

# Improving Your Returns Using Portfolio Management

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**Presented By:**

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# Agenda

- What is Portfolio Management?
- Focus on several concepts
  - Asset Allocation
  - Diversification
- Are you buying growth companies – Do your SSG!
- Is your position size too large or small?
- Investing in smaller companies
- Selling or trimming stocks
- Creating a portfolio management process
- Summary

# What is Portfolio Management (PM)?

An illustration on a light blue background depicting financial management. A person stands on the left, looking at a document. In the center, there are several stacks of coins and a large, stylized blue arrow pointing upwards and to the right, symbolizing growth. To the left of the arrow is a calculator. In the background, there is a grid pattern representing a window or a data table.

## Portfolio Management

*[pɔrt-'fō-lē-,ō 'ma-nij-mənt]*

The art and science of selecting and overseeing a group of investments that meet the long-term financial objectives and risk tolerance of a client, a company, or an institution.

# Why is Portfolio Management Important?

- If you aren't meeting your goals and risk tolerance - will you stick to that strategy?
- Determining risk tolerances and goals are key.
- Research shows following a process is key to financial success.



# Three Elements of Portfolio Management

- Asset Allocation
- Diversification
- Rebalancing – Focus on selling and trimming

*Review basic portfolio tune-up ideas or questions to ask.*



# Asset Allocation

- The goal is to spread out your assets by owning different asset classes that behave differently from each other.
- Individuals must determine their asset allocation level.
- Clubs are focused on stocks for growth.





# Double Your Investment – Rule of 72

<b>Rule of 72</b>	
<b>Rate of Return</b>	<b>Years to Double Your Money</b>
6%	12 Years
7%	10.3 Years
 8%	9 Years
9%	8 Years
10%	7.2 Years
11%	6.6 Years
12%	6 Years
 15%	4.8 Years

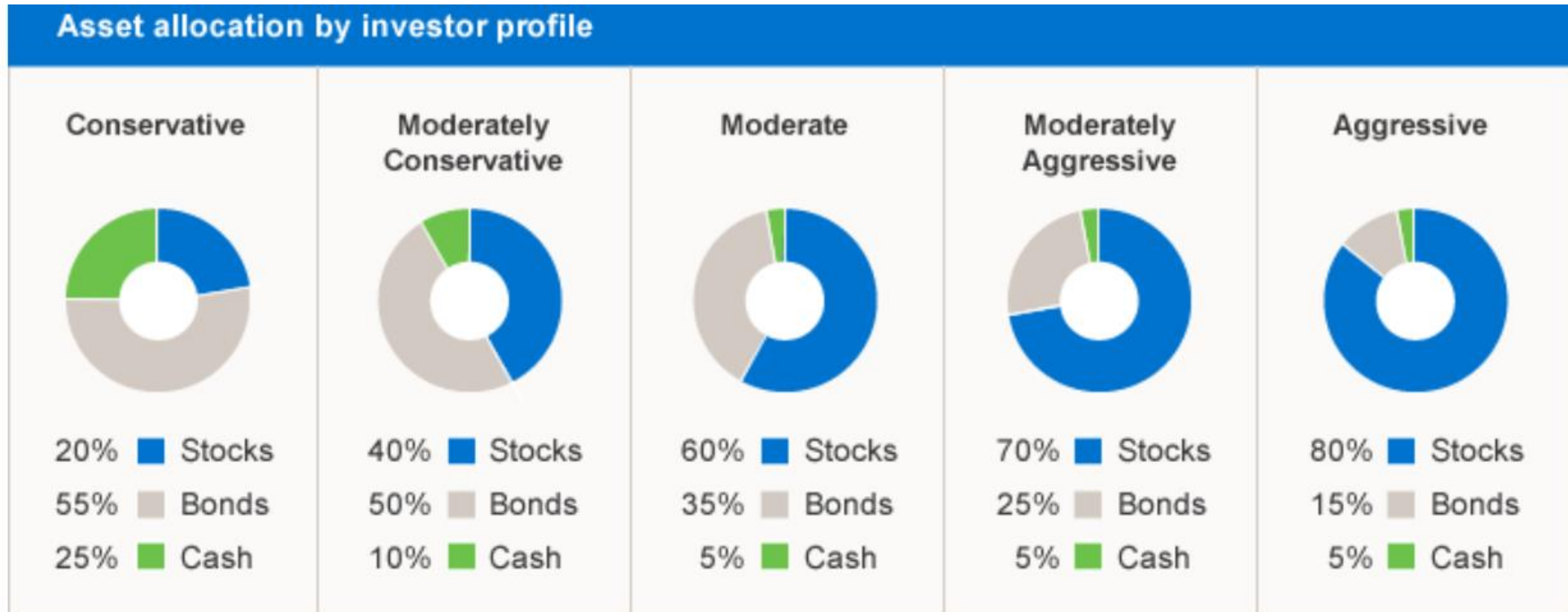
**Formula:** 72 Divided by Rate of Return =  
Years to Double Your Money

