

Total Return vs. the Upside/Downside Ratio

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Board of Directors

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Class Overview

- Review our core methodology and traditional SSG value metrics
- Examine short-comings of Upside/Downside ratio
- Examine why projected total return is the best measure of a stock's value
- Examine using projected total return to guide our investment decisions
 - Introduce Portfolio Centered Decision Making

Core Methodology of Long-term, Fundamental Investors

- Invest in high quality companies, selling at good values
 - Quality matters first
 - Junk can never be a good value
 - Value matters most
 - Biggest mistake: overpaying for quality company
 - Is best measured by potential total return
- Hold for the long-term, **as long as it makes sense**

Quality Matters First

- Measured by consistent and competitive growth and profitability, combined with financial wherewithal
 - Boils down to management, management, management
- Bolsters confidence in our projections
- Helps protect us entering bear markets and other times of economic uncertainty

Total Return Matters Most

- Why focus on total return?
 - It's the bottom line
 - Ultimately, we invest to make money
 - Best measure of our past performance as investors
 - Best measure of a stock's potential
 - Other SSG measures are fatally flawed
 - It's simple

Let's review what total return is and how it's calculated

Total Return Matters Most

- Defined:
 - Potential price appreciation + potential dividend yield
 - In the BI/NAIC community: Compounded and annualized over the next five years

Total Return Matters Most

- Calculated on the Stock Selection Guide (SSG)
- Distinguish options on Line 5C: “Using Forecast High P/E” and “Using Forecast Average P/E”
 - Lines 5C and 5D on Toolkit 6 (with different name for 5D)

▶ 5. FIVE-YEAR POTENTIAL

A. CURRENT YIELD

$$\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{4.72}{94.91} = 0.0497 = 5.0\%$$

B. AVERAGE YIELD - USING FORECAST HIGH P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast High P/E}} = \frac{85}{22.2} = 2.9\%$$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast Average P/E}} = \frac{85}{18.25} = 3.6\%$$

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Price Appreciation	18.6%
Average Yield	2.9%
Annualized Rate of Return	21.6%

COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation	14.1%
Average Yield	3.6%
Annualized Rate of Return	17.6%

Total Return Matters Most

- Distinguish options on Line 5C: "Using Forecast High P/E" and "Using Forecast Average P/E"

5. FIVE-YEAR POTENTIAL

A. CURRENT YIELD

$$\frac{\text{Indicated Annual Dividend}}{\text{Closing Price}} = \frac{4.72}{94.91} = 0.0497 = 5.0\%$$

B. AVERAGE YIELD - USING FORECAST HIGH P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast High P/E}} = \frac{65}{22.2} = 2.9\%$$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast Average P/E}} = \frac{65}{18.25} = 3.6\%$$

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COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation	14.1%
Average Yield	3.6%
Annualized Rate of Return	17.6%

From 4A and 4B
(22.2+14.3)/2

4. EVALUATING RISK and REWARD over the next 5 years

A. HIGH PRICE - NEXT 5 YEARS

$$\text{Avg. High P/E: } 22.2 \times \text{Estimate High Earnings / Share: } 10.04 =$$

B. LOW PRICE - NEXT 5 YEARS

$$(a) \text{ Avg. Low P/E: } 14.3 \times \text{Estimate Low Earnings/Share: } 4.70 =$$

(b) Avg. Low Price of Last 5 Years: 59.2

(c) Recent Market Low Price: 62.5

2018 Low Stock Price: 77.7

52 Week Low Stock

2019 Low Stock Price: 62.7

$$(d) \text{ Price Dividend Will Support: } \frac{\text{Indicated Dividend}}{\text{High Yield}} =$$

Selected Forecasted Low Price: 67.2

Total Return Matters Most

- Best measure of a stock's present value
- Other “value” metrics traditionally applied in BetterInvesting methodology?
 - **Relative value (PE comparison)** → best viewed as a confidence measure
 - **Price zoning** → redundant with U/D ratio
 - Same data points, different math
 - 3 to 1 U/D ratio will always be in the buy zone
 - **Upside/downside (U/D) ratio**

