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BETTERINVESTING MAGAZINE

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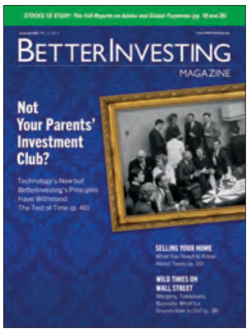

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Upcoming Events

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Engage with our community of investors:
Facebook: www.facebook.com/betterinvesting
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BetterInvesting *Online*

BetterInvesting members have the opportunity to expand their learning through online classes. Below is a selection of videos from the Video Learning Library on the BetterInvesting website that provide excellent learning opportunities. Be sure to visit the Video Learning Library to access over 100 webinar recordings on a variety of topics at **www.betterinvesting.org/vll**. To see a list of upcoming live webinars, like TickerTalk and StockUp, please visit our Events page at **www.betterinvesting.org/webinars**.

TickerTalk

From the April 28 Webinar
OnDemand Recording

Investing education in bite-size pieces is offered in every TickerTalk session to help you become a more confident, better investor. Topics: In this session, we demonstrate how to complete a Stock Selection Guide using the Stock Research Form and following the process demonstrated during the recently updated Adding Judgment Series. Alphabet (GOOG) is the company we will use as our example. In addition, we offer a few stock ideas that merit a closer look in **Five in Five.** Panelists: Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; Ann Cuneaz, senior manager of education, BetterInvesting.

Adding Judgment to the Stock Selection Guide Series: The Path to Investing Success — Let's Practice

From the April 13 Webinar
OnDemand Recording

This session provides a review and demonstrates the entire process of adding judgment to the SSG based on and supported by standard investment research. A sample SSG is completed in class following the procedures demonstrated throughout the series. Research data and an SSG Research Form are provided for the sample company. View this informal and interactive session to reinforce and practice what you learned in the previous sessions of the Adding Judgment to the SSG Series. This is class five of five in the Adding Judgment to the SSG series. Instructors: Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; and Ann Cuneaz, senior manager of education, BetterInvesting.

Adding Judgment to the Stock Selection Guide Series: The Finishing Touches — Low Price And % Payout

From the April 11 Webinar
OnDemand Recording

The process concludes with the collection and evaluation of information related to low price and % payout. Data from all sources, including the SSG, is used to make and support the final judgment items on the SSG, estimated low price and the future % payout. The expected return based on the completed SSG is reviewed. This is class four of five in the Adding Judgment to the SSG series. Instructors: Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; and Ann Cuneaz, senior manager of education, BetterInvesting.

StockUp: How to Use Qualitative Factors In Fundamental Analysis

From the March 3 Webinar
OnDemand Recording

The Stock Selection Guide (SSG) contains a wealth of quantitative data or data that can be measured. Historical sales, earnings per share and price-earnings ratios are examples of quantitative data. Qualitative analysis helps us understand the quantitative data, addressing the how and why of past and future performance. In this session, we review how to use subjective judgment to analyze stock value and outlook, based on non-quantifiable measures. This includes a discussion of Porter's Five Forces and how to review things like management, business cycles, research and development and competitive advantages. Instructor: Marisa Bradbury, CFA, CFP, managing director of Sigma Investment Counselors' Florida office.

Billionaire Envy Is Trendy, but Inequality Will Always Be With Us

Get Your Own Piece of the Pie

Inequality has evolved into a major debating topic for economists and policy wizards puzzling over why so much of the world's wealth is concentrated into the hands of a few — and what, if anything, should be done to redress the condition.

Grumbling about inequality tends to take place mostly in the developed world, where most of the world's wealth exists. (Few fretted about fairness in the former Soviet Union, where scarcity affected everyone except the leaders.)

Why, it is asked, are American CEOs paid so much more than ever, as measured against factory-floor workers? The number of billionaires, once a relatively rare species, is rising at an astonishing rate; might society be better off if higher tax rates reduced the super-rich to the level of the merely wealthy? Or do our oh-so-certain moral judgments about fair play actually reflect little more than human envy?

Never mind resentment, American workers of today, trying to raise and educate families in the face of inflationary pressure, have never had so much trouble keeping their heads above water. Or so the mass media insists is the case.

> **"Today's ordinary wage earners have never enjoyed as much opportunity to build personal wealth — by investing habitually and with discipline."**

Yet today's ordinary wage earners also have never enjoyed as much opportunity to build personal wealth — by investing habitually, thoughtfully and with discipline — in the equities that are the backbone of the nation's economy. Buying stock is cheap and simple, information and data easily acquired.

Given the power of compounding and the long-term 10% average return of the S&P 500, a worker over the span of 30 or 40 years should be able to build a substantial nest egg, one that can deliver retirement without financial pressures, or the freedom to try a new career or the means to travel the world.

Naturally, one first must be willing to defer gratification — put off unnecessary purchases — understanding that the payoff from patient accumulation of shares and reinvestment of dividends happens over years and decades rather than weeks and months. Secondly, the novice investor must be willing to learn the rudiments of investing, the mission to which this magazine is dedicated.

So often the stock market is ignorantly compared to a casino, a game of chance in which only the lucky hit the jackpot by chancing upon an Amazon, Apple or Berkshire Hathaway. Yes, taking a risk on an idea or a management team or a new product will play a part in buying stocks. Diversification is a way to moderate that risk. And studying performance — rather than praying for good fortune — is the key to amassing a portfolio of companies that grows revenue and earnings year after year, justifying the faith engendered by shareholders.

Economic inequality will never vanish, at least not on a mass scale. Inequality can be reduced, however, as many are discovering by the steady returns the U.S. stock market has delivered since those first brokers met under a buttonwood tree on Wall Street in 1792.

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Editor: Doron Levin
Managing Editor: Jan Jeffres
Graphic Designer: Jack Downs
Editorial Staff: Cindy Kelley, Brenda Gayle
Contributing Editors: Kevin J. Lamiman; Sam Levine, CFA, CMT; Danielle Schultz, CFP, CDFA
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Performance Parameter	At 3/31/2022	5-Year Change Annualized
BetterInvesting 100 Index (BIXX)	562.28	14.07%
BetterInvesting 100 Index (BIXR — Total Return)	789.56	15.65
S&P 500 Equal-Weight Index (Total Return)	12,074.79	13.89
Vanguard Total Stock Market (CRSP U.S. Total Market)	110.80	15.35
Dow Jones Industrial Average (DJIA)	34,678.35	13.40
S&P MidCap 400 Index	2,693.66	11.10
Russell 2000 (Small-Cap Index)	2,070.13	9.80
Nasdaq Composite	14,444.78	20.31
MSCI EAFE (Europe, Australasia, Far East) Index	2,181.63	4.0
MSCI Emerging Markets Index	1,141.79	3.56
Value Line Arithmetic Composite	9,834.49	12.60
Consumer Price Index (February)	287.50	8.50

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 April 21.

Company (Ticker)	Buys-Sells
1. Alphabet (GOOG)	181-23
2. Amazon (AMZN)	171-20
3. Apple (AAPL)	93-67
4. Microsoft (MSFT)	116-29
5. Nvidia (NVDA)	118-11
6. PayPal (PYPL)	71-37
7. Disney (DIS)	62-32
8. Meta Platforms (FB)	50-38
9. Intel (INTC)	58-14
10. Ford (F)	58-12
11. Tesla (TSLA)	55-14
12. Adv. Micro Devices (AMD)	48-18

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 April 21.

Company	Ticker	Buys	Sells	Total
Home Depot	HD	48	18	66
Netflix	NFLX	43	18	61
Starbucks	SBUX	35	17	52
Pfizer	PFE	45	6	51
Berkshire Hathaway	BRK.B	38	5	43
Costco	COST	29	11	40
Skyworks Solutions	SWKS	30	6	36
D.R. Horton	DHI	28	8	36
Taiwan Semiconductor	TSM	24	12	36
Salesforce	CRM	23	11	34
Boeing	BA	23	10	33
Exxon Mobil	XOM	23	9	32
Qualcomm	QCOM	30	1	31
Verizon	VZ	20	10	30
Caterpillar	CAT	23	6	29
Rivian Automotive	RIVN	22	7	29
Johnson & Johnson	JNJ	20	9	29
Raytheon Tech.	RTX	25	3	28
FedEx	FDX	23	4	27
Dollar General	DG	23	3	26
ChargePoint Holdings	CHPT	22	3	25
Chevron	CVX	19	6	25
PepsiCo	PEP	17	8	25
Devon Energy	DVN	21	3	24
T. Rowe Price Group	TROW	20	4	24
Target	TGT	19	4	23
Bank of America	BAC	17	4	21
Micron Technology	MU	17	4	21

Source: myICLUB

Semiconductors are a favorite equity category among myICLUB software users, including Nvidia, Advanced Micro Devices, Taiwan Semiconductor, Qualcomm, Skyworks Solutions and Micron Technology. The global chip shortage, resulting in curtailed production of automobiles and other items, has led investors to bid up these stocks. Interestingly, Wall Street analysts now are warning that shortages could quickly become gluts and suddenly dampen the semiconductor business. The analysts recalled 2018. Users of chips, nervous about scarcity, stocked up with twice and three times what they needed and demand died.

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer in his personal portfolio.

DIY Exterior House Painting Is a Huge but Rewarding Challenge

Pick Up a Brush and Create a Home Masterpiece

by Natasha Gural

Painting your home's exterior can add resale value and transform an outdated dwelling into a place you enjoy returning to at the end of the day. Your home may be your most valuable asset, so a good paint job is essential to retaining or bolstering its worth. It's a major project that requires careful planning and preparation, and high-quality tools and supplies.

Doing the job on your own not only slashes the cost, but also provides a sense of accomplishment and pride that you'll reflect on every time someone walks by. If you're unsteady or afraid of heights, you may want to consider outsourcing.

For that, painting a home's exterior costs an average of $3,048 with a typical range between $1,764 and $4,331, homeowners report to Angi. The average price per square foot ranges between 50 cents and $3.50 depending on your location, your exterior's condition and accessibility, according to Angi. If you choose a professional, make sure to request a quote based on a site visit to ensure an accurate estimate and avoid unexpected charges and ask to inspect their previous work.

If choosing DIY, buy professional-quality supplies. You can do the job for about $694.40, less than a quarter of the average professional cost. Before you start, check the weather forecast and pick days without rain, high wind or humidity, which can prevent paint from drying properly and cause blistering that will ruin the project. Ideally, you should paint when the temperature is between 50-85 degrees. Take advantage of the best light and conditions, painting the west-facing side of the house in the morning and the east in the afternoon. It's essential to set up the ladder on flat ground.

Don't start with a dirty canvas. Power washing a house, the most efficient way to clean the exterior, costs between $150 and $750, depending on the home's size, according to Angi. You can rent a gas-powered, professional-grade power washer for $59 for four hours, or $84 a day. Expect to spend between one to three hours power washing a 2,000-square-foot home.

If your home lacks excessive peeling or flaking, you can prep the surface with a garden hose and scrub brush, using trisodium phosphate (TSP), a cheap, safe cleaning agent. A 16-ounce box of powder costs $4.87 and effectively removes deposits of grease, grime, smoke, soot, stains and chalked paint.

Once the cleaned surface is dry, you need to remove loose and peeling paint, though it's not necessary to strip away all existing paint. Save money and consolidate tools with a Husky 15-in-1 Painter's Tool, which for $7.48, functions as a spreader, a chisel scraper, a paint can opener, a roller cleaner and nail puller. Be prepared to invest time and elbow grease when scraping by hand. You can cut time by using a power scraper, chemical stripper or heat gun, but it will increase your cost and may impede the control you get by doing it by hand.

Precision matters and sanding edges in order to feather out the transition between the existing paint and the scraped area is essential for creating a smooth surface. If you don't own an orbital sander, you can rent one for $13 for four hours or $19 for the day. If your rental isn't equipped with 80-grit sandpaper, you can buy a 10-pack of discs for $6.76.

You can use an online calculator to determine how much paint you'll need, but plan on 10-12 gallons for a 2,000 square-foot home. A five-gallon bucket of top-selling primer costs $99 and a two-gallon bucket costs $29.98 (or $227.98 for 12 gallons). You can apply primer using brushes or rollers, but a paint sprayer speeds up and simplifies the process with an even application. Rent a medium duty paint sprayer, ideal for applying 15 gallons or less, for $64 for four hours or $92 for the day.

Wait until the primer dries to apply caulk where the siding meets the trim around windows and doors, and along all siding joints except where window casing meets the sill. Avoid caulking horizontal edges between clapboards to prevent moisture trapping. Online calculators will help you determine how many tubes to buy at $5.48 for 10.1 ounces.

Make sure the caulk dries completely before you paint the trim and windows, starting from the top and working your way down using a trim brush, about $5.87 for a bestseller. Generally, you'll need one gallon of trim paint for every six gallons of wall/siding paint. Two one-gallon buckets of a top-rated semi-gloss acrylic exterior paint costs $59.96. Begin with the window sashes, and then work from the inner part of the window out.

For maximum efficiency, use the sprayer again to paint the siding. Two five-gallon buckets of top-rated satin enamel exterior paint cost $240. Mask off any surfaces to differentiate the color of your siding. Working from the top down, spray small sections, then back-brush to smooth out each layer carefully to ensure it adheres with the primer.

Exterior house painting is an ambitious project, but can save thousands and give you an immense satisfaction. Properly applied, high-quality exterior paint should last for about 15 years, if you prepare all surfaces and don't cut corners.

Due Diligence

Careful Investors Might Consider Purchasing a Materials or Energy ETF

Is It Too Late to Join the Commodity Rally?

by Thomas D. Saler

Even for those who don't follow financial markets, it's been impossible to miss the powerful surge in commodity prices. Whether filling your gas tank, buying groceries or stopping for a cup of latte, the rising price of "things" has been difficult to ignore.

The term commodity can refer to a wide array of physical (or "hard") goods, including energy sources like oil and natural gas, agricultural products like wheat and cotton, and precious metals like copper and palladium (*see Websites of Interest*). Commodity prices tend to increase when economic growth is strong, interest rates are low and the global financial system is awash in liquidity. The bull market in commodities actually began two years ago, shortly after governments created unprecedented levels of monetary and fiscal stimulus to counteract the impact of the coronavirus pandemic.

One key to making commodity exposure profitable is to understand your time horizon.

Over extended periods, commodities often move in boom-bust cycles, making the asset class inappropriate for most buy-and-hold investors. Even with the recent rebound, a broad-based index of commodities lost about half its value over the last 15 years.

In part, the poor long-term performance of the commodity group is because producers have only limited ability to add value to their products; gasoline at your corner station, for example, is usually indistinguishable from gas at another station down the road. In addition, most commodities are vulnerable to demand destruction, i.e., when prices get too high, consumers buy less. Lofty prices also invite competition, which eventually boosts supply. And since commodities generate no dividends or interest, they aren't of much use to income-oriented investors.

All of which explains why the historical price trend of many commodities is unremarkable. For all the understandable hand-wringing over the current cost of energy, for example, the inflation-adjusted price of crude oil remains far below peaks reached in 1980, 2008 and 2011.

Still, there are times when owning commodities as an inflation hedge can make sense on a tactical basis; in other words, for short- to intermediate-term periods. It's also possible — even probable — that the sharp rise in geopolitical tensions in the aftermath of the Russian invasion of Ukraine, along with the global push towards clean energy sources, will turn what might look like the later innings of a fairly typical commodity price cycle into something far more extended.

Retail investors have several options to gain exposure to the commodities market through shares of a company that produces raw materials; through an exchange traded fund comprising multiple companies operating within a commodity-linked sector, such as energy, like the Energy Select Sector SPDR Fund (ticker: XLE); or basic materials, the Materials Select Sector SPDR Fund (ticker: XLB); and through an exchange-traded fund that rolls futures contracts tied to an individual commodity.

The three vehicles do not move in lock step. In general, the price of a commodity will be more volatile (in both directions) than the share price of a company engaged in its production or distribution, since futures contracts reflect speculative positioning by traders worldwide.

So, how much is too much commodity exposure?

Given how far prices had come by early spring, 5% of a portfolio might be appropriate, but even so, keep it to a broad basket of commodities rather than to a specific one. Then, if froth comes out of commodity markets as interest rates rise, geopolitical tensions recede and the global economy slows, it could make sense to take a larger position later this year or next.

In the meantime, tread carefully.

Websites of Interest

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Book Value

Financial Experts Share How They Invest Their Own Money

Leading by Example

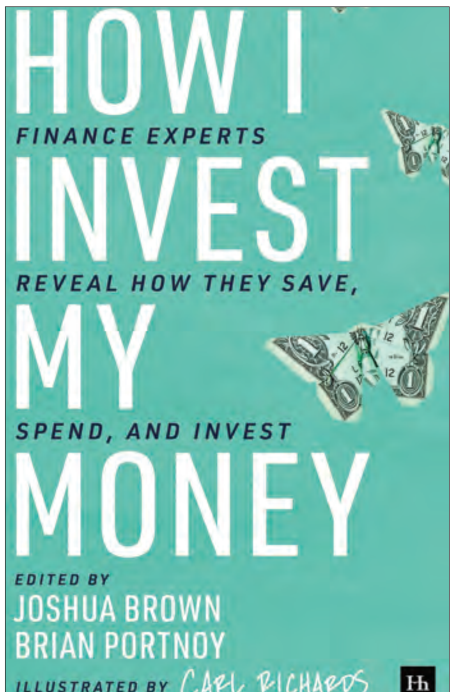
by Angele McQuade

In "How I Invest My Money: Finance Experts Reveal How They Save, Spend, and Invest," Joshua Brown and Brian Portnoy profile 25 financial experts on the hows and whys of their personal financial decisions. The book's premise came to Ritholtz Wealth Management CEO Josh Brown in 2019, after he realized that in thousands of hours of appearances on financial TV shows, he'd never once been asked what he did with his own money.

This inspired him to write a post on his blog, The Reformed Broker, explaining in detail his own answer to the question. The post went viral, leading to a conversation with friend Brian Portnoy (founder of financial wellness platform Shaping Wealth), which then in turn led to them together coming up with the idea for a book that asks other financial professionals exactly what they do with their own money. "There's no shortage of books on how experts think you ought to invest," Brown and Portnoy write, "but very few of the authors go into detail about whether or not they even take their own advice."

"How I Invest My Money" aims to rectify that situation. Each section begins with a short bio of the professional being profiled, then transitions into a few pages of first-person narration of that particular expert's own investment strategy and underlying financial beliefs. Those interviewed include wealth managers, investment advisers, financial writers, CFPs, CIOs, CEOs and more. And of course, Brown and Portnoy include themselves in the mix. "We gave little direction to the contributors," the authors recount. "What we received back were stories." Human stories, they say, about not only investing, but also "hope, frustration, joy, struggle, desire and growth."

What I liked: the drawings by illustrator Carl Richards at the beginning of each profile that perfectly summarize what each contributor believes in the simplest of images and shortest of phrases. These include Portnoy's drive toward "a lifetime of funded contentment" and former Motley Fool and Wall Street Journal columnist Morgan Housel's philosophy of "independence over all else."



