

‘Every Picture Tell A Story’

July 29, 2024

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Stock Investing Made Easy Series ***‘Every Picture Tells A Story’***



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to
**'Every Picture
Tells A Story'**



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Objectives

- Stock Selection Guide (SSG)
 - Goals
 - Overview
- SSG "Picture"
 - Visual patterns and analysis
 - P/E ratios and Income Statements
- Judgments
- *'Every Picture Tells A Story'*



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Stock Selection Guide (SSG) Goals

We use **BETTERINVESTING's**
Stock Selection Guide to
help us find and study
quality *growth* companies



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Stock Selection Guide Two Questions

- Quality** 1. Is this a good company to buy?
Value 2. **IF SO**, is it selling for a fair price?

Only TWO questions!



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Stock Selection Guide Overview

- Analyze Growth and Quality
 - Visual analysis or the "Picture"
 - Evaluate Management
- Valuation and Return
 - Price Earnings History (#3)
 - Evaluating Risk & Reward (#4)
 - Five-year Potential (#5)
- Capitalization

Analyze Growth and Quality

Tab 1 on the SSGPlus

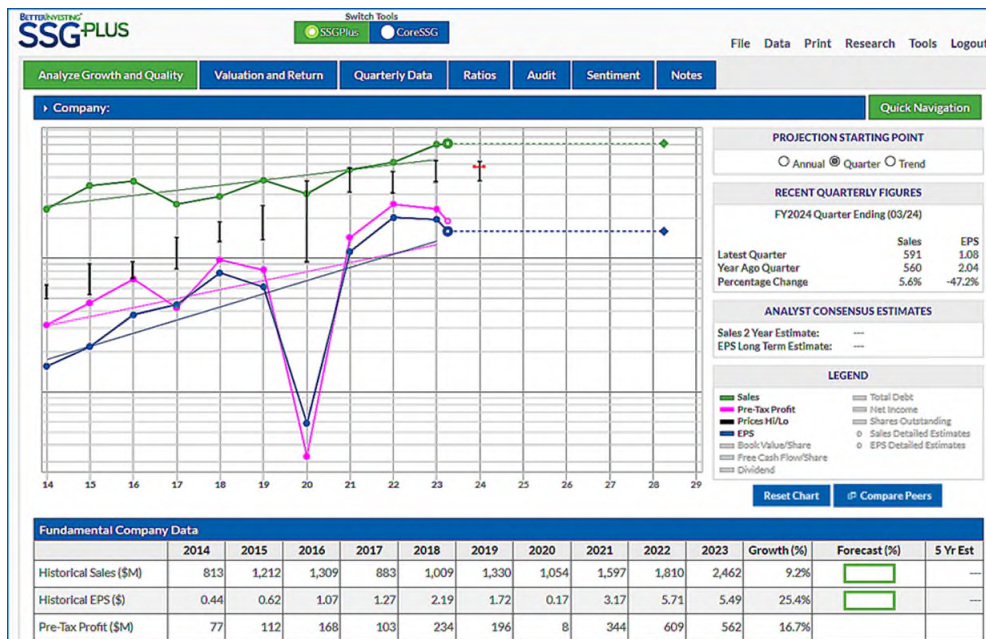
Valuation and Return

Tab 2 on the SSGPlus



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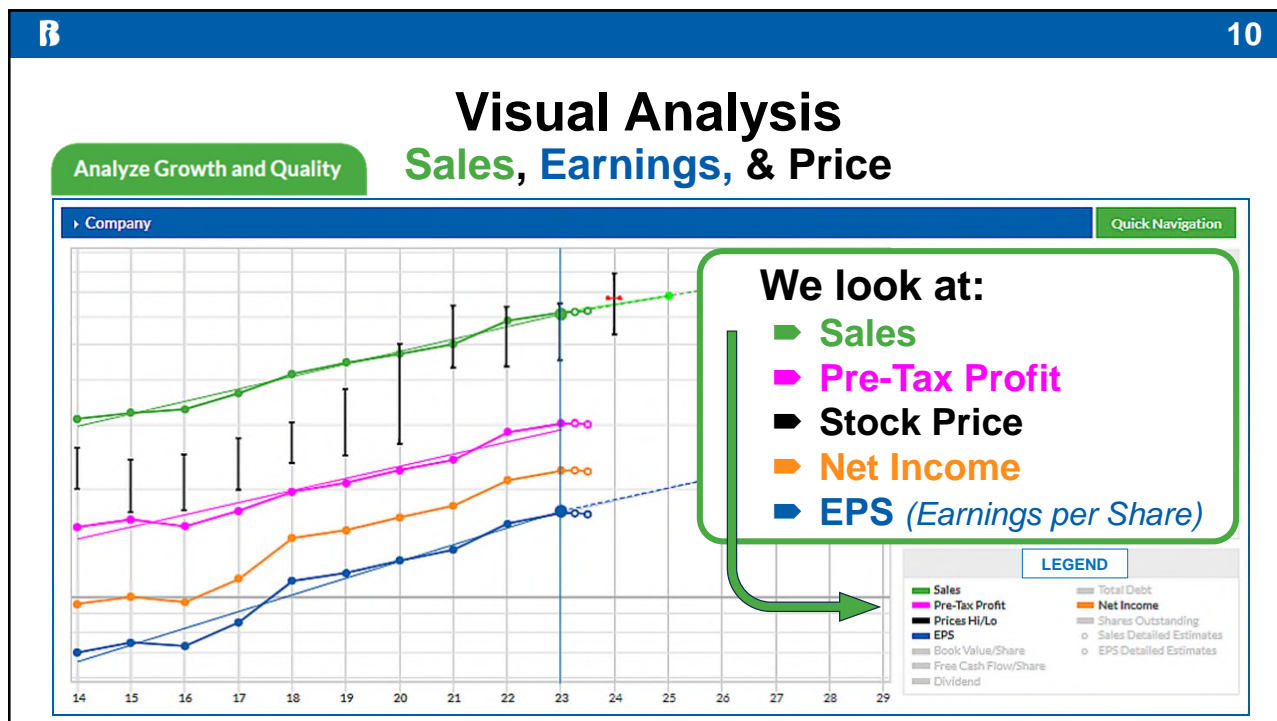
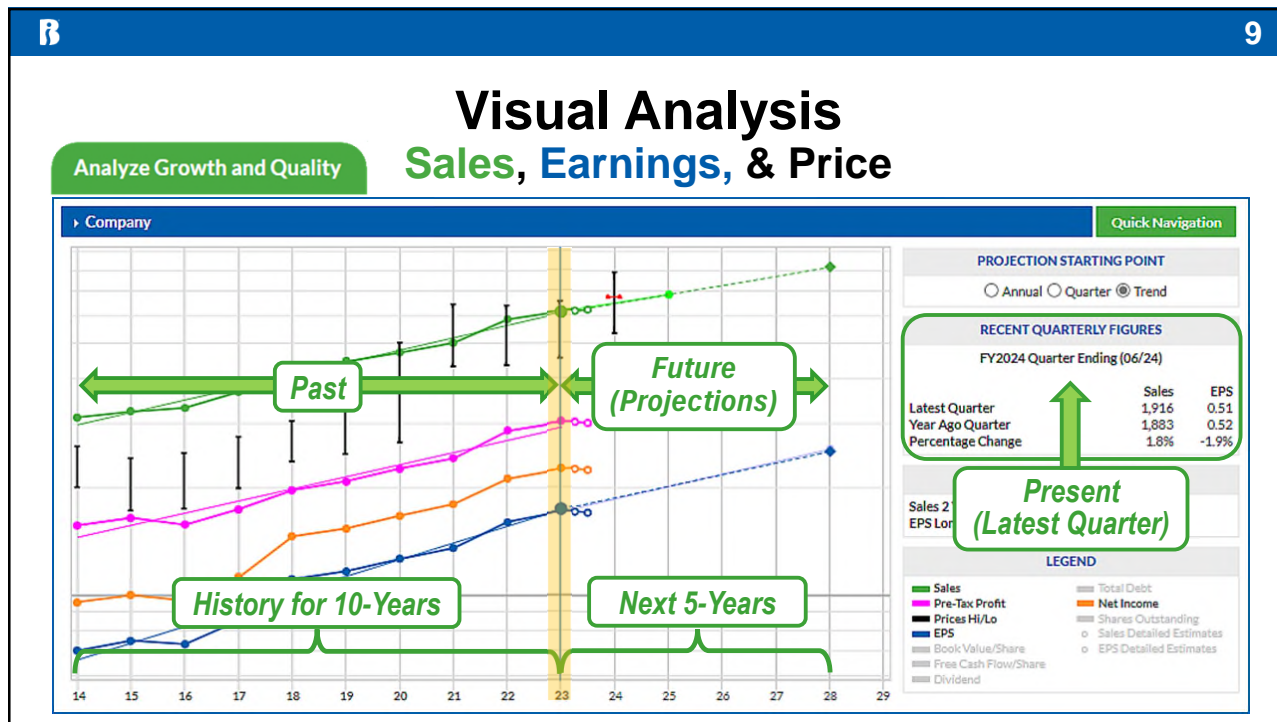
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Evaluating Management

