

'Every Picture Tell A Story'

July 29, 2024

B

 **BETTER INVESTING™**
Empowering Investors Since 1951

 **Stock Investing Made Easy Series**
'Every Picture Tells A Story'

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July 29, 2024

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W E L C O M E

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'**





A Stock Investing Made Easy Presentation

'Every Picture Tell A Story'

July 29, 2024

Stock Selection Guide (SSG) Goals

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





Stock Selection Guide Two Questions

Quality Value

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

Only TWO questions!




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



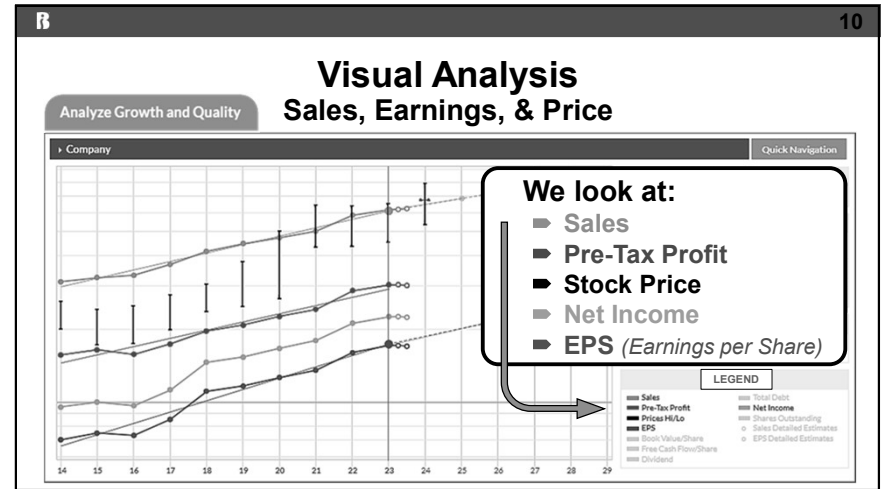
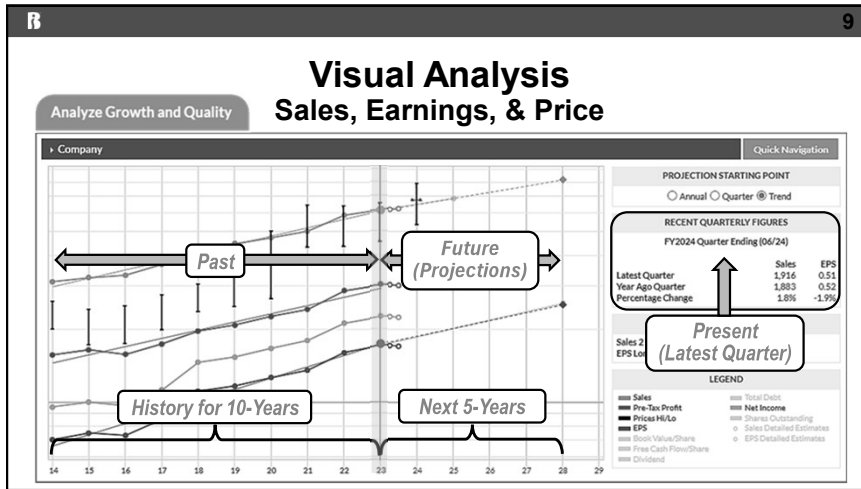

Fundamental Company Data

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Growth (%)	Forecast (%)	5 Yr Est
Historical Sales (\$M)	812	1,212	1,309	883	1,009	1,330	1,054	1,597	1,810	2,462	9.2%		
Historical EPS (\$)	0.46	0.62	1.07	1.27	2.19	1.72	0.17	3.17	5.71	5.49	25.4%		
Pre-Tax Profit (\$M)	77	112	168	103	234	196	8	344	609	562	16.7%		

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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

- 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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13