Flaws in U/D Ratio

- Dividends not considered
 - Could both significantly raise potential return and lower potential loss
 - Renders U/D ratio useless in comparing stocks with different dividend yields



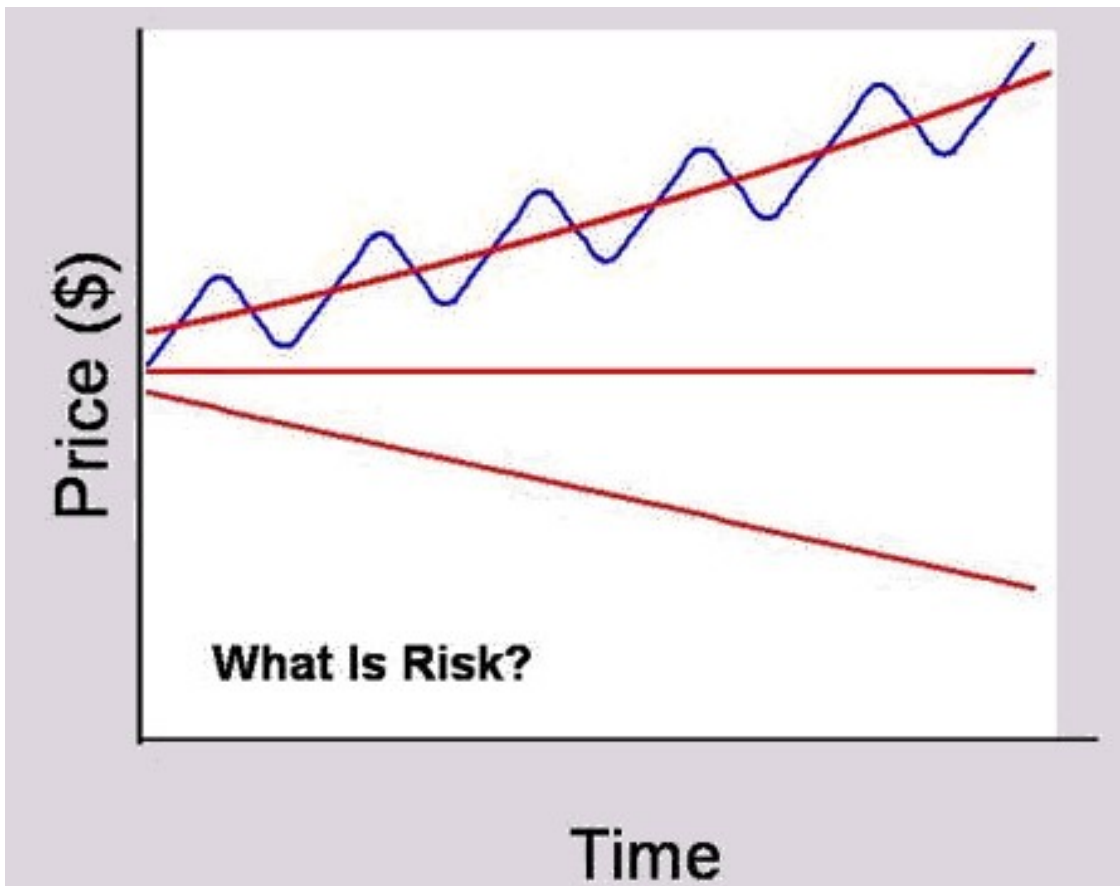
- Could be as high as 26.1 to 1 if yield added to low price (to reduce potential loss)

Flaws in U/D Ratio

- **Fallacy:** *The upside/downside (U/D) ratio properly measures risk in buying a stock*
 - Volatility isn't risk, it's opportunity

Volatility isn't Risk

- Which line is riskiest?