Growth and Quality Potential

Analyze Growth and Quality

Evaluate Management		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	5 Yr Avg	Trend
A	% Pre-Tax Profit on Sales	16.0%	15.5%	17.1%	17.9%	16.8%	17.2%	17.8%	18.0%	15.8%	17.9%	17.3%	
B	% Return on Equity		8.2%	9.0%	7.1%	10.6%	10.2%	10.4%	10.2%	10.6%	10.6%	10.4%	
C	% Debt To Capital		52.2%	52.4%	54.0%	54.2%	54.9%	56.4%	58.4%	59.0%	59.3%	57.6%	




- A** % Pre-tax Profit on Sales
 - Cost Control
- B** % Return on Equity
 - Making money on shareholder's equity
- C** % Debt to Capital

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Quality Criteria

Quality growth companies identified by:

- Growing Sales
- Growing Earnings
- Above average Pre-Tax Profit margins
- Above average Return on Equity
- Debt in line with industry standard



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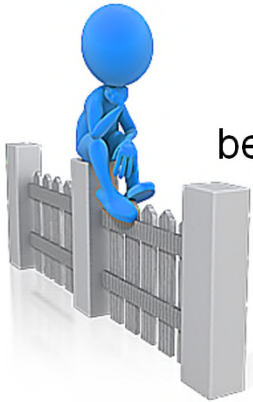
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Where is "Quality" on The SSG

"The worse a company performs the better a value it appears to be."

That is why we should build a big **B*A*R*B*E*D*-*W*I*R*E** fence between the first and second tab of the SSG, and not try to climb over that fence until we are dead sure of the quality issues."

- Ellis Traub



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► 3. Price Earnings History as an indicator of the future

Valuation and Return

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



CURRENT PRICE (05/28/24): 95.00 52-WEEK HIGH: 109.58 52-WEEK LOW: 92.06

5 Years 10 Years

Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
2019	81.3	58.1	4.53	18.0	12.8	0.83	18.3%	1.4%
2020	70.9	37.0	4.09	17.3	9.1	0.94	23.0%	2.5%
2021	91.5	62.8	6.50	14.1	9.7	1.03	15.8%	1.6%
2022	98.1	66.8	3.54	27.7	18.9	1.14	32.2%	1.7%
2023	108.2	87.7	5.84	18.5	15.0	1.25	21.4%	1.4%
5 YEAR AVERAGE		62.5		19.1	13.1		22.2%	
CURRENT/TTM			5.66	19.4	16.3	1.40	24.7%	

5 YEAR AVERAGE PRICE EARNINGS RATIO: 16.1 CURRENT PRICE EARNINGS RATIO: 16.8

Finding a Reasonable Price



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▶ 4. Evaluating Risk and Reward over the next 5 Years

▶ 4. EVALUATING RISK and REWARD over the next 5 years

Assumes a 5-year business cycle with 1 recession and 1 boom

B. LOW PRICE - NEXT 5 YEARS

Then calculates potential high and low sell prices for the stock

2022 Low Stock Price: 68.3 52 Week Low Stock Price: 62.2

C. ZONING using 25%-50%-25% (click to toggle)

Forecasted High Price: 167.3 Minus Forecast Low Price: 55.0 = 112.3 Range. 25% of Range: 28.1

Buy Zone:	55.0	to	83.1
Hold Zone:	83.1	to	139.2
Sell Zone:	139.2	to	167.3

Current Stock Price of 72.75 is in the BUY Zone.