**Example:**  $72 \div 15 = 4.8$  Years

**Equity  
allocation  
typically  
increases as  
investors try to  
generate higher  
returns.**



# Example of Risk Levels



Source: Portfolio Japan

**More risk = more stocks = higher long term potential returns**

# We Use Sales As Our Tool For Diversification

Diversification = Spreading out your assets vs investing in one or just a few companies or assets.

Sales	Size	Acceptable Growth Rate	Amount of Risk
< \$1 billion	Small	At Least 12%	More
\$1 billion to \$10 billion	Medium	7% - 12%	Average
>\$10 billion	Large	5% - 7%	Less

Company size and its ability to grow is a factor in a firm's ability to grow.

**Note: Company size is based on annual Sales or Revenues**

# Other Ways To Diversify

- **Diversify by market capitalization.**
  - Stock price times the shares outstanding.
  - Consider smaller companies.
- **Geographic diversity** – Not done often at clubs.
  - Individuals tend to own international funds.
- **Diversify by industry or sector.**
  - Calculate your sector weight and compare with S&P 500 Index.

# Compare Sector Weights To The S&P 500

- Clubs tend to have larger stocks in their portfolio. The S&P 500 index is a good comparison index.
- Compare your sector weights with the S&P 500 Index has 11 sectors.
- Did you know the technology sector was over 28% of the S&P? It is also the Index's largest weight.

# Compare Your Portfolio To The Market

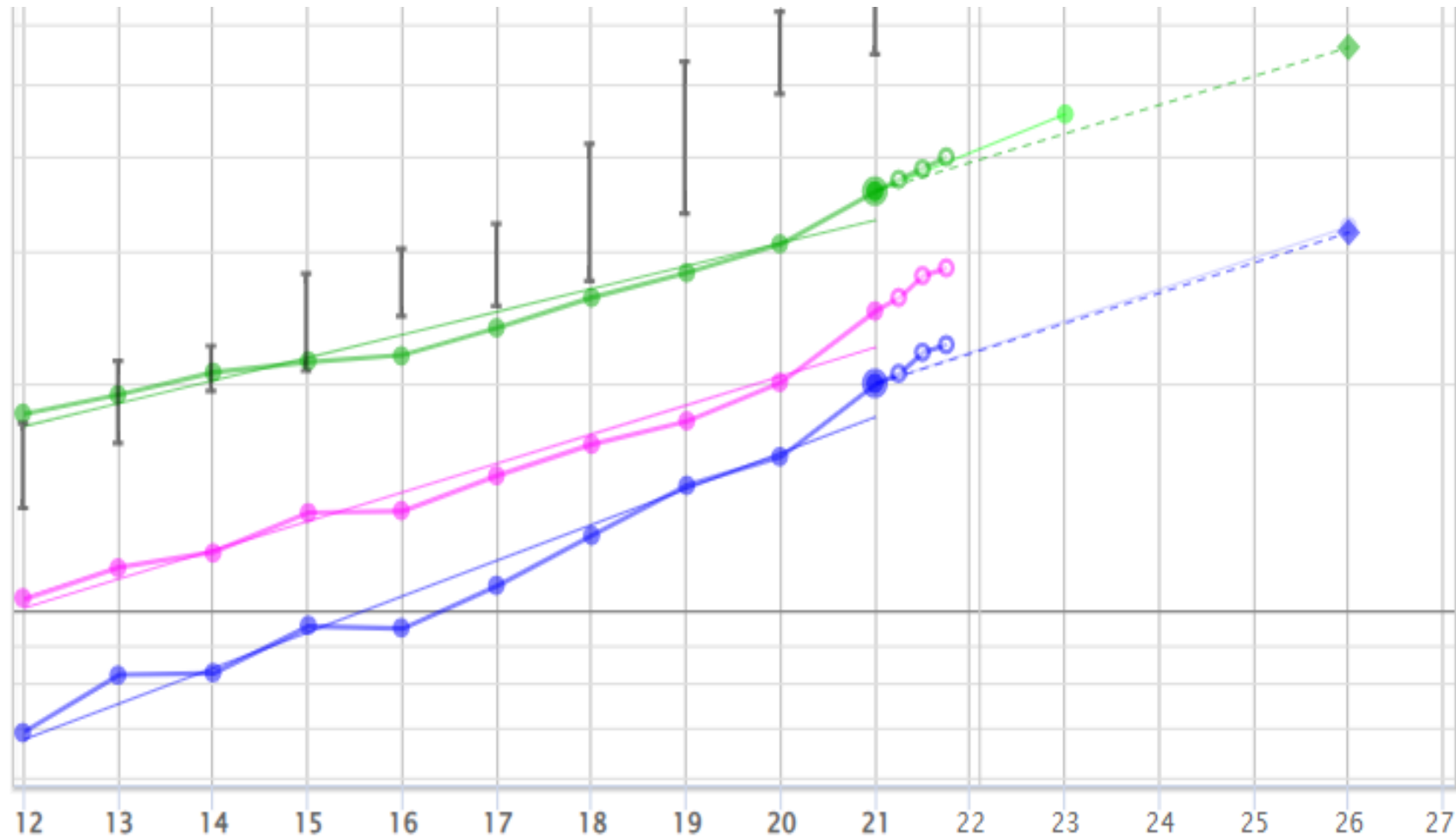
- Break your holdings into sectors by hand or let SSGPlus do this for you.