Squiggly and up?

Straight and flat?

Straight and down?

Volatility isn't Risk

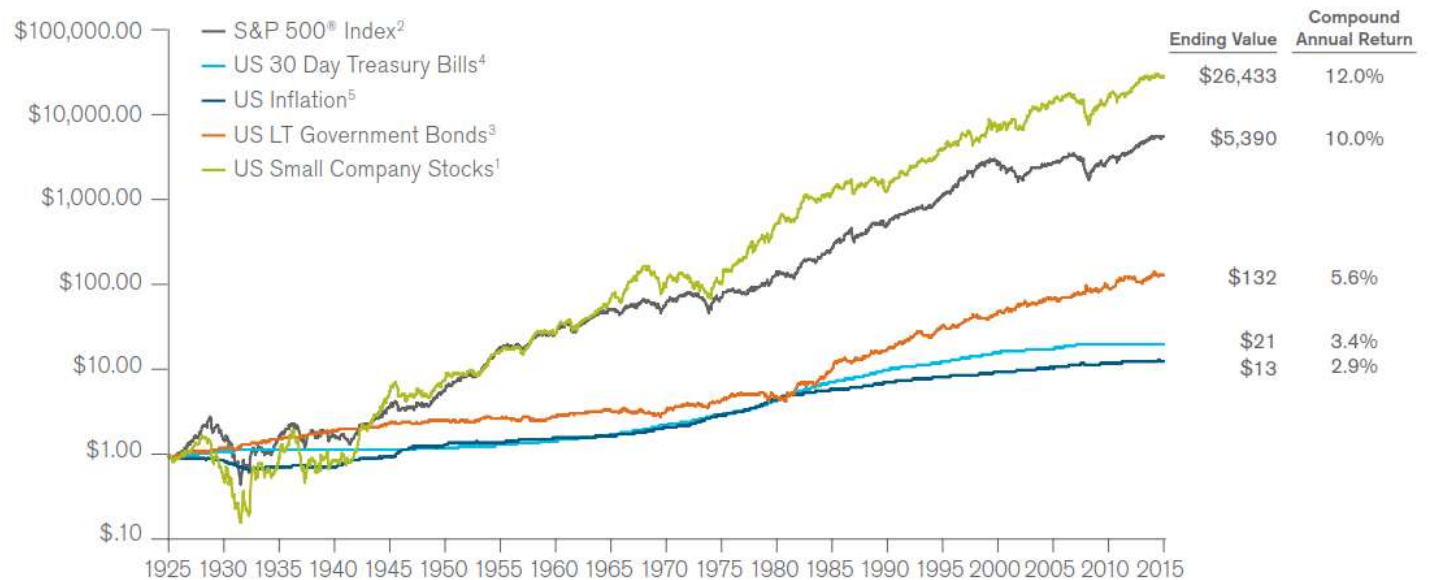


- Which line do you prefer?

The Potential Strength of Equities Hypothetical Long-Term Growth of \$1

By looking at the value of a hypothetical investment of \$1 into stocks, Government Bonds and Treasury Bills, you can see just how differently the \$1 grew in each investment (1926–2015). Stocks outperformed Bonds and Bills over the long term, showing the growth potential equities have historically offered investors. Historically, however, Government Bonds and Treasury Bills have offered lower volatility, risk and return than equities.

Stocks, Bonds, Bills and Inflation (as of 12/31/15)



- Squiggly and up looks good

Flaws in U/D Ratio

- **Fallacy:** *The upside/downside (U/D) ratio properly measures risk in buying a stock*
 - It's impossible to quantify market irrationality on either high (exuberant) or low (pessimistic) end
 - How well did your projected low prices hold up during the last bears
 - 2008 – 2009
 - March 2020

Total Return Matters Most

- How much is enough?
- **It depends!**
 - On your **goals**
 - On **the market**
 - On potential return for the **rest of your portfolio**

Total Return Matters Most How Much is Enough?