Sell Zone: 139.2 to 167.3

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

Forecasted High Price - Current Price	=	(167.3 - 72.75)	=	94.53	=	5.3 To 1
Current Price - Forecasted Low Price	=	(72.75 - 55.0)	=	17.75		

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

Forecasted High Price	=	167.3	=	(2.2994 X 100) = (229.94 - 100) = 129.9% Appreciation	
Current Price	=	72.75			

Evaluating Risk At A Glance

Zone:	BUY
Forecasted High Price:	167.3
Forecasted Low Price:	55.0
Current Price (06/20/24):	72.75
Upside Downside Ratio:	5.3 To 1
Potential Price Appreciation:	129.9%

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▶ 5. Five-Year Potential

▶ 5. FIVE-YEAR POTENTIAL

A. CURRENT YIELD

Indicated Annual Dividend	=	2.04	=	0.0280 = 2.8%
Current Price	=	72.75		

B. AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout	=	52.3	=	2.2%
Forecast High P/E	=	24.0		

AVERAGE YIELD - USING FORECAST AVERAGE P/E

Avg. % Payout	=	52.3	=	2.8%
Forecast Average P/E	=	18.50		

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

Annualized Price Appreciation	18.1%
Average Yield	2.2%
Annualized Rate of Return	20.3%

COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation	12.1%
Average Yield	2.8%
Annualized Rate of Return	15.0%

SSG Results Summary

Zone:	BUY
Upside Downside Ratio:	5.3 To 1
Total Return (High P/E):	20.3%
Projected Return (Avg. P/E):	15.0%
Buy price to satisfy US/DS of 3 to 1 and 15% total return:	83.1
Buy Below price based on zoning selection:	83.1
Current Price (06/20/24):	72.75

Allows for dividend analysis and comparison between companies

Compound annual returns using


- Forecast high P/E
- Forecast average P/E

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Capitalization




Company Churchill Downs Date 04/12/24
Prepared by User Name Data taken from BI Stock Data
Where traded NAS Industry Gambling
Capitalization --- Outstanding Amounts Reference _____

Preferred (\$M)	0.0	% Insiders	% Institution
Common (M Shares)	74.9	5.0	76.8
Debt (\$M)	4,836.3	% to Tot Cap	84.4
		% Pot Dil	0.0

Level of Interest

Liquidity Debt ~~Dilution~~




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The Stock Selection Guide (SSG)

Helps evaluate a company in two ways:

Quality 1. Is this a **quality** company with sufficient **growth** potential

Value 2. **IF SO**, is it selling for a **reasonable price**?



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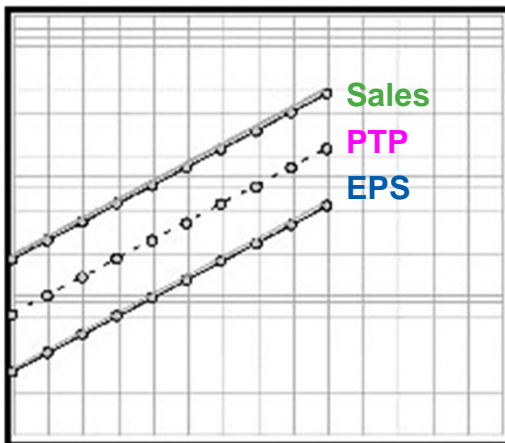
Visual Analysis for Sales and EPS growth



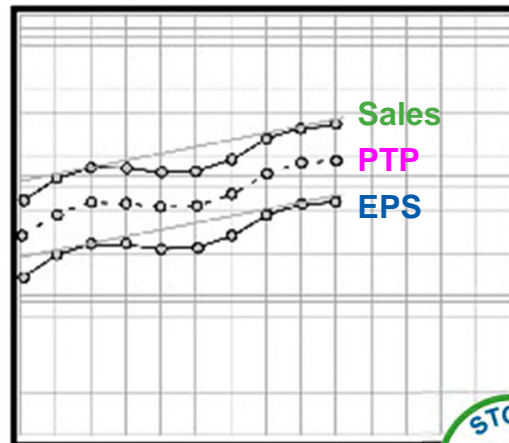
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Recognizing Patterns



"Monotonous Excellence"



"The Motorcycle"

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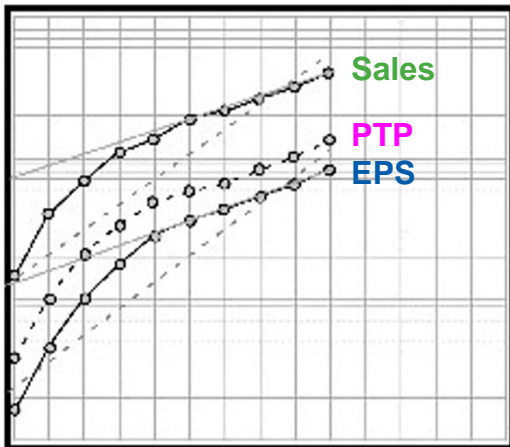
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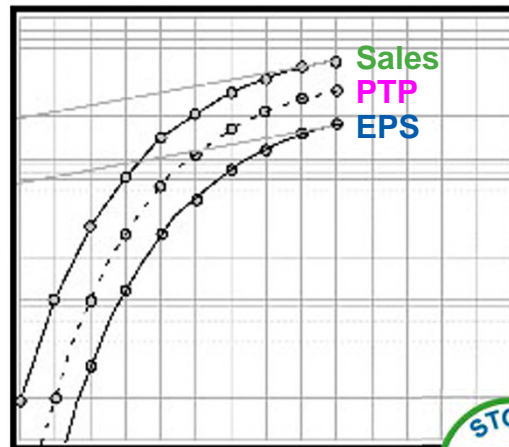
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Recognizing Patterns



“The Bow and Arrow”



“The Arrowless Bow”