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

14

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

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																																											
				F / C * 100	F / B * 100																																																		
2019	81.3	58.1	4.53	18.0	12.8	0.83	2020	70.9	37.0	4.09	17.3	9.1	0.94	2021	91.5	62.8	6.50	14.1	9.7	1.03	2022	98.1	66.8	3.54	27.7	18.9	1.14	2023	108.2	87.7	5.84	18.5	15.0	1.25	5 YEAR AVERAGE	62.5			19.1	13.1		CURRENT/TTM			5.66	19.4	16.3	1.40	5 YEAR AVERAGE PRICE EARNINGS RATIO: 16.1			CURRENT PRICE EARNINGS RATIO: 16.8			
2020	70.9	37.0	4.09	17.3	9.1	0.94	2021	91.5	62.8	6.50	14.1	9.7	1.03	2022	98.1	66.8	3.54	27.7	18.9	1.14	2023	108.2	87.7	5.84	18.5	15.0	1.25	5 YEAR AVERAGE	62.5			19.1	13.1		CURRENT/TTM			5.66	19.4	16.3	1.40	5 YEAR AVERAGE PRICE EARNINGS RATIO: 16.1			CURRENT PRICE EARNINGS RATIO: 16.8										
2021	91.5	62.8	6.50	14.1	9.7	1.03	2022	98.1	66.8	3.54	27.7	18.9	1.14	2023	108.2	87.7	5.84	18.5	15.0	1.25	5 YEAR AVERAGE	62.5			19.1	13.1		CURRENT/TTM			5.66	19.4	16.3	1.40	5 YEAR AVERAGE PRICE EARNINGS RATIO: 16.1			CURRENT PRICE EARNINGS RATIO: 16.8																	
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Finding a Reasonable Price



15

4. Evaluating Risk and Reward over the next 5 Years

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

Then calculates potential high and low sell prices for the stock

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.

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 = (22994 X 100) = (229.94 - 100) = 129.9% Appreciation

Current Price = 72.75

16

5. Five-Year Potential

Valuation and Return

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%

Allows for dividend analysis and comparison between companies

Compound annual returns using

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

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

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R 17



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

Liquidity

Debt

~~Dilution~~

Level of Interest



R 18

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*?



R 19

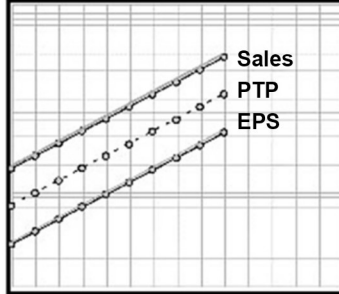
Visual Analysis for Sales and EPS growth



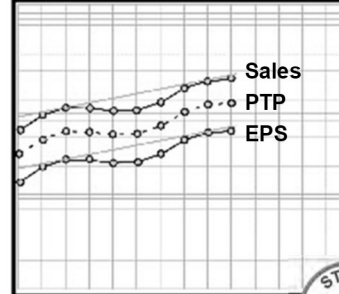


R 20

Recognizing Patterns




“Monotonous Excellence”



