



**Investment Education for Individuals and Clubs Since 1951**

# **Fundamental Analysis the BetterInvesting Way**

**October 6, 2007**

**Presenter: Brian Goodhart  
DC Regional Chapter - BetterInvesting**

The D.C. Regional Chapter of the BetterInvesting is a voluntary education and information-based organization that does not make recommendations on specific securities.

# Course Outline

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- Introduction to BetterInvesting
- BetterInvesting's Investing Philosophy and Strategy
- BetterInvesting's Method
- Tools



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# Introduction to BetterInvesting



# What Is BetterInvesting?

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- National Association of Investors Corporation
- Founded in 1951
- Non-Profit
- Volunteer Organization
- Investment Education and Information
- 11,600 Investment Clubs
- 119,000 Individual Members
- 92,000 of these members belong to clubs

Source: BetterInvesting web site – <http://www.betterinvesting.org/Public/Our+Members/Member+Profile+Data.htm>



# The Typical BetterInvesting Investor

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- Follows a long-term buy-and-hold strategy
  - Not “buy and forget”
- Average holding period is greater than four years
- No technical analysis, no options, no shorting, no “trading”
- Combined portfolio value of BetterInvesting members is \$70 billion
- Cumulatively, BetterInvesting members invest approximately \$75 million of new capital per month



# BetterInvesting is Volunteers

BetterInvesting is a non-profit education organization 501c (3).

**BetterInvesting neither recommends nor endorses specific securities.**

All instructors and assistants are volunteers.



**“When one teaches, two learn”**

# Regional Chapters

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- Over 110 Regional Chapters
- Over 1,500 volunteer members
- Classes
- Investors' Fairs



# Web Site: <http://www.better-investing.org>

The screenshot shows the homepage of the BetterInvesting.org website. At the top left is the logo for the National Association of Investors Corporation (NAIC) BetterInvesting Community. To the right is a banner for the NASDAQ BIXX Stock Quote. Below the logo is a navigation menu with links for Store, About Us, Our Members, Tools & Resources, Personal Finance, Investment Clubs, and Contact Us. A search bar is located to the right of the menu. The main content area features a large image of a woman smiling, with text stating: "Enabled through our education and unique investing methods, our members have accumulated assets of \$95 billion and invest over \$75 million per month". Below this are two call-to-action buttons: "Learn More" and "Join Now!". To the right of the "Join Now" button is a "Member Login" section with fields for Member # or User Name and Password, a "Remember Me" checkbox, and a "Log In" button. Below the login section are links for "Forgot Your Password?" and "New User? Register Here". A section titled "Investment Partners Helping Us Support Our Mission" displays logos for NASDAQ, McDonald's, DELL, AQUA America, Affac, and W. Below this is a "Take the Quick Tour" button. The bottom section is divided into three columns: "Benefits of Membership" (listing online classes, stock tools, fund tools, monthly magazine, investment clubs, stock purchase plans, local chapter support, and discussion forums), "Learn Something New" (listing unique proven investing methodology, how to buy mutual funds, analyzing growth stocks, balancing and managing a portfolio, international investing, investing in REITs, and how to start and run an investment club), and "Join Our Community" (listing seminars, workshops, club meetings, creating investment clubs, online blogs, national events, and volunteer opportunities). A "View Demo" button is located above the "Mutual Fund Analysis Tools" section, which includes a "Select MUTUAL FUNDS The BetterInvesting Way!" button. A large green button at the bottom right says "CLICK HERE to order online".



# Individual Membership

- ▶ Store
- ▼ Membership
  - ▶ Individual
  - ▶ Youth
- ▶ Books & Publications
- ▶ Software

 SHOPPING CART ▶

## ▶ Individual



### 30-Day Free Trial!\*

**Only \$6.95/month or \$79.00/year thereafter.**

BetterInvesting Membership includes online stock and mutual fund analysis tools, S&P stock and mutual fund data, Getting Started curriculum, *BetterInvesting Magazine*, access to member-only areas on the website, and much more! All *FREE* for 30-days, then just \$6.95/month or \$79.00/year thereafter.

\*For a complete listing of member benefits and 30-Day Free Trial terms and conditions. [Click Here](#)

\$ 6.95/Month (30-Days Free) ▼

Add to cart ▶

## ▶ Youth



### 30-Day Free Trial!\*

**Only \$3.50/month or \$39.00/year thereafter.**

**(Must be 18 years old or under)**

BetterInvesting Youth e-Membership includes online stock and mutual fund analysis tools, S&P stock and mutual fund data, Getting Started curriculum, *BetterInvesting e-Magazine*, *Young Money Matters e-Newsletter*, access to member-only areas on the website, and much more! All *FREE* for 30-days, then just \$3.95/month or \$39.00/year thereafter.

\*For a complete listing of member benefits and 30-Day Free Trial terms and conditions. [Click Here](#)

\$ 3.50/Month (30-Days Free) ▼

Add to cart ▶



# Annual Convention

## ► Events

- 2008 BetterInvesting National Convention

## ► Upcoming Events

### **BetterInvesting National Convention**

6/19/2008, 6/20/2008, 6/21/2008, 6/22/2008

Renaissance Schaumburg Hotel and Convention Center  
Schaumburg (Chicago), Illinois

#### **Cost**

Yet to be determined.

Watch this space for information on the 2008 BetterInvesting National Convention in Schaumburg (Chicago), Illinois. Registration and general location information will be available soon. Please visit often for the most current updates.

#### **Past Conventions**

- [2007 Convention in Dallas, TX](#)
- [2006 Convention in Columbus, OH](#)
- [Audio Recordings of BetterInvesting Convention Seminars](#)

#### **Prerequisite:**

#### **Event Contact:**

**BetterInvesting**

**P.O. Box 220**

[service@betterinvesting.org](mailto:service@betterinvesting.org)

**Telephone: (877) 275-6242**

**Fax: (248) 583-4880**



# Regional Conferences and Compufest

## ▶ Upcoming Events

### **Puget Sound 27th Annual Computer and Investors Fair**

11/16/2007, 12:00 PM - 9:00 PM, 11/17/2007, 8:00 AM - 4:00 PM

**Bellevue - Meydenbauer Center** ([map](#))

11100 NE 6th Street

Bellevue, Washington 98004-5561

#### **Cost**

\$65 early registration (must be received by 10/31/07)

\$85 late registration (must be received by 11/10/07)

\$85 on-site registration

Scheduled for 11/16-11/17/07, our 2007 Investors Fair sponsors are:

- GE
- Lexington Properties & Nat'l Association of REIT's
- Proctor & Gamble
- PNM
- SAP
- Shell

- Your registration fee includes:
- Two days of sponsor presentations, classes, computer lab and more!
- Investors Fair book with screen shots and other information from every class offered, as well as information from each of the sponsors.
- Computer lab - come with your software questions and problems, test drive BetterInvesting software
- Classes - a link to the complete list of classes will be available here closer to the event
- The opportunity to meet and speak with representatives from this year's sponsors both days as well as other companies in Friday evening's Investor Showcase.



# Better Investing Magazine

October 2007

Home | Tools & Resources | Articles | Archives | Print Magazine | Archive | 2007 | October 2007

► October 2007

## Your Brain and Investing

### FOCUS:

► [Cover Story](#)

Financial journalist and book author Jason Zweig discusses research in neuroeconomics — the study of how people make choices — that suggests ways an investor can avoid becoming his own worst enemy.



► [Editorial](#)

In the short term, market psychology is a powerful force on stock prices. Stocks fall into and out of favor for many reasons unrelated to companies' underlying fundamentals.

► [Investing Psychology](#)

Employees who worked at an alcohol and drug rehabilitation center near New Orleans during the 1980s were required to read the Elisabeth Kübler-Ross book *On Death and Dying*. Although this book was intended for terminally ill patients and their families, the rehab employed her concept of five stages of grief to help patients learn how to accept their losses. I was an employee at that center and today use the book's principles to work through my grief over market volatility.

### TABLE OF CONTENTS:

[18-Month Undervalued Review](#)

Kohl's Corporation — A leading department store chain, Kohl's appears to have mended problems depressing results a few years ago.

[Absolute Beginners](#)

Owning stock in companies whose headquarters are in other countries is increasingly essential to a truly diversified portfolio.