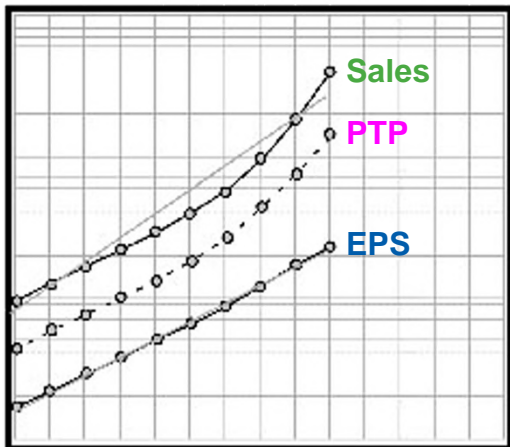
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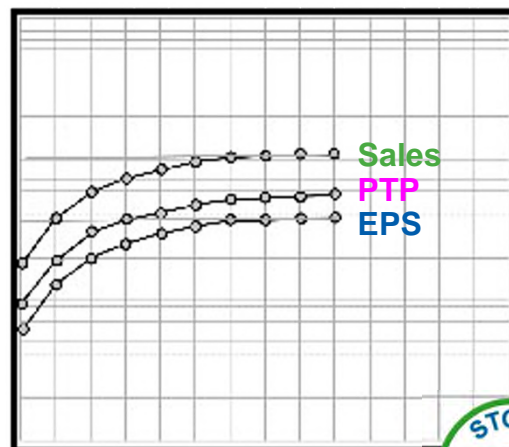
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Recognizing Patterns



“The Rocket”



“The Flatliner”

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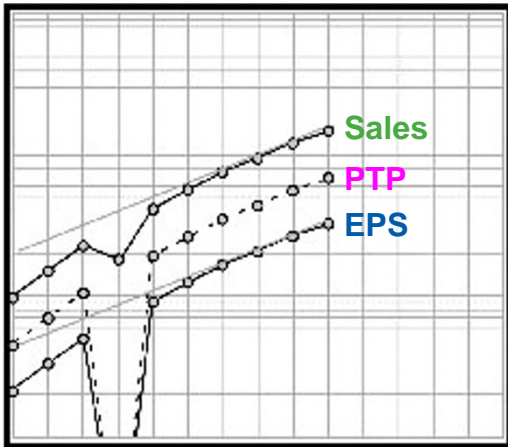
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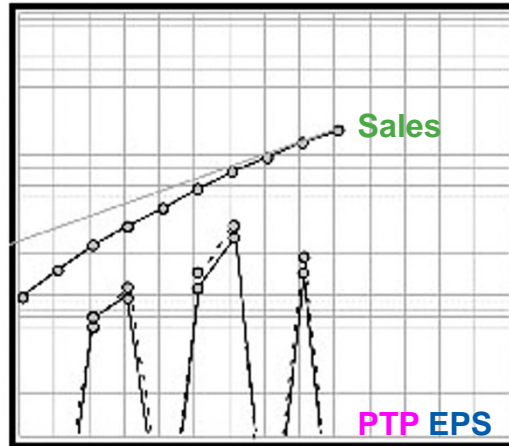
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Recognizing Patterns



"The Innocent Bystander"



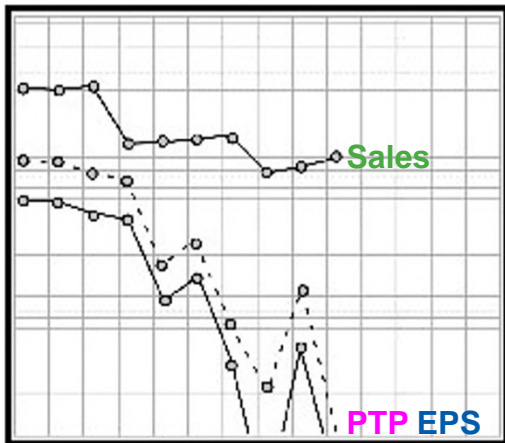
"Coulda Been a Contender"

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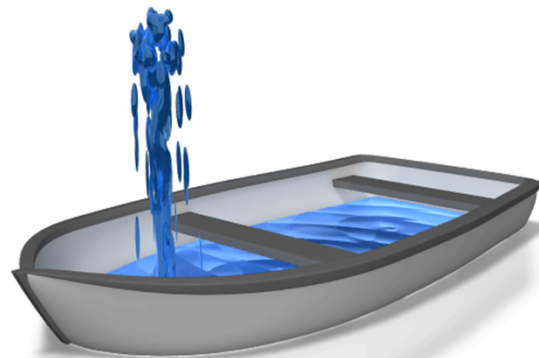
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Recognizing Patterns



"The Disaster"

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Real World Examples

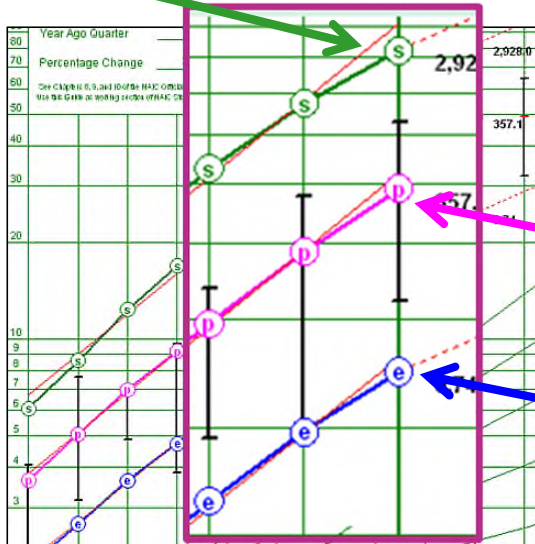
- Identical real-world examples are rare
- Examples help us recognize patterns
- Investigation is necessary to verify



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Real World Examples



“Monotonous Excellence”

Bed, Bath & Beyond
(BBY)



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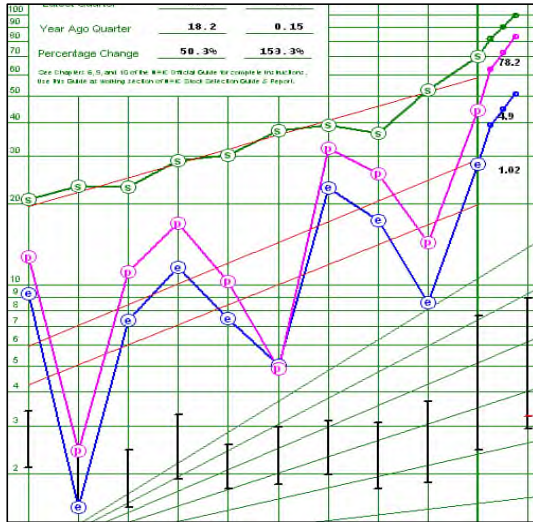
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Real World Examples