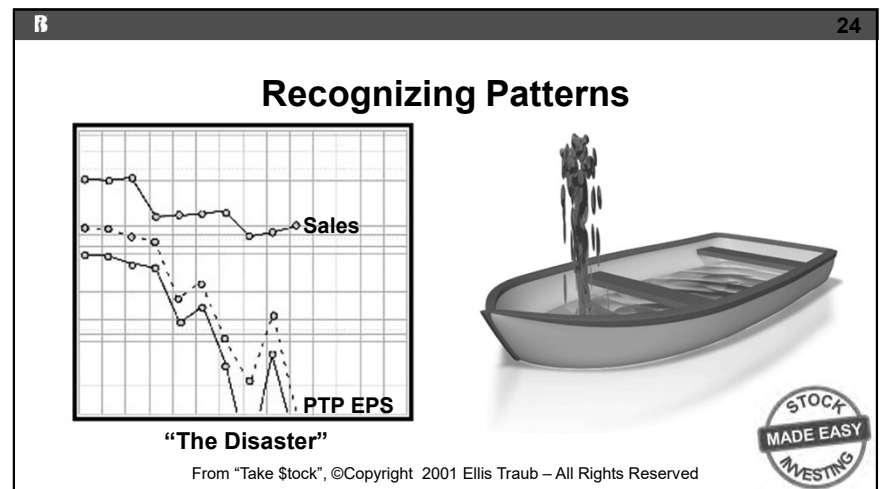
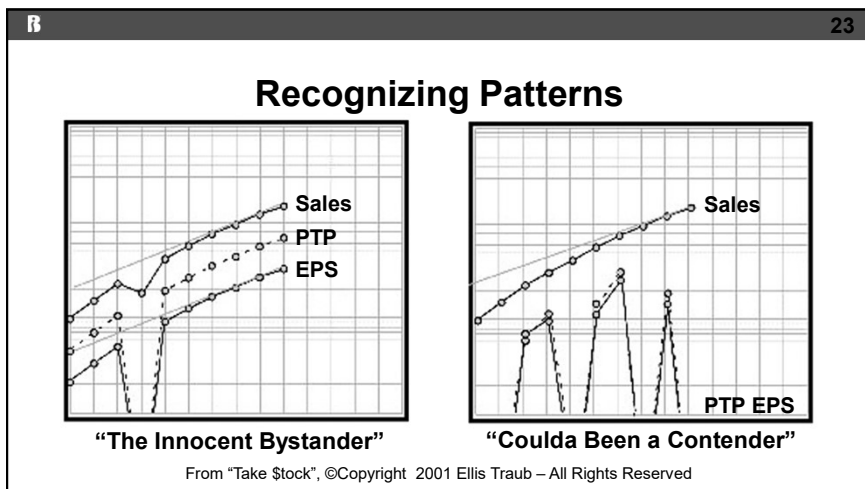
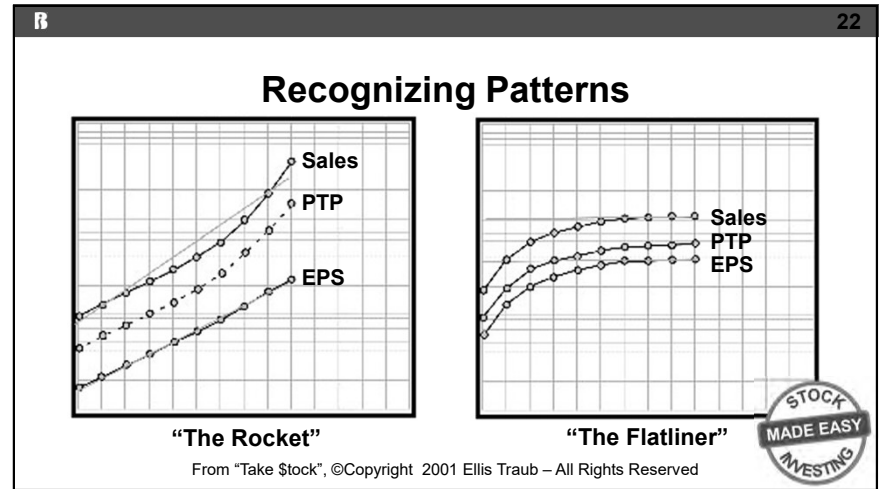
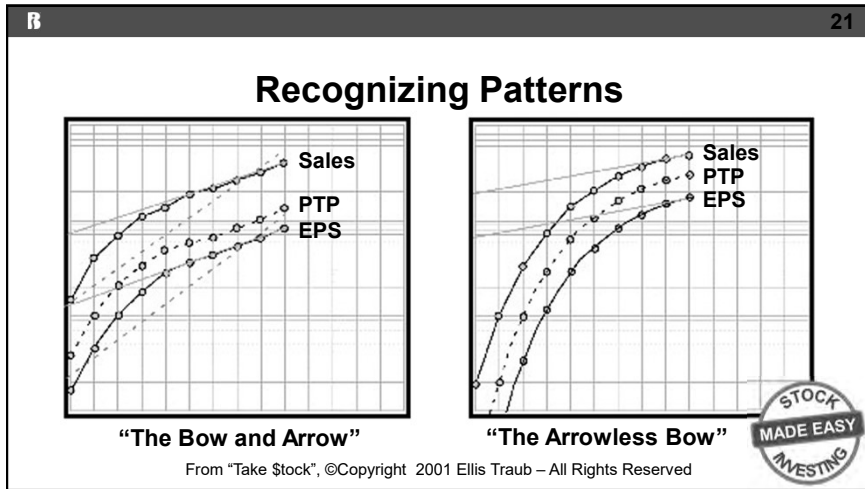
“The Motorcycle”

