

Cyclical Stocks



Mini Investment Class by the OKI Tri-State Chapter

Courtesy Cincinnati Model Investment Club

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Not all Stocks are growth stocks

Some are

- **Cyclical Stocks**
- **Income Stocks**

Looking at Cyclical Stocks

B. LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E: --- X Estimate Low Earnings/Share 2.49 = Forecasted Low Price: 0.0 **GROWTH STOCK**

(b) Avg. Low Price of Last 5 Years: 32.9

(c) Recent Market Low Price: 38.4

2019 Low Stock Price: 40.2

52 Week Low Stock Price: 64.3

2020 Low Stock Price: 38.4

CYCLICAL STOCK

CYCLICAL STOCK

(d) Price Dividend Will Support: $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{0.84}{2.1\%} = 40.1$ **INCOME STOCK**

Selected Forecasted Low Price:

Cyclical Stocks

- **Cyclical companies follow the economy.**
 - **Fundamentals grow when economy is improving**
 - **Fundamentals decline when the economy declines**

Cyclical Stocks

Two types of Cyclical Stocks

- **Durable Goods** - track the economy and interest rates
- **Basic Materials** - track the price of the commodity they sell
 - Price follows supply and demand
- **Found in certain industries**

Cyclical Industries

- **Financial Sector**
 - **Property & Casualty Insurance**
 - **REITS**
- **Industrial Sector**
 - **Construction**
 - **Farm Machinery**
 - **Heavy Trucks**

Cyclical Industries

- **Basic Materials Sector**
 - Aluminum
 - Chemicals
 - Iron & Steel
 - Paper & Forest products
- **Technology Sector**
 - Semiconductors

Cyclical Industries

- **Consumer Cyclical Sector**
 - **Automotive (including parts & tires)**
 - **Airlines**
 - **Home Construction & Furnishings**
 - **Leisure Goods & Services**
 - **Casinos, Restaurants, Toys, etc.**
 - **Clothing & Footwear**
 - **Retail**
 - **Media (Advertising, Entertainment, etc).**

Cyclical List from www.marketwatch.com

DJ Consumer, Cyclical Index (US) (CYC)