“The Motorcycle”

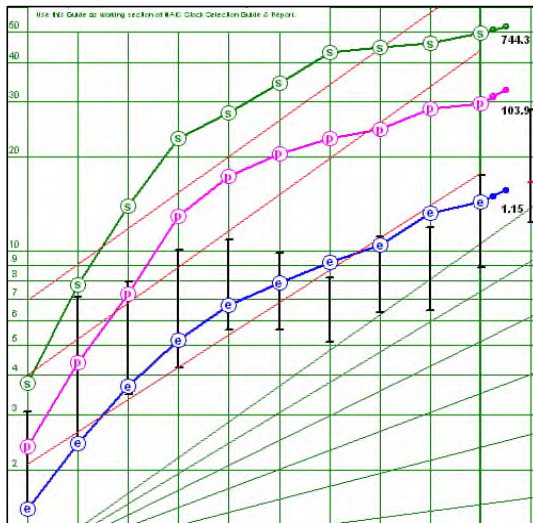
Peerless Mfg. Co.
(PMFG)



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Real World Examples



“Bow and Arrow”
or
“Arrowless Bow”

Applebee's Restaurant
(ABBP)



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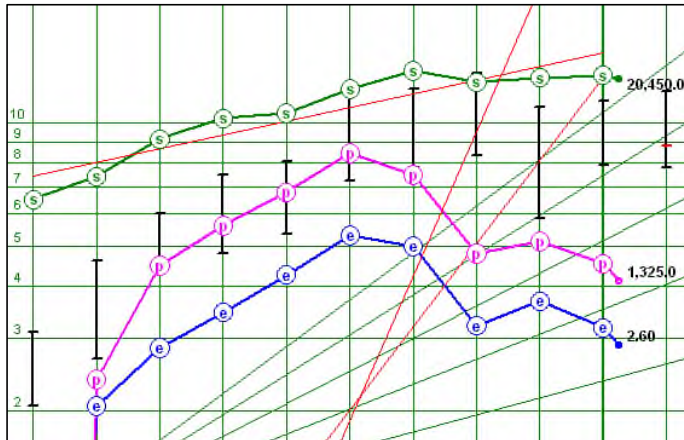
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Real World Examples



“Flatliner”
or
“Disaster”

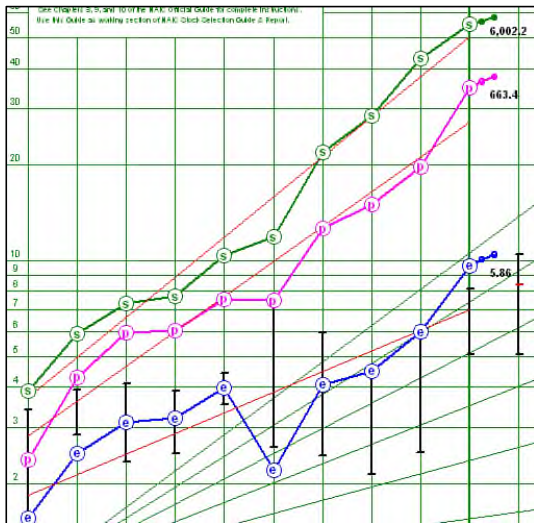
Caterpillar
(CAT)



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Real World Examples



“Innocent Bystander”

Lennar Corp.
(LEN)



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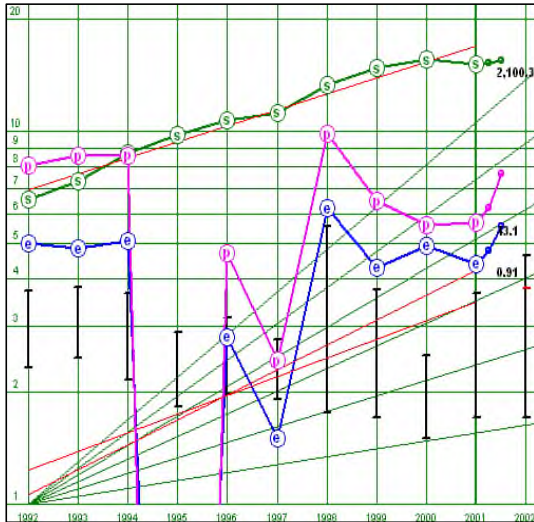
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Real World Examples



“Coulda Been a Contender”

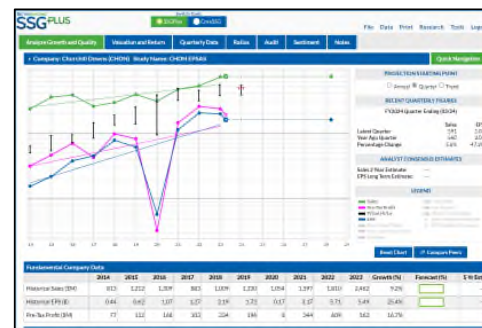
JB Hunt Transport Svcs. (JBHT)



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Visual Analysis and Section 3 (Price-Earnings or P/E History)



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What is P/E?

- P/E is a ratio
 - Price to **Earnings Per Share**
- It is calculated
 - Price divided by **EPS**, or
 - Price over **Earnings Per Share**

