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BetterInvesting's mission is to provide a program of sound investment information, education and support that helps create successful lifetime investors.

OUR PRINCIPLES

- Invest a set amount regularly.
- Reinvest earnings, dividends and profits.
- Invest in quality growth stocks and equity mutual funds.
- Diversify your investments.

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Upcoming Events

Twitter and Facebook

We invite readers to follow us on Twitter and join our growing community on Facebook. Just go to our homepage and click the links to begin participating.

BetterInvesting *Online*

BetterInvesting members have the opportunity to expand their learning through online classes. Please join us for the following webinars. Most webinars last from one hour to 75 minutes. Register at: **www.betterinvesting.org/webinars**

Investing in Turbulent Times

Recorded • Free

The global health crisis has stressed out many Americans and markets around the world have dropped precipitously. With threats of a pending economic recession, what can savvy investors do in the face of such turmoil? Fortunately, Doug Gerlach has guidance for investors about navigating the current market turbulence. A review of history shows how markets and economies have reacted to past pandemics, recessions and bear markets, and points toward a possible pathway for recovery. Doug will provide thoughts for BetterInvesting members to consider in these difficult times, focusing on acceptance, understanding and ultimate profitability. **Register: https://bit.ly/3aPgp2z**

TickerTalk

Thursday, May 28, 2020
8:30 PM EDT • Free

Investing education in bite-size pieces is offered at every TickerTalk session to help you become a successful investor. Topics include **Five in Five** (stock ideas). Panelists: John Rogers, director, Rocky Mountain Chapter; Ken Kavula, director, Mid-Michigan Chapter; Ann Cuneaz, senior manager of education, BetterInvesting.

TickerTalk Recordings

OnDemand • Free • April 23, 2020

Investing education in bite-size pieces is offered at every TickerTalk session to help you become a successful investor. Topics include **Five in Five** (stock ideas). Program: Stock Selection Guidelines for Unusual Times presented by Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter.

TickerTalk Recordings

OnDemand • Free • March 26, 2020

Investing education in bite-size pieces is offered at every TickerTalk session to help you become a successful investor. Topics include **Five in Five** (stock ideas). Program: Buffett, BI and the BEAR presented by Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; Online Options for Your Investment Club Meeting presented by Ann Cuneaz, senior manager of education, BetterInvesting; and Foreign Stocks on the SSG presented by Suzi Artzberger, director of information technology, BetterInvesting.

StockUp Recordings

OnDemand • Free • April 8, 2020

Bank stocks can be part of a well-diversified portfolio, but many investors avoid investing in banks because they lack confidence in how to conduct an analysis of a bank stock. Boost your knowledge and learn the basics of how to analyze a bank stock while completing an SSG on Bank OZK (NASDAQ: OZK). Instructor: Joe Farrell, treasurer for the BetterInvesting Advisory Board and a director with the LA/MS Chapter and the Online Chapter.

Watch Us on YouTube

BetterInvesting's YouTube channel includes videos of tools tutorials and other public webinar recordings where they can be easily viewed by those in the BetterInvesting community as well as by those who simply want to learn more about our Stock Selection Guide methodology and products.

Tune into BetterInvesting videos at:

www.youtube.com/betterinvesting

In a Buying Mode? Careful Analysis and the Online Tools Are the Best Path

Battered Stock Market at a Crossroads

The month-long COVID-19-driven collapse of equities that began in late February — reflected by a breathtaking 34% drop in the S&P 500 — reminded investors that horrific, unforeseen events can suddenly upend well-laid plans. Since late March the market, as of this writing, has rebounded 30%. Fortunes were lost by panicked sellers and fortunes were made by shrewd buyers of companies with solid balance sheets and attractive growth prospects whose shares were suddenly on sale at bargain prices.

First-quarter gross domestic product fell 4.8%, the fastest drop since the 2008 global financial crisis. More than 25 million unemployment claims were filed. But as new virus cases and deaths plateaued, governors began gradually reopening their states' economies. The pivot toward normalcy suggested two possible market directions: a return to the robust equity pricing of January and February; or, conversely, another downward slide caused by unemployment, weak demand and uncertainty over the virus's possible resurgence.

Trying to predict the market's future direction and to make investment decisions based on such guesses is a fool's errand. The stock market is a giant psychology machine, influenced by constantly changing investor sentiment and also by the fundamental financial performance of public companies. Buying a beaten-down stock based on a gut instinct that a rebound is inevitable might seem like a smart bet. But the odds of a handsome payoff can be considerably improved by careful analysis of a company's revenue and earnings trends — as well as numerous other parameters — using the Online Tools provided by the BetterInvesting website.

Another consideration is deciding on which sectors and individual stocks to focus. Zoom Video Communications and Walt Disney, whose theme parks are shut down, lately are examples of companies attracting lopsided attention. Indeed, share prices in investment categories such as travel, lodging and restaurants could be disproportionately harmed in the short term by consumer fears of contagion and by government restrictions. Yet those expectations also suggest the possibility that as equity peer groups are culled winners will emerge. Who will these winners be? Companies with durable balance sheets, cash on hand and superior management. Theme park and factory shutdowns are short-term phenomena. Beyond the dire headlines and the daily tragedies is the long term, which should be a guiding principle for every investor. The world — and especially the U.S. — is in the midst of a decades-long digital revolution that's every bit as important as the industrial revolution, with similar breakthroughs in innovation and productivity by companies whose shares exist by virtue of investment capital. Among the innovations of our digital age will be the responses of medical science to viral infections, the novel coronavirus and others. They can't arrive too soon.

Virtual BINC 2020 • June 22–25, 2020

The 69th Annual BetterInvesting National Convention (BINC) initially scheduled for Dallas, Texas, was canceled due to COVID-19, but you can still get a taste of BINC by attending Virtual BINC 2020! This online event will host a four-session webinar series to show investors how to navigate the current stock market environment. Register today at **www.betterinvesting.org/binc**.

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Performance Parameter	At 4/30/2020	5-Year Change Annualized
BetterInvesting 100 Index (BIXX)	367.50	6.73%
BetterInvesting 100 Index (BIXR — Total Return)	503.47	8.30
S&P 500 Equal-Weight Index (Total Return)	7,119.02	5.52
Vanguard Total Stock Market (CRSP U.S. Total Market)	71.91	8.45
Dow Jones Industrial Average (DJIA)	24,345.72	9.06
S&P MidCap 400 Index	1,646.36	3.58
Russell 2000 (Small-Cap Index)	1,310.66	2.44
Nasdaq Composite	8,889.55	13.44
MSCI EAFE (Europe, Australasia, Far East) Index	1,657.69	(2.88)
MSCI Emerging Markets Index	924.93	(2.46)
Value Line Arithmetic Composite	4,784.63	(0.22)
Consumer Price Index (December)	258.11	1.80

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 7,700 transactions by users of myICLUB club accounting for the trailing eight weeks ended April 22.

Company (Ticker)	Buys-Sells
1. Disney (DIS)	207-57
2. Apple (AAPL)	167-85
3. Microsoft (MSFT)	189-32
4. Amazon (AMZN)	135-32
5. Visa (V)	100-38
6. Alphabet Class C (GOOG)	82-29
7. Boeing (BA)	83-27
8. Zoom Video (ZM)	73-11
9. Home Depot (HD)	54-22
10. Berkshire Hathaway (BRK.B)	60-16
11. Delta Air Lines (DAL)	62-10
12. Facebook (FB)	47-19

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 22

Company	Ticker	Buys	Sells	Total
CVS	CVS	49	15	64
AT&T	T	44	18	62
Starbucks	SBUX	47	14	61
Johnson & Johnson	JNJ	45	14	59
Exxon Mobil	XOM	45	10	55
Netflix	NFLX	39	15	54
AbbVie	ABBV	44	7	51
Nvidia	NVDA	33	14	47
Gilead	GILD	41	5	46
Verizon	VZ	35	8	43
3M	MMM	37	6	43
Walmart	WMT	30	11	41
Air Lease	AL	28	13	41
Southwest Airlines	LUV	28	12	40
Tesla	TSLA	33	6	39
Procter & Gamble	PG	26	13	39
JPMorgan	JPM	29	10	39
Chevron	CVX	30	9	39
Bristol-Myers Squibb	BMY	30	8	38
General Electric	GE	27	8	35
Abbott Laboratories	ABT	30	5	35
Mastercard	MA	24	10	34
Alibaba Group	BABA	27	7	34
Aflac	AFL	27	7	34
Pfizer	PFE	26	7	33
Stryker	SYK	25	7	32
Intel	INTC	22	10	32
Caterpillar	CAT	23	9	32

Source: myICLUB

For the second straight month, The Walt Disney Co. topped the BetterInvesting community's Most Active List, with 207 buys and 57 sells. Significantly, the proportion of buys over sells among Disney investors was down from March and April, when growth prospects for the company in relation to its share price may have seemed more promising. Then came COVID-19, with closing of theme parks, fewer sporting events drawing viewers to Disney's ESPN network and the delay of much-awaited Disney films like "Mulan."

As positive Disney sentiment declined, Zoom Video rose on the list of BetterInvesting most actives. Zoom's use for video conferencing raised brand identity during the coronavirus lockdown. In 145 SSG studies completed between Feb. 4 and May 1, members forecast average 32.5% annual sales growth for the next five years and 41.2% annual earnings growth. Average potential return: 20% a year. *(Stocks are mentioned only for educational purposes; no investment recommendations are intended.)*

Can You Give Up Online Impulse Purchases and Streaming TV?

What 'Nonessentials' Burn Through Your Budget?

by Natasha Gural

Extraneous spending may vary greatly, depending on how you define nonessential expenses. The average American spends as much as $1,497 per month, or nearly $18,000 a year, on nonessentials such as coffee drinks, dining out and entertainment, according to the most recent research released last year, commissioned by life insurance company Ladder and conducted by OnePoll.

> **"Nearly a quarter of Americans say they would not be able to last a month without spending on nonessentials."**

The survey of 2,000 Americans found these monthly spending averages:

- **Dinner out at a restaurant**, $209.38
- **Drinks out with friends or co-workers**, $188.68
- **Takeout or delivery**, $177.88
- **Purchasing lunch**, $173.62
- **Impulse purchases**,$108.97
- **Use a rideshare for nonessential trips**, $96.11
- **Receive personal care**, $94.25
- **Subscription boxes**, $93.96
- **Cable TV**, $90.57
- **Online shopping for nonessentials**, $84.11
- **Gym, fitness classes and/or a personal trainer**, $72.53
- **Paid apps**, $23.24
- **Streaming services for movies/TV**, $23.09
- **Streaming services for music**, $22.41
- **Coffee**, $20.25
- **Bottled water**, $17.47

Cutting back certainly won't be easy. Nearly a quarter, or 22%, of Americans say they would not be able to last a month without spending on nonessentials, according to the results of a survey released in January 2019 by TD Ameritrade.

The TD Ameritrade survey found Americans spend somewhat less, an average of $697 a month, or $8,364 annually, on nonessential expenses, led by Millennials ($838 per month), followed by baby boomers ($683 per month), with Gen X regarded as the least wasteful ($588 a month),

Looking for places to cut back? Quitting caffeine isn't an option for those who love their java. Approximately 39% of the 110 adult investors with at least $10,000 in investable assets surveyed by TD Ameritrade between Sept. 10, 2018, and Sept. 16, 2018, said it would be hard to live without coffee. In the April magazine, we explored how to save money by roasting your own coffee beans. Even without making that leap, you can cut $20 a month by consuming all coffee drinks at home, which gives you $240 a year to invest in your portfolio.

Many Americans became a home chef or at least adept at basic food preparation after the COVID-19 pandemic forced us into quarantines, lockouts and restricted us from dining out. But more than half, or 59%, of those surveyed by TD Ameritrade consider dining and takeout "basics to your lifestyle." Even if you cut that luxury in half and continue to hone your home cooking skills, you can save nearly $105 a month, or $1,260 a year on restaurant meals, and about $103 a month, or $1,236 a year on takeout or delivery, for a combined $2,496.

Most studies warn of the health risks associated with alcohol consumption, but researchers at the University of Oxford in 2017 took a different approach and determined that sharing a drink with friends improves social cohesion, given its long association with human social activities. British pub culture is very different from the bar experience in the United States, but the benefit of socializing while toasting with friends is universal.

A $12 margarita served at a restaurant or a bar has a pour cost of 20% and a profit margin of 80%, which means the cost of the drink itself, the pour cost, is $2.40, explains BinWise, an online bar and restaurant beverage inventory management system. If you invite your friends over for cocktails and split the bill for ingredients, you could save $151.20 a month, or $1,814.40 a year, based on the OnePoll average.

That can add up to almost $18,000 a year — or more than a $1 million over the course of an adult lifetime. It can be good to treat yourself to something that brings you happiness, but the OnePoll survey found the average respondent does a bit more than that.

If you're already scaling back on dining out and plan to host happy hour at your home, you probably don't want to cut the cord entirely or scale back on streaming services. Besides, starting by making a few small changes is more likely to endure than wiping out all the nonessentials that have given you joy or comfort.

By enjoying coffee at home, dining out and ordering in half as often (in the post-pandemic future), and forgoing the bar experience, you will have some $4,450 a year to invest in stocks for the long run. That deserves a cheers, at home, of course.

Due Diligence

Companies With an Abundant Liquidity, Limited Debt Fare Best During a Downturn

How Investors Can Navigate the COVID-19 Economy

by Thomas D. Saler

First and foremost, the COVID-19 pandemic is a profound human tragedy. Its impact on businesses and investment portfolios, while severe, nonetheless pales in comparison to the widespread anxiety, disruption and loss of life in its wake.

Still, investors are understandably concerned about how to navigate an economic environment that in many ways is unprecedented. While companies and markets have dealt with slumps before, none of the downturns were fundamentally associated with an invisible enemy that targets everyone and in which the traditional tools for fighting its effects — monetary and fiscal stimulus — might have only limited immediate impact.

In time, this crisis will pass, but even so, not all companies will emerge unscathed — or even emerge at all. Companies that do best during a downturn tend to have abundant liquidity, limited debt and a demonstrated history of managerial excellence.

The importance of generating free cash flow (*see Websites of Interest*) is a common theme from research on how businesses survive deep recessions. Cash is especially important for small companies, which generally have less access to capital market funding; smaller companies, however, are usually more nimble than their large-cap counterparts and thus better able to position themselves for the changed business landscape sure to come.

Citing numerous studies of past recessions, Walter Frick, writing in the Harvard Business Review, also emphasized the importance of deleveraging and managerial acumen. "The underlying message across all areas is that recessions," Frick observed, "are a high-pressure exercise in change management, and to navigate one successfully, a company needs to be flexible and ready to adjust."

The sector in which a business operates also matters. Clearly, the travel and hospitality industries will sustain significantly more damage from the spread of the coronavirus than consumer staples companies that make soap or toilet paper.

Even within the same industry, however, there could be a wide disparity of outcomes despite operating in an identical macroeconomic environment.

McKinsey partners Kevin Laczkowski and Mihir Mysore studied the earnings and equity market performance of 1,000 public companies between 2007 and 2011, a period that covered the runup to the Great Recession and the first years of the subsequent recovery. Perhaps most notably, they found a wide range of results within industries, suggesting that some companies — which they termed "resilients" — were simply better at managing the effects of a downturn. The differences, the researchers determined, were caused largely by operating margins moving in opposite directions as some companies cut costs during the downturn phase, often by selling off unprofitable units, while others increased them. During the recovery phase, businesses that reduced expenses and freed-up cash through divestitures were thus positioned to make acquisitions on the cheap, of which there often are many to be had.

Whenever the downturn ends, the business environment is likely to have been altered. Recessions force consumers to tighten their belts, and even after conditions improve, the survival techniques learned from that process often continue. Maybe more people will work from home. The Great Recession caused library usage to spike, in part because workers sought employment information, but also because libraries provide free access to the books and entertainment resources that most people usually use only once.

When economic times are good, it's easy to overlook the positioning strategies that could help businesses limit the damage when times get tough. If there's an overriding lesson from this most annus horribilis, it's that investors should never take those strategies for granted.

Websites of Interest

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https://bit.ly/2vRUHN1

Personal Finance Guru's Mantra: You Can Always Refocus Your Retirement Plan

Still a Favorite After All These Years

by Angele McQuade

If you read my podcast cover story in the May 2020 issue of *BetterInvesting*, you already know Suze Orman is one of my all-time favorite financial authors. That's been true ever since I started learning the basics of personal finance by reading every book I could find in the Madison, Wisconsin, public library as a young mom in my mid-20s. One of those books led me to this magazine and another turned me into an instant Suze fan.

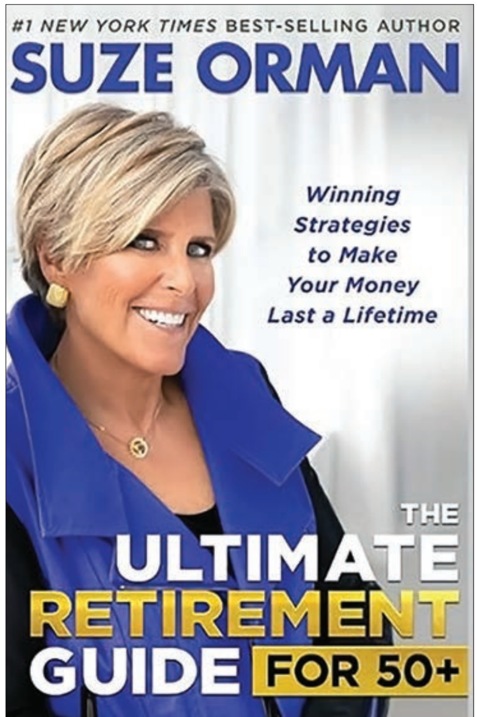
Now that a few decades have passed, I'm conveniently also the ideal age for Orman's 11th and latest book, "The Ultimate Retirement Guide for 50+: Winning Strategies to Make Your Money Last a Lifetime."

If you, too, have passed the half-century mark, you'll appreciate this comprehensive overview that starts a decade or two before retirement, then continues through that hallowed phase itself. Orman's specific focus on 50-plus is both unusual and valuable, letting her tailor her advice tightly. "The Ultimate Retirement Guide for 50+" is filled with all the details you'd expect, and even includes potential ramifications of the SECURE Act, which was passed as the book was in final edits. If you're considering any potentially tricky retirement moves (a back-door Roth individual retirement account, maybe?), she also gives ex-pert guidance on finding the right kind of financial adviser for your needs.

What I liked: Orman's belief that no matter what you have (or haven't) thus far, there's something productive you can still do, some specific step you can still take to improve your retirement strategy. "There is always the opportunity to reconsider and refocus your plan," she assures us, while also advising that, if at all possible, we continue working until 70 or older to increase our chances of creating the best retirement we can.

What I loved: Orman's laser focus on her readers' well being. She's not afraid to be a bit harsh on important topics, such as stepping back as much as possible from financially supporting our kids, grandkids and even aging parents to prioritize our personal retirement savings so those same kids and grandkids won't one day have to support us.

What makes "The Ultimate Retirement Guide for 50+" worth buying: its straightforward, easy-to-follow plan, with a particular focus on making sure your financial and estate planning documents are in order. If you're in your 50s or older and have been wishing for someone to just tell you what to do with your retirement investments, this book will give you all of that and more.



"The Ultimate Retirement Guide for 50+: Winning Strategies to Make Your Money Last a Lifetime," Suze Orman, Hay House (2020), hardcover ($26.99) and ebook, 306 pages.

Read "The Ultimate Retirement Guide for 50+" if: you're determined to do retirement right going forward, regardless of your age and current assets. As Orman reminds us, "Stop focusing on what you didn't do or could have done differently." The time to act is now.

A note from Angele: The global financial world has changed dramatically since this book was published in late February 2020. Orman has been proactive in updating her advice for current conditions on her free podcast, so check there for her most recent guidance, too.

Websites of Interest

Suze Orman's sites

suzeorman.com

Podcast: Suze Orman's Women & Money

Twitter: @suzeormanshow

Facebook: facebook.com/suzeorman

Instagram: @therealsuzeorman

YouTube: www.youtube.com/suzeorman

Angele McQuade is the author of two books, including "Investment Clubs for Dummies." She lives in Richmond, Virginia, where she also writes picture books and novels for children. Find her online at www.angelemcquade.com.

