STOCK TO STUDY: Lowe's Companies, Inc. — Will Pandemic-Driven Demand Stay Brisk? (p. 19)

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BETTERINVESTING MAGAZINE

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Is Going for Growth The Best Way To Strike It Rich? (p. 38)

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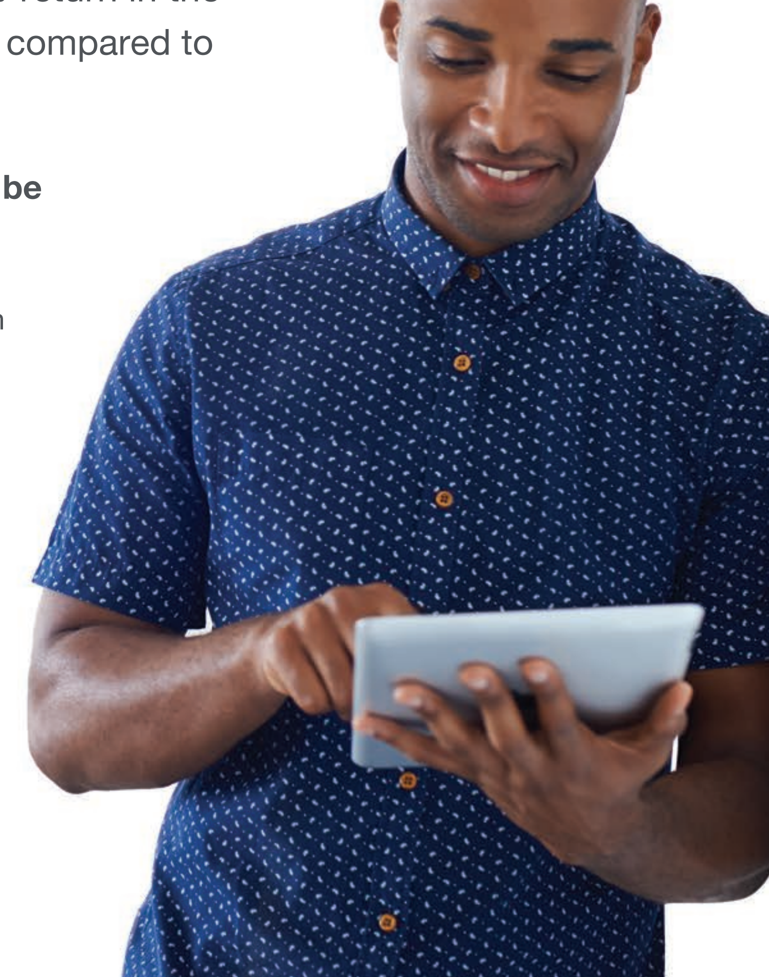

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Do You Need to Adjust Your Game?

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Women In Progress, of McMinnville, Oregon, is a very social club. They invest in a local winery and had planned a 2019 retreat until the pandemic came along. This year, the group of mostly health care workers will walk in a marathon.

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Lowe's Companies, Inc. 19

Lowe's is one of the companies that's benefited from COVID-19: People spent more money on home improvement as housing sales were up. But can the growth continue when the pandemic recedes?

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With the pandemic cutting down on gas consumption, Chevron has been tightening its belt while still making a major acquisition of Noble Energy. The $13 billion deal increases its reserves by 18%.

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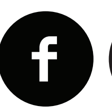

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Wednesday, April 21, 2021
8:30 PM EDT • Free

TickerTalk is a monthly online program that provides essential information to help you become a more confident, better investor. Short educational segments and multiple panelists are featured each month. Every session includes **Five in Five**, a regular feature in which the panelists offer up some stock ideas that may be worthy of further study.

Introduction to the Stock Selection Guide Series

This series of four classes is designed to help new investors learn how to use and complete the Stock Selection Guide (SSG®), BetterInvesting's premier stock analysis tool. The CoreSSG is used throughout the series to demonstrate all concepts and complete the stock analysis. Register once for all four classes. Instructors: Ann Cuneaz, senior manager of education programs, BetterInvesting; Ken Kavula, director, Mid-Michigan Chapter, BetterInvesting.

Wednesday, March 17, 2021
OnDemand • Free

Class One: Selecting the Best Companies

Learn how to analyze a company's historical growth and evaluate management metrics using the CoreSSG to recognize high-quality growth stocks.

Thursday, March 18, 2021
OnDemand • Free

Class Two: Determining a Fair Price

Learn to read and interpret a completed SSG® to determine the potential investment return of a stock.

Tuesday, March 23, 2021
OnDemand • Free

Class Three: Estimating Future Growth

This class demonstrates how to make reasonable and supportable projections for future sales and earnings.

Wednesday, March 24, 2021
OnDemand • Free

Class Four: Estimating Future P/Es

The final session provides guidelines to help new investors make reasonable projections for future high and low P/Es and determine if the stock is a buy, sell or hold.

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Thursday, March 25, 2021
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TickerTalk is a monthly online program that provides essential information to help you become a more confident, better investor. Short educational segments and multiple panelists are featured each month. Every session includes **Five in Five**, a regular feature in which the panelists offer up some stock ideas that may be worthy of further study. Panelists: Carol Theine, director, NAIC/BetterInvesting's Board of Directors; Ken Kavula, director, BetterInvesting's Mid-Michigan Chapter; Ann Cuneaz, senior manager of education, BetterInvesting.

Following Long-Established Metrics Offers a Buffer Against the Market's Vagaries

Afraid of a Bubble? Lean on the Fundamentals

With the Dow Jones Industrial Average closing above 33,000 and the Nasdaq Total Composite returning 25% annualized over the past five years, it's fitting to reflect on asset bubbles, herd instincts, the forces driving equity prices and how these topics relate to intelligent investing.

Bubbles, such as the one that tanked the U.S. housing market leading to the Great Financial Crisis of 2008-2009, are quite easy to identify in retrospect; not so much while they are unfolding. The renowned economist Hyman Minsky, who specialized in the dynamics of financial instability, theorized five distinct stages of a bubble. First is displacement, wherein investors are smitten by a "new paradigm" such as the promise of future technologies or the sustainability of ultra-low interest rates.

Then comes a boom in prices, as more and more participants jump on board. Excitement grows, stoked by lots of media attention. FOMO (fear of missing out) sets in, followed by more speculation. Warnings of a collapse are stated; inevitably one or more experts dispel them, proclaiming "this time it's different" and explaining the reasons why.

Euphoria sets in, with new and novel rationales and metrics supporting a continuing rise in asset prices.

Eventually, the smart money — worried by the discrepancy between price and value — begins to take profits. The "time to take some money off the table" cliche rings out. Prices may decline, though not precipitously. (Deciding when to take profits, or when to fold the table entirely, can be tricky. No less a figure than John Maynard Keynes famously opined: "Markets can stay irrational longer than you can stay solvent.")

Finally, panic ensues. Asset prices plummet as herd buying pivots to herd selling. Investors are wiped out as the connection between price and value is re-established.

An old gag imagines Sammy and his buddies trading cans of sardines back and forth among themselves for higher and higher prices. One day a trader decides to open a can for lunch. "What are you doing?" Sammy shrieks. "Those aren't eating sardines, those are trading sardines!"

A case could be made that we are in the middle of a market bubble, with equity prices inflated by new paradigms such as the advent of electric cars, cryptocurrencies, gene splicing and SPACs. Share trading by novices via smartphone, energized by social media, serve to amplify the rapture and drive prices higher.

No one knows if a bubble is real until it bursts. In the meantime, revisiting fundamental financials — the growth of a stock's sales and earnings, its price-earnings multiple in relation to historic levels — and the relation between basic time-honored metrics and current price can provide reassurance against nasty surprises.

Share Your Story

Do you enjoy reading the stories of individuals and investment clubs? It is always our privilege to highlight these magazine stories around pages 44-46 and on our social media channels. We know that the organization is full of diversity and we always enjoy highlighting all of our members and various clubs. We welcome and encourage stories from both club and individual BetterInvesting members. Consider sharing how BetterInvesting has impacted you or what you have learned and experienced by investing. Visit: **www.betterinvesting.org/review/share**

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Performance Parameter	At 2/29/2021	5-Year Change Annualized
BetterInvesting 100 Index (BIXX)	505.42	15.51%
BetterInvesting 100 Index (BIXR — Total Return)	700.93	17.18
S&P 500 Equal-Weight Index (Total Return)	10,074.58	15.17
Vanguard Total Stock Market (CRSP U.S. Total Market)	97.40	17.32
Dow Jones Industrial Average (DJIA)	30,932.37	16.08
S&P MidCap 400 Index	2,496.26	15.20
Russell 2000 (Small-Cap Index)	2,201.05	17.87
Nasdaq Composite	13,192.35	24.99
MSCI EAFE (Europe, Australasia, Far East) Index	2,168.87	6.84
MSCI Emerging Markets Index	1,339.26	12.59
Value Line Arithmetic Composite	8,845.27	16.59
Consumer Price Index (February)	263.04	2.1

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 8,425 transactions by users of myICLUB club accounting for the trailing eight weeks ended March 11.

Company (Ticker)	Buys-Sells
1. Apple (AAPL)	157-150
2. Tesla (TSLA)	82-59
3. Microsoft (MSFT)	83-39
4. Johnson & Johnson (JNJ)	92-17
5. PayPal (PYPL)	81-26
6. Amazon (AMZN)	64-42
7. Disney (DIS)	64-38
8. Visa (V)	37-56
9. Walmart (WMT)	59-23
10. Pfizer (PFE)	48-29
11. CVS (CVS)	52-17
12. Viatris (VTRS)	23-46

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 March 11

Company	Ticker	Buys	Sells	Total
Plug Power	PLUG	47	17	64
Home Depot	HD	43	17	60
NIO	NIO	51	8	59
Adv. Mico Devices	AMD	42	13	55
Ark Innovation ETF	ARKK	48	6	54
AbbVie	ABBV	37	17	54
Square Inc.	SQ	41	10	51
Merck & Co.	MRK	34	17	51
Qualcomm	QCOM	31	15	46
DraftKings	DKNG	36	9	45
D.R. Horton	DHI	43	1	44
NextEra Energy	NEE	30	9	39
Southwest Airlines	LUV	24	12	36
UnitedHealth Group	UNH	29	6	35
Vertex Pharma.	VRTX	29	6	35
Lockheed Martin	LMT	24	11	35
General Motors	GM	30	4	34
salesforce.com	CRM	29	5	34
Airbnb	ABNB	29	3	32
Adobe	ADBE	22	9	31
Lowe's Companies	LOW	22	9	31
Kirkland Lake Gold	KL	23	5	28
Target	TGT	21	7	28
Delta Air Lines	DAL	22	5	27
FedEx Corp.	FDX	19	7	26
Air Lease Corp.	AL	18	8	26
Carnival Corp.	CCL	18	6	24
Taiwan SemiConduct.	TSM	22	1	23

Source: myICLUB

A new name joined the roster of investment club favorites earlier this year. ARK Innovation ETF (ticker: RKK) is the brainchild of Wall Street veteran Cathie Wood, who started ARK Investment Management LLC in 2014. The company manages $50 billion in assets. ARKK deploys capital in companies dedicated to disruptive technologies. ARKK's top holding is Tesla, more than 10% of its assets as of March 17. Analysis of an ETF's value differs from that of a corporation because an ETF's balance sheet and income statement reflect underlying performance of its investments in other companies rather than sales of its own product. ARKK's performance is spectacular, 46% annualized over the past five years. But that's no guarantee of future results. Anyone remember the Munder Net-Net fund, a casualty of the 2000 internet meltdown? *(Stocks are mentioned only for educational purposes; no investment recommendations are intended.)*

Energy-Efficient Tankless Water Heaters Might Save You Money

Getting Into Hot Water

by Natasha Gural

A water heater is a long-term investment that we generally don't think about until it comes time to replace one. The biggest question is whether to buy a traditional storage tank water heater or an energy-efficient tankless water heater. Tankless models, also known as demand-type or instantaneous water heaters, provide hot water when it's needed, avoiding standby energy losses attributed to storage water heaters. If a demand heater is right for your home, you can handily slash long-term energy costs by thousands over a couple of years.

If you use 41 gallons or less of hot water daily in your home, demand water heaters can be 24% to 34% more energy-efficient than storage tank water heaters, according to the U.S. Department of Energy. If your household uses around 86 gallons per day, a tankless heater can reduce energy costs by between 8% and 14% over the conventional tank. You can whittle down energy costs by as much as 50% if you install an on-demand water heater at each hot water outlet in your home. It's a critical budgeting decision, as the average water heater accounts for about 17% of your home's total energy use, according to the DOE.

In 2019, the average monthly electricity bill for residential customers in the U.S. was $115 per month, according to the U.S. Energy Information Administration. Those costs likely spiked last year as Americans spent more time at home. By switching to an on-demand tank, you could pare down your yearly bill by an average of $331.20 to $469.20. The EIA calculates an average monthly bill by dividing annual residential revenues by the number of customer accounts and by 12 months.

To achieve efficiency, it's essential to choose the right size tank by determining how much water your household needs. A small storage tank (50 gallons to 60 gallons) is generally ideal for one to two or three people, a medium (80-gallon) tank works well for three to four people and bigger households need to consider a larger tank. You must determine the flow rate and the temperature rise you'll need in your home. Calculate your potential costs for both electric and gas water heaters using the online energy calculator below (*see Websites of Interest*).

Swapping your conventional storage tank with a new one of the same capacity is cheaper than upgrading to a tankless model, but the savings with on-demand systems are significant over time. Consumer Reports tested two 50-gallon Rheem tank water heaters, which cost $570 (electric) and $600 (gas), but there are cheaper options at major home improvement stores. Replacement plumbing installation costs are estimated at between $600 and $800 if the existing hookups are compatible. Consumer Reports compared nine models of tankless heaters ranging from $525 to $1,150, with installation costing at least $800 to $1,500, according to HomeAdvisor.

Don't overlook the drawbacks with traditional tanks, such as replacing the anode rod that corrodes and can potentially cause the tank to rust or burst. Most rods last three to five years, but can deteriorate much quicker in households with soft water. The rod costs between $20 and $50, and HomeAdvisor says you can replace it yourself with proper instruction. But costs escalate with other common repairs such as a dip tube, which slows heating in gas and electric tanks if it breaks or disintegrates. The part is only about $10, but generally requires professional installation, averaging about $150, HomeAdvisor says. Expect to spend another $200 to replace your pressure relief valve if sediment builds up and the pressure inside the tank escalates. HomeAdvisor recommends paying a plumber about $200 every year to flush out sediment. A traditional gas and electric water heater requires more maintenance to operate efficiently, and HomeAdvisor estimates repair calls will set you back between $218 and $941.

Do your research to confirm that a tankless water heater is your best choice, compare models as well as installation costs, review your bills over the last few years and consider the long-term savings. Lifestyle and comfort are factors to weigh along with efficiency, as storage tank water heaters that release hot water from the tank's top when you turn on the tap are standard in most homes. A tankless model heats water at an average rate of 2 gallons to 5 gallons per minute using electricity, natural gas or propane.

If you share a household with people on the same schedule, a tankless heater may not be wise, as it lacks the capacity to simultaneously run more than one hot water tap. Bigger households may consider installing two tankless heaters rather than a higher capacity storage tank heater. Moreover, gas-fired tankless heaters may waste energy by keeping the pilot light burning to enable higher flow rates than electric water heaters. Avoid this by selecting a model with an intermittent ignition device instead of a standing pilot light.

Websites of Interest

Energy Calculator
https://bit.ly/37TeJqq

Due Diligence

Stock/Bond Investment Mix May Have Lost its Allure Today

What Inflation Could Mean for 'Balanced' Portfolios

by Thomas D. Saler

A popular formula that's helped investors mitigate the effects of financial turbulence in the past may offer reduced protection in coming years.

Since at least the early 1980s, the so-called 60/40 portfolio (60% stocks, 40% government bonds) often gave investors the best of both worlds: solid returns during most years with muted volatility during economic downturns. From January 1980 through September 2020 — a period that included five recessions, one stock market crash, a near meltdown of the global financial system and a once-in-a-century pandemic — a 60/40 stocks-bonds split generated a compound annual return of slightly over 10%, with a modest double-digit loss in only one year (2008) (*see Websites of Interest*).

Longer-term numbers tell a similar story. Since 1926, the worst year for the 60/40 portfolio (1931, the peak of the Great Depression) would have resulted in a loss of "only" 26.6%; over that same 94-year period, the worst year for an all-stock portfolio (also 1931) was a loss of 43.1%, according to Vanguard.

The 60/40 portfolio (also known as "Balanced") can dampen volatility because stock and bond prices tend to move in opposite directions during periods of economic stress, with gains in fixed-income (as yields fall) offsetting some of the weakness in equities.

That the equity portion of a 60/40 mix is likely to generate more modest returns in coming years seems likely. According to Yale University economics professor Robert Shiller, the S&P 500 has been more expensive relative to the last decade's inflation-adjusted earnings on only two occasions since the late 1800s: in 1929 and 1999.

But while the 60% equity allocation might have below average (but still positive) longer-term appreciation potential from current levels, it's the fixed-income portion that most threatens the stability of a balanced portfolio.

Bond prices move inversely to yields, the latter of which have been declining for 40-plus years. Those four decades coincided with falling inflation, allowing the Federal Reserve to keep benchmark interest rates low. This year, however, longer-term bond yields have ticked higher in expectation that inflation will return as consumers spend their trillions in COVID-related savings, the government supplies more fiscal relief and the Fed keeps the monetary spigot wide open.

> **"No one can be sure that inflation will actually pick up."**

It's the combination of potentially subdued equity returns with the possible hardening of the fixed-income cushion that makes the 60/40 portfolio appear less attractive than at any time since the late 1970s.

Of course, no one can be sure that inflation will actually perk up. Fear of rising prices linked to easy money policies have consistently failed to materialize. Lasting damage to the labor market from the pandemic could hold down wage increases, a major input to prices.

Even if inflation were to rise and remain significantly above the Fed's 2% target, a 60/40 equity-bond split still might prove satisfactory if holdings within those asset classes reflected a more inflation-prone environment. An overheated economy, for example, could potentially benefit companies in sectors like energy, real estate and commodities. On the fixed-income side, Treasury Inflation-Protected Securities (TIPs) tend to hold up somewhat better during periods of rising yields than do traditional, fixed-rate government bonds.

In any case, the recent increase in volatility of the 60/40 portfolio could be a canary in the coal mine, an early warning signal that financial conditions are changing. Investors with razor-sharp hearing might already have detected some chirping.