Consumer Services

Food & Drug Retailers

Drug Retailers

Food Retailers & Wholesalers

General Retailers

Apparel Retailers

Broadline Retailers

Home Improvement Retailers

Specialized Consumer Services

Specialty Retailers

Media

Broadcasting & Entertainment

Media Agencies

Publishing

Travel & Leisure

Airlines

Gambling

Hotels

Recreational Services

Restaurants & bars

Travel & Tourism

Includes Five Industries

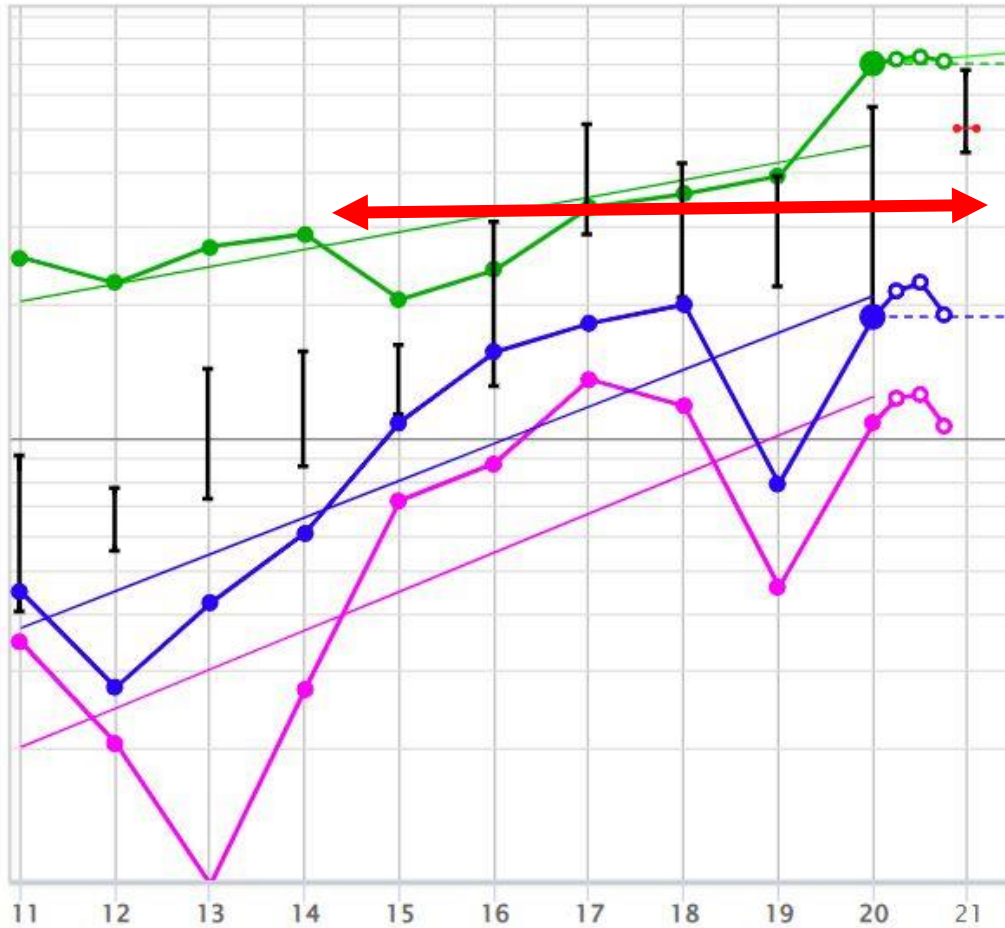
Cyclical Stocks

- **Beginning investors should avoid investing in cyclical companies.**
 - **Require more knowledge about investing**
 - **Have to be somewhat contrarian**
 - **Be aware of where the economy and the company are in their cycle.**

Cyclicals Require More Work

- **Always ask yourself -- is this an economic downturn or a problem with the company?**
 - **More knowledgeable about investing**
 - **Includes things like the financial statements**
 - **More knowledgeable about the company and the industry**
 - **Industry problems or opportunities**

SSG For A Cyclical



SSG does not look like a growth company.

Don't expect "railroad tracks"

In well managed companies, price does not plunge when fundamentals drop.

SSG For A Cyclical

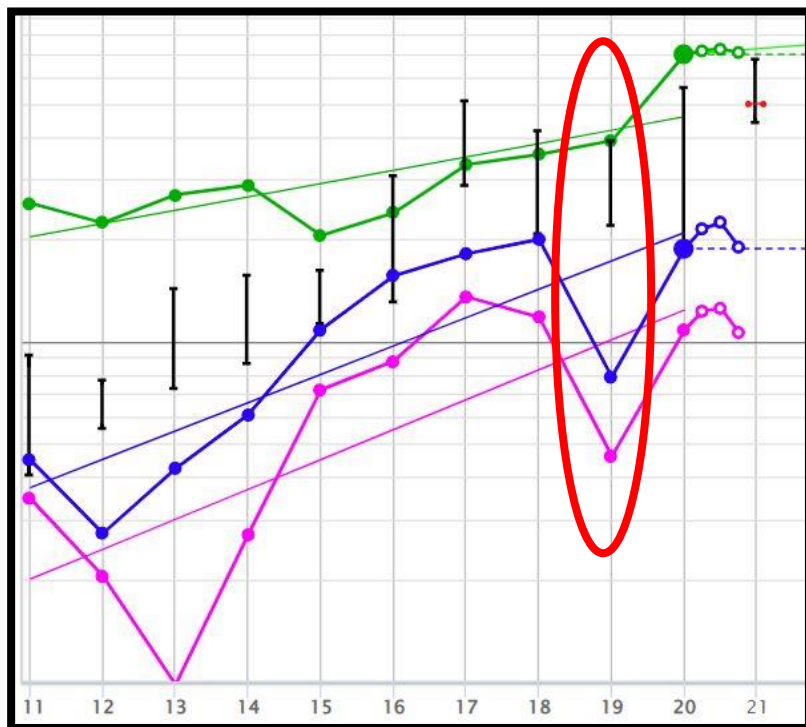
it	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg
s	9.8%	6.6%	2.6%	6.8%	25.4%	26.5%	29.5%	24.0%	8.5%	11.2%	19.9%
	8.3%	5.0%	7.7%	9.9%	29.3%	32.7%	24.5%	23.8%	8.6%	17.5%	21.4%
	0.0%	0.0%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	39.8%	34.8%	14.9%