The Goal Is to Bank 3 to 6 Months of Living Expenses

No Amount's Too Modest for an Emergency Fund

by Matt Mondoux, CFA, CFP, CMT

I'm writing this article while the world is amid the containment of COVID-19. In mid-February all was going well, financially speaking. Individual investment account statements had been cheery to open.

Now, as I write in mid-March, uncertainty is as high as it has been since at least the financial crisis in 2008-2009. I'm hopeful that by the time this is published, the worst will be behind us and life will be getting back to something resembling normal. Regardless of how the future plays out and no matter when you read this, I ask that you do so in the context of mid-March 2020, through the lens of the uncertainty created by COVID-19. (*For more on emergency funds, see page 30.*)

And with that backdrop, there is not a better way to drive home the importance of an emergency fund. An emergency fund should be a pillar of financial planning and is meant to cover unforeseen loss of income and/or unusual or extraordinary expenses, e.g., unemployment, a new roof or medical care. The concept is as simple as it sounds: Liquid cash in a savings account that can cover necessary expenses for a predetermined amount of time. An emergency fund is not just savings though, it is cash that is specifically designated based on an estimated calculation of needs.

The needs are specific but can vary by individual. In general, needs-type expenses are those somewhat fixed in nature expenses that you require to live. Examples include but are not limited to mortgage, rent, car payments, insurance and groceries.

Figure Out What You Need

Identifying your personal emergency fund needs is relatively simple: Sum up your essential living expenses on a monthly basis and multiply that by a factor of the number of months you would like covered. The general principle is to use a factor of three to six months of your basic living expenses. For example: You spend $2,000 per month on necessary expenses and you would like to cover six months of expenses. Your emergency fund should be $12,000.

Saving three to six months of expenses may seem like a tall task. But when you know the amount your emergency fund should be, you can work backwards to come up with a monthly plan to begin funding it. Set a time frame for when you would like to have the emergency reserve fully funded. You can supplement monthly contributions with larger lump sums from a bonus or tax refund. Starting the plan is the important step. No amount is too modest!

Where to Keep Your Emergency Fund

It would be ideal to have your emergency fund segregated from the rest of your savings and checking accounts. As your emergency fund grows, so will the temptation to withdraw from it for a noncore expense, like a vacation or tires for your car that you knew you would need. I recommend using an online high yield savings account: You're able to earn a higher interest rate than those offered at banks, while maintaining access to your savings, if needed. Avoid certificates of deposit in this case; liquidity is an important feature of an emergency fund and you do not want it locked up when you need it the most.

Transport yourself back to March 2020 and realize the value that your emergency fund will have. It can bridge finances between difficult times. It can keep you from taking on additional debt and making a future financial hole harder to climb out of. It can prevent you from selling investments to raise funds during market turmoil, which could adversely impact your longer term goals.

> **"An emergency fund can keep you from taking on additional debt and making a future financial hole harder to climb out of."**

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.

A Hardship Withdrawal From a Retirement Account Can Have Consequences

Do You Need to Borrow From Your 401(k)?

by Gerri Walsh, President, FINRA Foundation and Senior Vice President, Investor Education

You may be able to tap into your 401(k) plan assets during a financial emergency. But while taking a loan or a hardship withdrawal may help solve an immediate need, there can be consequences that may reduce your long-term financial security.

401(k) Loans

If you need cash, you may be tempted to borrow from your 401(k) rather than applying to a bank or other lender. While not all plans permit loans, many do. And with most plans, you repay your loan through payroll deductions so you're unlikely to fall behind as long as you remain employed.

When you borrow from your 401(k), you sign a loan agreement that spells out the principal, the term of the loan, the interest rate, any fees and other terms that may apply.

You may have to wait for the loan to be approved, though in most cases you'll qualify. After all, you're borrowing your own money.

The IRS limits the maximum amount you can borrow at the lesser of $50,000 or half the amount you have vested in the plan. Sometimes there's also a loan floor, or minimum amount you must borrow.

You must also pay market interest rates, which means the rate must be comparable to what a conventional lender would charge on a similar-sized personal loan.

Normally, the term of a 401(k) loan is five years. That's the longest repayment period the government allows — though if you prefer a shorter term, you may be able to arrange it. The only exception occurs if you're using the money to buy a primary residence — the home where you'll be living full time. In that case, some plans allow you to borrow for 25 years.

Spousal Stamp of Approval

If you're married, your plan may require your spouse to agree in writing to a loan because a spouse may have the right to a portion of your retirement assets if you divorce. If you borrow, change jobs and don't repay, that money may be gone and your spouse's share may be affected.

Coming Out...Going In

When you borrow from your 401(k), the money usually comes out of your account balance. In many plans, the money is taken in equal portions from each of the different investments. So, for example, if you have money in four mutual funds, 25% of the loan total comes from each of the funds. In other plans, you may be able to designate which investments you'd prefer to tap to put together the total amount.

Weighing Pros and Cons

Before you determine whether to borrow from your 401(k) account, consider the following advantages and drawbacks to this decision.

ON THE PLUS SIDE:

- **You usually don't have to explain** why you need the money or how you intend to spend it.
- **You may qualify for a lower interest rate** than you would at a bank or other lender, especially if you have a low credit score.
- **The interest you repay** is paid back into your account.
- **Since you're borrowing rather than withdrawing** money, no income tax or potential early withdrawal penalty is due.

ON THE NEGATIVE SIDE:

- **The money you withdraw** will not grow if it isn't invested.
- **Repayments are made with after-tax dollars** that will be taxed again when you eventually withdraw them from your account.
- **The fees you pay to arrange** the loan may be higher than on a conventional loan, depending on the way they are calculated.
- **The interest is never deductible** even if you use the money to buy or renovate your home.

CAUTION: Perhaps the biggest risk you run is leaving your job while you have an outstanding loan balance. If that's the case, you'll probably have to repay the entire balance within 90 days of your departure. If you don't repay, you're in default, and the remaining loan balance is considered a withdrawal. Income taxes are due on the full amount. And if you're younger than 59½, you may owe the 10% early withdrawal penalty as well. If this should happen, you could find your retirement savings substantially drained.

Hardship Withdrawals

You may be able to withdraw from your 401(k) account to meet the needs of a real financial emergency. The IRS sets certain guidelines citing a number of circumstances that may qualify as a hardship withdrawal, including:

- **out-of-pocket** medical expenses;
- **down payment** or repairs on a primary home;
- **college tuition** and related educational expenses;
- **threat of mortgage foreclosure** or eviction; and
- **burial** and funeral expenses.

However, it is up to your employer to determine the specific criteria of a hardship withdrawal. For instance, one plan may consider a medical expense to be a hardship, but not payment of college tuition. Even if your plan allows for a hardship withdrawal, you should probably think of it as a last resort. Companies often prohibit contributions for at least six months after taking the withdrawal, and hardship distributions permanently reduce your account balance. In addition, you will have to pay taxes on the amount you withdraw, plus a 10% penalty if you are under age 59½. You may be expected to withdraw any after-tax dollars you've contributed to your 401(k) account, borrow the maximum permitted from the plan, and apply for commercial loans as part of the qualification process. Your plan administrator also may follow up after the withdrawal to verify that you used the money as you indicated you would in your application.

Dealing with Creditors

If you're in debt, or if you divorce, your creditors or your former spouse may want a share of your 401(k) assets. Their rights, and yours, are spelled out under federal and state law. If you're in debt, your creditors — businesses, family or governments — may try to collect what you owe. But whether or not they will be able to force you to liquidate your 401(k) assets to meet your obligations depends on who they are and the legal routes they take.

It's generally true that your 401(k) is safe from commercial and professional claims — such as car repair bills or legal fees — whether you're sued in either federal or state court. That's because the federal ERISA law, which governs all 401(k) plans and supersedes state laws governing retirement plans, protects your money from these creditors. You won't be ordered to withdraw from your plan to pay now, nor can your account be frozen until you pay the debts.

For the most part, you cannot be forced to use your 401(k) to pay state and local income, property or other taxes. If you owe child support, alimony or federal income taxes, a court may order you to withdraw money from your 401(k) to pay those debts. Because state and federal laws differ, you may want to seek legal advice to be sure which will apply.

Dividing Your 401(k) Assets

If you divorce, your former spouse may be entitled to some of the assets in your 401(k) account or to a portion of the actual account. That depends on where you live, as the laws governing marital property differ from state to state. In community property states, you and your former spouse generally divide the value of your accounts equally.

In the other states, assets are typically divided equitably rather than equally. That means that the division of your assets might not necessarily be a 50/50 split. In some cases, the partner who has the larger income will receive a larger share.

For your former spouse to get a share of your 401(k), his or her attorney will ask the court to issue a Qualified Domestic Relations Order (QDRO). It instructs your plan administrator to create two subaccounts, one you control and the other your former spouse controls. In effect, that makes you both participants in the plan. Though your spouse can't make additional contributions, he or she may be able to change the asset allocation.

Your plan administrator has 18 months to rule on the validity of the QDRO, and your spouse's attorney may ask that you not be allowed to borrow from your plan, withdraw the assets or roll them into an IRA before that ruling is final.

Once the division is final, your former spouse may choose to take the money in cash, roll it into an IRA or leave the assets in the plan. If there's a cash settlement, income taxes will be due on the amount taken out of the account. If your spouse gets the money, he or she is responsible for paying that bill. But if as part of the settlement, the money goes to your children or other dependents, you owe the tax.

When a Problem Occurs

The vast majority of 401(k) plans operate fairly, efficiently and in a manner that satisfies everyone involved. But problems can arise. The Department of Labor lists signs that might alert you to potential problems with your plan including:

- **consistently late** or irregular account statements;
- **late or irregular investment** of your contributions;
- **inaccurate account** balance;
- **losses that can't be explained** by market performance;
- **investments you didn't authorize**;
- **late or irregular payment** of benefits to former employees;
- **contributions that do not appear** on your account statement.

If you believe there is a problem with your 401(k) plan, contact your plan administrator or employer first. If you're not satisfied with their response, there are a number of places to turn for help.

- **The Labor Department's Employee Benefits Security Administration**. The Employee Benefits Security Administration (EBSA) is the agency charged with enforcing the rules governing the conduct of plan managers, investment of plan money, reporting and disclosure of plan information, enforcement of the fiduciary provisions of the law and workers' benefit rights. You can call EBSA toll-free at 866/444-3272, or contact your regional EBSA office for help.
- **FINRA.** If a problem involves a brokerage firm serving as the 401(k) fund administrator, or brokers who provided advice or handled transactions, you have the option of filing a complaint with FINRA. You can check online whether a brokerage firm or its representatives are FINRA members, and take a look at their professional backgrounds and disciplinary histories, through FINRA BrokerCheck.

FINRA is the largest independent regulator for all securities firms doing business in the U.S. Its chief role is to protect investors by maintaining the fairness of the U.S. capital market.

Sensible Money Management Helps You Feel in Control During a Crisis

Financial Planning in Today's Market

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

Since we have to submit this column well in advance of publication, the extent of the coronavirus outbreak and subsequent stock market and economic damage that took place in February through spring 2020 is still uncertain at the time of our writing. But it is obvious 2020 is already a very different year than 2019 for planners and investors.

After enjoying the second decade in U.S. history without a bear market, it's fair to say almost everyone anticipated some kind of market correction. Few if any anticipated the coronavirus or the rapidity of the market decline as it spread worldwide. Certainly, it appears that we'll have a recession as a result of this virus.

We don't know what this recession and bear market will look like longer term, but we do know there are some actions you should consider with respect to your financial plan and your investments during this uncertain time. In other words, how can we turn lemons into lemonade?!

Rebuild Your Cash Reserves

We have always recommended keeping three to six months' expenses on hand in a cash reserve. Having such a good stock market for so long may have lulled you into thinking you need less in reserve. Unfortunately, this market decline reminded us all of the reason we should have this reserve on hand to meet ongoing expenses. This way you avoid having to sell investments at low prices to pay your bills.

If your cash reserve isn't as high as you would like, we recommend you look at your last few credit card bills and bank statements to identify any areas where you can temporarily cut back spending to rebuild your reserves.

Put Excess Cash to Work

In the past, investors who bought during a bear market were rewarded over the long term because they were able to invest when assets were "on sale." Of course, emotionally this is easier said than done, as often the lowest point in the markets when prices are most attractive is also the point of maximum fear.

If you're fortunate enough to have some cash on the sidelines, talk to your financial planner about strategies for investing in a downturn. In volatile markets, with large swings up and down day-to-day, one good approach to this kind of market is "dollar-cost averaging."

Dollar-cost averaging simply means spreading your investments over a set period of time, usually in equal amounts. So rather than investing all at once, you invest a certain amount of your investable cash over a period of time. This can help mitigate some of the risk of bad timing. For instance, you could invest 20% each month over the next five months. If you set the investment to happen automatically on the same date each month, you can also eliminate the temptation to "wait" for the right day each month, or to trade on emotion. The key to dollar-cost averaging is that it runs like a program, thus avoiding the emotions that come with a bear market.

Rebalance

If you don't have cash on hand, but still want to turn the decline to your advantage, take a look at your current asset allocation. If you owned a portfolio with an allocation of 60% stocks and 40% bonds heading into the downturn, the allocation may be closer to 50/50 after a significant market decline. If the prior allocation was appropriate to your objectives and risk tolerance, then it likely remains so in a bear market. Rebalancing back to your target allocation means you'll be likely be sell-

> "If you owned a portfolio with an allocation of 60% stocks and 40% bonds heading into the downturn, the allocation may be closer to 50/50 after a significant market decline."

ing bonds and buying stocks, when stocks are on sale.

Increase Retirement Savings Contributions

There is a saying that the stock market is the only place that people don't buy when things go on sale! Sad but true. If your income is stable and your cash flow is positive, we recommend increasing your contributions to your company's retirement plan to the maximum you can contribute. By doing so you will be investing when the prices are low, thus reaping the rewards over the long term. Regular biweekly or monthly contributions to your retirement plan work the same way as dollar-cost averaging, steadily investing over time without regard to current market sentiments.

Tax-Loss Harvesting

Due to the market decline, you probably have some positions showing a loss. Even if you still think the long prospects for these companies look good, you can execute a tax-loss harvesting strategy to turn those paper losses into tax deductions. In order for a loss to be allowable on your return, you have to remain out of the position, or a substantially similar one, for 31 days.

The most straightforward way to harvest the losses is simply to sell the shares and then buy them back in 31 days. But if you take this approach you run the risk that the price could move up while you are out of the position and you miss out on the gains. There are two ways you can mitigate some of that risk.

First, after selling the position you can invest the proceeds in a similar company or fund, which could move in similar fashion to the one you sold. That way, if the market moves up you still participate in those gains. Alternatively, if you have cash available you can double up your current position by buying an equal number of shares to what you currently own. Then 31 days later, if you still have a loss in the original position, sell these shares. In this case, it's crucial that you instruct the custodian to sell the specific lot of shares showing the loss. Without instruction, many custodians will default to "average cost" accounting, which would spread the sale equally between all your shares and not maximize your tax loss.

Required Minimum Distributions (RMDs)

The $2 trillion stimulus package passed in March includes a provision that allows individual retirement account (IRA) holders subject to required minimum distribution rules to skip their distribution for 2020. If you can afford to skip your RMD, you should consider doing so for 2020. This will reduce your tax burden and it will allow you to avoid potentially selling investments during a downturn to fund the distribution. If you do need to take the RMD to support your living expenses, consider carefully which investments you sell to fund the distributions. If possible, you should avoid selling the investments with the largest declines in order to give them time to recover.

Roth IRA Conversions

As you may know, the ability to contribute to a Roth IRA is limited by your income. Above certain income thresholds, you lose the ability to make an annual contribution to a Roth IRA. But everyone, regardless of their tax bracket, is eligible to convert an existing RA account to a Roth IRA. The trade-off is that you must pay income tax on the amount converted in the year of conversion. If you have the ability to pay the additional tax, a market decline is a great time to consider a conversion. With the account value lower due to the market pullback, the amount of the conversion and thus the tax burden, will be lower. You will then have assets that grow tax-free in the Roth IRA, and are tax-free upon withdrawal after age 59½.

Conclusion

Your financial plan is based on the assumption that we will experience both good and bad markets. One of the most difficult things to deal with in a time of market declines is the feeling of lack of control. None of us has the power to will the market to recover. We do have control over our own lives and focusing your energy on factors you can control is a more productive use of your time than watching the markets. This is a good time to talk with your planner about how you might strengthen your financial position when markets are in turmoil. BI

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Harley-Davidson Employees Founded Group in 1987

Big Wheels Club Keeps on Turning a Profit

by Daniel J. Boyle, CFA

In my 10-plus years of co-authoring the "Repair Shop," I've enjoyed learning how different clubs operate and pass along practices that other clubs might use. The Big Wheels Investment Club of Milwaukee was formed by a group of employees at Harley-Davidson Motorcycles, hence the name. The club was founded in October 1987, just in time for a bear market, defined as a loss of 20% or more since a market peak.

As I write this article the market is down over 30% from its peak, a reminder that, every once in several years, the economy undergoes stress, this time caused by the coronavirus pandemic, and a bear market ensues. Then, just like now, I'm comforted with BetterInvesting principles: Invest regularly, buy high-quality growth stocks at reasonable prices and diversify. Big Wheels didn't let the 1987 bear market scare them, they just followed BI principles and thrived.

At founding the club had 12 members, three of whom remain, but what I find most interesting is the club's membership growth, which has built to 27 today!

It hasn't been my experience that clubs have grown this large without causing friction, especially what I call the dreaded "20%/80%" rule of investment clubs: 20% of the members do 80% of the work. With most clubs the 20% get tired of doing all the work and eventually drop away, leaving fewer and fewer to shoulder the workload, causing resentment and, sometimes, a disbanding of the club.

But Big Wheels turns the "20%/80%" rule on its head and uses it quite successfully to sustain the club. The 20%, a core group of 10-12 members, are experienced in club operations, investment analysis and portfolio management while the remaining members, the 80%, contribute to club meetings their everyday experience and willingness to learn. Each member receives a vote regardless of ownership percentage, so everyone feels engaged. This allows the 80% to gradually gain confidence and take on more activity at their pace. As inevitably happens, a member of the core 20% will leave the club and withdraw an ownership stake. But instead of offering

Big Wheel Investment Club of Milwaukee

Company	Ticker	No. shares	Cost	Mar. 19, 2020 Price	Mar. 19, 2020 Value	Gain/ (loss)	%Gain/ (loss)	Quality rating*	% Growth estimate**	% of portfolio	Trailing P/E	Trailing EPS
Air Lease	AL	1,073	$36,666	$ 14.77	$15,843	$(20,823)	(56.8)	3	12	2.3	3	$ 5.09
ANSYS	ANSS	300	22,357	221.09	66,327	43,970	196.7	1	13	9.6	42	5.25
Apple	AAPL	356	33,691	244.78	87,122	53,431	158.6	1	12	12.6	19	12.66
Baidu	BIDU	200	30,653	89.62	17,924	(12,729)	(41.5)	2	10	2.6	12	7.32
Biogen	BIIB	200	55,436	288.02	57,604	2,168	3.9	1	5	8.3	9	31.42
Cigna	CI	285	40,252	146.52	41,761	1,509	3.7	1	12	6.0	11	13.44
Cognizant Tech. Solutions	CTSH	306	15,158	46.49	14,236	(922)	(6.1)	1	9	2.1	12	3.99
Exxon Mobil	XOM	409	27,047	34.43	14,085	(12,962)	(47.9)	1	4	2.0	10	3.36
Fiserv	FISV	856	25,217	84.46	72,298	47,080	186.7	2	11	10.4	22	3.81
Harley-Davidson	HOG	749	21,207	18.69	14,005	(7,202)	(34.0)	2	9	2.0	7	2.67
Home Depot	HD	313	16,098	161.13	50,391	34,293	213.0	1	8	7.3	16	10.25
LKQ	LKQ	500	15,750	17.38	8,690	(7,060)	(44.8)	2	10	1.3	7	2.37
Marine Products	MPX	1,635	24,981	8.51	13,912	(11,069)	(44.3)	3	10	2.0	10	0.83
Microsoft	MSFT	219	8,346	142.71	31,290	22,944	274.9	1	14	4.5	25	5.74
PayPal Holdings	PYPL	200	15,607	93.69	18,738	3,131	20.1	1	20	2.7	45	2.07
ScottsMiracle-Gro	SMG	151	15,087	89.62	13,520	(1,567)	(10.4)	2	10	2.0	20	4.47
Signature Bank	SBNY	437	54,210	92.66	40,494	(13,717)	(25.3)	2	10	5.9	9	10.89
Skyworks Solutions	SWKS	106	8,106	77.28	8,206	100	1.2	1	10	1.2	16	4.78
Starbucks	SBUX	411	24,526	61.41	25,237	712	2.9	1	12	3.6	21	2.87
Cash			80,397		80,397			1		11.6		
Average									11		17	
TOTAL			**$570,790**		**$692,079**	**$121,289**	**21.2**			**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.

the withdrawing member's stake to each remaining member based on their pro rata ownership, Big Wheels offers as much of the withdrawing member's stake as desired to members who have the least ownership. What's left then gets offered to the next member with the least ownership, and so on. In this way the club provides an incentive for an 80% member to move toward core membership based on readiness.