Websites of Interest

"Investors wonder if the 60/40 portfolio has a future," Michael Mackenzie; Financial Times, Sept. 21, 2020
www.ft.com/content/fdb793a4-712e-477f-9a81-7f67aefda21a

Vanguard portfolio allocation models
https://investor.vanguard.com/investing/how-to-invest/model-portfolio-allocation

Shiller PE Ratio
www.multpl.com/shiller-pe

"10-Year Treasury Constant Maturity Rate," Federal Reserve Bank of St. Louis
https://fred.stlouisfed.org/series/DGS10

"More Reasons to Rethink the 60/40 Portfolio," Bernice Napach, ThinkAdvisor; Jan. 15, 2021
www.thinkadvisor.com/2021/01/15/more-reasons-to-rethink-the-6040-portfolio/

How Hard Work, Creativity and Luck Led to Famous Brands

Success Stories

by Angele McQuade

If you're a fan of financial podcasts, you're probably already familiar with the National Public Radio show "How I Built This," co-created and hosted by reporter Guy Raz. In it, Raz interviews the founders of all kinds of innovative companies, including Spanx, Airbnb, Clif Bar and many more. Raz (along with co-writer Nils Parker) draws from these same stories in his new book, "How I Built This: The Unexpected Paths to Success from the World's Most Inspiring Entrepreneurs."

This isn't a recap of stories heard on the podcast, though. Instead, Raz has written a true how-to guide designed to steer would-be entrepreneurs though the process of building a successful business of their own, using examples drawn from his podcast interviews. From idea to planning, to finding a co-founder and then funding, through first steps, launch and beyond, Raz uses insights from the origin stories of dozens of companies to illustrate his lessons. This includes learning to deal with setbacks and catastrophe, but also success.

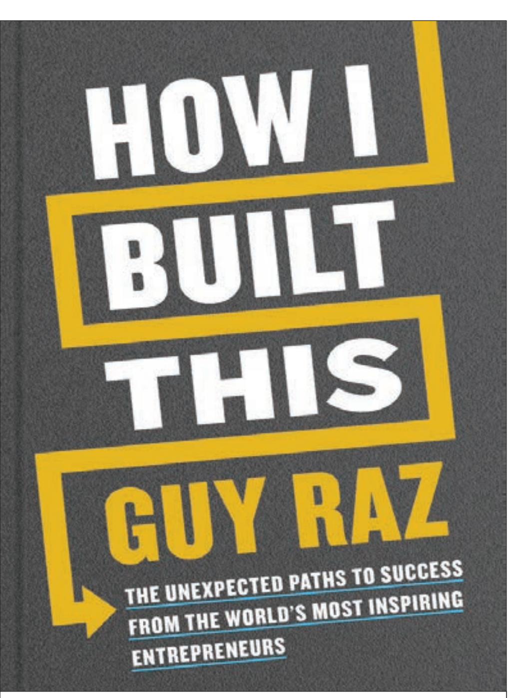
"In many ways, the scariest part of entrepreneurship is success," he says. "That's when the work really starts."

Raz even shares his own entrepreneurial journey, from never wanting to be one (thanks to watching his parents struggle with their own business) to not just co-creating five podcasts that make millions in revenue, but also launching his own production company to support them.

This will come as no surprise considering Raz makes his living telling stories, but his written voice is as entertaining as it is instructive. His sincere curiosity and infectious enthusiasm make this book a perfect introduction to the world of business for younger readers who might not yet realize how truly fascinating it can be.

What I liked: Raz's recognition of the intangible power luck plays in business success, of being in the right place at the right time, with the right people and the right product. Without at least a little bit of luck, Raz says, "You can do everything right, you can make all the plays, and still you can lose the game."

What I loved: how the book itself follows the path of the familiar storytelling "hero's journey," from the initial call to adventure through tests and trials, and ultimately to success.



"How I Built This: The Unexpected Paths to Success from the World's Most Inspiring Entrepreneurs," Guy Raz (with Nils Parker) Houghton Mifflin Harcourt (2020), hardcover ($28) and ebook, 302 pages.

What makes "How I Built This" worth buying: Raz's own "call to adventure," that if you want to get something started, you can't just be open to ideas, you'll need to go actively searching for them (and for problems that need solving, too). "The intersection of personal passion and problem solving is where good ideas are born and lasting businesses are built," he reminds us.

Read "How I Built This" if: you're a devoted fan of entrepreneurial stories, considering starting a new venture of your own or interested in considering more nontraditional metrics when analyzing companies you may want to invest in.

You never know — taking this deep dive into the stories of so many companies and founders may just lead you into unexpected business adventures of your own.

Websites of Interest

Find out more online about the author, Guy Raz

www.guyraz.com

Podcast: How I Built This (NPR)

Twitter: @guyraz

Facebook: facebook.com/NPRGuyRaz

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Investors Need to Be Clear on the Risk Level They Can Tolerate

Understanding Stop-Loss Orders

by Matt Mondoux, CFA, CFP, CMT

I'm writing this hot off the heels of what I'll call "GameStop Mania." As a quick refresher and as succinctly as I can put it: GameStop, the beleaguered video game, consumer electronic and collectibles retailer, had its stock price surge due to a massive short squeeze driven by message board fervor on the website Reddit.

Speculators and day trading ruled the day, leading some profits to be measured in percents ranging from the hundreds to the thousands. The herd mentality is real and leads some investors to jump into a hot new stock without doing their full due diligence. In these circumstances, timing can mean everything and jumping in without a clearly defined exit strategy can lead to great losses.

Financial media was reporting on the "gains" in these heavily "bet on" stocks. But returns are only one side of the equation — the other being risk. When speculating, it's risk that must be the focus of a trader. The obvious question is: How can a trader/speculator manage risk?

The key is understanding and limiting the downside you're willing to accept. What level would the price on an investment need to drop before you reevaluate your thesis? Investors do not buy a stock expecting to lose money, however, that risk can be significant, particularly when a trader's time horizon is short.

Understanding the power of the stop-loss order is an invaluable tool for those looking to invest. A stop-loss will limit the downside to your investment. For example: If you would like to limit your downside to a 5% loss, then set your stop-loss order to 5% below your purchase price. A stop-loss order can be set at your broker and stay in effect until you cancel.

Adjusting for a Dynamic Stop-Loss Order

This may sound like a passive strategy to not lose too much money, however, it's much more than that. The stop-loss order should be considered dynamic.

If the stock you purchase doubles in price, the original stop-loss you set is likely inadequate after the appreciation. Stop-losses should be monitored and adjusted accordingly. Perhaps as an investment grows, you're willing to accept more downside as a relative percentage than you were upon your initial purchase. Either way, as your investment increases, your stop-loss should increase with it.

Another way to make a stop-loss dynamic is to use a "moving average." Investing in the markets successfully demands that you understand moving averages, which are what they sound like, averages of historical prices for a stock.

Moving averages represent the trend of the stock/investment and because of this, moving averages can make great targets for stop-losses. A stop-loss order with your broker may be tough to enter, so it's up to the investor to monitor and execute the stop-loss in a disciplined and timely manner.

Discipline is what makes traders and investors successful. It can be the difference between watching your speculative trade go from $40 to $400 and back to $40, leaving you with zero profit, or languishing with a "value trap" because you're unwilling to take a loss. Use stop-loss orders as a way to thoughtfully identify the risk you're willing to take and inject more discipline into your investment process. After all: "Nobody ever went broke taking a profit."

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Pandemic Highlights the Need for a Living Will and Durable Powers of Attorney

Estate Planning Beyond Wills and Trusts

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

In the last couple of articles, we discussed wills and living trusts. There are other important documents involved in the estate planning process, however. These have become even more important during the last year when due to COVID-19 many people were admitted to the hospital unexpectedly.

Living Wills

A living will sounds like a combination of a living trust and a will, but it isn't. This legal document is used to notify physicians and family members of your wishes regarding medical care in case of a terminal illness or injury, if you were unable to do so. It enables you to state in advance whether to withhold or withdraw treatment if you're a candidate for life support and are considered terminal.

It would serve both as a legal document and as a supplement to discussions you have had with family members to reassure them of what you want done when they're faced with difficult decisions.

A living will should specify such issues as: 1) when the living will becomes effective (the triggering events or conditions); 2) who has the decision-making power; and 3) which treatments are, or aren't, to be withheld.

Copies should be given to your attorney, appropriate family members and your physician. There are many provisions within a living will and it's very important that your wishes are clearly expressed.

In some states, the living will and the health care power of attorney (*see next section*) are combined into one document called an advance medical directive, but a living will may also be a separate document. The regulations regarding living wills differ from state to state, so it's important to work with an estate-planning lawyer in your state of residence to prepare this document. It's also a good idea to check your hospital's policies to determine what document(s) they require.

Powers of Attorney

These three documents — will, living trust and living will — are important components of your estate plan. In addition, we recommend you have two durable powers of attorney (POA): one to cover your health care directives and another to handle your financial affairs. You may want the same person to have both POAs or you may want to appoint two different people.

Health Care Power of Attorney

A health care POA enables you to provide guidelines and instructions about the extent of medical care and intervention you'd want under various circumstances. This POA is more flexible than a living will since it allows for advance directives for a range of personal health care decisions, not just decisions regarding life-sustaining procedures.

A durable power of attorney for health care can authorize access to medical records and assign responsibility for decisions regarding diagnostic procedures, specific treatments, pain relief, the right to employ or discharge medical providers and authorization for admission to or discharge from medical facilities. This POA will be effective if your physical or mental condition makes it impossible for you to understand, make or communicate an informed decision about providing, withholding or withdrawing treatment.

In this document you'd also appoint someone to act on your behalf. For example, the person you name would be able to talk with your doctors and nurses about your care. It's very important to have someone represent you in this capacity. Doctors and hospitals today have to follow strict privacy rules designed to protect personal information, but the unintended side effect is that without your written consent, they may not be able to discuss your condition with your loved ones. In your health care POA you can describe what quality of life is acceptable to you, thus relieving your family and friends of the burden of making these difficult decisions.

Today, most hospitals require that you have one of these in place before undergoing an operation. In some states, the individual designated for this responsibility must sign an affidavit stating that he or she will in no way financially benefit from your demise.

Advanced Medical Directive

As referenced earlier, rather than having a health care POA and a living will, some lawyers prefer to draft an advance medical directive, which combines the two into a single document.

HIPAA Waiver

The Health Insurance Portability and Accountability Act (HIPAA) requires doctors and other medical personnel to abide by strict privacy rules. Therefore, in addition to the estate documents you currently have, we suggest you execute a HIPAA waiver. A HIPAA waiver allows you to name those individuals, such as family members, with whom you authorize your doctors and nurses to discuss your condition and your care. A HIPAA waiver doesn't grant an individual the authority to make health care deci-

sions on your behalf; only the health care power of attorney does that.

Durable Financial Power of Attorney

A durable financial POA allows a person whom you have designated to act on your behalf when handling your financial affairs. This person may be called your agent or your attorney-in-fact. A financial POA is particularly useful to have should you be traveling or become incapacitated. For example, what if you're away on vacation and one of the stocks you own requires a vote on an unexpected buyout offer? If you've given someone power of attorney to sign for you, that person could vote your shares. Be aware, however, that some banks and brokerage firms require that you complete their particular form rather than a general power of attorney form.

You retain the right to modify or revoke the power at any time. A standing durable power of attorney becomes effective as soon as you sign the document; a springing durable power of attorney becomes effective under conditions specified in your document. A durable power of attorney always ends at your death.

Note that a durable POA doesn't provide your attorney-in-fact with the ability to make decisions with regard to assets that are held in a trust. Only a trustee or co-trustee has the legal right to do that. If you're unable to make financial or medical decisions and haven't given anyone your POA, a family member may have to petition the court to appoint a guardian for you.

Choice of a Person for Your POA

Selecting a person to give your POA for health care or for financial affairs is an important decision. Make sure you name someone you trust to act as you would if you were able to do so. For the durable power of attorney for health care, this is particularly important, as you need to select someone who copes well in stressful situations and isn't intimidated by physicians and other medical personnel. Also,

"Note that a durable POA doesn't provide the ability to make decisions with regard to assets that are held in a trust."

make sure that this person agrees to serve as your POA. He or she may not want the responsibility!

In summary, we think that all six of these documents — will, living trust, living will, financial and health care POAs and HIPAA waiver — are essential components of your estate plan. It's best to meet with your estate-planning lawyer to prepare or to update your documents before you need them. Also make sure that your family members have copies or know where to find them! ꞵ

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Thinking of a Career Change? Make Yourself the Beneficiary of an Educational Savings Plan

Advantages of a 529 Plan Today

by Malik S. Lee, CFP, CAP, APMA

Since the COVID-19 pandemic began back in February 2020, we have been forced to pivot and adapt to many changes in all areas of our lives — including some aspects of our financial planning.

Specifically, we saw a need to make major adjustments to how we plan for education. The pandemic significantly disrupted normal schooling; one of the biggest impacts we saw over the last year was students of all ages undergoing a drastic shift from in-person to virtual learning.

This upheaval of our education system underscored the importance of building education planning for the future with flexibility in mind. In a post-pandemic world, a 529 plan is a great tool to use in designing an education funding strategy with versatility and adaptability. (*For more on 529 plans and mutual funds, see Page 33.*) Make sure you take advantage of these three key features of 529 plans.

529 Plans Can Cover Remote Learning Expenses

As many families wonder if future learning experiences will be in-person or remote, they can gain some peace of mind knowing a 529 plan provides advantages for each outcome. Many already know the cost of tuition and books count as qualified distributions from a 529. But many families don't realize they can also pay for educational tools such as computers, peripheral equipment (like mouses, scanners, webcams and digital cameras) and internet access with 529 funds as well.

As long as the 529 plan's beneficiary is the primary user of the computer hardware, software or internet access while enrolled in an eligible institution, the Internal Revenue Service considers that a qualified expense. And bear in mind any software must be used for education; that means the IRS will not accept purchases of Roblox and Fortnite.

If remote learning continues or is here to stay, you can rest assured that your 529 plan has the flexibility to help you maximize the funds within the account.

Use 529 Funds to Pay for Apprenticeship Programs and College Debt

The Setting Every Community Up for Retirement Enhancement (SECURE) Act signed by President Trump in 2019 didn't just impact retirement accounts. The law made sweeping changes to 529 plans, too.

This legislation allows borrowers to pay off up to $10,000 in qualified student loan repayments using a 529 plan in their name. As America's student loan debt crisis surpasses $1.6 trillion, every little bit counts as borrowers wrestle with their student loan debt.

> **"Account owners have complete control over the assets and the plan's beneficiary."**

As it stands today, no other college savings vehicle will allow you to receive both tax-free account growth and tax-free withdrawals to pay off loans incurred while attending college.

The SECURE Act also expanded qualified expenses for which families can use 529 funds to include fees, books, supplies and equipment required for participation in a registered apprenticeship program. This expansion is excellent for those looking to join the workforce immediately or feel that college is not for them.

Keep in mind that the apprenticeship program will need to be registered and certified by the Department of Labor for the costs to be considered a qualified expense.

Families Have Flexibility Over Naming Account Beneficiaries

When it comes to saving for college, the most common question families ask me as a CERTIFIED FINANCIAL PLANNER is, "What happens if the current 529 plan beneficiary doesn't need the funds?" The answer: You have options.

Account owners of 529 plans are not the same as the plans' beneficiaries. Owners have complete control over both the assets and the plan's beneficiary. You can choose any new beneficiary of the 529 plan, as long as they are a qualified family member (i.e., sibling, parent, children, first cousins, niece, nephew, etc.) of the original beneficiary.

An owner could even name themselves as the primary beneficiary of the 529. Given that the pandemic has forced millions of people out of work, this can be a significant benefit to anyone looking to go back to school right now to advance their skills or acquire new ones to change careers.

As we all have been forced to pivot during this pandemic, it is refreshing to know that the 529 plan continues to evolve with savers' needs for higher education and vocational expenses.

Differing Views on Finances Can Really Disrupt Domestic Harmony

Discuss Investing With Your Partner

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

Before making the decision to tie the knot, couples may have various requirements. Some may insist on living together first, others that their families meet. But how about this one: having a frank conversation about money and investing.

Disagreement over money is a common source of tension for couples and an oft cited reason for divorce. But these discussions are impossible to avoid as you build a life together and plan and save for retirement.

When it comes to investing, couples might have different ideas about financial goals, the types of products to invest in and the level of risk they are willing to take with the family's portfolio. Fortunately, there are things couples can do to bridge the investment style gap and keep the peace. Here are four tips to help you keep the harmony in your relationship.

Communicate

Like many other issues in relationships, the key to maintaining harmony is to begin with a conversation. It's important for each partner to understand the other person's tolerance for risk. It's equally important for couples to talk about their financial goals and how soon they hope to achieve them.

It's a good idea to touch base regularly about household finances and working together to create solutions — like a budget or investing plan.

Get Educated

Knowledge can give couples the power to resolve financial differences. If you work to learn the basics of investing together, you can feel comfortable knowing you are using the same vocab and both understand the risks involved with different investments and different strategies. Get started with the FINRA Foundation's free Course to Smart Investing, which is designed to fit into your busy lifestyle. And, bonus, the theme of the course sequence is love and relationships!

Divide and Conquer

For some couples, it might be better to divvy up accounts and responsibilities. You might have the more conservative partner handle the savings for short-term goals, such as saving for a down payment on a house, where a conservative approach is often justified.

The more aggressive partner, in turn, could possibly oversee savings for long-term goals like retirement, where investments can be more aggressive when retirement is still many years down the road.

Hire a Referee.

Sometimes couples simply can't figure things out on their own. A financial professional can help couples get beyond two opposing investment styles and make recommendations based on what's mutually beneficial for the couple.

It might just be worth the cost and effort. After all, managing a relationship is hard enough without having to fight about money.

Websites of Interest

FINRA Smart Investing Courses
www.finra.org/investors/learn-to-invest/smart-investing-courses

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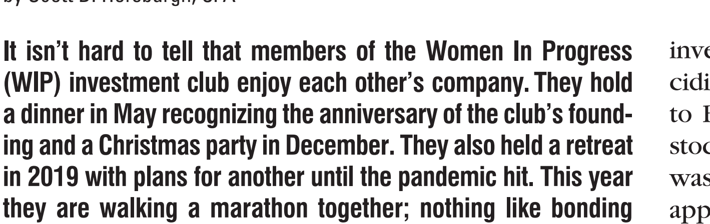
Oregon Club of Mostly Health Care Workers Has a Family Feel

Of Wine, Walking and Investing in Oregon

by Scott D. Horsburgh, CFA



It isn't hard to tell that members of the Women In Progress (WIP) investment club enjoy each other's company. They hold a dinner in May recognizing the anniversary of the club's founding and a Christmas party in December. They also held a retreat in 2019 with plans for another until the pandemic hit. This year they are walking a marathon together; nothing like bonding over blisters, fatigue and dehydration!

They combined their friendship and interest in stocks by purchasing shares in a local publicly traded winery, Willamette Valley Vineyards. How fun! I wouldn't recommend that in general, but combined the common and preferred share holdings in the winery are only 1.3% of the portfolio. Founded in McMinnville, Oregon, in 1995, WIP counts four founders among its 10 members. Most members worked in health care. They have become like family, spending 20-30 minutes on personal updates at each meeting.