- The management numbers in Section 2 will go down with the fundamentals.
- This is not a sign of bad management.

Be Contrarian

- **In order to get the greatest price appreciation, invest in cyclical stocks when the economy is near the bottom of a cycle.**
- **Buy when the fundamentals are down and just beginning to improve.**
 - **Gives you the greatest price appreciation**
 - **Often means you are buying when the P/E is high.**

SSG for Cyclical



	D	E	F	
ings	Price Earnings Ratio		Dividend	
share	High A / C	Low B / C	Per Share	F
2.92	19.6	8.3	0.00	
3.39	28.0	15.9	0.00	
3.74	20.9	10.4	0.00	
1.47	49.2	27.7	0.00	
3.51	29.8	9.5	0.00	
	29.5	14.4		
3.55			0.40	
CURRENT PRICE EARNINGS RATIO: 26.4				

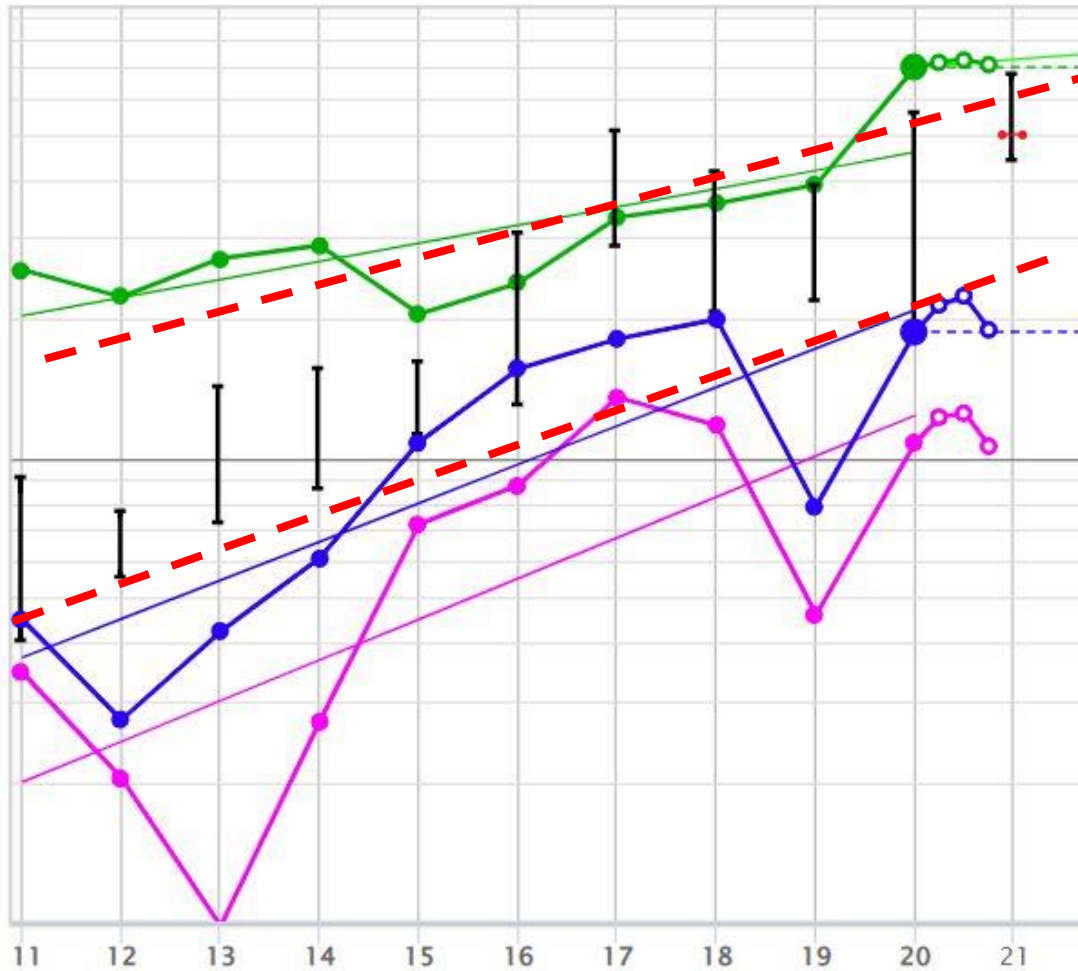
Invest when the fundamentals are starting to recover.