[Book Value](#)

*Ignorance, Confidence and Filthy Rich Friends: The Business Adventures of Mark Twain, Chronic Speculator and Entrepreneur* is reviewed by Angele McQuade.

[Due Diligence](#)

Sock puppets are fine for children's television, but investors should avoid them when they appear in the form of anonymous Internet postings about stocks, warns columnist Thomas D. Saler.

[Financial Planner](#)

A separate power of attorney for health-care directives is among the additional estate documents you may need, say planners Alexandra Armstrong and Karen Preysnar.

[5-Year-Ago Stock to Study](#)

Johnson & Johnson — Its status as one of the largest companies in the health-care sector may help account for a slowing rate of growth in earnings.

[Fund In Focus](#)

Fund manager Ron Muhlenkamp is sticking with the top-down investment approach that has served his shareholders well for 40 years.

[Fundamentals of Investing](#)

Investing in consumer retailers is a bit trickier than buying stocks in other sectors. The fickle whims of the buying public can turn a hot stock into a dud overnight. Consider even an established retailer such as The Gap, once a highflier that peaked in 2004 and has been trying to find its way back ever since.

[Awards and Recognition](#)

Coach, Inc., was named the 2007 Growth Company of the Year at the BetterInvesting National Convention. For the third year in a row, the winning company was nominated by Richard Chauncey of Rochester, N.Y.

[Industry Focus](#)

Companies know that if they want to grow, they have to reach new customers. And few segments of the population are growing like the Hispanic market.

[Investment Education Project](#)

Imagining something as far down the line as retirement is difficult when you're only 17 or 18 years old. Nevertheless, teens who study finance at Clarksville High School in northwestern Arkansas are taught the importance of planning — and investing — for the future.

[Letters](#)

[Mr. NAIC](#)

When stock market storms toss your holdings around, remain patient and avoid panic over lurid headlines, Ken Janke cautions.

[Mutual Fund Matters](#)

Investing in index funds might seem like choosing vanilla at the ice cream parlor, but they actually come in many flavors. Most large fund families offer a version of a fund tracking the S&P 500 index, but you can also use index funds to track the performance of domestic and foreign stocks of all styles and company sizes as well as bonds and real estate investment trusts.

[Awards and Recognition](#)

BetterInvesting presented four of its volunteers with the association's highest awards at its annual convention held June 21-24 in Dallas.

[Random Walk](#)

Netflix, the online borrowing service for DVDs, is turning to the whole world for help in improving its movie recommendation system. The firm's customers can rank any DVD they have ever seen. Netflix uses these rankings to predict other movies individual customers might like.

[Repair Shop](#)

Developing good portfolio management habits pays off in the long run, notes analyst Scott Horsburgh in his review of the Sound Investments Club of Clearwater, Fla.

[Stock To Study](#)

Starbucks Corporation — How long the world's largest specialty coffee retailer can sustain its record of strong growth is the big question bedeviling investors.

[The Clubhouse](#)

The Diamond Divas Investment Club was formed last year by a group of women who wanted to empower themselves with investing knowledge and skills.

[Undervalued Feature](#)

Tractor Supply Company — Based in Tennessee, this company is the largest retail chain serving part-time and recreational farmers

# Publications



## ***Introduction to Successful Investing Handbook***

An introduction to investing the BetterInvesting way, outlining an easy-to-understand approach to starting a long-term investment program.

[BUY NOW >](#)



## ***Stock Selection Handbook***

Learn how-to use BetterInvesting's premier stock-analysis tools to make informed investment decisions.

[BUY NOW >](#)



## ***Mutual Fund Handbook***

Learn the fundamentals of mutual-fund investing using six tools to select, compare and monitor stock and bond mutual funds.

[BUY NOW >](#)



## ***Investing For Life Youth Handbook***

Provides a solid foundation for setting personal and financial goals, saving and investing. A great learning experience for any beginning investor.

[BUY NOW >](#)



## ***Using Portfolio Management Wisdom Handbook***

Instruction on the use and benefits of BetterInvesting's portfolio management tools and techniques.

[BUY NOW >](#)



## ***Computerized Investing & The Internet Handbook***

Gain a solid understanding of the benefits of electronic investing in this how-to guide to various BetterInvesting online investment software and other financial tools.

[BUY NOW >](#)



## ***Investment Club Operations Handbook***

Provides comprehensive information about how-to start an investment club, including detailed steps for organizing the club and ensuring club success.

[BUY NOW >](#)



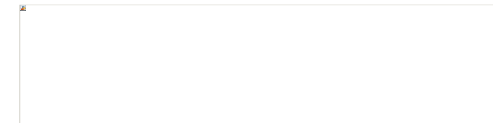
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# BetterInvesting's Investing Philosophy and Strategy



*D.C. Regional Chapter - BetterInvesting*

*Page 14*



# Four Principles

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- Invest regularly for the long term (5+ years)
- Reinvest all income (interest and dividends)
- Invest in leadership growth companies
  - » Companies whose records suggest they are growing faster than the general economy, and will be worth substantially more in the future
- Diversify your portfolio by company size and industry



# Company Size

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<b>Small:</b>	Under \$500 Million in sales
<b>Medium:</b>	\$500 Million to \$5 Billion in sales
<b>Large:</b>	Over \$5 Billion in sales

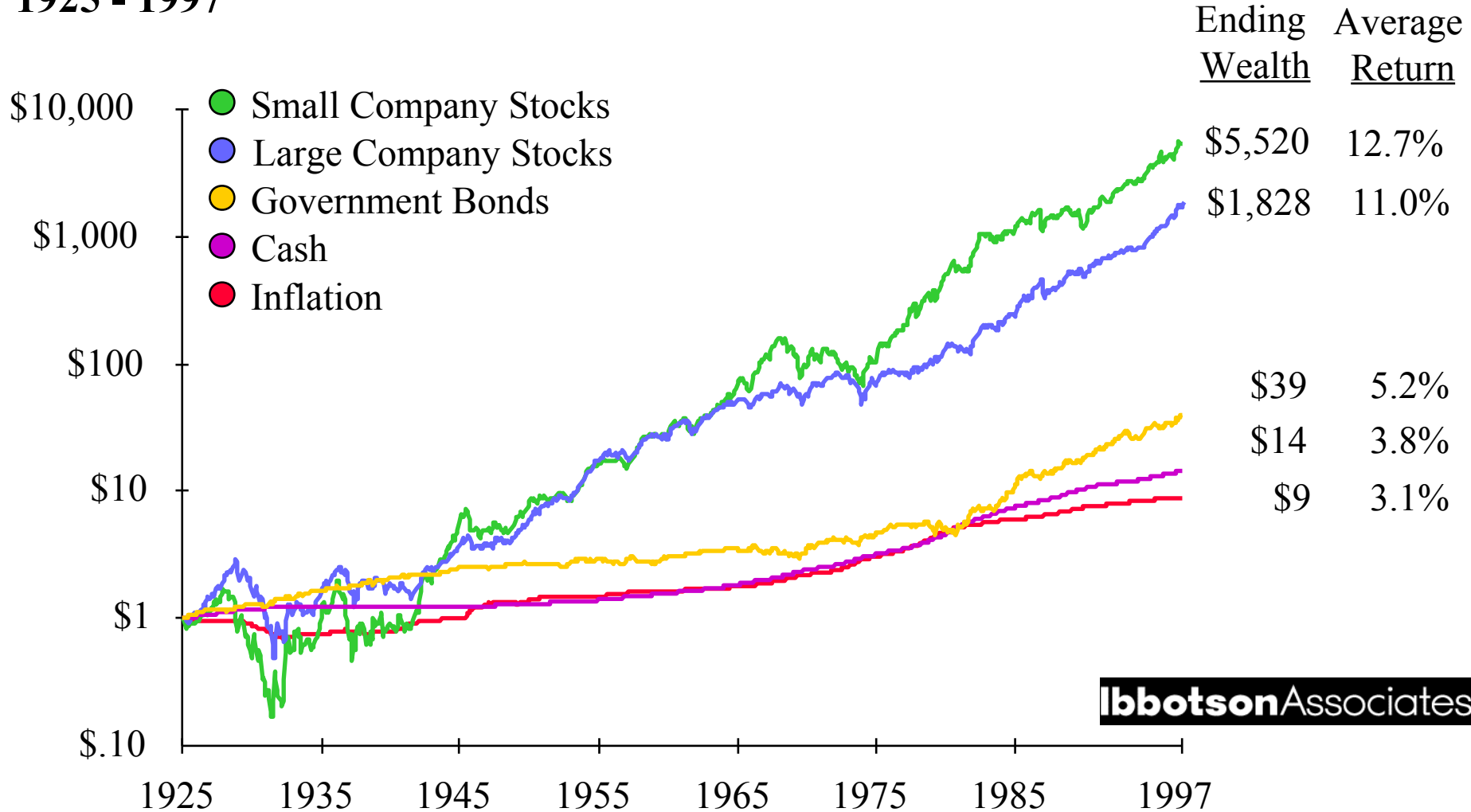
*Size is a factor in a company's ability to grow*