The screenshot displays the SSG Plus web application interface. At the top, there is a navigation bar with a home icon, a folder icon, a magnifying glass icon, and a 'Logout' button. Below this, the 'Portfolios and Studies' section is visible, featuring a search bar, 'New Study', and 'Import TK6 File(s)' buttons. A yellow arrow points to the 'New Portfolio' button. Below this, there are 'Portfolios' and 'Refresh Portfolios' buttons, along with a 'Show 10 entries' dropdown and a search bar for all columns.

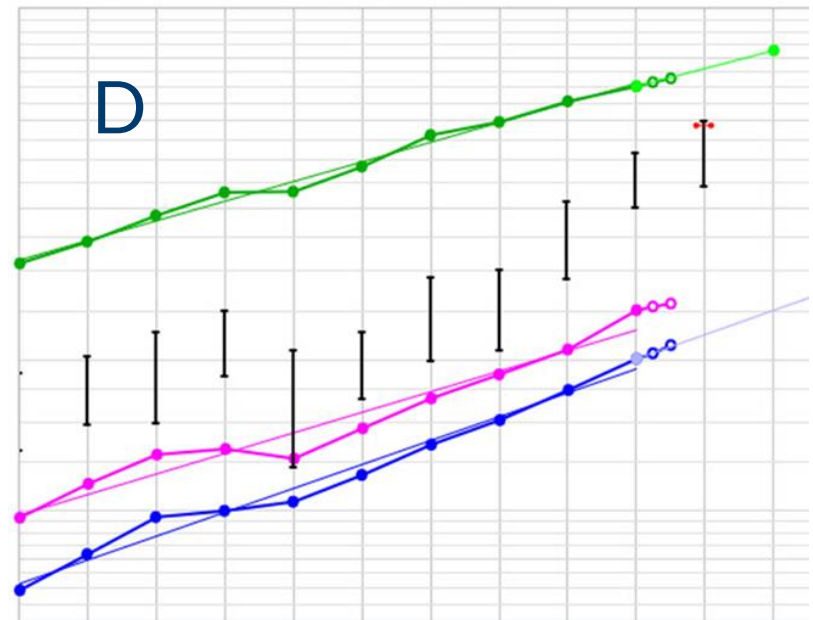
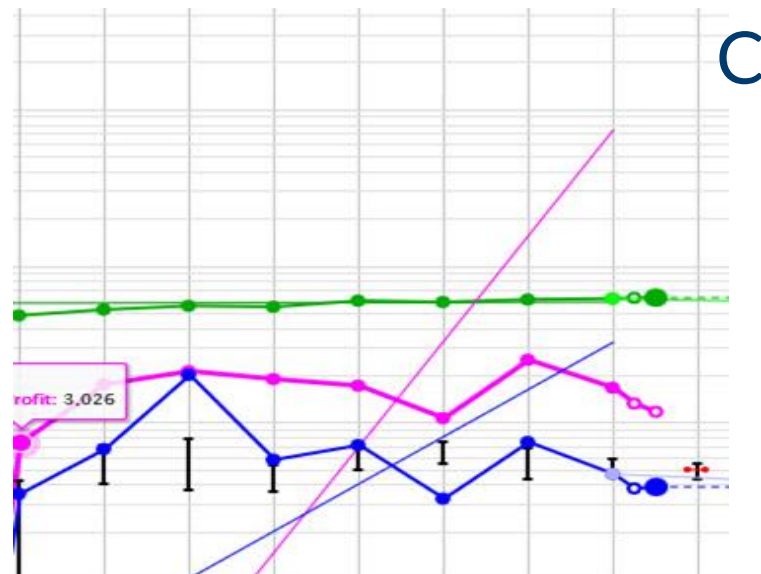
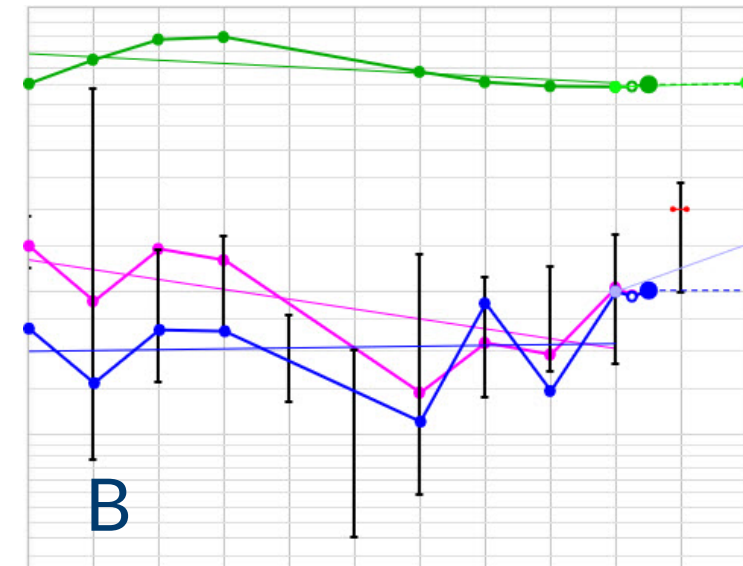