This level of familiarity may be hampering the club's investment results. Methods of finding new stocks and deciding when to sell are quite casual. While trying to stick to BetterInvesting guidelines, members aren't assigned stocks to follow and use of the Quarterly Trend Analysis was dropped because it was too challenging. The club appears to have done reasonably well, however, as most of its holdings have at least doubled in value. Let's look at their portfolio to help the club develop techniques to make its results even better and more sustainable.

Amazon, Apple, Intel, Texas Instruments, Zoom Video Communications

Technology is its largest segment at 36% of the portfolio. Its holdings are **Amazon (ticker: AMZN)**, **Apple (AAPL)**, **Intel (INTC)**, **Texas Instruments (TXN)** and **Zoom Video Communications (ZM)**. Amazon is a very popular BetterInvesting holding, but there is no reasonable way for it to appear as a buy on a Stock Selection Guide. The only way to justify it is by perpetuating a triple-digit price-earnings ratio!

Women In Progress (WIP)

Company	Ticker	No. shares	Cost	Feb. 12, 2021 Price	Feb. 12, 2021 Value	Gain/ (loss)	%Gain/ (loss)	Quality rating*	% Growth estimate**	% of portfolio	Trailing P/E	Trailing EPS
Abbott Laboratories	ABT	131	$ 2,982	$ 128.33	$16,775	$13,793	462.5	1	10	6.4	35	$ 3.65
AbbVie	ABBV	182	7,127	104.44	19,046	11,919	167.2	3	5	7.3	10	10.50
Amazon	AMZN	10	13,365	3,277.71	32,777	19,412	145.3	1	25	12.5	69	47.68
Apple	AAPL	180	6,104	135.37	24,367	18,262	299.2	1	10	9.3	30	4.45
Berkshire-Hathaway, Class B	BRK-B	30	5,943	242.46	7,274	1,331	22.4	1	8	2.8	26	9.29
Chevron	CVX	89	5,907	92.55	8,252	2,345	39.7	3	N/A	3.2	25	3.69
Cigna	CI	24	2,339	206.93	4,966	2,628	112.4	3	11	1.9	11	18.70
Costco Wholesale	COST	50	5,989	352.75	17,638	11,649	194.5	1	10	6.7	38	9.32
FLIR Systems	FLIR	100	2.293	54.69	5,469	3,176	138.5	3	6	2.1	24	2.32
Intel	INTC	100	2,544	61.81	6,181	3,637	143.0	1	8	2.4	13	4.74
Lowe's Companies	LOW	141	4,666	177.16	25,004	20,338	435.8	2	11	9.6	20	8.82
PepsiCo	PEP	134	7,661	133.87	17,904	10,243	133.7	1	4	6.8	24	5.55
Procter & Gamble	PG	50	2,515	127.62	6,381	3,866	153.7	1	5	2.4	23	5.50
Starbucks	SBUX	150	1,662	105.30	15,795	14,133	850.4	1	51	6.0	106	0.99
T. Rowe Price Group	TROW	100	5,002	163.19	16,319	11,317	226.3	1	10	6.2	16	10.22
Texas Instruments	TXN	160	1,087	179.64	28,742	27,656	2,545.2	1	8	11.0	30	5.97
Wells Fargo & Company	WFC	46	1,531	33.53	1,535	4	0.2	3	5	0.6	13	2.55
Williamette Valley Vineyards (Series A)	WVVIP	350	1,523	5.27	1,845	322	21.1	N/A	N/A	0.7	N/A	N/A
Williamette Valley Vineyards, Inc.	WVVI	200	1,606	8.00	1,600	(8)	(0.5)	2	N/A	0.6	N/A	N/A
Zoom Video Communications	ZM	5	1,916	433.11	2,166	250	13.0	4	50	0.8	303	1.43
Cash			1,367		1,387			1		0.5		
Average									15		45	
TOTAL			**$85,149**		**$261,421**	**$176,271**	**207.0**			**100**		

* Based largely on rankings published by Value Line.
** As estimated by the author, with data from Thomson Financial Network.
Note: Numbers in the table have been rounded.

Would you, as a reasonable investor, pay a P/E of 35 for a company growing its pretax profits by 2% a year, its net income by 4% and its EPS by 10% due to stock buybacks? Probably not. But that would be Apple and investors still buy it.

When I used the same 10% earnings per share growth and P/Es that excluded the insane 2020 levels, my SSG came up with a five-year share price well below the current level. The rollout of 5G will help Apple's growth, but it would have to be spectacular just to give this stock a decent return.

Texas Instruments is a supplier of technology products to many industries. Long-term revenue growth has been quite low. Profit margins have risen, allowing operating income to rise 8% a year. A lower tax rate and share buybacks have leveraged this into mid-teens EPS growth.

One third of the portfolio is tied up in Amazon, Apple and Texas Instruments. Their share prices keep going up, but at some point one has to say "Enough!," and at least trim the holdings back, i.e., take some profits.

When stocks aren't actively followed, intuition and fear of missing out take over. Amazon is a juggernaut, Apple is a cash cow and Texas Instruments gradually nudges along.

But is there a valuation above which these stocks no longer make sense? Quarterly Trend Analysis helps investors follow the development of the business and refreshed SSGs help frame growth and valuation in terms of potential future appreciation. Stocks need to be reviewed from time to time. When reasonable growth and valuation projections lead to poor stock returns, investors must at least trim the holding.

Intel is a steady grower even though it hasn't been a rocket ship in years. Still, its sales have grown in the mid-single digits over the past decade, comparable to Apple and better than Texas Instruments. Yet its P/E is less than half the other two. At least there is a plausible case to be made for Intel.

The club also took a very small position in Zoom. I think it is a bit late to get into Zoom as growth will likely level off once we are no longer on COVID-19 lockdown.

Technology stocks are richly valued, as noted previously. **Facebook (FB)** and a tech services company called **Concentrix (CNCX)** make reasonable alternatives to the overpriced high flyers. Concentrix might be more difficult to find information on as it was only recently spun off from parent **Synnex Corp (SNX)**.

Costco, Lowe's, Starbucks, PepsiCo, Procter & Gamble

The WIP club has a considerable investment in consumer stocks. Companies that sell staples, such as food and paper products, and home improvement chains have benefited from the pandemic. They will likely experience a "grow-over" problem as 2021 results struggle to eclipse phenomenal figures from 2020. Good companies may experience roughly flat sales and profits this year simply because results can't compete with overbuying of their products last year. It will be important for investors to overlook the 2020 boost and evaluate their growth from 2019-2021 or even 2019-2022.

Costco (COST) is a tremendous retailer that puts one foot in front of the other, growing every year almost without fail. The stock is prized for its steadiness and consumers' fondness for their Costco shopping experience. It certainly got a boost from COVID-19 stockpiling that will create difficult comparisons in 2021, but analysts still expect growth this year. Viewed from 2019-2021, annualized EPS growth should be on its typical 11% trajectory. This is fully priced at a P/E of 38 (trailing) and one should expect moderate but steady appreciation from this point.

Home improvement retailer **Lowe's (LOW)** went from mid-single digit revenue growth prior to the pandemic to 28%-30% in recent quarters. Consumers are investing in their homes and Lowe's is a major destination. Surging housing purchases, driven by low interest rates and a desire to avoid apartment buildings in COVID-19 times suggests demand for home improvement products should continue. What does one do after moving into a previously owned home? Paint and decorate! Lowe's' same-store sales growth is forecasted to be flat to slightly positive in Fiscal 2021, but I wouldn't be surprised to see it do a bit better.

Long-term growth has been moderate at 5% for sales and 16% for EPS. Pretax profits rose 6% per year, with a lower tax rate and prodigious stock buybacks creating most of the EPS growth. This is a subtlety many investors miss when they don't focus on pretax profit growth on a stock study. This also helps explain why Lowe's might first appear to be a bargain at a P/E of 20x for 16% EPS growth. Even if growth moderates to 10%-12% annually, a P/E of 20 isn't bad. Keep in mind that the market has not historically paid premium P/E ratios for growth generated through lower tax rates and stock buybacks.

Starbucks (SBUX) will likely remain a favorite destination even though store closures and reduced hours due to COVID-19 took a big bite out of business. I can easily envision a sharp recovery as more consumers feel comfortable in public. The stock has recently gone on to new all-time highs despite a P/E of 100x depressed earnings and 37x peak EPS of $2.83. I have a hard time paying a 37x P/E not on current earnings but past earnings.

Compare Starbucks with Costco. Both are at a similar ratio of price to peak earnings and have nice, but not extraordinary, earnings potential. For one the peak earnings are now; for the other, peak earnings happened a year ago. Which do you value more highly? I'd be happy to trade Starbucks in for a cheaper growth stock.

I'll put the next two consumer stocks, **PepsiCo (PEP)** and **Procter & Gamble (PG)**, in one bucket. Look at a stock study prior to the pandemic. Sales trends were about flat with low

Women In Progress of McMinnville, Oregon. Front Row: Sharon Laddusaw, Sandy Sherwood, Penny Love, Renee Vorm and Cathy Stephens. Back Row: Theresa Robbins Johnston, Monika Chroust-Masin, Cindy Gibson, Kris Messinger and Linda Scherf.

single-digit annual EPS growth over a decade. Hoarding of paper products helped P&G, but I'll bet there are closets full of toilet paper that will create oversupply problems. Pepsi wasn't helped out as generously by the pandemic. Redo the stock studies modeling growth consistent with the long-term trends. Using actual historical P/E ratios, these stocks will look moderately overpriced. If you use P/Es more consistent with low-single digit growth, they will look significantly overvalued.

The club needs to develop a policy to deal with stocks whose potential is tapped out. The best way is to maintain a vigorous program of finding new stocks. When a stock falters or its potential is fully met, compare it to a new challenger. That is the best way out of mediocrity.

Abbott Laboratories, AbbVie

WIP also owns two stocks in the medical sector, **Abbott Laboratories (ABT)** and its spinoff, **AbbVie (ABBV).** Abbott recently struck gold as its diagnostics machines have proven quite timely in the COVID-19 era. That highlights what is so special about the company. The P/E of 35 seems quite high, but medical companies that can grow solidly are frequently awarded premium valuations.

AbbVie, formerly Abbott's drug development arm, has grown primarily through acquisitions. It closed the acquisition of Allergan (maker of Botox) last year. Acquisitions are needed to dilute dependence on Humira, the best-selling drug in the world representing about half of AbbVie's 2019 revenue. That percentage is down to about 35%-40% following the acquisition of Allergan. Even that level is a risky proposition considering Humira has already lost patent protection in Europe and will do so in the U.S. in 2023. Its dependence on this one product explains why AbbVie's P/E is so low. Club members need to research this potential and decide if they are comfortable with the risk. This is why specific stock watchers need to be assigned to each holding.

Berkshire Hathaway, Cigna, T. Rowe Price

Three financial companies make up the fourth largest sector concentration in the WIP portfolio, excluding a stock held in a dividend reinvestment plan the club is trying to sell, **Wells Fargo, (WFC). Berkshire Hathaway (BRK-B)** is hard to argue against. Still, Warren Buffett and sidekick Charlie Munger are in their 90s and investors need to come to grips with a post-Warren Berkshire Hathaway.

Berkshire's earnings are hard to follow since it is an insurance company subject to catastrophe losses. BI data feeds appear to show GAAP (generally accepted accounting principles) earnings numbers, including capital gains, that fluctuate all over the map. Value Line has been excluding capital gains in recent years and indicates Berkshire's EPS ranged from $9-$10 over the past six years. The club needs to update its stock study using Value Line numbers. Optimistically continue the earnings trend of the past decade and retain the average P/E ratios excluding the outlier for 2017.

Cigna (CI) provides health and life insurance and acquired pharmacy benefits manager Express Scripts a couple of years ago. Although there are political considerations when investing in health insurers, the long-term growth of Cigna and **UnitedHealth (UNH)** suggest there is considerable expertise at those companies. Their 2021 outlooks will probably be subdued as 2020 benefited from patients' desire to avoid medical treatment. Still, with a P/E of just 11 and a good growth outlook, there is a lot to like. I wonder why the club has less than 2% of its portfolio in this stock compared to other holdings with lower growth potential and higher P/E ratios?

T. Rowe Price (TROW) is a good investment manager. Its mutual funds tend to perform better than most. For years, most investment managers have been held back by investors' preference for index funds. While T. Rowe Price generally attracts more new client money than it loses, it is dependent on the overall stock market. I prefer **BlackRock (BLK)**, owner of the iShares brand of index funds in addition to its own actively managed funds. I think of these invest-

ments as modestly better than the stock market, with P/E ratios lower than the market.

FLIR Systems, Chevron

The two remaining portfolio holdings shouldn't be around long. On Jan. 4, 2021, **FLIR Systems (FLIR)** agreed to be acquired by **Teledyne** for $28 in cash plus 0.0718 shares of Teledyne stock. The merger is expected to close in mid-2021.

And Chevron (CVX)? Why? Its price has almost doubled from the 2020 low when oil prices went briefly negative. It only occasionally earns enough to cover its dividend. This is not a growth stock. Not even close. Why isn't anyone in the club saying anything about this?

Women In Progress needs to live up to its name. Most of the portfolio's companies are quality companies, but many are tired. In particular, AbbVie, Berkshire, Chevron, Intel, Pepsi, P&G and Texas Instruments have their best days behind them. The best way out of mediocre holdings is to challenge them with something better!

Challenging existing holdings requires challengers. The club does not have a vigorous and repeatable process for finding new stocks. WIP's practice of waiting for members to read about interesting companies and speak up hasn't worked well, judging by the number of stale holdings. I've already mentioned Facebook and Concentrix as possible challengers. Others include **Air Lease (AL)**, **D.R. Horton (DHI)** and **Western Alliance Bancorp (WAL)**. These are a starting point, but investors need a steady flow of challengers.

Each member needs to agree to follow two to three stocks. Follow means to actively monitor developments at the assigned companies. Present a summary of each quarter's results, including a Quarterly Trend Analysis. Watch for continued growth in sales, pretax profits and EPS along with reasons when the results depart from expectations. Update the stock study at least yearly. Some vigorously run clubs update them quarterly. Don't be afraid to sell if something isn't growing properly. Keep in mind that COVID-19 issues and grow-over challenges will impact many companies this year. Develop a list of reasons why you should sell a security, and hold each other to it. It may be difficult at first to reacclimate yourselves back to the right way to do things, but anything worth doing is worth doing right.

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 for stocks mentioned in this article.

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Club Accounting

REITs and Publicly Traded Partnerships in Particular May Cause Problems

Tax Season Shows the Need to Audit Records Regularly

by Russell Malley, Club Accounting Adviser, ICLUBcentral

Once again, this tax season showed the importance of clubs auditing their accounting records regularly. Some of the more vexing problems ICLUBcentral support receives are the result of accounting errors or oversights made in the past that were not detected.

Some problems arise from investing in securities that pose problems for clubs such as REITs (real estate investment trusts) and publicly traded partnerships. These add extra work for the treasurer. A treasurer inexperienced with dealing with these types of securities may not even be aware of this extra work. Unfortunately, the necessary extra work can affect the cost basis of the securities and will become evident when the securities are sold and a large discrepancy appears between the club records and the broker's Form 1099.

How to Do an Annual Audit

Auditing the club accounting records at least once a year helps catch and correct accounting problems before they have much more serious consequences in the future. So spend a bit of time now to prevent the need to spend a lot of time correcting missed problems in the future. Auditing the club records is not as onerous as some think. It also does not need to take a lot of time.

The first thing to do is gather all the necessary documents. This should include statements from your broker, bank and other institutions with which the club deals. Also included should be any Forms 1099 received and possibly the tax return from the previous year.

Next, gather reports from the software. Useful reports for the audit include all valuation statements for the period being audited, member status reports, cash journals and withdrawal reports for members withdrawn during the period. Once the documents are gathered, start comparing the information on the accounting reports with the information on statements. The first items to check include confirming that cash balances in the reports reconcile with statements and verifying that recorded shares owned coincide with statements. If you find errors you may then need to check individual types of transactions, such as the cash, security and member transactions.

For a discrepancy in shares owned, a good first look would be to check if a security transaction was dated near the end of the statement period. Brokers often do not include such transactions on that month's statement if the settlement date would be in the next month. That is one possible reason for club records not matching broker statements. Settlement dates now are generally two days after the order date.

ICLUBcentral has a checklist of audit documents and tasks to help perform an audit available for download here: **https://www.iclub.com/clubs/ICLUBtherapist/therapist_article.asp?name=t_20001218.**

Problem Securities and Audit Issues

A few words about dealing with audit issues related to two of the problem securities many clubs own, REITs and publicly traded partnerships. During the year REITs make cash distributions that are usually shown as dividends on broker statements. These distributions can be composed of multiple types of distributions rather than just dividends. The problem for clubs is the full nature of the distribution is not known until the 1099 is received.

One of the possible distribution types is a return of capital (ROC). This is a nontaxable distribution but it does reduce the total cost basis in the REIT. It is important to include any ROC in the REIT distribution as it will affect the gain realized when the REIT is eventually sold. For publicly traded partnerships the issue is the Schedule K-1 income and expenses. These also affect the club's cost basis in the partnership investment.

Your broker is unlikely to have access to this information. To make sure your cost basis is correct you need to compare your records to the year-end cost basis reported on the K-1 received from the partnership. You will need assistance from our support team to make entries to account for the K-1 information. The audit team should check that K-1 information was entered at year-end for all partnership investments.

Tips to Make the Audit Easier

Here are a couple of tips to make an annual audit easier and less time-consuming. Treasurers, do a quick tiny audit before every meeting. Just check that cash accounts reconcile and securities owned match the broker statement. This goes a long way in catching issues quickly and takes just a little time. For the club, consider smaller audits on a quarterly or semi-annual basis. This gets extra eyes on the books more frequently and may catch something the treasurer missed.

Audit regularly so errors and/or omissions do not come back to haunt you in the future.

The Pandemic Bumped Up Sales for the Nation's No. 2 Home Improvement Retailer

Lowe's Companies, Inc.

With mass vaccination campaigns against the coronavirus accelerating in March, Americans began to contemplate a winding down of the pandemic. When the end comes, pent-up demand may lead consumers to go on a shopping spree.

One fear of investors in some retail companies is that during the anticipated surge in discretionary spending, consumers may pivot away from businesses that thrived during the pandemic. They may show a preference for industries that suffered — restaurants, theaters, hotels and travel, for example.

Looking longer term, some analysts have suggested further that consumer spending patterns may have been permanently altered by the pandemic. During lengthy lockdowns, consumers became accustomed to spending more on grocery orders and online commerce, for example.

Lowe's Companies, Inc. (ticker: LOW) was among the retail chains that have benefited from aspects of the pandemic. Homeowners with constrained spending options and desire to upgrade for remote working and learning poured resources into home improvements. Corporate management reported that during the latest fiscal year (ended Jan. 29, 2021), same-store sales in outlets open at least 13 months surged 28.1% compared with a 2.6% increase the year before.