- Depends on your **goals**
 - Set target for your total return to beat market by enough to achieve your objective
 - “Traditional” BetterInvesting goal is 15% compound average per year
 - Based on history, beat “market” by average of about 5 percentage points per year

Total Return Matters Most How Much is Enough?

- Depends on the market



The Median Estimated
**THREE-TO-FIVE YEAR PRICE
APPRECIATION POTENTIAL**
of all stocks in the VL Universe

50%

26 Weeks Ago	Market Low	Market High
55%	3-23-20 145%	1-3-22 35%

Stock prices change, so does market's projected return. Consider a variable, rather than fixed 15%, goal

Total Return Matters Most How Much is Enough?

50% over 4 years
= 10.7% ann.

The Median Estimated
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26 Weeks Ago 55% Market Low 3-23-20 145% Market High 1-3-22 35%

THE VALUE LINE Investment Survey® Part 1 Summary & Index

August 11, 2023

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Worst Performing Stocks last 13 Weeks 33
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The Median Estimated PRICE-EARNINGS RATIOS of all stocks with earnings 17.4
The Median Estimated DIVIDEND YIELDS (next 12 months) of all dividend paying stocks 2.1%
The Median Estimated THREE-TO-FIVE YEAR PRICE APPRECIATION POTENTIAL of all stocks in the VL Universe 50%
The Median Estimated 36-MONTH APPRECIATION POTENTIAL TO TARGET PRICE RANGE of all stocks in the VL Universe 11%

ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER

Industry	Page	Industry	Page	Industry	Page	Industry	Page
Advertising (43)	236	Electric Util. (Central) (26)	901	Investment Co. (Foreign) (-)	412	Reinsurance (15)	2003
Aerospace/Defense (30)	701	Electric Util. (East) (23)	134	Machinery (25)	1701	Restaurant (12)	347
Air Transport (2)	301	Electric Util. (West) (16)	2163	Maritime (31)	336	Retail Automobile (30)	2716
Apparel (46)	2101	Electronics (16)	1351	Medical Services (14)	783	Retail Furniture (19)	1140
Asset Management (37)	2205	Engineering & Const. (6)	1005	Med. Supp. Insnstr. (8)	183	Retail Hardware (16)	2182
*Automotive (2)	101	Entertainment (40)	2280	Med. Supp. Non-Instr. (49)	197	Retail Softlines (2)	2180
Auto Parts (20)	860	Entertainment Tech. (29)	1982	Metal Fabricating (37)	723	Retail Store (22)	2133
Bank (66)	2501	Environmental (47)	403	Metals & Minng. (Dr.) (81)	1572	Semiconductor Equip. (6)	1942
Bank (Invest) (66)	789	Food Processing (52)	2511	Natural Gas Util. (77)	537	Semiconductor (6)	1253
Beverage (26)	1961	Food Processing (52)	1961	Natural Gas (Dr.) (89)	821	Semiconductor Equip. (6)	1386
Biotechnology (63)	817	Farm/Home Furnishings (82)	1148	Oil/Gas Distribution (7)	366	Steel (5)	2154
Books & Circulrs (26)	1787	Healthcare Information (37)	809	Other Equip. (6)	1407	Steel (5)	733
Building Materials (2)	1101	*Heavy Truck & Equip. (4)	146	Packaging & Container (56)	1169	Teleton. Equipment (78)	609
Cable TV (88)	985	Homebuilding (1)	1127	Paper/Paste Products (62)	1166	Telecom. Services (46)	614
Chemical (Basic) (66)	1590	Hotel/Gaming (28)	2283	Petroleum (Integrated) (24)	501	Thrift (2)	1501
Chemical (Specialty) (66)	2424	Household Products (45)	1184	Petroleum (Processing) (51)	2292	Tobacco (64)	1678
Chemical (Specialty) (66)	547	Human Resources (25)	1623	Pipeline (Dr.) (30)	956	Tobacco/Confection (24)	688
Computers/Peripherals (21)	1396	Industrial Services (27)	370	Power (68)	1207	Trucking (71)	315
Computer Software (17)	2568	Information Services (42)	419	Precious Metals (1)	1556	Water Util. (79)	1780
Cyber Security (7)	2008	IT Services (39)	2599	*Precision Instrument (42)	112	Wine/Wholesale (70)	575
Diversified Co. (41)	1743	Insurance (Life) (18)	1547	Public/Private Equity (46)	2435		
Drug (54)	1600	Insurance (Prop/Cas.) (72)	746	Public/Private Equity (46)	2435		
E-Commerce (38)	1804	Internet (16)	2622	Railroad (74)	337		
Education Services (39)	1884	Investment Banking (87)	1787	R.E.I.T. (86)	1900		
Equipment (11)	1301	Investment Co. (Eq.) (1)	1167	Recreation (61)	2261		

