

Understanding Those Valuable Valuation Statements

A 'Review Sheet' from Jeanne

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For years our Model Club, Commuter Computer Investors (CCI), has used NAIC's Club Accounting. But when it was handed out at the meeting, most of us just said, "thanks," and put it in our folders.

I've done some work in this area that has paid off for us, and I'm pleased to share it. These "reference papers" (see *charts, next page*) help us to do portfolio monitoring at every meeting. A little competition always helps, so I added Value Line's (Arithmetic) Index to the reports to see if we could beat it each month — like beating The Dow.

How Are We Doing?

Here I am at the July Model Club meeting and I can hardly wait for the treasurer to hand out the valuation statements. How's my investment doing? Am I making money? Ah, here it is, the **Members Status Report (A)**! (*Editor's Note: The letters and numbers refer to specific parts of the accompanying charts, see page 16.*) If I withdrew tonight I'd get approximately \$3,218 (1) or a compound annual return of 18 percent (3). Not so bad; that's 18 percent every year for the past five. Of course, I'd have done better if I'd bought Vanguard's S&P 500 Index fund with a return of 25.8 percent, but how can you measure learning, fun and friendship? I'm well pleased.

How's the club doing? Aye, there's the rub! Clubs can get into trouble with this one. After all the trouble those dear Beardstown Ladies got into, we decided to try another tack.

Our club keeps it simple. We measure our results the same

way mutual funds do — focusing on unit values and changes in our Unit Value. We recognize that we do not take into account many other items that accountants love, but neither do mutual funds.

NAIC gave us the gift of a floating Unit Value (14) on the **Valuation Statement (B)** in both the manual and computer accounting methods. We use it, as do thousands of other clubs. We created the **Monthly Valuation Statement Review (C)** so that we could follow our monthly Unit Value and its percent of change from the beginning of the year.

If we look in the paper for the prices of mutual fund shares, we look under NAV (Net Asset Value). What is Net Asset Value? According to *Barron's Dictionary of Finance and Investment Terms*, NAV equals net total assets divided by total shares outstanding. When we look at the Valuation Statement (B) for the price of our club shares (units), we look at "Value of Each Unit" (Unit Value) (14). We arrive at UV the same way mutual funds get NAV: divide the total value of our stocks plus cash (12) by the total units (shares) outstanding (13).

We go the next step and choose a benchmark to measure our portfolio's performance against. We use this to see how we stack up to the "market." Equity mutual funds are commonly "graded" by how they compare with the S&P 500; 85-90 percent of them can't beat the S&P. However, since the S&P 500 is made up of large companies and our portfolio doesn't have many (any?) large companies, we chose Value Line's (Arithmetic) Index. The VLA can be found weekly in Value Line's Selection and Opinion as well as in many Sunday newspapers and

Internet financial sites.

The Value Line composite gives equal weights to the 1,700 stocks in its universe regardless of size, while the S&P 500 gives greater weight to larger stocks. Value Line contains nearly all the names in the S&P. It also reflects movements of small and out-of-favor stocks. *Barron's Dictionary of Finance and Investment Terms* says, "This index is designed to reflect price changes of typical stocks and being neither price nor market value-weighted, it largely succeeds."

We are trying to beat Value Line, but this month, while we did very well — 13 percent since the end of 1998 — Value Line did better — 15 percent. The score for the NNM is 31 percent, S&P 500, 15.4 percent and the Dow 22 percent as of July 16.

Sometimes we joke about using "Feel Good Accounting" to find the percent of change between Total Cost (5) and Total Value (6) of 58 percent or using Compound Annual Returns for Securities (10) of 33 percent instead of UV (14) of 13 percent so we can be "winners."

Sometimes we are not joking when we think of hanging it all up and buying an S&P 500 index fund or some of the index-based securities traded on the AMEX such as SPYDRS (S&P 500) and Diamonds (Dow Jones). But we always end by remembering that profit isn't the only thing we're after in our investment club experience. Our motto is: Empower, enjoy and enrich. Notice which one is last.

Portfolio Monitoring

After finding out how we're doing, we turn to how can we do better. The Valuation Statement (B) is truly valuable

for finding our great stocks and our poor picks. In CCI we think it is helpful to think about tending a portfolio as we would tend a garden. When we find flowers that are blooming as we had planned, we plant more. When we find weeds, we pull them out and replace them with lovely flowers. This produces a beautiful garden!

CCI's Portfolio Management Procedures state that, "Diversification by percent of the portfolio should be 15 percent or less for each stock owned." Oops! Column 7 shows that we need to sell some (a lot) of Linear Technology. We're in the typical investor's dilemma:

How can I pull out even some of this wonderful flower that makes my garden so beautiful? Diversification protects wealth. Concentration creates wealth. Should we change our rules to fit our feelings? Or follow our rules?