Members come from Harley-Davidson, family and friends. With so many members the club learned long ago how to operate virtually, utilizing GoToMeeting and online tools for communication across the country. Members in Milwaukee host club meetings at 5:30 p.m. on the third Thursday of the month at a local library with access to Value Line and the internet. Members can join free and monthly contributions are $5-$50. The agenda is typical: call to order, attendance, treasurer's report, previous minutes review and approval, portfolio analysis/updates, new stocks, buys/sells and close. Big Wheels doesn't have a dedicated education topic, but core members mix in education throughout every meeting.

When I asked Deane Jaeger and his wife, Vicky, what the club does well, I was comforted by hearing how the club follows BetterInvesting doctrine. This isn't surprising given Deane's long history of giving back to the organization, including as a chapter volunteer, officer of the Wisconsin Chapter, frequent speaker at the BetterInvesting National Convention (BINC) and member of the BetterInvesting Volunteer Board. I loved some of his phrases, including "sales drive earnings, earnings drive stock prices" and "buy quality companies at multiples below historical average." While the recent bear market has hurt a few of the club's positions, I find evidence in most of the holdings that the club walks the talk.

Big Wheels does a nice job of portfolio management. Each core member follows a stock or two, leading to a portfolio of about 10-20 stocks with an average of 15. Unlike a lot of clubs, members who recommend the holding tend to follow it continually. This might lead to the recommending member "falling in love" with a holding, but Deane assures me the club has spirited discussions about every holding continually.

Big Wheels Investment Club of Milwaukee. Members are Anne Apanasewicz, Karl Apanasewicz, Tim Bembenek, Jeanne Biber, Joe Biber, Nathan Brain, Tom Calenberg, Paul Gequillana, Diana Howell, Henry Howell, Kate Howell, Ben Jaeger, David Jaeger, Deane Jaeger, Vicky Jaeger, Robert Leppanen, Paul Liang, Jason Marino, Earnest Metz, Dan Nowacki, Paul Pedersen, Vinay Raikar, Ashley Ruiz, Phil Rusch, Pete Ruzicka, Drew Stahr and James Welytok.

New ideas aren't hard to find as the wide membership and inclusive nature of meetings supports all members nominating ideas based on their knowledge and experience. There isn't a concept of an average target percentage weight, like around 7% for a 15-stock portfolio, but the club is conscious of diversification and doesn't want any one position to command an outsized weight such as 15%. New stocks are purchased at a 2%-3% weight, depending on cash and the desire to sell any existing holdings, to minimize the downside risk of the club guessing wrong on a stock where they don't have a lot of experience. Once a company proves itself and the club has followed it awhile, more shares can be bought.

One portfolio management technique the club struggles with is tax selling. While I understand the desire to avoid paying Uncle Sam or your local state government by harvesting any loss, even small ones, the natural progression of stock prices in the short term is unknowable. But in the long term high quality growth stocks will appreciate, even if they are currently out of favor. A great example is the current state of the portfolio where, in a bear market, several high-quality names are held in a loss position. If the club were to sell these holdings it would have to wait 31 days to repurchase them to avoid Internal Revenue Service "wash sale rules." Historically, we have seen bear markets last as little as three months or as long as three years. One can never know, but it would be unfortunate to miss out on the returns of a relatively quick recovery simply to avoid paying taxes, especially when at the individual member level the loss represents only a pro rata share and investment tax rates are at relatively low historical levels.

This philosophy doesn't imply the club should stubbornly hold on to positions in order to "make back" losses. Behavioral finance tells us the brain hates losses more than it appreciates gains. I keep my own sense of this at bay by always looking to upgrade my portfolio with new stocks that I think have a better chance than existing ones, even if I end up taking a loss on the one I chose to replace. Tax-loss harvesting has its place, but I like to practice it toward the end of the year when I have a sense as to what gains I've already taken. In this bear market we will all be likely looking at reshaping our portfolios as the year progresses.

ANSYS, Apple Cognizant Technology Solutions, Fiserv, Microsoft, PayPal, Skyworks Solutions

Information technology makes up 43% of the portfolio spread over seven holdings. I have long admired **ANSYS (ANSS)**, the leader for software that allows designers and engineers to virtually design products including cars, planes, electronics and medical devices. The software is so popular that most large companies demand that its engineers and suppliers use it when developing and maintaining products, creating a barrier to entry for competitors with alternate offerings. Further, ANSYS can leverage its industry leading position by both internally adding new capabilities to its software suite while also pursuing acquisitions of complementary capabilities that others develop. The company grows consistently in good times and bad, even managing to expand sales during the deep 2008/09 recession. Investors have rewarded this consistently with a very rich price-earnings multiple of 42 times trailing 12 months earnings per share, quite an impressive valuation during a bear market. Analysts expect EPS to grow 13% a year, with a PEG (price to earnings growth) ratio of over 3, richly outside of the 1.0-1.5 range I like to pay for a growth stock. The stock's weight in the portfolio is approaching 10%, likely higher than normal in this bear market.

Apple (AAPL) was among the first businesses hit by the coronavirus, which caused supply chain disruptions at factories in China, the epicenter of the pandemic. Later the business suffered due to store closures, first in China and then the rest of the world. As I write this article the business is trying to decide if it is going to introduce in the fall new generations of iPhones that support 5G, the latest lightning-quick wireless communication standard just beginning to roll out worldwide. Like a lot of stocks, Apple has been hit and now trades at a trailing P/E of 19, above its historical average but reasonable when coupled with expected annual earnings growth of 12%. I'd watch the almost 13% weight in the portfolio and perhaps sell some shares to fund better growth opportunities that are now available at much better prices.

A shortage of talented IT professionals that has persisted for years spawned the growth of offshore Indian services firms including **Cognizant Technology Solutions (CTSH)**. About two-thirds of the firm's business comes from financial services and health care companies, both of which have cut back on IT spending over the past years. This has hurt overall sales growth, now in the low single digits. The move to digital and cloud services has also hurt Cognizant as new services offerings in this area have not been able to fully offset losing traditional, on-premise packaged software implementation and maintenance.

The company has responded with an initiative it calls the "2020 Fit for Growth" plan, an investment in new digital services it expects to restore growth in the long-term but that hurt near-term profitability. I'm skeptical the firm can turn the tide quickly enough on digital and would recommend the club study **SYNNEX (SNX)** and **EPAM Systems (EPAM)** as possible challengers.

Fiserv (FISV) is a leading provider of information technology and processing services to over 18,000 financial institutions. As the firm came to dominate its niche, sales growth slowed to low single digits. Last year's acquisition of transaction processor First Data added significantly to sales but at a high purchase price that has left Fiserv heavily indebted. The transaction is expected to add to sales through cross-selling and back-office expense cuts, supporting faster earnings growth. I'm quite concerned about the debt load, which stood at around $22 billion at the end of 2019 and leaves little room for error if a recession causes growth to fall. At a minimum, I'd recommend the club think about reducing its 10% weight.

After many years of stock price stagnation, **Microsoft (MSFT)** under CEO Satya Nadella has accelerated sales and earnings growth by capitalizing on cloud activities, including outsource data centers for customers and repositioning its ubiquitous Office suite as a subscription offering. There are other successes as well, including the acquisition of LinkedIn and maximizing Windows' reach and the Xbox gaming system. Estimated annual earnings growth of 14% is achievable and balanced against a trailing P/E ratio of 25.

The move from hard currency to cashless payments has been a long-term trend and companies like **PayPal (PYPL)** are pioneers. The company has grown strongly since its separation from eBay, but competition and the law of large numbers is starting to slow sales growth. Even so, moving around electrons isn't very costly, so much of this growth shoots right to the bottom line as earnings. The cash-flush company intends to make strategic acquisitions to supplement its internal growth. A 20% long-term annual EPS growth is achievable, but the stock's valuation is expensive at a P/E ratio of 45. In turbulent markets like this Big Wheels should be ready to add to the club's position if the share price falters.

The last IT holding, **Skyworks Solutions (SWKS)**, plays a critical role in communications. The company makes tiny chips that translate digital signals to analog and back to digital, facilitating mobile handset communications. The chips are also used for so-called Internet of Things applications like GPS products and self-driving cars. Last year the company was in the middle of a trade war, losing about 10% of its business from **Huawei** after the U.S. government banned electronics sales to the Chinese telecom giant. The coronavirus and its supply chain and store closures will hurt a major customer, Apple, as 2020 unfolds. There just isn't enough visibility for my taste; I would recommend the club look for an upgrade.

The Home Depot, Starbucks, Harley-Davidson, LKQ, Marine Products

Five consumer discretionary stocks account for roughly 16% of the portfolio. The **Home Depot (HD)**, 7% of the portfolio, has tapped into growth from the long housing recovery and helped itself with better execution. As I write this no one knows the impact on the growth trajectory of the U.S. economy due to the coronavirus, introducing near-term risk for all retailers, including Home Depot. But lower interest rates should help customers free up money for remodeling projects, while shifting demographics over the next few years should support housing formation. As a long-term investor, I think it is a solid holding.

I've been impressed with the long growth run of **Starbucks (SBUX)**. A coffee lover myself, I do enjoy a skinny vanilla-sugar free cappuccino, but I'm starting not to enjoy the premium price Starbucks charges. Like most retailers, shares have been hit hard by store closures around the world, starting in early 2020 in China and spreading to the rest of the world shortly thereafter. Companies with strong brands and products should see their stock prices recover once the world returns to normal; it will just be ugly in the interim. I'd recommend the club think about adding to the position if the stock gets cheap enough.

The other three consumer discretionary stocks, **Harley-Davidson (HOG)**, **LKQ (LKQ)** and **Marine Products (MPX)** are 2% or lower positions that I'd look to upgrade, however, I bet that's a hard decision for Harley-Davidson, given the club's connection to the company. I'd look for retailers with strong, defensible global brands that can ride out the coronavirus-induced recession, for example **Nike (NKE).**

Biogen, Cigna

Health care is represented by two stocks. **Biogen (BIIB)** has the leading drugs on the market to treat multiple sclerosis (MS), but these drugs will increasingly face generic competition. The future for the company is Aducanumab, the firm's experimental drug to treat Alzheimer's disease, a huge unmet medical need. The drug has mixed efficacy, with some trials showing results and others not. The stock is cheap on just about every financial metric, reflecting investors' expectations that its MS drugs will eventually stall. Pretty much everything relies on Aducanumab, a very skeptical situation that shouldn't command an 8% portfolio weight.

While the coronavirus will impact most health care insurance carriers, **Cigna (CI)** should be able to withstand the short-term turbulence. The integration of pharmacy benefit manager ExpressScripts continues to go smoothly and the emergence of a moderate Democratic candidate, Joe Biden, has calmed investors' fears about the U.S. adopting socialized medicine. Shares are inexpensive and growth forecasts reasonable.

Portfolio Tuneups

Would your club like a review of its portfolio? Send your valuation statement and a description of club challenges to "Repair Shop," c/o BetterInvesting, 711 W. 13 Mile Road, Suite 900, Madison Heights, MI 48071. If you have a focused photo showing everyone's face, forward a high-resolution digital image or print. Include the names of the members, in order, plus the names of those not pictured. Send digital photos via CD or email them to janj@betterinvesting.org.

Air Lease, Signature Bank, Baidu, ScottsMiracle-Gro, Exxon Mobil

Financial services companies **Air Lease (AL)** and **Signature Bank (SBNY)** have both been hit hard by the bear market for different reasons. Air Lease will be in for tough times as global travel will take some time to recover, but the company has ample liquidity and the firm's management has successfully navigated deep global recessions. Signature has substantial lending operations in New York City, a coronavirus epicenter. Holding these stocks will likely be stomach churning for a while, but they are both solid companies that should endure.

The lone communication services stock making up 3% of the portfolio is **Baidu (BIDU)**, the dominant internet search engine in China. Growth from search, which represents about 75% of the firm's 2019 sales, has been relatively stagnant over the past few years and most of the firm's growth now comes from mobile phone services, cloud and hardware. Operating costs for these new businesses have swelled, hurting profits, and profits' write-downs from investments like Trip.com haven't helped. The outlook for 2020 is difficult given the reduction in demand caused by the coronavirus in China. Shares are cheap at a P/E of 12, but I'm concerned that the average annual earnings growth expectation of 10% is optimistic. If the club wants to own a solid internet search engine it can look no further than its own backyard and research **Alphabet (GOOG)**, better known as Google.

The **ScottsMiracle-Gro (SMG)** is a tangential play on the growing cannabis market through strong growth from its Hawthorne division that sells nutrients, lighting and hydroponics. Cost-cutting efforts from its merger with Scotts Company has also contributed to earnings. For expected annual earnings growth of 10%, the P/E ratio of 20 seems a little stretched. The last portfolio holding, **Exxon Mobil (XOM)**, is on the wrong side of the oil market share battle going on between Saudi Arabia and Russia. I'd look for an upgrade.

Dan Boyle, CFA, is vice president of the investment management firm Provident Investment Management (www.investprovident.com), Novi, Michigan. He is also a member of the magazine's Editorial Advisory and Securities Review Committee and co-author of the Investor Advisory Service newsletter. The author and/or clients of his firm may have positions in some of the stocks mentioned in this article. No investment recommendations are intended.

Club Accounting

From Portfolio Management to Communication, Platform Assists Club Operations

MyICLUB.com Makes It Easier to Run Your Club

by Russell Malley, Club Accounting Adviser, ICLUBcentral

While many consider myICLUB.com as an investment club accounting platform it is really much more. MyICLUB is more of an investment club operations platform that can be used for club communication, file storage, audit help and portfolio management.

Let's start with portfolio management. In the reports section are 10 portfolio reports. These range from diversity reports for company size and sector/industry to different portfolio reviews. One of my favorites is the Club Performance Report. This shows the total club performance over multiple time periods compared to two user set benchmarks.

A particularly nice feature of the Club Performance Report is it matches cash flows into the club with cash flows into the benchmarks, giving a much better "apples to apples" comparison. That is, it compares the club performance to the benchmark as if the club invested the same amount of money at the same time into the benchmark as was invested into the club.

To complement the portfolio reports there are seven graphs available. These include graph versions of the diversity reports. I found the graphs spurred action in my club more effectively than the diversity reports to balance our portfolio better.

Auditing, Fraud Prevention and Communication Help

The next set of reports are grouped together as the Specialized Reports. Several of these help with auditing the club's accounting records, including Cash and Complete Journals and the Transaction Summary. These have been very useful in my work at ICLUBcentral in helping clubs find when accounting errors occurred.

The last set of reports are grouped in the Occasional section. As the group name implies these will be used less often. One that can help determine the effectiveness of your sell decisions is the Sold Securities Report. This compares how well a security sold from the portfolio has performed, after it was sold, to the benchmarks selected in the Club Performance Report.

Auditing and fraud prevention are aided by the File Storage area. Upload copies of the club's broker statement for all members to see. With more eyes to check, errors should be discovered sooner, making correction easier. This would make my job a bit easier, too, especially around tax time, as clubs seem to find big errors going back years around then.

For communication and other club operations there are message boards that can be created, online voting capability and a club calendar. Different message boards can be set up that send messages to all or a subset of members.

The last items are two reports in the Monthly section. These are the Stock Watcher and Stock Watcher Assignments reports. The pair keep track of who is responsible for tracking each security in the portfolio and a short report on specific stocks.

So, explore, then use the full capabilities of myICLUB to make it easier to run your club.

Club Confidential

Tuning Into the Video Conference Boom

Stay Calm and Go Virtual

by Cindy Kelley, Production Coordinator, BetterInvesting

I'm sitting at my improvised desk in my improvised "home office" diligently following the WFH (work from home) guidelines suggested for all of us who can work remotely as we make our way through some dark days due to COVID-19. It's a sunny spring day as I write this and I'm having difficulty concentrating. The surreal quality of day-to-day life right now is unnerving. I'm betting there are plenty of folks in the country feeling a similar sense of disbelief and dismay.

I recognize I'm doing my part by faithfully following the stay at home order, yet it's not easy. Some days are easier than others, and I know we'll get through this, but it's daunting. I'm fortunate that I work for BetterInvesting. The organization has been so responsive. I feel lucky that all of us were able to successfully move to working remotely. I know many haven't been so fortunate.

As I look around my neighborhood, I see a whole lot of activity. It's obvious there are many adults who've been laid off. And consequently, a whole lot of economic hurt to come. There is no doubt that the true consequences of this crisis won't be known for many months, perhaps even years. In the meantime, we must continue marching forward the best way we can. To that end, it's more important than ever to look out for your personal finances and prepare yourself economically for the future. That's why you need to stay focused and use BetterInvesting's strategy for financial stability to your advantage. Keep your investments going, find stocks "on sale" and continue your monthly investment club meetings.

WARP, my investment club, met last month via video conferencing. *BetterInvesting* published a reference list of options recently (*see the May issue, page 47*). We put the meeting together last minute and were only able to access a free platform with a 45-minute window. It was difficult to have a full discussion within that time frame. As a result, my first piece of advice for holding investment club meetings in these challenging times is to seek a video platform that offers unlimited conference time (a fee may be required). For our next meeting, a fellow member has a full license for a video conference app that will allow us to stay connected until all business has been accomplished. That will be a welcome addition.

The next piece of advice relates to the first. If you use video conferencing, ask all members of the club to familiarize themselves with the platform you choose. A practice session isn't a bad idea. It's good to know in advance how to mute yourself, switch user grid and check out all platform settings. I know the first time I did a Zoom conference I was not very adept at the controls and had a steep learning curve. I believe you can expect the same. Take some time ahead of your meeting to get comfortable, it will pay off in the long run.

My final piece of advice for these new options on holding meetings while social distancing is to request members make time in advance of the meeting to condense what they're going to report. Even if you have no time restriction, it's a good idea to have members focus on what's most important to convey to the group. A few key points, a recommendation on whether it's a good buy and any current news is enough for these remote meetings. I don't know about you, but my focus recently isn't at the same level it was before the crisis took us into our homes, so the shorter the session the better, in my opinion.

These are only suggestions of course. And sadly, the social aspect of club meetings is likely to shift. I know it's an aspect of our meetings that I enjoy, but there can be a level of confusion and chaos when video chatting, and socializing won't help streamline the meeting. Consider adding a separate social meeting at another time if that's something you all agree to explore. Or maybe incorporate a social hour with a practice session? Keeping the club meeting about business will work better for all. If you encounter issues with anything regarding club operations and decisions during this time, BetterInvesting is here to help. The organization has done an extremely good job of maintaining its readiness for members. The Member Services team is available to answer any questions or concerns. You can email the team at **service@betterinvesting.org**.

The website is always open for you to investigate as well. The FAQ section of the site **(https://faq.betterinvesting.org)** has answers to common questions. Plus, with extra time you may have available right now, consider exploring the educational assets offered on the site. There are several new recordings of recent webinars dedicated to the issues surrounding investing in the current climate. All recordings can be found in the Video Learning Library on the member site **(www.betterinvesting.org/VLL)**.

As the saying goes, we're all in this together. And BI is here to help you stay focused on your financial goals. The current state of the world is anything but stable and predictable. BetterInvesting's principles are still valuable tenets to guide you. Hopefully you are doing OK, hopefully you are staying financially fit and hopefully, you are still looking to build a more secure financial future for you and those you hold dear. Stay safe. Stay sane.

Wishing you good health and better investing.

After Pandemic's Impact, Will Company Regain Its Agility?