145% (market low) over 4
years = 25.1% ann.

35% (market high) over 4
years = 7.8% ann.

Total Return Matters Most

How Much is Enough?

Market high: 7.8% VL
Median Compound
Annual Appreciation

- How does 15% stack up?
- Very well, well up into upper half of all stocks

Market low: 25.1% VL
Median Compound
Annual Appreciation

- How does 15% stack up?
- Not well, down in lower half of all stocks

Total Return Matters Most How Much is Enough?

- Depends on **the market**
 - Goal is to beat market by about 5 percentage points
 - So consider a variable target of 5 percentage points above potential return for market
 - Remember dividend yield is part of potential return

Finding Projected Market Return

- Sources of projected return for entire market:
 - Value Line Median Appreciation Potential (VLMAP)
 - For the stocks in Standard Edition (about 1700)
 - Doesn't include dividends
 - Manifest Investing Projected Annual Return (MIPAR)
 - Found on www.manifestinvesting.com (a subscription-based website with 30-day free trial)
 - More companies than Value Line
 - Includes projected dividends

Finding Projected Market Return

- From Value Line (VLMAP)

The Median Estimated
THREE-TO-FIVE YEAR PRICE APPRECIATION POTENTIAL
of all stocks in the VL Universe

50%

26 Weeks Ago 55% Market Low 145% Market High 35%

THE VALUE LINE
Investment Survey

Part 1
Summary & Index

File at the front of the Ratings & Reports binder. Last week's Summary & Index should be removed.

August 11, 2023

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Widest Discounts from Book Value	34		

Summary & Index Page Number

The Median of Estimated PRICE-EARNINGS RATIOS of all stocks with earnings	17.4	The Median of Estimated DIVIDEND YIELDS (next 12 months) of all dividend paying stocks	2.1%	The Median Estimated THREE-TO-FIVE YEAR PRICE APPRECIATION POTENTIAL of all stocks in the VL Universe	50%	The Median Estimated 18-MONTH APPRECIATION POTENTIAL TO TARGET PRICE RANGE of all stocks in the VL Universe	11%
26 Weeks Ago 16.8 Market Low 11.0 Market High 19.3		26 Weeks Ago 2.1% Market Low 1.7% Market High 2.7%		26 Weeks Ago 35% Market Low 14% Market High 35%		26 Weeks Ago 21% Market Low 7% Market High 19%	

ANALYSES OF INDUSTRIES IN ALPHABETICAL ORDER WITH PAGE NUMBER
Numeral in parenthesis after the industry is rank for probable performance (next 12 months).