Venerable. Lowe's is celebrating its 100th anniversary this year. The company began as a hardware store.

With post-pandemic consumer spending on other products and services unleashed, however, the home improvement giant could experience a short-term dip in its results. On the other hand, some analysts have suggested the pandemic caused a more permanent shift toward stronger spending on home improvements. Whether the company sees a return to its historical pattern of long-term growth therefore remains an open question.

The strong housing market fueled by low mortgage interest rates and the migration of households from small urban spaces into larger suburban ones could prove to be a growth driver, analysts have noted. Strong consumer balance sheets, increased household formation and home price appreciation are among the trends driving home improvement spending.

The aging of housing stock is an additional factor. According to the National Association of Home Builders, the average age of American homes stood at 37 years in 2016. The association has reported an ongoing shortfall of home construction to meet demand; the average age of homes has therefore continued to increase.

Home improvement statistics are suggestive. The Harvard Joint Center for Housing Studies projected that spending on residential repairs and improvements would reach $338 billion nationwide by year-end 2020, up about 3% from the year before.

During their March 4 meeting, members of the Editorial Advisory and Securities Review Committee leaned toward the view that Lowe's will fare well in the post-pandemic era. They suggested that the company's emphasis on customer service could contribute to strong long-term results.

At its $153.77 close on March 4, the stock was 14.9% below the 52-week high of $180.67 reported on Oct. 16. Its trailing 12-month price–earnings ratio was 19.8 (*see table*); the ratio for the S&P 500 Index was 38.4.

CSIMarket, a financial data service, set the TTM ratio average for the home improvement industry at 25.6. The P/E average was 21.5 for Lowe's and two of the competitors named by Morningstar, based on figures Yahoo Finance reported. (A third competitor had reported a loss and was omitted from the calculation.)

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

BetterInvesting is profiling Lowe's 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.

Corporate Blueprint

The company marks its 100th anniversary this year. Measured by revenue, it's the country's second-largest home improvement retailer behind archrival Home Depot (HD).

At the close of its latest fiscal year, Lowe's had a net total of 1,974 stores nationwide. That was just below

Lowe's Companies, Inc.									
	2020 (ended 1/29/21)	2019 (ended1/31/20)	% change	FY 2020 Q4	FY 2019 Q4	% change	FY 2021 year to date	FY 2020 year to date	% change
Net sales	$89.6 billion	$72.1 billion	24.2%	$20.3 billion	$16.0 billion	26.7%	—	—	—
Net income*	$5.8 billion	$4.3 billion	36.1%	$978.0 million	$509.0 million	92.1%	—	—	—
Diluted EPS*	$7.75	$5.49	41.2%	$1.32	$0.66	100.0%	—	—	—
Declared dividends	$2.30	$2.13	8.0%	$0.60	$0.55	9.1%	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	13.0%
Ticker symbol	LOW	Consensus long-term earnings growth estimate (27 analysts)	13.7%
Price at time of selection	$158.29	Consensus EPS growth rate for FY ended January 2021	9.6%
Past year's price range	$60.00 – $180.67	Consensus EPS growth rate for FY ended January 2022	13.3%
Recent market price	$153.77	Recent price-earnings ratio**	19.8x
Market capitalization	$112.4 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $7.75 for the four quarters ended Jan. 29.

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

the 1,977 stores reported the year before.

Lowe's offers 13 categories of products for construction, maintenance, repair, remodeling and decorating. Its largest broad category is home decor, which generated 35.9% of total sales in 2019.

Building products accounted for 31.9%, and hardlines, 29.4%.

The company recently owned about 84% of its stores, including outlets built on leased land. Unaffiliated third parties leased buildings to Lowe's for the other 16% of the locations.

About 75% of sales are to do-it-yourself individuals.

Commercial sales to maintenance, repair, operations and construction professionals constituted 25%.

Online commerce accounted for 5% of sales in 2019, having surged 121% year over year.

The company got its start in 1921 when L. S. Lowe opened a hardware store in North Wilkesboro, North Carolina. By 1960 the business had grown into a regional chain with 15 hardware outlets in the Southeast. Lowe's went public in 1961.

Marvin R. Ellison, 55, was appointed CEO and president in July 2018, taking over from long-serving CEO Robert A. Niblock. Ellison is the former CEO of J.C. Penney, now privately held. He previously was an executive at Home Depot as well as Target (TGT).

Richard W. Dreiling, 67, became independent chairman in July 2018. Former posts included the following: chairman and CEO of Dollar General (DG); and chairman, CEO and president of Duane Reade, now owned by Walgreens Boots Alliance (WBA). He also was a senior executive with Longs Drugs, acquired by CVS Health (CVS); and Safeway, now a subsidiary of Albertsons (ACI).

Competitors include Bed, Bath & Beyond (BBBY), The Home Depot and Tractor Supply (TSCO), Morningstar reported.

Management Fine-Tuning

During his almost three years in charge, Ellison has focused on the core domestic business. Management has adjusted the chain's structural mix by shuttering assets that underperformed. For example, in 2018 management closed down Orchard Supply, a chain of 99 hardware stores acquired in 2013. Lowe's has also exited several businesses, including Renovation Services, Smart Home and Project Specialist Interiors.

In 2019 foreign operations accounted for 6.9% of sales. Over the past two years, however, Lowe's has been shrinking its international presence. It exited Mexico and simplified its Canadian operations, reducing the store count.

The company entered the Canadian market in 2007 and Mexico in 2011. Lowe's reported taking $265 million in charges connected with store closures.

Concerning locations for new stores, management reportedly is focusing on metropolitan markets in the Northeast and on the West Coast. To date the company has had a smaller presence in those regions than its chief competitor Home Depot.

Final Notes

BetterInvesting featured Lowe's as the Stock to Study for November 2000, February 2006 and January 2013; and as the Undervalued Company for July 2018. The company

ranked No. 33 in the Top 200 Survey of investor holdings for 2020 (*see the April issue*). An estimated 223 clubs owned shares.

For the eight-week period ended Feb. 8, the stock appeared on the Most Active List: Bubbling Under. Users of myICLUB.com participating in the ongoing transaction-tracking project reported 18 buys and 7 sells. The company also was reported on the list in six of the past seven issues of *BetterInvesting*.

Lowe's underwent five 2-for-1 stock splits from 1992 to 2006. The company offers a dividend reinvestment and direct stock purchase plan.

The share tally has declined each year since 2008, for a combined decrease of 51.4%, Value Line reported. In 2020 Lowe's spent about $5 billion on repurchases. In December the company announced it would add $15 billion to the $4.7 billion remaining in its share repurchase plan.

Lowe's has increased its quarterly cash dividend for at least 16 consecutive years. In February the company raised the quarterly dividend 9.1% to $0.60 from $0.55, for an annual dividend yield of 1.6% as of March 4.

The Value Line report for Lowe's, available at the BetterInvesting website, uses calendar-year pricing. In contrast, BetterInvesting's Morningstar-based financials display fiscal-year pricing data. The following are the rounded calendar-year price ranges for the past five years:

- **$62.60 to $83.60 (2016)**
- **$70.50 to $93.60 (2017)**
- **$81.20 to $117.70 (2018)**
- **$90.20 to $121.50 (2019)**
- **$60.00 to $180.70 (2020)**

More background on Lowe's and its industry, including the Value Line analyst and Value Line industry reports, can be found in the Analyst Reports and Other Resources section of the website. For more information, contact Investor Relations, Lowe's Companies, Inc., 1000 Lowe's Boulevard, Mooresville, N.C. 28117-8520.

Websites of Interest

Lowe's Companies, Inc.
www.lowes.com

The Harvard Joint Center for Housing Studies
www.jchs.harvard.edu

National Association of Home Builders
www.nahb.org

The author of this profile doesn't directly own any shares of Lowe's.

— Reporting by contributing editor Kevin J. Lamiman

The Editorial Advisory and Securities Review Committee met on April 2. 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 Lowe's Companies Inc. (ticker: LOW) you might consider the following comments, data points and questions for further study:

- **Capitalization section:** Lowe's carried a fairly high debt-to-capital ratio of 94.8% at the end of 2020, averaging 82.8% over the past five years. That was more or less in line with its top rival Home Depot (HD) and others in its peer group. Because of its strong cash position, Lowe's was awarded an A++ rating for safety from Value Line. Shares outstanding have declined for the past several years and appear headed in that direction again.

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** The average 10-year growth rate for sales of 6.1% is in line with that of HD. Historical earnings-per-share growth over the same period stands at 17.3%, again keeping pace with HD as well as the building trades industry. EPS growth has generally been consistent over time

- **Section 2 (Valuation and Return):** For the past decade Lowe's has kept its dividend payout at roughly between 30% to 40% of EPS, with a dip in 2020 and a surge in 2018. Value Line notes that LOW's total return for the past five years is superior to HD's and that of retail building trade peers.

- **Section 3 (Price-Earnings History):** Lowe's is a high-profile company among BetterInvesting members, accounting for more than 300 completed SSG studies over the past 90 days. The latest consensus judgment of members shows that a majority expects an average 15% annualized return over the next five years, supported by roughly a 40% payout of EPS by management and a potential high share price that could reach $400 or above — with some members estimating a potential low share price below $100. One member of BetterInvesting's Securities Review Committee estimated that the five-year return on the stock should be about 13.5% based on an average P/E ratio and an average dividend payout.

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.

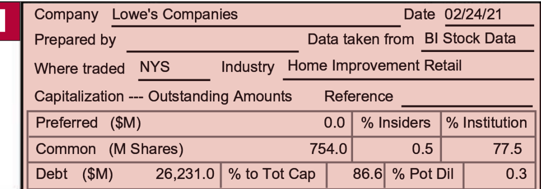
The company's historical sales growth is plotted on the green line and historical earnings growth is represented by the blue line. The black bars provide information about the stock price. For each year, the top of the bar is the annual high price, while the bottom is the low price.

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.

Stock Selection Guide

1



Company	Lowe's Companies			Date	02/24/21
Prepared by				Data taken from	BI Stock Data
Where traded	NYS	Industry	Home Improvement Retail		
Capitalization --- Outstanding Amounts				Reference	
Preferred ($M)		0.0	% Insiders	% Institution	
Common (M Shares)		754.0	0.5	77.5	
Debt ($M)	26,231.0	% to Tot Cap	86.6	% Pot Dil	0.3

Symbol: LOW

BetterInvesting Magazine is now using the Online Tools, rather than Toolkit 6 to create this SSG.

1 VISUAL ANALYSIS of Sales, Earnings, and Price

3

2019 sales = $72.10 billion

2019 high price = $123.10

2019 low price = $91.60

2019 EPS = $5.49

2

FY 2020 Q3	Sales ($M)	Earnings Per Share
Latest Quarter	22,309	0.91
Year Ago Quarter	17,388	1.36
Percentage Change	28.3%	-33.1%

10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

4

(1) Historical Sales Growth	5.1%	(3) Historical Earnings Per Share Growth	14.9%
(2) Estimated Future Sales Growth		(4) Estimated Future Earnings Per Share Growth	

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 Lowe's Companies (LOW)

5

		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)	6.6	5.8	6.2	6.9	7.6	7.5	8.0	8.0	4.8	7.8			
B	% Earned on Equity (E/S ÷ Book Value)	10.6	10.8	13.4	17.4	24.3	29.7	47.9	59.1	42.3	170.4			

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	78.1	64.2	2.73	28.6	23.5	1.07	39.2	1.7
2	2016	83.7	62.9	3.47	24.1	18.0	1.33	38.3	2.1
3	2017	109.0	70.8	4.09	26.6	17.3	1.58	38.6	2.2
4	2018	117.7	81.3	2.84	41.4	28.6	1.85	65.1	2.3
5	2019	123.1	91.6	5.49	22.4	16.7	2.13	38.8	2.3
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.

Bridging the Industry Downturn With Serious Belt-Tightening'

Chevron Corporation

Throughout the coronavirus pandemic, corporations in the oil and natural gas industry have been treading water. With consumers foregoing leisure travel, working from home and dispensing with commuting, demand for fuel — and crude oil — has been constrained. Prices for oil and natural gas have remained depressed; conserving cash, reducing losses and preparing for when they come through on the other side of the pandemic have therefore been priorities for these companies.

Among them is Chevron Corporation (ticker: CVX). With its strong balance sheet, the integrated oil and gas company appears relatively well-positioned to wait out the virus. To conserve cash, corporate management has cut back capital expenditures and suspended share repurchases.

Pumping Away. Chevron is the second-largest petroleum company in the United States.

Despite the financial pressures, the California-based company moved forward last year with a major acquisition that strengthened its asset base. In October Chevron completed its acquisition of publicly traded Noble Energy. The all-stock deal carried an enterprise value, including debt and book value of noncontrolling interests, of about $13 billion.

Chevron issued about 58 million shares to compensate Noble stockholders. The deal was announced in July. Many analysts praised the transaction, maintaining that Chevron got a bargain.

Noble's assets included both low-cost proved reserves and attractive undeveloped resources. Through the addition of Noble's assets, Chevron increased its proved reserves about 18% above the level at year-end 2019. Noble properties included reserves in the Permian Basin, a large field in the Southwest. Other Noble reserves were in the adjoining Denver-Julesburg Basin, centered on eastern Colorado. Chevron also obtained offshore reserves near Israel.

In connection with the acquisition, Chevron gained a majority interest in Noble Midstream Partners (NBLX). In March the company announced an all-stock deal to acquire the remaining publicly held common units of the master limited partnership, which was formed by Noble Energy. The limited partnership operates in Colorado and Texas. Chevron reported the transaction should close in the second quarter. Midstream operators process, store, transport and market hydrocarbons.

Members of the Editorial Advisory and Securities Review Committee cited a metric suggesting Chevron is a value stock. They noted that the market capitalization (*see table*) was only half Chevron's value if the company is analyzed as a liquidating enterprise, assuming a conservative, constant price of $40 per equivalent barrel of oil. In a similar vein, Chevron's price-to-book ratio — the share price versus net worth per share — was only 1.6, Yahoo Finance reported. That was comparable to ratios of major competitors.

The stock's $104.50 close reported March 4 was 2.9% below the 52-week high of $107.58 recorded on the same date. Having reported losses for the past four quarters, the company had no reportable TTM price-earnings ratio; the three publicly traded competitors that Morningstar listed also had no P/E ratios reported by Yahoo Finance.

The ratio for the S&P 500 index was 38.4. CSIMarket, a financial data service, didn't report a TTM ratio average for the oil and gas integrated operations industry. Among the 30 companies that CSIMarket listed in that industry, P/E ratios were posted for only six of them; their average was 9.2. (A seventh company had a ratio that wasn't meaningful.)

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 0.8, based on an average five-year expected earnings growth rate. A range of 1.0 to 1.5 is generally considered desirable.

Dividends represent a significant component of Chevron's total returns. On March 4 the annual dividend yield was 5%. Paying a dividend is a management priority and analysts have judged the current level is sustainable going forward.

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 Chevron for educational purposes only. No investment recommendation is intended.

Corporate Geology

Based on the scale of its revenues and proved reserves, Chevron is the second-largest U.S.-based petroleum company behind competitor Exxon Mobil (XOM). It's among the world's half-dozen largest publicly traded oil companies. Domestically, Chevron has offshore operations in the Gulf of Mexico. Its onshore wells are found primarily in Texas, New Mexico and California, where

Chevron Corporation

	2020 (ended 12/31/20)	2019 (ended 12/31/19)	% change	FY 2020 Q4	FY 2019 Q4	% change	FY 2021 year to date	FY 2020 year to date	% change
Net revenues	$94.5 billion	$139.9 billion	(32.5%)	$24.8 billion	$34.6 billion	(28.1%)	—	—	—
Net income*	($5.5) billion	$2.9 billion	—	($0.7) billion	($6.6) billion	—	—	—	—
Diluted EPS*	($2.96)	$1.54	—	($0.33)	($3.51)	—	—	—	—
Dividends	$5.16	$4.76	8.4%	$1.29	$1.19	8.4%	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	8.0%
Ticker symbol	CVX	Consensus long-term earnings growth estimate (22 analysts)	(4.2%)
Price at time of selection	$103.59	FY ended December 2021 consensus EPS growth estimate	N.A.
Past year's price range	$51.60 – $107.57	FY ended December 2022 consensus EPS growth estimate	32.9%
Recent market price	$104.50	Recent price-earnings ratio**	N.A.
Market capitalization	$201.3 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of ($2.96) for the four quarters ended Dec. 31.

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

the company has its origins. Of its net proved oil-equivalent reserves, the U.S. contained 27% in 2020.

Overseas trade generated $57.5 billion in 2020 after adjustment for intersegment eliminations — 60.8% of $94.5 billion in adjusted total revenues (*see table*). The company operates on every continent except Antarctica. Net proved oil-equivalent reserves in Australia constituted 18% of the total. Kazakhstan contained 20%.

Chevron operates a wide range of interrelated businesses. Its exploration and production segment — in industry jargon, the upstream side — pumps crude oil, natural gas and condensates, or liquids — denser components of natural gas such as propane and butane. Chevron owns and operates several pipeline networks and a marine fleet to transport its production. Upstream operations generated $26.3 billion in 2020 after adjustment, 27.9% of the total. The segment typically accounts for most of Chevron's earnings, however.

Chevron's downstream side handles operations such as refining, transporting and marketing gasoline, jet fuel, lubricants and related products. Downstream businesses accounted for $68.1 billion of 2020 revenues after adjustment — 72.1%.

The company markets fuel through about 5,600 service stations, including affiliates, under the Chevron and Texaco brand names. It distributes aviation fuel to 69 airports worldwide.

In 2020 Chevron operated five U.S. refineries. It also had large refineries in South Korea, Singapore and Thailand.

The segment also supplies feedstock for chemical manufacturing. The corporation owns a 50% interest in Chevron Phillips Chemical Company, which produces specialty chemicals and plastics. Its partner is Phillips 66 (PSX).

Competitors include BP (BP), Exxon Mobil and Total (TOT), Morningstar reported.

Belt-Tightening Continues

Crude oil prices have shown improvement in recent months. On March 4 the New York Mercantile Exchange reported a closing price of $63.83 a barrel for oil futures. That was up 36.4% from $46.78 a year earlier. Nevertheless, management remains cautious and has reduced annual operating expenses by about $1.4 billion.

Chevron also has cut back capital expenditures. The original budget for 2020 was $20 billion, but the company spent only $13.5 billion. Management targeted $14 billion this year.

In early 2020 Chevron repurchased almost $1.8 billion of its stock. The company suspended share repurchases in March 2020.

Final Notes

BetterInvesting featured Chevron as the Undervalued Company for December 2015. The company ranked No. 73 in the Top 200 Survey of investor holdings for 2020 (*see the April issue*). An estimated 124 clubs owned shares.