"How I Invest My Money: Finance Experts Reveal How They Save, Spend, and Invest," *By Joshua Brown and Brian Portnoy, illustrated by Carl Richards. Harriman House (2020), paperback ($19.99) and ebook, 202 pages.*

What I loved: the wide range of experts and opinions included. As Portnoy and Brown explain, they cast their interview net wide in the hopes readers will find at least a few professionals whose personal philosophies truly resonate.

What makes "How I Invest My Money" worth buying: how candid and thoughtful the profiled financial professionals are in their responses. Whether it's Archer Investment Management partner Nina O'Neal's explanation of how she prioritizes living well in both the present and the future or Berknell Financial Group founder Dasarte Yarnway's focus on investing at the intersection of what he values and how he wants to spend his time, the deep introspection on exhibit throughout the book offers much for readers to mull over.

Read "How I Invest My Money" if: you're uncertain of or doubting your own investment philosophy and strategy or are currently searching for some that more closely fits your personal needs and beliefs. There's much here to sift through and treasures sprinkled throughout the book.

Websites of Interest

Online: TheReformedBroker.com

Podcast: The Compound and Friends (Josh Brown)

Twitter: @brianportnoy, @Downtown

Angele McQuade has been BetterInvesting's Book Value columnist for over 20 years. She is the author of three books, including "Investment Clubs for Dummies" and BI's upcoming new youth investing handbook. She lives near Bethesda, Maryland, where she also writes picture books and novels for children. You can send her your own book recommendations through her website: angelemcquade.com.

Analyzing Your Finances Can Help You Set Your Future Goals

Why You Need to Know Your Net Worth

by Matt Mondoux, CFA, CFP, CMT

One key component of personal finances is understanding household net worth. Taken simply, net worth is one's assets less liabilities, e.g., debt. Net worth is derived from a balance sheet or alternatively a net worth statement, either is OK.

Balance sheets are commonly kept at a business level but there is no reason they can't be used on a personal level too. Balance sheets depict financial health at a moment in time. Balance sheets can be compared over quarters or years and tell how one's financial health is improving or deteriorating.

What goes on a balance sheet? There are two primary categories: assets and liabilities. In a simple sense, assets increase net worth while liabilities decrease net worth. Common assets include: cash savings, retirement accounts, investments, house and potentially a car. Common liabilities include: credit-card debt, a home mortgage, an auto loan and student loans.

> **"A home is an important part of net worth, but having liquid assets is also crucial."**

Two interesting notes here:

- **1. A home can be positive to net worth** if the value is greater than the mortgage,
- **2. A car could be a net negative to net worth** if the resale value is less than the amount owed on the note.

How to Build Your Balance Sheet

In order to build your balance sheet there are a couple of important steps. Importantly, all financial values should be as of the same date. Use month- or quarter- end values for consistency. If the dates used for the asset and liabilities values are not consistent you do not have a true balance sheet. I would also recommend setting a cadence for updates.

Weekly is likely too frequent, but annually may be too infrequent. I believe starting out quarterly is best and if it becomes an exercise you enjoy, make it monthly or bi-monthly. The longest I would stretch it out would be semiannually.

A regular cadence is necessary to understand directionally how household finances are trending. Are assets increasing slower than liabilities? That could be a troubling sign that needs to be corrected. Was the resulting decrease in net worth due to an increase in credit-card debt? Or perhaps a loan taken out for a master's program? That latter may not be as troubling as the former.

Another potential red flag would be if the value of the home is a predominant part of one's net worth. Yes, a home is an important part of net worth but having liquid assets is also crucial. You can't sell rooms and fixtures to pay for retirement.

Setting Your Goals

Analyzing the trends in data can be cause for a change in course and ultimately, what good is the data if you're not setting goals and planning for a better financial position? Goals can be to increase investment accounts or pay down debt.

More advanced goals could be to set net worth ratio targets, such as having two times the assets relative to liabilities. Or to eventually pay down debt completely.

It's also important to have goals with differing time frames. Paying down all debt could be a multi-decade goal. A shorter-term goal could be to have cash holdings equivalent to three times credit-card debt.

Being proactive with one's finances ultimately leads to better outcomes. One important proactive step is regularly building a net worth statement.

Recognizing your current position and understanding the goals you need to set to better your finances is critical to planning.

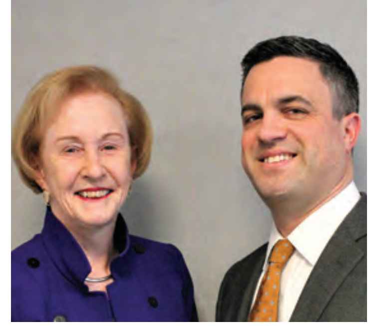
Don't be surprised if your current net worth is negative: It's important to acknowledge that fact and work to track the trends necessary to improving your net worth over time.

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

Keep Records of Any Improvements As They May Increase Your Cost Basis

Taxes After You Sell Your Home



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

One of the primary financial stories of the past two years has been the rapidly changing housing market. A shortage of homes for sale and a lack of new home construction, along with historically low interest rates, has led to a rapid increase in housing prices. By one measure, home prices have risen more than 20% nationwide in the last year, on top of significant gains from the previous year.

At the same time, many people are rethinking their current living arrangements, choosing to relocate, downsize or even purchase a second home. Since each of these decisions comes with tax consequences, we thought it was a good time to review the details of taxes and home ownership.

For the purposes of this article, we'll only touch briefly on rental properties, which carry their own set of tax regulations that are too complex to fully address here.

Tax Consequences When Selling Your Home

Similar to the consequences of selling a stock or bond, when you sell your home you may be subject to capital gains tax on the amount of the gain. However, the similarities end there.

First, unlike an investment in a stock or bond, if your home price declines and you sell the home at a loss, you won't be able to deduct the realized loss on your taxes.

Fortunately, given the red-hot housing market, this isn't a problem for many!

Second, the Internal Revenue Service excludes a certain amount of your gain from taxation. The exclusion for a gain is $250,000 for a single person or $500,000 for a married couple for your primary residence.

In the past this meant that the vast majority of home sales were tax-free, but with the recent run-up in prices, many retirees who bought their homes 30 years ago may be facing an unpleasant surprise when they sell their home.

This exclusion applies only to a primary residence and certain rules must be met to qualify for the exclusion. Before we examine the rules around the gain exclusion, it is important that we understand how to calculate the gain itself.

How to Determine Basis

To discuss how to compute gains and losses, first we must explain the concept of "basis." The tax basis of real estate is the cost of the purchase, plus the cost of improvements to the property.

First, start with the original purchase price, including purchase costs paid at the time you bought the house (title and fees, real-estate commissions, etc.). Next, add the cost of improvements you've made over the years. In order to be added to basis, the improvements should be permanent changes to the home.

This could be big-ticket items like a deck, a new furnace or new windows, or smaller improvements such as new doors, carpets or countertops. Maintenance items like painting and cleaning can't be added to your basis.

Significant, permanent landscaping changes like a new walkway or retaining wall can be added to basis, while ongoing maintenance can't. Finally, if you ever took the home office deduction on your tax return, you must subtract from basis any depreciation expense that you claimed over the years.

Exclusion for Gains

Once you've calculated your basis, you can than calculate your gain or estimate your gain based on the price you expect to receive when you sell your home. As noted above, the home sale exclusion for a gain is $250,000 for a single person or $500,000 for a married couple filing joint, and applies only to your primary residence.

In order for your home to qualify as your primary residence, you must have owned and lived in the house for at least 24 months in the last five years. Those two years don't need to be consecutive. If you have moved multiple times, you can use this two-out-of-five-year rule to exclude your profits each time you sell or exchange your primary residence, provided you meet the two-year rule.

You can exclude a portion of your gain if you're selling your home and lived there less than two years and you meet one of the exceptions. You calculate your partial exclusion based on the amount of time you actually lived in your home.

Exceptions are allowed if you sold your house because the location of your job changed, because of health concerns or for some other unforeseen circumstance. The IRS has given specific examples of unforeseen circumstances, including divorce, natural disasters, acts of war or terrorism or a change in employment that has left you unable to meet basic living expenses, among others.

In addition, widows and widowers get a special extension. A surviving spouse has two years from the date of a spouse's death to sell the home and use the full $500,000 joint gain exclusion.

Tax on Gains

If you do have a gain on the sale of your home over and above the exclusion, you will pay tax on the gains at your capital gains tax rate. For most taxpayers, the capital gains rate is 15%. But for those with high income (modified adjusted gross income over $459,751 for single filers, over $517,201 for joint filers), the capital gains tax rate is 20%.

In addition, there is a separate tax officially known as the net investment income tax, unofficially called the "Medicare surtax" that is applied to lower income thresholds. This tax kicks in for single filers with modified adjusted gross income over $125,000, or married filing joint over $250,000. Above those levels an additional 3.8% tax will be assessed on the gain over the exclusion.

Some Examples

We'll start with a married couple who bought their home in 1987 for $160,000. They've recently spoken to a Realtor, and expect to sell their home for $750,000, thanks to gains in the housing market over the past 35 years. They are retired and their adjusted gross income in retirement is around $100,000.

At first blush, it would seem their gain is $590,000 ($750,000 less $160,000). However, over the years they renovated the kitchen, installed new windows, a new roof and a new driveway. These and other improvements totaled $145,000. This amount should be added to their basis, giving them a total tax basis of $305,000. Thus, if the house were to sell for $750,000 net of all expenses, they would realize a total gain of $445,000 and they wouldn't owe any tax on the sale.

Conversely, let's look at a more affluent couple who bought their home for $480,000 in 1991 and recently sold it for $1.2 million. They are still working and have a modified adjusted gross income of $550,000. Their basis in the home, including improvements, is $600,000.

On the sale they will realize a gain of $600,000. Of that amount, $500,000 would be excluded from taxation, leaving $100,000 subject to capital gains. Their income level means that the $100,000 will be taxed at the 20% capital gains rate and also be subject to the 3.8% Medicare surtax. They will owe a total of $23,800 in federal tax on the sale.

Second Homes and Rental Properties

Second homes and rental properties generally do not qualify for the exclusion, and any gains on sales would be subject to tax. Here again, if you take a loss, you aren't able to benefit from the tax loss.

In the past, those with rental properties would employ a strategy where they moved into their rental property for two years establishing it as their primary residence and then sold the property, thus qualifying for the exclusion.

But the IRS has since closed this loophole. The IRS now uses a ratio of the years you occupied the home as a primary residence versus the years the home was used as a rental — or other-than primary residence — to calculate the amount of capital gains that will be excluded from the sale.

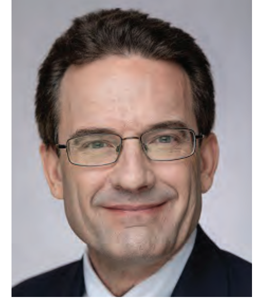
For example, take a homeowner who owned a rental property for eight years, and then moved into it for two years to convert it to a primary residence. If the homeowner sold at the end of the two-year residency and took a $100,000 profit, only $20,000 of the gain would qualify for the exclusion, as only 20% of the life of the property was a period of primary residence.

Conclusion

The housing market has had periods of boom and bust over the last 20 years. While in the past large taxable profits on home sales were rare, homeowners may face a different situation now. The ability to sell your home after a run-up in prices can be a significant windfall, but one that comes with tax consequences. As you can see, it is crucial to keep good records over the years. If you're thinking of selling in 2022, be sure to consult your accountant and financial planner.

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.



1996-Era Club Advised to Reduce Use of Limit Orders

Some Investing Wizardry in California

by Daniel J. Boyle, CFA

The Wall Street Wizards Investment Club started in May 1996 at Trinity Episcopal Cathedral in San Jose, California. Trinity Cathedral has the distinction of having one of the three official carillons in Northern California. There were 12 original members, several of whom belonged to the church.

During my discussion with Elizabeth Archambeault, secretary and sole remaining original member, and Marion Michel, treasurer, it was gratifying to hear about the club's evolution. In its original days, members focused on education using BetterInvesting tools and methods, including compiling Stock Selection Guides by hand. The club has come a long way since its first purchase, **The Coca Cola Company (ticker: KO).**

The six remaining members utilize SSGs, rotate following their stock selections, provide consistent reports on their companies' progress, maintain a watch list of prospects to challenge existing holdings and utilize research resources such as Value Line, mutual fund reports and BetterInvesting resources, including the magazine and Small-Cap Informer newsletter.

The club's sophistication is illustrated by the portfolio. BetterInvesting's philosophy is plainly evident as 12 of the 13 stocks are projected to grow earnings at a double-digit rate. Further, each holding has measurable GAAP (generally accepted accounting principles) earnings, many with reasonable prices. The Wall Street Wizards isn't interested in commodity stocks, utilities, real estate investment trusts (REITS) or dividend payers. This makes sense as these stock categories tend to grow roughly at the overall economy's rate of 4%-6%, too slow to have a chance to hit the BetterInvesting goal of a doubling in share price over five years.

I also like the way the club handles education. Each member is responsible for making two presentations to the club annually, with at least one a new stock idea. The education topic can be anything and during our conversation I gleaned several topics that I'd suggest the club examine, such as the impact of inflation on stocks, assessment of post-pandemic risks, geopolitical factors (especially important during these trying times with Russia and Ukraine) and how to find small-cap stocks.

One practice I'd like the club to examine closely is its use of limit orders. When Wall Street Wizards provided its most recent portfolio statement there were only two positions that had a purchase date before 2020. I found this curious, especially because several of the portfolio names were what I would associate with BI's long-term buy-and-hold focus. It turns out that several of these holdings were purchased with limit orders, including a few during the violent market drop of March and April 2020, corresponding with the onset of the COVID-19 pandemic. Elizabeth and Marion explained that the club often had a hard time reaching consensus to purchase a stock and

Wall Street Wizards Investment Club

Company	Ticker	No. shares	Cost	March 31, 2022 Price	March 31, 2022 Value	Gain/ (loss)	%Gain/ (loss)	Quality rating*	% Growth estimate**	% of portfolio	Trailing P/E	Trailing EPS
Adobe	ADBE	20	$ 6,600	$ 455.62	$ 9,112	$ 2,512	38.1	1	16	7.6	45	$10.02
Amazon	AMZN	4	3,924	3,259.95	13,040	9,116	232.3	1	26	10.9	50	64.81
Century Communities	CCS	100	6,500	53.57	5,357	(1,143)	(17.6)	4	14	4.5	4	14.47
Diodes	DIOD	50	4,945	86.99	4,350	(596)	(12.0)	3	15	3.6	17	5.00
JPMorgan Chase & Co.	JPM	50	4,784	136.32	6,816	2,032	2.0	2	7	5.7	9	15.36
Microsoft	MSFT	60	9,775	308.31	18,499	8,724	89.2	1	14	15.4	33	9.39
MKS Instruments	MKSI	30	4,402	150.00	4,500	98	2.2	3	12	3.8	15	9.90
Skyworks Solutions	SWKS	40	6,782	133.28	5,331	(1,450)	(21.4)	3	13	4.4	16	8.32
UFP Industries	UFPI	50	3,990	77.16	3,858	(132)	(3.3)	3	12	3.2	9	8.59
UnitedHealth Group	UNH	20	5,527	509.97	10,199	4,673	84.6	1	12	8.5	28	18.08
Universal Display Corp.	OLED	40	6,600	166.95	6,678	78	1.2	3	20	5.6	43	3.86
Vertex Pharmaceuticals	VRTX	60	12,504	260.97	15,658	3,154	25.2	2	18	13.1	29	9.01
Visa	V	60	3,907	221.77	13,306	9,400	240.6	1	16	11.1	37	6.04
Cash & Other			3,194		3,194			1		2.7		
Average									15		26	
TOTAL			**$83,433**		**$119,898**	**$36,465**	**43.7**			**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.

would therefore set a limit order, perhaps 5%-10% below where the stock was trading.

I see some problems with the way Wall Street Wizards applies limit orders to stock purchases. While not apparent in the current portfolio snapshot, the practice has led the club to historically maintain a higher cash balance, sometimes up to a quarter of the portfolio, as the club had to make sure it had cash to support limit orders for several stocks at any time. Since stocks average about 10% return a year and cash hasn't paid much interest in quite a while, the club is hurting its overall performance by maintaining such a high cash balance. With BI principles focusing on growth, it's likely the club is missing out on some of its better ideas simply because the most desirable stocks don't ever fall very much from their current price to ever trigger the limit purchase. Conversely, if a stock does fall enough to trigger the purchase the event that caused the drop might be so bad the club might not want to own the stock at all. I'd recommend the club scrap the practice and have confidence in its strong processes and stock selection capabilities.

Microsoft, Visa, Adobe, Diodes, MKS Instruments, Skyworks Solutions, Universal Display Corporation

Now on to the portfolio. Seven of the 13 stocks come from the information technology sector, making up 51% of the portfolio's value. **Microsoft (MSFT)** is the largest holding, representing about 15%. After stagnating for much of the 1990s and early 2000s, Microsoft pivoted beautifully when it followed its corporate customers out of their data centers and into cloud computing. Staya Nadella took over as CEO in 2014, implementing initiatives that provide investors with confidence the company will continue growing, even at its massive scale.

It all starts with the firm's cloud outsource offerings and Azure platform, clocking in at recent sales growth of over 40%. Next, Office 365 and other cloud connectivity offerings, including Microsoft Teams for work-group collaboration, is growing double-digits in both the commercial and consumer sectors. LinkedIn, Nadella's successful acquisition that targets employers looking for employees, is a market leader. Microsoft, building on its successful gaming franchise, recently announced a $68.7 billion acquisition of **Activision Blizzard (ATVI)** that will add multi-million-dollar gaming franchises plus gaming growth. Even the corporate operating system Windows franchise chugs along with the new Windows 11 version.

Analysts expect Microsoft to average 14% annual earnings growth. This seems low, particularly given the substantial post-pandemic opportunities and the global scale that support operating leverage. The stock isn't cheap at a trailing 12-month P/E of 33. With six club members following two stocks each, Wall Street Wizards desires a portfolio of 12 stocks, implying a target weight of 8% per position. I'd suggest the club trim the position back by at least a few percentage points, considering its valuation, but Microsoft has earned my confidence as a holding that deserves to be overweight.

The next largest holding at 11%, **Visa (V)**, is the world's largest payment processor, completing more transactions than its three closest competitors (**American Express, Discover** and **MasterCard**) combined. The company took a hit during the pandemic, with total dollar processed volumes declining 1% during 2020, the first drop in its history. But fiscal 2021 saw solid recovery, with volumes rebounding 13.2% as government mandates eased and travel recovered. Fiscal first quarter 2022 ended Dec. 31 brought additional recovery as sales grew 24.1% and earnings per share of $1.83 was up 29%, albeit both against weak levels compared to the year ago period.

Transaction activity for fiscal 2022 is set to grow in the low double digits, led by recovery from the U.S., Latin America and Europe. COVID-19 remains a wildcard for global travel as variants continue to induce lockdowns that drain the global economy. In the long-term, analysts expect earnings to grow on average 16% per year, not unreasonable considering global travel will likely return and the firm's leadership position should allow it to continue taking its share from cash transactions. A trailing P/E of 37 for Visa is expensive, but some of that multiple reflects depressed earnings over the past year. I like the company as a solid long-term holding.