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July 29, 2024




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R **25**



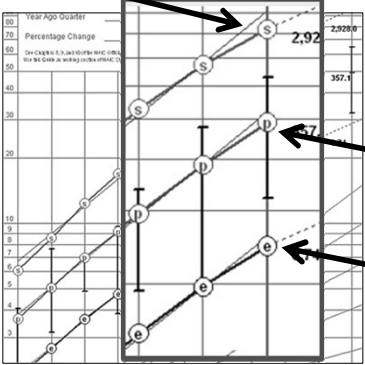
Real World Examples

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




R **26**

Real World Examples



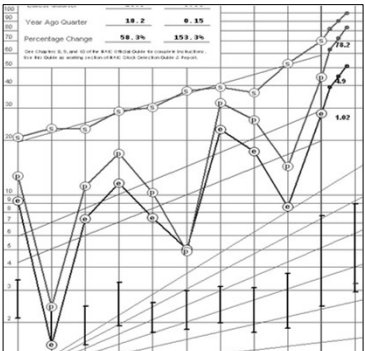
“Monotonous Excellence”

Bed, Bath & Beyond (BBY)




R **27**

Real World Examples



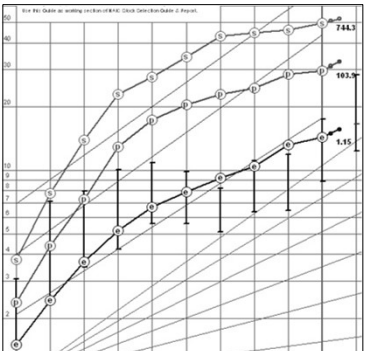
“The Motorcycle”

Peerless Mfg. Co. (PMFG)