Chevron has undergone six 2-for-1 stock splits over the past 70 years, the latest in 2004. Chevron has a dividend reinvestment and direct stock-purchase plan.

More background on Chevron and its industry, including the Value Line analyst and Value Line industry reports, can be found in the Analyst Reports and Other Resources section of the website. For more information, contact Investor Relations, Chevron Corporation, 6001 Bollinger Canyon Road, San Ramon, CA 94583-2324.

The author of this profile doesn't directly own any shares of Chevron.

— Reporting by contributing editor Kevin J. Lamiman

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Older Holdings That Are Below Projections Will Be Kept and Monitored

Regeneron May Regenerate Model Portfolio

by Cy Lynch

Portfolio Overview
Reviewing Historical Stock and Portfolio Returns

The model portfolio's relative return in over 14 years since it began in October 2006 increased slightly since our last article to 2.9%, based on its annualized total return of 13.6% compared to 10.7% for the stock market represented by the Vanguard Total Stock Market exchange-traded fund (ticker: VTI). This relative return remains a significant advantage over the market and most alternative investments, even though it falls short of our goal of beating the market return by 5%.

The percentage of selections outperforming the stock market is 49.3%, just below the lower end of our goal range of 50% to 55%. The lesson here is that you can be "right" about half the time with your stock selection and still do significantly better than the market as a whole.

Reviewing Fundamental Projections in Light of Latest Financial Reports

All 24 companies in the portfolio issued new financial reports since my last column. We are now nearly a year into the mixed economy brought about by the COVID-19 pandemic. Just as some companies, particularly in the technology sector have thrived, others, particularly transportation and consumer-related stocks have been negatively impacted by government ordered shutdowns and consumer behavior.

Holdings that continued to fall short of our projections for sales and earnings per share include Booking Holdings (BKNG), Cognizant Technologies (CTSH), LKQ Corp. (LKQ), MSC Industrial Direct (MSM), Sketchers (SKX) and TJX Companies (TJX). All have been particularly adversely impacted by the pandemic-driven global recession and we will continue to monitor these holdings as the impact of the pandemic likely lessens in coming months.

On an improving note, Starbucks' (SBUX) sales continue to decline, though at a slowing rate. EPS have turned positive the last two quarters and increased quarter over quarter. Charles Schwab Corp. (SCHW) continues to increase revenues about as projected, after accounting for the TD Ameritrade acquisition. Net income and EPS, however, are still settling after merger-related costs and as the company adjusts to the zero-commission stock trading environment.

The portfolio's overall projected sales growth remains at 9.6% (*see graphic*). Value Line's "Median Price Appreciation Potential" (VLMAP) over the next three to five years for its standard edition stocks also remains unchanged from last time at a nominal 30% (6.8 % annualized). The minimum target return for the model portfolio is 11.8%, 5 percentage points over the expected market return. Current overall total return for the model portfolio is 13%.

Proven Profitability in Biotech Pharmaceuticals

This month's feature, Regeneron (REGN) describes itself as "a leading biotechnology company that invents life-transforming medicines for people with serious diseases. Founded and led for over 30 years by physician-scientists, our unique ability to repeatedly and consistently translate science into medicine has led to eight FDA-approved treatments and numerous product candidates in development, all of which were homegrown in our laboratories." (*Companies are mentioned only for educational purposes. No investment recommendations are intended.)*

Regeneron is one of relatively few biotech firms that has a proven track record of commercially profitable medicines, with positive EPS for the last nine years. Leading drugs include EYLEA (ocular diseases), Dupixent (atopic dermatitis and asthma), and Libtayo (oncology). The company has an active pipeline in clinical development. Some studies aim to expand indicated uses for existing drugs (especially Dupixent), while others seek approval of medicines in new areas.

Last November, the company gained emergency use authorization from the FDA to use REGEN-COV, an antibody therapy used to treat mild to moderate cases of COVID-19. Initially they provided 300,000 doses for U.S. hospitals. The U.S. government ordered an additional 1.25 million doses in January 2021. According to Value Line, this latest order could potentially contribute roughly $2.625 billion to revenues.

Regeneron's sales have grown rapidly, averaging 32.9% over the last 10 years, slowing to about 17% over the last five years (excluding 2020).

EPS has increased rapidly and relatively consistently since 2014, averaging nearly 45% over those six years. I project sales to grow at 11% over the next five years, just above Value Line's estimate over the next three to five years and below the historical growth of the last four to five years.

Historical pretax profit margins range from a low of 27.4% in 2016 to a high of 44.8% in 2020, averaging 35.3% over that time. Return on equity generally increased over those five years, averaging a strong 28.9%.

I used 40% as my projected pretax profit margin,

> **“Regeneron pays no dividend, nor is one expected.”**

about halfway between the five-year average and 2020's level, and well below Value Line's projection of over 50%.

Morningstar projects a future tax rate of 14% while Value Line anticipates a rate of 18%, which I use as my projected income tax rate five years out. Diluted shares have stayed relatively steady as the company issues shares to support growth and recently has begun to buy back shares from collaborators like Sanofi and the general public. I will project shares to stay about the same at 112 million.

These projections lead to an EPS of $41.82 in 2025. I chose to use 23.0x (my adjusted 10-year average high) as my projected high price-earnings ratio.

These projections lead to a forecast high price of $961.70 and potential total return of 15.4% (REGN pays no dividend, nor is one expected).

Adding our regular $1,000 in REGN to our model portfolio leaves our portfolio projected sales growth and portfolio potential total return at 9.6% and 13.0%, respectively.

Companies are mentioned only for educational purposes.

No investment recommendations are intended.

The author owns several stocks in the model portfolio but not Regeneron.

Regeneron Provides Medicines for Diseases Such as Asthma and Cancer

Stock	3/9/2021 value	% of portfolio before REGN	% of portfolio after REGN	Proj. sales growth	Proj. total return	Hist. return relative to market
Bristol-Myers Squibb	$2,585.09	1.5%	1.5%	8.0%	23.8%	(15.8)%
AbbVie (purchased 7/31/20)	7,884.28	4.6	4.5	12.0	22.6	(0.6)
AbbVie (purchased 10/9/20)	2,561.90	1.5	1.5	12.0	22.6	2.2
Skechers	1,482.18	0.9	0.9	12.0	19.5	(16.8)
C.H. Robinson (purchased 5/31/13)	1,981.58	1.1	1.1	6.0	17.7	(79.6)
C.H. Robinson (purchased 6/30/14)	3,045.37	1.8	1.8	6.0	17.7	(53.9)
C.H. Robinson (purchased 7/6/15)	4,835.38	2.8	2.8	6.0	17.7	(38.6)
Alphabet (Google)	4,673.19	2.7	2.7	16.0	15.8	204.4
II-VI (purchased 12/5/18)	2,075.39	1.2	1.2	14.0	14.7	55.1
II-VI (purchased 10/10/19)	13,155.48	7.6	7.6	14.0	14.7	91.8
Anthem	4,997.45	2.9	2.9	7.0	14.4	120.7
NetEase.com	12,960.19	7.5	7.5	11.0	14.4	956.1
T. Rowe Price	2,571.16	1.5	1.5	9.0	13.9	39.7
CVS Health (purchased 7/27/16)	4,880.89	2.8	2.8	8.0	13.8	(112.0)
CVS Health (purchased 2/7/18)	4,235.13	2.5	2.4	8.0	13.8	(51.9)
LKQ	4,219.60	2.4	2.4	9.0	13.7	(38.1)
Gentex (purchased 9/5/14)	4,539.59	2.6	2.6	10.0	13.2	56.5
Gentex. (purchased 7/6/15)	6,870.20	4.0	4.0	10.0	13.2	33.2
eBay (purchased 3/7/14)	2,319.16	1.3	1.3	7.0	13.0	(2.5)
eBay (purchased 6/30/14)	4,880.36	2.8	2.8	7.0	13.0	48.9
Maximus	7,699.01	4.5	4.4	12.0	12.9	(9.1)
EPAM Systems	1,848.92	1.1	1.1	12.0	12.9	17.1
Genpact Limited	1,009.91	0.6	0.6	9.0	12.5	(3.2)
Aflac (purchased 8/31/11)	3,858.57	2.2	2.2	5.0	11.8	(1.0)
Aflac (purchased 7/6/15)	5,500.85	3.2	3.2	5.0	11.8	(15.1)
MSC Industrial Direct	1,483.92	0.9	0.9	7.0	11.8	(116.9)
Fastenal	5,175.18	3.0	3.0	9.0	11.3	49.3
Booking Holdings (purchased 8/31/18)	1,212.77	0.7	0.7	14.0	9.8	(19.9)
Booking Holdings (purchased 4/15/19)	5,539.10	3.2	3.2	14.0	9.8	(12.1)
First Financial Bankshares	4,830.12	2.8	2.8	9.0	9.7	18.3
Cognizant (purchased 6/3/08)	4,454.49	2.6	2.6	7.0	8.7	69.6
Cognizant (purchased 8/6/10)	3,334.01	1.9	1.9	7.0	8.7	(92.7)
Charles Schwab (purchased 4/15/19)	7,735.50	4.5	4.5	8.0	8.1	5.0
Charles Schwab (purchased 7/31/20)	6,982.17	4.0	4.0	8.0	8.1	70.2
Starbucks	8,429.76	4.9	4.9	9.0	7.5	17.4
TJX Companies	6,877.56	4.0	4.0	9.0	5.0	27.9
Totals before Genpact	**172,725.40**			**9.6**	**13.0**	
Regeneron Pharmaceutical	1,000.00		0.6	11.0	15.4	
Portfolio Totals	**173,725.40**			**9.6**	**13.0**	

Before Investing, You Should Understand What Drives the Price

It's Always About Supply and Demand

by Sam Levine, CFA, CMT, Contributing Editor

I moved from New York to my current home in a suburb of Detroit in 2008, a time when the sky could have fallen on that beleaguered city and no one would have even noticed. The automakers were in full shrink mode and we were on the cusp of the Great Recession. Probably a quarter of the houses in my little area were in foreclosure. It was so bad, that I often went out to grab something to eat only to find the restaurant had just closed its doors.

> **"My concern about cryptocurrency is how easily new currencies can be coined until there's one clear winner."**

America had completely written off any hope for downtown Detroit and there was no catalyst for recovery on the horizon. No one in their right mind would move there, in spite of a huge inventory of classic homes from the 1920s selling at well below the value of the raw materials. The community I zeroed in on had high school rankings, beautiful landscaping and was located on the water; not a Great Lake, as they say, but a Pretty Good Lake, nonetheless. Because the town was laid out on a tight grid, there was also little room for new construction.

We rented until 2011 and finally bought the house we were living in one or two months away from the absolute low in the market. The previous owner — who admittedly knew us as reliable renters — gave us financing at an attractive rate, too.

Any value investor will know where I am going with this. It was a perfect opportunity. Great quality homes in a solid community were selling at fire sale prices. Aside from simply locking in a much larger and more attractive home than what we had in New York, we also had some upside if the market recovered because there wasn't room for new construction. The only question at the time was whether Detroit was going to completely empty out. I didn't think so, but it was a nerve-wracking decision. But I was right. Instead, it bottomed out and has since recovered, like many other Midwest cities.

Lest this seem as if I'm patting myself on the back, I've also had a blunder of the same magnitude. Around that same time, I opened an employment agency focused on recruiting Wall Streeters, thinking that I could build up my contacts and set up the business while the market was collapsing, and then I'd be better positioned for what I saw as an inevitable recovery. It was a bad idea.

Headhunters used to have an informational advantage by building relationships with great employees at the height of their careers and filling difficult or discrete job openings. Unfortunately, I neglected to consider three factors: the decreasing value of that information compared to the internet and how easy it is to open an employment agency when there's a surge in demand. This was my home buying experience in reverse. There was decreasing demand with no end in sight and no limit to competition when demand picked up. There are still exceptional recruiters but it's not an easy business. Value investors will also suspect the ending to this story, I closed my firm with a sense of relief and a humbling business loss to carry forward for many years.

Before investing in any stock, piece of real estate, cryptocurrency or business, you need to understand what drives the supply and demand before even considering price. And don't limit yourself to the products or services of the company and its direct competitors. Consider whether customers can choose substitutes. My concern about cryptocurrency is how easily new currencies can be coined until there's one clear winner. One tech stock's initial public offering followed another in the late 1990s until the industry shook out. The cryptocurrency binge today reminds me vividly of those days.

Once you're confident in your supply/demand outlook, then and only then can you consider whether an asset is cheap or rich. Most of the time, the market gets it approximately right by averaging out everyone's mistakes. Some investors might be overly optimistic and buy too high while others might be too pessimistic and sell too low. Usually those errors cancel each other out, but once in a very long while, crowd psychology takes prices to extremes.

If you become good at spotting when markets may be ahead of themselves, you have a better chance at profiting from one of those life-changing opportunities or avoiding catastrophic mistakes.

With that said, you can overpay for a great company and still make money if you are patient and the company continues to grow. If it grows quickly enough, it can catch up to the price you paid and go on to turn a losing position into a profitable one. BetterInvesting stresses focusing more on buying at a reasonable price than the perfect price. The most urgent challenge is to find companies that can stimulate demand for its products and ward off competition.

Vanguard Energy Fund Has Added a New Manager, Hybrid Offerings

Gusher or Dry Well?

by Danielle Schultz, CFP, CDFA, Contributing Editor

Despite a few surges, the energy sector has struggled to provide power in investors' portfolios for the past 10 years. Can this fund beat its industry?

For several years now, I've been examining a representative fund in each of the generally recognized sectors in this column. This is the last sector we're considering. Of course, sectors are just one way to organize your portfolio. You can also choose size, location and equities versus fixed income, rationed out as you see fit. We always like to buy into an investment when it's down, but it's also important to determine whether a gusher is likely or even possible, or whether it's permanently drained.

Broad-based energy funds tend to have holdings based mostly in oil and natural gas and far less in green energy. That will likely shift in the future, with greater public pressure and as green energy companies become larger and more investable, but for now, these funds are invested in "old economy" companies.

It wasn't always the case: $10,000 invested in Vanguard Energy Fund (ticker: VGENX) in 1984 would have been worth $368,178 by June 30, 2008. It was a really strong performer throughout the Great Recession. Other energy funds in existence in those years were pretty much in glory days as well. Many also experienced an upward tick in 2013-2014, but that's pretty much drained away since then.

Nothing is forever, and we always have to consider, with sectors, that the wind now blows another way. Is this a bargain opportunity or are we buying into the buggy whip industry? Can it reorient and latch on to sustainable energy production, enabling an investor to get in at a bargain price, or is it mired in the muck?

Investment Philosophy and Management

Contrary to Vanguard's usual image, this fund is actively managed and not an index fund. Having the freedom to drill through many possible options allows managers to adapt and identify surging companies. Whether they'll be right is the chance investors take.

At the beginning of 2020, the fund made a management change. They replaced Greg LeBlanc, who had been at the helm since 2015, with subadviser Wellington Management group's Tom Levering, who has 20 years of experience as an energy and utilities analyst. Depth of experience in a "new" manager is great, but of course doesn't guarantee success. Levering has not been the actual manager of an energy fund prior to this.

The fund's composition was also changed, moving away from heavy emphasis on fossil fuel companies to its now 48% asset investment in utilities. While this allows the fund to move investments into more green energy, which some utilities are developing, it's also probably a way to maintain or increase the yield, since utilities often have good payouts.

As with any actively managed mutual fund, you should keep a lookout for any further management changes, as well as tracking performance closely.

Portfolio

For good or ill, the past performance of this fund may not offer much in the way of future expectations, due to the change in management and alteration in style. To invest here, you're going to need faith, not only in the manager and change in style, but in the possibilities for the industry itself.

No investing decision should be made solely on the basis of a fund's yield. It doesn't offer much if a high yield is accompanied by a large share-price drop. Nevertheless, VGENX currently yields 4.4%, which will catch the eye of dividend investors.

VGENX currently holds 45 companies, with 45.10% of holdings in the top 10 holdings:

- **Royal Dutch Shell plc**
- **Total SE**
- **BP**
- **ConocoPhillips**
- **Duke Energy Corp.**
- **Marathon Petroleum Corp.**
- **NextEra Energy Inc.**
- **Enel SPA**
- **Iberdrola SA**
- **Pioneer Natural Resources Co.**

Source: Vanguard Website

The fund's mandate allows it to hold up to 100% of its assets in non-U.S. companies and you'll see that in the top 10. For example, Total is a French multinational; Enel SPA is Italian; and Iberdrola SA is Spanish. Currently, U.S. assets constitute 46.72%. Ex-U.S. assets are 53.08% (the rest in cash) — a significant international slant. You'll see some companies focused on sustainable energy, such as NextEra, but if you visit the websites even the most fossil fuel-oriented companies will regale you with wind turbine and solar cell pictures.

Performance

As noted in the introduction, you could have done very,

> "Even in a depressed industry a manager is expected to produce results."

very well with this fund in the old days of oil predominance. Unfortunately, it's been pretty dry well drilling since, although this fund is probably best in class in this sector. It's pretty easy to see from the table at right that energy was a boom investment at one time, but investors who are relatively new explorers have really suffered.

Even in a depressed industry, a manager is expected to produce results, and analysts seem to believe the manager change, as well as the change to a more hybrid model, was a good one for this fund. Morningstar raised its forward-looking rating from Bronze to Silver and awards the fund five stars (a comparison with others in the same class).

Vanguard Energy Fund: How Much Power Does It Pack?

	1 year	3 years	5 years	10 years	Since inception (1984)
Annualized Return	(20.46)	(10.42)	(0.68)	(3.55)	8.65
Value of $10,000 invested for the period	$8,333.79	7,040.87	9.633.04	7,134.14	220,135.50

Source: Morningstar as of 2/23/2021

Final Comments

This fund may be a choice of the best in a depressed class. If you are impressed by the new manager and the new portfolio composition, you might be willing to take the risk that it can be turned around, and indeed go much more (profitably) green. *BetterInvesting* readers might also want to use the fund's holdings as a source for individual investments, where the performance of some of the components far exceed the sum of the parts.

These funds are mentioned for educational purposes only; no investment recommendations are intended. The author and some of her clients may have positions in some of the funds mentioned in this article.

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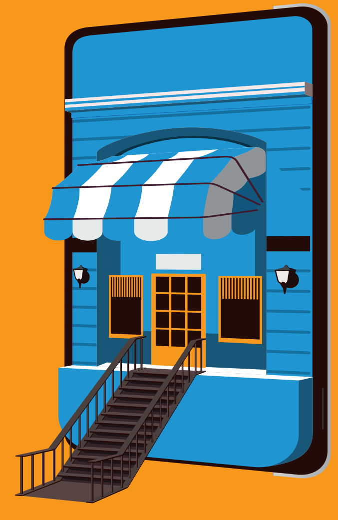

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Don't Forget You Are Not Restricted to Your Own State's Program!