We look for flowers and weeds in Column 9, Compound Annual Return. Since this shows an annual figure, only those stocks we've held for at least a year will have a valid percentage; so we circle those looking at Column 4 to get the date. If the stock's CAR is not circled, look at Column 8 for information. Next put an "F" by the top three flowers and a "W" by the weeds. Mark only those that are circled! (*Editor's Note: Of course, as Jeanne would agree, historic returns by themselves do not a weed or flower make. But that's another article!*) Now go to the **Monthly Valuation Statement Review (C)** and write in the symbol on the top three flowers and the worst three weeds where indicated.

Our Investment Strategy urges us to be long-term, buy-and-

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Valuable Valuation Statements . . . continued

hold investors. "We will plan to hold each stock we buy for five years. We will hold each stock for a minimum of 18 months." So we really take a look at those weeds to see if we've held them long enough to sell.

The club has had many discussions and votes about changing this rule but we haven't changed it. It does make us think more carefully before we buy something but, even more importantly, several of the weeds we might have sold have turned into terrific flowers.

Wonder if weed Andrew will get pulled next month? Maybe the team that presents the stock study will use Investor's Toolkit Challenge and suggest a replacement. Maybe Andrew's Stockwatcher will persuade us that it's really a flower in disguise. Stay tuned for the next chapter.

CCI's benchmark is 15 percent compound annual return for our portfolio. Look at "Returns for Securities" (10) and watch us glow about the 33 percent return this month. This is entered on the Monthly Valuation Statement Review (C).

We also intend to be fully invested in stocks which we measure as 5 percent or less in cash. See "Cash on Hand — Broker" (11) and note that we truly are fully invested. Only 0.06 percent in cash. This is the last entry on the Monthly Valuation Statement Review (C).

Five years ago in July, 1994, we set ourselves a goal of \$20,000 by 2000. As seen in (6), we have over \$27,000 now, and if the market will do the right thing, we'll reach our goal. Wonder what our next goal will be? How about selling it all, going on a shopping spree and starting fresh again?!

(A) Computer Computer Investors Members Status Report as of July 16, 1999 07/16/99

NO.	NAME	PAID IN SINCE 06/18/99	TOTAL PAID IN TO DATE	PAID IN PLUS EARNINGS	UNITS SINCE 06/18/99	UNITS OWNED	① CURRENT VALUE	② PERCENT OWNERSHIP	③ TOTAL COMPOUND RETURN ANNUAL RET SINCE 07/20/94
1	Benson, Linda	20.00	2103.76	2028.49	1.193800	176.563492	3212.12	11.53%	125.09% 17.66%
2	Braude, Solna	0.00	320.00	318.14	0.000000	22.891408	416.45	1.49%	42.88% 39.09%
3	Casey, Marge	50.00	1560.39	1537.81	2.984501	119.557220	2175.03	7.80%	74.59% 24.12%
4	Cohon, Louise	20.00	2103.76	2027.97	1.193800	177.150355	3222.79	11.56%	126.41% 17.80%
5	Fisher, Jean	0.00	2083.76	2007.99	0.000000	176.108074	3203.83	11.50%	126.06% 17.76%
6	Issel, Helen	0.00	2123.83	2052.52	0.000000	176.481990	3210.63	11.52%	113.26% 17.98%
7	Maaser, Helga	60.00	1750.00	1738.28	3.581401	129.456840	2355.13	8.45%	57.62% 25.80%
8	Miller, Dorothy	20.00	900.00	893.95	1.193800	66.714333	1213.69	4.36%	65.40% 28.90%
9	Moore, Mary Jan	50.00	400.00	400.23	2.984501	28.499670	518.48	1.86%	51.46% 66.62%
10	Pelican, Mary L	40.00	2303.76	2225.41	2.387601	191.131962	3477.15	12.48%	127.02% 17.86%
11	Redfield, Flia	120.00	120.00	120.00	7.162803	7.162803	130.31	0.47%	8.59% 292.85%
12	Squires, Jeanne	40.00	2105.76	2034.91	2.387601	176.869894	5217.69	11.55%	128.16% 17.98%
13	Susswein, Estha	40.00	180.00	180.00	2.387601	11.395503	207.31	0.74%	19.03% 113.32%
14	Utz, Mary Ann	0.00	680.00	675.89	0.000000	49.446058	899.54	3.23%	44.67% 37.56%
15	Welsh, Martha	80.00	320.00	320.17	4.775202	22.374033	407.04	1.46%	48.65% 71.65%
TOTALS		540.00	19055.02	18561.75	32.232611	1531.803882	27867.21	100.00%	102.01 18.14