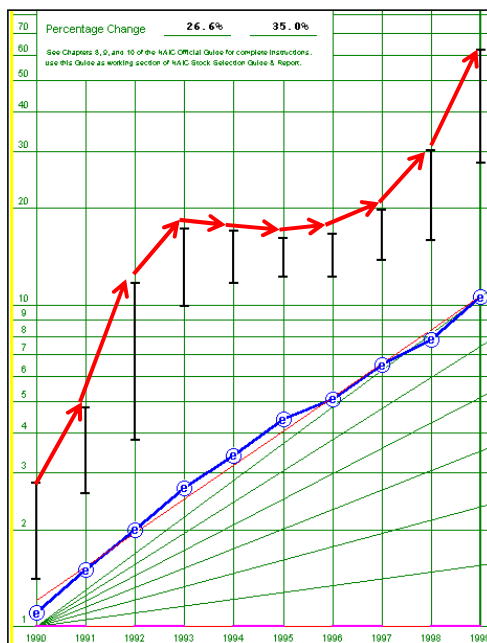
$$\frac{P}{E}$$



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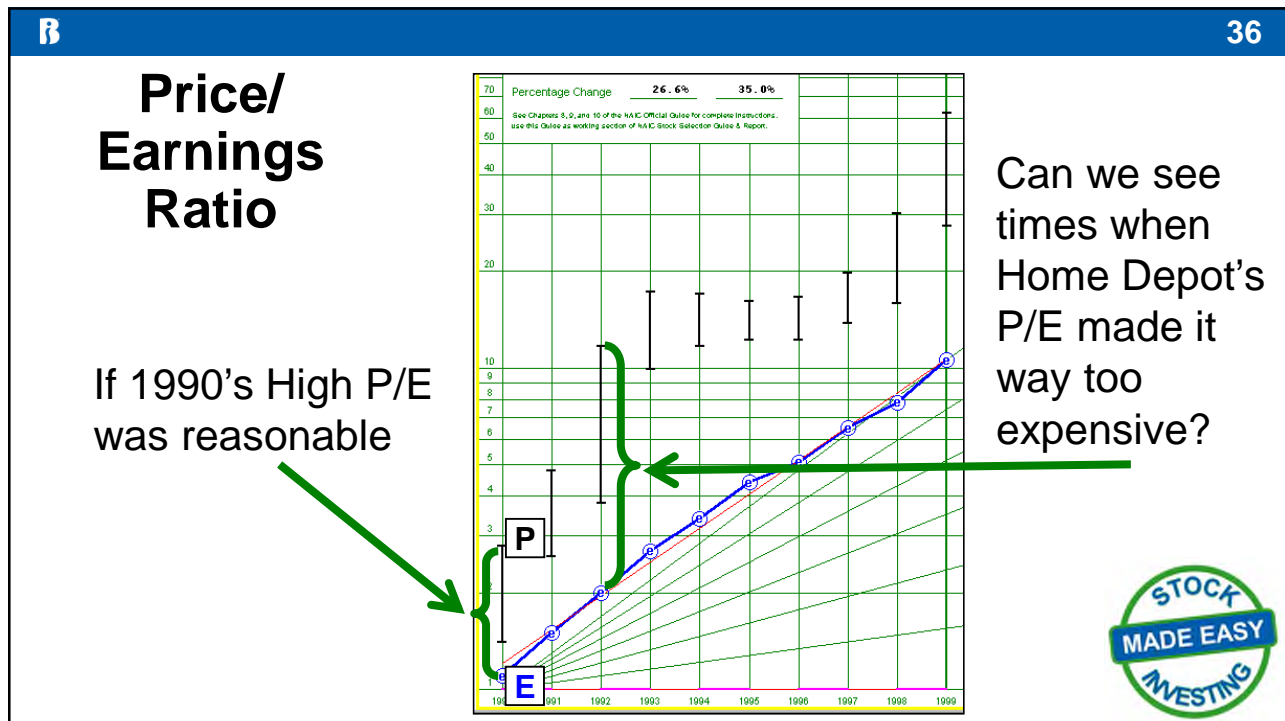
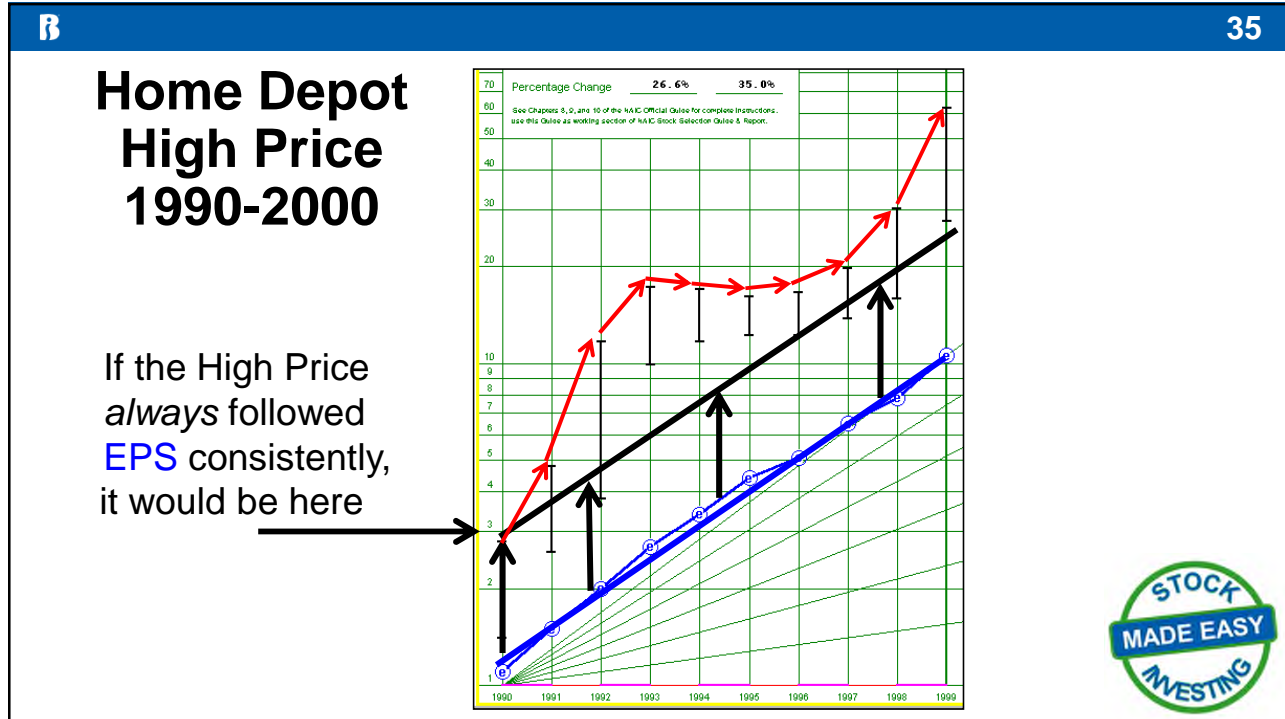
Home Depot High Price 1990-2000



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▶ 3. Home Depot Pricing Earnings History