Choosing a 529 Plan

by Danielle Schultz, CFP, CDFA, Contributing Editor

College has become breathtakingly expensive, but a seeming necessity if we want our children to attain at least a middle-class lifestyle. Should you save into a 529 plan? Should a kindly grandparent contribute? And which should you choose?

What's a 529 plan?

The basics: A 529 plan allows you to save money for college and some vocational training programs in an account where earnings and withdrawals are tax-free when used for college. You can withdraw the money for other purposes, but earnings will incur a 10% penalty and be taxed as ordinary income. If, however, the student gets a scholarship, the equivalent amount can be withdrawn from a 529 plan with no penalty but earnings will still be taxed. The money can also be moved to other beneficiaries: For example, if one child doesn't use it up, funds can be moved to a sibling.

The law establishing 529 plans prohibits investing in individual stocks. You'll have some choice, however, by selecting portfolios of mutual funds as offered by the plan.

How to Choose a Plan

Consider several factors:

- **Is your state's plan high quality?**
- **Do you get a state tax deduction or credit for investing?**
- **What investments are available?**
- **What are the fees?**

Every year, Morningstar evaluates all plans; some states have more than one and advisers may also sell plans. Remember that you are not required to invest in your state's plan — you can choose any state, especially if yours is poorly rated. You can also rollover the plan to another state if you move or change your mind.

Before you choose another state's plan, do investigate whether your state offers any incentive for residents to invest. For example, the top-rated plan (Illinois) allows residents to claim their contributions, up to $10,000 per year ($20,000 for a married couple), on their state income tax return. Note that you cannot take a deduction for 529 plans on your federal income tax. You'll need to balance whether the deductions will outweigh fees or investment choices in a less-than-stellar plan.

During the Great Recession of 2007-2009, outcry over performance plagued many 529 plans. Families found that they had far less money available for college than they expected, while paying high fees charged by fund advisers. Plans were overhauled (including Illinois's) and many now offer a solid lineup of low-cost investments. Many are no-brainers akin to target-date funds, a good mix of low-cost index funds.

Plans generally charge fees in addition to the management fees incorporated into the underlying investments. There's a cost to administering these plans, especially since many of them garner very small amounts invested, but the tax-sheltered earnings usually make these plans worthwhile.

Most families should choose to invest directly with their state's program, known as direct-sold, rather than adviser sold. It's difficult to see why people would pay an adviser to choose exactly the same plans they could choose on their own.

Perhaps some very wealthy families would want advice on incorporating this into an overall wealth picture, but 529 plans are special purpose and offer straightforward choices. It's pretty easy to do it yourself. If your state's plan has a poor rating, just choose another state.

How to Choose Investments

You'll need to choose among at least two main categories of investment plans: age-based and static or self-selected.

An age-based plan, the easiest for most investors, functions much like a target-date retirement fund. It's a mix of (usually) index funds allocated to different asset classes. As the child gets older and nearer college age, the mix of funds becomes increasingly conservative — more bonds and cash — so that the value can be expected to be more stable. You choose the fund option that corresponds with your child's age when you begin investing. In some cases, you have the further option of age-based, but also what your risk orientation would be, i.e., conservative, moderate or aggressive.

Each of these choices will usually step to the next level as the child ages. For the 0-2 age group, the aggressive will be 100% stock funds; the moderate might be 90/10; the conservative, 80/20. In the next age bracket, you'll see 90/10, 80/20, 70/30. Michigan's plan, rated No. 2 by Morningstar, has you choose the anticipated enrollment year, then slots you into the mix. Utah, the No. 3 rated plan, is very similar to Illinois.

Using Illinois's plan as an example, in the age-based option you can select all Vanguard funds. Depending on the age and risk category, these include a mix of Vanguard Total Stock, Total International Stock, Real Estate, Total Bond, Hi-yield Corporate Bond, Short-Term TIPS (U.S. Treasury inflation-protected securities), Short-Term Bond and Total International Bond. Or you can choose multi-company funds.

But just like target retirement funds, these may get too conservative for you. If you are completely dependent on the 529 to fund college, you'll need money to be there in a secure mix. If you're looking to get relief from out of pocket, but could fund more from income or other investments if necessary, then you might want to gamble that a more aggressive mix, or a fixed balance, may result in a larger account. Some states will allow you to choose a fixed portfolio, or even select individual mutual funds from their lineup. In Illinois, these fixed-balance funds are, ironically, called target funds — not because they target a date, but because they have a target risk allocation. These three targets (100% stock, 60/40, and 50/50) offer funds from a number of investment firms. Michigan has a similar option to choose risk, then get a portfolio selection.

Finally, if you really want to wade into the weeds, some plans offer you the ability to choose your specific mutual funds and mix (Illinois offers 16 from six different fund companies). Michigan offers only a single U.S. Equity fund, but also has a guaranteed option, for investors who are very conservative or perhaps have a short time horizon.

In general, the more no-brainer, the lower the fees. Age-based index fees,which usually include both a program management fee and underlying fund fees, can range from about 0.12% to under 0.20%. Move into more fund families and fees can move up to 0.46%, still acceptably low but you'd better be really sure it's worthwhile to you.

"Remember that you are not required to invest in your state's plan — you can choose any state, especially if yours is poorly rated. You can also rollover the plan to another state."

Performance

This is uniquely difficult to evaluate, because of the short band of time, especially in the age-based portfolios. You're only evaluating a few years and the specific market conditions in those years. In order to estimate how you might do with an age-based fund, it's useful to look at the annualized performance of the two oldest age groups. For multi-funds or fixed blends, check the 10 years or lifetime performance. As might be expected, you're going to see returns parallel risk, with the highest return from the most stock-oriented, and the lowest from fixed income. You'll see a general range of mid 4% to mid 6%.

Should Grandparents Contribute?

It's a kind and loving act to put away funds to help a grandchild, particularly since you may not be around by the time they enter college. My clients who have received such a gift are in the main very grateful and have fond memories of grandparents. If you are certain that you've made plans for needing long-term care and have sufficient income from pensions, Social Security and portfolio withdrawals (even in a down market), you can move on to considering this. As with anything that ties up money for a long time, however, grandparents need to carefully consider long-term possibilities.

Are the parents and family likely to be eligible for financial aid? A 529 plan owned by a grandparent with the grandchild as beneficiary is considered 100% available as an asset of the child. A 529 plan owned by a parent is an asset of the parent and only 5.64% is factored into eligibility for financial aid. While none of us can know how this will be assessed 10 or 18 years in the future, you don't want to do something that kicks the family out of aid — you'd only be saving the college, not the family, money.

What will the grandchild be like at 18? If your grandchild is already a teenager, you can make a judgment on this. But if they're young children, you really have no idea. Carefully raised children can grow into drug addicts, or spendthrifts, or become disabled or have no inclination to college. A 529 plan can be tapped for any other purpose, provided the spender is willing to pay taxes and penalties. Some kids just won't care; after all, they didn't work for the money.

It can allow a parent to duck responsibility for college. In the case of a divorce, a parent can argue that the child already has significant college funding and therefore they won't negotiate paying any more.

College funding may change significantly in the future. We can hope. But if state colleges become free, or other credits or assistance become available to students, a 529 plan might be superfluous.

It can preserve money for grandchildren who have spendthrift parents. If you don't have confidence that the parents will save for their kids, or might spend any money on themselves, or the marriage seems rocky, a 529 plan does ensure that the grandchildren will actually get the money.

These funds are mentioned for educational purposes only; no investment recommendations are intended. The author and some of her clients may have positions in some of the funds mentioned in this article.

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Key Index Shows Home Prices May Be Overpriced

We're Not Flipping Houses Yet, But...

by Sam Levine, CFA, CMT, Contributing Editor

Residential real estate prices beat Elon Musk and NASA to the moon. Now currently at a level of 242 (as of December 2020), the S&P CoreLogic Case-Shiller 20-City Composite Home Price Index has long surpassed its pre-Great Recession height of 207 in late 2006. There are both sensible reasons and ample cause to be concerned about real estate's lofty heights. Today's astronomically high levels warrant a closer look, especially given real estate's prominence in American household wealth. (*See chart on next page*.)

A market hitting a new high isn't remotely a reason to get out, even if it backed off at that level before. Often there's good reason for a market to go up and continue. But that is a very good time to reevaluate that market to see whether it has become overvalued. The higher an asset's price goes, the more justification it needs for it to be rational. With that in mind, let's first learn how the Case-Shiller indices measure changes in home prices and then we'll consider whether the markets it measures are ahead of themselves.

How the Case-Shiller Home Indices Are Built

There are 20 metropolitan area Case-Shiller indices, each measuring changes in home value in a major U.S. metro area and those 20 contribute to two composite indices. The first is the broadest 20-City index I mentioned above and there's an additional 10-City Index that focuses on the largest metropolitan areas. The Detroit index, for example, is included in the 20-City composite, but is not in the 10-City composite. A home, for the sake of index consistency, is restricted to a single-family dwelling that isn't new construction, a condo, co-op or apartment.

The indices use "pairs" of sales of the same houses. A home sale is included if the home hasn't significantly changed and there is a previous sale price available. The sale must be at arms-length, so sales between family members are excluded. Sales that occurred very close to each other are excluded to avoid counting properties slated for redevelopment or potential fraud. Experienced home buyers and sellers know that selling prices tend to vary according to season, so there's an adjustment for seasonality. This helps data generated in December be equivalent to new data in May.

The index adjusts for the quality of the homes by dividing them into price tiers and, using a statistical process, reduces the weight of pairs with an unusually high price change to reduce the effects of hurried sales. Conversely, pairs with extended times tend to have higher price swings per period, so those pairs are adjusted to reflect the likelihood the property was significantly altered. According to the methodology sheet, a pair with a six month time interval might be assigned a pair weight of 1, while a home that went a decade between sales might be assigned a weight of 0.85.

This is just a short introduction to how the index series is constructed. Interested readers might want to go to S&P Global's site to read more about methodology. To close, though, the indices use a base number of 100 to reflect housing prices in January 2000. The recent composite 241 implies that the housing stock in the 20 measured cities would sell at 2.4 times its value at the start of the millennium.

Are Homes Overpriced?

The most common justifications for high home prices are low interest rates and high household income. Lower rates mean the same monthly mortgage payment can buy a higher priced house. But lower rates can't tell the entire story. Rates have been low for quite some time. Rising income could lead to more households being able to buy more house. Unfortunately, median household income numbers are released annually. But it seems reasonable to believe that median income has been rising rapidly from the lows of the pandemic.

Another potential driver is the considerable demographic push towards single-family housing. The large cohort of early to mid-generation Millennials (arguably defined as those born 1980 to 2000) are in peak home-buying age. The smaller Generation X and baby boomer generations are downsizing or, being as uncooperative as usual, choosing to stay put and reduce housing turnover, keeping single-family homes off the market.

One last possibility I'll discuss in favor of higher single-family home prices is a shift in buyer preferences. Anecdotally, buyers seem to be moving out of cities with condos and apartments that aren't measured in the indices. That may be due to the pandemic, so the longer lasting consequences need to be sorted out. Some pundits believe employers have come to appreciate the financial benefits of allowing workers to work from home instead of paying egregious office space rent, and cities will continue to shrink in importance. That would point towards the home price increase as being rational.

Even with those logical potential explanations for the rise in home prices, I am dubious. The Case-Shiller numbers are not adjusted for inflation. It would be normal for prices to rise somewhat simply due to inflation, but that's not the, err, Case. Prices are still very high.

For comparison's sake, I adjusted the latest index number of 241 back to January 2000 dollars using the

The S&P CoreLogic Case-Shiller 20-City Composite Home Price Index

FRED — S&P/Case-Shiller U.S. National Home Price Index

U.S. recessions are shaded; the most recent end date is undecided. Source: S&P Dow Jones Indices LLC fred.stlouisfed.org

Source: S&P CoreLogic Case-Shiller U.S. National Home Price Index

U.S. Bureau of Labor and Statistic's inflation calculator tool **(www.bls.gov/data/inflation_calculator.htm)**. That gave me an apples-to-maybe-pears number of 156. I (casually) interpret that as saying the housing market is 56% percent higher in real dollar terms than in January 2000.

I then adjusted the current number again, but this time to the peak before the Housing Crash in 2006. In July 2006 dollars, the current housing price level of 187.49 is actually higher than the 185 posted in July 2006, right before the crash. That screams "Yikes," even with some reasonable explanations for the boom in prices.

The House Price Built on Cards

The takeaway seems to be that single-family home prices may or may not be in a bubble but there are several scenarios that can easily derail the boom.

Interest rates could rise. If the Federal Reserve nails the landing, it will slow the economy without pushing us into a recession.

But under a worst case, higher rates could severely impact employment and household income while making mortgage payments less affordable. Household wealth could decline if stocks fall, which might make consumers less confident about the future and less able to make a down payment.

There's also no clarity about the stickier effects of the pandemic. Families clearly valued their space during the pandemic and moved away from cities in droves.

Many of the inconveniences suffered by city dwellers were directly due to the pandemic and may disappear entirely, encouraging buyers to give city living another look. It seems equally possible the trend toward suburbia may become permanent.

The housing market may continue to churn upward for many years to come. We may be in an extended era of low rates, high income and suburbia-destined Millennials and Generation Ys. But, this is my perception talking, it's so easy to construct other scenarios that the risks outweigh the potential upside. ß

Scott Horsburgh, CFA Dan Boyle, CFA

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Trends to Watch for: Increased Foot Traffic in Stores, Mild Inflation, a 'Hot Economy'

2 Wharton Professors on Year 2 of the Pandemic

Excerpted courtesy of Knowledge@Wharton, a publication of the Wharton School at the University of Pennsylvania..

What's The Outlook For The Stock Market and The Economy This Year? *Jeremy Siegel, Wharton Finance Professor*

Last summer, I saw a dramatic expansion of Federal Reserve liquidity, government support and the money supply. I said then, "This liquidity is going to go into the stock market, and then it's going to go into the economy once people feel comfortable with beginning their normal activities again" — and that is exactly what is happening.

I think this year is going to be a great year for the economy, a much bigger expansion than a lot of people believe. I think it's also going to be a year of inflation. Not dramatic inflation, but a lot more than what we have been used to — 3%, 4%, perhaps even 5%. This is going to be good for the stock market because I do not think that the Federal Reserve is going to tighten credit into 2022, maybe not into 2023. We're going to keep low short-term interest rates and a hot economy, so inflation will begin to increase, and the stock market will be pushed ahead because corporate profits are going to be very strong.

The loser is going to be the bondholder because interest rates on the long-term bond are going to rise. We're going to see the 10-year bond rise to 2% by the end of the year, maybe even 3% by the end of 2022.

Still, this is going to be a great year for the stock market. We might get a little over-bought in the end, and we might get a pause into 2022, particularly if inflation gets too high. But for the next 12 months, I look for a strong economy, strong stock market and rising long-term bond interest rates.

What Changes In Retail and Shopping Will Become Permanent? *Barbara Kahn, Wharton Marketing Professor*

COVID-19 certainly changed shopping behavior in 2020 and continues to do so now into 2021. One survey conducted in December on 1,000 consumers showed that COVID-19 had a major impact on consumer habits, with 40% of them indicating that they had visited physical locations much less frequently since the pandemic hit. Obviously, there has been a huge acceleration to online shopping. This change in behavior not only affected where people shopped but also what they bought: 25% of the respondents said that they switch among brands more often today than ever before. However, interestingly, 46% of the respondents said that if they had the choice, they would prefer to shop in person rather than online. That indicates that physical retail is certainly not dead, and shoppers are hungry to touch and feel the product, interact socially with sales associates and friends, and get immediate gratification in product acquisition and consumption.

But will shopping be the same when consumers return to the stores? No. Consumers had a whole year to form new habits and expectations, and those changed behaviors will not just vanish. Shopping will not become online or offline — but omni-channel. Omni-channel means a seamless integration between offline and online experiences. For the most sophisticated retailers, the omni-channel experience will be customer-focused. This means that retailers will be everywhere their customers want them to be 24/7.

Trends that started or accelerated in the pandemic, like "buy online, pick-up in the store" or appointment-based shopping, will be the norm, and physical retail will reconfigure to make this more possible. We will see changes in technology development, like AR-enabled displays, frictionless payments, and BYOD (bring your own device) into the store, which puts the endless aisle and website information into the hands of the consumer. We will also see more low-touch, health-related changes to physical retail, like the addition of robots or vending machines. We are also seeing an acceleration in live-streaming and video blogs influencing shopping behaviors. This behavior, which is very common in China, is now coming into the U.S. This contributes to the notion of "shoppertainment" and is very content driven. It focuses more on the customer experience rather than merely the acquisition of goods.

We are seeing the convergence of online and offline in developing new retail outlets. Traditional retailers like Lululemon or Nike are becoming more digital. Nike has accelerated their direct-to-consumer marketing through loyalty programs and apps to offer a personalized and customized experience in stores and online. Lululemon can offer an omni-channel exercise experience to their best customers with the purchase of the Mirror. On the other hand, digitally native brands, like Warby Parker or Casper, are opening physical retail. When these brands open stores, they are usually a smaller footprint and often showrooms rather than houses of inventory. With these changes to a more unified customer-centered, omni-channel experience, consumers aren't losing their desire for environmentally savvy retailing.

Momentum Investing

Is Going for Growth The Best Way To Strike It Rich?

by Sam Levine, CFA, CMT, Contributing Editor

The past decade has been a boon to growth investors and, since BetterInvesting focuses on growth stocks, many clubs and members are reaping the benefits. The S&P 500 Growth Index has almost doubled the return of its value counterpart by posting a torrid 14.36% annualized return versus the S&P 500 Value Index's disappointing 7.61% (as of Feb. 19).

A quick look at the top holdings in the two indices gives us a pretty good idea what happened. The growth index has Apple, Microsoft, Amazon, Facebook and Alphabet, some of the hottest stocks in the S&P 500, while the value index holds Berkshire Hathaway, JPMorgan Chase, Disney, Johnson & Johnson and Bank of America.

One of the winningest strategies for the past 10 years has been to buy stocks that were already consistently rising in price. Jargon-obsessed Wall Street calls that momentum investing. Hedge funds do it. Your neighbors are doing it. If *BetterInvesting's* Top 100 Holdings of Investment Clubs is any indication, you might be doing it, too. It's become so dominant that we need to look at the assumptions behind it, how momentum is measured and some of the advantages and risks behind relying on momentum strategies. There's also a suggestion or two on exactly what not to do.

Momentum Defined

Before applying momentum to stock prices or earnings, remember that here we're applying a physical phenomenon as an analogy for how markets work. Our friend Isaac Newton described momentum as the force in a moving object. A 10-pound bowling ball hurled at 30 miles per hour has more momentum than a golf ball thrown at 20 miles per hour. Mass times velocity equals momentum. Stock prices and other financial numbers don't have physical properties, but some investors perceive parallels between market movements and moving objects.

To avoid confusion, let's note that momentum is also tossed around in financial statement analysis. Companies with a history of growing profits at a torrid rate might be complimented on their earnings momentum.