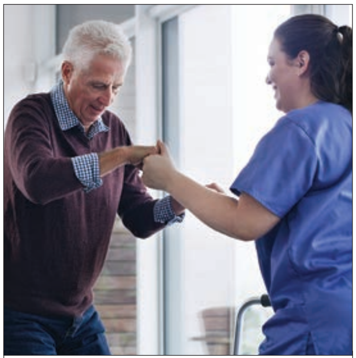
Stryker Corporation

Within just a few weeks the coronavirus pandemic has caused financial turmoil in many areas of the health care sector. In light of the most pessimistic projections about the spread of the virus, hospital administrators feared their facilities might become overwhelmed by a flood of patients with severe infections. As a result, elective surgeries and many routine medical procedures were postponed.

Without these normal sources of revenue, some hospitals have experienced financial pressures. That is believed to have triggered cutbacks in capital spending on medical equipment, including some of the newest technologies.

The cutbacks are beginning to trim the results of medical equipment manufacturers. Also, some economists are predicting a recession triggered by the effects of government responses to the pandemic. Under these emergency measures, some businesses have closed indefinitely, unemployment claims have risen sharply and many households have lost health insurance coverage.

Analysts note, however, that historically many segments of the industry are relatively recession-resistant. Once hospitals can resume normal operations, orders should pick up, analysts say. That would boost results of companies such as **Stryker Corporation (ticker: SYK)**, a leading maker of hip and knee replacement implants, hospital equipment, orthopedic surgery tools and other medical products.



More Mobility. Stryker is one of the country's top four producers of hip and knee replacement implants.

Members of the Editorial Advisory and Securities Review Committee emphasized that once the pandemic crisis winds down, medical procedures that aren't "life-critical" will resume. Many developed countries have aging populations and needs such as joint replacements will have to be met. Meanwhile, the short-term slowdown in Stryker's sales and resulting dip in the share price may have made the stock's valuation more attractive.

At its $189.50 close on April 17, the stock was 16.3% below the 52-week high of $226.30 as reported Feb. 19. Its trailing 12-month price-earnings ratio stood at 34.6 (*see table*). The ratio for the S&P 500 index recently stood at 21.1.

CSIMarket, a financial data service, set the TTM ratio average for the medical equipment and supplies industry at 42.5. The average was 29.1 for Stryker and two publicly traded competitors, based on figures Yahoo Finance reported at the end of April.

For price-earnings to projected growth, or PEG, Yahoo Finance reported a ratio of 2.5, based on an average five-year expected earnings growth rate. That's above the range of 1.0 to 1.5 that's generally considered desirable.

Heading Into Surgery

While studying orthopedic surgery at the University of Michigan in the 1930s, company founder Homer H. Stryker developed patient recovery aids such as the walking heel and the turning-frame hospital bed. In 1941 the physician established the Orthopedic Frame Company to sell his medical inventions. The business adopted its current name in 1964.

The corporation made its initial public offering of stock in 1979. That same year Stryker entered the orthopedics implant market by acquiring Osteonics. In 1998 the company nearly doubled its sales volume by acquiring orthopedics manufacturer Howmedica from Pfizer (PFE).

In the United States Stryker markets most of its products directly to doctors, hospitals and other health care facilities. In fiscal 2019 (ended Dec. 31, 2019) the company had 50 active manufacturing locations.

Today the company has three reporting segments. MedSurg — medical and surgical equipment — is the largest, having generated net sales of $6.6 billion in 2019. That was 44.2% of the total.

MedSurg products include surgical equipment and navigation systems; minimally invasive endoscopic surgical equipment and communications systems; patient handling systems such as specialty hospital beds and orthopedic stretchers; emergency medical equipment and disposable intensive care items; and reprocessed and remanufactured medical devices.

Orthopaedics (*company-preferred spelling*) generated $5.3 billion in net sales, 35.3% of the total. The segment manufactures hip and knee joint replacement implants that employ high-tech alloys, ceramics and polymers. Its products include implants, fasteners and specialized instrumentation for orthopedic surgeries that include treatment of traumatic injuries.

The segment also markets the Mako robotic-arm assisted surgical system for hip and knee replacement surgeries. Stryker acquired Mako in December 2013 for

Strkyer Corporation

	2019 (ended 12/31/19)	2018 (ended12/31/18)	% change	FY 2020 Q1	FY 2019 Q1	% change	FY 2020 year to date	FY 2019 year to date	% change
Net sales	$14.9 billion	$13.6 billion	9.4%	$3.6 billion	$3.5 billion	2.0%	—	—	—
Net income*	$2.1 billion	$3.6 billion	(41.4%)	$493.0 million	$412.0 million	19.7%	—	—	—
Diluted EPS*	$5.48	$9.34	(41.3%)	$1.30	$1.09	19.3%	—	—	—
Declared dividends	$2.13	$1.93	10.6%	$0.57	$0.52	10.6%	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	12.0%
Ticker symbol	SYK	Consensus long-term earnings growth estimate (27 analysts)	6.9%
Price at time of selection	$174.81	Consensus EPS growth rate for FY ended December 2020	(8.8%)
Past year's price range	$124.54 – $226.30	Consensus EPS growth rate for FY ended December 2021	20.5%
Recent market price	$189.51	Recent price-earnings ratio**	34.6x
Market capitalization	$71.0 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $5.48 for the four quarters ended Dec. 31.

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

almost $1.7 billion. The Mako line of robotic devices was designed to foster cost-effective, consistent joint-replacement surgeries. Some analysts predict Mako will be a long-term growth driver of Stryker's sales.

Neurotechnology and Spine generated $3.1 billion, 20.5% of the total. The segment markets spinal implant systems and products used to treat neurovascular conditions such as strokes and brain aneurysms. The unit produces equipment for traditional brain and open-skull surgeries; products for minimally invasive neurovascular surgeries; and orthobiologic and biosurgery supplies such as synthetic bone grafts and vertebral augmentation products.

Innovation is a significant element of the company's growth. At year-end 2019 Stryker held 3,392 U.S. patents as well as 5,491 international patents. Research, development and engineering expenses represented 6.5% of net sales. That was up from 6.3% in 2018 and 2017.

The proportion of overseas' sales has remained relatively stable recently. International sales constituted 26.4% of the total in 2019. Compared with 27.6% in 2018 and 27.2% in 2017.

Members of the founder's family retain noteworthy holdings of Stryker stock through a family trust contained within the larger Greenleaf Trust. As of Dec. 31, Greenleaf held 5.8% of shares outstanding, according to the company's March 2020 proxy statement. Family members include the founder's grandchildren, Ronda, Patricia and Jon Stryker, all of whom are prominent philanthropists.

Company insiders held 6.8%, according to the proxy statement. Ronda E. Stryker, a board member, directly owned 6.2%.

Kevin Lobo, 54, became CEO in October 2012 and also chairman in July 2014. He joined Stryker in 2011. Lobo previously served as a senior executive at Johnson & Johnson (JNJ) and Rhone–Poulenc Rorer, now a unit of Sanofi (SNY). He also held finance positions with firms that included KPMG, Unilever and Kraft Canada.

Competitors include Johnson & Johnson and Smith and Nephew (SNN), Morningstar reported.

Recent Deals

Management has continued its long-standing practice of driving growth with acquisitions. In November the company announced plans to acquire Wright Medical Group for an aggregate purchase price of $5.4 billion, including debt. This purchase price reportedly represented a 40% premium over Wright's closing share price in place at the time of the announcement.

Management expected to close the transaction during the second half of 2020. Wright Medical Group specializes in biologic products and equipment for surgeries on the extremities.

In 2019 Stryker made acquisitions for net cash considerations totaling $802 million and $294 million in future milestone payment commitments.

In February 2019 Stryker acquired Arrinex, maker of cryoablation technology for treating chronic rhinitis. In March it acquired Israel-based OrthoSpace, the maker of a biodegradable material for treating serious shoulder injuries. The product — InSpace — is used to treat patients in 30 countries but remains under clinical study and is not yet approved for use in the United States. In October the company acquired two associated businesses. Mobius Imaging markets mobile technology for real-time, point-of-care imaging. Its sister company GYS Tech, doing business as Cardan Robotics, is developing robotics and navigation technology for surgical and interventional radiology procedures.

Final Notes

BetterInvesting is profiling Stryker for educational purposes only. No investment recommendation is intended. The Stock to Study goal is a doubling in investment value (market price appreciation plus dividends) within five years. *BetterInvesting* featured the company as the Stock to Study for November 2005 and June 2012. Stryker was the Undervalued Company for February 2009.

The company ranked No. 26 in the Top 200 Survey of investor holdings for 2019 (*see the April 2020 issue*). A projected 278 clubs owned shares. For the eight-week period ended March 17, the stock appeared on the Most Active List: Bubbling Under. Users of myICLUB participating in the ongoing transaction tracking project reported 17 buys and 8 sells.

The company doesn't have a dividend reinvestment and direct stock-purchase plan. The stock underwent 2-for-1 splits in 1991, 1996, 2000 and 2004. A 3-for-2 split occurred in 1989. The annual total of shares outstanding has fluctuated over the past 15 years, with the tally remaining relatively flat over the previous four years. In 2019 Stryker bought back common stock valued at $307 million under its authorized repurchase program. The company announced it would suspend the share repurchase program in 2020 and 2021 in connection with the December issuance of 2.4 billion euros of senior unsecured notes.

The Value Line and Morningstar analyst reports and Value Line industry report can be found in the magazine section of the BetterInvesting website. For more information, contact Investor Relations, Stryker Corporation, 2825 Airview Blvd., Kalamazoo, MI 49002.

The author of this profile owns shares of Stryker common stock.

Websites of Interest

Stryker Corporation
www.stryker.com

— Reporting by contributing editor Kevin J. Lamiman

The Editorial Advisory and Securities Review Committee met on May 8. The Stock to Study and Undervalued Stock that its members selected were announced shortly afterward. Look for the Stocks to Study box on the right-hand side of the homepage. The 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 Stryker Corporation, you might consider the following comments and questions for further study:

Capitalization section: Stryker's total debt to capitalization ratio has increased steadily over the past five years to a current level of 46.4% from 32.1%, consistent with the firm's strategy of growing via acquisition. Is this trend healthy? A lower debt to capitalization ratio suggests more stable financial performance. Compare recent debt to capitalization ratios for Medtronic and other medical device companies in the peer group, as well as the average for the manufacturing industry, to assess Stryker's relative financial sustainability.

Section 1 (Visual Analysis of Sales, Earnings and Price): Stryker sales grew to $14.9 billion in 2019 from $7.3 billion in 2010, a CAGR of 7.8%. Stryker's consistent sales growth rate over the past decade compares favorably with its BetterInvesting peer group, which showed a 5.3% decline in growth over the decade and an industry average 7.2% growth decline. Only Medtronic's sales grew at a faster average rate.

Section 2 (Evaluating Management): Stryker's pretax profit margin on sales has remained remarkably consistent over the past five years at 17.1%, significantly higher than its peer group and industry average. While earnings per share have been choppy over the decade, share price has risen consistently. Stryker's return on equity of 16.6% in 2019, the measure of how well the company is using shareholders' equity to make a profit, was off slightly from its five-year average of 19.2% — although well ahead of its peer-group and industry average.

Section 3 (Price-Earnings History): The company has increased the dividend every year for the past five, averaging a payout rate of roughly 40%. Stryker's stock has reflected an average 5-year price/earnings ratio of 35.2, well below that of its peer group or the industry. Does the low average P/E, combined with strong and consistent earnings, imply that the company is an overlooked and undervalued stock?

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.

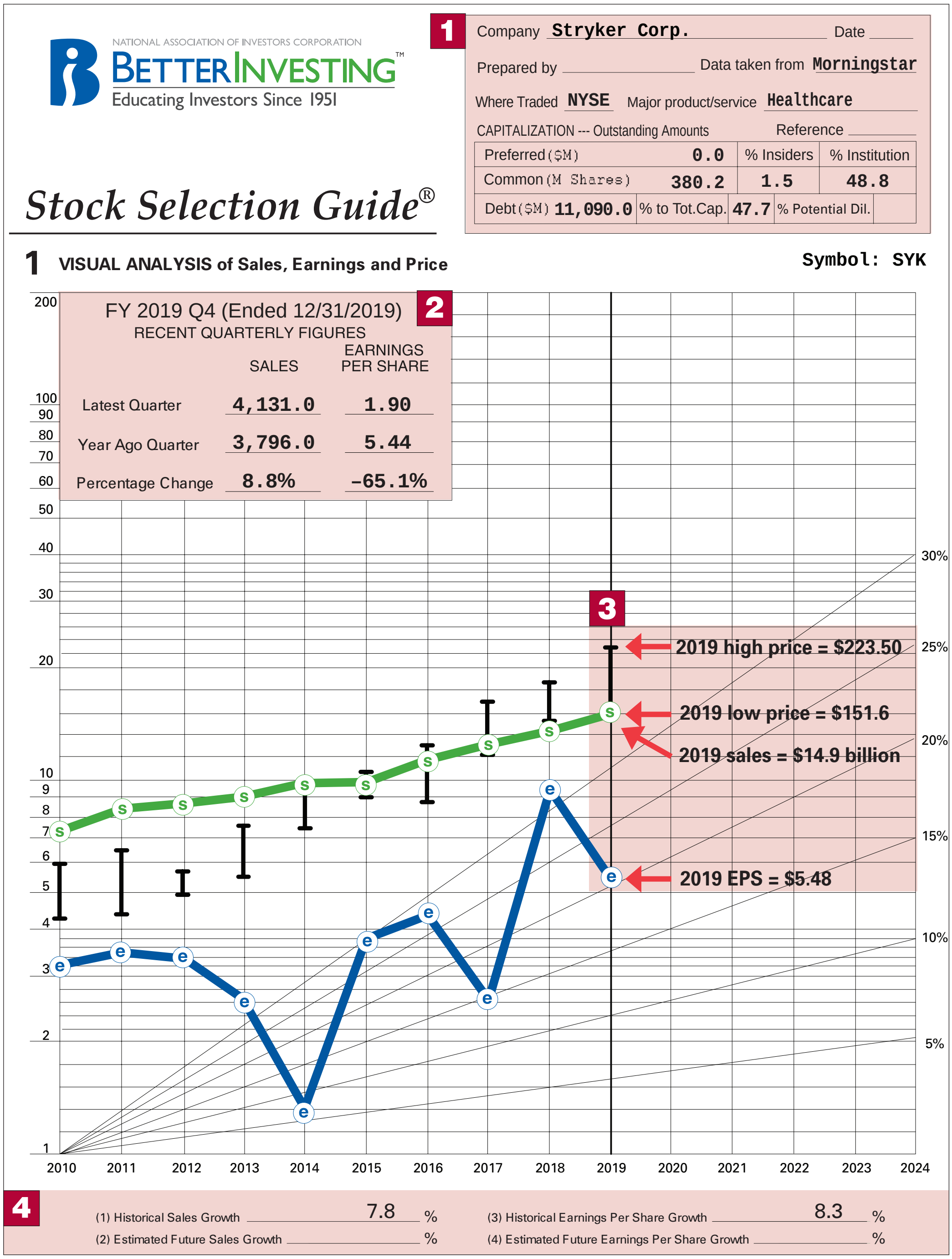
Figure 3

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 in the Analyst Reports and Other Resources section of the BetterInvesting website for your use in conducting stock studies. You'll need Adobe Acrobat software to read the Portable Document Format files.

2 EVALUATING MANAGEMENT

Company Stryker Corp. (SYK)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	23.6	20.3	19.7	13.4	12.0	17.4	17.0	16.6	17.3	17.2			
B	% Earned on Equity (E/S ÷ Book Value)		18.8	17.1	11.6	5.8	16.6	19.1	10.8	33.5	20.8			

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	2015	105.3	89.8	3.78	27.9	23.8	1.415	37.4	1.6
2	2016	123.6	86.7	4.35	28.4	19.9	1.565	36.0	1.8
3	2017	160.6	116.5	2.68	59.9	43.5	1.745	65.1	1.5
4	2018	179.8	144.8	9.34	19.3	15.5	1.930	20.7	1.3
5	2019	223.5	151.6	5.48	40.8	27.7	2.135	39.0	1.4
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) 9
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell)
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.

Editor's note: Those who want to learn more about estimating future growth rates, predicting a stock's potential return and other issues regarding the SSG are urged to contact their local chapter for a schedule of classes. See the Regional Notices section in this issue for a list of chapters and contact information. A number of resources also are available at the BetterInvesting website. Among them is the Introduction to the SSG Series, a webinar series available free to members. The sessions explain how to select the best companies, determine a fair price, estimate future growth and project future P/Es. Go to the Video Learning Library in the Learning Center on the website to access these classes.

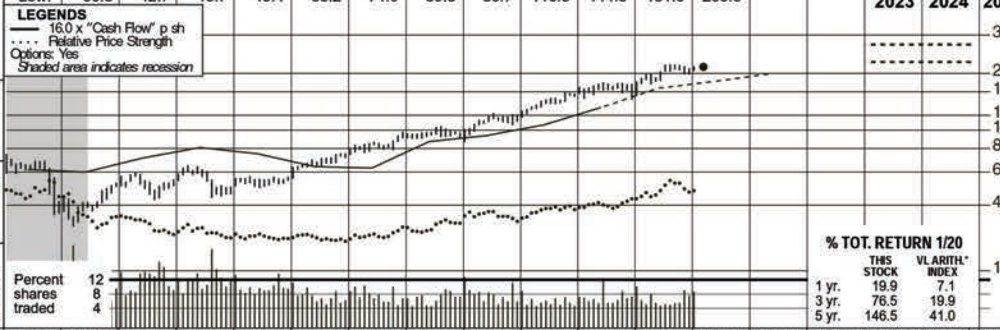
STRYKER CORP. NYSE-SYK

RECENT PRICE 216.35 | P/E RATIO 24.3 (Trailing: 26.2 Median: 22.0) | RELATIVE P/E RATIO 1.38 | DIV'D YLD 1.1% | VALUE LINE

TIMELINESS 2 Lowered 12/20/19
SAFETY 1 Raised 8/28/09
TECHNICAL 3 Lowered 12/27/19
BETA .90 (1.00 = Market)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
High:	52.7	59.7	65.2	57.2	75.6	98.2	105.3	123.6	160.6	179.8	223.5	218.4
Low:	30.8	42.7	43.7	49.4	55.2	74.0	89.8	86.7	116.5	144.8	151.6	205.6

Target Price Range 2023 | 2024 | 2025



18-Month Target Price Range
Low-High: $178-$302 | Midpoint (% to Mid): $240 (10%)

2023-25 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	285	(+30%)	8%
Low	230	(+5%)	3%

Institutional Decisions

	1Q2019	2Q2019	3Q2019
to Buy	555	545	543
to Sell	553	530	569
Hld's(000)	280347	273392	277170

% TOT. RETURN 1/20

	THIS STOCK	VL ARITH.* INDEX
1 yr.	19.9	7.1
3 yr.	76.5	19.9
5 yr.	146.5	41.0

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
10.59	12.02	13.25	14.60	16.95	16.90	18.72	21.80	22.75	23.87	25.54	26.66	30.20	33.24	36.33	39.75	43.00	46.35	Sales per sh	54.80
2.08	2.49	2.85	3.33	3.87	3.75	4.45	5.06	4.69	4.01	3.94	5.44	5.85	6.66	8.25	10.45	11.35	12.50	"Cash Flow" per sh	15.15
1.43	1.75	2.02	2.40	2.78	2.77	3.33	3.72	3.39	2.63	2.36	3.78	4.35	4.87	7.31	8.26	9.15	10.00	Earnings per sh A	12.25
.09	.11	.22	.33	.40	.25	.63	.75	.90	1.10	1.26	1.42	1.57	1.75	1.93	2.08	2.28	2.50	Div'ds Decl'd per sh B	3.20
.47	.67	.53	.46	.39	.33	.47	.59	.55	.52	.62	.72	1.31	1.60	1.53	1.75	1.80	1.85	Cap'l Spending per sh	2.00
6.84	8.03	10.27	13.09	13.64	16.57	18.34	20.16	22.59	23.94	22.69	22.82	25.47	26.62	31.33	34.20	40.30	47.30	Book Value per sh C	71.25
402.50	405.20	407.90	411.00	396.40	397.90	391.10	381.02	380.51	377.87	378.75	373.00	375.00	374.40	374.40	374.25	372.00	370.00	Common Shs Outst'g D	365.00
33.0	27.7	23.6	27.9	21.8	15.1	15.7	14.8	15.8	25.9	35.2	25.2	25.4	28.7	22.8	24.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	21.0
1.74	1.47	1.27	1.48	1.31	1.01	1.00	.93	1.01	1.46	1.85	1.27	1.33	1.44	1.23	1.31			Relative P/E Ratio	1.15
.2%	.2%	.5%	.5%	.7%	.6%	1.2%	1.4%	1.7%	1.6%	1.5%	1.5%	1.4%	1.3%	1.2%	1.0%			Avg Ann'l Div'd Yield	1.2%

CAPITAL STRUCTURE as of 9/30/19
Total Debt $8425 mill. **Due in 5 Yrs** $4004 mill.
LT Debt $7899 mill. **Interest** $176.3 mill.
(39% of Capital)

Leases, Uncapitalized Annual rentals $107.0 mill.