# Stocks, Bonds, Cash, and Inflation

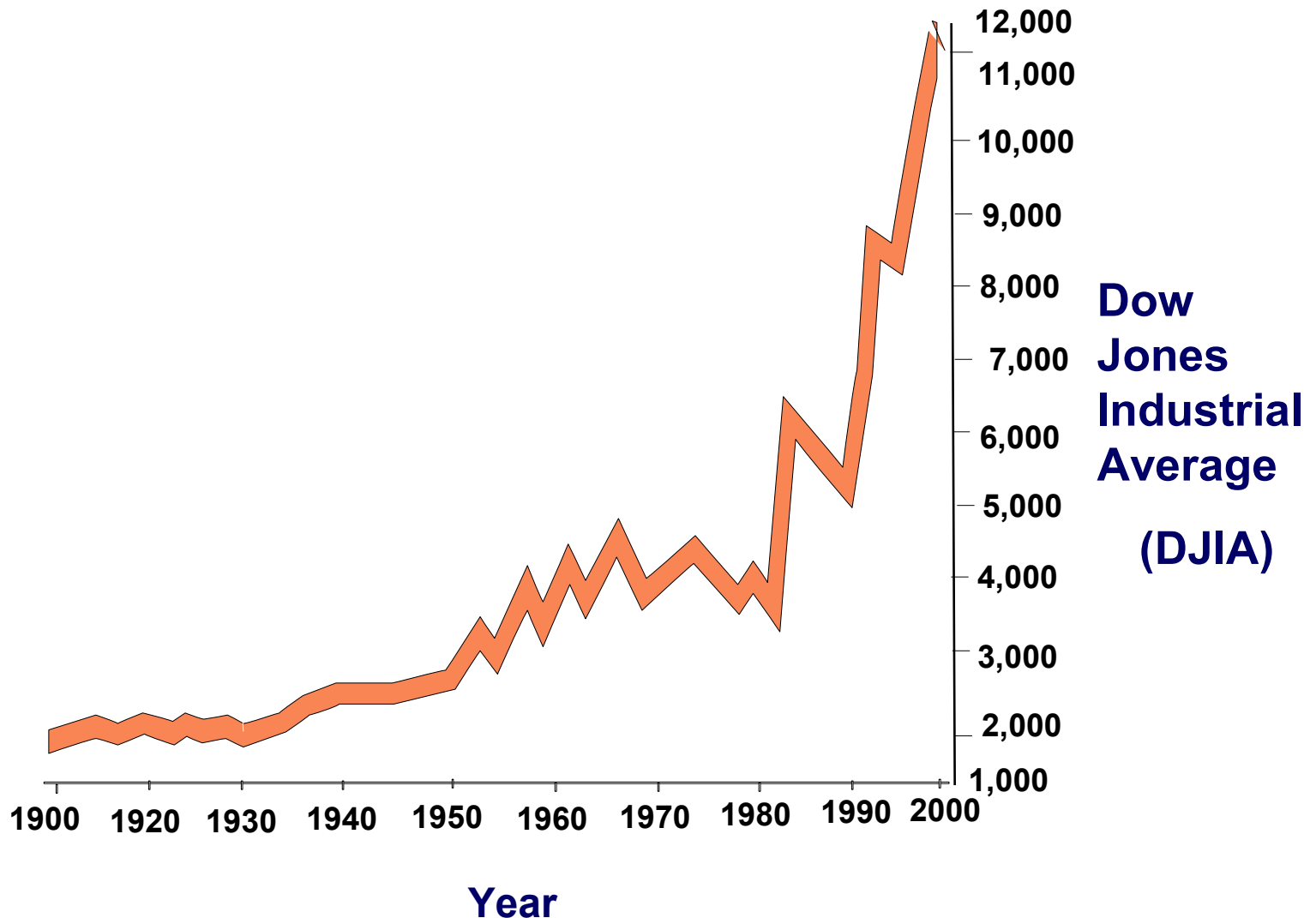
1925 - 1997



**Ibbotson Associates**

Hypothetical value of \$1 invested at year-end 1925.  
Assumes reinvestment of income and no transaction costs or taxes.

# Long-Range History of Stock Prices



# Axioms Underlying the BetterInvesting Approach

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- In the long run, growth in Sales will drive growth in Earnings per Share which will drive growth in stock price.
- Past performance is our best indicator of future performance (assuming management doesn't change).



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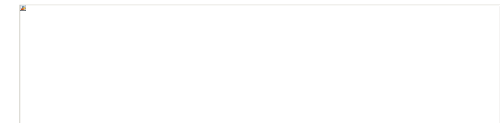
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# BetterInvesting's Method



*D.C. Regional Chapter - BetterInvesting*

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# Two Sets of Tasks

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- Evaluation and Acquisition
- Portfolio Management



# Evaluation and Acquisition

# Two Questions

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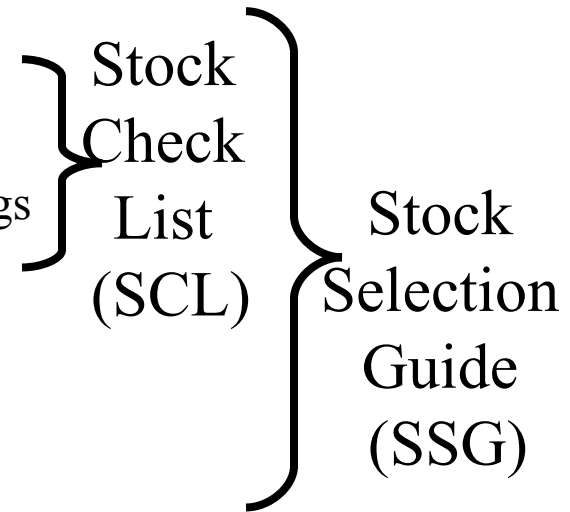
- Is this a good company?
  - Degree and consistency of growth in sales
  - Degree and consistency of growth in Earnings per Share
  - Profitability: trend and position versus competitors
  - Return on Equity: trend and position versus competitors
- If it is a good company, can I currently buy its stock at a good price?
  - Current price in relation to earnings
  - Current price/earnings relationship compared to historical performance



# BetterInvesting Tools for Evaluation/Acquisition

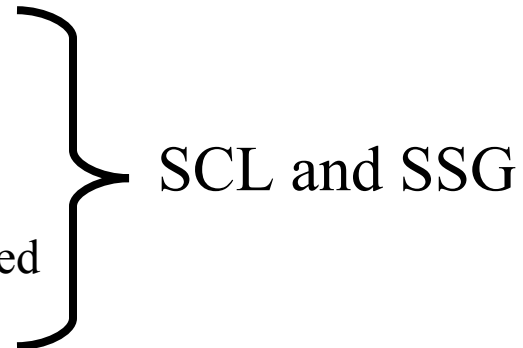
- Is this a good company?

- » Degree and consistency of growth in sales
- » Degree and consistency of growth in Earnings per Share
- » Profitability: trend and position versus competitors
- » Return on Equity: trend and position versus competitors



- Is its stock selling at a reasonable price?