Adobe (ADBE) took a hit after releasing disappointing fiscal 2022 first quarter results ended Feb. 28, recording "only" 9% sales growth and

2 Members of the Wall Street Wizards Investment Club

Nath Brophy

Purushothamma Mohankumar

EPS of $2.66, up 2%. But the quarterly results included one less week and a negative currency impact from the stronger dollar, without which sales would have advanced a more typical 17%. The company has been a stellar performer for many years as it pioneered the ubiquitous PDF (portable document format) standard that facilitates document creation and sharing across the internet. While always possible, it's hard to see another document standard emerging and Adobe does an excellent job listening to its customers and adding features to its publishing software like 3D rendering and augmented reality. This high barrier to entry has usually kept the shares expensive and, even at its lower price, the trailing P/E ratio of 45 is a bit outside my comfort zone. But expected annual earnings growth of 16% per year seems reasonable and the stock carries a normal target weight in the portfolio.

Diodes (DIOD) delivers semiconductor products to consumer electronics, computing, communications, automotive and industrial customers. After experiencing a down year in 2020, the global shortage of semiconductors has been a boon for Diodes, particularly for its auto segment. I note that in the fourth quarter 2021, about 31% of the firm's product was shipped directly to manufacturers, and it has been my experience these customers are fairly "sticky," that is, since they source directly, they tend to reorder consistently. But 69% of sales came from redistributors, a customer base that can easily delay buying product if demand falls or easily substitute other firms' semiconductors for Diodes.

The outlook for 2022 should be solid, but I'd worry as the year progresses that as supply chain issues abate the current pricing and volume strength of Diodes will wane. Analysts expect annual earnings growth of 15%, optimistic given that current business conditions are likely at their peak in the cyclical semiconductor industry. The trailing P/E of 17 is reasonable. I think the club's 4% position, while under the normal position weight of 8%, is about right.

Additional exposure to the semiconductor industry comes from **MKS Instruments (MKSI)**. The firm derives about two-thirds of its sales from the sector by providing instruments to measure, control and analyze gases used in their manufacture. The other third comes from instruments for manufacturers, including fiber optics, gas lasers and solar cells. Like Diodes, demand has been strong in 2021 and pricing and earnings leverage led to a 64% EPS gain.

Analysts expect annual EPS growth of 12%, aided by MKS Instruments' approximately $6.5 billion acquisition of **Atotech Limited (ATC)**, a leader in process chemicals technologies for semiconductor and other manufacturing, including lasers. The acquisition is waiting for approval from China's State Administration for Market Regulation and is expected to close by September. The trailing P/E of 15 is reasonable, but like Diodes I think the 4% portfolio weight reflects tougher conditions ahead.

Skyworks Solutions (SWKS) makes the chips that turn analog signals, such as your voice when you talk on your cellphone, to digital and back again. It's riding the growing wave of 5G implementations for fast connectivity worldwide, receiving an outsized boost the past couple of years from its largest customer, Apple. It has also been diversifying its chips to support other communication modalities, including advanced WiFi and precision GPS. It recently closed an acquisition of **Silicon Laboratories'** Industrial and Automotive division, augmenting its capabilities while gaining access to new customers for non-cellular devices (for example the Internet of Things such as tablets and wearables).

I've watched this company for several years and there is considerable cyclicality within its end-markets, particularly when it comes to cellphone upgrade cycles. There is no question the underlying trend growth within its markets is double-digits and I would expect Skyworks to take additional market share over time. Analysts expect annual earnings growth of 13%, quite reasonable, and shares look attractive at a trailing P/E of 16. I suggest the club think about adding to the 4% position on any weakness.

The last IT holding, **Universal Display Corporation (OLED)**, is the leader in organic light-emitting diode (OLED) technologies. OLED displays, like those in higher-end TVs and cellphones, are crisper and easier on the eyes. The technology is more expensive, but manufacturing costs have been coming down rapidly due to economies of scale. I've found Universal Display shares expensive and at a trailing P/E of 43 they are pricey. In the short term the firm is dealing with supply chain shortages that are causing its material input prices to rise, hurting margins. In the long term I believe the market will continue to expand but there will be more competition, calling into question analyst's expectations of 20% earnings growth. I'd monitor the holding carefully.

Vertex Pharmaceuticals, United Healthcare Group, Amazon, Century Communities, JPMorgan Chase, UFP Industries

The second largest sector of the portfolio is health care, led by a 13% position in **Vertex Pharmaceuticals, (VRTX)**. The company is the leader in drugs to treat cystic fibrosis (CF), which causes lung infections and the inability to breath. The firm's existing drugs to treat CF should be able to carry growth for many years, but there are also some interesting drugs in the pipeline treating pain and kidney disease that might turbocharge results. A trailing P/E of 29 isn't too bad for expected annual earnings growth of 18%, but like any holding that's overweight I might be tempted to trim it.

United Healthcare Group (UNH) is the largest private health care insurer with a variety of other offerings, including OptumRx, a pharmacy benefit manager. Shares have gotten pricey, likely from investors piling into the stock as an inflation hedge. I like the competitive environment and think the club should build a full position if shares pull back.

The consumer discretionary sector, 15% of the portfolio, is represented by two holdings. After flagging, **Amazon (AMZN)** shares have picked up as investors are beginning to appreciate the substantial growth and earnings power of Amazon Web Services, the firm's industry-leading cloud offering. Historically I've passed on the stock given valuation concerns, but the company is beginning to grow into its valuation. Still, a trailing P/E of 50 is very expensive, but analyst estimated annual earnings growth of 26% is believable. Even so, I'd at least trim the 11% holding down to a normal weight.

In the face of rising interest rates, homebuilders' stocks are getting hammered, including **Century Communities (CCS)**. The top 10 homebuilder nationally has experienced a boom over the past couple of years as demographic trends and the increase of working at home caused by the pandemic have boosted demand for new homes. As higher rates take hold growth will likely slow, but a P/E of 4 leaves a lot of room for upside if the company is able to generate 14% annual EPS growth. I'd challenge the holding with other homebuilders, perhaps **D.R. Horton (DHI)**, and work toward a full position.

JPMorgan Chase & Company (JPM) is the lone financial holding. While the major bank carries a P/E of only 9, 7% annual estimated earnings growth isn't enough to hold my attention. I'd suggest the club look at **BlackRock (BLK)** and **Western Alliance Bancorporation (WAL)** as challengers.

Finally, **UFP Industries (UFPI)** represents the industrial sector. The manufacturer and distributor of lumber, wood and other building products had a banner year in 2021, but as a long-term hold post-pandemic growth will likely be moderate. The club might want to challenge the position with **Jabil (JBL)**.

Dan Boyle, CFA, is vice president of investment firm Provident Investment Management, Inc., Novi, Michigan, www.investprovident.com. He is also a member of the magazine's Editorial Advisory and Securities Review Committee and co-author of the Investor Advisory Service newsletter.

Club Accounting

Here's How to Find the Data the IRS Seeks on Overseas Transactions

Does Your Club Own Foreign Stocks? New Rules Apply

by Russell Malley, Club Accounting Adviser, ICLUBcentral

This past tax season brought confusion concerning two new schedules added by the Internal Revenue Service, the K-2 and K-3. These schedules are expansions of the foreign transactions portion of Schedule K-1. The IRS changed the instructions for Schedule K-2 and Schedule K-3 twice after partnership returns were being accepted. In such circumstances it is easy to see why there was some confusion. We hope the IRS makes things easier for coming years. At the request of a reader, here are some things to know about foreign companies to help clubs.

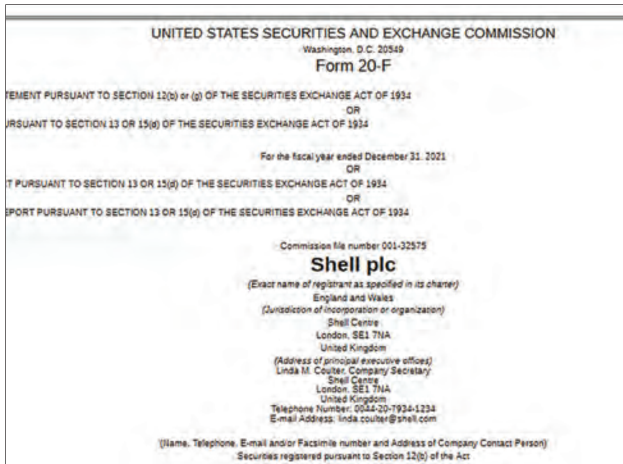
What is a foreign corporation? This is the definition of "foreign" found in the tax code, 26 USC § 7701(a)(5): "The term 'foreign' when applied to a corporation or partnership means a corporation or partnership that is not domestic." You will need the previous clause of the law, 26 USC § 7701(a)(4), to get the complete picture, which states: "The term 'domestic' when applied to a corporation or partnership means created or organized in the United States or under the law of the United States or of any State unless, in the case of a partnership, the Secretary provides otherwise by regulations."

An easy way to think of this is any company not incorporated using U.S. law or the law of a state of the United States is a foreign company. Knowing the actual country of incorporation is now important as the IRS is requiring the name of all countries from which income is derived to be included on partnership returns. More detailed information on foreign income was one purpose of the two new schedules introduced this past tax year.

Finding Out Where a Company Is Incorporated

How does one know the country of incorporation? There are two simple ways to get the country of incorporation for a company. One is to go to the company's investor relations section of its website. Use one of the methods to contact investor relations and just ask them the country of incorporation.

Some Securities and Exchange Commission forms filed by the company also include the country of incorporation. Forms 10-Q, 10-K and 8-K have this information on the front page of the filing. I found not all foreign companies file the three SEC forms just mentioned. However, such companies probably do file SEC Form 20-F. The country of incorporation is included on the 20-F form. The illustration shows an abbreviated example of an SEC filing cover page with the country of incorporation included.


UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F

TEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
URSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2021
OR
T PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
EPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-32575
Shell plc
(Exact name of registrant as specified in its charter)
England and Wales
(Jurisdiction of incorporation or organization)
Shell Centre
London, SE1 7NA
United Kingdom
(Address of principal executive offices)
Linda M. Coulter, Company Secretary
Shell Centre
London, SE1 7NA
United Kingdom
Telephone Number: 0044-20-7934-1234
E-mail Address: linda.coulter@shell.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)
Securities registered pursuant to Section 12(b) of the Act

Home Address: Form 20-F lists the home office for a foreign corporation and is filed with the Securities and Exchange Commission.

Using myICLUB to Find the Country of Incorporation

How is the country of incorporation recorded in the club's myICLUB accounting records? Recording the country of incorporation is easily accomplished in myICLUB. **Go to Accounting > Securities > Update security** settings. This will display a list of all the companies in the club portfolio. Click the edit icon to the left of the company name. This opens the individual security settings for that company. In the Advanced section is a Country field. Use the drop-down menu for this field to select the correct country.

Why is this information needed? The IRS has required reporting the country where foreign income is earned for multiple years on line 16 of schedules K and K-1. While we can hope the long schedules K-2 and K-3 will have easier requirements to be exempt from filing in the future, there is no guarantee. Judging from the past year, a club receiving any dividends from a foreign company will definitely need to know and report the country of incorporation for these companies on its tax returns.

ICLUBcentral has received some inquiries regarding automatically recording the country of incorporation when a purchase of a stock is made. This feature is definitely being investigated. Unfortunately, the database used for company name and ticker symbol includes four different country fields and no clear indication if one of those fields is the country of incorporation.

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Pricey Shares Have Approached Bottom of Historical Valuation Range

Adobe Inc.

Adobe Inc. (ticker: ADBE), a leading provider of design and marketing software, saw strong revenue gains in 2021 from the social distancing and working from home required during the coronavirus pandemic. More recently the company's revenue growth has returned to lower, more normal levels, making for difficult comparisons going forward.

The growth slowdown may have contributed to the stock's recent decline. Adobe also became caught in the undertow as technology stocks underwent sell-offs over the past few months. From the beginning of the year through March 24, for example, the S&P Dow Jones Information Technology Index was down 9.8%.

Adobe's management has a track record of generating strong results, making astute strategic moves and maintaining an envied corporate culture. Its stock typically remains expensive. The pullback in Adobe's share price therefore drew the attention of the Editorial Advisory and Securities Review Committee.

Hanging Out. An employee finds a quiet spot at the Palettes Restaurant at Adobe headquarters in San Jose, California.

Members cautioned, however, that Adobe's valuation was still fairly lofty with a trailing 12-month price-earnings ratio exceeding 40. That was near a historical low for the company, however. They suggested investors interested in Adobe might want to take just a nibble and then wait to see which way the stock's valuation leans before buying more shares.

The stock's $432.14 close reported March 24 was 38.2% below the 52-week high of $699.54 recorded on Nov. 22. Its TTM P/E ratio was 42.9 (*see table*); the ratio for the S&P 500 was 25.8. CSIMarket, a financial data service, set the TTM ratio average for the software and programming industry at 30. Based on figures Yahoo Finance reported, the P/E average was 31.6 for Adobe and three competitors named by Morningstar.

For P/E to projected growth, or PEG, Yahoo Finance reported a 1.8 ratio for Adobe, based on an average five-year expected earnings growth rate. A range of 1.0 to 1.5 is generally considered desirable.

Digital Mix

Adobe is among the world's largest and most diversified software companies. It distributes software enabling users to create, transfer, track and print electronic documents. In recent years it also has offered software for automation of marketing and e-commerce operations.

This month we introduce two full-length Stock to Study and Undervalued reports. Watch for them in each of BetterInvesting Magazine's *double issues, June/July and January/February.*

Adobe provides software as a service — SaaS — distributed through the cloud on a subscription basis. Launched in 2012, the subscription approach smooths out revenue streams and provides customers with automated billing and software upgrades. It essentially eliminates piracy of Adobe products, a chronic problem when the company sold licenses for use of its software.

In fiscal 2021 (ended Dec. 3, 2021) Adobe derived $14.6 billion — 92.3% of total revenue — from software subscriptions. Product sales generated $555 million — 3.5% of the total. Services and other sources produced $657 million — 4.2% of the total.

Consulting services and products Adobe provides to large customers across all three reporting segments account for nonsubscription revenue.

Dr. John E. Warnock and Dr. Charles M. Geschke were colleagues at Xerox Holdings (XRX) when they left to launch Adobe in 1982.

Adobe first issued publicly traded stock in 1986. Formerly known as Adobe Systems, the company shortened the name to its current form in October 2018.

Adobe's first product was PostScript, a computer language translating electronic documents put to a printer. In 1985 Apple (AAPL) incorporated PostScript in its laser printers. In 1987 Adobe introduced Illustrator, a design and illustration software program, and the Adobe Type Library, a selection of computer fonts. Photoshop, an image editing application, followed in 1989. Throughout the 1990s Adobe continued to introduce new graphic design applications and supporting software.

Those mainstay products are marketed through Digital Media, Adobe's largest unit. In 2021 the segment generated $11.5 billion — 73.0% of the revenue total. The segment's software products and services facilitate the creation and movement of electronic documents. Typical customers are graphic designers, photographers, publishers, video producers, animators and other creative professionals.

Core products are marketed under the brand name

Adobe Inc.	2021 (ended 12/3/21)	2020 (ended 11/27/20)	% change	FY 2022 Q1	FY 2021 Q1	% change	FY 2022 year to date	FY 2021 year to date	% change
Net sales	$15.8 billion	$12.9 billion	22.7%	$4.3 billion	$3.9 billion	9.1%	—	—	—
Net income*	$4.8 billion	$5.3 billion	(8.2%)	$1.3 billion	$1.3 billion	0.4%	—	—	—
Diluted EPS*	$10.02	$10.83	(7.5%)	$2.66	$2.61	1.9%	—	—	—
Declared dividends	—	—	—	—	—	—	—	—	—

Stock exchange	Nasdaq	Value Line long-term earnings growth estimate	15.5%
Ticker symbol	ADBE	Consensus long-term earnings growth estimate (30 analysts)	14.7%
Price at time of selection	$422.90	Consensus EPS growth rate for FY ended Dec. 2022	10.4%
Past year's price range	$407.94 – $699.54	Consensus EPS growth rate for FY ended Dec. 2023	18.0%
Recent market price	$432.14	Recent price-earnings ratio**	42.9x
Market capitalization	$204.1 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $10.07 for the four quarters ended March 4.

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

Creative Cloud, which recently had about 49 million users. In addition to Illustrator, Photoshop and the related Photoshop Lightroom, the Creative Cloud suite includes InDesign, for page layout; Adobe premiere Pro, for video editing; and Dreamweaver, for website design and management.

Other Digital Media applications include After Effects and Animate, for animation work; Digital Publishing Solution, for transferring print publications to tablet devices and smartphones; and Typekit, a subscription font service. The segment's Document Cloud product line is built around the Acrobat family of document software.

Digital Experience accounted for $3.9 billion — 24.5% of total revenue. The segment distributes applications designed to optimize marketing over the internet.

The software is delivered through the Adobe Marketing Cloud. Customers include advertisers, publishers, merchandisers, corporate executives, web analysts and others who employ the internet for marketing purposes.

Publishing and Advertising distributes legacy products and services such as Adobe PostScript and other tools for printing technologies. The segment produced $398 million — 2.5% of total revenue.

Revenue obtained outside the Americas reached $6.8 billion in 2021 — 43.0% of the total. Europe, the Middle East and Africa accounted for $4.3 billion — 26.9%. Asia Pacific generated $2.5 billion — 16.1%.

Shantanu Narayen, 58, joined Adobe in 1998. He was named CEO in December 2007 and also board chairman in January 2017. Narayen previously had co-founded Pictra, a business pioneering in photo sharing over the internet. He also served as an executive at Apple (AAPL).

Competitors include International Business Machines (IBM), Microsoft (MSFT) and Oracle (ORCL), Morningstar reported.

Marketing Maneuvers

During his 14-year tenure as CEO, Narayen has overseen two significant strategic initiatives. One was Adobe's shift to a subscription-based business model. At the time Adobe was the largest technology company to make such a transition.

The other initiative was stepping into marketing-related software products, now the focus of the Digital Experience segment. The unit provides digital marketing support software and is delivering substantial growth. Adobe has built the segment largely through acquisitions.

The company's entry into the market occurred in October 2009 with the acquisition of Omniture in a transaction valued at $1.8 billion. The business provided a collection of web analytics and digital measurement and optimization technologies.

In the most recent deal, Adobe acquired Frame.io in October 2021. The deal was valued at about $1.3 billion. The business offers a cloud-based video collaboration platform. The combination of Adobe and Frame.io software offered customers ways to improve coordination of video-based marketing projects. The acquisition helped put Adobe at the center of the market for creating digital advertising and video content.

In December 2020 the company acquired Workfront for $1.5 billion. The business offers a leading work management platform for marketers.