Pension Assets-12/18 $376.0 mill. **Oblig.** $702.0 mill.

Common Stock 374,366,776 shares

MARKET CAP: $81.0 billion (Large Cap)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		23-25
7320.0	8307.0	8657.0	9021.0	9675.0	9946.0	11325	12444	13601	14884	16000	17150	Sales ($mill)	20000
32.0%	28.5%	28.0%	21.6%	20.9%	26.8%	23.9%	23.6%	28.1%	31.5%	32.5%	33.0%	Operating Margin	33.5%
410.2	481.0	486.0	511.0	586.0	590.0	546.0	642.0	306.0	778.0	825	875	Depreciation ($mill)	1025
1329.3	1447.7	1298.0	1006.0	906.0	1439.0	1647.0	1852.4	2781.0	3139.0	3400	3750	Net Profit ($mill)	4500
25.6%	20.0%	23.9%	17.0%	21.9%	17.1%	14.3%	10.2%	16.6%	15.8%	18.0%	18.5%	Income Tax Rate	19.5%
18.2%	17.4%	15.0%	11.2%	9.4%	14.5%	14.5%	14.9%	20.4%	21.1%	21.1%	21.9%	Net Profit Margin	22.5%
6026.4	5383.0	6272.0	5678.0	5209.0	4440.0	4713.0	4508.0	4926.0	6960.0	8150	9500	Working Cap'l ($mill)	14000
996.5	1751.0	1746.0	2739.0	3246.0	3253.0	6686.0	6590.0	8486.0	10231	9000	8000	Long-Term Debt ($mill)	6000
7173.6	7683.0	8597.0	9047.0	8595.0	8511.0	9550.0	9966.0	11730	12807	15000	17500	Shr. Equity ($mill)	26000
16.6%	15.8%	12.5%	8.5%	7.7%	12.2%	10.1%	11.2%	14.2%	14.0%	15.5%	14.0%	Return on Total Cap'l	14.0%
18.5%	18.8%	15.1%	11.1%	10.5%	16.9%	17.2%	18.6%	23.7%	21.1%	22.5%	21.5%	Return on Shr. Equity	17.5%
15.2%	15.2%	11.3%	6.7%	5.2%	10.8%	11.3%	12.2%	17.7%	18.4%	17.0%	16.0%	Retained to Com Eq	13.0%
18%	19%	25%	40%	51%	36%	34%	34%	25%	25%	25%	25%	All Div'ds to Net Prof	26%

CURRENT POSITION ($MILL.)	2017	2018	9/30/19
Cash Assets	2793	3699	2036
Receivables	2198	2332	2438
Inventory (LIFO)	2465	2955	3269
Other	537	747	823
Current Assets	7993	9733	8566
Accts Payable	487	646	659
Debt Due	632	1373	526
Other	2366	2788	2736
Current Liab.	3485	4807	3921

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '16-'18 to '23-'25
Sales	8.5%	8.0%	7.5%
"Cash Flow"	7.5%	8.5%	12.0%
Earnings	8.5%	11.0%	12.0%
Dividends	18.5%	14.0%	9.0%
Book Value	8.5%	4.5%	15.0%

Cal-endar	QUARTERLY SALES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	2955	3012	3006	3471	12444
2018	3241	3322	3242	3796	13601
2019	3516	3650	3587	4131	14884
2020	3800	3925	3850	4425	16000
2021	4075	4200	4125	4750	17150

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	1.17	1.03	1.14	1.53	4.87
2018	1.68	1.76	1.69	2.18	7.31
2019	1.88	1.98	1.91	2.49	8.26
2020	2.05	2.20	2.15	2.75	9.15
2021	2.20	2.45	2.35	3.00	10.00

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.38	.38	.38	.38	1.52
2017	.425	.425	.425	.425	1.70
2018	.47	.47	.47	.47	1.88
2019	.52	.52	.52	.52'	2.08
2020	.575				

BUSINESS: Stryker Corp. develops, manufactures, and markets Orthopaedics (36.7% of '18 sales), MedSurg (44.4%), and Neurotechnology & Spine products (18.9%). Orthopedic products include hip, knee, trauma, spinal, and other implants. MedSurg includes powered instruments, endoscopic systems, other operating room devices, specialty stretchers, and maternity beds. Physical Therapy Services business sold '07. About 28% of '18 sales were foreign. R&D: 6.3% of '18 sales. Depreciation rate: 6.3%. Has 36,000 employees. Officers and directors own 7.2% of stock (3/19 proxy), 6 others aggregrate 40.1%. President & CEO: Kevin Lobo. Inc.: MI. Address: 2825 Airview Blvd, Kalamazoo, MI 49002. Telephone: 269-385-2600. Internet: www.stryker.com.

Stryker closed out 2019 in strong fashion. Earnings came in at a better than expected $2.49 a share, 14% above the year-earlier tally. The top line increased 8.8%, on an 8% organic sales advance. Near-7% gains at the Orthopaedics and MedSurg businesses were bolstered by an 18% jump at the Neurotechnology and Spine segment. While management was not as active on the share-acquisition front as we anticipated, the EBITDA margin continued to advance at a healthy clip and a lower tax rate chipped in.

We've upped our estimates for this year. The above-mentioned outperformances helped, but our decision was also predicated on guidance. Indeed, management said that it expects to earn between $9.00 and $9.20 a share for all of 2020. Organic sales growth is pegged to come in 6.5%-7.5%, and we look for acquisitions to push the total growth rate to the upper end of this range. While we do not account for future deals until finalized, Stryker is awaiting approval on a couple of deals that seem imminent. Meantime, we are modeling for further margin expansion and some share repurchases. In all, we see earnings per share totaling $9.15.

A near double-digit share-net gain is likely for 2021. We look for another 7% top-line advance, additional momentum with margins, and further stock repurchases to drive EPS to $10.00.

The stock bounced back from a pullback late last year and is trading a bit higher since our November review. And while it has slipped a notch for Timeliness to 2 (Above Average), it is still pegged to outpace the broader market for the coming six to 12 months. It offers decent relative price performance over the coming 18-month span. That said, prospects are not as bright looking further out due to valuation. We like the company's growth prospects, but SYK has more than doubled in value over the past five years, with the momentum discounting a healthy portion of the gains we envision out to 2023-2025. That said, the story here is not so clear-cut. Stryker has historically been extremely aggressive on the M&A front. We see no reason for this to change, suggesting that the company may look much different three to five years out.

Andre J. Costanza *February 14, 2020*

(A) Diluted earnings. Excludes nonrecurring losses (gains): '04, $0.29; '05, $0.11; '06, 13¢; 07, 4¢; '08, 5¢; '11, 27¢; '17, $2.19; '18, ($2.03); '19, ($2.19); ($59). Next earnings rpt. due late April. (B) Dividends paid early January, April, July, and October. (C) Includes intangibles. At 12/31/18: $12,726 million, $33.46/share. (D) In millions.

Company's Financial Strength	A++
Stock's Price Stability	90
Price Growth Persistence	85
Earnings Predictability	60

Still Looking Good?

Ulta Beauty, Inc.

In common with the outcomes for many retail chains, 2020 expectations for Ulta Beauty, Inc. (ticker: ULTA) were rendered meaningless by the coronavirus outbreak. The World Health Organization reported March 11 that spread of the virus had become a pandemic and company management ordered the temporary closure of all Ulta stores March 17.

Management reported having $1.3 billion in cash available at that point. Shortly afterward, the company drew down $800 million under its revolving credit facility. Pent-up demand might, however, help revive the company's prospects once state governors continue lifting emergency restrictions on retail activity later this spring and summer. That might be less true if a pandemic-triggered recession sets in. Meanwhile, e-commerce sales are providing some cash flow.

The U.S. market for beauty products and salon services represents about $145 billion in combined annual sales, with beauty products contributing $86 billion, according to market data services IBIS World and Euromonitor International.

In choosing Ulta as the Undervalued Company, members of the Editorial Advisory and Securities Review Committee predicted e-commerce sales will be higher this year than in 2019. They also emphasized the company's strong customer loyalty program, a major growth driver for Ulta.

The evaporation of its on-site sales has unsurprisingly had a negative effect on the share price. At its $215.51 close on April 17, the stock was 41.6% below the 52-week high of $368.83 reported on July 17, 2019. The company's trailing 12-month price-earnings ratio was 17.7 (*see table*). The ratio for the S&P 500 index recently stood at 21.1.

CSIMarket, a financial data service, set the TTM ratio average for the personal and household products industry at 52.8.

The average was 13.4 for Ulta and three publicly traded competitors, based on figures Yahoo Finance reported at the end of April.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 3.2, based on an average five-year expected earnings growth rate. That's well above the range of 1.0 to 1.5 generally considered desirable.

Lovely to Look At. Ulta offers consumers one-stop shopping for beauty products.

Retail Makeup

Ulta is the country's largest beauty retailer, according to management. Ulta markets more than 20,000 products from over 500 brands, including its private label Ulta Beauty line. The company offers one-stop shopping: Ulta reportedly is the only retailer offering a full spectrum of beauty products, unlike department stores, specialty shops and drugstores focusing on particular categories.

Ulta markets brand name and private label items such as cosmetics and fragrances; salon hairstyling tools; nail care, hair care, skin care, bath and body products; and makeup bags and cases. Its stores feature salons providing hair, skin, makeup and brow services. Cosmetics represented 50% of net sales for 2019; sales contributions of additional product categories were as follows:

- **Skin care, bath and fragrances, 22%**
- **Hair care products and styling tools, 19%**
- **Salon services, 5%**
- **Other, 4%**

At the close of fiscal 2019 (ended Feb. 1), Ulta was operating 1,254 stores in 50 states, up 6.8% from 1,174 outlets the year before. Since 2012 Ulta has grown its store network by about 100 outlets a year. Management has projected that the nationwide store count could reach 1,500 to 1,700.

With remodeling projects included, total selling space climbed to 13.2 million square feet, up 6.9% from 12.3 million in 2018.

The company reportedly planned to open more than 75 stores this year, conduct 15 remodeling projects and refresh another 42 sites. Ulta also is making its first international foray, with expansion into Canada.

Ulta leases its sites, most in high-traffic strip malls. The typical store is about 10,000 square feet of retail space. Of that, about 9.5 percent of the footage is devoted to salon services: skin treatments and haircuts, hair styling and hair coloring. A minority of visitors use salon services, but are among Ulta's best customers. They shop about twice as often and buy about three times as much as other customers.

Comparable results in 2019 — sales for stores open at least 14 months, plus e-commerce — were up 5% from the previous year. That was weaker than in 2018, when same-store sales rose 8.1%.

Ulta Beauty, Inc.									
	2019 (ended 2/1/20)	2018 (ended 2/2/19)	% change	FY 2019 Q4	FY 2018 Q4	% change	FY 2020 year to date	FY 2019 year to date	% change
Net revenues	$7.4 billion	$6.7 billion	10.1%	$2.3 billion	$2.1 billion	8.5%	—	—	—
Net income*	$705.9 million	$658.4 million	7.2%	$222.7 million	$214.7 million	3.7%	—	—	—
Diluted EPS*	$12.15	$10.94	11.1%	$3.89	$3.59	8.4%	—	—	—
Dividends	—	—	—	—	—	—	—	—	—

Stock exchange	Nasdaq	Value Line long-term earnings growth estimate	16.0%
Ticker symbol	ULTA	Consensus long-term earnings growth estimate (28 analysts)	7.5%
Price at time of selection	$208.92	FY ended February 2021 consensus EPS growth estimate	(25.2%)
Past year's price range	$124.05 - $368.83	FY ended February 2022 consensus EPS growth estimate	34.0%
Recent market price	$215.51	Recent price-earnings ratio**	17.7x
Market capitalization	$12.1 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $12.16 for the four quarters ended Feb. 1.

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

Dick George, then president of Osco Drug, was the driving force behind Ulta's launch. Envisioning a discount business model for marketing beauty products, he persuaded 12 fellow Osco executives to join him in the new retail venture. They opened the first store in 1990. The company first issued publicly traded stock in 2007.

Competitors include LVMH Moet Hennessy–Louis Vuitton (LVMUY), Macy's (M) and Nordstrom (JWN), Morningstar reported.

Touching Up Its Prospects

The company's Ultamate Rewards customer loyalty program has become a particularly important component of its growth strategy and is considered a significant competitive advantage. At the end of 2019 the program had more than 34 million actively participating customers who accounted for more than 95% of net sales.

Management is committed to the use of artificial intelligence to analyze customer preferences in the loyalty program. This data drives targeted customer relations management (CRM) campaigns. Members receive customized discounts based on the data Ulta collects. When choosing cosmetics and hair care products, consumers tend to be loyal to brands, contributing to the loyalty program's success.

A recent marketing innovation was GLAMLab, a virtual makeup "try-on" digital application. Ulta reportedly plans to launch a similar virtual skin care adviser.

Ulta employs a variety of marketing strategies beyond traditional advertising. One is partnering with social media influencers. In 2018, Ulta partnered with Kylie Jenner, launching her Kylie Cosmetics line.

Ulta's industry remains highly competitive. Analysts peg Sephora, a unit of LVMH Moet Hennessy–Louise Vuitton, as Ulta's chief rival. New entrants are cropping up. In January Amazon introduced Find, a cosmetics line, and in March launched the Fast Beauty Co. line.

If successful, Ulta's Efficiencies for Growth cost-reduction program may boost operating margins Management also aims to reduce logistics and technology costs, gain supply chain efficiency, and improve product mix and pricing.

Final Notes

The goal for an Undervalued Company is a 20% increase in investment value (market price appreciation plus dividends) within 18 to 24 months. *BetterInvesting* is profiling Ulta for educational purposes only. No investment recommendation is intended.

BetterInvesting featured Ulta as the Undervalued Company for January 2018. The company ranked No. 30 in the Top 200 Survey of investor holdings for 2019 (*see the April 2020 issue*). A projected 255 clubs owned shares.

Ulta doesn't offer a direct stock-purchase plan. It hasn't undergone any stock splits to date. Ulta has pared its share count annually since 2013 through ongoing repurchases, for a six-year reduction of 12.3%. In 2019 the company spent $681 million to buy back 2.3 million shares. In March the company reauthorized its buyback program, approving repurchases of up to $1.6 billion in shares. In light of the sales drop-off triggered by the pandemic, however, management has reported it's reevaluating the pace and timing of share repurchases.

The Value Line and Morningstar analyst reports and Value Line industry report can be found in the magazine section of the BetterInvesting website. For more information, contact Investor Relations, Ulta Beauty, Inc., 1000 Remington Blvd., Suite 120, Bolingbrook, IL 60440–4708.

The author doesn't directly own any shares of Ulta.

Reporting by contributing editor Kevin J. Lamiman

A Semilogarithmic Graph Gives a Clear Picture of Steady or Erratic Growth

Some Insight on the Stock Selection Guide's Charts

by Sam Levine, CFA, CMT, Contributing Editor

You may have noticed that the Stock Selection Guides for the Stock to Study and Undervalued Stock articles have oddly laid out charts with a vertical axis. The bottom axis is easy enough to understand; it plots the SSG data by time, with even spaces between years. But the vertical axis starts at the bottom with single digits, then jumps to tens, hundreds and then thousands. There's good reason it's laid out that way. This helps us easily confirm linear growth of sales and other metrics over long time frames.

The layout of the SSG's graph is called semilogarithmic, which is an intimidating name for a simple, but really useful, mathematical transformation we do intuitively every day, especially when dealing with steady growth over decades. Most graphs have linear scales. The difference between each line on the grid is exactly the same. Imagine graphing earnings by single dollar increments on the graph. If the earnings per share increases from $1 to $5 in one year, the next plotted point on the graph is four spaces higher than the previous one. Linear graphs are great when the data stays within a range. The rate of inflation has lately tended to fluctuate by around 2% per year.

But what if we're looking at prices instead of the rate of change? Then we tend to get something like an upward-sloping curve (as we saw too vividly during the COVID-19 pandemic). Stocks have returned roughly 10% a year over the long term. At that rate, if you invested $100 in 1900, you would have had $8.4 million at the close of last year, provided you stayed fully invested and didn't have to pay taxes. But a linear graph would look like the top chart at right.

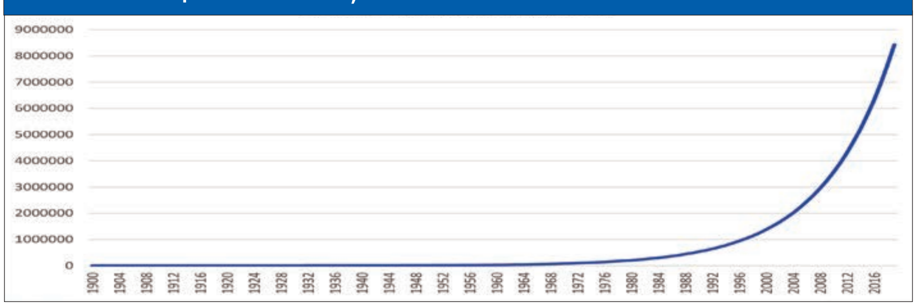
The graph doesn't show dramatic change until the later years, even though our money was growing at a consistent rate. A semilogarithmic scale captures the steady growth by systematically inflating the vertical axis at a steady rate so the trend is in a straight line. The bottom chart is the same data plotted on a "semilog" graph.

By increasing the vertical axis by a factor of 10 at each point, the plotted line is now straight, and we can tell at a glance growth is steady, provided we remember that we're looking at a semilog graph. The reason the graph is called semilogarithmic instead of logarithmic is that the time axis on the bottom remains linear; the space between each year remains constant.

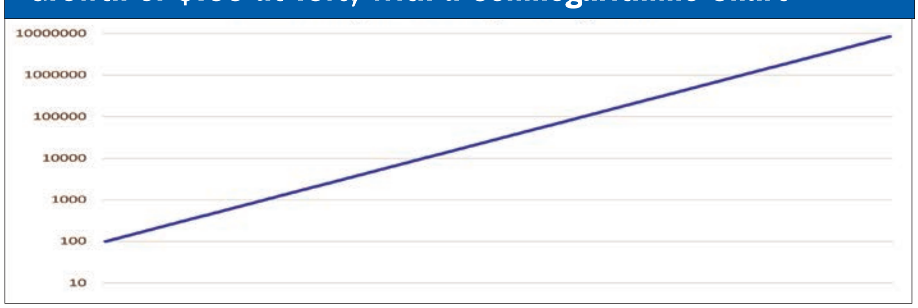
Semilog graphs are useful because they also match how we perceive change. An investor with only $1,000 in the market will (arguably) feel just as satisfied with a portfolio that has gone to $2,000 as an investor who watches a $50,000 portfolio double. We respond to the rate of change more than to any absolute values.

BetterInvesting stresses picking stocks with steady growth of sales, pretax profits and earnings and, ideally, they should trend together. A semilog graph helps us eyeball fundamentals to see if they are increasing at the same rate. We can also use semilog scaling to our advantage in plotting three sets of data. If sales start at the 1,000s level, sales at the 100s and earnings in the 10s, it won't make a difference in the way we interpret the numbers. If the slopes of the lines are the same, the rates of change will also be the same. That makes reading the SSG simple and frees us up to only dive deep into the most compelling opportunities.

Growth of $100 at 10%, With a Linear Chart



Growth of $100 at 10%, With a Semilogarithmic Chart



E-Commerce Expected to Grow Even More in China Following Pandemic

JD.com: Chinese 'Amazon' Praised for Service in Pandemic

by Nic Van Broekhoven

The world has been experiencing a pandemic on a scale we have not seen since the Spanish flu in 1918. All business models are being tested and the stock market crashed on the fear of COVID-19's impact on populations and economies across the globe. Assuming the pandemic will be brought under control and eventually disappear, shopping habits could be altered in favor of e-commerce for good.