- » Current price in relation to earnings
- » Current price/earnings relationship compared to historical performance



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**Also: the Stock Comparison Guide (SCG)**



# Strategy: Fundamental Analysis

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- Four Categories of Judgment
  - Make History Relevant
  - Estimate Future Company Performance
  - Estimate Future Price Performance
  - Accept or Reject



# Make History Relevant

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- Eliminate non-recurring events
- Discount early rapid growth
- Eliminate inflated Price/Earnings Ratios



# Estimate Future Company Performance

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- Estimate Future Revenue and Earnings Growth
- Estimate Future Profit Margins, Taxes, etc. (for method of estimating future EPS growth based on future sales growth known as the “Preferred Procedure”)



# Estimate Future Price Performance

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- Estimate Future Price/Earnings Ratios
- Estimate Future High and Low Prices



# Accept or Reject

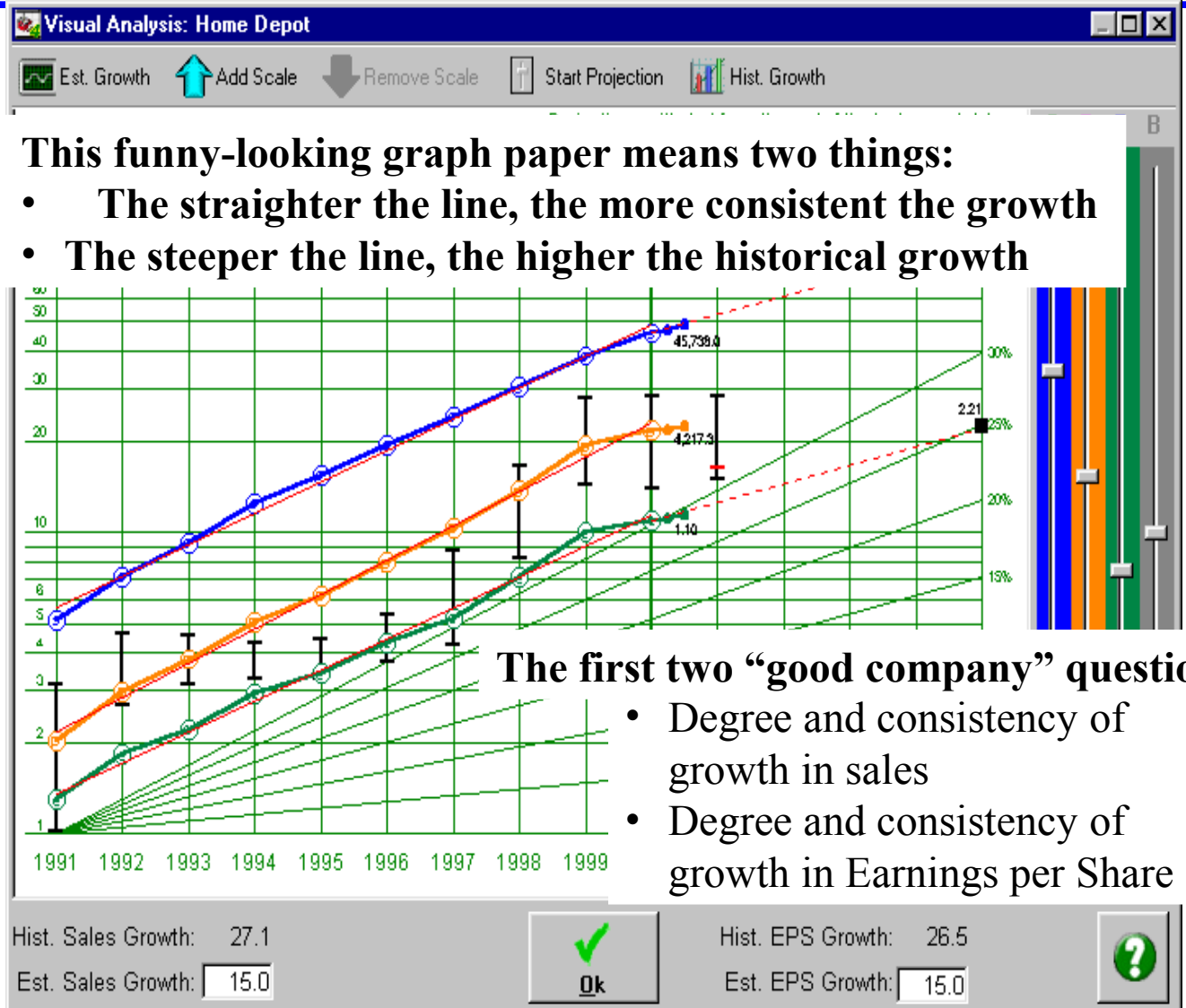
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- Accept Results and Continue
- Reject the Stock
- Iterate: Place “Interesting” Companies on a Watch List



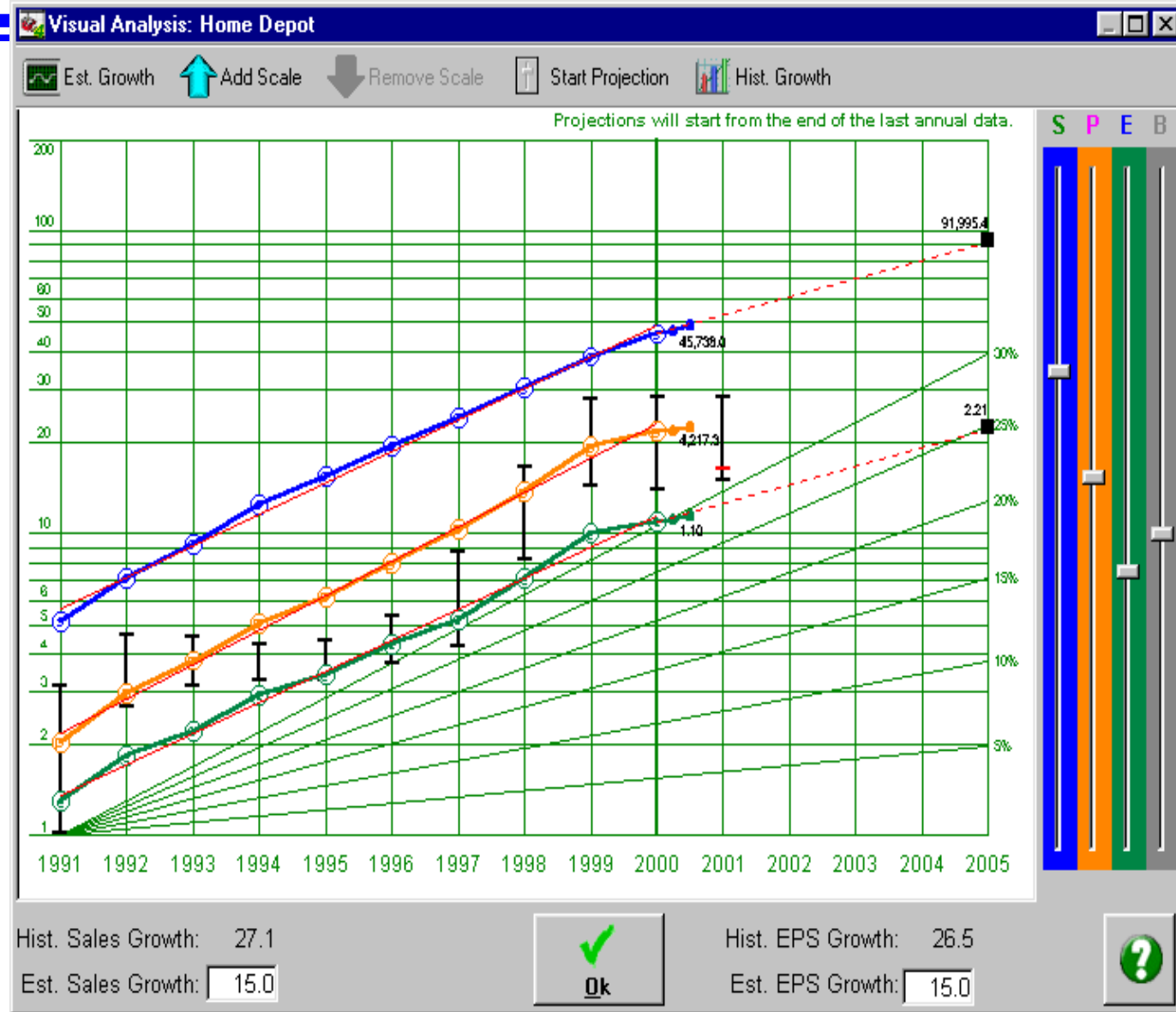
# SSG Front Page: Visual Analysis

- Evaluate historical growth rates of Sales, Pre-Tax Profit, and Earnings
- Estimate future growth rates of Sales and Earnings