In April 2021 Adobe and FedEx (FDX) announced a partnership allowing retailers to share data across digital sales and distribution networks. The partnership was intended to help small e-commerce retailers compete with industry giant Amazon (AMZN).

It was expected to help FedEx increase its shipping volumes and Adobe compete with e-commerce technology rivals.

Analysts have noted that Adobe has prepared for the development of the metaverse, the concept of a network of 3D virtual worlds focusing on social connections. The Creative Cloud's Substance 3D plans provide software tools for customers exploring such virtual worlds.

Final Notes

BetterInvesting Magazine featured Adobe as the Stock to Study for November 2016. The stock ranked No. 52 in the Top 100 Survey of investor holdings for 2021 (*see the April 2022 issue*). A projected 153 clubs owned shares.

For the eight weeks ended March 11, Adobe appeared on the Most Active List: Bubbling Under. Participants in the ongoing survey of member investing activity reported 21 buys and 9 sells.

Adobe's share count has declined annually since 2015. During 2021 the company repurchased 7.2 million shares. Adobe's board has authorized a $15 billion buyback plan running through fiscal 2024. The company hasn't paid a cash dividend since 2004. A direct stock purchasing plan isn't available. Since 1988 Adobe shares have undergone five 2-for-1 splits, the most recent occurring in 2005.

More background on Adobe and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website. Contact Investor Relations, Adobe Systems Incorporated, 345 Park Ave., San Jose, CA 95110–2704.

— Reporting by contributing editor Kevin J. Lamiman

Next Month's Stock to Study and Undervalued Stock

The Editorial Advisory and Securities Review Committee met on May 23. The Stock to Study and Undervalued Stock that its members selected were announced shortly afterward. The below 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 Adobe Inc. you might consider the following comments and questions for further study:

- **Capitalization section:** At the end of fiscal year 2021, ADBE held $3.84 billion in cash with $4.12 billion of long-term debt, earning it an A+ safety rating from Value Line. How important is financial strength and reserves relative to other factors in choosing a stock? For the past six years ADBE has been reducing the number of shares outstanding, even as it continues to acquire smaller companies. Does this trend, backed by a $15 billion share buyback program running through 2024, suggest that management regards its stock to be undervalued by investors? Are there hints from management comments or analyst guidance that share buybacks might be extended — or curtailed?

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** Sales growth at ADBE has averaged 17.5% annually over the past decade, ahead of peers and double that of software powerhouse (and much larger) MSFT. Does ADBE's business strategy suggest that it can continue fast sales growth? Likewise, EPS growth is far ahead of peers and industry average — what are the factors that will support continuation? EPS in the latest quarter is down: Is that an anomaly or an inflection point or a sign of trouble ahead?

- **Section 2 (Evaluating Management):** Pretax profit as a function of sales has risen over the past decade, reaching 36.1% in 2021, well ahead of the industry average. Have the CEO and current management developed strong performers who can keep the company's future sales and profitability growing? Likewise, return on equity beats the industry average while debt has been kept relatively low, on an absolute basis and as a function of total capital, contributing to its high rating for safety. How important are these factors, in light of increasing competition from smaller rivals, relative to others when selecting an equity?

- **Section 3 (Price-Earnings History):** ADBE has lost more than a third of its market capitalization since reaching a price peak in November 2021. Tech sector peers were similarly hurt by Federal Reserve signals of credit tightening. In evaluating how to fairly value the stock now, what P/E multiple and future earnings potential would you apply. The stock traded at well above a 50 P/E until recently and now is trading at just above a 40 multiple. Is that still too high? Or does it represent a buying opportunity? A member of BetterInvesting's Securities Review Committee opines that ADBE's current price at about $409 a share makes it a "buy."

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer or contributors in their personal portfolios.

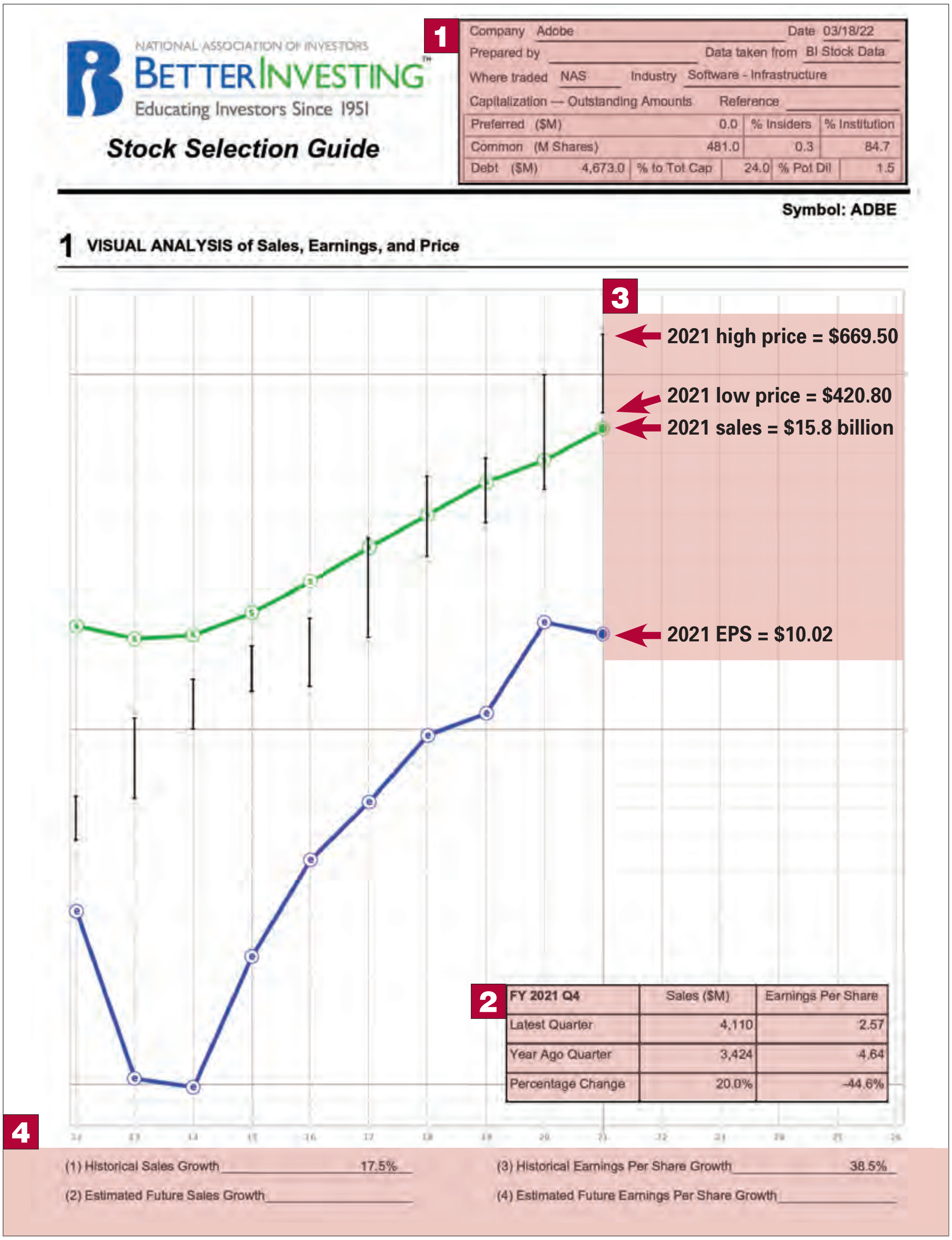

Figure 1

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.

Editor's note: The Value Line and Morningstar company and industry reports are available at the website's homepage under the Learning Center tab, BetterInvesting Magazine *section, for your use in conducting stock studies. You'll need Adobe Acrobat software to read the Portable Document Format files.*

2 EVALUATING MANAGEMENT

Company **Adobe Inc.** **(ADBE)**

5

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	25.4	8.8	8.7	18.2	24.5	29.3	30.9	28.7	32.5	36.1			
B	% Earned on Equity (E/S ÷ Book Value)	12.3	4.1	3.9	9.0	15.9	20.4	28.6	28.3	44.3	33.1			

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	2017	186.3	98.0	3.38	55.1	29.0	0.00	0.0	0.0
2	2018	277.6	165.7	5.20	53.4	31.9	0.00	0.0	0.0
3	2019	313.1	205.0	6.00	52.2	34.2	0.00	0.0	0.0
4	2020	536.9	255.1	10.83	49.6	23.6	0.00	0.0	0.0
5	2021	699.5	420.8	10.02			0.00	0.0	0.0
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)
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell)

9

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) ______ = ______ / Present Price $ ______ = ______ (5B) %

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) ______ %

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 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.

Stocks and mutual funds mentioned in BetterInvesting Magazine *articles are used as illustrations or suggestions for study and are presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC's BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer or contributor in their own personal portfolios or in those of their clients.*

Roaring Ahead With Recycled Parts

LKQ Corporation

With the coronavirus pandemic a fading memory and more people out and about, traffic volumes are higher. Vehicles consequently will undergo more wear and tear requiring maintenance and repairs. More collisions are likely to occur. And, whether parked or moving, vehicles can suffer damage in the weather disasters that seem to be occurring more often.

All of that should help LKQ Corporation (ticker: LKQ) sustain the growth that has resumed after a slump early in the pandemic. LKQ, a leading distributor of salvaged, refurbished and aftermarket vehicle parts, turned in strong revenue results in 2021 (*see table*). It reported a 7% decrease in sales last year.

According to data from the U.S. Federal Reserve System, the distances driven nationwide have been recovering from a low of 2.8 trillion miles in February 2021.

By November the figure was 3.2 trillion miles, just below the level reported in March 2020 at the beginning of the pandemic.

Another factor driving LKQ's growth is the advanced age of many vehicles, which recently stood at an average of just under 12 years. That's near the high for the past two decades.

Wheeling It. LKQ has an exclusive distribution agreement for the Guniwheel System for both North America and Europe. The wheel serves as a temporary wheel while a vehicle is repaired.

Members of the Editorial Advisory and Securities Review Committee suggested that LKQ's recent valuation has dropped to an interesting level. The stock's $45.40 close reported March 24 was 24.9% below the 52-week high of $60.43 recorded on Jan. 3. Its trailing 12-month price–earnings ratio was 12.4; the ratio for the S&P 500 was 25.8.

Based on figures Yahoo Finance reported, the ratio average for LKQ and three competitors named by Morningstar was 18.4. CSIMarket, a financial data service, reported a TTM P/E ratio average for the auto and truck parts industry of 21.8.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 3.0 for LKQ based on an average five-year expected earnings growth rate. A range of 1.0 to 1.5 is generally considered desirable.

In October LKQ instituted a first-ever $0.25 quarterly dividend. On March 24 the dividend yield was 2.1%.

Salvage Solutions

LKQ distributes parts to collision shops, mechanical repair businesses, dealerships and retail customers. The company offers reduced-cost alternatives to replacement parts from the original manufacturers of vehicles.

Key sources of inventory are salvage auctions receiving damaged vehicles that auto insurers have written off. Although LKQ obtains some of its vehicles directly from insurers, auto manufacturers and private owners, auctions account for most purchases. Last year the company procured about 807,000 vehicles in North America and Europe, down 2.5% from 828,000 the year before.

Employees dismantle salvage autos and light trucks and extract high-value components, chiefly core assemblies such as engines, transmissions, doors and trunk lids. Components such as wheels, lights and bumper covers may undergo refurbishing before being marketed. In addition, retail customers can pick over salvage vehicles at LKQ sites for the parts they want.

Although LKQ chiefly markets parts for passenger vehicles, it also distributes alternative components for commercial trucks. The company has 15 U.S. stores serving heavy-duty truck customers.

In 2019 the company entered the domestic diagnostics and repair services market through a pair of acquisitions. Management reported the business — Elitek Vehicle Services — will likely grow as consumers buy newer vehicles incorporating more complex technological components.

In fiscal 2021 (ended Dec. 31, 2021) the company was operating about 1,600 facilities worldwide — warehouses, recycling facilities, refurbishing plants and self-service salvage yards. Of these, 525 were located in the United States.

Over the past four years LKQ has expanded significantly in Europe and now has facilities in more than 20 countries throughout the continent. LKQ also has locations in Canada and Mexico. The company operates a parts warehouse in Taiwan to accumulate inventory for shipment to locations in North America.

Its wholesale plants generate substantial amounts of scrap metal and other materials that are sold to recyclers. The scrap includes precious metals that are extracted from components such as catalytic converters. Commodity prices for items such as steel have climbed recently,

LKQ Corporation									
	2021 (ended 12/31/21)	2020 (ended 12/31/20)	% change	FY 2021 Q4	FY 2020 Q4	% change	FY 2022 year to date	FY 2020 year to date	% change
Net revenues	$13.1 billion	$11.6 billion	12.6%	$3.2 billion	$3.0 billion	7.9%	—	—	—
Net income*	$1.1 billion	$0.6 billion	70.6%	$236.8 million	$181.7 million	30.3%	—	—	—
Diluted EPS*	$3.67	$2.10	74.8%	$0.81	$0.60	35.0%	—	—	—
Dividends	$0.25	—	—	$0.25	—	—	—	—	—

Stock exchange	Nasdaq	Value Line long-term earnings growth estimate	13.0%
Ticker symbol	LKQ	Consensus long-term earnings growth estimate (12 analysts)	33.5%
Price at time of selection	$45.38	FY ended April 2022 consensus EPS growth estimate	(0.30%)
Past year's price range	$40.38 – $60.43	FY ended April 2023 consensus EPS growth estimate	8.6%
Recent market price	$45.40	Recent price-earnings ratio**	12.4x
Market capitalization	$12.9 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $3.66 for the four quarters ended Dec. 31, 2021.

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

boosting the company's revenue.

LKQ sells parts directly to consumers at more than 80 U.S. locations and some international sites. Customers pay a fee to enter a self-service yard. They're directed to vehicles containing sought-after parts they can remove for purchase. Salvage vehicles at the self-service sites typically are older than those sent to LKQ's wholesale recycling facilities.

In 2021 parts and services accounted for $12.1 billion — 92.8% of total revenue. Other business generated $948 million — 72.%.

The North America segment generated $5.2 billion. That was 39.5% of revenue for 2021 before elimination adjustment for intersegment sales. The unit includes LKQ's self-service business.

Following LKQ's expansions of recent years, Europe has become its largest reportable unit. The segment produced $6.1 billion — 46.3% of the total before adjustment.

A third segment markets parts, supplies and accessories for recreational, personal watercraft, off-road and other specialty vehicles. Specialty generated $1.9 billion — 14.2% before adjustment.

The segment resulted from the January 2014 acquisition of Keystone Automotive Operations, a distributor of specialty vehicle products and accessories in the United States and Canada. LKQ paid $450 million for the business.

Domestic sales stood at $6.6 billion — 50.6% of the total. The United Kingdom produced $1.6 billion — 12.6%. Germany generated $1.6 billion — 12.4%. Other countries accounted for $3.2 billion — 24.4%.

The company's name reportedly stands for Like Kind, Quality. Donald F. Flynn started LKQ in February 1998 and built the business by acquiring wholesale auto recycling facilities in Florida, Michigan, Ohio and Wisconsin. The executive launched the company after leaving Waste Management (WM), a solid waste disposal business that was merging with USA Waste Services. LKQ went public in 2003.

Dominick P. Zarcone, 63, joined LKQ in March 2015 and was appointed CEO and president in June 2017. He previously held posts with Kidder, Peabody & Co., now part of UBS Group (UBS); and privately held Baird Financial Group, Warn Industries and Beatrice Companies. Former CEO Joseph M. Holsten, 69, has served as executive chairman since November 2011.

Competitors include Advance Auto Parts (AAP), AutoZone (AZO) and Genuine Parts (GPC), Morningstar reported.

Refurbishing Growth

LKQ operates in a highly fragmented industry, and periodic acquisitions have long been a mainstay of its growth strategy. In one of its most recent large deals, LKQ acquired most of the assets of Stahlgruber in May 2018. Based in Germany, the business distributes wholesale aftermarket vehicle parts throughout Europe. Transaction terms weren't disclosed.

Analysts expect LKQ to now make mostly small acquisitions to enhance its product offerings. Since 2019 the company has shifted the emphasis to integrating its businesses and reducing expenses. LKQ reportedly is engaged in a $1 billion cost-cutting initiative.

Management has sought to bring LKQ's various North American distribution channels into closer alignment. The company has expanded its network of parts warehouses while dismantling plants in some major metropolitan areas.

Shoring up the distribution system has helped LKQ maintain much better sales fulfillment rates than smaller competitors. Its aftermarket fulfillment rate recently stood at about

95%. The fulfillment rate for salvage parts was about 75%.

The auto industry's adoption of new vehicle technologies will require adaptation. The shift toward electric vehicles will ultimately reduce demand for replacement parts in internal combustion machines. The transition to EVs should, however, open up new sales opportunities for LKQ, especially for remanufactured and refurbished batteries and related parts.

On the other hand, increasing incorporation of advanced driver assistance systems (ADAS) in new vehicles is expected to reduce the rate of traffic accidents. That would mean a reduced supply of salvage parts.

Final Notes

BetterInvesting Magazine featured LKQ as the Stock to Study for October 2010 and August 2016. The company ranked No. 120 in the Top 100 Survey of investor holdings for 2021 (*see the April 2022 issue*). An estimated 74 clubs held its shares.

The company historically hasn't engaged in stock buybacks. That changed recently. LKQ's share count has declined each year since 2018, Value Line reported. In 2021 the company repurchased $877 million worth of shares. In July directors doubled the buyback authorization to $2 billion through October 2024.

The company doesn't offer a dividend reinvestment and direct stock purchase plan. Shares underwent 2-for-1 splits in 2006, 2007 and 2012.

More background on LKQ and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website. For more information contact Investor Relations, LKQ Corporation, 500 W. Madison St., Suite 2800, Chicago, IL 60661-2506.

Websites of Interest

LKQ Corporation

www.lkqcorp.com

— Reporting by contributing editor Kevin J. Lamiman

> "LKQ operates in a highly fragmented industry, and acquisitions have long been a mainstay of its growth strategy."

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Holding a Good Hand in the Market for Payment Processing?

Global Payments Inc.

Throughout the world consumers and businesses are increasingly employing electronic payment methods. They're handing over cash or writing checks less often and whipping out debit and credit cards or hitting the keypads more frequently. The shift away from paper in favor of digital is among factors driving the growth of Global Payments Inc. (ticker: GPN), a global leader in the payment processing industry.

The pure-play payment technology company suffered a dip in its results during the coronavirus pandemic; many consumers were stuck at home, spending less and therefore making fewer payments to retailers. Total adjusted revenue fell about 5% in 2020. However, the payment processor's results have rebounded in 2021 (*see table*).

One of the most significant recent developments for the company was its September 2019 acquisition of Total Systems Services — TSYS. The all-stock transaction was valued at $24.5 billion. TSYS stockholders received about 0.8 of a Global Payments share for each TSYS share.

The acquisition provided Global Payments with opportunities to strengthen its market position, reduce costs and consequently improve margins in the near term. The deal increased scale for Global Payments — a crucial requirement in its competitive, rapidly consolidating industry.