R **28**

Real World Examples



**“Bow and Arrow”
or
“Arrowless Bow”**

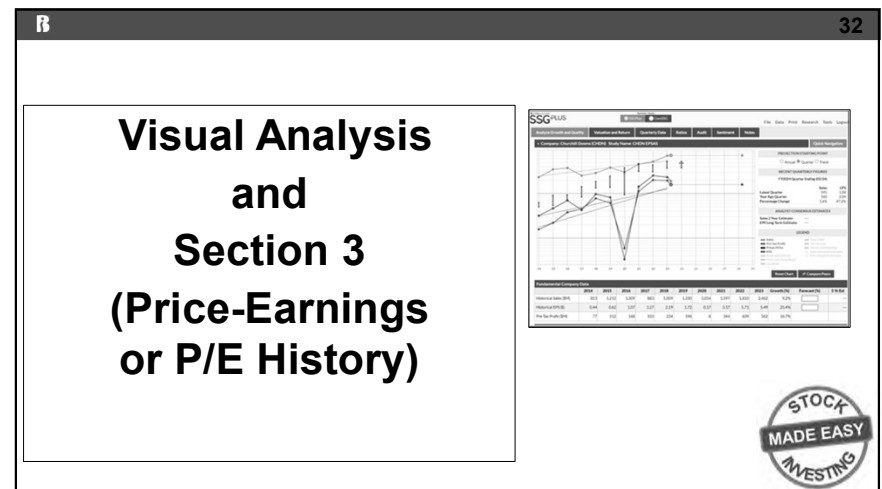
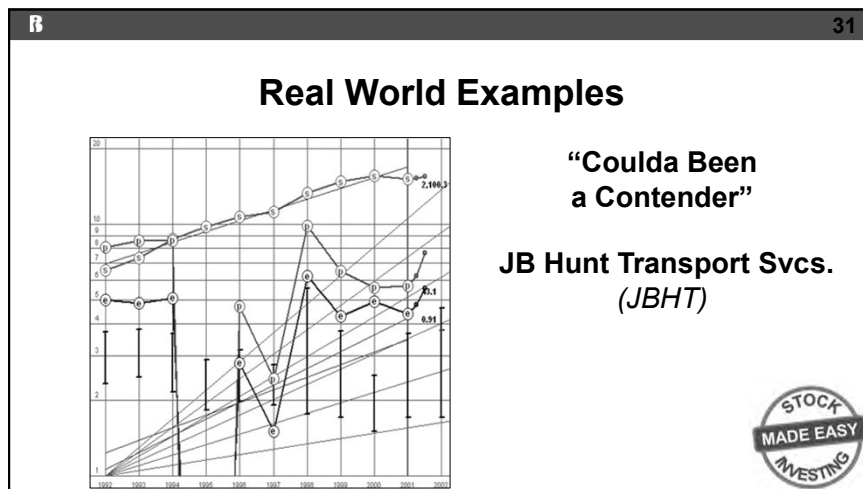
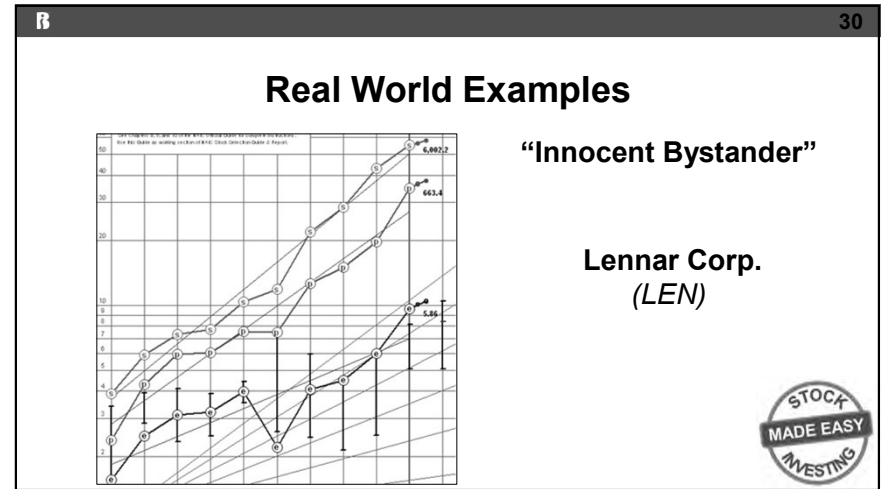
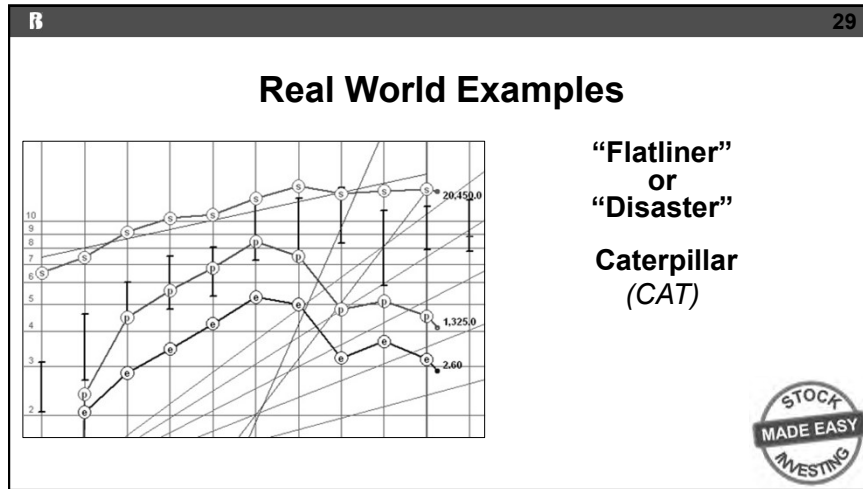
Applebee's Restaurant (ABBP)