Often that is when P/Es are the highest.

Projecting Growth

- **Projecting the future sales and earnings growth on cyclicals is much more difficult.**
- **Historical growth rates may only be of limited value.**
- **Knowledge of company and industry are crucial.**

Textbook Example



Definite peaks and valleys.

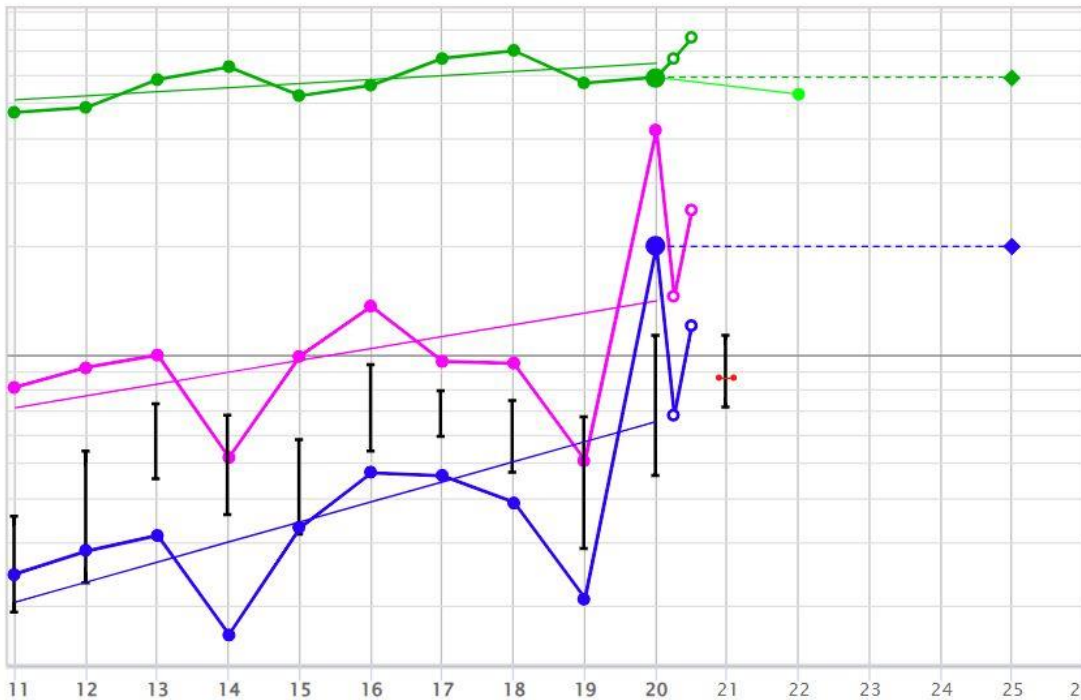
Use the Peak to Peak Method for Projections.