# Estimate Sales & Earnings

- Evaluate historical growth rates of Sales and Earnings
- Estimate future growth rates of Sales and Earnings



# Evaluate Historical Growth

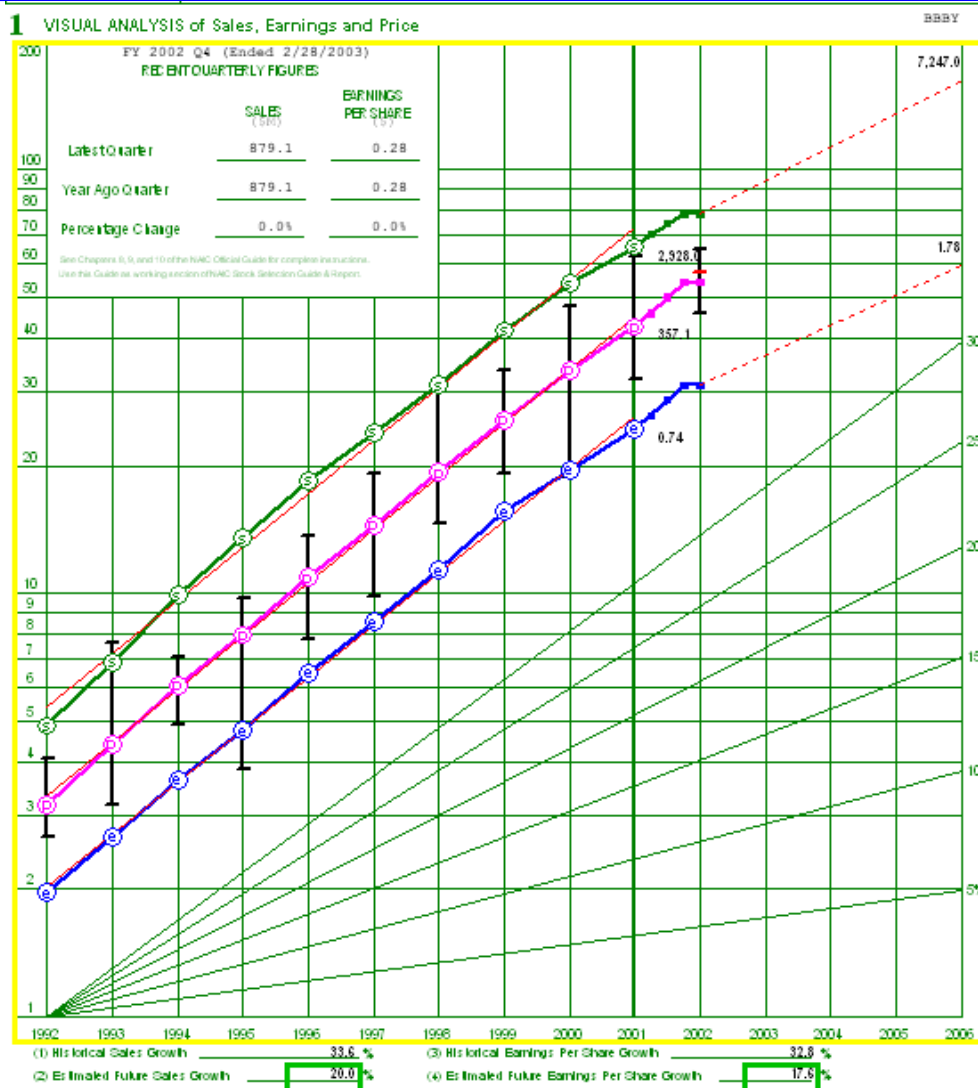
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- Look at Recent Growth First
- Look at Quality of Growth:
  - How Strong is the Growth (slope of line)?
  - How Consistent is the Growth (“straightness” of line)?
- Eliminate Irrelevant Data
  - One or two blips earlier in company’s history
  - Rule of Thumb: Never eliminate an outlier if doing so *increases* the historical growth rate
  - Discount Early Rapid Growth (possible rule of thumb: eliminate early years of explosive growth until historical growth rate stops declining)