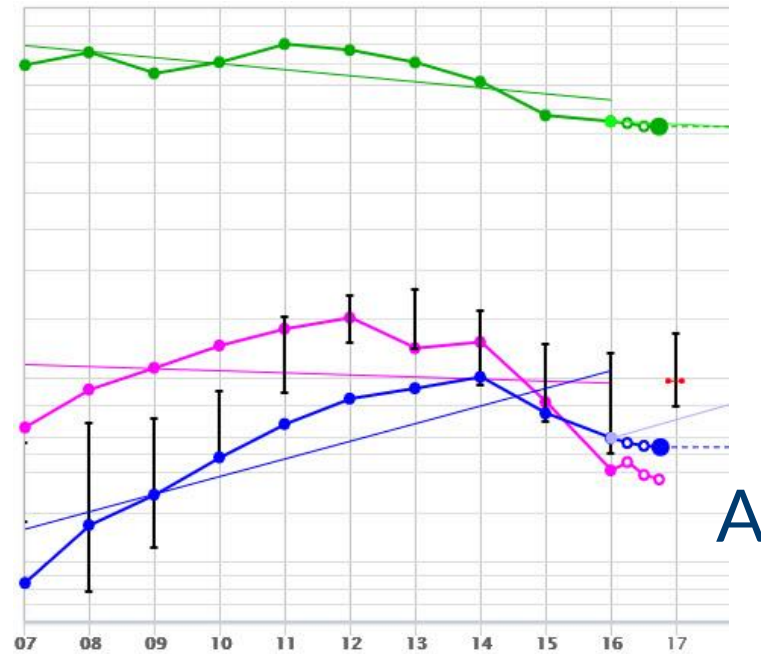
The 'Report Details' section shows a 'Sector & Industry Diversification Report' for 'SF'. A blue arrow points to the report title. The report table includes columns for Sector, Industry, Security, Market Value (Security), % of Portfolio (Security), % of Portfolio (Industry), and % of Portfolio (Sector). The 'Communication Services' sector is highlighted in orange, and the 'Energy' sector is highlighted in blue. The 'Financial Services' sector is highlighted in green. A green circle highlights the '19.2%' value in the '% of Portfolio (Sector)' column for the 'Communication Services' sector.