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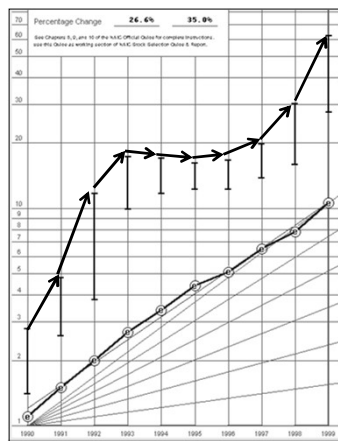
What is P/E?


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

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

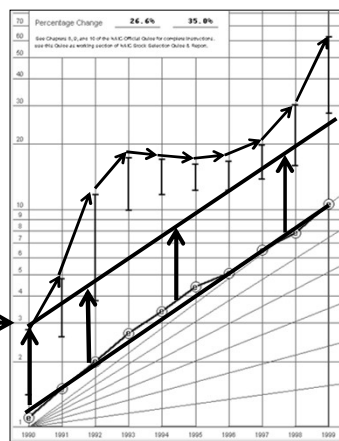


Home Depot High Price 1990-2000






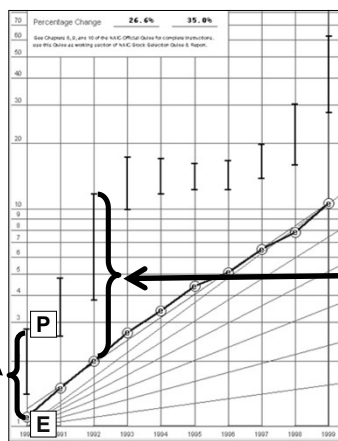
Home Depot High Price 1990-2000



If the High Price *a/ways* followed EPS consistently, it would be here




Price/Earnings Ratio



Can we see times when Home Depot's P/E made it way too expensive?

If 1990's High P/E was reasonable



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3. Home Depot Pricing Earnings History

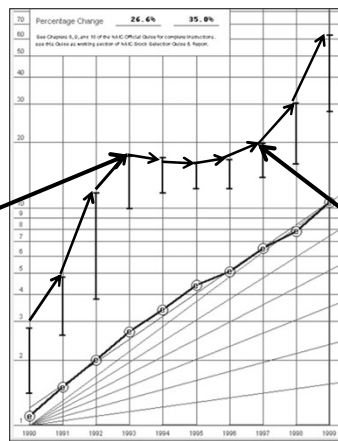
Year	PRICE		Earnings Per Share	Price Earnings Ratio	
	HIGH	LOW		HIGH A ÷ C	LOW B ÷ C
1 1990	2.8	1.4	0.11	25.5	12.7
2 1991	4.8	2.6	0.15	32.0	17.3
3 1992	11.7	3.8	0.24	58.5	19.0
4 1993	17.2	9.9	0.27	63.7	36.7
5 1994	17.0	11.7	0.34	50.0	34.4

Reasonable High P/E
P/E becomes too high, stock is expensive

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




BI vs. The World of Investors

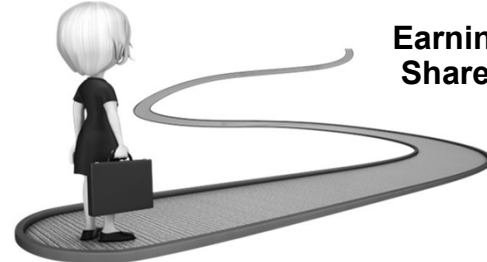


World: Buy
BI: Sell

World: Sell
BI: Buy




The Journey from Sales to EPS




Sales

Earnings Per Share - EPS



Getting from Sales to EPS

(1)

$$\frac{\text{Sales or Revenues} - \text{Costs or Expense}}{\text{Pre-Tax Profit (PTP)}}$$