Probably nearing a new peak.

Projecting Growth

Company: Worthington Industri (WOR) Study Name: WOR 1/19/22

Quick Navigation



Projection Starting Point

Annual Quarter Trend

Recent Quarterly Figures

FY2021 QuarterEnding (11/21)

	Sales	EPS
Latest Quarter	1,233	2.15
Year Ago Quarter	731	-1.40
Percentage Change	68.6%	253.6%

Analyst Consensus Estimates

Sales 2 Year Estimate:
EPS Long Term Estimate:

Legend

- Sales
- Pre-Tax Profit
- Prices Hi/Lo
- EPS
- Book Value/Share
- Free Cash Flow
- Dividend
- Total Debt
- Net Income
- Shares Outstanding
- Sales Detailed Estimate
- EPS Detailed Estimate

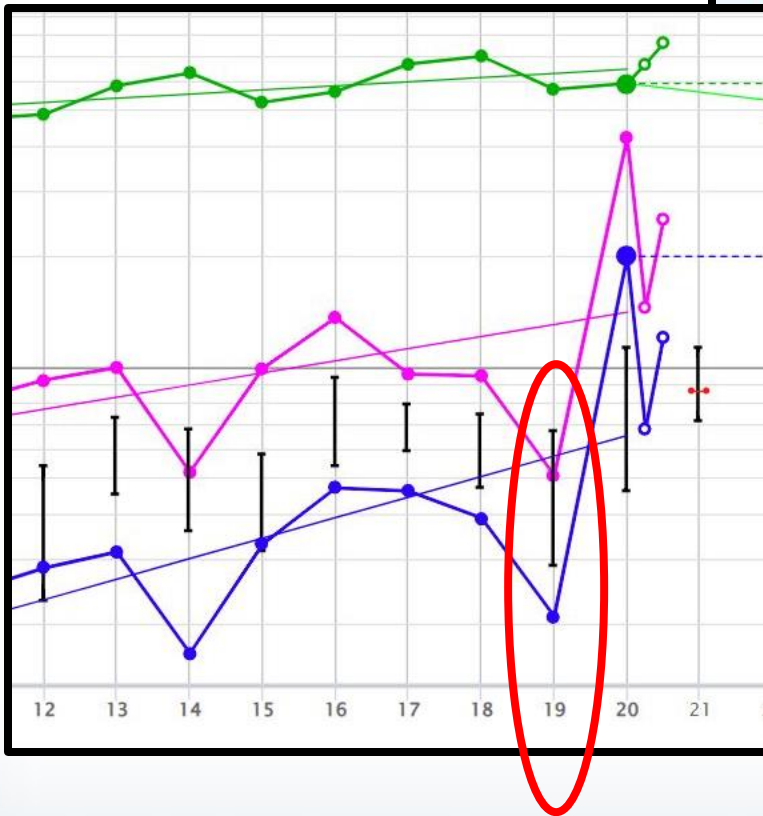
Reset Chart

Fundamental Company Data

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Growth(%)	Forecast
Historical Sales (\$M)	2,535	2,612	3,126	3,384	2,820	3,014	3,582	3,760	3,059	3,171	2.6%	
Historical EPS (\$)	1.65	1.91	2.11	1.12	2.22	3.15	3.09	2.61	1.41	13.42	13.7%	
Pre-Tax Profit (\$M)	177	201	218	113	217	297	209	206	111	918	7.9%	

Worthington Industries: a typical example. Historic sales and earnings growth rates are of limited value.