Sector	Industry	Security	Market Value (Security)	% of Portfolio (Security)	% of Portfolio (Industry)	% of Portfolio (Sector)
<b>Communication Services</b>						
	<i>Internet Content &amp; Information</i>				19.2%	19.2%
		Meta Platforms	\$8,708.99	19.2%		
<b>Energy</b>						
	<i>Oil &amp; Gas Equipment &amp; Services</i>				6.2%	6.2%
		SLB	\$2,826.06	6.2%		
<b>Financial Services</b>						
						21.8%

# Visual Analysis – Is this a Growth Company?



**Which  
company  
would  
you like  
to  
study?**





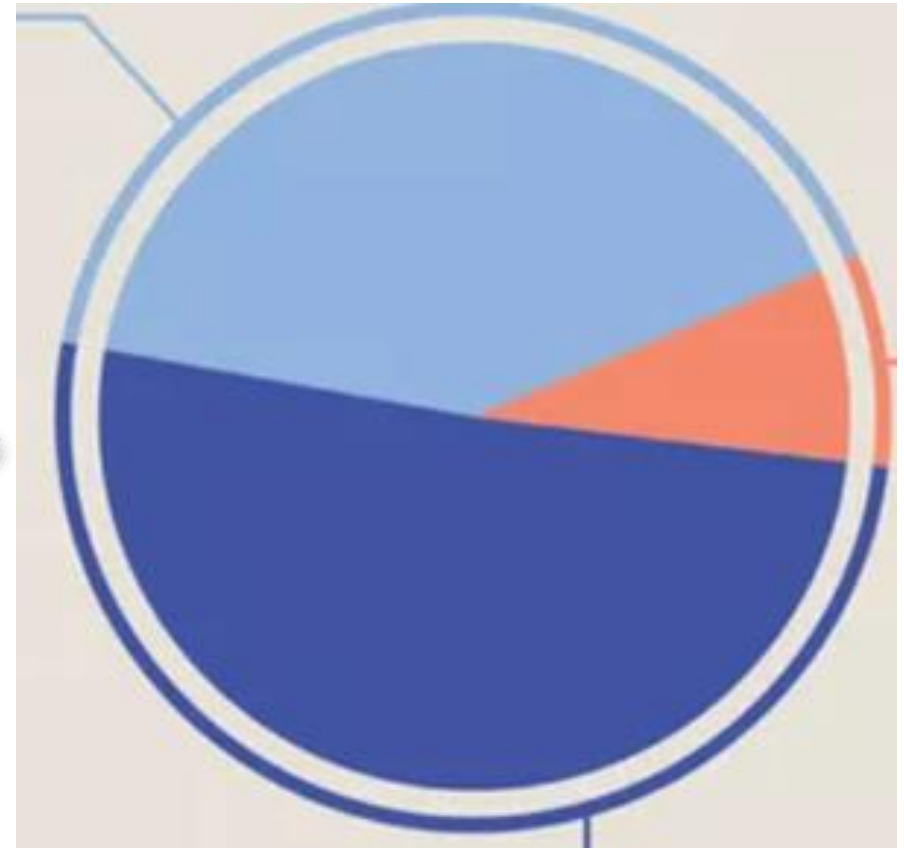
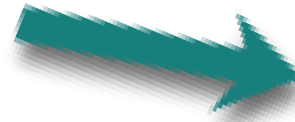
# Sectors Where I've Found Growth in The Past

- **Lots of Growth**
  - Information Technology
    - Health Care
  - Consumer Discretionary
    - Industrials
- **Some Growth**
  - Consumer Staples
    - Energy
    - Financials
  - Communications
    - Materials
- **Few Growth Names**
  - Utilities
  - Real Estate

BetterInvesting focuses on growth companies historically.

