will be the ability to recognize troubling signs before your portfolio is impacted too greatly. Cost: free.
For information, email Kaye Short:
contact@nwbuckeye.betterinvesting.net.
Register at the website below.
www.betterinvesting.org/neohio

PENNSYLVANIA

Philadelphia
7 p.m., Sept. 14, online
Current State of the Equity Market. Webinar. Speaker: Rajeev Vaidya. Cost: free. For information, contact Gloria Mankonen:
contact@philly.betterinvesting.net,
215/796-1214 or see the Local Events area of the chapter website below.
www.betterinvesting.org/philly

Philadelphia
9 a.m. – 3 p.m., Nov. 6, online
SSG Class, Cost: $15
For information, contact Gloria Mankonen:
contact@philly.betterinvesting.net,
215/796-1214 or see the Local Events area of the chapter website below.
www.betterinvesting.org/philly

Philadelphia
9 a.m. – 3 p.m., Dec. 4
Giant Food Store
Second Floor Conference Center
315 York Road, Willow Grove
Doug Gerlach Live. Live events return. Doug Gerlach, president of ICLUBcentral, will be providing club portfolio analysis to those who submit stock holdings prior to the event. Cost: $30, lunch provided.
For information contact Gloria Mankonen:
contact@philly.betterinvesting.net or call 215/796-1214. Register at the Local Events area of the chapter website below.
www.betterinvesting.org/philly

Reviewing Stock to Study, Undervalued Selections

Celgene Corporation, Booking Holdings Inc.

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

Celgene Corporation
Ticker: CELG

Company description: Pharmaceutical business Celgene was acquired almost two years ago, so a five-year analysis of the stock isn't applicable. Celgene specialized in cancer and immunology drugs. It was acquired Nov. 20, 2019, by Bristol-Myers Squibb (ticker: BMY) in a cash-and-stock transaction valued at $74 billion. For each Celgene share, stockholders received one share of Bristol-Myers Squibb, $50 in cash and one tradable contingent value right entitling the owner to receive a $9 payment upon achievement of future regulatory milestones.
Price at time of selection: $116.27
High price during past five years: $147.17
Closing price at acquisition: $108.24
Total return at acquisition (including dividends): (6.3%)
S&P 500 total return at acquisition: 42.4%
Value Line long-term earnings growth estimate when featured: 27.5%
Consensus long-term earnings growth estimate when featured: 21.5%.
Five-year sales growth rate: Unavailable
Five-year EPS growth rate: Unavailable
Five-year pretax profit on sales: Unavailable
Five-year return on equity: Unavailable
Comment: When named the Stock to Study Celgene's top seller was Revlimid, a therapy for blood disorders. On acquisition, the closing price represented a 6.3% negative total return from when Celgene was designated the Stock to Study. At the high price of $147.17 on Oct. 2, 2017, the total return would have been 27.4%, below the goal of a doubling within five years.

UNDERVALUED

Booking Holdings Inc.
Ticker: BKNG

Company description: Booking is the world's largest online travel agency by sales, offering booking services for hotel and alternative accommodation rooms, airline tickets, rental cars, restaurant reservations, cruises and other vacation packages. It operates several sites, including Booking.com, Agoda, OpenTable and Rental cars.com. BKNG has expanded into travel media by acquiring Kayak and Momondo. Fees for bookings represent the bulk of revenue and profits.
Price at time of selection: $1,830.55
High price during past 18 months: $2,516.00
Closing price 18 months later: $2,226.33
Total return at 18-month price (including dividends): 21.1%
S&P 500 18-month total return: 35.2%
Value Line long-term earnings growth estimate when featured: 12.0%.
Consensus long-term earnings growth estimate when featured: 12.3%.
Most recent quarter sales growth: (50.1%)
Most recent quarter EPS growth: 92.1%
Comment: With pandemic travel issues hammering BKNG's financials, its share price pullback produced a potentially attractive valuation for investors holding an optimistic view of the company's post-pandemic prospects and future potential. The stock's total return of 21.1% just met the 20% goal for an Undervalued company over an 18- to 24-month period. At the high price on April 29, the total return would have been 36.8%.
No investment recommendations are intended. The author doesn't directly hold shares in these stocks.

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