Since there isn't any mystical invisible force within income statements to sustain profitability, when you see that term come up, understand it's more a reflection of the writer's outlook than new information.

But regardless of whether we're evaluating fundamentals or price action, remember markets aren't as predictable as physical objects. Momentum sounds useful and reliable, but financial momentum is harder to verify than tossing a few balls of varying weights and coming up with a formula like that old hack Newton, who had it so easy back in the day.

Momentum-based strategies become popular when bull markets push stocks to all-time records. There's little point following trends when markets trend in a narrow range, something we haven't experienced in years. Many of today's investors may have never experienced a boring, range-bound market yet. Thus the heightened interest in momentum today.

Google Trends (**google.com/trends**) ranks the frequency of web searches for a set of words on a scale of 0 to 100. In August 2007, searches for the term "stock momentum" on Google were (on a scale) zero. From then until March 29, 2019, search frequency bounced around, but never above, 41. In January 2021, the indicator — and this is as good a market psychology indicator as most — search frequency hit 96. That would make any contrarian very suspicious about how much upside is left in the momentum play.

The Theory

Momentum has two broad assumptions. The first is that a trend, once in place, is more likely to continue in the same direction until the preponderance of evidence suggests otherwise. Do you believe market movement is random? If so, move on. Applying a momentum based strategy implies that stock prices have a memory or, to be more precise, market participants base at least some of their buy or sell decisions on prior price action.

> **"Like buying on dips, momentum works well during strong markets, but those overvalued stocks are the ones that fall hardest in rapid declines."**

The second assumption is that stronger moves are more likely to continue in the same direction than weaker ones. Strength is the "force" behind a direction. It might be price acceleration alone or, as we alluded to before, combined with the dollar amount or number of shares traded. One eager buyer can drive up a stock temporarily, but that fades once the buyer's need is satisfied or the buyer has run out of money. Increasing volume is more telling of market sentiment. If a stock is rising quickly but the trading volume is declining, then the momentum becomes suspect and many investors will ignore the move. Several indicators emphasize volume as much as the rate of price change.

Measuring It

There are several variations on how to rank stocks by momentum and then evaluating when their trends are fading. Instead of writing out the occasionally complicated formulas, consider searching online for more information on the ones that interest you the most.

One of the simplest measures is rate of change (ROC). It's simply the percentage change in value from one period of time to another. You can evaluate the ROC over days, months or minutes. It's up to you. The higher the rate of change, the stronger the trend. Most investors just eyeball it. If the line is pointed up, the stock has positive momentum. If another stock's chart has a more rapid increase, then it's presumed to have stronger momentum.

Getting Out

After you've identified a stock with high momentum, then the question is when to get out? Some strategists use price patterns, such as a "wedge" or a "flag" or a "head and shoulders." Many of these patterns have been used for decades, but there is only limited research on how well they work and much of that research suggests they don't. One potential reason is rooted in the subjectivity in deciding what makes a pattern complete. Another potential reason is that patterns aren't really that informative. Just as a thousand monkeys in front of typewriters will produce the complete works of Shakespeare if they have all the time in the world, random market moves often look like useful patterns.

Oscillators

Oscillators are a group of indicators that are bounded by a high and low number, for example 0 to 100, or maybe -3 to +3. When the oscillator is in the middle of the range, then no trend is apparent. Oscillators can stay at unusually high or low levels for quite some time. Experienced traders often wait for the oscillator to change direction rather than simply hit an extreme high or low.

The Relative Strength Index (RSI) evaluates the ratio of how profitable up days were versus the loss on down days and is scaled from 0 to 100. Traditionally, an RSI of over 70 indicates the security or the market is "overbought," meaning it's gone up so fast that it's unsustainable, while an RSI below 30 indicates it's "oversold," which suggests the stock suffered panic selling and might be due for a rebound.

Another popular oscillator is the Moving Average Convergence Diver-

gence (MACD). It uses two exponential moving averages with different periods to evaluate whether momentum is accelerating or slowing and, further, as a potential signal the direction of the trend might change.

When the short-term moving average line is above the long-term line, momentum is accelerating. If the short-term line then falls below the long-term line, the trend is slowing. Both lines are scaled to center at zero. Above 0, the trend is up and below it is down. There aren't any upper boundaries.

The Risks of Chasing Momentum

The downside to following momentum comes from being on the wrong side when the trend changes or, even worse, being "whipsawed" from rapidly buying and selling at the wrong times in a range-bound market. Tools like oscillators, patterns and moving averages give very precise outputs from fuzzy assumptions and inputs. Though that's also true of valuing stocks according to financial data, fundamental valuation at least examines how much the asset is worth.

You can reduce the frequency of your trading signals by working in longer time frames. Instead of working with daily prices, you might choose to look at weekly closes. The rules will be the same, but the signals will be rarer. You might also trade only when there's an extreme. The cost of these approaches will be missing the early part of a change or missing profitable buys or protective sells entirely.

Momentum's Place and What Not to Do

A short-term trend doesn't give much information, so it shouldn't be a primary driver to buy or sell a stock. The most appropriate use for momentum is when it's only part of your investment decision. You might use it to confirm your findings on a stock study. If momentum is picking up, that might indicate the market agrees with your buy thesis. Likewise, if you think a stock is a screaming buy but the market has hit the snooze button, that might give you pause. You can also screen for high momentum stocks and then study the most interesting ones.

Most indicators can be readily found on websites or through the charting features in your online brokerage account. They're also not hard to interpret after a little bit of reading. When one line crosses another, that means something is changing. Extreme numbers are more interesting than the middle of the range. You get the idea.

But because they are so easy to apply, that means many investors are using the same default settings on their charts. That might explain why they don't work well. Instead, choose settings that alert you before those default settings kick in or reduce the chance of you being whipsawed. In extreme cases, you might even look for reasons to be contrarian.

The worst thing you can do, though, is be the last player standing in this game of musical chairs. In the late 1990s, concerned market strategists knew they could be fired for saying the market was wildly overbought, either because their firms didn't like doomsayers or because the market already blew past their sell recommendations long ago. Their collective solution was to recommend their clients "buy on dips," which at least reduced the foreseeable damage, if only by a smidge.

Like buying on dips, momentum works well during strong markets, but those overvalued stocks are the ones that fall hardest in rapid declines. If you examine how long it takes for markets to recover to pre-bubble heights, you'll find that simply buying what others are buying, for the sole reason of others are buying it, is a dangerous game.

BETTERINVESTING'S HERITAGE CLUBS

This month we are featuring three of BetterInvesting's oldest existing member clubs as part of our ongoing celebration of our 70th Anniversary. Stories following this article highlight one of our oldest Black investment clubs and possibly our oldest existing women's investment club.

Kansas City's Convention Center Is Named for a Founding Member of This Club

Scouting for Stocks Since 1955

As told to Angele McQuade by Stephen Roberts and the members of the Tycoons of 1023 Grand Investment Club of Kansas City, Missouri (Kansas City Area Chapter).

We current members of the Tycoons of 1023 Grand Investment Club aren't sure of the exact year the club formed, but we suspect the early 1950s, as we have a 65-year certificate from Better-Investing (*home office records show the club became members in 1955*). We're also not sure how many original members the club had, but today we have 17 members, plus three spouses who also take an active role.

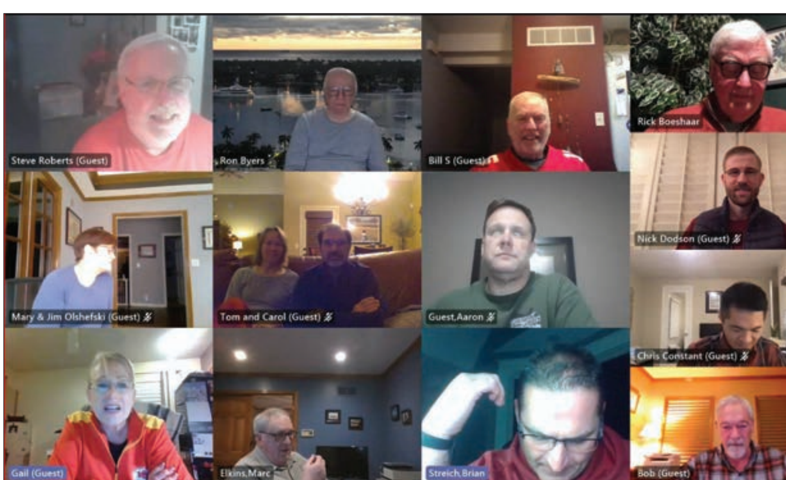
Our name comes from the address (at that time) of the Kansas City Area Council, Boy Scouts of America in Kansas City, Missouri. The club was started by H. Roe Bartle, who was the BSA Scout executive in Kansas City. He formed the club with his professional staff as a way of supplementing their retirement. Bartle later became mayor of Kansas City, and was mayor when the Chiefs football team moved here from Dallas. Our convention center is known as the Bartle Convention Center.

Our portfolio of 16 stocks is currently valued at approximately $1.65 million. One member sold the majority of his holding to invest in the bank he was starting, but most of our members save their holdings for retirement.

The club's investment philosophy has changed over time. At one point, dividend stocks were most attractive, but we primarily invest in growth stocks now. We tend to hold onto stocks for the long-term. Apple has performed exceptionally well for us, up 700%. Cerner, a local company, has

Continued on Page 45

The Tycoons of 1023 Grand in 2015, Including Some Family. Seated: Jim Olshefski, Maxine Briggs, Lloyd Briggs, Wayne Weimer, Mary Olshefski and Debbie Roberts. Standing: Aaron Guest's daughter; Emily Boeshaar, David Frantze, Ron Byers, Bob Overly, Bill Lewis, Judy Lewis, Steve Roberts, Seth Baker, Katie Baker, (the three young boys are the Baker's children as the club was meeting in their home), Aaron Guest, Marc Elkins, Rick Boeshaar, Brian Streich, Tom Lenz, Carol Lenz, David Chinnery, Bill Singleton and Geri Frantze.



A Club Meeting, 2021 Style. Starting top left and going across are Steve Roberts, Ron Byers, Bill Singleton, Rick Boeshaar, Mary Olshefski, Carol Lenz, Tom Lenz, Aaron Guest, Nick Dodson, Gail Overly, Marc Elkins, Brian Streich, Chris Constant and Bob Overly. At this meeting but not pictured were Jim Olshefski, Bill Esry, David Frantz and Seth Baker.

BETTERINVESTING'S HERITAGE CLUBS

Ectezus Investment Club of Richmond, Virginia. Seated left to right: Roland E. Moore, Claude G. Perkins, Moses D. Cain, Chris Stevens, Sam Barham III (deceased). Back row, left to right: Tyrone E. Dickerson, Millard Stith, Jr., Ozemoya Aigbokhaevbo, Joseph Acquaye, Sigmund Collins, Greg Cummings, Steve Malone, Louis Zammett, Joe Taylor. Albert O. Pettis is not pictured.

Virginia Club Was Recognized by Commonwealth's Governor

Ectezus: A Role Model Tracing Back to 1957

by Tyrone E. Dickerson, CPA, Presiding Partner, Ectezus Investment Club

Ectezus Investment Club ("The Club") was founded in 1957 by a group of progressive African-American professionals in Richmond, Virginia. The name of the club was derived from the middle initials of the founding partners. In studying the history of Ectezus, The Club has been unable to identify the seven founding partners — who they were and what brought them together to start an investment club during a time in our country's history that was undergoing social reform and struggles for social justice.

In the spirit of many African American traditions, much of the history was passed down orally and has been lost with the passage of time. What we do know is that in 1974 there were 22 partners and in 1984 there were 13. Vernon Williams, presiding partner in 1988 stated, "hopefully, last year afforded all who attended, on a regular basis, enjoyable moments of fellowship as well as learning experiences in economics. It is the combination of both, I feel, that keeps us together as a club and provides the glue that enables us to maintain our relationships."

Over the years, Ectezus has continued to grow and evolve. It has instituted an "Invite a Friend Night" for prospective members and to educate guests on the principles of The Club. In 1997, the governor of the Commonwealth of Virginia congratulated Ectezus on being a role model during Black History Month.

Updating the Procedures

In 2001, Ectezus overhauled its partnership agreement and the operation procedures manual. Today, our four elder statesmen are members who, based on length of membership, joined between 1965 and 1970. Operating as a partnership, there are 15 partners in Ectezus.

> "The name of the club was derived from the middle initials of the founding partners."

The officers of the partnership are presiding partner, assistant financial partner, treasurer and recording secretary. The partnership meets monthly for a luncheon meeting at Virginia Union University.

Each partner is assigned a stock that he monitors and reports annual progress. The standing committees of the partnership are investment, membership and education.

The investment committee serves as the backbone of the partnership because it reviews all suggestions and recommendations for new stocks. The committee uses the tools from BetterInvesting along with Morningstar and Value Line as its resources. New partners are voted into the partnership upon recommendation from the membership committee.

Our investment strategy is to invest in growth and income stocks. In 2019 we set a goal of reaching $500,000 by year's end. It didn't look like we were going to make it because of some partner withdrawals.

Continued on Page 45

BETTERINVESTING'S HERITAGE CLUBS

A 2020 Christmas Party. The Financial Femmes are, top row from left to right: Sue Heath, Becky Dennis, Chris Hull and Sylvia Arakelian. Second row: Mary Weathers, Sally Bradford, Pat Elian and Susan Kuntzman. Third row: Stacey Sarowski, Judy Gruner, Katie Gritti and J.J. DeRosier. Bottom: Patty Canning. Coleen Turner was not pictured.

At BINC. BetterInvesting/NAIC co-founder George Nicholson and his wife, Lib Nicholson, a Financial Femmes co-founder, with Ronald McDonald at a BetterInvesting National Convention in the late 1980s. Lib Nicholson was a teacher.

Today's Financial Femmes Include Family Members, Old School Friends

Linked to NAIC's Founders, Bound for the Future

by Susan Kuntzman, President, and Sylvia Arakelian, the Financial Femmes

The National Association of Investment Clubs was begun by Michiganders George Nicholson, Frederick Russell and Thomas O'Hara in 1951. The Financial Femmes, of Grosse Pointe, Michigan, one of the earliest women only investment clubs, was founded by Elizabeth "Lib" Nicholson, the wife the George Nicholson, and 11 other members of Chapter AO of the P.E.O. Sisterhood (the Philanthropic Educational Organization) on March 21, 1957. In 1973, Eleanor Russell, Fred Russell's wife, joined the club.

According to Lib Nicholson, the club had three rules of investing: study and select only those stocks that meet the buy criteria of a growth company, invest regularly and reinvest all dividends. Club "dues" were $10 per member, which was later changed to allow a member to invest any multiple of $10. As all records were kept on paper, this made the treasurer's job much easier.

At its second meeting the club bought 10 shares of Hoover Bail and Bearing for $201.25. By the end of the year, the club had invested nearly $1,500 and their portfolio held the following:

- **Hoover Bail and Bearing, 10 shares for $201.25**
- **Wrigley, 11 shares for $149.10**
- **R.C.A., 8 shares for $259.63**
- **American Natural Gas, 4 shares for $267.00**
- **Sperry Rand, 14 shares for $318.75**
- **Stouffer, 10 shares for $122.50**
- **Olin Mathewson, 3 shares for $125.25**

By 1974, the Financial Femmes' portfolio was valued at $50,000 and in 1980 the dub was able to celebrate topping $100,000 for the first time. The club continued to prosper. Over the years the membership changed as some dropped out and others joined, however, there were always between 12 and 15 members.

From the 1990s Into the Millennium

In 1991 the club started using software to keep track of member shares. In 1993 the three remaining charter members and two other members resigned. The portfolio had grown in value to $192,000 with the five departing members taking over $100,000 with them. In September 2000, the portfolio reached its highest point at over $433,000 with 14 members.

Between the years 2003 and 2006 the club lost seven longtime members and with them two-thirds of the portfolio. Their shares totaled more than $259,000. It was during this time the club decided no member's share should total more than 20% of the club's portfolio. When a member reaches that point, she is asked to take out some of her profits. A decision was also made to open club membership to all women, not just P.E.O. members.

BETTERINVESTING'S HERITAGE CLUBS

Today, the Financial Femmes boasts a membership of 14 with a portfolio worth close to $177,000. The club has become a more contemporary club.

Sylvia Arakelian, a third-generation member, recalls how the Financial Femmes was in previous times: "I remember when my grandmother and mother were attending meetings. Things were much more formal and disciplined in those days, and members stuck to the business of the meeting. Investment club was not a social event. Meetings were also held in the mornings and not evenings as they are now. Of course, back then women were not members of the workforce like they are today."

The 21st Century

Current president Susan Kuntzman presides over 2021's group of women ranging in age from their early 30s to mid 70s, who come from a vast array of professions and enjoy a social environment as well as serious investing. Some are family members while others are classmates from as far back as grade school.

"Many lifelong friendships have been formed over the years. Attracting members that fit the club's culture and are committed to attending meetings and making money is something we strive for. We take attendance, along with encouraging participation and a genuine interest in the market and its activity. You simply must be interested in investing and collaborating with your colleagues, in this area," she said.

The club rotates among different members' homes. As in the beginning, financial contributions must be in multiples of $10, although accounting software makes life easier. Some traditions are here to stay.

"All and all what sets us apart is we are very performance based. That is what drives our decisions to buy or sell. We look at charts starting at three months and go out to two years, taking a close look at the performance as it benchmarks against a broader index. i.e., the S&P or the Nasdaq. This is the report card, and our aim is to be A students," Kuntzman said.

The club is not married to the concept of buy-and-hold investing and will "dump" a stock that fails to deliver a "stellar performance" for the club. The Financial Femmes do not believe in becoming emotionally attached to a holding.

"Stocks are not pets. We make every effort not to speculate or catch a falling knife. Stocks, like people, have mood swings. You can't wish a stock to increase in value, performance is the golden rule. A good buy is for shoes, not stocks," Kuntzman said.

The importance of the club is that it helps women achieve control of their financial future, she said. "Wage parity is still an outstanding issue in the workforce. Women need to be active and educated in the financial world even if they do not directly work out of the home. Many women find themselves financially devastated after a divorce or death of their partner, through no fault of their own other than they did not understand the financial ramifications and how they would be impacted long term," she added.

Investment concepts are easy to learn if you put in the time and effort, she advises. As a group, however, they emphasize trying to maximize returns in the shortest time possible while still respecting each other's wishes and philosophies.

The goal of each meeting of the Financial Femmes is to make sure that everyone's voice is heard and the session is fun. Meetings begin with snacks or pizza. Each person has a chance to share what's new in her life. "There's nothing like a grandbaby or new kitten to brighten everyone's day," Kuntzman said.