Web Sales. Global Payments helps small and mid-sized businesses sell merchandise online.

Members of the Editorial Advisory and Securities Review Committee noted that Global Payments is aggressively rewarding shareholders. The dividend rate underwent a big jump at the time of the TSYS acquisition, rising to $0.195 from $0.01. Last August the company increased the quarterly dividend 28.2% to $0.25. On April 18 the dividend yield was 0.7%.

The company's share tally has fluctuated over the past 16 years, Value Line reported. The share total has declined in each of the past two years, however.

In fiscal 2021 (ended Dec. 31, 2021) the company repurchased 15.2 million shares valued at $2.5 billion — a 5% reduction. In January company directors authorized a new $2 billion buyback program. Analysts have predicted the company will continue making buybacks over the near term.

Committee members remarked on the disparity between the company's reported GAAP (generally accepted accounting principles) and non-GAAP financial results. They suggested the difference resulted from amortization related to recent acquisition activity.

The stock has undergone a significant 12-month pullback, with its valuation stepping down into more appealing territory, relatively speaking. Committee members expressed some discomfort with its price-earnings ratio, which exceeded 40 at the time of their meeting. They noted that with interest rates rising, stock multiples are likely to decline in coming years; a lower P/E would increase Global Payments' attractiveness.

The stock's $140.21 close reported April 18 was 36.5% below the 52-week high of $220.81 recorded on April 26, 2021. Its trailing 12-month P/E ratio was 42.6; the ratio for the S&P 500 was 22.2.

CSIMarket, a financial data service, set the TTM ratio average for the professional services industry at 32.7. Based on figures Yahoo Finance reported, the P/E average for Global Payments and three competitors named by Morningstar wasn't meaningful.

For P/E to projected growth, or PEG, Yahoo Finance reported a 0.9 ratio for Global Payments, based on an average five-year expected earnings growth rate. A range of no more than 1.0 to 1.5 is generally considered desirable.

Payment Processing Play

Global Payments serves the payment processing needs of both consumers and businesses. Industries it serves include education, gaming, retail, restaurants, utilities, financial services and event management. Other customers include government agencies, nonprofit organizations and private practice physicians. The company serves customers in more than 100 countries. It partners with more than 1,300 financial institutions, serves about 3.5 million merchant locations and supports more than 140 different methods of payment. Global Payments operates in a highly competitive industry.

Competition for large corporate customers is intense; some of Global Payments' newer rivals focus on serving small businesses. The company has established itself in a niche market encompassing less competition for business customers. Global Payments concentrates on serving small to mid-sized companies generating $500,000 to $600,000 in annual payment volume.

Global Payments Inc.									
	2021 (ended 12/31/21)	2020 (ended 12/31/20)	% change	FY 2021 Q4	FY 2020 Q4	% change	FY 2022 year to date	FY 2021 year to date	% change
Net sales	$8.5 billion	$7.4 billion	14.8%	$2.2 billion	$1.9 billion	13.7%	—	—	—
Net income*	$966.2 million	$586.0 million	64.9%	$208.5 million	$182.6 million	14.1%	—	—	—
Diluted EPS*	$3.29	$1.95	68.7%	$0.72	$0.61	18.0%	—	—	—
Declared dividends	$0.89	$0.78	14.1%	$0.25	$0.20	28.2%	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	16.5%
Ticker symbol	GPN	Consensus long-term earnings growth estimate (36 analysts)	18.2%
Price at time of selection	$139.95	Consensus EPS growth rate for FY ended Dec. 2022	16.5%
Past year's price range	$116.75 – $220.81	Consensus EPS growth rate for FY ended Dec. 2023	17.4%
Recent market price	$140.21	Recent price-earnings ratio**	42.6x
Market capitalization	$39.5 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $3.29 for the four quarters ended Dec. 31, 2021.

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

The company's largest segment is Merchant Solutions; which offers a wide range of services. Those include payment authorization, settlement and funding services; customer support; chargeback resolution; terminal rental, sales and deployment; payment security services; and consolidated billing and reporting.

The unit's revenue comes in the form of various transaction fees, plus software subscription, licensing and service fees. In 2021 the segment generated $5.7 billion — 66.5% of consolidated revenue.

Issuer Solutions primarily does business with financial institutions and other financial service providers. It also handles commercial payment processes for businesses and government agencies. In 2021 the segment accounted for revenue of $2.1 billion — 24.2% of the total.

Business and Consumer Solutions provides U.S. consumers and businesses with prepaid debit and payroll cards, demand deposit accounts and related financial services under its Netspend brand. The segment generated $886.4 million — 10.4% of the total.

Payment processing is a mature domestic business, and management is placing increasing emphasis on global growth opportunities. In 2021 revenue generated outside the Americas was $1.4 billion — 16.7% of the total. Europe is the chief overseas revenue source, having accounted for $1.2 billion — 13.8%.

Global Payments was founded in 1996 as a division of National Data Corporation and spun off in 2001. (Shortly afterward National Data, became privately held NDCHealth.)

In 2016 the company acquired Heartland, its chief rival at the time. The transaction resulted in significantly increasing the volume of business Global Payments was handling.

Jeffrey S. Sloan, 54, joined the company in 2010 and became CEO in 2013. He previously was a senior executive at Goldman Sachs Group (GS). When M. Troy Woods, 70, joined the Global Payments board as chairman in 2019, he was chairman, CEO and president of the acquired company TSYS.

Global Payments' competitors include Block (SQ), EVO Payments (EVOP) and New Providence Acquisition (NPAB), Morningstar reported.

Polishing Its Portfolio of Businesses

The TSYS transaction was just one of the strategic acquisitions the company has negotiated in recent years. During 2021 Global Payments spent $933 million on additional deals.

In September Global Payments announced it would acquire MineralTree in an all-cash transaction, paying three Boston-area venture capital firms $500 million. MineralTree provides accounts payable automation as well as business-to-business payment solutions.

Last June the company acquired Zego, a real estate technology business. Global Payments agreed to an effective purchase price of about $830 million, with the all-cash deal valued at $925 million, inclusive of a tax asset. Zego markets a property management software platform.

In July CaixaBank (CAIXY), Spain's largest domestic bank, agreed to sell two businesses to Global Payments for a combined $328 million. One division processes retailers' payments to Comercia, a local unit of Global Payments in which CaixaBank holds a 20% stake. CaixaBank also sold a prepaid card business. The bank obtained the two sold businesses through its acquisition of smaller Spanish rival Bankia in March 2021.

Global Payments hasn't limited its

portfolio management to just acquisitions. The company announced in February it would conduct a strategic review of the consumer side of the Netspend debit card business with the intent to seek a buyer. The company unsuccessfully sought to sell Netspend in 2020, asking for more than $2 billion.

Netspend provides reloadable prepaid debit and payroll cards, demand deposit accounts and other financial services. Global Payments plans to keep the business-to-business part of Netspend. Management characteized the proposed sale as part of efforts to focus on core corporate customers: merchants, financial institutions, software partners and technology leaders.

The company obtained Netspend through the TSYS acquisition. Global Payments reported 2021 Netspend GAAP revenues of $886.4 million. That was nearly 7% higher than the year before.

Final Notes

BetterInvesting Magazine hasn't previously featured Global Payments. The stock didn't appear in the Top 100 Survey of investor holdings for 2021 (*see the April 2022 issue*).

Global Payments underwent 2-for-1 stock splits in 2005 and 2015. A dividend reinvestment and direct stock purchasing plan isn't available.

More background on Global Payments and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website.

For more information, contact Investor Relations, Global Payments Inc., 3550 Lenox Road, Atlanta, GA 30326-4334.

— Reporting by contributing editor Kevin J. Lamiman

Next Month's Stock to Study and Undervalued Stock

The Editorial Advisory and Securities Review Committee met on May 23. The Stock to Study and Undervalued Stock that its members selected were announced shortly afterward. The below 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 Global Payments Inc. you might consider the following comments and questions for further study:

- **Capitalization section:** The number of shares outstanding, fairly stable through 2019, in that year increased by a factor of two with a major acquisition. Clearly, the company's growth strategy has been via acquisitions. Has GPN's post-acquisition record justified the substantial addition of new shares? Have earnings per share kept pace with the broadening of the company's capital structure? Since 2019 the company's book value also has increased dramatically — have share prices kept pace as a function of book value? How important is that relationship to you as an investor?

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** GPN's sales growth of 14.5% over the last decade has been impressive, though not on the order of smaller competitors like Square, which has been growing at more than an average of 50% annually over the same period. Earnings per share at the smaller competitor have been choppier, however, while GPN has posted a 6.5% average annual growth rate over the decade. As an investor, are you more comfortable with a smaller company that has potential to grow in a relatively short time into a large one — or an enterprise like GPN that already is sizable and whose growth has proven to be relatively stable and reliable?

- **Section 2 (Evaluating Management):** GPN's pretax profit on sales has averaged 11.8% annually over the past decade and has avoided much fluctuation. The company's return on equity has declined in recent years, likely because of funds used to pay down debt. Debt has grown steadily in keeping with the company's acquisition strategy. During the past three years the ratio of debt to total capital has declined. Does this trend suggest that GPN's management is using debt conservatively and managing it well? Can the company continue to grow via acquisition or will it be forced to concentrate on improving organic growth by entering new geographic or product markets?

- **Section 3 (Price-Earnings History):** For the past five years the company has had an average P/E of 46.3 and a current P/E of 42.1. Would this indicate to you that the stock now is relatively inexpensive? In mid-April the stock was selling at about $138 a share. One member of BetterInvesting's Securities Review Committee estimated a best-case potential share price of about $333 within five years, based on an average high P/E times an estimated high per/share earnings number. What might an opposite forecast look like, based on an average low P/E times an estimated low per/share earnings number? Which forecast seems more credible to you based on the company's recent performance and its business prospects? How would you assess the price at which GPN becomes a "buy" for you?

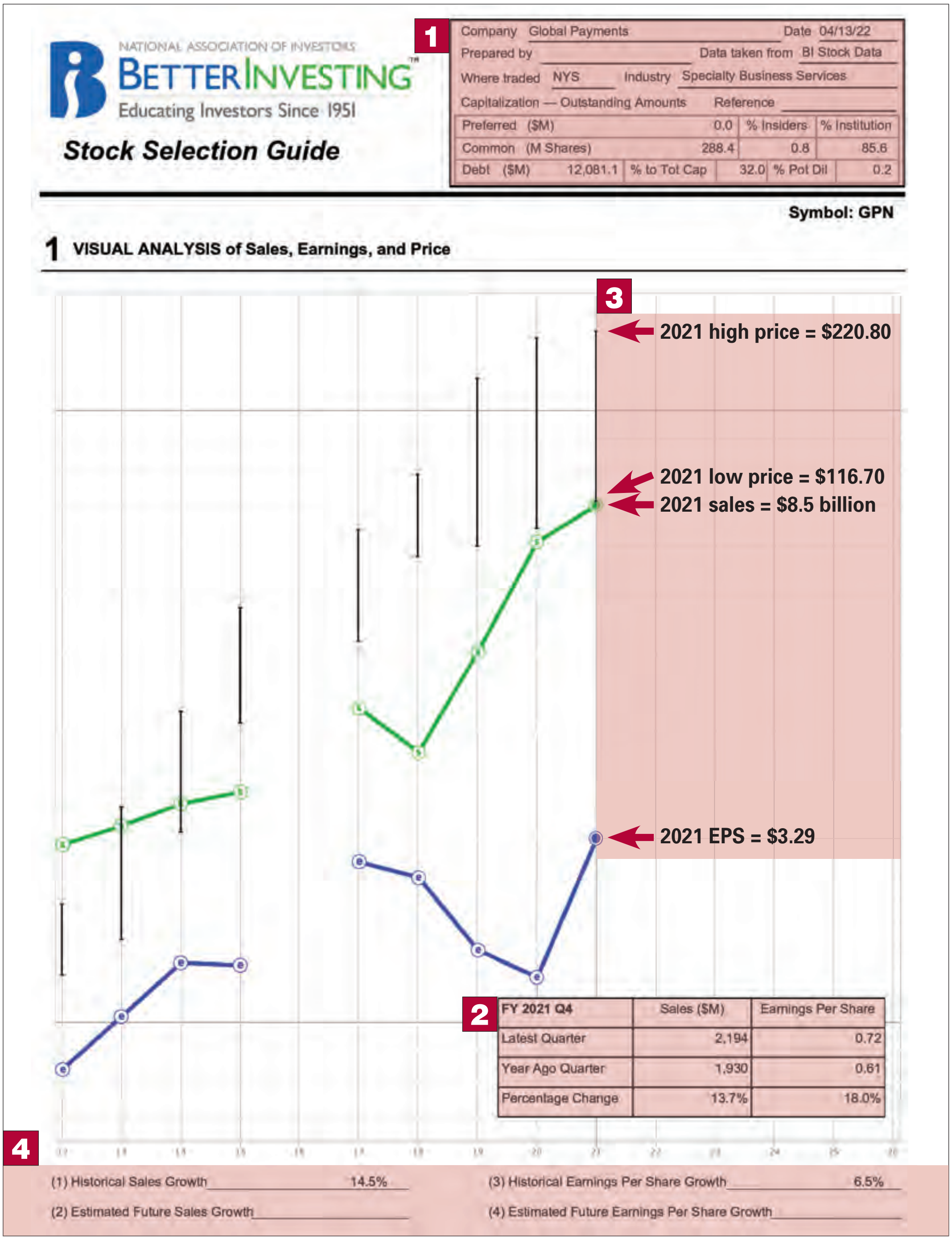
Figure 1
Capitalization information. Besides background about the company, including the data source used for the study, this section provides information about the number of common and preferred shares and the percentages held by insiders and institutional investors. The company's total debt and the 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.

Editor's note: The Value Line and Morningstar company and industry reports are available at the website's homepage under the Learning Center tab, BetterInvesting Magazine *section, for your use in conducting stock studies. You'll need Adobe Acrobat software to read the Portable Document Format files.*

2 EVALUATING MANAGEMENT

Company Global Payments (GPN)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	14.1	14.8	15.0	12.5		9.9	16.7	10.5	8.0	12.3			
B % Earned on Equity (E/S ÷ Book Value)	18.2	20.5	32.6	37.5		13.6	11.3	2.3	2.1	3.6			

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	2017	104.9	69.0	3.01	34.9	22.9	0.04	1.4	0.1
2	2018	129.3	94.8	2.84	45.5	33.4	0.04	1.4	0.0
3	2019	185.4	98.6	2.16	85.8	45.6	0.23	10.4	0.2
4	2020	215.7	105.5	1.95			0.78	40.0	0.7
5	2021	220.8	116.7	3.29	67.1	35.5	0.89	27.1	0.8
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)
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell)

9

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
5 Year Appreciation Potential (4E) ______ / 5 ______ %
Average Yield (5B) ______ %
Average Total Annual Return Over the Next 5 Years (5C) ______ %

11

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 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.

Ready for Take-Off After the Pandemic?

Delta Air Lines, Inc.

The pandemic represented something of a black hole for the financial results of domestic carriers such as Delta Air Lines, Inc. (ticker: DAL). Government- and employer-imposed travel restrictions and employee illnesses hammered the company, causing canceled routes, staff shortages and significant losses.

Travel volumes have improved in recent months but remain below 2019 levels, just before the pandemic began disrupting the global economy. Analysts have predicted that 2022 will continue to be a year of recovery for the industry.

Delta reportedly returned to profitability in March, at the end of the first quarter. Corporate management has predicted Delta will report a profit for the second quarter.

More Flying Ahead. Delta Air Lines is hiring additional pilots as leisure-travel demand climbs sharply toward pre-pandemic levels.

Leisure travel came back strongly early this year after a pause caused by a surge in infections with the omicron COVID-19 variant. Business and international bookings have remained anemic, though. Analysts believe full recovery of non-leisure bookings will occur by 2023.

The pandemic's effects over the past two years have made comparisons difficult. Many analysts have ignored 2020, instead putting up last year's results for Delta against 2019 financials representing pre-pandemic normalcy.

Members of the Editorial Advisory and Securities Review Committee acknowledged the problem; they said a Stock Selection Guide for Delta would require some adjusting to produce a reasonably clear picture of the stock's investment potential.

Recession fears hurt stocks in March and Delta's share price fell early that month.

The stock began rising sharply after Delta's first quarter report was released on April 13. The results were better than expected, and management expressed optimism about the company's near-term prospects. The share price climbed 9.1% in the five days leading up to the committee's meeting.

The stock's $42.13 close reported April 18 was 13.2% below the 52-week high of $48.54 recorded on June 1, 2021. Its trailing 12-month price–earnings ratio was 53.3 (*see table*); the ratio for the S&P 500 was 22.2.

Based on figures Yahoo Finance reported, the ratio average for Delta and three competitors named by Morningstar wasn't meaningful. CSIMarket, a financial data service, also reported a TTM P/E ratio average for the airline industry that wasn't meaningful.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 0.3 for Delta, based on an average five-year expected earnings growth rate. A ratio of no more than 1.0 to 1.5 is generally considered desirable.

Corporate Cockpit

Delta was offering more than 4,000 daily flights recently, serving over 275 destinations on six continents. The airline's route network consists of hubs, international gateways and key airports in Amsterdam, Atlanta, Boston, Detroit, London (Heathrow), Los Angeles, Minneapolis–St. Paul, New York (LaGuardia and JFK), Paris (Charles de Gaulle), Salt Lake City, Seattle and Tokyo (Narita).

Delta is a founding member of SkyTeam, a global airline alliance. Launched in 2000, the consortium enables Delta and partner airlines to collectively reach more than 900 destinations in about 140 countries. Through SkyTeam, passengers can book flights to destinations Delta doesn't directly serve; with partners handling certain legs of the trip.

At year-end 2021 the company was operating 816 aircraft — up 8.9% from 750 a year earlier. Of the 2021 total, 627 were owned and 189 leased. Three regional carriers — Endeavor Air, SkyWest Airlines and Republic Airline — operated 349 aircraft on Delta's behalf.

Delta's fleet consists of aircraft manufactured by Airbus (EADSY) and Boeing (BA). Last year the carrier's most numerous three models were the Boeing 737-900ER (140 aircraft), Airbus 321-200 (127) and Boeing 757-200 (100). The average age of its aircraft was 14 years, versus 13.5 years in 2020.

Delta reportedly controls costs when replenishing its fleet by mostly buying used aircraft, plus new ones when available at bargain prices. In 2021 the company reported having made commitments to take delivery of 264 aircraft over the next few years — all but 19 of them Airbus models. Seventy aircraft were scheduled for delivery in 2022.