Year	A PRICE B		C Earnings Per Share	D Price Earnings Ratio E	
	HIGH	LOW		HIGH $A \div C$	LOW $B \div C$
1 1990	2.8	1.4	0.11	25.5	12.7
2 1991	4.8	2.6	0.15	32.0	17.3
3 1992	11.7	3.8	0.20	58.5	19.0
4 1993	17.2	9.9	0.27	63.7	36.7
5 1994	17.0	11.7	0.34	50.0	34.4

Reasonable High P/E

P/E becomes too high,
stock is expensive

*Isn't this what we
just saw in our
Visual Analysis?*

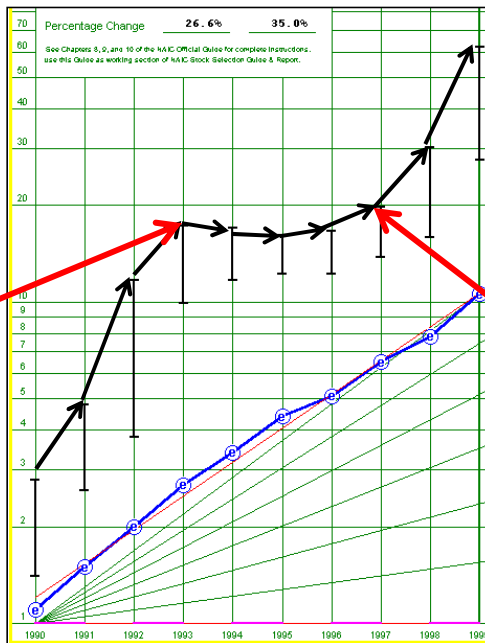


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BI vs. The World of Investors

World: **Buy**
BI: **Sell**



World: **Sell**
BI: **Buy**



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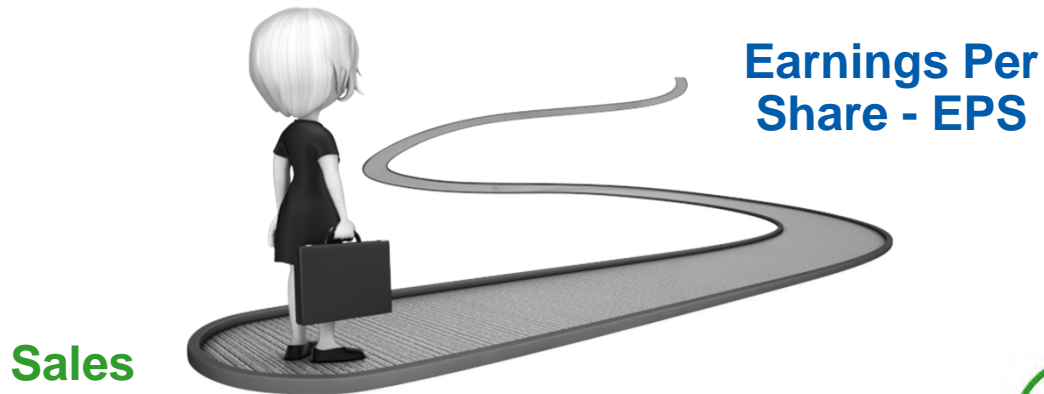
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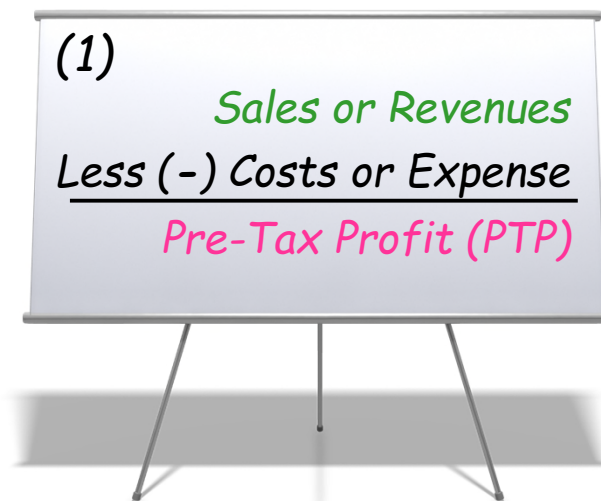
The Journey from Sales to EPS



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Getting from Sales to EPS



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Getting from Sales to EPS

(2)

Pre-Tax Profit (PTP)
Less (-) Taxes Paid

Earnings or Net Income



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Getting from Sales to EPS

(3)

Earnings or Net Income
÷ Shares Outstanding =
Earnings Per Share (EPS)



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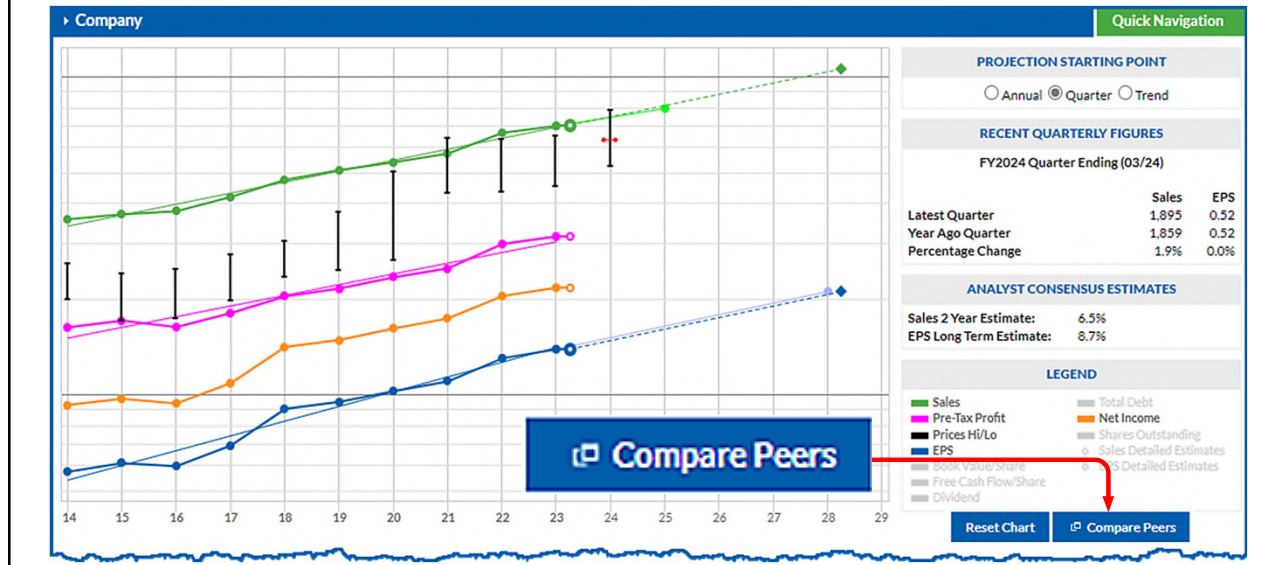
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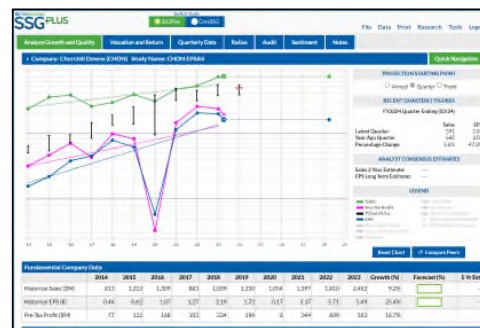
Remember Visual Analysis?