China saw the initial outbreak of the pandemic and the resulting lockdown there as a result also highlighted the value of certain business models. JD.com, an e-commerce delivery platform, was even commended by the Chinese government for helping residents and businesses to continue functioning as its in-house operated logistics network worked flawlessly throughout the crisis. JD.com should benefit from the increasing trend of e-commerce shopping in China going forward.

JD.com is based in Beijing. American depositary receipts representing the company are traded on the New York Stock Exchange under the ticker JD.

The Supply Line. Employees of JD.ID, part of JD.com, keep working to process orders in Indonesia during the coronavirus outbreak. March 28 was the fourth anniversary of JD.com's joint venture in Indonesia. Photo courtesy of JD.com.

Origins as an Online Store

JD.com was founded by Liu Qiangdong in 1998 and was first known as 360buy.com. The company initially started an online store selling magneto-optical products but soon diversified into selling books, electronics, smartphones, computers, etc. In 2013 the company changed its name to JD.com and it went public on Nasdaq in 2014 at $19 per share.

Walmart soon realized it could not compete in China with JD.com and sold its own e-commerce business Yihaodian to JD in exchange for a 5.9% stake. Walmart has continued to increase its stake and currently owns 12.1% of the company. Today JD is a huge diversified platform that is often called the Amazon of China.

JD currently has a market cap of $56.7 billion and like many e-commerce platforms has been focused more on growing revenues and GMV (gross merchandise value) quickly and focusing less on bottom line profits.

Revenues at JD have grown from $2.9 billion in 2011 to $81 billion in 2019. JD supports a rock solid balance sheet and has a net cash position of over $7 billion.

JD has historically traded at one time its revenue but is currently trading at a substantial discount to this metric despite profiting from the COVID-19 epidemic. JD is 100% focused on mainland China hence it should see little impact from any American or European macro-economic turmoil. Just like Alibaba last year JD will be looking to dual list in Hong Kong in 2020.

Investor concerns about JD may focus on its competitive position versus other Chinese tech giants such as Alibaba and Tencent. Tencent, however, is JD's largest shareholder with a 20% stake. In 2018, JD's founder was accused of sexual misconduct with a college student in Minnesota but was acquitted of all charges later on.

The risk of a strong resurgence in U.S.-China political hostilities, however, could hurt sentiment toward Chinese companies listed in the United States.

"The risk of a strong resurgence of U.S.-China political hostilities could hurt sentiment toward Chinese companies listed in the United States."

Companies mentioned in this article are for educational purposes only; no investment recommendations are intended. Readers are urged to conduct their own studies of any stocks of interest.

Nic Van Broekhoven holds a position in JD.com.

From Your Mattress to the Money Market, Your Options for Cash Reviewed

Finding a Safe Place for an Emergency Fund

by Danielle Schultz, CFP, CDFA, Contributing Editor

Up until recently, when we thought of emergencies, we thought of personal emergencies: home repairs, being fired, medical treatment not covered by insurance or covering high deductibles. For many people, a true market crash had receded from memory. None of us ever expects a downturn in circumstances.

For many years now I've cautioned clients that we don't know when an emergency will hit, but that inevitably, emergencies will happen. While each emergency (or market downturn) has unique reasons, they all result in a need for money, immediately, often at the same time that investments and employment are taking a strong plunge. Yet, most of us hate to keep substantial funds in cash — the cash is trash slogan. Sure, it's made almost no return for many years; on the other hand, in times when the markets are tanking, it's stable.

Over the long run, it's a mistake to forego the returns of the market, but in the very short run, you need enough to cover costs so that you don't need to make panicked decisions based on immediate volatility.

While how much cash to keep is always based on personal circumstances, you can start from three rules of thumb: three months' worth of necessary expenses if there are two earners in the household or you have significant nonemployment income; six months if you're single or only one household member is working; and two years' worth of expenses not covered by Social Security or pensions, if you're retired. The two critical components of a location for an emergency fund are that it must be safe and it must be very easy to access.

What are your options?

Your Mattress

It may seem like the ultimate emergency solution to keep actual cash in your home. Safe? Not necessarily. You can be burglarized, experience a fire, a tree can fall on your home or you might have light-fingered guests. In a sudden emergency your loved ones may not be able to locate your hidey hole. (One of my relatives used to stick bills in books. Many books were donated before that was discovered.) In our now increasingly cashless society, a credit card can probably tide you over until you can get money from an account. The amount you should have for emergencies is probably too substantial to keep at home.

Verdict: not safe, but easy to access if you remember where it is.

Gold and Gems

While gold coins hidden under floorboards kept some people alive during World War II in Europe, it's very hard to realize their true value in an emergency. Who can make change? If you hold bars or gems, you must store them somewhere and pay for it, as well as having verification of worth. These storage sites might be very difficult to access in a cataclysmic emergency. While it's true that gold shares and gold-focused mutual funds generally skyrocket in bad times, this is a countercyclical investment choice rather than an emergency reserve, and generally pays nothing unless sold. Bonds and bond funds, which also have yield, would probably be a better choice.

Verdict: risky and not easy to access.

Brick and Mortar Banks

In your checking account, you can access money at any time via ATMs, even when you're out of the country. You might consider keeping one month's savings in a savings account, to cover the time it might take to get money from another account, but these banks currently pay almost nothing. However, your money is insured up to $250,000 per depositor.

Verdict: safe and easy access.

Internet Banks

Online banks have been paying higher interest than physical banks, because they have far lower costs to reach and serve the consumer. But those interest rates are subject to change so it's important to monitor current rates. You should know whether they are FDIC insured or not; most well-known ones are. As always, if the rate is too good to be true, it is.

Finally, it can take several days to process your request and get money into your checking account. This is not ideal if you need actual cash immediately, but is probably swift enough to beat the deadline on your credit card.

Verdict: safe (if insured) and moderate access.

Money Market Funds

Some banks will offer money market funds and even a cash bonus, especially for a large initial deposit. But these are not necessarily insured and the interest rate is not guaranteed. Money market funds are the standard settlement account at investment companies. Be careful you know exactly what your money might earn: Some so-called cash management accounts are just funds held by the brokerage.

Money market mutual funds generally are not insured and the interest rate can vary depending on markets for short-term money, although they are very low in recent

2 Vanguard Funds Compared: Short-Term Bond (VBIRX) and Federal Money Market (VMFXX)

Security	1 week	1 month	3 months	YTD	1 year	3 years	5 years	10 years	15 yrs., includes 2008-2009	Current yield	Value of $10K after 10 years
VBIRX	(0.61)	0.18	1.29	1.13	4.71	2.72	2.01	2.02	2.98	1.16	$12,362
VMFXX	N.A.	N.A.	N.A.	N.A.	2.02	1.63	1.06	0.54	N.A.	1.02	10,550

Gauging the Performance of the Vanguard Balanced Index Fund (VBINX)

	1 week	1 month	3 months	YTD	1 year	3 year	5 year	10 year	15 year	Value of $10K after 10 years
VBINX	(10.12)	(21.70)	(18.54)	(18.68)	(9.16)	1.71	3.00	6.89	5.89	$19,967

Source for the top table: Morningstar and Vanguard websites. Source for the bottom table: Morningstar.

memory. These funds often have a check-writing capacity, albeit with a high minimum amount. Usually you can't set up automatic bill pay, e.g., for your mortgage or student loan.

Usually these funds invest in short-term government securities and sometimes corporate paper. While the funds are not insured, their investments are generally in safe and easily liquid instruments, so they should be able to pay off with little risk. If you're especially concerned, you can choose a money market fund that invests only in government securities. If you're in a very high tax bracket, you can find tax-managed funds, but with short-term interest rates so low, these are rarely worthwhile.

Verdict: low risk if the fund invests in government securities and you're with a big company that might be "too big to fail." Access: moderate (write a check or electronic transfer).

Short-Term Bond Funds

Short-term bond funds can be invested in any short-term instrument, for example, one to three year government bonds, including non-U.S. governments, corporate, or mortgage-backed notes. Before choosing a fund that promises high yield, investigate what it's invested in. While the share price of these funds can vary, they generally swing very little, depending on interest rates. As with all bond funds, when interest rates go up, share prices fall but yields rise. With money market funds, the share price stays totally steady, at $1, but the yield can also be very small, as in the Vanguard Federal Money Market Fund (ticker: VMMFX) yields.

Usually I advocate evaluating mutual funds on their long-term performance, but in this case, we're looking at a parking place for the short term, and we want these funds to hold onto value in just about any market condition, so let's look at short term performance, as of March 23. Remember, this is total return, including any capital gains plus yield (*see top graphic above*).

The near-term results for VMFXX are essentially meaningless, because the share price won't vary (no capital gains returns), and the yield is 1.02% — the only return. For near-term fluctuations, VMFXX is the steadier choice, but over every time period of one year or more, the short-term bond fund total return is nearly twice or more the return of the money market. Short-term bond funds do fluctuate with market conditions, but very little: The standard deviation for the Vanguard Short-Term Bond (ticker: VBIRX) is 1.49. The S&P 500 is currently 13.25.

Which should you choose? If you need every penny to be available and anticipate needing the money in a year or less, a money market will virtually guarantee it. If, however, the prescribed emergency fund is a substantial amount, you could consider dividing it into money you always need to have at your fingertips, and money you may or may not need in the foreseeable future. You're taking a little more risk to be rewarded with a little more money.

Verdict: low risk but higher than insured accounts or stable share price funds. Access: Short-term bond fund shares must be sold to convert to cash. Once placed in your settlement account, you can either write a check or use electronic transfer, so it can take several business days.

Balanced or Blended Funds

Much as I like balanced funds as an easy solution to many investment situations, they are not a good solution for emergency funds for many people. Their value can vary greatly with market conditions. For example, the standard deviation of the Vanguard Balanced Index (VBINX) is 7.82, nowhere near as volatile as the S&P 500, but certainly not a short-term cash investment *(see second graphic above).*

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A Portfolio's Performance Can Be Graded on How Far It's Tilted Away From Its Benchmark

The Lessons We Learn Are the Upsides to Down Markets

by Sam Levine, CFA, CMT, Contributing Editor

One positive about markets going negative is that, like it or not, we're going to find out how well we've been managing our downside risk. It was hard to talk about the downside while the market was going up for most of the past decade. No one wanted to hear it. As the saying goes, "Everyone is a genius in a bull market." While teaching my portfolio management classes this semester, I watched students' eyes glaze over as soon as I brought up risk. I'll bet next semester they'll pay much closer attention.

But bear markets — a drop of 20% or more from a previous high — are humbling to even the most confident investors. If you've made it through your first bull and bear market cycle and you're sticking with it, take a bow. I hereby dub you a seasoned investor. Let me encourage you to take this seminar in declining markets seriously. You might as well; you've paid the tuition anyway.

Course designers often use several parameters to grade students' assignments and the parameters for grading are called rubrics. This article might serve as a rubric for you to grade how well you were prepared for the last market downturn. And make sure you give yourself a hefty grading curve. It was a tough semester.

> "The best benchmark for your portfolio performance is one that matches your style."

Were You Disappointed by Your Portfolio's Performance?

If you answer no, then your portfolio either performed above expectations, which of course was great, or you understood the downside risks in advance, which was also great because you understood your risk-reward trade-off. If you were disappointed, then either the way you measured performance, your expectations, your investment processes or possibly all three aspects could use some adjustment.

Have You Been Using the Right Benchmark?

Let's begin with measuring your performance. Everyone's investment style is different. The best benchmark for your portfolio performance is the one that matches your style. If your performance was similar to your benchmark, you've done well.

The most common stock benchmarks are the Dow Jones Industrials and the S&P 500 Index. But, if you follow BetterInvesting's methodology, chances are you should be comparing your performance against a — for lack of a better word — "growthier" index than the Dow or S&P 500. Stocks in a growth index are more likely to appear in a growth-focused investor's portfolio. BI investors also tend to prefer, on average, smaller companies than those in the S&P 500.

You may also be focusing on just the assets that have performed the worst. If you shift between different asset classes to time the market, not a BI-approved tactic, then you should benchmark your performance to asset allocation fund averages. Make sure you measure the performance of all of your investments because you made those decisions, even if you delegated day-to-day stock picking to your mutual funds' managers.

Since the benchmark is so important, how do you know you have the right benchmark? The best benchmark will reflect your neutral investing stance and correlates highly with your portfolio's performance. If your benchmark has consistently zigged when your portfolio zags, you likely have the wrong benchmark. Imagine if you were managing a "best of the S&P 500" fund. You might outperform the S&P 500 or underperform it, but most of the time, both your fund and the index will move in at least the same direction and, when the trend changes, both the index and your fund will do so at the same time or at least close to it.

Identifying the Sources of Portfolio Performance

Once you're confident you have the right benchmark, you can examine what drove your performance. When analyzing other people's portfolios, I become almost as concerned about wildly higher raw performance than I would be with underperformance. I'm happy they are wealthier at the moment, but I need a lot of evidence before I expect that to continue. It was more likely chance rather than skill that led to those numbers. It's a bad idea to count on luck when we're trying to build wealth.

Once we factor out trading costs, your portfolio's under- or outperformance arose from the ways you tilted your portfolio away from the appropriate benchmark. These tilts are called factors. Factors are measurable characteristics that you can over- or underweight in your portfolio. Heavy share buybacks, higher dividend yields, lower price to book values, strong momentum are all examples of factors. One important factor is beta, which measures how much a stock's price responds to the direction of the overall broader market. High beta stocks tend to do better in a rising market and worse in a declining market.

Performance attribution is the process of identifying how different factors impacted your performance compared to a benchmark. Let's work through a hypothetical example of a portfolio that's benchmarked to the S&P 500.

If you stay fully invested and follow the same sector weighting as the S&P 500, but omit certain stocks in the index, then the difference in your performance was due to your stock selection. If you weight sectors differently than the S&P 500 but use sector funds that mimic the index's holdings in those sectors, then your performance was due to your sector allocation. One last example: If you jump in and out of an S&P index fund according to your perceptions of the market, then the difference in your performance was due to timing.

Though the math is simple, it's repetitive and time-consuming to isolate each of those factors in your portfolio. But you can compare a sector's performance to the stocks held in your portfolio to see if you did a better job than just owning a sector fund. You can also construct a portfolio of sector funds that mirrors your portfolio's sector weightings and compare that portfolio's performance against yours. There are articles well worth reading online that describe performance attribution in far more detail.

Keep a Journal

You don't need to be formal, though. Another tool that will help you identify what you might be doing right or wrong is to keep a trade journal with notes on why you bought or sold stocks in your portfolio. That way, you develop a running narrative on your process. This magazine keeps a running trade journal of how well the Stocks to Study and Undervalued stocks performed over their holding periods (five years for the Stocks to Study and 18 months for the Undervalued companies) in the Performance Review column. There's no need for you to do anything quite as elaborate, but it's not difficult to jot down a few thoughts in a notebook before you hit the buy or sell button.

Every investing decision you make and even the pain of a bear market can teach a valuable lesson that you can store away for the future. And, like investing itself, your knowledge base compounds as your frames of reference become ever broader. Clubs, too, benefit from collective experience that can be passed from tenured members to the newest recruit.

I won't try to sugarcoat how frightening a 20% or 30% decline in wealth can be, especially when people's health and income is at risk at the same time, as in the COVID-19 pandemic. It's an emotionally jarring experience. But it is also a learning experience.

If investing was easy, everyone would be wealthy. Hopefully, this will not be your last bear market, because you know everything eventually changes. Bear markets return to bull markets eventually and, the next time the bear extends his claws, you'll be better prepared, because there is no better investing coach than a bear.

■ ■ ■

Sam Levine is a contributing editor with *BetterInvesting* and teaches portfolio management at Wayne State University.

2 Tips to Remember: 'Don't Overeat and Don't Panic Sell'

Markets Crash, People Persevere

by Danielle L. Schultz, CFP, CDFA

Every dog has their day. This appears to be that day if the number of people walking them is any indicator. That's a pretty upbeat example of good actions to take during this economic crisis: Take care of yourself, turn for comfort to those you love, pursue activities you otherwise never have time for and stop refreshing the screen showing your portfolio.

Above all, do not blame yourself! This is no individual's fault. What's happening to your portfolio has happened to everyone, no matter how prudent, frugal or research-oriented you've been. It's affecting just about every industry, and because it's so widespread — consumer, services, manufacturing, banking — every sector — even very well-run companies, worldwide, with excellent products, services and marketing are seeing their stocks plunge.

As with all emergencies, we cannot predict what they will be. But we can predict that emergencies will happen, and they either get remedied or worked around. Each emergency is different, but the way to resolve them is the same: Sit tight until you can see a clear path to what is to be done. We don't know what that path will be, yet. Whenever I, or clients, can't decide what to do it's generally because we don't have enough information. Today's situation is fraught with lack of information: How long will the COVID-19 pandemic last? Which companies will collapse, which will take time and which will ultimately come roaring back? Will new products be developed and will they have long-lasting or short-lived appeal? How effective will any government intervention be? Will current events increase partisanship or cooperation? Will the crisis shift national attitudes to unions; safety nets; immigration; health care; employee, women's, minority and disability rights; and care for the elderly? We can't answer any of these, yet.

The worst thing you can do is make decisions with insufficient information. So, right now, it would be good to recall the Great Recession, or 9/11, or any of the other economic crashes in the past decades. We've had such a good upward trend that many people had come to believe they were far more risk tolerant than they now find they are in real time. Is there anything you can do?

1. **Examine your cash stash**. Do you have enough in an emergency fund: three months to two years, depending on your personal situation? When I've advised clients, usually we're thinking of personal rather than systemwide emergencies. So, so many people have told me "cash is trash" and doesn't make any money. It doesn't return any, either, but it is a stable anchor in a crisis. Make plans in the future for what's enough, but not too much that you lose future returns.

2. **If you have cash sitting on the sidelines, and are pretty sure you won't need it for a few years, you can pick up some bargains.** If you had a watch list of stocks, at least some will have moved into the "buy" range. Has the market bottomed? There's no way to know, but great companies, particularly steady dividend payers, will have the best chance of surviving and surging back.

3. **Now's the time to improve your skills.** You know that pile of *BetterInvesting* issues you've never gotten to? Now's the time to read them, learn more about analysis and understand how current events have affected recommendations. Take the time you've never had to watch videos, read newsletters, and decide who is sensible and who is ridiculous.

4. **Learn more about catastrophe prevention.** Do annuities, insurance or long-term care strategies seem more important now? If you can't take immediate action, you can improve your understanding of their advantages and drawbacks. You're assembling information so that when you are able to act, you'll be well equipped to do so.

5. **Learn self-soothing strategies.** Too often, when people are panicked, we seek to rid ourselves of the panic by taking any action rather than riding the wave until it subsides. A typical scenario is that we see our investments plunging and sell out "before it's too late." Then the market comes back (it always does), but we missed getting back in because we were afraid it was a temporary improvement, or felt that we had evidence of our own incompetence, or just didn't have time since it didn't seem urgent. Learning more about investing is one strategy. But disengaging and pursuing a hobby, exercise, outdoor walks, playing with pets or our children, catching up on your book backlog or 100 other things that the nternet can suggest to you are all worthwhile. Two things I can say with certainty — don't overeat and don't panic sell. I even give you permission to subscribe to more than one streaming service. Find activities that will distract you and, even better, will give you pride in having achieved something.

Even as a financial adviser, I can say that life is not all about money. I wish you health, joy and comfort in all those other things.

Danielle L. Schultz, CFP, CDFA, is a fee only financial adviser with Haven Financial Solutions, Inc., in Evanston, Illinois. Contact her at www.HavenFinancialSolutions.com.

Time to Sell?

6 Reasons to Let A Stock Go

by Sam Levine, CFA, CMT | Contributing Editor

It's easier to decide to buy a stock than to know when it's time to sell. When we buy, we're confident we've done our homework and we're feeling good about the future. Also, we haven't lost any money yet. But, once we own it our stock picks get graded in real dollars.

When the stock drops, we question our research and our judgments. Sometimes, we even question our abilities. If the stock goes up, we ask ourselves whether it's fully valued or if the party is just getting started. Even if we're very happy with the position, there will always be other stocks that tempt us to sell and buy something else.