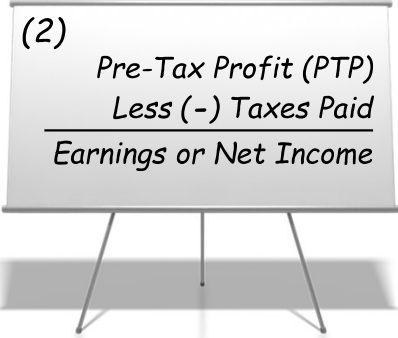
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41

Getting from Sales to EPS


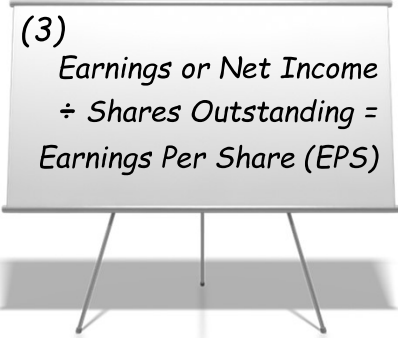
(2)

$$\frac{\text{Pre-Tax Profit (PTP)} - \text{Taxes Paid}}{\text{Earnings or Net Income}}$$


42

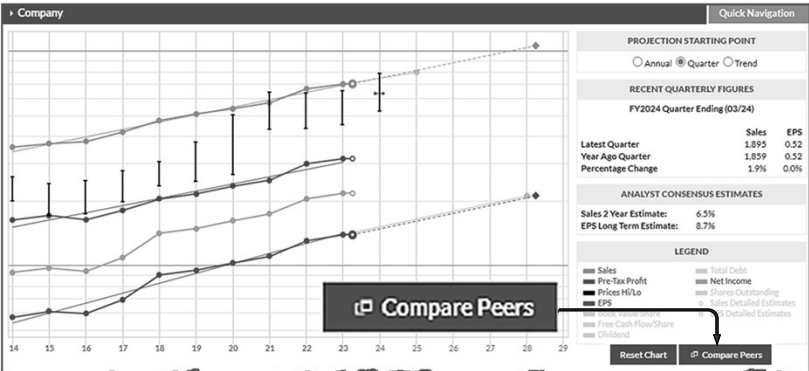
Getting from Sales to EPS

(3)

$$\frac{\text{Earnings or Net Income}}{\text{Shares Outstanding}} = \text{Earnings Per Share (EPS)}$$


43

Remember Visual Analysis?



Company Quick Navigation

PROJECTION STARTING POINT
 Annual Quarter Trend

RECENT QUARTERLY FIGURES
FY2024 Quarter Ending (03/24)

	Sales	EPS
Latest Quarter	1.895	0.52
Year Ago Quarter	1.859	0.52
Percentage Change	1.9%	0.0%

ANALYST CONSENSUS ESTIMATES
Sales 2 Year Estimate: 6.5%
EPS Long Term Estimate: 8.7%

LEGEND


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

Compare Peers

44

Visual Analysis and the Relationship of Sales & EPS Growth?

"The Rest of the Story"



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45

Relationship Between Sales and EPS Growth

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

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

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46

Relationship Between Sales and EPS Growth

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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47

Relationship Between Sales and EPS Growth

Space widening between **Sales** and **PTP** indicate

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

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48

Relationship Between Sales and EPS Growth

Space narrowing between **Sales** and **PTP** indicate

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

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R 49

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




R 50

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




R 51

Historic Expectations

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








The company measured against its history




R 52

Industry Comparisons

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



The company measured against its industry




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R 53

Economy Valuations

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




The company measured against the economy




R 54

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



R 55




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!




R 56



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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THANK YOU **Any** ?



57

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If you have benefited from
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Please share some BetterInvesting materials and introduce others to this dynamic investment education opportunity!

Pay it forward!






58

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





59

Email Questions or Comments to a Presenter... ?

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



60

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