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Visual Analysis and the Relationship of Sales & EPS Growth? "The Rest of the Story"



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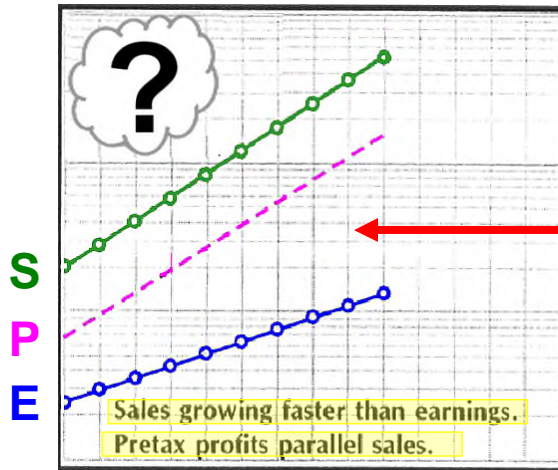
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Relationship Between Sales and EPS Growth



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Space widening between **PTP** and **EPS** indicate

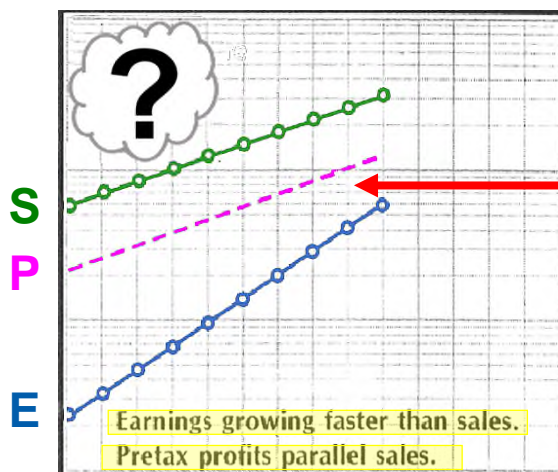
- **EPS** growth rate declining
- Due to increasing
 - Taxes and / or
 - Shares Outstanding
- Investigate



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Relationship Between Sales and EPS Growth



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Space narrowing between **PTP** and **EPS** indicate

- **EPS** is growing faster
- Due to decreasing
 - Taxes and / or
 - Shares Outstanding
- Look for a share repurchase program



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Relationship Between Sales and EPS Growth



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Space widening between Sales and PTP indicate

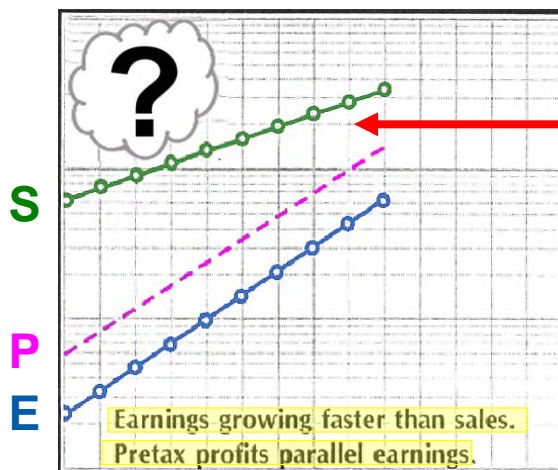
- Growing costs or expenses
 - In other words, potentially declining profit margins
- Investigate



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Relationship Between Sales and EPS Growth



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Space narrowing between Sales and PTP indicate

- Declining costs or expenses
 - Higher profit margins,
- That's a good omen 😊



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**So how does all this
Visual Analysis
help make better
SSG judgments?**



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Judgment

- SSG provides historical information
- Historical information helps us identify a company's "normal:"
 - Growth
 - Management
 - Valuation

*History helps us find out what is
normal for the company*



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Historic Expectations

We look for companies with a history of steadily growing **Sales** and **Earnings**



*The company measured against its **history***



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Industry Comparisons

We look for companies growing **Sales** and **Earnings** faster than their industry



*The company measured against its **industry***



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Economy Valuations

We look for companies growing **Sales** and **Earnings** faster than the economy



*The company measured against the **economy***



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Potential Returns

We want companies that have the potential to be bigger and stronger five years from now



*The company measured by its **future potential***



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Four Critical Judgments

Our Four Critical Judgments

1. Projection of **Sales** Growth
2. Projection of **EPS** Growth
3. Estimated High Price
4. Estimated Low Price

*These have one thing in common,
all deal with the future!*



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Summary

- SSG objectives and overview
- Visual pattern recognition
- Connected the "Picture" to company data
 - To answer two questions about quality and value
- Touched on thoughts about judgments

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Any ?



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Save the Date

Wednesday, October 30, 2024



- 'Coach, Is Offense or Defense More Important?'
- **A Protect Your Portfolio Webinar**
 - Presented by
 - Robin Ware
 - Mike Torbenson
 - John Blais



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Email Subject Line: *Every Picture Tells A Story?*

Presenter: *Dori Raser*

Email Addr.: vicepresident@goldenwest.betterinvesting.net

Presenter: *Lynn Treffry*

Email Addr.: acmmodelclub@inlandempire.betterinvesting.net



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