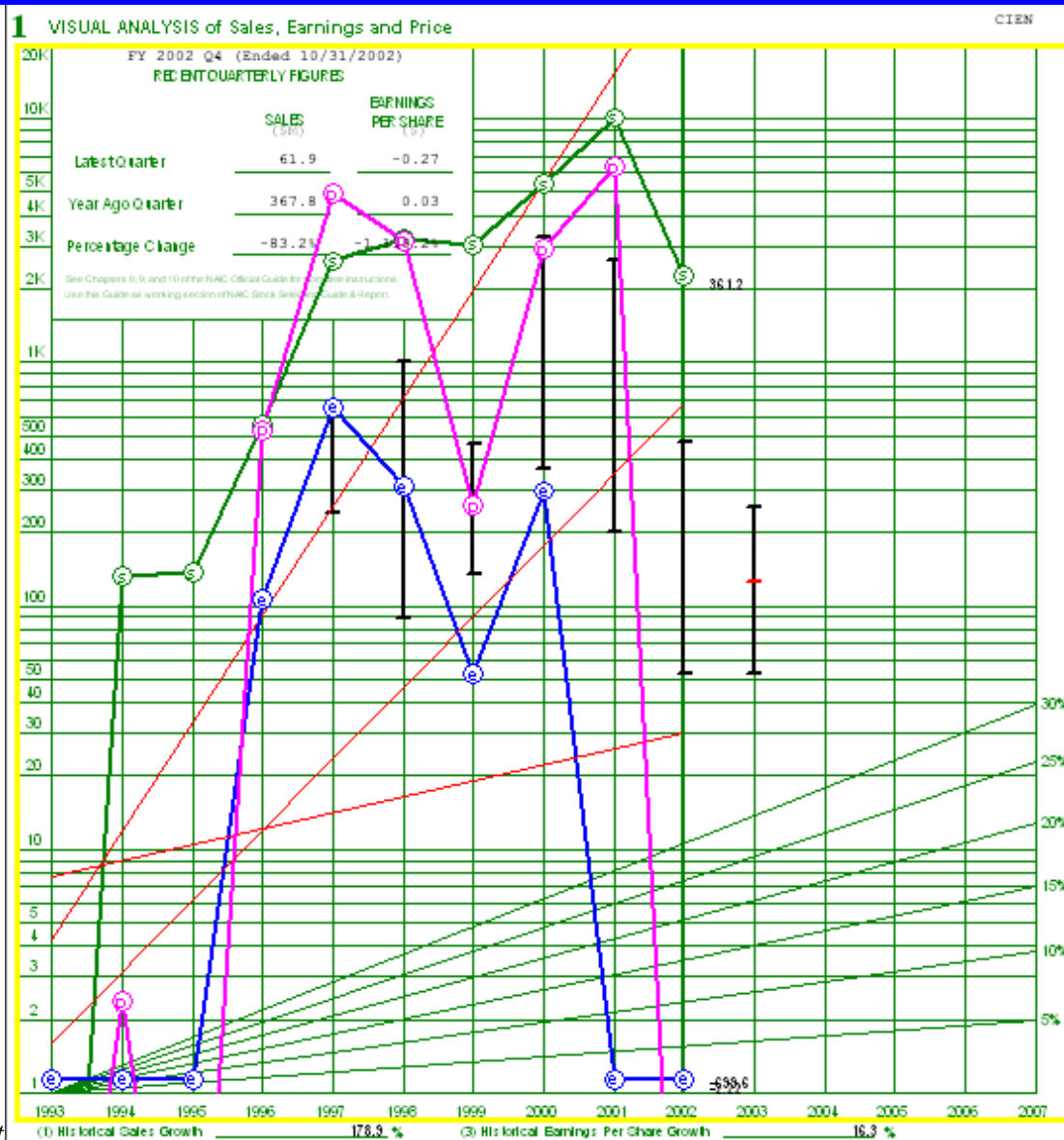
# Quality of Growth



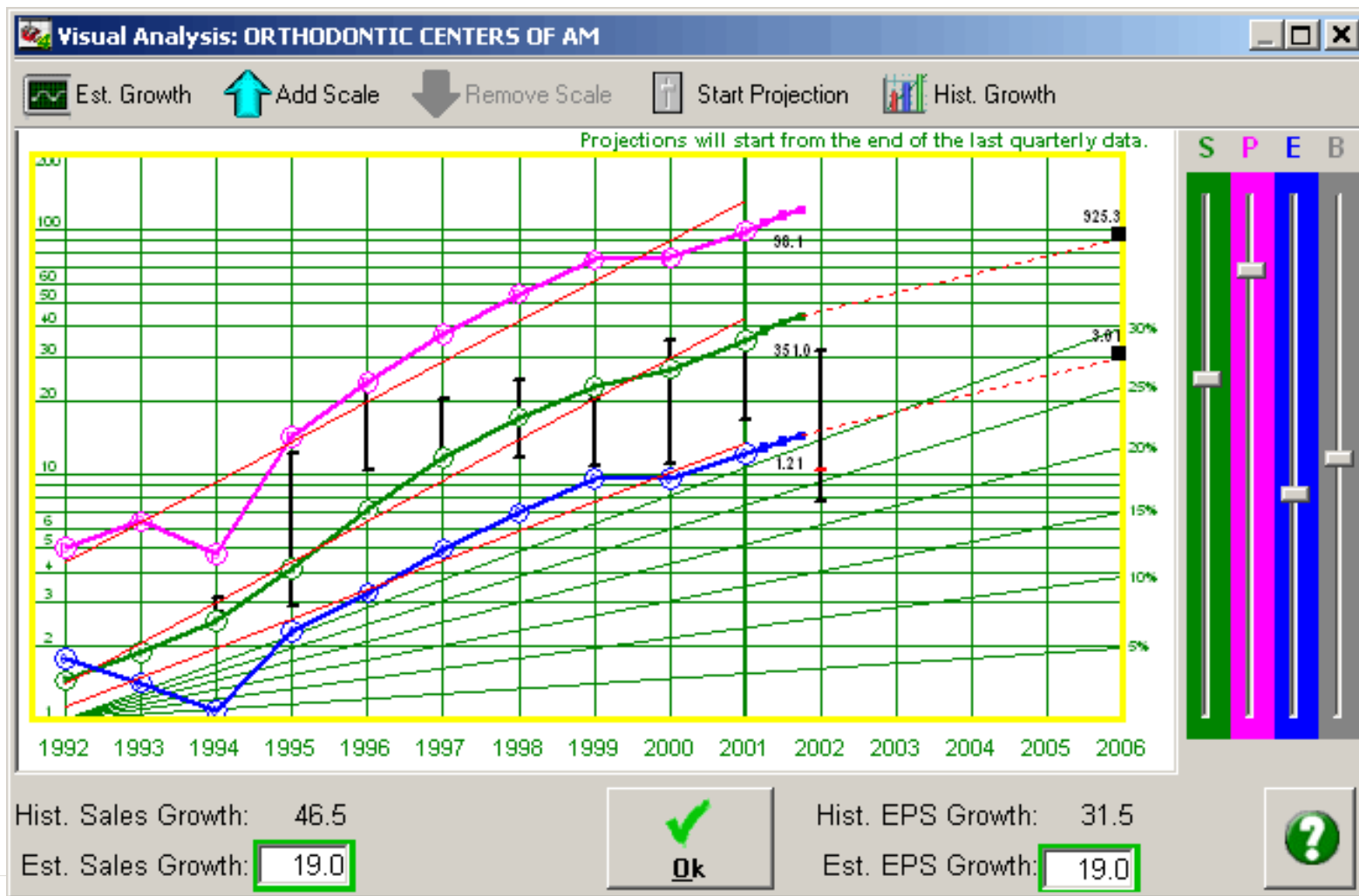
**“The first key to successful investing is to recognize predictable growth. The only skill you require is being able to tell a straight line from a crooked one.”**

**- Ellis Traub**

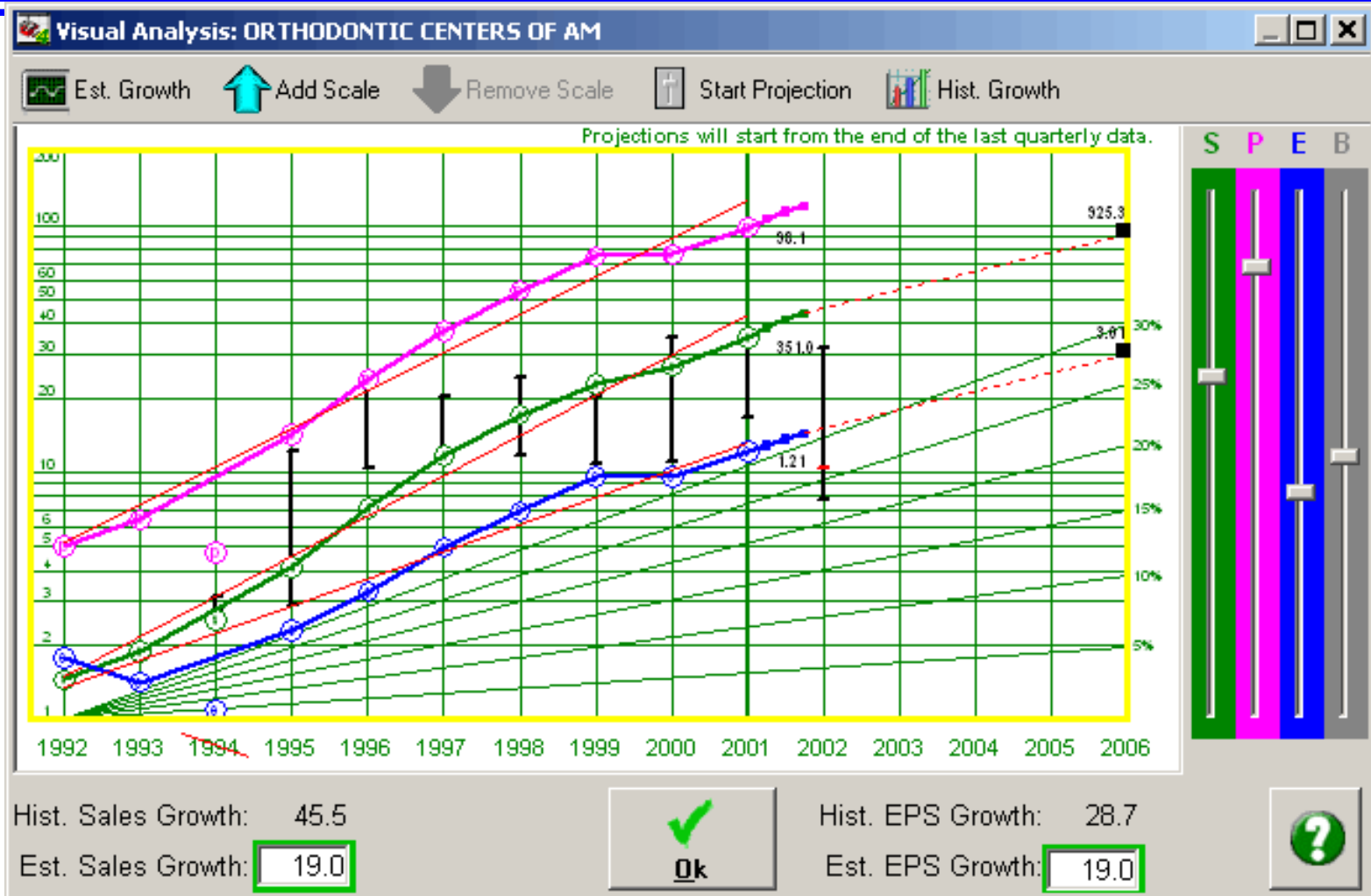
# Quality of Growth



# Eliminate Irrelevant Data – Early Blips



# Eliminate Irrelevant Data – Early Blips



# Projecting Sales Growth – Do Your Homework

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- You Just Analyzed Historical Sales Growth
- Understand Management Strategies for Increasing Sales  
*(Past performance is no indication of future returns)*
- Conduct Research on Industry and Economic Forecasts



# Evaluate Management

## 2 EVALUATING MANAGEMENT

Company Home Depot (HD)

04/19/02

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	LAST 5 YEAR AVG.	TREND	
												UP	DOWN
<b>A</b> % Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	8.1	8.0	7.9	7.7	7.9	8.3	8.8	9.8	9.2	9.3	9.1	EVEN	
<b>B</b> % Earned on Equity (EPS ÷ Book Value)	15.9	16.1	17.4	14.6	15.6	16.1	17.9	19.6	17.0	17.4	17.6		EVEN

A: % Pre-Tax Profit on Sales (Profit Margin)

B: Return on Equity

- Result of management strategies
- Check for consistency
- Compare to industry average
- Is trend steady or up
- Declining PTP is especially a cause for concern

**Third and Fourth “Good Company” Questions:**

- **Profitability:** trend and position versus competitors
- **Return on Equity:** trend and position versus competitors

# STOP!

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- You have reached the proverbial “barbed wire fence”
- Does the company meet your standards for quality in Sections 1 and 2 of the SSG?
- If it doesn’t, stop now
- Remember – the worse a company performs (fundamentals, not price) the better a value it will appear to be.