BetterInvesting's principles and tools focus most on which stocks to buy so you can worry less about when to sell. If you're confident in your process, you won't panic when the market moves into correction or even bear market territory. Perceive declines as chances to buy more shares of great companies at lower prices.

For all of its historic volatility, the stock market has maintained a very respectable compounded 9.85% return from the start of the century to the close of 2019. As we've been reminded this year, that doesn't mean every year will return anything close to that figure. But historically the market's bias upward has been rewarding patient investors for decades.

A Few Basic Principles

Even so, just as the song says, "To everything, there is a season." That applies to selling stock positions as much as anything else. Every stock has a price that makes more sense to accept than to hold for an unclear future. There's no one sell discipline that fits everyone, but here are some principles you might want to include in your investing process.

A good stock is hard to find. You should only sell a stock for one or more of these reasons:

- **1. You are rebalancing your portfolio.**
- **2. The stock no longer fits your investing objective.**
- **3. You need to withdraw capital from the market.**
- **4. The company's growth story is indefinitely or permanently impaired.**
- **5. The stock is severely overvalued. OR**
- **6. Selling the stock is the best option to raise cash for a far more compelling opportunity.**

The first three reasons are investor and portfolio specific. The fourth will be unique to each company. So for this article, let's examine a value-based framework that might help you decide whether any stock you own needs to be sold.

What Makes a Stock Overvalued?

If a stock's market price is above what a rational investor would pay for the expected future cash flow, it's overvalued. The challenge behind that textbook answer is that virtually everything used to compute future cash flow comes from estimates. Also, everyone has a unique risk tolerance. What one investor might call rational another might judge as an unappealing risk/reward trade-off.

Values for stocks come from their future cash flows and the value of their assets if the companies are taken over or liquidated, whichever is higher. If a company isn't profitable and isn't expected to be in the future, its only worth is in its liquidation or acquisition value. The simplest measure of profitability is earnings. Earnings takes into account changes in shareholder wealth beyond simple cash flow. Keep in mind though that earnings is an accounting concept. Ultimately what matters is recurring cash flow, which is why many analysts prefer price-to-cash flow measures over earnings.

The simplest proxy for company assets is book value. The price-to-book value (P/B) and price-earnings ratio (P/E) measure how much you are paying for the company's assets and profits, respectively. The higher the ratios, the worse the value. If a company's asset or earning picture is evolving, then use forecasted earnings and book.

Book values of the company's assets are usually what the company paid, less depreciation. If the assets appreciated, which they often do, the price-to-book may lead you to falsely believe the stock is overvalued. If the book prices are adjusted to market values, then the company might not be as overvalued as the price-to-book would have you believe. This can happen in real estate intensive firms or companies growing mostly through acquisitions.

Whichever ratios you use, compare their current values to past values for the same stock. Are those ratios unusually high compared to the past? Is that justified because the company is stronger? There are some cases when high prices to earnings or price-to-book values are deserved, usually because the company is growing at a faster rate than its competitors. Investors are often willing to pony up for a higher growth rate if they are confident it will continue in the future.

The estimated "true" value of a stock depends on three variables: how much cash the shareholder expects to receive, how likely it appears that cash will be paid out and how patiently investors will wait to receive it. We can either estimate those figures and probabilities ourselves or use the popular shortcut of comparing current fundamentals against the past, which is simple to do using the Stock Selection Guide, or we can compare those numbers to the stock's competitors or even the stock market itself. It's best to examine a stock's potential value from all three perspectives. That way you shouldn't be fooled when a stock initially appears cheap, but usually trades at a discount to the market.

Likewise, you'll know when a company is cheap compared to its competitors and its past. That might (correctly) point you toward investing in a great growth stock even if it's expensive compared to stocks outside its industry.

The only reason you should hold a stock that is expensive compared to its historical numbers, its industry and the market is when you believe the stock will grow at a fast enough rate to justify paying up for the company. BetterInvesting favors buying quality growth at reasonable prices over buying severely distressed companies at bargains, so you shouldn't be surprised if your portfolio has higher price to assets and price-to-cash flow or earnings than, say, the S&P 500.

If you're philosophically a growth investor, compare your stocks to an index that fits your investing style. The S&P 500 has become the default, but the Russell 1000 Growth Index might be a better fit, which will help prevent you from hitting the sell button too quickly.

What If You're Getting Conflicting Signals?

It's common for some of your ratios to signal a sell while others argue for holding or buying more shares. For example, a stock can have a low P/E and high price-to-cash flow if the company took a charge for a failed acquisition. A stock can have a high P/E but also a high dividend yield. Your job is to examine the drivers behind the numbers and determine which signals matter the most.

Sell Reluctantly

Sell too often and you'll pile up losses or short-term capital gains, while paying heftier trading costs than necessary. If you bought a stock intending to hold it indefinitely, then short-term news, a turn in the economic cycle or even the first dip in the demand for the stock's products shouldn't scare you. There are only a limited number of compelling growth companies and you only have a limited amount of time to research them.

One way to stay long term is to set the sell bar very high. You could commit to selling only when your signals hit once in a decade levels, instead of the SSG's default five year numbers. You might even require several signals to confirm each other, rather than view each in isolation. For example, you might only consider selling when a stock's P/E is unusually high compared to both a benchmark index and the company's peers — and you believe the growth story is at risk.

The Taxable Gain Threshold

Even if you believe a stock is overvalued, you might want to hold on to it instead of selling and paying a capital gains tax. Accountants might say that paying taxes just means you made money, but don't sell unless you feel the stock will decline significantly more than what you'll pay in capital gains taxes. The "significantly more" is important because you will be certain to pay the capital gains taxes, but the stock might still continue to rise, leaving you with both taxes due and missed opportunity.

Consider using a ratio similar to the upside-downside capture ratio for capital gains to potential losses. If, for example, you expect a trade to generate a $2,000 capital gain, you should be very confident it will allow you to keep $6,000 in profit. You should feel free to use your own threshold.

The Myth of Selling at the Top

We all want to buy a stock at the absolute bottom and sell it when it's at a peak. That's great for bragging rights, but it's also unlikely. And "unlikely" is a better word than "difficult," because those close to perfect buys and sells tend to arise more from luck than skill. That desire for perfection can prevent us from making far more money in between those bottoms and tops.

Don't even bother. Instead of trying to sell at the absolute top, watch the risk to reward trade-off. If reaching for that last dollar in upside means taking unnecessary risk, let some other investor play that game of hot potato while you focus on making money consistently.

Process Over Panic

Market panics are times to buy and stock bubbles are times to sell, not vice versa. The value of following BetterInvesting's methodology isn't simply in what it tells you to do. It also gives you a process you can follow in both good markets and bad markets that should help you avoid panic. It's likely panic has a worse impact on investing results than poor stock picking. Want proof? Fidelity once examined how its clients did versus the mutual funds they held. On average, the best performing accounts did very few, if any, trades. Now, keep in mind that holding stocks is different from holding funds, but hanging in there until the company's story has changed or the stock has hit eye-popping valuations should be the rule rather than the exception.

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Sam Levine is a contributing editor with *BetterInvesting* and teaches portfolio management at Wayne State University.

American Performance Footwear Company Appeals to International Customers, Too

Skechers U.S.A.

by Bruce Layman, North Florida Chapter

Editor's note: This month's First Cut — a Stock Selection Guide completed by a member of the BetterInvesting community — is of Skechers U.S.A. (ticker: SKX), completed on March 25. This study was submitted by Bruce Layman, a BetterInvesting member from the North Florida Chapter. First Cut studies, found at the BetterInvesting website, are an efficient source of stock ideas and a way to compare your judgments with those of other members. SSGs are available for companies such as Gentex, Costco Wholesale, Wells Fargo and many others.

This First Cut is offered for educational purposes only. No investment recommendation is intended. We invite you or your club to provide SSGs as well. Just click the link on the First Cut homepage. Please note this First Cut was completed on Feb. 29, 2020, before the current market conditions. Some adjustments had to be made, i.e., the projected low price. (BSF refers to "before sell-off.")

Discuss why you consider this to be a high-quality growth company that should be investigated further.

The company's sales and EPS have been 13.6% and 10.7% respectively for the last four years. Last year EPS was 17.2%. PTP has been steady and averaged 11% the last four years and 19.5% this last year. Return on equity the last four years has been 15.7%. Percent of debt to capital had been single digits until recently as they moved to expand the business. From 2015-2018 it was about 5%. Adding this last year increased the five-year average to 11.1%. PTP on sales has been steady, hovering around 10%. The last four years' sales, EPS and PTP have been up, straight and parallel after 2017 EPS was adjusted for the impact of the Tax Cuts and Jobs Act (TCJA).

Describe how the company makes money.

Skechers makes money from the sale of footwear and royalties earned from licensing the Skechers brand. Skechers sells shoes and some allied products (apparel, bags) that they design, manufacture and distribute in the United States and over 170 countries through retail stores, specialty shops and internet retailers. International sales make up over half (56%) of their sales. They claim to offer over 3,000 styles of shoes covering every age and activity.

Projected growth rate for sales: 9%

Why did you select this rate?

Average sales growth over the last four years has been

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
BETTERINVESTING™
Educating Investors Since 1951

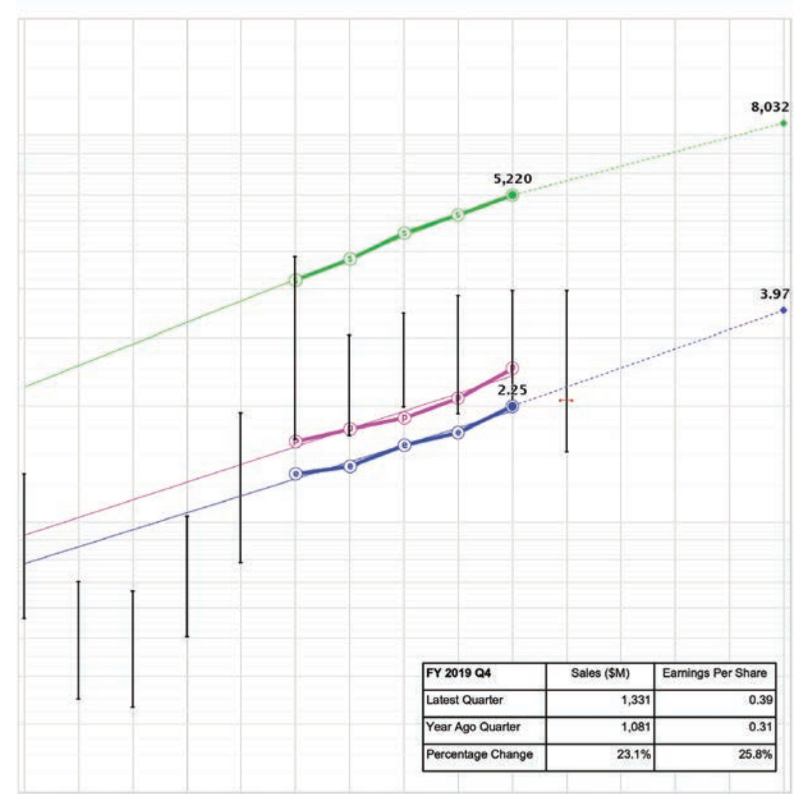
Stock Selection Guide

Company: Skechers USA — Date: 03/24/20
Prepared by: BJL — Data taken from: BI Stock Data
Where traded: NYS — Industry: Footwear & Accessories
Capitalization --- Outstanding Amounts — Reference:

Preferred ($M)		0.0	% Insiders	% Institution	
Common (M Shares)		154.5	1.3	52.7	
Debt ($M)	1,278.3	% to Tot Cap	35.6	% Pot Dil	0.8

Symbol: SKX

1 VISUAL ANALYSIS of Sales, Earnings, and Price



FY 2019 Q4	Sales ($M)	Earnings Per Share
Latest Quarter	1,331	0.39
Year Ago Quarter	1,081	0.31
Percentage Change	23.1%	25.8%

(1) Historical Sales Growth	13.6%	(3) Historical Earnings Per Share Growth	10.7%
(2) Estimated Future Sales Growth	9.0%	(4) Estimated Future Earnings Per Share Growth	12.0%

13.6%. Analysts project growth between 9.3-13%. This is on the low end of analysts' forecasts and guidance. Skechers is the No. 3 footwear maker in the world. E-commerce receipts were up 70% in the U.S. and 50% internationally with opportunities for even more growth. The international market has seen the largest growth, especially in China, and sales prices have increased around 3%.

According to a recent Value Line report, the brand has a "cool factor" with the shoes making appearances on fashion runways. They have several influential social media personalities and professional athletes as spokespersons. Runner's World Magazine Editor's Choice for 2019 selected Skechers GOrun Razor 3 Hyper road shoe as a top choice. In 2020 Runner's World selected the Skechers Razor 3 Hyper Speed as a top racing shoe. They have collaborated with Goodyear on outsoles for their shoes to improve grip, stability and durability. This has appaently proved successful since Skechers has been expanding these high-tech innovations to a wider assortment of their footwear.

Projected growth rate for earnings per share: 12%

Why did you select this rate?
There was some consensus with analysts that a 12.5-14.5% EPS was forecast. EPS has been increasing and last year was 17.2%. The choice of 12% is on the low end of expectations.

Projected high P/E: 22

Skechers U.S.A.	
Industry: Footwear & Accessories	
Price at time of study	$23.29
Current P/E	10.3
2019 revenues	$5.2 billion
2019 EPS	$2.25
Pretax profit on sales (five-year average)	9.8%
2019 pretax profit on sales	9.9%
Percent earned on equity (five-year average)	15.7%
2019 ROE	16.2%
Annual dividend	N/A

Why did you select this value?
Over the last four years the high P/E averaged 21.5. (Note: The highest P/E that occurred five years ago was removed as an outlier.) It has remained in a fairly narrow range (19.8-22.4). The choice of 22 falls in line with what history tells us about how investors have valued this company.

Projected low P/E: 10

Why did you select this value?
The range of low P/Es has remained within 9.9-12 (BSF). The recent market sell-off as a result of the coronavirus pandemic produced a new low price of $17.06 and new low P/E that quickly recovered back within the historic average low P/E range. At this writing the P/E is 10.3. A low P/E of 10 seems reasonable for the future.

Projected low price: $17.10

Why did you select this value?
BSF, $26 had been used as the low price. This was updated to the current projection. This price is below the previous five years' 52-week lows. As of this writing the current price is back above $23, a nice bounce back from the brief low of $17.06.

At the current price, the stock is a:
Buy

At the current price, the upside-downside ratio is: 10.3 to 1

Projected compounded rate of return: 30.2%

Your final recommendation: Buy
Over the last several years the high and low prices have been slowly increasing and the current price is below the historic low due to the market's sell-off. But even prior to this sell-off, the price is an excellent entry point. Skechers has shown good, consistent growth of sales and earnings. Looking long term and past what may be a short-term influence of COVID-19 on the market, Skechers seems to be a quality, well-managed company at a good valuation with room to grow.

The author owns Skechers and after he presented this First Cut, his club, the North Florida Chapter's Space Coast Model Investment Club, added it to their portfolio. Stocks are mentioned for educational purposes only; no investment recommendations are intended

Annual Tradition Marks Club Anniversaries Nationwide

Staying the Course: Some of BI's Oldest Clubs

The home office recently celebrated the anniversaries of 534 investment clubs by sending certificates in honor of their dedication to BetterInvesting principles.

Each year, five-year anniversaries are recognized. Following are our most experienced clubs marking these impressive landmark anniversary years.

40 YEARS

Attic Investment Club, Indianapolis, Indiana
Business & Professional Investment Club, Garland, Texas
Hoyt Investment Club, Sun Prairie, Wisconsin
Entrenous Investment Club, Overland Park, Kansas
Dow Janes, Deltona, Florida
Altamaha Investment Club, Mount Vernon, Georgia
Agatha Crumm Investment Club, Cedar Rapids, Iowa
Womens Investing Club, Cincinnati, Ohio
Sawbuck Investment Club, Vernon Hills, Illinois
Educated Guessers, San Antonio, Texas
Investment Unlimited Investment Club, Huntington, Indiana

45 YEARS

Bull and Bear Associates, Milwaukee, Wisconsin
Spa Investment Club, Stevens Point, Wisconsin
Uwi, Rochester, Minnesota
Ayem Investment Club, Lafayette, California
Mutual Friends Investment Club, Manchester, Missouri
Shiloh Investment Club #2, Suitland, Maryland
B & B Investments, Everett, Washington
Long Term Investment Club, Wichita, Kansas
Odd Lots Investment Club, Oakmont, Pennsylvania
Grin & Bear It Investment Club, Edgewood, Iowa

50 YEARS

Applewood Investment Club, Nederland, Colorado
Court Sheet Investment Club, Janesville, Wisconsin
Claymont Estates Investment Club, Chesterfield, Missouri
Golden Years Investment Club, Bellevue, Washington
Findlay Fun Fund Ltd., Findlay, Ohio
Lake Oswego Bullettes, Lake Oswego, Oregon
Beaver Investment Club, Vancouver, Washington
Investors Associated, West Melbourne, Florida
E-C Investment Club, Edgewood, Iowa
Avarice Unlimited, Ventura, California
Ro Buck Investment Club, Salisbury, North Carolina
GPA Investment Club, Hamburg, New York

55 YEARS

Capital Appreciation Investment Club, Baltimore, Maryland
High Finance Investment Club, Kalamazoo, Michigan
Aces Investment Club, Lenoir City, Tennessee
Sidney Investment Club, Unadilla, New York
Sunday Rock Investment Club, Canton, New York
Kanadarque Investors, Canandaigua, New York
Dawson Investors Club, Glendive, Montana

60 YEARS

One Score Investors, Arnold, Missouri
Bluff Investment Club, Poplar Bluff, Missouri
Parkway Investment Club, Rockville, Maryland
Hub Investment Club, Cass City, Michigan
Six-Sixty Investors Club, Midland, Michigan
Pymwymi Investment Club, Osceola, Indiana

65 YEARS

Wauseon Investors, Wauseon, Ohio
Tycoons of 1023 Grand, Bonner Springs, Kansas

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 alphabetically in four groups, the first three according to annual revenues. The first, large companies, includes companies whose total annual sales were $5 billion or more.

Medium companies include those with annual sales between $500 million and $5 billion, and small companies include those with revenues of $500 million or less.

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.

Get the Facts

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

LARGE COMPANIES
($5 billion or more in revenues)

Company	Join Date	Web Address	Exchange	Ticker
American Electric Power Co.	1/8/98	www.aep.com	NYSE	AEP
Banco Bilbao Vizcaya Argentaria	5/21/12	www.bbva.com	NYSE	BBVA
CVS Health Corporation	12/1/02	www.cvs.com	NYSE	CVS
Deutsche Bank AG	5/22/01	www.adr.db.com	NYSE	DB
Duke Energy Corporation	3/15/93	www.dukeenergy.com	NYSE	DUK
General Electric Company	5/31/05	www.ge.com	NYSE	GE
General Mills, Inc.	9/26/08	www.generalmills.com	NYSE	GIS
Kellogg Company	9/14/06	www.kelloggcompany.com	NYSE	K
Procter & Gamble Company	8/5/98	www.pg.com/investor	NYSE	PG
Royal Dutch Shell plc	1/3/03	www.shell.com	NYSE	RDS-A RDS-B
United Parcel Service, Inc.	3/14/14	www.ups.com	NYSE	UPS
Verizon	1/17/95	www.verizon.com/investor	NYSE	VZ

MEDIUM COMPANIES ($500 million to $5 billion in revenues)				
Company	Join Date	Web Address	Exchange	Ticker
American Water	9/27/12	www.amwater.com	NYSE	AWK
MGE Energy, Inc.	5/24/01	www.mge.com	NASDAQ	MGEE
Realty Income Corporation	3/9/15	www.realtyincome.com	NYSE	O
RPM International, Inc.	5/1/88	www.rpminc.com	NYSE	RPM

SMALL COMPANIES (below $500 million in revenues)				
Company	Join Date	Web Address	Exchange	Ticker
American States Water Co.	4/1/17	www.aswater.com	NYSE	AWR
Artesian Resources Corp.	5/5/97	www.artesianwater.com	NASDAQ	ARTNA
Atlantic American Corp.	10/30/12	www.atlam.com	NASDAQ-GS	AAME
Connecticut Water Service	1/5/15	www.ctwater.com	NASDAQ	CTWS
EPR Properties	2/18/13	www.eprkc.com	NYSE	EPR
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
Universal Stainless & Alloy Products	12/1/16	www.univstainless.com	NASDAQ	USAP
York Water Company, The	2/1/01	www.yorkwater.com	NASDAQ	YORW

A BI Member Since 1996, Retired Business Manager Keeps Young With Exercise Classes

Louisiana Woman Shovels Her Profits Into Garden

As told to Angele McQuade by Karen Davis of Shreveport, Louisiana (LA/MS Chapter)

I was born in Ruston, Louisiana, and have lived in Shreveport all my life. I'm a widow and the mother of two. I'm so proud of both of my children.