Delta Air Lines, Inc.									
	2021 (ended 12/31/21)	2020 (ended 12/31/20)	% change	FY 2022 Q1	FY 2021 Q1	% change	FY 2022 year to date	FY 2021 year to date	% change
Net revenues	$29.9 billion	$17.1 billion	74.9%	$9.3 billion	$4.2 billion	125.3%	—	—	—
Net income*	$0.3 billion	($12.4 billion)	—	($0.9 billion)	($1.2. billion)	—	—	—	—
Diluted EPS*	$0.44	($19.49)	—	($1.48)	($1.85)	—	—	—	—
Dividends	—	$0.40	—	—	—	—	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	49.0%
Ticker symbol	DAL	Consensus long-term earnings growth estimate (20 analysts)	(23.7%)
Price at time of selection	$42.36	FY ended April 2022 consensus EPS growth estimate	161.0%
Past year's price range	$29.75–$48.54	FY ended April 2023 consensus EPS growth estimate	142.6%
Recent market price	$42.13	Recent price-earnings ratio**	53.3x
Market capitalization	$27.0 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $0.79 for the four quarters ended March 31, 2021.

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

Transporting passengers generated $22.5 billion in 2021 — 75.3% of total operating revenue. The company reported flying 134.7 billion revenue passenger miles, up 85.3% from 73.4 billion the year before. In contrast, pre-pandemic revenue passenger miles totaled 237.7 billion in 2019.

Hauling cargo on scheduled passenger flights accounted for $1 billion — 3.5% of the 2021 total. The cargo business generated more revenue than usual because the pandemic reduced industrywide cargo capacity, increasing demand. Delta also produced extra revenue by operating cargo-only charter flights.

Delta's other-business category encompassed its loyalty program, ancillary businesses and miscellaneous operations such as airport lounge access provided to certain American Express cardholders. The category produced $6.3 billion — 21.2%.

Delta offers a variety of ancillary aviation services. The company provides maintenance, repair and overhaul services for the aircraft of other carriers. It offers staffing, training, professional security and aircraft management services. The company also markets vacation packages and aircraft charters.

In mid-2012 Delta acquired the Trainer refinery from Phillips 66. The Philadelphia-area complex produces gasoline, diesel and jet fuel. In 2021 fuel sold to third parties produced revenue of $3.2 billion — 50.9% of the other-business category.

International flights generated $4.1 billion — 18.0% of passenger revenue. Latin American routes accounted for 8.3%; Atlantic routes, 7.9 %; and Pacific routes, 1.8%.

Delta began in 1924 as the country's first crop-dusting business. World War I pilot Collett Everman Woolman developed a system for dropping insecticide on Louisiana cotton fields.

Woolman led Huff Daland Dusters, a division of aircraft manufacturer Huff Daland Aero. The business soon served much of the South and expanded into Mexico and South America.

The business diversified by earning airmail contracts. It first offered U.S. passenger service in 1929. That year Woolman and four local partners purchased the division, renaming it Delta Air Services for the Mississippi Delta region the business served.

By the end of World War II airmail delivery and passenger service were Delta's chief businesses. In 1967 the company merged with Delaware Air-lines, adopting its current name.

The Delaware merger was one of several that have driven Delta's growth over the decades. One of the most recent was its acquisition of Northwest Airlines in 2008.

Along with other U.S. air carriers, Delta was in financial difficulty following the Sept. 11, 2001, terrorist attacks, which produced a drop-off in air travel.

High labor, pension, fuel and debt costs contributed to its challenges. The company filed for Chapter 11 protection in September 2005 and emerged from bankruptcy in May 2007.

Edward H. Bastian, 63, became CEO in May 2016. He joined the company in 1998. Bastian previously was a senior executive with privately held PricewaterhouseCoopers and units of PepsiCo (PEP).

Francis S. Blake, 72, is non-executive chairman. He previously was executive chairman and CEO of Home Depot (HD) and a senior executive for General Electric (GE). Blake was deputy secretary of the U.S. Department of Energy and held several other posts in the federal government.

Competitors include American Airlines Group (AAL), Southwest Airlines (LUV) and Spirit Airlines (SAVE), Morningstar reported. Another large rival is United Airlines Holdings (UAL).

In 2019 Delta ranked third behind American and United in passenger seat-miles.

Moving Beyond the Pandemic

Higher fuel costs are among the concerns for airlines as they come out of the pandemic. Delta reported first quarter fuel costs rose 33% from year-end 2021, with further increases expected in the second quarter. Fuel represents the company's second-largest expense after employee compensation.

So far this year the company has successfully passed along the added fuel costs through higher ticket prices. Management has reported the price increases don't appear to be discouraging travelers from booking flights.

To meet expected increases in demand, Delta is ramping up its operations — but conservatively. Management has set a second quarter goal of running at 84% of 2019 capacity. The company reportedly is hiring about 200 pilots a month to prepare.

Final Notes

Delta was the Stock to Study for October 2015 and the Undervalued Company for October 2017. It ranked No. 72 in the Top 100 survey of investor holdings for 2021 (*see the April 2022 issue*). A projected 116 clubs owned shares.

Delta doesn't offer a direct stock purchase plan. Its shares underwent 2-for-1 splits in 1981 and 1988.

Delta's share count has declined annually over the past eight years, Value Line reported.

In 2020 the company suspended its share repurchase program in response to the pandemic's effects on financial results. Delta also discontinued payment of a quarterly cash dividend. Some analysts have suggested the dividend may be restored as soon as mid-year.

More background on Delta and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website.

For more information, contact Investor Relations, Delta Air Lines, Inc., P.O. Box 20706, Atlanta, GA 30320-6001.

Websites of Interest

Delta Air Lines, Inc.
www.delta.com

Airlines for America
www.airlines.org

The International Air Transport Assoc.
www.iata.org

— Reporting by contributing editor Kevin J. Lamiman

Crisis in Europe Might Make ENI's Assets More Attractive

Will Energy Situation Pump Up Italian Oil Company?

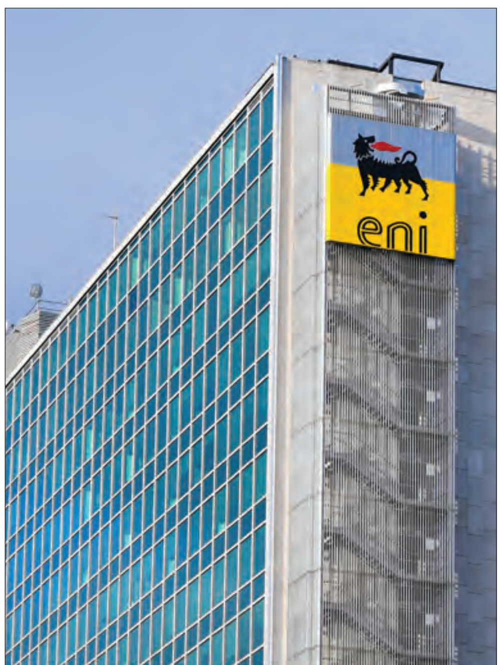
by Nic Van Broekhoven

The last major energy bull market ended in 2008 when oil prices peaked at over $137 per barrel. Between 2009 and 2020 the oil market experienced a long winding slope downwards culminating in the infamous negative price of oil on April 20, 2020.

Major oil and gas companies have been shunned by investors as they seek "cleaner" renewable investment opportunities. While the trend toward renewables looks unstoppable the transitory period could last much longer than expected by investors and opens up interesting investment opportunities for investors.

One laggard in the oil and gas industry has been Italian national oil player ENI. ENI's stock peaked at $77 in 2008 but recently traded below $30 on the New York Stock Exchange. American depositary receipts (ADR) representing Rome-based ENI are traded under the ticker E.

ENI traces back its roots to the 1920s when the Italian government founded AGIP, which was merged with other government entities into ENI in late 1953. ENI went public on the Milan exchange in 1995.



A Roman Monument: The headquarters of the Italian national oil and gas company ENI in Rome features its well-known logo of the six-legged dog.

A Foothold Worldwide

ENI is well-known in Italy for its company logo that features a dog with six legs. In 2022 ENI employs 30,000 globally, has 5,000 service stations across Europe and is investing heavily in various sources of energy globally. ENI has a strong foothold in Africa, the Middle East, Norway, Mexico, Vietnam and Indonesia. The assets in Southeast Asia are mostly gas while the Mexican and African assets are predominantly oil. The renewables portfolio is primarily focused on solar and wind energy solutions. Longer term, ENI does see potential in hydrogen as well.

ENI has kept its production of oil stable at approximately 1.8 million barrels per day between 2016-2021. Over this period its profit has fluctuated widely as oil prices inflated and deflated.

Peak earnings were around 11.2 billion euro in 2018 and trough earnings were just 1.9 billion euro in 2020. During this time net debt has decreased from 14.8 billion euro to 9 billion euro while the company has also been a regular dividend payer. (At press time the exchange rate was 1 euro to $1.08.)

Going forward the stock is trading at a dividend yield of 6.52% with more upside if oil prices stay elevated longer term. ENI has also committed to a regular share buyback program in case of elevated oil prices and high profits.

The company has always struggled with international investor communications but on March 18 held a well-attended capital markets day and on April 4 it appointed an executive from UBS, the investment bank, as its chief head of investor relations.

Government a Major Stakeholder

Investor worries centered on ENI are mostly that the Italian government controls 30% of the shares and might act in the best interest of the government but not of minority shareholders. In addition, with gas and oil prices spiking after the Russian invasion of Ukraine all European governments are faced with skyrocketing consumer prices for electricity.

ENI is further exposed to making uneconomical renewables decisions in order to meet its environmental, social, governance (ESG) targets rather than optimizing cash flow in the short term by developing oil and gas fields further. Just like any energy producer the company is always at risk of spills or leaks at its production sites globally, which could lead to heavy environmental damages and monetary fines.

Some of Your Holdings Could Be Too Vulnerable to a Weaker Economy

Time to Play Defense?

by Sam Levine, CFA, CMT, Contributing Editor

That glorious flood of cash and low rates we stock investors have enjoyed for so long is ebbing fast. Nothing that good could go on forever and that's fair. It floated the market's boat high for close to 15 years.

The transition feels like being on the second round of those (allegedly) never-ending breadsticks at Olive Garden. At first the basket was refilled in seconds, then minutes and then, after the third refill, all the servers disappeared. No, not just disappeared. They joined the Breadstick Protection Program, those rat finks.

With the economy becoming a bit less stock friendly than it was in the past, we want to think defensively. Stocks that went up quickly during that long run-up may be the first to skydive without a chute. We've seen some evidence already in Netflix, Peloton and, arguably, Meta Platforms. Who will be next? We need to start eyeballing the new underperformers with very critical eyes.

Let's first agree that it's OK for a stock to be down. Not great, but OK. We all understand that even the highest quality and quickest growing stocks can underperform the market at times. What's not OK is when a company has fundamentally changed so much that you wouldn't buy the stock when it's cheaper. There's a difference between down and out.

Happily, we live in the land of the free. As soon as we don't like a stock, we sell it, right? Well, no. Far too often we hold on to stocks that have broken their promises in hopes of a rebound we know, deep down in our hearts, probably won't happen soon, or even ever. Is there some dictator making us hold stocks of what are crud companies? Why do we hold stocks we no longer like? Unless you like to collect capital losses for some obscure reason, it's time to update the stock studies and ask yourself these tough questions. Be honest.

Is the Company's New Direction Not Working?

Apple does a great job designing attractive and functional smartphones and computers. But is it a car company? Rumor has it the firm has hired and laid off battalions of engineers and executives trying to build the perfect automobile. Likewise, can Meta make a 90-degree pivot away from fading social media platforms into dominating the largely unexplored metaverse? Some companies, like Apple, Amazon and Alphabet, have such strong cash flows they can easily take a few fliers. But the corporate landscape is littered with the corpses of companies that should have put themselves up for sale instead of wasting shareholder wealth trying to reinvent themselves.

Is the Stock Too Vulnerable to a Poor Economy?

Great products and good management can withstand the test of tough times. But, as Warren Buffett pointed out, "Only when the tide goes out do you discover who's been swimming naked." With the Fed in tightening mode, we're starting to see a few posteriors already. Look closely at your stocks. Do you still like what you see at ebb tide?

BetterInvesting's philosophy emphasizes growth stocks over cyclical stocks. We prefer companies that continue to grow independently of how the economy is performing. Unfortunately, our long economic expansion from the depths of the Global Financial Crisis to recent times may have led us to confuse growth stocks with economically sensitive stocks that happened to be positioned right for a growing economy.

Can It Be You Have a Super-Cyclical Stock?

That's no crime. The question is whether the company has enough financial strength to withstand a weakening economy and make it to the next upswing. Many companies don't. Instead, they either go bankrupt or the stock falls until it's low enough to tempt other companies to buy a faded asset on the cheap and milk it for as long as they can. Yahoo and America Online, once internet juggernauts, have gone through a few owners over the years and are now owned by private equity firm Apollo Global Management.

Are the Reasons You're Holding the Stock Now Different From When You Originally Bought It?

That last question is a toughie. We're naturally disposed to protect our egos. That can lead to practically twisting ourselves into pretzels to avoid admitting that we were wrong and it's a bad habit for stock investors. When a stock declines, we may sooth ourselves by finding a new reason to hold it instead of declaring the idea a dud. Yes, sometimes there are good new reasons to hold a stock that isn't following expectations. But it's more likely you've abandoned your careful analyses. When a company isn't executing or its growth is slowing from tougher competition, you might be hoping too much for a turnaround. It's probably time to move on.

New Actively Managed Fund Class Hones in on Fewer Stocks

Will High-Conviction Mutual Funds Convince You?

by Danielle Schultz, CFP, CDFA, Contributing Editor

Readers of my articles will know that I favor mutual fund portfolios that are low-cost, passively managed index funds for the core of most peoples' portfolios. BetterInvesting gives us a methodology to select and manage individual stocks, but some people want a part of their portfolio to demand less attention and decision-making. Or some accounts (often workplace retirement programs) don't offer much, if any, choice beyond mutual funds.

These core portfolio mutual funds are pretty plain vanilla. They're not very interesting cocktail party chatter. They tend to be set it and forget it (at least for some time period) and don't generate a lot of trading fees or commissions for investment houses. Investment houses, like most companies, are in business to make money, so there's a lot of focus on formulating new flavors as often as possible.

Nevertheless, we all want to feel special or that there might be some secret sauce for which we lack the recipe. Could we find someone who cooks better than we do? Has better sources for ingredients? Can they pay attention all day, every day? That's what investment houses are holding out in the new spate of "high-conviction funds."

Pay Attention to Management

Managers selected for the roll-out of a high conviction fund are generally experienced at managing other funds with an excellent track record. So, although the manager may have a very short tenure at the fund, because the fund itself has only existed for a year or two, the manager likely has a long period of experience to point to, or has worked for a long time for another very successful manager. For example, Vanguard Advice Select Dividend Growth Fund (ticker: VADGX) has an inception of Nov. 9, 2021. But its manager, Donald Kilbride, has worked in the industry since 1996 and for Wellington Management (Vanguard Wellington funds) under manager Edward Bousa for 20 years. In other words, he's new to managing the new fund, but not new to fund management.

One hopes that any manager of an active fund has high conviction about their investments, but these new funds probably seem like a wondrous buffet to a manager. After managing a plethora of investments (Vanguard Wellington holds more than 1,300), they get to focus down to their very "highest conviction" picks and manage them intensely (VADGX has 31 investments).

Note that global high-conviction funds tend to have more investments but will still have a small portfolio, say, 100 or so investments. Not only is this putting your faith in someone who hopefully will turn out to be a star manager, but you should also carefully investigate what that manager says they will do. You might be able to find this on the fund's web page, but you'll likely need to drill into the prospectus for the details. Is this a menu from which you'd order? Are you convinced that these principles are in sync with your own? And, as time goes on, is the manager following the fund's own recipes?

Know What's in the Basket and Watch It Carefully

Admittedly, we can't base our choice to invest on past performance. Although I often suggest you look at the underlying portfolio, in the case of high conviction funds it becomes even more essential. Luckily, the small number of underlying investments makes this feasible. Maybe you don't want to actively pay attention to 30 or 100 different companies, but you can surely take the time to screen them with a Stock Selection Guide evaluation at the beginning.

Admittedly, these portfolios will have turnover, but once you perform the initial scrutiny, you only need to update. You have to have faith in the manager's ability to choose appropriate ingredients, but that doesn't mean blind faith. As with any market carve-out in active management, you should try to keep tabs on what management is doing; they are accountable to their investors.

Because most of these funds are so new, you are getting in on the ground floor. As we all know, by the time a manager attracts attention for a fund's success, it's usually too late to get in on the run-up of profits. But no manager has been able to demonstrate huge success for decades, so active management demands an investor monitor performance.

Maybe Not All Your Eggs

Choosing to invest in this type of fund probably doesn't require as much monitoring as holding 30 or 100 stocks individually, but you should plan to pay more attention than for an S&P 500 or total international market fund. With a passively managed index fund, you just need to know that you want to be invested in that segment of the market, and that the fund is performing at least as well as that segment. You set your allocation and divvy up your portfolio.

A high-conviction fund is a much more specialized and therefore speculative investments. Although investment houses would probably be quite happy for you to invest your entire portfolio in these funds, you should think carefully before doing so. With a short history, a manager cooking in a different kitchen and relatively small fund sizes, caution is prudent.

The High-Conviction VADGX Fund Compared to 3 Funds

Fund	Ticker	Type of fund	Standard deviation risk measure
Vanguard Select Advice Dividend Growth Fund	VADGX	High conviction dividend growth	19.41
Vanguard Dividend Growth Fund	VDIGX	Publicly available dividend growth	15.60
Dodge & Cox Stock Fund	DODGX	Primarily U.S. with value tilt	22.29
Vanguard Wellington Fund Admiral Shares	VWENX	Balanced 65% equities/ 35% fixed income	11.84

Source: Morningstar

On the other hand, do you want to take some significant risk on the possibility that the convictions will be right and you might make an outsized profit? Perhaps a high-conviction fund would be where you allocate the "casino" portion of your portfolio. Maybe you'd be willing to try one of these funds for a set aside for a specific goal, especially one where it wouldn't be disastrous if not achieved. You might be able to wait an extra year for a new car; choose a cheaper model; fund a child's less or more lavish wedding; or adjust dream vacation plans.

Investigate Costs

These funds often are made available only through financial advisers or advisory services connected to the investment house. Allegedly, this is to maintain an aura of super-special selectivity — the investment isn't available to everyone, just to select clients. As an adviser, I've observed that such requirements are more about limiting fund management expenses associated with small accounts, frequent trades and nervous investors who send back the meal frequently. An investor working with an adviser has often given up the worrying and leaves the decision-making up to the adviser who's worrying for them, right?

In other words, don't be wowed by any feeling of being special. Because these are actively managed funds, they won't have the ultra-low rates of index funds, with international funds inevitably carrying higher expenses than U.S. market ones. But in addition to the underlying management fees inherent in all mutual funds, funds that are exclusively available through an adviser will carry that management fee as well. A robo-adviser or in-house advisory service may charge 0.35% and up to allow you access to these funds. An actual fiduciary personal advisor will cost even more (~1%), but should also take a 360 degree look at your entire financial life and whether this investment is even appropriate for you. They should not be financially rewarded in any way for choosing one investment over another.

Bear in mind that, with the added cost, the high-conviction fund must outperform a comparable publicly available fund by at least that much to be even worthwhile for the extra risk.