# P/E Ratios: Make History Relevant

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- Eliminate Inflated P/Es – especially important after the recent bubble
- Ralph Seger: “Look at the historical record. Are there some values that common sense says to disregard? Frequently, when EPS drops below trend levels for one year, the price does not drop in proportion...If the historical high P/E ratios seem to discount not only the future, but the hereafter, it is prudent to lower them to a reasonable level.”





# Estimate Future High & Low P/E

Eliminate "outliers"

General Electric

PRESENT PRICE 33.700 HIGH THIS YEAR 59.438 LOW THIS YEAR 16.167

Year	A PRICE B		C Earnings Per Share	D Price Earnings Ratio E		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100	
	HIGH	LOW		HIGH A ÷ C	LOW B ÷ C				
1 1997	25.5	16.0	0.82	31.1	19.5	0.360	43.9	2.3	
2 1998	34.6	23.0	0.93	37.1	24.6	0.400	42.9	1.7	
3 1999	53.2	31.4	1.07	<del>49.6</del>	<del>29.3</del>	0.547	50.9	1.7	
4 2000	60.5	41.6	1.27	<del>48.0</del>	<del>32.8</del>	0.640	50.4	1.5	
5 2001	53.6	28.5	1.37	39.1	20.8	0.720	52.6	2.5	
6 TOTAL		140.5		107.3	64.9		240.7		
7 AVERAGE		28.1		35.8	21.6		48.1		
8 AVERAGE PRICE EARNINGS RATIO	28.7		9 CURRENT PRICE EARNINGS RATIO	23.1					

**4** Proj. P/E [21.17] Based on Next 4 qtr. EPS [1.59] Current P/E Based on Last 4 qtr. EPS [1.46]  
**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 ~~35.8~~ 30.8 X Estimate High Earnings/Share 2.20 = Forecast High Price \$ 67.8  
(307 as adj.) (401)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E ~~21.6~~ 20.0 X Estimated Low Earnings/Share 1.37 = \$ 27.4  
(307 as adj.)

# P/E Considerations

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- Compare P/E to other companies in **same** industry
- PEG ratio =  $P/E / \text{Projected Earnings Growth Rate}$

A company that has a P/E of 30 and is growing earnings at 20%  
[ PEG = 1.5 ]

*is a better value than*

a company with a P/E of 20 that has an earnings growth rate of 10%  
[ PEG=2 ]



# Setting P/E: “Lore” or Rules of Thumb

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- The PEG Approach:

- Set high projected P/E = 1.5 x projected growth rate (or 2, or whatever)
- Set low projected P/E = 1.0 x projected growth rate

- The Traub Approach

- Don't set high projected P/E greater than 30.



# Estimating High EPS

- Estimated High EPS = Your Estimate of EPS Five Years Hence
- Check Preferred Procedure, compare forecast high price with VL estimate

## ⚡ 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

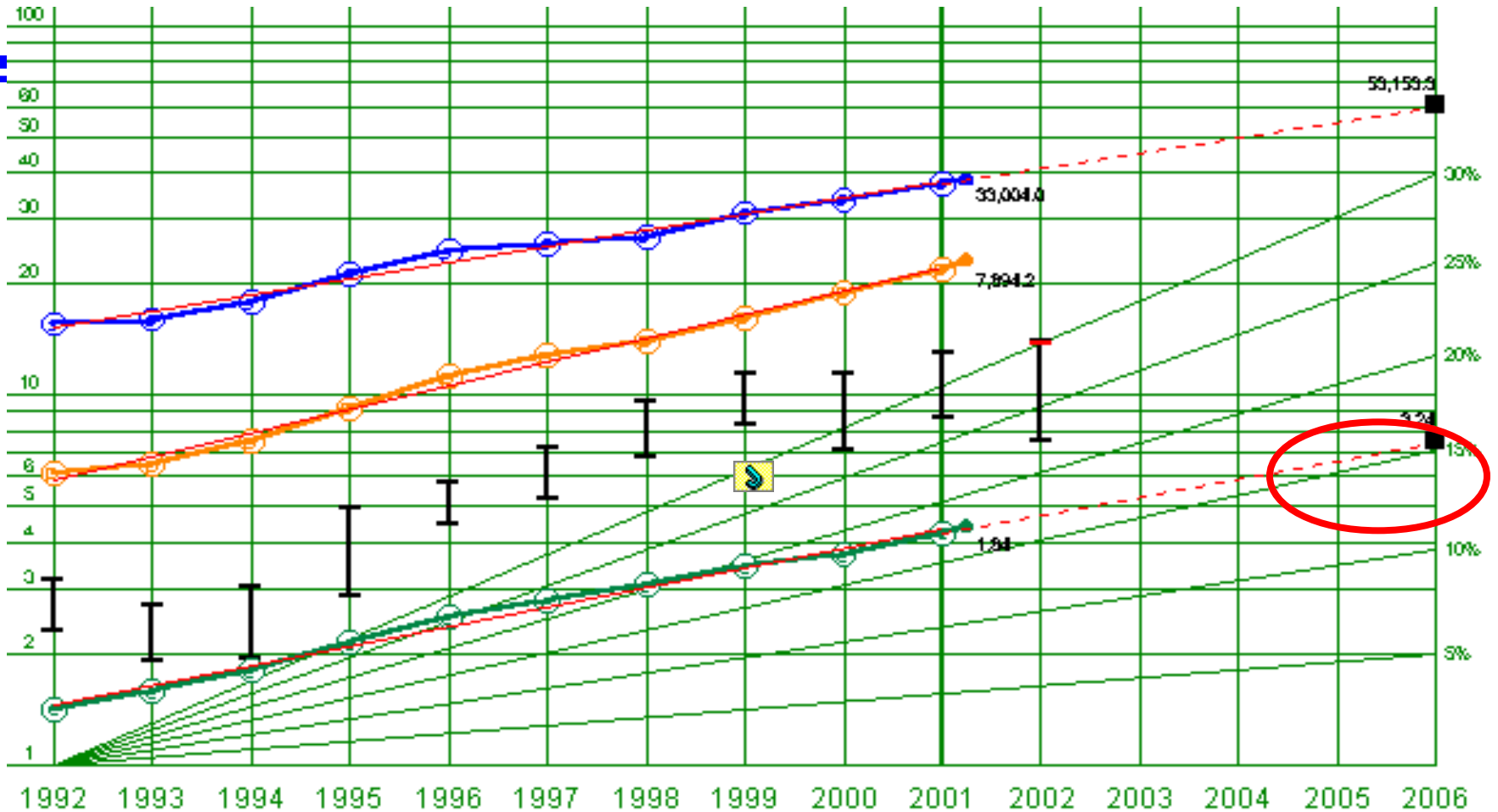
$$\text{Avg. High P/E } \frac{32.7}{(307 \text{ as adj.})} \times \text{Estimate High Earnings/Share } \frac{3.24}{(401)} = \text{Forecast High Price } \$ \frac{105.9}{(401)}$$

### B LOW PRICE -- NEXT 5 YEARS

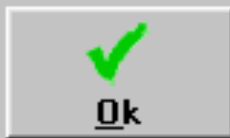
$$(a) \text{ Avg. Low P/E } \frac{22.4}{(307 \text{ as adj.})} \times \text{Estimated Low Earnings/Share } \frac{1.84}{(401)} = \$ \frac{41.2}{(401)}$$



# Estimate High Earnings/Share



Hist. Sales Growth: 10.6  
 Est. Sales Growth:



Hist. EPS Growth: 13.1  
 Est. EPS Growth:

# Estimate Low EPS

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- Very Conservative: The Most Recent Actual Earnings Are Your Default Estimate of Future EPS
- Your Choice: Last Full Fiscal Year or Most Recent Four Quarter



# Portfolio Management

# What is Portfolio Management

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- “Portfolio Management is the art of continually improving the quality of your portfolio to maximize your return” (*Investor’s Toolkit 5 Manual*, page 163)
- Portfolio Management is starting and maintaining a portfolio seeking the maximum *return* at an acceptable level of *risk*.
  - Return: Double our investment in five years (15% average annual compound total return)
  - Risk: Limit our potential decline in value to one-third of the potential increase (Upside/Downside Ratio of 3 to 1 or greater)
  - Risk: Buying stocks when they are selling at about the same price (measured by P/E ratio) as they have on average over the last five years.
- Portfolio Management focuses on potential future, not past, price appreciation.