Cyclicals That Pay Dividends



F	G	H
Dividend	% Payout	% High Yield
Per Share	F / C * 100	F / B * 100
0.79	25.1%	2.2%
0.83	26.9%	2.1%
0.90	34.5%	2.9%
0.95	67.4%	4.9%
0.99	7.4%	3.2%
	32.2%	
1.12	13.8%	

EARNINGS RATIO: 7.1

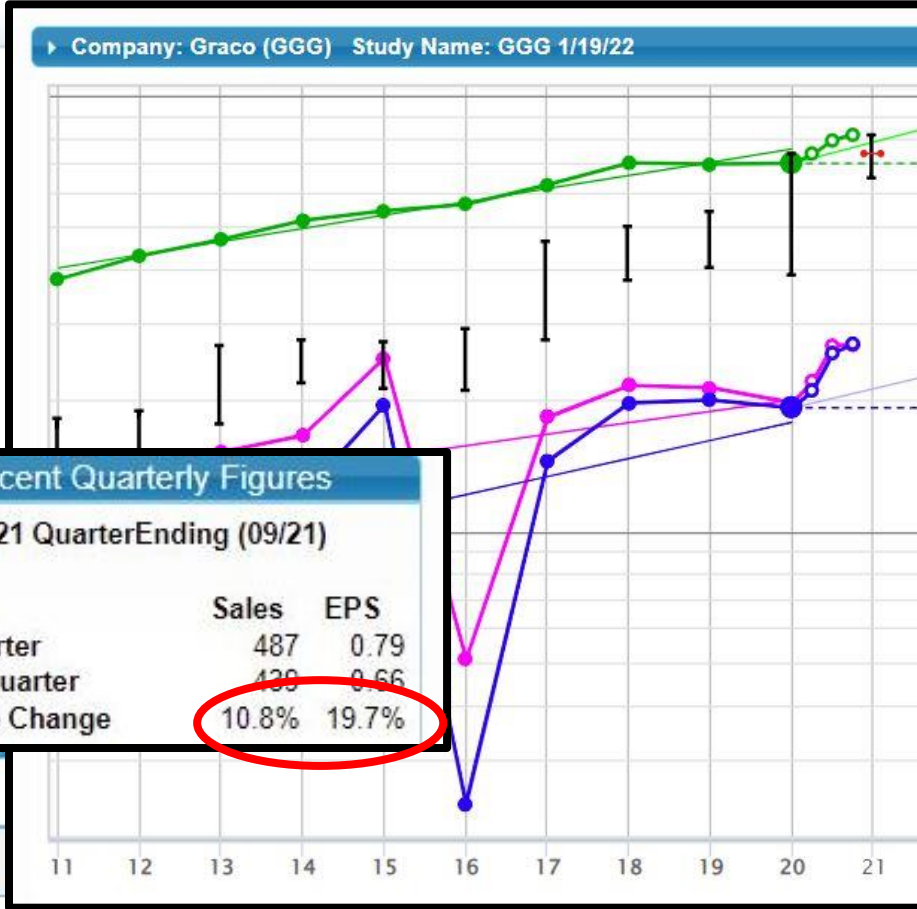
Cyclicals will pay dividends even when earnings drop.

Growth Cyclical

- **Some cyclical stocks will behave like growth companies.**
 - Look like a growth company
 - Analyze them like a growth company.
- **Beginner investors who want to invest in a cyclical should select a growth cyclical.**

Graco Inc.

Quarterly



This company manufactures equipment for many cyclical industries.

They look like a growth company but are cyclical.

Historical



	2018	2019	2020	Growth(%)
(\$M)	1,653	1,646	1,630	7.2%
(\$)	1.97	2.00	1.92	10.0%
(\$M)	411	406	375	6.2%

Selecting a Low Price

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Cyclical Stocks Choices

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(d) Price Dividend Will Support:
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- For a growth cyclical select Average Low Price: 4Bb.
- For a cyclical stock select Recent Mkt Low Price: 4Bc.
 - May want to look at low prices for last ten years.

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