# Next Portfolio Management Topic

- Position Sizes
  - Too big
  - Too small
  - Average size
  - 2x average size
  - Selling or trimming
  - The small question



# How Many Stocks per Club Member?

- Determine how many stocks each club member is following.
- If for example, the portfolio held 14 stocks and you have 12 members, you cover 1.2 stocks/person.
- Formula: (14 stocks / 12 members)

*Most clubs average between 1-2 stocks per person.*

# Average Position Size

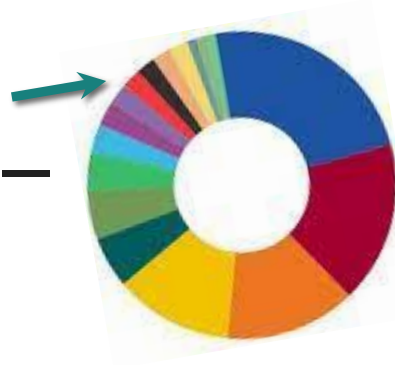
- The number of stocks in the club determines the average holding size. (100%/holdings)
- Example a portfolio has 12 stocks = 8.3%.
- Formula =  $100\% / 12$  holdings
- **This can be a very useful statistic to use in portfolio management.** Both for tiny and large positions.

# How Big is Too Big?

- If the average position weight is 8.3%. What is too big?
- For me, a position is too big when a holding is 2X greater than an average weight. In this case, 16.6%.
- Why 2X? Based on some analysis, it seemed like an appropriate level to reduce risk.
- Do you hold – sell - trim? This is your decision. However you should be aware of your risk.
- I actively trim wide economic moat stocks versus outright selling. Typically when they have big position sizes.

# Tiny Holdings – Action Time?

- Tiny position sizes won't help your portfolio performance too much due to their small size.
- What is too small? **Half the average weight or smaller.**
- The decision tree with tiny holdings is: Hold – Add – Sell.
- Get the position to a size that will help performance – Consider the average weight in the portfolio.



# Selling or Trimming?

*Our hope is to find these kinds of stocks.*

- There are several risks with this kind of a stock:
- Every time you trim, it hurts financially versus waiting.
- Selling everything at any point, causes you to miss a lot of future gains.
- The biggest risk, in my opinion, is not owning this kind of a great long term stock.





# Core Decision Tree - If You Should Sell or Trim

- The long term outlook for the company is unfavorable
- Deteriorating corporate financial condition
- Time and original thesis didn't work

Probably Sell

- *Temporary declining profit margins*
- *Bloated current asset balance sheet – Inventories (Maybe Buy)*
- *Adverse management change*
- *Increasing competition impacting profits*
- *Dependence on a single product*

Trim or Sell

- **High valuation of a quality stock**
- **Position size has become too large – this is a risk too**

Trim



# The Smaller Question



- Is the club trying to find smaller companies?
- Historically, smaller companies can perform better than larger stocks over long time periods.
- Smaller companies historically have more price volatility.
- Mid-sized companies tend to look better on an SSG versus smaller companies.
- Finding smaller companies is harder. Consider leveraging off the pros.

# Small Stock Process



**BI recommends 75% of the portfolio in smaller and mid-sized sales companies.**

- Make a goal of always owning several smaller companies, or
- Target a certain portfolio weight to get exposure to smaller companies.
  - To Find New Ideas:
- Leverage what the pros doing, buy an ETF in the small space.
- Buy a newsletter that focuses on smaller companies like: the SmallCap Informer from IClub Central.
- See what an small cap ETF owns in their portfolios.

# Leverage off the Professional's Ideas

## Use a smaller company ETF and check out their stocks

### REGL - ProShares S&P MidCap 400 Dividend Aristocrats ETF

Top Ten Holdings as of 01/03/2024

Holding Weightings		Today's Price Performance	
Symbol	Description	% of Net Assets ▼	Sector
UBSI	United Bankshares Inc	2.69%	Financials
OZK	Bank OZK	2.57%	Financials
UMBF	UMB Financial Corp	2.54%	Financials
PB	Prosperity Bancshares Inc	2.51%	Financials
WSM	Williams-Sonoma Inc	2.38%	Consumer Discretionary
CBSH	Commerce Bancshares Inc	2.38%	Financials
CSL	Carlisle Companies Inc	2.38%	Industrials
EVR	Evercore Inc Class A	2.38%	Financials
LECO	Lincoln Electric Holdings Inc	2.38%	Industrials
CFR	Cullen/Frost Bankers Inc	2.36%	Financials