Advertising (43)	268	Electric Util. (Central) (76)	901	Investment Co./Foreign (-)	412	Reinsurance (15)	2000
Aerospace/Defense (90)	701	Electric Util. (East) (73)	134	Machinery (25)	1701	Restaurant (12)	347
Air Transport (9)	301	Electric Util. (West) (64)	2183	Maritime (31)	330	Retail Auto/Hotel (39)	2116
Apparel (46)	2101	Electronics (68)	1301	Medical Services (14)	783	Retail Building Supply (19)	1140
Asset Management (57)	2205	Engineering & Const (8)	1005	*Med Supp Invasive (85)	183	Retail Hardlines (46)	2182
*Automotive (13)	101	Entertainment (82)	2230	*Med Supp Non-Invasive (49)	197	Retail Softlines (86)	2180
Auto Parts (67)	2401	Entertainment Tech (29)	1992	Metall Fabricating (37)	723	Retail Store (22)	2131
Bank (60)	2501	Environmental (47)	403	Metals & Mining (Dir.) (81)	1572	Retail Wholesale Food (44)	1942
Bank (Midwest) (60)	769	Financial Svcs. (Dir.) (23)	2531	Natural Gas Utility (77)	537	Semiconductor (26)	1353
Beverage (28)	1961	Food Processing (65)	1801	Natural Gas (Dir.) (69)	321	Semiconductor Equip (4)	1388
Biotechnology (83)	817	Furn/Home Furnishings (82)	1148	Oil/Gas Distributor (79)	586	Shoes (33)	2154
Brokers & Exchanges (36)	1787	Healthcare Information (67)	809	Oilfield Svcs/Equip. (66)	2407	Steel (9)	733
Building Materials (2)	1101	Heavy Trups & Equip (4)	148	Packaging & Container (26)	1169	Telco/Equip (76)	659
Cable TV (88)	995	Homebuilding (1)	1127	Paper/Folios Products (62)	1190	Telecom. Services (84)	919
Chemical (Basic) (69)	1590	Hotel/Gaming (28)	2353	Petroleum (Integrated) (24)	501	Thrift (32)	1501
Chemical (Diversified) (69)	2454	Household Products (45)	1194	Petroleum Production (61)	2263	Tobacco (64)	1978
Chemical (Specialty) (84)	547	Human Resources (83)	1629	Pipeline MLPs (82)	599	Toiletries/Cosmetics (34)	968
Computers/Peripherals (21)	1399	Industrial Services (27)	370	Power (86)	1207	Trucking (71)	315
Computer Software (17)	2589	Information Services (83)	2596	Precious Metals (41)	1559	Water Utility (75)	1780
Cyber Security (7)	2008	IT Services (99)	1547	*Precision Instrument (92)	112	Wireless Networking (70)	375
Diversified Co. (41)	1743	Insurance (Misc) (18)	1547	Public/Private Equity (48)	2435		
Drug (34)	1600	Insurance (Prop Cas.) (72)	746	Publishing (5)	2378		
E-Commerce (28)	1804	Internet (14)	2622	Railroad (74)	337		
Educational Services (59)	1984	Investment Banking (87)	1797	R.E.I.T. (85)	1509		
Electrical Equipment (11)	1301	Investment Co. (-)	1197	Recreation (81)	2301		

*Reviewed in this week's issue.

In three parts: This is Part 1, the Summary & Index. Part 2 is Selections & Opinion. Part 3 is Ratings & Reports. Volume LXXIX, No. 1. Published weekly by VALUE LINE PUBLISHING LLC, 551 Fifth Avenue, New York, NY 10116.

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Finding Projected Market Return

- Calculating Projected Market Return Using Value Line (VLMAP)
 - Formula:
 $(\text{Potential Future Value} / \text{Current Value}) ^ .25 - 1$
 - Use 100 plus “Appreciation Potential” from VL as Future Value
 - Use 100 as Current Value
 - $(150 / 100) ^ .25 - 1 = 10.67\%$