And then, on to stock analysis! BI

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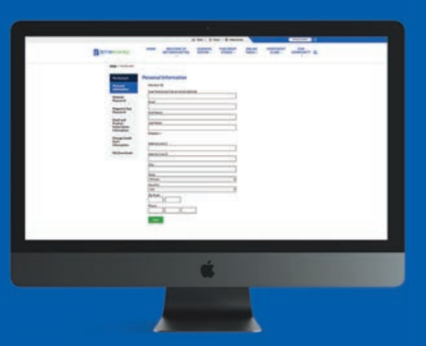

BETTERINVESTING'S HERITAGE CLUBS

THE TYCOONS of 1023 GRAND INVESTMENT CLUB

Continued from Page 41

done well for us, too, with gains of over 300% at one point. We've also had fun with stocks that "crash" after we buy them, and for awhile we had a slogan, "Buy high, sell low!"

Each member reports on an assigned stock three times a year following our club's formal stock reporting criteria. This reporting member also reports on a potential new company to consider. Our advice to any club going through a down stock market for the first time is to stick it out. It gets better!

We meet every month except for July. Until COVID-19, we held our meetings in person. We'd have dinner at a restaurant with our spouses, then either stay there for the meeting if we had a private room, or move to a member's home for the meeting itself.

For now, our meetings are virtual. Once or twice a year, we invite a financial planner (someone also involved in Scouting) to join us and give insight on our portfolio.

Our members have a variety of careers. Some are retired, and some are still working. Since we are all Scouting-related, we have that connection away from the club. Our members also have a wide variety of experience in the stock market and those with a lot of experience assist those with less. We're open to new members and have an active membership committee that works on prospects.

With the current size of our portfolio, we want to like a stock well enough to invest $50,000 in it. If we don't have enough conviction to purchase $50,000, it probably isn't the right stock for us. ß

Angele McQuade is the author of two books, including Investment Clubs for Dummies.

She lives near Bethesda, Maryland, where she also writes picture books and novels for children.

If you'd like to be featured in a future profile, please contact Angele through her website:

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ECTEZUS INVESTMENT CLUB

Continued from Page 42

As of Dec. 31, 2019, we reached $512,335, however. Then going into 2020, we were faced with additional challenges.

How do we safeguard our portfolio against some of the following?

- **1. Market corrections**
- **2. Fiscal/tax policies**
- **3. Economy up/down swings**
- **4. Consumer confidence**
- **5. International incidents/events**
- **6. Election year**
- **7. Nonperforming stocks**

Still Growing as a Club

Another challenge we faced is a mature membership. With four senior members, the possibility of a member liquidating their share due to declining health is always a possibility. To mitigate this risk and diversify the median age of Ectezus, we have taken in five new partners within the last two years. Thankfully, our senior partners are active and come to every meeting with loads of questions and information.

No one could have predicted COVID-19, however, we feel that our strategy will get us through whatever the market throws at us. ß

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Informal Shareholders Meeting?
These are the grandchildren of BetterInvesting member Jenny Wood Shangraw, of Rockford, Michigan. Left to right are Josie Shangraw, Owen Sober, Jack Sober, Myles Ellsworth, Caleb Sober, Rayna Ellsworth and Maddie Shangraw. The kids range in age from 2 to 13 years old and they all live in Michigan. Each of them own at least one stock, although not necessarily in the same company.

Investing Lessons Taught Early May Lead to a Lifetime of Sound Financial Skills

Grandmothers' Gift: Stocks and a Few Market Tips

by Jan Jeffres, Managing Editor

Maybe the lessons we remember best are the ones we learned when we were young. Beyond a doubt, the investment that will show the most profit is the one that will have the most years to grow — if, of course, the money is placed in a good stock.

That's why two Michigan grandmothers from the Grand Rapids area are hoping other BetterInvesting members will share their excitement about teaching the youngest members of their families how to invest by seeding their portfolios with a gift of their first stock. Perhaps for Christmas, Hanukkah or Kwanzaa, a birthday or a good report card. Or just because.

By buying stocks for her own grandchildren, Beth Hamm, the daughter of NAIC/BetterInvesting co-founder George Nicholson, inspired a fellow member of her Holy Rollers Stock Club (HRSC) to get some stocks for her grandkids, too.

In June 2019, Hamm purchased shares of Disney for her five grandchildren, ages 6 to13, straight from the company through its direct reinvestment program.

"When we gave our only grandson his first Disney share on his eighth birthday, he threw his arms around his mom when saying goodnight and said, 'I own Disney!' I continue to add to their Disney stock at their birthdays and Christmas," Hamm said. "In two years, the kids now have $1,000 of Disney stock."

Now they have a head-start on building wealth that many of us can only envy: "We all wish we had started investing at a younger age," she said

The Apple Falls Close to the Tree

A few months later, that fellow Holy Rollers club member, Jenny Wood Shangraw, who lives in Rockford, Michigan, decided to make investors out of her seven grandchildren, who now range in age from 2 to 13 years old. The children all live in Michigan as well.

"They had so much stuff there was nothing left I could give them. Let's give them stock," she said.

Shangraw's own interest in investing began when she worked as a librarian at the Grand Rapids Public Library in the 1970s and her job duties included filing issues of Value Line. She started her own investment club in the 1990s but eventually landed in the Holy Rollers with Hamm. She was keenly aware that the earlier you got into a sound stock, the longer it has to grow and gain value.

Shangraw decided to create a PowerPoint presentation *(see next page)* that would offer a choice of a good stock that would interest each child and a not-so-good stock to choose between. She started with two granddaughters and with Apple as the good stock.

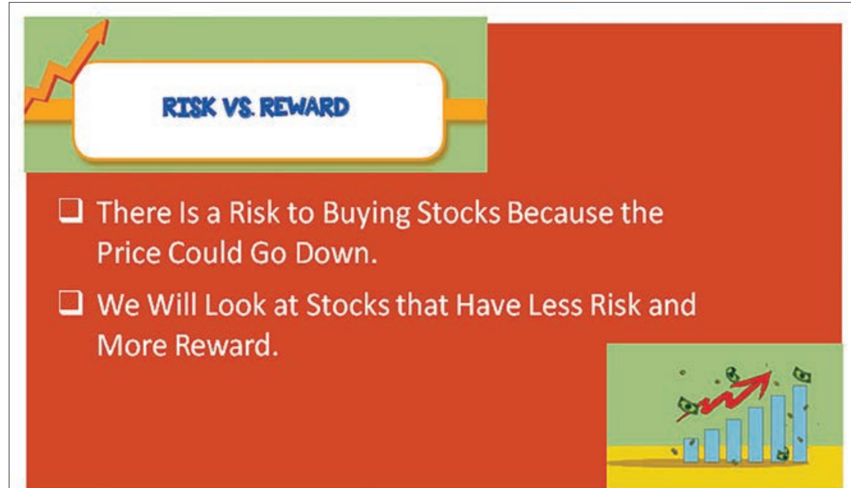
The children always study stocks based on the BetterInvesting principles and use the Stock Selection

Guide. She tailors the choice of what they might study on the SSG to the individual grandchild.

"The grandsons understand Tractor Supply but the granddaughters could care less," Shangraw said.

To purchase the stocks, she set upcustodial accounts with Charles Schwab, which allows her to have the children's names on the account with herself as the principal custodian on the account and the parents as the secondary. It also allowed her to purchase fractional shares of stocks.

Shangraw starts her tribe of grandchildren with fractional shares of $50 at Christmas and $100 at their birthdays. Other brokerages, like Fidelity and E*TRADE, also offer custodial accounts.



Kids Study Stocks. This is part of the PowerPoint on stock education that Jenny Wood Shangraw created for her grandchildren. It will be posted on the Magazine Resources section for May 2021.

Let It Grow

Hamm said her oldest son has started matching her investment for his two girls so their Disney stock portfolio is growing faster than anticipated: "He has also begun thinking about diversifying their one stock portfolio. That's what I mean about planting the seed and letting our members run with the idea," she said.

One family club founded in 1995 has long used stocks to educate the younger generation about investing. The 29-member CBJ Family Investment Club, based in Salem, Indiana, with membership in seven states and Germany, has had a standing tradition that each grandchild gets a Disney stock at birth.

The practice was started by their founders, Claron and Maxine Crow *(see Page 42 in the April issue of* BetterInvesting Magazine.*)*

Hamm said she would like to see more BetterInvesting members share their knowledge of stocks with their young family members, along with a share (or fractional share) or two.

"My dad was so about making life better for people, doing it through investing and raising people up. This is just a continuation of that."

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.

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See Colorado, Rocky Mountain

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NEW • CV • SOFT

WYOMING

See Colorado, Rocky Mountain

BetterInvesting's **Online Chapter** offers support both to members and clubs without a local chapter and to the public. The chapter's leadership provides a variety of high-quality programming and support.

The leadership of the **Online Chapter** is Jane Chatterjee, Chair; Dan Perlman, President; Hany Michael, Executive Vice President; Susanne Koster, Secretary; Cliff Trent, Treasurer; Howard Johnson, VP–Club Support; Jie Eagleson, VP–Communications; Joe Farrell, VP–Model Clubs and Visit-A-Club; Saul Seinberg, VP–Education; Linda Hunt, VP–Outreach Programs; Susanne Koster, Director of Satellite Operations. Visit the **Online Chapter** at **www.betterinvesting.org/online**

ANNUAL MEETINGS

IDAHO, MONTANA, OREGON, WASHINGTON

Inland Empire
3 p.m. – 5 p.m., May 5
Online
Board and Annual Chapter Meeting and Election. The opening portion of our May IEC-BI board meeting will be the chapter's Annual Meeting. All chapter members are cordially invited to attend and help elect board members for the coming year. Visitors welcome. Registration at website below. Cost: free. Contact: Megan McKinlay, president, 509/327-1848 or email president@inlandempire.betterinvesting.net.
www.betterinvesting.org/inlandempire

OKLAHOMA

Oklahoma
9:30 a.m. – 4 p.m., July 10
Online
Elections, Annual Meeting and Planning Meeting. Elect directors and associate directors for one-year term during a half-hour meeting. The remainder of the session is a planning meeting. Give us your input as to what topics you'd like us to offer in our upcoming webinars (survey at end). Registration at website below. Cost: free. Contacts: Irene at ijondahl@oklahoma.betterinvesting.net or Beverly at contact@oklahoma.betterinvesting.net.
www.betterinvesting.org/oklahoma

TEXAS

Houston
7:30 p.m. – 8:45 p.m., June 21
Online
Annual Meeting and Election. To elect volunteer directors, celebrate club anniversaries and Let's Talk Stocks program where model club members will present two stocks. Cost: free. Registration information to come. See website below for future information.
www.betterinvesting.org/houston

TEXAS

West Texas
9 a.m. – noon, May 12
Online
Annual Meeting and Election. Election of chapter directors. There will be an educational event and recognition of the anniversaries of local investment clubs. Doug Gerlach will be presenting our educational program. Invite your friends and join us online for this event with door prizes. Register at the website below. Cost: free. Scroll to the 2021 Annual Meeting and click the registration button.
www.betterinvesting.org/westtex

INVESTOR EVENTS

ALASKA

Alaska
4:30 p.m. – 5:30 p.m., April 29
Online
Stock Investing Made Easy, Part 2: How Can I Be Sure? The Stock Selection Guide helps guide our judgments by focusing on what really matters in evaluating the quality and value of potential stock investments. We can be more confident about our SSG judgments using outside sources. In this session, guest speaker Cy Lynch will explore ways we can use these sources to verify and validate our judgments, identify red flags in stocks we are studying and find stocks to study. Register at website below. Cost: free. Contact: president@alaska.betterinvesting.net.
www.betterinvesting.org/alaska

CALIFORNIA

San Francisco Bay Area
2 p.m. – 4 p.m., April 20
Online
Dividend Investing for Beginners. Dividend investing is a slow and steady way of growing your wealth. We will review resources to find other dividend paying stocks, compare two blue chip companies that have raised their dividends and review how automatic reinvesting affects dividends. This class is offered by the San Francisco Public Library. It's presented by Harriet Chan, director and teacher of the San Francisco Bay Area Chapter of BetterInvesting. Register at website below. Cost: free. Contact: contact@sanfran.betterinvesting.net.
www.betterinvesting.org/sanfran

OHIO

Northeast Ohio
10 a.m. – noon, April 17
Online
Two Timely Investment Classes by Doug Gerlach. With vaccines on the way, how might the stock market perform through 2021? Session One — Common Pitfalls Investors Should Avoid. What are you doing with your overvalued stocks? The market is at an all-time high, so there's no better time to learn signs of underperformers or identify companies with declining fundamentals before the price declines! Session 2 — The Smartest Moves Investors Might Make Now! Hear about interesting stocks to consider in today's COVID-19 environment. Understand the outlook for the economy and market for 2021. Register at website below. Cost: $20. Contact: Kathleen Richards by email at:
Kathleen-richards@neo.rr.com.
www.betterinvesting.org/neohio

OHIO

Northeast Ohio
10 a.m. – 11 a.m., June 26
Online
The Power of Quarterly Graphs: Trends Are Our Friends. Learn the early signs of a stock's decline. Take corrective action before the price falls! Learn early signs of a stock's decline on the "Torpedo" Pretax Profit Graph. Search for profit margin stability on the "Steady Eddie" Graph. Speaker: Kathleen Richards is on the board of directors of the Northeast Ohio Chapter. She is president of the Cleveland BI Model Investment Club. Register at the website below. Cost: $10.
Contact: Kathleen Richards by email at Kathleen-richards@neo.rr.com.
www.betterinvesting.org/neohio

PENNSYLVANIA

Philadelphia
10 a.m. – noon, April 24
Online
Celebrating Financial Literacy Month. Learn how to plan your financial future and get comfortable with investing. Utilize the Free Library of Philadelphia resource tools such as Morningstar and Value Line in your investment journey. Open to the general public. Register at the website below. Cost: free. Contact: Gloria Mankonen, 215/796-1214 or email contact@philly.betterinvesting.net.
www.betterinvesting.org/philly

PENNSYLVANIA

Philadelphia
9 a.m. – 3 p.m., June 19
Online or if conditions permit in-person at
Giant Community Center at Willow Grove
Super Giant Food Store
315 York Road, Willow Grove
Stock Investing Using Fundamental Analysis (SSG). Covering the basics of investing, the BetterInvesting philosophy and an introduction to the online Stock Selection Guide platform Register at the website below. Cost: $15. Contact: Gloria Mankonen, 215/796-1214 or email contact@philly.betterinvesting.net.
www.betterinvesting.org/philly

Reviewing Stock to Study, Undervalued Selections

Hologic, Inc.; International Business Machines Corporation

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

Hologic, Inc.
Ticker: HOLX

Company description: Hologic manufactures proprietary products for women's health care. The company operates in five segments: breast health (17.8% of total revenues for fiscal 2020), diagnostics (54.9%), GYN surgical (9.9%) and skeletal health (1.5%). Services and other sources accounted for 14.6%. The company traditionally focused on breast health, but the 2012 acquisition of Gen-Probe put greater emphasis on commercial diagnostics. The U.S. accounted for the largest portion of total revenues (75.3%), followed by Europe (15.5%).

Price at time of selection: $35.95
High price during past five years: $85.00
Closing price 5 years later: $70.41
Total return at 5-year price (including dividends): 102.6%
S&P 500 5-year total return: 88.4%
Value Line long-term earnings growth estimate when featured: 24.5%
Consensus long-term earnings growth estimate when featured: 8.5%
Five-year sales growth rate: 6.9%
Five-year EPS growth rate: (41.1%)
Five-year pretax profit on sales: 16.3%
Five-year return on equity: 29.7%

Comment: The increased influence of Carl Icahn and other activist investors led to appointment of a new CEO and other management changes five years ago. The streamlining of operations was also a factor cited in Hologic's Stock to Study selection for May 2016. Its 102.6% five-year total return slightly exceeded the Stock to Study goal of a doubling within that span.

UNDERVALUED

International Business Machines Corporation
Ticker: IBM

Company description: IBM addresses nearly every aspect of enterprises' IT needs. It provides business services (22.0% of fiscal 2020 revenue), software (31.8%), IT services (35.1%), hardware (9.5%) and financing (1.5%). Operating in 175 countries, IBM has 80,000 business partners servicing 5,200 clients: 95% of all Fortune 500 companies. IBM's B2B impact is substantial; IBM manages 90% of credit card transactions globally and 50% of all wireless connections worldwide.

Price at time of selection: $132.76
High price during past 18 months: $158.75
Closing price 18 months later: $120.11
Total return at 18-month price (including dividends): (3.9%)
S&P 500 18-month total return: 28.9%
Value Line long-term earnings growth estimate when featured: 2.0%.
Consensus long-term earnings growth estimate when featured: 2.2%.
Most recent quarter sales growth: (6.5%)
Most recent quarter EPS growth: (65.7%)

Comment: IBM's push into hybrid cloud computing was one of the chief reasons it was chosen as the Undervalued Company for November 2019. The campaign included IBM's July 2019 purchase of cloud computing provider Red Hat, its largest acquisition. The goal for an Undervalued Company is a 20% total return over an 18- to 24-month period. The stock's total return of (3.9%) fell short of that mark. *No investment recommendations are intended. The author doesn't directly hold shares in these stocks.*

Contacting BetterInvesting

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Our Latest myICLUB.com Addition: The Member Payments & Fees Report

Payments and Fees Report

Report for dates from 1/1/2021 to 3/16/2021

Member	Payments to date	Fees paid in to date	Total paid in to date
Doug Gerlach	$199.00	$15.00	$214.00
Cherry Trout	$100.00	$15.00	$115.00
Eton Crabb	$50.00	$15.00	$65.00
James Halibut	$100.00	$15.00	$115.00
Sarah Finn	$100.00	$15.00	$115.00
John Shark	$100.00	$15.00	$115.00
David Cod	$100.00	$15.00	$115.00
Carol Treacher	$100.00	$15.00	$115.00
Thomas Tuna	$100.00	$15.00	$115.00
Larry Sturgeon	$100.00	$15.00	$115.00
Wally Whaler	$100.00	$15.00	$115.00
Jack Sauzac	$100.00	$15.00	$115.00

Based on user feedback, ICLUBcentral is constantly adding features and functionality to **myICLUB.com**, helping it to become the most popular investment club accounting program in use today. Our latest addition is the **Member Payment & Fees Report**, which provides a quick overview of who has – and who hasn't — made their member payments or paid their required fees to the club for any period.

This is a handy tool for club treasurers to keep at their fingertips, especially when trying to keep everyone current with their obligations to the club. It's just one of **43 reports** and graphs that are available to all of the members of a **myICLUB.com** investment club.

It's time your investment club switched to myICLUB.com. Try our free 45-day trial and get your two free e-books filled with tips for using myICLUB.com

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Subscriptions to the market-beating ***SmallCap Informer*** (SCI) newsletter will be capped at 1,500 to improve subscriber experience and maintain the newsletter's exclusive nature. This should ensure that subscribers do not have to worry about the market already reacting to the news published in SCI before subscribers have a chance to act. Subscribe today before the limit is reached!

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