My son is a chemical engineer who graduated magna cum laude from Louisiana Tech University and my daughter has a master's degree from Louisiana State University–Baton Rouge. I'm especially proud both were able to find their perfect spouse to love and enjoy in a happy marriage.

I also have two grandchildren, ages 13 and 4. One special tradition in our family is to bake blueberry muffins on birthdays, then eat them while the presents are being opened.

I'm a retired business manager of a school for children with developmental disabilities. Now I work in my flowerbeds and take exercise classes such as spin, step aerobics and barre. I'm also keeping busy thinning out a lifetime accumulation of "treasures" so my kids won't have to deal with it!

I love to read. Stephen King's books are my favorites, and "The Stand" is especially relevant right now. My favorite TV shows are "NCIS" and "The Big Bang Theory." "South Park" cracks me up.

My late husband loved going on cruises and I loved traveling with him, even though I got seasick every time. Some memorable trips include swimming with the stingrays in Grand Cayman, walking on the flight deck of an aircraft carrier in San Diego and making a detour through Bangor to stalk Stephen King's house on the way to stay at a lighthouse bed-and-breakfast in Maine.

Tuning Into the Treasurer's Forum

I first learned about BetterInvesting when I joined the Common Cents Investment Club in November 1996. I've been treasurer on and off for eight years, and it's a relief to know BI is there when problems come up. The support for treasurers is the best! Besides the myICLUB support option, there's also BetterInvesting's Treasurer's Forum, where other members are so helpful. The habit I think has the most positive impact on my investing routine is actually reading *BetterInvesting*, especially the "Repair Shop" column. I read comments on stocks our club owns and get ideas for other stocks to research.

One of my biggest hopes for my own investment profits is to pay for new landscaping projects. I enjoy having a fire on the patio with the family and love seeing a pretty yard with flowers and shrubs.

Staying Interested. Karen Davis of Shreveport, Louisiana, enjoys exercise classes and keeping up with two grandchildren. She's been the treasurer "off and on" for the Common Cents Investment Club for eight years.

"When I became eligible for Social Security, I got a tattoo of a tiny seahorse on the top of my left foot."

What Keeps Her Young

Something fun about me most people don't know is that when I became eligible for Social Security, I got a tattoo of a tiny seahorse on the top of my left foot. My favorite quote is, "You're always going to be happy if you have something interesting to do, somebody or something to love, and something to look forward to." I'd like to keep as active as my 94-year-old mom, who still does the daily crossword puzzle. My biggest dream is to keep healthy and watch my grandkids grow up. Doing things with them keeps me young.

Angele McQuade is the author of two books, including "Investment Clubs for Dummies." She lives in Richmond, Virginia, 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

BetterInvesting Clubs Rise to Challenge During Pandemic

In Typical Times, the Club Describes Their Meeting Style as 'Soiree Infused'

In Utah, Vino & Denaro Stays Together Online

by Vino & Denaro Investment Group

At the heart of the Vino & Denaro Investment Group, founded in June 2007, are education and knowledge, which are top priorities as we "learn and earn" together in a methodical, supportive and fun environment. We are the first BetterInvesting investment club in Southern Utah.

Vino & Denaro Investment Group. Back row left to right: Darlene Fjeldsted, Cindy Carlson, Sue Swensen and Denise Flaherty. Front row left to right: Jodi White, Karen Smith, Marianne Sorensen and Mary Hatch. Dawn Taylor and Kathy Jessop are not pictured. Taken before social distancing.

We are a group of 10 enthusiastic and energetic professional women representing various business backgrounds from technology, health care, education, real estate, law, insurance and finance to our partner who owns and runs a small floral shop. Four partners are founding members: Karen Smith, Denise Flaherty, Cindy Carlson and Jodi White.

Our newest partner joined our club with years of BI experience before moving to our area. The "Bordeaux" (board of directors) keep us focused on topics of interest, guest speakers and a clear, concise agenda. The monthly agenda starts with "Toasts" to birthdays or special occasions, followed by our "Denaro Report" (financials), "Market Update & Hot Topics" (discussions on 5G and EBITDA), "Stock Watcher Reports" and "Things to Wine Over" (stock analysis, motions and voting). An update to our "10K Fantasy Bull Run" (*see below*) is provided before we "Wine Down" (closing bell).

We are aligned with and stay true to BI's long-term investing philosophy, reinvesting all returns for compound growth, with an objective to double our money ("Denaro") in five years. With a minimum $40 and maximum $100 monthly investment each, as a group we know we enjoy greater "buying power" at lower individual risk through a shared portfolio.

We recognize the importance of diversification across sectors and industries. We have a portfolio of holdings, typically around 10 stocks, including Ulta. We had a personal tour at our local Ulta to get a better feel for this company. Our stocks, like fine wine ("Vino"), shall not be bought or sold before their time. We recently transitioned the club to myICLUB and are very pleased with it as our new hub for all accounting and club management.

As this article is written, the COVID-19 pandemic requires social distancing. BI's subsidiary myICLUB offers us the technology to stay connected. By utilizing the message board, we have a virtual discussion group on "things to wine over," including investment strategies. The Watch List captures stocks for further analysis.

We have learned and earned over the years and gained first-hand knowledge of the market's cycles from the 2008 financial crises. We have the opportunity to meet in executive boardrooms, private dining spaces, and a locally owned flower shop. The soiree-style atmosphere of Vino & Denaro provides a social culture that keeps the group closely connected. Names like "Little Black Dress" and "Brazen Hussie Red" are a few of the wine selections that show up to toast a good buy, a successful stock pick, rising prices per share, and meeting and exceeding our goals.

We celebrate our club's anniversary yearly with a party. Our festivities have included a golf tournament, paint parties and a wine tasting from a local winery. Four years ago, we started a "10K Fantasy Bull Run" at our anniversary meeting, we each pick a fantasy stock, place a $10,000 fantasy bet at market open and track the stock's performance over a year. The winning partner ("bull rider") is awarded a fun commemorative gift. We've turned some fantasies into stock studies that now reside in our

Continued on Page 46

BetterInvesting Clubs Rise to Challenge During Pandemic

Before Social Distancing Kicked In, Group Made Plans to Feather Their Portfolio

Black Swan Event Inspired Club's Stock Studies

by Women Investing Wisely

Women Investing Wisely, WIW, located in the Framingham, Massachusetts area, celebrated the recent drop in the stock market, referred to as a "black swan event," by buying stocks. A black swan event is defined in the world of finance as an extremely rare occurrence, impossible to predict. These events are random and have widespread ramifications that can be positive or negative.

The term was known back as far as the second century by the Roman poet Juvenal, who thought at the time black swans didn't exist. The term was made popular recently by Nassim Nicholas Taleb in his books "Fooled by Randomness" (2001) and "The Black Swan" (2007).

Besides doing our BetterInvesting homework and staying on top of our stocks WIW members like to occasionally celebrate. Typically, our January meeting is a potluck in one of our homes where we pull out the good china, silver and champagne flutes for a lovely sit-down dinner. In March, before the shelter in place order, we marked the recent drop in the stock market — not its causes — with a potluck luncheon as we reviewed what to buy, now that there was a "sale" on.

Generally, we have followed BI advice and remained fully invested. But for the last year we collectively had a feeling that we needed to have a bit more in cash…that a dip was likely.

Women Investing Wisely. Pictured from the top is Carole Donovan, second top row from left to right is Arlene Taros and Debbie Vingi-D'lorio. Third row down is Karen Piazza, Ellen Evett, (holding the black swan centerpiece), Martha Morese, Pat Kuehne and Kathleen Clinton. Taking the picture at bottom is Susan Plume. Maria Gartland is not pictured.

We have 10 members: Kathleen Clinton, Carole Donovan, Maria Gartland, Ellen Evett, Patricia Kuehue, Martha Morese, Karen Piazza, Susan Plume, Arlene Taros, and Debbie Vingi-D'lorio. Karen Piazza was a founding member in 1999. Current officers: president, Carole Donovan; secretary, Kathy Clinton; treasurer, Patricia Kuehue. Officers are rotated among members, with everyone expected to take an office at some point.

Basically, we do our research on themes we think will be important going forward. Several years ago, when some of our members were getting knee replacements, we guessed that the rest of the baby boomers weren't far behind us; so we researched joint replacement companies. It generally takes three meetings with everyone doing research and comparing notes to find the company we think is the best. After completing our research, we bought Stryker. During the last black swan event in 2008, we bought Apple. This time, after a second Zoom meeting, we put in bids for CVS and Constellation.

VINO & DENARO

continued from page 45

portfolio with double digit returns (i.e., Adobe and Nvidia). As our portfolio has grown, so has our desire to give back to charities that are dear to our hearts. We have donated time and money to a "Women Build" event with Habitat for Humanity, and over the last several years have made annual donations to Memory Matters, a nonprofit providing resources for people with dementia, as well as for their caregivers.

Our funds provide art supplies to this organization, and a local art gallery features their artwork at an annual art show.

Our greatest investment has been in ourselves as we continue to build on our commitment to the empowerment of women and our own abilities to earn through wise investing.

BetterInvesting Clubs Rise to Challenge During Pandemic

'Who's Zoomin' Who?'
On April 5, Women's Investment Partnership (WIP), of Munster, Indiana, joined a national trend and held a remote meeting, in their case using Zoom Video Communications. From top row, left to right, are Angie Castellanos, president; Karen Ness, treasurer; and Laura Fudacz. Second row, left to right, are Aarti Malhotra, Michelle Mayer and Wendy Selking. Third row, left to right, are Julie Bachar, Dr. Rebecca Lam and Dr. Michele Lee. Bottom row, left to right, are Dr. Tracy Collins, secretary; Dr. Kelli Crowley and Lisa Belinsky. "Bummer we Zoomed without makeup," Ness said.

MUTUAL FUND MATTERS

Continued from p. 32

Why even consider such a fund? Let's say you earn $200,000, and you establish that your emergency fund should be $75,000. But let's also say you have a job in an essential industry or service, your boss loves you, there's no takeover or restructuring in sight and you have great disability insurance. At the same time, you're pained at the thought of making less than 2% on that much money. You might be willing to take the risk of investing half that emergency fund in a balanced fund, with a good chance that you won't need it and enough risk tolerance that you'd be willing to take a loss. Take a look at how VBINX has performed over time (*see bottom table on page 32*).

Is it worth it to you to earn about $5,000 more for each $10,000 invested? If your emergency fund remains parked for at least five years, you'll have done better with the balanced fund. If, however, you do have an emergency that requires withdrawal before five years, you would have been better off with the choices above.

> **"Balanced funds carry fairly high short-term risk but good return over the long run."**

Verdict: Balanced funds carry fairly high short-term risk but good return over the long term. Access requires selling the shares and transferring to your settlement fund, a similar amount of time for any mutual fund.

Caveats

Many mutual funds require a minimum initial deposit of $3,000 or more. Below that amount, they can close you out. But they'll generally keep at least money market and settlement funds open, no matter how much is in them.

If you go with an online option, set up automatic transfers. Waiting for the mail can be agonizing.

As with every investment, the more risk you take, the more reward might be there. For emergency funds, treat them not so much as an investment, but as a cash repository for immediate needs. As we now know, that can be a worldwide emergency with very little notice.

Danielle L. Schultz, CFP, CDFA, is a fee-only financial adviser with Haven Financial Solutions, Inc., based in Evanston, Ill.
She can be reached at:
www.HavenFinancialSolutions.com

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**.

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WYOMING

See Colorado, Rocky Mountain

BetterInvesting's new **Online Chapter** now offers support both to members and clubs without a local chapter and to the public. The chapter's leadership will provide a variety of high-quality programming and support. The leadership of the **Online Chapter** is Jane Chatterjee, chair/president; Howard Johnson, VP–Club Support; Joe Farrell, VP–Model Clubs and Visit-A-Club; Linda Hunt, VP–Education, Financial Literacy and Outreach; Jie Eagleson, VP–Communications; Cliff Trent, treasurer; and Bob Houle, secretary.

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

ANNUAL MEETINGS & INVESTOR EVENTS *(DUE TO COVID-19, PLEASE CHECK WITH YOUR CHAPTER TO CONFIRM EVENT SCHEDULES)*

CALIFORNIA

Golden West
1:30 – 3 p.m., June 27
Online
Annual Meeting and Educational Event. Theme: Coronavirus and Our Battered Economy. Join Kathleen Richards, director of BetterInvesting's Northeast Ohio Chapter as she presents the back story on our current economy and why we can be hopeful for our future. Learn how to deal positively with the confusion and support our community in these uncertain times. In addition to the education, there will be a brief chapter business report as well as anniversary club recognition and results of the 2019 Portfolio Contest. Cost: free and open to the public. See website for below for futher information and registration:
www.betterinvesting.org/goldenwest

FLORIDA

South Florida
9:30 a.m. – noon, June 13
Online
Annual Meeting and Educational Event: Behavioral Finance – Understanding How the Mind Can Hinder Investment Success.
The coronavirus required the cancellation of the all-day, in-person Investor Day and Annual Meeting scheduled for March 28. Instead, local BetterInvesting volunteer educator extraordinaire, Nick Nikiforos, has agreed to present this timely topic in conjunction with our rescheduled Annual Meeting, to help us deal with the current market fluctuations brought on by the pandemic. Cost: free. Registration required at: https://bit.ly/3cIOCCq. For additional details see website below.
www.betterinvesting.org/southflorida

MICHIGAN

Western Michigan
7 p.m. – 8:30 p.m., June 8
Zeeland Howard Miller Community Center/ Library, Lower Level
14 S. Church St., Zeeland
Online option available
Election Meeting. Election of directors for the Western Michigan Chapter board. Any chapter member is welcome to attend and participate This in-person session also has an online GoToMeeting option. To attend online, visit https://bit.ly/3b4vT3i for GoToMeeting link. Contact: Barbara Fritz, president, president@westernmi.betterinvesting.net
www.betterinvesting.org/westmich

OHIO

Northwest Buckeye
6:30 p.m. – 8 p.m., June 23
Bowling Green Country Club
923 Fairview, Bowling Green
Annual Meeting. The annual Portfolio Contest results will be revealed. Anniversary clubs will be recognized. A light dessert will be available. Cost: $6. Registration on the website below.
www.betterinvesting.org/nwohio

OKLAHOMA

Heart of Oklahoma
9:30 a.m. – 4 p.m., July 11
Location TBA
Annual Meeting, Election Meeting and Planning Meeting. Election of directors for 2020-2023 term, as well as associate directors for one-year term. A planning meeting follows at 11 a.m. Cost: free, open to public. For the latest information, please check the website: https://tinyurl.com/sajc2j4. Or contact: ijondahl@oklahoma.betterinvesting.net.
www.betterinvesting.org/oklahoma

TEXAS

Houston
7:30 p.m. – 8:30 p.m, June 15
Online
Annual Meeting and Election. Also, Let's Talk Stocks program with directors Larry Lester and Rob Luttrell presenting. Cost: free. Registration information to come. See website below for future information.
www.betterinvesting.org/houston

West Texas
9:30 a.m. – 12:30 p.m, Aug. 8
Carillon LifeCare Community
Windsong Building
Conference Room, First Floor
Online option available
Annual Meeting and Election. This will be our election of chapter directors. There will also be an educational event and recognition of the anniversaries of our local investment clubs. Cost: free. If you can't attend in person, register for the online option at the website below. Scroll down to the August board meeting and click the registration button.
www.betterinvesting.org/westtex

Contact your local chapter for details such as changes in time or location and list of needed tools.
You may also go to the BetterInvesting website at: **www.betterinvesting.org** and click on **Chapters**.

Email your chapter events to: **janj@betterinvesting.org**

INVESTOR DAYS & ANNUAL EVENTS *(DUE TO COVID-19, PLEASE CHECK WITH YOUR CHAPTER TO CONFIRM EVENT SCHEDULES)*

LOUISIANA/MISSISSIPPI

Louisiana/Mississippi
9:30 a.m. – 3 p.m., Aug. 8
Country Inns & Suites by Radisson
2713 N. Causeway Blvd., Metairie
LAMS Stock Roundup. Guest presenters will be popular educators Ken Kavula, BetterInvesting's Mid-Michigan Chapter, and Mark Robertson. Cost $30 in advance or $35 at the door. Registration required. Register: online at www.eventbrite.com and search for Stock Roundup 2020. For more information: email contact@lams.betterinvesting.net. Or click on Local Events tab at the website below.
www.betterinvesting.org/lams

OKLAHOMA

Heart of Oklahoma
8:30 a.m. – 4:30 p.m.., Aug. 22
First Southern Baptist Church of Del City
6400 S. Sooner Road
Oklahoma City
EduFest 2020. The theme for EduFest 2020 is Understanding Today's Market. For the first time we will be offering a beginner's track for those who don't understand the Stock Selection Guide. Guest speakers: Christi Powell, CFP, owner/manager of Falcon Financial of Oklahoma, LLC, and popular national BetterInvesting presenter. Cost: $49 before Aug. 9; after, $55 at door; students, $25. Register online: https://edufest2020.eventbrite.com. For information, contact:
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Reviewing Stock to Study, Undervalued Selections

Capri Holdings, Cracker Barrel Old Country Store

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

Capri Holdings, Ltd. (formerly Michael Kors Holdings) Ticker: CPRI

Company description: Michael Kors, Versace and Jimmy Choo comprise Capri Holdings. Capri markets, distributes and retails upscale accessories and apparel. Michael Kors, Capri's largest and original brand, offers handbags, footwear and apparel through more than 850 company-owned stores, third-party retailers, and e-commerce. Milan-based Versace (acquired in 2018) is known for its ready-to-wear luxury fashion. Jimmy Choo (acquired in 2017) is known for women's luxury footwear. John Idol has served as CEO since he was part of a group that acquired Michael Kors in 2003.

Price at time of selection: $67.14
High price during past five years: $75.96 (8/22/18)
Closing price 5 years later: $31.34
Total return at 5-year price (including dividends): (55.1%)
S&P 500 5-year total return: 79.7%
Value Line long-term earnings growth estimate when featured: 22.0%
Consensus long-term earnings growth estimate when featured: 18.0%
Five-year sales growth rate: 3.7%
Five-year EPS growth rate: (4.9%)
Five-year pretax profit on sales: (10.4%)
Five-year return on equity: 32.1%

Comment: Michael Kors was selected because of its competitive gains, overseas potential and history of strong growth. In recent quarters, the company has experienced sluggish organic growth, tariff pressures and challenges integrating Versace and Jimmy Choo. The result was a loss of more than 50% over five years.

UNDERVALUED

Cracker Barrel Old Country Store, Inc. Ticker: CBRL

Company description: The company operates hundreds of full-service restaurants throughout the United States. Restaurants are open for breakfast, lunch and dinner, with menus that offer home-style country food. All restaurants are located in freestanding buildings and include gift shops that contribute roughly one-fourth of total company revenue. Apparel and accessories are the company's biggest revenue generators in the retail segment of the business.

Price at time of selection: $145.49
High price during past 18 months: $185.00 (11/29/2018) **Total return at 18-month price (including dividends):** (41.9%)
S&P 500 18-month total return: (7.0%)
Value Line long-term earnings growth estimate when featured: 12.0%
Consensus long-term earnings growth estimate when featured: 4.5%
Most recent quarter sales growth YOY: 9.1%
Most recent quarter EPS growth YOY: 13.8%

Comment: Rising labor and commodity costs have squeezed the company's margins. In common with other restaurant chains, Cracker Barrel has suffered from the pandemic. When chosen as the Undervalued Stock for December 2018, the chain had turned in strong financial results. The stock didn't meet the 20% return goal, however, and substantially underperformed the S&P 500.

No investment recommendations are intended. The author does not hold shares in these stocks.

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