Risk Evaluation With a Short History

We certainly can't use past history to help us in predicting future return expectations — as with any actively managed fund, it all depends on manager decisions and, frankly, their luck. Similarly, it's unfair to predict volatility based on standard deviation, because the period for which this can be determined is very short, and may say more about short-term market conditions than an actual long-term risk profile. Nevertheless, it's worth taking a look and making some comparisons. While none of the funds above are directly comparable to our example, they are representative of other funds that you might select for the same purposes. *(See graphic on this page.)*

Normally I recommend evaluating a mutual fund's performance over several time periods: one year for current market conditions; three years if the market has been variable; five years for possible performance during a goal period; and 10-15 years to determine long-term performance, especially taking into account recessionary periods. It's just not possible here, due to the newness of these funds. But you can look at several publicly traded funds of the same type (all U.S., global, developed market, etc.) to judge what performance the high-conviction fund will have to beat.

If you're seeking to add some exotic flavor to your current investment menu, or think that a new fund is worth the adventure and possible reward, high-conviction funds are a new dish for you to investigate.

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

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Small Investors May Find Themselves in Thrall to Wall Street Buccaneers

Someone Wants to Buy My Company. Now What?

by Sam Levine, CFA, CMT, Contributing Editor

Arr! If ye long fer the days of the Jolly Roger flying high atop masts and cannons blazing (a' blazin'?) in pursuit of gold doubloons, point yer bow toward Wall Street, because the corporate high seas always be infested with pinstriped pirates waitin' to strike for…fer…plunder.

There were no pirates fiercer in April than Cap'n Elon Musk, who fired a broadside shot at the lumbering garbage barge christened "Twitter." And don't ye be fooled by that suspiciously sweet-smelling smoke around Musk's ship. He may not keep the steadiest watch, nor do his ships always arrive in port on time, but his armory of tweets and dollars can still shiver the timbers in boardrooms across the globe.

"OK, enough with Write Like a Pirate Day," my cherished editor just emailed me. Why do companies put themselves up for sale or try to acquire other firms? How do they do it? What should you do when someone wants to acquire your stock?

Let's look at what drives new business combinations, how it's done, when it happens to a stock in your portfolio and, lastly, what options do we minuscule shareholders have when a company becomes "in play?"

Companies acquire other firms for a myriad of reasons. A buyer might want to own a firm that already supplies needed components (called a vertical acquisition) or buy a competitor to increase market share and its negotiating leverage with suppliers (that's a horizontal acquisition). Tech firms may "acqui-hire" a company to bring on key talent, or buy a company for its patents or research in progress.

It's important for you to understand why a company wants your stock, because if a successful offer for your stock is made with the acquirer's stock instead of cash, you'll own stock in the acquirer, not the stock you have now. Once a company attracts one offer, it may get better offers from other firms. Though the taxation of any capital gains shouldn't be your primary consideration, you should also know how the deal will be taxed if it goes through.

How Are Acquisitions Made?

The job of a board of directors is to protect the interests of shareholders. A board should accept a buyout offer if they believe it's at a premium to what the stock is worth and they won't see any better offers. If they think that an offer undervalues the stock, they should reject it.

That's the way it should work in theory. In practice, many boards are often controlled by founders or executives who enjoy their perks and compensation. Founders often are motivated by their original vision instead of the market value of shares. A board might believe a turnaround is right around the corner and think the current share price and the takeout offer don't reflect its true value.

Friendly takeovers stem from extensive negotiations and come with the endorsement of both firms' boards of directors. The boards promote the deal and, if the majority of shareholders vote to accept it, it goes through with little fuss. Unless the deal falls through, your old stock will disappear from your account on a pre-announced date and be replaced with either the acquirer's stock, cash or some combination of both.

Hostile takeover offers are made when the target firm's board has rejected the bid or seems uninterested in being bought and a potential buyer still wants to purchase the company. They are far trickier for the acquirer than a friendly takeover. The bidder makes a tender offer to current shareholders to buy their shares at a certain price, provided enough shares participate by a specific date, then the shares are bought and the deal is finalized.

A note for jargon junkies: If the offer is for shares in the acquiring company, it's technically an exchange offer.

> **"If ye long fer the days of the Jolly Roger flying high atop masts and cannons a-blazing in pursuit of gold doubloons, point yer bow toward Wall Street."**

An alternative to a tender offer is a proxy fight. In a proxy fight, the battle isn't for the company's shares. It's for the right to elect new directors to the board and, through controlling the board, implement changes.

In a proxy fight, activists will mount a public relations campaign to persuade shareholders to transfer their voting rights. Once the board is stacked with enough compliant directors, the target company can be compelled to divest assets, pay out cash or put itself up for sale.

Target firms can defend themselves. They can pour boiling oil over the sides of their ship, fire their cannons…

Or they can use a poison pill strategy to flood the market with new shares once a hostile bidder hits a certain threshold of ownership; offer hugely expensive golden parachutes to departing executives or; in a worst-case scenario, require their crown jewel asset be sold if the company is bought.

The problem with these strategies is that they are against minority shareholders' interests and may invite expensive legal action.

Some firms can't be bought without the consent of the founder or a few dominant shareholders. They may hold a huge amount of shares, as the Ford family does with the auto manufacturer, or they may own a special class of shares that carries more votes than the publicly traded shares.

Alphabet's Class A shares carry one vote per share while their privately held Class B shares have 10 votes per share. The Class B shares are held by insiders and founders who can thus control the company without owning the majority of the firm's shares.

What to Do if Your Stock Gets a Buyout Offer?

Yes, we can vote against accepting a buyout offer, but the truth is institutional investors and the boards have almost all the say. But whenever there's an offer on the table for a stock you own, you need to make a decision, and usually pretty quickly. A potential buyer usually offers a premium above the market price when the deal goes through.

Now there are really only three questions: first, how likely is it the deal will happen; next, how much of a premium is being offered after taxes are taken into account; and, last, if the deal isn't 100% certain, what are the chances of another bidder swooping in with a higher price?

If the market is positive the buyout will succeed, the stock should trade close to the offer, minus a small discount for waiting. If the deal seems very unlikely, the stock won't budge much, unless enough investors believe a higher bidder will come along. For those who study options, this is a similar profit profile to a call. If it's an exchange offer, you'll receive the stock of the company buying your shares. Value the deal as if you'll immediately sell the buyer's stock when it finalizes, whether you plan to sell or not.

The stock of the bidding company, if it's publicly traded, will act roughly inversely to the stock of the target. The buyer's stock should decline by the amount of the offer, after factoring the likelihood of success. If the market likes the acquisition and expects it to be immediately profitable, that will add to the stock price.

If the Offer Succeeds, Should You Hold or Acquire the Buyer's Shares?

If it's a relatively small acquisition for the buyer — for example, if Apple buys a $200 million company — probably not. If you liked the buyer before the acquisition, you'd already own the stock, wouldn't you? So, you should start with a highly critical stance against owning the potential buyer's stock. We also need to be wary of CEO motives. Chief executives grow their careers and pay by running progressively larger companies. That can lead them to make poor acquisitions. They may also mistakenly believe their success running one firm will lead to the same result running a firm in a different industry.

Bigger acquisitions aren't as clear-cut. It's possible a merger could create a company almost entirely different from what the buyer was before.

When two large companies combine, the competitive landscape changes. The newly combined firm could dominate the industry enough for it to negotiate better prices with suppliers, customers and even employees. Large companies may be able to distribute the acquired firm's products across a broader geographic footprint or customer base.

On the other hand, buyers often leverage themselves to the hilt to buy a competitor and the higher interest costs will impact earnings. Buyers' forecasts of when the deal will be "accretive to earnings," that is, when the deal will become profitable, should be treated very suspiciously. Companies are often overly optimistic. Employees can walk en masse, cost savings can fail to materialize and company cultures can clash to the point of open warfare.

Is It Time to Sail Off Peacefully Into the Sunset?

As much as we prize being long-term investors, when one of our stocks becomes "in play," we need to make an immediate decision. If we don't sell, the premium may disappear if the company repels the offer or it's withdrawn.

If we ignore it, we could also end up with a stock we had no interest in before and, worse, the newly combined company stumbles. In most scenarios, it's best to take the money and run.

Not Your Parents' Investment Club?

Technology's New but BetterInvesting's Principles Have Withstood The Test of Time

by Doug Gerlach
President, ICLUBcentral

At a recent company meeting, the staff of BetterInvesting and ICLUBcentral were asked, "If you could travel back to any point in time, where would you go?" Responses included desires to meet historical figures, visit with long-lost family members or take that once-in-a-lifetime chance to see the Detroit Lions win the Super Bowl.

George Nicholson

This thought experiment had me pondering the changing times, especially as they relate to investment clubs. If he could have traveled 71 years ahead in time, what would George Nicholson, father of the modern-day investment club movement and founder of NAIC in 1951, think about the way that investment clubs operate in 2022? After all, there have been an incredible number of technological innovations since the 1950s, so aren't today's BetterInvesting clubs much changed as well?

For what it's worth, I started my first investment club in 1993, and our club wasn't much different at all from the clubs of the 1950s and 1960s.

Our club met monthly to conduct our business at a member's home or the conference room of a member's workplace. This was just before the emergence of the World Wide Web, and even though members had personal computers, we prepared our Stock Selection Guides on paper by hand with colored pencils. Financial data was not readily available on online services like America Online and CompuServe, so my company research involved visiting the library on Saturday mornings, then checking out Value Line sections one-by-one and making photocopies of the pages of interesting candidates. I'd write letters to the investor relations departments of public companies to ask that they send me their most recent annual reports and Securities and Exchange Commission filings. Several weeks later, I'd receive plenty of information in my mailbox that was several months old.

Placing orders at our discount brokerage firm at the time required a phone call, and members paid their monthly dues by writing checks that were physically deposited into our credit union account. But at least we were able to pay reasonable commissions for our stock trades. The SEC deregulated the brokerage industry in 1975 and allowed trading costs to be set competitively, thus lowering commissions. Investment clubs in the 1950s and 1960s would have welcomed the lower commissions that were de rigueur by the 1990s.

Gradually, over the next five years, a few of my club's members acquired software to complete their SSGs. Limited historical company data came more readily from a number of sources online or by subscription on computer media like floppy disks. But for the most part our club operated and members conducted their research exactly as they had for the prior 40 years.

Beginning at the turn of the century, technology would increasingly drive even greater changes to the way that the financial and communications industries operated, and these would have a significant impact on the way that investment clubs functioned. Over the next 20 years, as the internet arrived in more households, online stock research would grow. Brokerage commissions would drop to zero.

The continued embrace of technology from those early days of personal computing through today's widespread adoption of mobile and handheld devices has created possibilities that were the stuff of science fiction in the 1950s.

The pandemic of the 2020s accelerated the pace of change in communications and many clubs adjusted to restrictions on public meetings by holding their meetings online.

Technological Transformations

The result of all of this evolution meant that by 2022, the operation of a typical investment club looked quite different from the investment clubs of our parents in numerous ways.

Here's an Example of How an Investment Club Meeting Might Go in 2022

Instead of convening in a member's living room, each month members meet without leaving home. Using their personal computers, members use Zoom or other meeting software to attend a virtual meeting. The club previously changed their operating documents to expressly permit meeting online, as well as to carry out votes on the club's myICLUB.com website in between meetings.

> **"I'd wager that George Nicholson would have been impressed with the efficiency of the meeting…"**

Members don't feel like voting in between meetings is absolutely necessary, but like the flexibility if circumstances suggest taking action sooner rather than later. So far, it hasn't been needed.

Using webcams and microphones or headsets, members see and hear each other, and thus share the usual pre-meeting social chatter about kids and grandkids, upcoming vacation plans, and the ongoing troubles at work.

The president calls the meeting to order, and reminds members to put their microphones on mute until they need to speak.

The treasurer reports that the club's federal tax return was successfully filed electronically and on time, and though the Internal Revenue Service never seems to make things easier, having members download their own schedules K-1 and K-3 from the club's website made her life easier since she didn't have to print and mail them all. E-filing the club's federal tax return is so much easier and less expensive than printing and mailing it, as well.

The treasurer then shares a screen from the club's myICLUB.com website with the monthly valuation statement and member status report. Most members have already logged on to the club's website and viewed those reports, so she only needs to give a quick review. Since all of the members have sent their monthly club payments electronically, the money is in the brokerage account, and balances are already updated on the financial reports. "Let's put this cash to use," the club concludes.

Next, the secretary reviews the notes of the last meeting on a shared screen. He uploaded them to the File Storage library in the club's myICLUB.com website previously, so members have already reviewed these as well and pointed out corrections. Approval now is quick.

The vice president of this club serves as the portfolio manager, and she's next up. She shares the Portfolio Review Report from myICLUB.com on her computer screen, and calls on the club's stockwatchers to update members on important news about the companies they follow. Some of the stockwatchers show their current Stock Selection Guides from BetterInvesting's SSGPlus to illustrate some of the recent trends they have noticed after the most recent quarterly earnings releases.

The club is happy with the performance of its holdings, so the vice president shares the current portfolio diversification graphs from myICLUB.com and reminds the club of the goal they set at the beginning of the year to increase the number of small and mid-sized companies that they own. One of the members promises to present at the next meeting a small-company stock that he discovered through a stock newsletter. He thinks it has potential and will share his SSG with members using the club's email list.

One of the members is on the agenda this month to present a stock study, so she takes control and describes the quickly growing gourmet burger chain that she has found. Using a presentation that she found on the investor relations website of the company, she is able to show some key graphs and background on the company. She has already shared her Stock Selection Guide from SSGPlus with club members in advance of the meeting, so members have had the chance to complete their own studies and do a bit of their own research.

One of the newer members asks about an article he had seen on a financial website that reported how a Wall Street analyst had recently downgraded the stock. Shouldn't that be taken into consideration? Another member explains that Wall Street analysts have famously short attention spans, and if an investor has a long-term perspective, an analyst's short-term outlook might not carry as much weight. Internet message boards can be detrimental to an investor's well-being, as are strategies based at timing the market.

Another member raises a concern about the presenter's choice of judgment in expected growth rates and future price-earnings ratios. After discussion, the member decides to modify her SSG in real time on SSGPlus and members come to a consensus that the study looks reasonable and meets the club's objectives.

A motion is made and members elect to purchase some shares in the restaurant business. The presenting member promises to share her final updated SSGPlus stock study with other members.

Now it's time for the educational portion of the meeting. The club's education officer is just learning how to use PowerPoint, but has made a good start with an informative presentation that shares some concepts about evaluating P/E ratios that he learned by attending a recent webinar on the topic held by their local BetterInvesting chapter.

As the assembly nears its end, the secretary reminds members that they hope to get together in person at their annual meeting in two months, where the club will be celebrating its 20th anniversary. One of the members suggests that they make a reservation at one of the outlets of their newest investment to share some burgers and craft beer along with their conversation. This suggestion is met with much approbation and the member is applauded for his wisdom.

The president now adjourns the meeting. As members say their good nights and gradually sign off, one member raises her wine glass to her webcam and toasts the club: "I certainly enjoy not having to drive 45 minutes home after our meetings!" Being a member of an investment club in 2022 does have its benefits.

George Nicholson Would Fit Right In

How does this compare to your investment club's monthly meeting? For some of the long-standing members of this club, some adjustments needed to have been made to the "way things had always been done." Other aspects of operations were the accumulated effects of the advancements of the last 25 years, while a few were driven by the necessities of a societal pandemic.

Nevertheless, I'd wager that George Nicholson would have been impressed with the efficiency of the meeting and the fact that members were well-prepared. But I'm more certain that he would have been right at home with the stock reviews and portfolio decisions of this club.

After all, what hasn't changed about investment clubs is that the approach to investing in stocks and managing a portfolio that's taught by BetterInvesting in the 2020s hasn't changed much at all since the 1950s.

Stock studies and newsletter articles from the organization's earliest days show a focus on finding companies with strong growth, superior profitability and reasonable valuations. Company recommendations in the Investor Advisory Service newsletter from the 1970s sound just like they could have been written in 2021.

With all of the access to information offered online today, investors do need to become skilled at ignoring the noise in the markets and focus on only the data that's important to their approach to stock analysis. The principles of the Stock Selection Guide remain just as effective today as when the tool was developed some 70 years ago. Companies that grow their revenues and earnings over time will always see their share prices increase over time. That was true in George Nicholson's day and it remains true today.

From my own bookshelf, I pull down a binder of Stock Selection Guides from my club's earliest days in the 1990s, and select a few at random. All of them showcase the growth of sales and earnings per share that I still look for today. The back pages all exhibit a rationale for selecting high and low P/E ratios and prices that I still use when completing a stock study today. These SSGs are sound, and I can't argue with any of the judgment decisions I made at the time. But without my investment club, who knows if I would ever have found the tools that helped me become a better investor.

As we send George Nicholson back from his journey in time, I take the opportunity to remind him that things might look a little different for investment clubs here in 2022, but the tools, organization and movement he founded continue seven decades later to offer individuals an invaluable opportunity to acquire wealth in the stock market.

Thanks, Mr. Nicholson.

Doug Gerlach is president of ICLUBcentral and editor-in-chief of Investor Advisory Service and the SmallCap Informer newsletters.

BetterInvesting's Corporate Partners

Corporate Partners of BetterInvesting consist of publicly traded companies. Some are just getting started with BetterInvesting, while others have supported the association and its mission for many years.

The companies have one thing in common, however, and that is the desire to attract the interest of long-term retail investors.

Corporate Partners support the organization by paying membership dues, participating in events and providing investors with the information needed to make well-informed investment decisions.

As a service to both the corporations and our readers, the editors are pleased to present the listing and information that follows, including company name, website address, stock exchange, ticker symbol and the date the company joined BetterInvesting.

Companies are presented in three groups, separated according to annual revenues.

The first, large companies, includes companies whose total annual sales were $10 billion or more.

Medium companies include those with annual sales between $1 billion and $10 billion and small companies include those with revenues of less than $1 billion.

A company's market capitalization often differs significantly from its revenues; as a result, the company's sales figures might place it in one category while its market capitalization would place it in another grouping.

Company	Join Date	Web Address	Exchange	Ticker
LARGE COMPANIES (more than $10 billion in revenues)				
Aflac	5/1/21	investors.aflac.com	NYSE	AFL
Deutsche Bank AG	5/22/01	www.adr.db.com	NYSE	DB
Duke Energy Corporation	3/15/93	www.dukeenergy.com	NYSE	DUK
Kellogg's	12/7/21	www.kelloggcompany.com	NYSE	K
Verizon	1/17/95	www.verizon.com/investor	NYSE	VZ
MEDIUM COMPANIES ($1 billion to $10 billion in revenues)				
AllianceBernstein	7/1/20	www.alliancebernstein.com	NYSE	AB
MGE Energy, Inc.	5/24/01	www.mge.com	NASDAQ	MGEE
RPM International, Inc.	5/1/88	www.rpminc.com	NYSE	RPM
SMALL COMPANIES (less than $1 billion in revenues)				
Middlesex Water Company	9/1/12	www.middlesexwater.com	NASDAQ-GS	MSEX
National Retail Properties	5/16/02	www.nnnreit.com	NYSE	NNN
Safehold, Inc.	1/23/18	www.safeholdinc.com	NYSE	SAFE
Unitil Corporation	6/24/94	www.unitil.com	NYSE	UTL
York Water Company, The	2/1/01	www.yorkwater.com	NASDAQ	YORW

Get the Facts

For information on BetterInvesting's Corporate Partners including links to their websites, visit us at **www.betterinvesting.org**.