(B) Computer Computer Investors Valuation Statement as of July 16, 1999 07/16/99

SECURITY	TS DRP	FIRST BUY OR VALUATION DATE	SHARES OWNED THIS DATE	COST PER SHARE	⑤ TOTAL COST	⑥ PRICE PER SHARE THIS DATE	⑦ TOTAL VALUE THIS DATE	⑧ PERCENT OF TOTAL	⑨ TOTAL RETURN SINCE 07/10/94	⑩ ANNUAL RET.
AMER POWER CONV	APCC	03/16/95	200.000	10.3245	2064.90	22.0625	4412.50	15.8%	163.69%	25.07%
ANDREW CORP	ANDW	02/20/98	18.000	29.2333	526.20	21.8750	393.75	1.4%	-25.17%	-18.72%
APOLLO GROUP	APOL	09/22/98	25.000	32.1732	804.33	24.1875	604.69	2.2%	-24.82%	-29.59%
CARLISLE COMPANY	CSZ	03/17/99	50.000	44.4866	2224.33	50.0000	2500.00	9.0%	12.77%	43.73%
JONES PHARMA INC	JHED	06/16/98	65.000	37.5369	2439.90	43.8750	2851.88	10.2%	31.06%	28.42%
LINEAR TECHNOLOG	LLTC	01/19/95	100.000	12.7500	1275.00	72.6875	7268.75	26.1%	479.36%	47.92%
NOVELLUS SYSTEM	NVLS	11/18/97	20.000	45.4975	909.95	74.8438	1496.88	5.4%	64.50%	35.05%
ROBERT HALF INTL	RHI	04/20/99	50.000	37.4240	1871.20	25.0000	1250.00	4.5%	-33.20%	-81.62%
ROSS STORES	ROST	01/27/98	50.000	38.7356	1936.78	51.9688	2598.44	9.3%	67.04%	41.95%
SYBROW INTERNETL	SYB	04/23/96	50.000	12.3616	618.08	29.1250	1456.25	6.2%	135.61%	30.41%
WOLVERINE WORLD	WNW	01/19/99	100.000	12.3620	1236.20	13.6250	1362.50	4.9%	10.47%	22.67%
YAHOO	YHOO	06/22/99	10.000	159.2450	1592.45	150.2500	1502.50	5.4%	-5.65%	-58.72%
Total Securities this Date					⑤ 17499.32		⑥ 27698.14	99.44		
⑩ Returns for Securities Shown from First Buy or Valuation Date									261.39%	33.15%
Security Returns from Start or Switchover to this Date									116.06%	18.73%
⑪ Cash on Hand - Bank					-0.00		-0.00	-0.0%		
Cash on Hand - Broker					169.09		169.09	0.6%		
Cash on Hand - Suspense					0.00		0.00	0.0%		
Total Cash Accounts this Date					169.09		169.09	0.6%		
⑫ Total Securities and Cash Accounts This Date					17668.41		⑫ 27867.23	100.0%		
Petty Cash					\$ 0.00					
⑬ Total number of Valuation Units to Date							1531.822250	⑬		
⑭ Value of Each Unit This Date							\$ 18.192	⑭		
Number of Units Each \$10.00 will Purchase							0.550			

(C) Monthly Valuation Statement Review 1999
Commuter Computer Investors

% of change for CCI's Unit Value vs. Value Line Investment Survey's Arithmetic Index

% of change = ((new-old)/old)*100

Date	Beginning CCI Unit Value	Current CCI Unit Value (14)	% of Change	Beginning VLA Avg.	Current VLA Avg.	% of Change	Winner CCI or VLA?
12/31/98	\$16.11			\$927.84			
1/15/99		\$17.27	7.20%		\$934.37	0.70%	CCI
2/12/99		\$15.84	-1.68%		\$886.04	-4.51%	CCI
3/12/99		\$14.98	-7.01%		\$898.32	-3.18%	VLA
4/16/99		\$15.58	-3.29%		\$950.44	2.44%	VLA
5/14/99		\$15.33	-4.84%		\$1,009.98	8.85%	VLA
6/18/99		\$16.75	3.99%		\$1,027.75	10.77%	VLA
7/16/99		\$18.19	12.91%		\$1,067.57	15.06%	VLA
8/13/99							
9/17/99							
10/15/99							
11/12/99							
12/17/99							
Flowers (9)	1 LLTC	2 ROST	3 NVLS	Weeds (9)	1 ANDW	2	3
Returns for Securities (10)	[>=15%]		33.15%	Cash on Hand - Broker (11)	[<= 5%]		0.06%