Google CAGR calculator

Finding Projected Market Return

- Calculating VLMAP
- Formula: $(150 / 100)^{.25} - 1 = 10.67\%$

CAGR (Compound Annual Growth Rate)	10.6682%
Starting value: (Initial Investment Value)	<input type="text" value="100.0"/>
Ending value: (Ending Investment Value)	<input type="text" value="150.0"/>
No. of periods: (Months/Years)	<input type="text" value="4"/>
<input type="button" value="Calculate"/>	
CAGR (Compound Annual Growth Rate)	10.6682%

Search Google for CAGR calculator

This one from <https://cagrcalculator.net/>

Finding Projected Market Return

- From Manifest Investing (subscription site)

The screenshot shows the Manifest Investing website interface. At the top is a blue navigation bar with the logo and menu items: Publications, Research, Stock Screen, Dashboards, Forum, Events, Search, and Help. Below the navigation bar is a 'Featured Posts' section. The first post is titled 'Expected Returns (8/7/2023)' with a thumbnail of a rocket. The text below the title reads: 'We officially kick off a couple of seasons this week (1) the annual hunt for Red Rabbits between now and Halloween and (2) back to school as we add and enhance features and demonstrate. Tin Cup tops \$4,000,000. (Again)'. Below this is another post titled 'Expected Returns (7/31/2023)' and a post titled 'Walter Schloss: Investing Rules' with a thumbnail of a man. A blue box highlights a table snippet from the 'Walter Schloss' post, showing 'MIPAR' and '9.9%'. To the right of the main content is a sidebar with a table showing 'MIPAR' at 9.9% and 'Sweet Spot' at 14.9% - 17.9%. Below the table is a search bar with the text 'Symbol or name ...' and a 'Go' button. Further down the sidebar are sections for 'Upcoming Events' (listing 'Investing Round Table (August 2023)') and 'Published Dashboards' (listing 'Manifest 40', 'Round Table', and 'Groundhog 2023').

Total Return Matters Most How Much is Enough?

- Depends on potential return for **rest of your portfolio**
 - Focus on your “team,” not individual “players”
 - 5 percentage points > potential market return isn’t for each stock, but for total portfolio
 - “Portfolio-Centered Decision Making”
 - Making Buy/Accumulate/Sell decisions based on impact on your overall portfolio
 - Aim to maximize potential return (value) while maintaining sufficient overall quality

Total Return Matters Most How Much is Enough?

- Portfolio-Centered Decision Making
 - Portfolio Summary Report in Online SSG^{PLUS}

Report Options: Summary | PERT | Diversification

Report Details

Show All entries

		Portfolio Total Value \$176,227.17				Portfolio dollar-weighted average US/DS: 3.3 % Total Return: 15.7				
Ticker	Company	Price	Shares	Total Value	% of Portfolio	Buy Below	Sell Above	US/DS	% Tot Ret	Rating
TSM	Taiwan Semiconductor	85.37	200.0	17,074.00	9.7	105.20	197.60	6.0	23.4	Buy
CTSH	Cognizant Tech Solns	59.49	200.0	11,898.00	6.8	78.50	132.80	12.3	23.0	Buy
ELV	Elevance Health	450.74	60.0	27,044.40	15.3	461.10	818.00	3.2	18.1	Buy
MA	Mastercard	375.24	75.0	28,143.00	16.0	373.30	670.20	2.9	17.4	Hold
BKNG	Booking Holdings	2687.33	9.0	24,185.97	13.7	2489.70	4235.40	2.3	13.7	Hold
FAST	Fastenal	54.81	350.0	19,183.50	10.9	49.00	75.90	1.8	12.7	Hold
TJX	TJX Companies	78.43	350.0	27,450.50	15.6	73.40	113.00	2.2	12.3	Hold
SYK	Stryker	303.54	70.0	21,247.80	12.1	246.50	361.90	1.0	7.7	Hold

Key is to keep this at target of at least 5% points > Projected Market Return (15.7% here)

Total Return Matters Most How Much is Enough?