Source: Charles Schwab, 1/7/2024

### SMDV - ProShares Russell 2000 Dividend rows ETF

Top Ten Holdings as of 01/03/2024

Vi

Holding Weightings		Today's Price Performance	
Symbol	Description	% of Net Assets ▼	Sector
HY	Hyster-Yale Materials Handling Inc Class A	1.17%	Industrials
WS	Worthington Steel Inc	1.15%	Materials
ATRI	Atrion Corp	1.14%	Health Care
WOR	Worthington Enterprises Inc	1.13%	Consumer Discretionary
CNS	Cohen & Steers Inc	1.11%	Financials
GFF	Griffon Corp	1.11%	Industrials
HBNC	Horizon Bancorp (IN)	1.11%	Financials
MATX	Matson Inc	1.09%	Industrials
CCOI	Cogent Communications Holdings Inc	1.06%	Communication Services
BCPC	Balchem Corp	1.05%	Materials

**Securities are for educational purposes only**

# Final Portfolio Management Thoughts

- Rule of Five
- The individual stock
- Economic Moats



# Additional Portfolio Management Thoughts

- How many big winners or losers in the portfolio?
- I typically find 1 or 2 big winners in a portfolio and one loser.

## Rule of Five

- If there are a number of losing stocks in the portfolio – review your research and purchase process.
- How are you valuing a non-profitable company?
- Create and track a company's investment thesis?

# The Individual Stock

- BetterInvesting focuses on growth companies with:
  - Consistent sales and EPS growth,
  - Businesses that typically are industry leaders,
  - A competitive edge due to unique products – a moat,
  - Decent to good management teams.
- Sections 1 & 2 of the SSG is a good tool for this analysis.
- Remember, don't overpay today for anticipated future growth. Finally, don't be too conservative!





# Another Tool – Tracking Economic Moats

- I track them for club tune-ups.
- Moats are very powerful.
- Clubs own mostly wide + narrow moat stocks.
- Morningstar is the leader on moats.
- I tend to just trim wide moat stocks vs selling.
- Wide moat stocks historically have been stronger companies longer.
- “No moat” stocks can do well, but they might require more trading activity.



# Last Area: Creating A Continuous Process

- Create a portfolio management process that you can use going forward with your Club.



# Creating A Portfolio Management Process

- We have been asking the basics for a club's Portfolio Tune-up to answer. Here are some of them:
  - How many stocks is each club member tracking?
  - Determine the average position size in the portfolio.
  - Are they invested in growth sectors?
  - Are they diversified?
  - What is the breakdown by economic moats?
  - Are most of the stocks in the portfolio winners?



*I have created a standard portfolio management process that is used on a club visit where we perform a Portfolio Tune-up.*

# Example Output of The Process with a Real Club – This Is The Overview Page

Handout Example

- Determine how many stocks each club member is following. With 16 members, you cover 1.0 stocks/person. Average position size is roughly 6.25%.
- Depending on how many members and stocks in the club will determine how many stocks per person and the average holding size. (# stocks/members) and (100%/holdings)
- With 19 stocks, you are diversified in 7 sectors – technology, communications, health care, financials, industrial, consumer staple and discretionary. Largest sectors - consumer discretionary – 32.5%, tech 18.8%, and industrial 16%.
- 6–Wide Moat stocks, 6-Narrow, 1-None, **6-N/A (Smaller companies)**

# Example Output - Company Analysis and Questions

Handout Example

- You have a diverse portfolio of size based companies. If desired, BI likes to propose 75% of the portfolio in smaller and mid sized companies.
- You have 7 big winners (list tickers). Many long term holdings. 4 flat or negative stocks – (list tickers).
- Why own XXXX if it is worthless? Take the tax loss?
- How do you value XXX? How did you find XXX? Low profit margin companies – 4 companies (List tickers).
- You have a number of unique 6 names (List tickers) I don't usually see. Stumped me with 3 names (List tickers).

# Summary

- Compare your portfolio versus an index.
- Diversification helps investors over time.
- Manage both large and small holdings sizes.
- Focusing on your individual holdings is key.
- Think about quality of your companies.
- Asset allocation can help individual investors.

# Questions or Comments?

- Improving Your Returns Using Portfolio Management

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