# Why Portfolio Management?

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- Our work has only just begun when we buy a stock
- “Buy and hold” does not mean “Buy and forget.”
- “Defensive” portfolio management – Monitoring fundamental performance of the companies in our portfolio without regard to stock price.
  - Sales
  - PTP
  - EPS.

**The Big Three**
- “Offensive” portfolio management – Monitoring the value characteristics – is the stock selling at a good value now? Is it overpriced? Is it a bargain?

# BetterInvesting's Rules for Selling

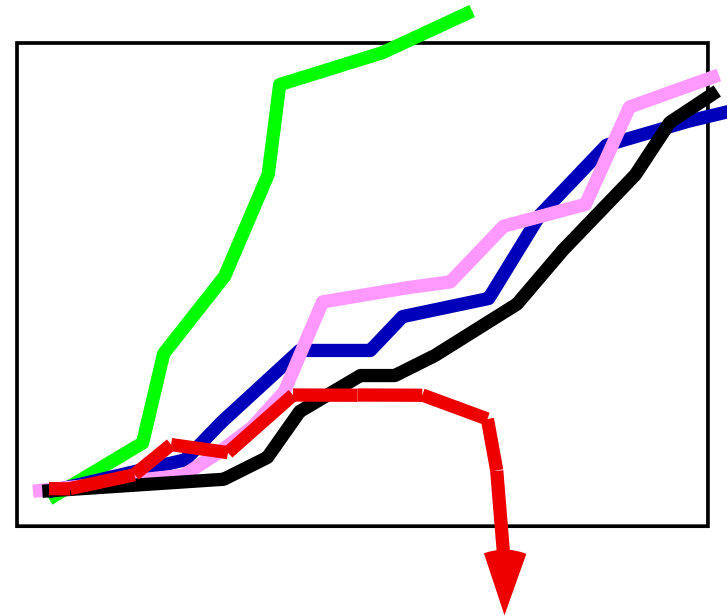
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## **DON'T! . . . But consider selling if the company:**

- Has had an adverse management change.
- Has declining profit margins or a deteriorating corporate financial condition.
- Has been beset by effective competition.
- Has relied on a single product that is becoming obsolete.
- Has proven to be cyclical.
- Has upset the balance by company size in your portfolio.
- Is up against a stock of equal or greater quality offers more gain prospects on the up side and lower risk on the down side.
- Is way overpriced (at least 150% of the five-year average P/E) and its earnings are growing at 12% or less. Even then, consider holding or selling only some of it.

# The Rule of Five

No matter how diligent and conservative you may be in using the NAIC principles to evaluate your stocks:



**One** will exceed your expectations;

**Three** will perform about as you had expected;

**One** will probably sink out of sight

# Portfolio Alerts

Portfolio Overview: Club

Overview Alerts Portfolio: Club

Data Source:  Quarterly  Trailing 12 Mos

**Defense**

Ticker	Name	Sales Exp	% Chg Sales	% Diff	EPS Exp	% Chg PTP	% Diff	% Chg EPS	% Diff	Action
BBBY	BED BATH & BEYOND INC.	20.0	14.6	-26.9	20.0	22.0	9.8	21.9	9.4	
CAH	CARDINAL HEALTH, INC.	15.0	14.1	-6.2	15.0	10.1	-32.5	15.1	.8	
FBC	FLAGSTAR BANCORP, INC.	20.0	-.1	-100.3	20.0	-9.9	-149.4	-13.6	-168.2	
HDI	HARLEY-DAVIDSON, INC.	17.5	5.2	-70.3	20.0	11.6	-42.1	11.5	-42.6	
LOW	LOWE'S COMPANIES, INC.	18.0	22.0	22.0	18.0	9.6	-46.4	7.5	-58.1	
ORLY	O'REILLY AUTOMOTIVE, INC.	18.0	10.7	-40.6	18.0	21.0	16.8	18.0	.0	

Check PERT-A  
Sell  
Hold

**Offense**

Ticker	Name	Relative Value	U/D	Total Return	Target Return	Action
FAST	FASTENAL COMPANY	133.1	-.6	-9.4	15.0	
INTC	INTEL CORPORATION	38.2	.2	1.4	8.0	
PFE	PFIZER INC.	100.9	2.5	10.5	15.0	

Thresholds  
Challenge  
Sell  
Hold

Update Portfolio Data Update Portfolio Prices Reports

Ok

# Defensive Alerts

Portfolio Overview: Club

Overview Alerts Portfolio: Club

Defense Data Source:  Quarterly  Trailing 12 Mos

Ticker	Name	Sales Exp	% Chg Sales	% Diff	EPS Exp	% Chg PTP	% Diff	% Chg EPS	% Diff	Action
BBBY	BED BATH & BEYOND INC.	20.0	14.6	-26.9	20.0	22.0	9.8	21.9	9.4	Check PERT-A
CAH	CARDINAL HEALTH, INC.	15.0	14.1	-6.2	15.0	10.1	-32.5	15.1	.8	Sell
FBC	FLAGSTAR BANCORP, INC.	20.0	-1	-100.3	20.0	-9.9	-149.4	-13.6	-168.2	Hold
HDI	HARLEY-DAVIDSON, INC.	17.5	5.2	-70.3	20.0	11.6	-42.1	11.5	-42.6	
LDW	LOWE'S COMPANIES, INC.	18.0	22.0	22.0	18.0	9.6	-46.4	7.5	-58.1	
ORLY	O'REILLY AUTOMOTIVE, INC.	18.0	10.7	-40.6	18.0	21.0	16.8	18.0	.0	

Offense

- Choose Quarterly or Trailing 12 Mos data
- Highlight stock & click “Check PERT-A” to launch PERT-A worksheet
- Mark “Sell” or “Hold” as appropriate

# Defensive Actions

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## 1) Compare

- % change for Sales, PTP, and EPS
- More analysis if growth doesn't meet expectations
- Comparison starts by choosing the Alerts screen
- Alerts screen saves you the trouble of examining the PERT Report (but we'll do that anyway)

## 2) Analyze

- Examine history to refine list of sale candidates
- Determine if marked trends exist

## 3) Decide

- Use web to determine reasons for failure
- Sell stocks ASAP with low prospects for strong, steady growth

# Offensive Alerts

Offense

Ticker	Name	Relative Value	U/D	Total Return	Target Return	Action
FAST	FASTENAL COMPANY	133.1	-.6	-9.4	15.0	
INTC	INTEL CORPORATION	38.2	.2	1.4	8.0	
PFE	PFIZER INC.	100.9	2.5	10.5	15.0	

Thresholds  
Challenge  
Sell  
Hold

- Click “Thresholds” to change alert values
- Click “Challenge” to launch Challenger
- Mark “Sell” or “Hold” as appropriate

# Offensive Action

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## 1) Check Risk and Reward

- Select companies whose RV, U/D Ratio, and TR indicate they are overpriced

## 2) Reevaluate

- Review SSG for each, making sure that EPS growth and forecast high PEs are reasonable

## 3) Challenge

- Replace companies with unsatisfactory return & risk with companies of equal/better quality & better potential returns



# The PERT Family

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- PERT Report
  - Portfolio Trend Report
  - Portfolio Summary Report
  - PERT Worksheet A
  - PERT Worksheet B
- One for entire portfolio
- One for each company

*PERT, Worksheet A, and Worksheet B are official forms. The Portfolio Trend Report and the Portfolio Summary Report are additional features of Investor's Toolkit.*