Don't Forget That 4 Special Classes Require Advance Registration

BINC: Be There in Person or Enjoy It at Home

by Deane Jaeger, Chairman, 70th BetterInvesting National Convention

Welcome to the 70th BetterInvesting National Convention, BINC 2022 at the Westin Dallas Park Central in Dallas. Whether you are attending the event in person or wish you could attend in person, read on as there is something for everyone in this article.

Thursday, June 23, 2022

An orientation session for first-time BINC attendees followed by a social hour and welcome reception all lead up to the official opening of BINC with the "Ringing of the Bell" at 6:30 p.m. A corporate presentation by the Financial Industry Regulatory Authority (FINRA) followed by the extremely popular and very entertaining "Let's Talk Stock" discussion panel rounds out the evening.

Friday, June 24, 2022

A full day of investment education consists of more than 25 classes in five different time slots throughout the day. There are three special classes running as series that require advance registration: The Beginner Series for individuals unfamiliar with investing and the BetterInvesting tools and philosophy; the Beyond Beginner Series designed for individuals who would like to develop confidence in their judgment and stock analysis; and the High-Net-Worth Investing series designed to address the special issues faced by individuals with large net worth.

In addition, Friday's keynote speaker is Spencer McGowan, president of McGowanGroup Asset Management, of Dallas. Spencer will share his views on the overall financial markets with 2022-2023 possible outcomes, current money flows and tactical allocation strategies.

Friday afternoon wraps up with the corporate social hour in the exhibition hall, along with door prizes.

Saturday, June 25, 2022

Saturday is Public Day where the general public is invited to attend and select classes. The morning starts with concurrent corporate presentations from major companies, followed by over 20 classes in four different time slots. The Corporate Expo is a perennial favorite where individuals can speak face-to-face with corporate investor relations representatives, participate in games and have questions answered by the BetterInvesting home staff.

Saturday's keynote speaker is Sam Stovall, chief investment strategist for CRFA Research. Historically inflation has caused the S&P 500 to stumble but the post-contagion bull is strong. Hear Sam's view of the future of the markets.

Dallas Doings. BINC attendees on June 23-26 in Dallas can take their own time to visit the Perot Museum of Nature and Science, seen above.

The day continues with more investment classes including the special class on Technical Fusion by Ralph Acampora. This special class also requires advanced registration.

Sunday, June 26, 2022

On Sunday morning we continue with more classes and workshops in preparation for the closing bell ceremony at noon. The Beginner Series and the Beyond Beginner Series workshops will each have a wrap-up session.

The very popular BI Gals Talk Stocks and Two Guys Talk Stocks round out the morning. The closing bell ceremony takes place at noon and brings the 70th BetterInvesting National Convention to a close.

What if You Can't Attend in Person?

We realize there are many people who would like to attend BINC but for one reason or another that is not possible this year. BetterInvesting offers numerous educational classes throughout the year online and chapters offer "boots on the ground" to help investment clubs in person. This year we want to share a little bit of BINC with you in your own home. See the website below to find out how you can attend the 70th Annual BetterInvesting National Convention from the comfort of your own home.

View the 70th BetterInvesting National Convention From Your Home
www.BetterInvesting.org/binc-home

Washington Woman Only Buys Stock With Money She Can Afford to Lose

An Investor on the Move

As told to Angele McQuade by Carolyn Odio of Lacey, Washington.

A little about my home life: I'm a PK (preacher's kid); my father was a chaplain in the Navy. I moved a lot, going to 16 different schools. I was born in Nebraska and lived in Wyoming, Hawaii, California, Virginia and Washington. I even lived in Japan for a year. I currently live at Panorama (a CCRC or Continuing Care Retirement Center), a nonprofit community of about 1,200 people in Lacey, Washington. I came here wanting to start an investment club, but my hearing loss got the best of me, so I started a hearing loss support group instead.

An Advocate: Long-time member Carolyn Odio, of Lacey, Washington, is "passionate" about advocating for issues relating to the loss of hearing.

A little about my work life: I've worked as a seminar leader at the United Nations Church Center; in the International Student Office at Pomona College, University of Michigan and Wayne State University; as a stay-at-home mom; as an administrator at IBM Federal Systems Division; and as a legal administrator.

Something I'm especially passionate about: Hearing loss. Choosing the right video meeting platform is critical to serve all members of your investment groups, including the hearing impaired, inclusively. Members need a clear view of the speaker's face and auto-generated captions like Zoom provides are also essential.

How I found BetterInvesting: After realizing I knew nothing about investing, I knew I needed education and could afford to put small amounts of money into a shared fund, monthly. I wouldn't have done it without BI's guidance on setting up an investment club. I joined in 1985 and have been a member of investment clubs in Boca Raton, Florida and Herndon, Virginia.

My investment philosophy: that I shouldn't invest money I can't afford to lose.

My favorite investment: Perchance, I bought 10 shares ($1,000) of Tesla in 2013, when my son signed up for the Tesla wait list. Since it was "money I could afford to lose," I decided to invest for fun. Well, it's worth a lot today… around $50,000, paper profits of course!

An investment I'd rather forget: Around the same time one of the auto companies was going bankrupt at $3 a share and was revived, consequently I thought International Harvester (also going bankrupt) was "too big to fail"… so I bought $1,000 of it. Lo and behold, I just cashed it out for about $500, 40 years later.

Advice I'd give to newer investors: Follow the habit of getting a raise and pretending you didn't, then investing that extra! Also, don't sell. I went through down markets and never sold anything…. even on Black Friday. (Since you invested money you could afford to lose, you don't have to worry, right?)

My current big financial dream: Once my youngest grandchild turns 6, I'd like to take my two sons and their families on a Disney Cruise. Hopefully, it will be a bonding experience!

One last thing about me: If I hadn't gotten acquainted with investing in the stock market, I might just be homeless today… it had that much impact on my life. It also helped I found this out in my 30s, due to the concept of compounding.

Angele McQuade is the author of three books, including Investment Clubs for Dummies and BetterInvesting's upcoming youth investing handbook. 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 her website:

www.angelemcquade.com

First Members of The Investment Engineering Club Mostly Hailed From That Field

California Club Inspires a Spinoff Club

by Dr. Shobha Govind

I volunteered to do this write-up for our investment club that has completed 30 years! Though I am not one of its founding members, I opted to do it because I know the history well. I am Dr. Shobha B. Govind, a medical doctor, unlike most of the original members who were engineers, like my husband, an aerospace engineer. He refreshed my memory on how it all began.

The genesis of The Investment Engineering Club, based in Palos Verdes, California, was a very casual conversation between my husband and a friend, Janice Scholler. One day when Janice was visiting us, we saw on TV a short program discussing the Dow Jones Industrial Average: what it is and how to better understand the stock market. Janice, as it happened, had already been looking into it!

She went to her car and brought back a copy of Value Line and a brochure related to NAIC. One thing led to another and we decided to see if any friends would be interested in forming an investment club.

To gain knowledge about the market and start investing small amounts of funds in a group setting seemed like a great idea and so was born The Investment Engineering Club of Southern California.

In the beginning, Toolkit 6 was not available, and the internet was just emerging. Most of the members went to the public library to get Value Line reports to draw Stock Selection Guides by hand. Each member periodically presented a topic related to assessing a stock's performance. This enabled members to learn the terminologies involved with stock selection. It took a lot of effort to buy the club's first stock — 20 shares of Abbott Laboratories!

One of the bylaws of the club prohibits a couple from both being members and that prevented me from joining the club. But with a medical practice and two young kids it would not have been practical, anyway.

I joined the club many years later after my husband had left for his own reasons, opening a spot for me.

There has been a lot of turn over and the only remaining original member is Janice Scholler.

I joined the club in the middle of the 2008 recession. Technology has given us tools that make stock study and analysis so easy that even a computer idiot like me can learn. Now we use Toolkit 6, the BetterInvesting Online Tools and hold our meetings on Zoom. But I can still write faster with a pen in hand on paper than typing!

The Investment Engineering Club. Members and the year each joined. Top row, right to left: Ahmed Hammoud, 2005; Janice Champion, 1998; and Janice Scholler, 1990. Bottom row, right to left: Joe Wheatley, 1994; Eric Barrera, 2006; Dr. Shobha Govind, 2006; and Vic Arefian, 1994. Not shown: Padma Narashimhan, 2007; and Carl Peterson, 2010.

> **"I am proud to note a spinoff from this club. Janice Scholler started another club called the EastWest Investment Club whose members include the next generation of at least two of us."**

The club has done very well, returning far more money than we put in. Despite the ups and downs of the economy including multiple recessions, the pandemic, etc., we have crossed the $600,000 mark several times as our stocks go up and members take out funds for their own use.

Our advice is: No matter what, stay in the market! Timing your investment only works in theory. Contribute regularly and be methodical. Diversify and try not to worry.

I am proud to note a spinoff from this club. Janice Scholler started another club called the EastWest Investment Club, whose members reside across the country and include the next generation of at least two of us, Janice's and Shobha's kids and relatives.

So, our legacy will go on.

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

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**.

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

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
www.betterinvesting.org/channel
NEW • 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 Costa
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, 303/665-0287
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
Danica Myrie
secretary@
southflorida.betterinvesting.net
Ionnie McNeill, president
561/352-4967
www.betterinvesting.org/southflorida
NEW • CV • SSG • SOFT • MC

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

FLORIDA, CONT'D.

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
Larry Reno, president and
ACME Model Club contact
770/856-2542
tlreno@aol.com
Central GA Model Club
Jim Vandersall
478/714-8167
jvandersall@gmail.com
Facebook CGMIC
www.betterinvesting.org/georgia
MC • CV

ILLINOIS

(also see Indiana)
Chicagoland
Information Voice Mail
847/266-2711
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
bmeckerle@comcast.net
812/537-0291
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
Connie Rehm
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
Ken Kavula
810/640-2231
kkavula1@comcast.net
www.betterinvesting.org/midmich
NEW • MC • CV

Southeastern Michigan
Jane Bellaver
248/685-8246
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 • MC • CV

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

OHIO, CONT'D.

Columbus
Dan Kuhl
dbecool@att.net

Dayton
Gene Senter
937/256-7858
emiddle42@aol.com

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

Southeastern Indiana
Marty Eckerle
bmeckerle@comcast.net
812/537-0291
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

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

The **BetterInvesting™ Online Chapter** offers support both to individual 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 Bob Houle, president, president@online.betterinvesting.net; Susanne Koster, OLC Satellite Coordinator, satellite_coordinator@online.betterinvesting.net; Howard Johnson, Club Support/ Visit Coordinator, club_support@online.betterinvesting.net; Chris McCarron, Education Programs, education@online.betterinvesting.net.

Visit the **Online Chapter** at **www.betterinvesting.org/online**
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ANNUAL MEETINGS

CALIFORNIA

Golden West
1 p.m.. – 3 p.m., June 11, online
Educational Event and Annual Meeting: An Investment Club in Action. Ever wondered what goes on in an investment club? Or wanted to get a peek at another club's processes? Here's your chance as we drop by a model club meeting and see how they analyze a stock, discuss their portfolio and make buy/sell decisions. There will be a brief chapter business report as well as anniversary club recognition, results of the Chapter's 2021-22 Club Portfolio Contest and attendee prizes. Look for Local Events on our chapter website for details and webinar registration. Cost: free and open to the public. Register at website below.
www.betterinvesting.org/goldenwest

OHIO

Northeast
10 a.m.. – 11:15 a.m., Sept. 10, online
Annual Meeting, Election and Educational Event. Election of chapter directors and recognition of anniversaries. Speaker: Suzi Artzberger, BetterInvesting director of Online Stock Tools Suite, Information Technology and Data, on Analyst Stock Estimates: Know All the Angles! What is behind the analyst estimates? How much can the analysts vary? These questions will be explored to ensure that your BetterInvesting Stock Selection Guide projections are as informed as possible. Cost: free.
Contact: education_programs@
neohio.betterinvesting.net
Register at website below.
www.betterinvesting.org/neohio

Northwest Buckeye
6 p.m., June 28, online or in person
Way Public Library
101 E. Indiana Avenue, Perrysburg
45th Annual Meeting and Educational Event. Members and guests are invited to commemorate the NWBC's 45th anniversary and honor this year's anniversary clubs. Celebrate with the winners of the portfolio contest and hear how they made their stock selections. Election of officers, an educational presentation and a scholarship announcement. Cost: free, begins with refreshments. Chance to win a door prize. Register by June 18 at website below:
www.betterinvesting.org/nwohio

OKLAHOMA

Oklahoma
6:30 p.m., June 30, online
Election Meeting. Election of directors for 2022-2025 term and associate directors for one-year term. We also need volunteers. Cost: free.
Register: tinyurl.com/ft4476ke
Contact: ijondahl@oklahoma.
betterinvesting.net
www.betterinvesting.org/oklahoma

TEXAS

Houston
7:30 p.m. – 8:45 p.m., June 6, online
Annual Meeting and Election. Election of volunteer directors and also a Let's Talk Stocks program where model club members will present two stocks. Cost: free. Registration information to come. See website below for future information about the event.
www.betterinvesting.org/houston

INVESTOR EVENTS

MICHIGAN

Southeast Michigan
8 p.m., July 21, online
Hey SEMi, How Do You…? This is an open Q&A session for chapter members with questions relating to BetterInvesting clubs, methods and software. These sessions will be held in every odd-numbered month, on the third Thursday of the month, at 8 p.m.
To register send your request to:
https://tinyurl.com/2u7ab8fj
www.betterinvesting.org/semich

OHIO

Northeast Ohio
10 a.m. – 11 a.m., June 11, online
How to Build Wealth. Albert Einstein said the magic of compounding is the eighth wonder of the world. Dollar-cost averaging allows you to buy more stock and pay less. With levity, speaker Kathleen Richards compares the investing behavior of Silly Sally with Genius Jane. Multiple, relatable, real-life examples of the application of these BetterInvesting principles are demonstrated. This class is a collaboration of the works of many BI members. Cost: $10. Register at the website below. Contact:
education_programs@
neohio.betterinvesting.net.
www.betterinvesting.org/neohio

OHIO AND OREGON

OKI Tri-State and Portland
June 15 and July 20, online
Online Webinar Series sponsored jointly by the Portland Chapter and OKI Tri-State Chapter.
June 15, 5:30 p.m. – 6:30 p.m. PDT
Advanced Value Line: This class covers the Value Line Company Report in detail. Our focus will be on data components found within various sections of the company report. This review will help you analyze companies to determine quality and fair value.
July 20, 5:30 p.m. – 6:30 p.m. PDT
Online Value Line: This webinar is a tour and overview of the digital page presentations found in the online Value Line.
Presenter: Marty Eckerle has been a member of BetterInvesting since 1995. He joined the Cincinnati Model Investment Club in 2003 and joined the Ohio-Kentucky-Indiana (OKI) Tri-State chapter board in 2005. He has presented classes that focus on the Value Line survey and the Stock Selection Guide. Marty lives in Lawrenceburg, Indiana, and is a passionate supporter of BetterInvesting. Cost: free. Open to the public. Beginners and those experienced with Value Line and BetterInvesting are welcome.
Register: https://bit.ly/BIValueLine.
OKI Tri-State Chapter contact: Marty Eckerle at contact@okitristate.betterinvesting.net
Oregon Chapter contact: John Radford at contact@portland.betterinvesting.net
www.betterinvesting.org/okitri
www.betterinvesting.org/portland

PENNSYLVANIA

Philadelphia
9:30 a.m. – 3 p.m., June 18
Willow Grove Giant Food Store
315 York Road
Stock Selection Guide Class. Full vaccination required; social distancing will be observed. A comprehensive presentation of the concepts, processes and conclusions that help an investor make buy, hold and sell decisions using the BetterInvesting tools. Cost: $15. To register: visit the Events tab at the website below.
For more information:
contact@philly.betterinvesting.net
www.betterinvesting.org/philly

Philadelphia
7:30 p.m. – 8:30 p.m., online
Wednesday Webinars:
Sept. 21: Kathleen Richards — How to Build Wealth
Oct. 27: Bill Wagner — Cryptocurrency *(moved to Thursday)*
Register at website below. Contact:
contact@philly.betterinvesting.net
www.betterinvesting.org/philly

Reviewing Stock to Study, Undervalued Selections

VeriSign, Inc., AutoNation Inc.

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

VeriSign, Inc.
Ticker: VRSN

Company description: VeriSign is the sole authorized registry for several generic web domain categories, including the widely utilized .com and .net top-level domains. The company operates critical internet infrastructure supporting the domain name system; it operates two of the world's 13 root servers routing internet traffic. In 2018 the firm sold off its security services business, signaling a renewed focus on the core registry business.

Price at time of selection: $87.26
High price during past five years: $257.03
Closing price 5 years later: $215.11
Total return at 5-year price (including dividends): 146.5%
S&P 500 5-year total return: 91.9%
Value Line long-term earnings growth estimate when featured: 12.0%
Consensus long-term earnings growth estimate when featured: 8.0%
Five-year sales growth rate: 3.1%
Five-year EPS growth rate: 18.3%
Five-year pretax profit on sales: 57.2%
Five-year return on equity: N.A.

Comment: The company's lock on domain name registrations was a key reason for VeriSign's selection in June 2017. The five-year total return of 146.5% exceeded the Stock to Study goal of doubling over that time span. At the five-year high of $257.03 on Dec. 30, 2021, the total return would have been 194.6%.

UNDERVALUED

AutoNation Inc.
Ticker: AN

Company description: AutoNation, the largest U.S. automotive dealer, has some 235 dealerships and 300 locations, including collision centers. The company has nine AutoNation USA used-vehicle stores, four auction sites and more than 70 collision centers located primarily in Sunbelt metropolitan areas. New-vehicle sales are about 51% of revenue; AutoNation also sells parts and provides repair services and auto financing.

Price at time of selection: $52.93
High price during past 18 months: $133.48
Closing price 18 months later: $113.39
Total return at 18-month price (including dividends): 107.9%
S&P 500 18-month total return: 33.7%
Value Line long-term earnings growth estimate when featured: 6.0%
Consensus long-term earnings growth estimate when featured: 7.7%
Most recent quarter sales growth: 13.8%
Most recent quarter EPS growth: 239.7%

Comment: An anticipated recovery from the pandemic-driven downturn in vehicle sales was among reasons for AutoNation's selection. Management's cost reductions to shore up earnings and suspension of share repurchases to improve liquidity were also factors. AutoNation's March 24 total return of 107.9% surpassed the goal for an Undervalued Company, a 20% increase over 18 to 24 months. At the 18-month high of $133.48 on Oct. 25, 2021, the total return would have been 144.7%.