- Portfolio-Centered Decision Making
 - Manifest Investing’s Dashboard

Key is to keep this in Target Range of 5-10 percentage points > Projected Market Return

My Dashboards: Stock Pickers 2012

Company	Symbol	Shares	Price	Value	% of Total	Growth	Proj P/E	Proj Yield	Fin Str	EPS Stab	Qty	PAR
Masimo	MASI	1085.40	\$120.00	\$130,248.00	32.4%	14.3%	33.0	0.0%	88%	39	72	19.8%
Walgreen	WBA	2898.60	\$29.53	\$85,595.66	21.3%	4.1%	9.0	3.7%	51%	75	60	16.6%
ResMed	RMD	359.10	\$179.27	\$64,375.86	16.0%	10.9%	30.0	1.1%	99%	97	99	15.4%
CSG Systems	CSGS	820.01	\$54.55	\$44,731.40	11.1%	4.7%	19.0	1.5%	70%	79	53	10.4%
Archer Daniels Mid	ADM	350.40	\$86.44	\$30,288.58	7.5%	6.0%	12.0	2.3%	74%	80	77	9.3%
General Dynamics	GD	90.50	\$224.47	\$20,314.54	5.0%	4.2%	16.0	2.5%	97%	99	84	7.9%
First Financial Bankshares*	FFIN	458.00	\$31.82	\$14,513.56	3.6%	9.6%	20.0	1.5%	96%	96	96	6.1%
Cognizant Technology	CTSH	173.14	\$70.26	\$12,164.68	3.0%	7.4%	16.0	1.4%	95%	79	87	12.2%
	QSII	292.32										
Averages				\$402,292.26		9.0%	22.4	1.5%	80%	70	73.9	15.3%

• Source: www.manifestinvesting.com

MIPAR

9.9%

Total Return Matters Most Portfolio-Centered Decisions

- Total return at or above target of 15.7%:
 - Accumulate highest Tot Return consistent with reasonable diversification
 - MKSI in this example

Portfolio Overview: Features - Working

Alerts Overview Portfolio Features - Work

Portfolio Report Card - Dollar weighted averages

Total Return: 16.2 %
 Relative Value: 134.0
 Projected Average Return: 10.5 %
 Rational Value: \$ 184,588.10
 Upside/Downside Ratio 7.3 To 1
 Total Value: \$ 180,119.10
 Projected EPS Growth

Holdings

Ticker	Name	Shares	Last Quarter	Last Price	Total Return	Upside / Downside	Proj RV	Value
MKSI	MKS Instruments	6.5	3/31/2022	4/29/2022	34.7	31.6	50.5	736.31
AX	Axos Financial Inc	21.9	12/31/2021	4/29/2022	29.4	6.3	78.2	828.32
TROW	T. Rowe Price Group	14.6	12/31/2021	4/29/2022	26.8	16.6	61.2	1,794.17
SBUX	STARBUCKS CORP	79.1	12/31/2021	4/29/2022	26.0	99.9	64.1	5,905.22
LRCX	Lam Research Corp	1.4	3/31/2022	4/29/2022	25.9	9.3	74.1	653.93
SKX	Skechers USA Inc	39.2	3/31/2022	4/29/2022	24.8	9.0	43.6	1,500.21
MMS	Maximus Inc	91.2	12/31/2021	4/29/2022	24.5	99.9	74.9	6,647.38
FDX	FedEx Corp	4.4	2/28/2022	4/29/2022	21.4	4.3	61.8	877.44

Assume potential
market total
return of 10.7%

Total Return Matters Most

Portfolio-Centered Decisions

- Focus on projected total return takes emotion out of selling
 - Portfolio projected return above target
 - No sell needed
 - Portfolio projected return below target
 - Test accumulation of holding with highest projected return
 - If portfolio projected return still below target,
 - Consider adding new holding
 - Replace/sell holding with lowest projected return

Total Return Matters Most Portfolio-Centered Decisions

- Total return not above target of 15.7:
 - Test accumulation of highest Tot Return consistent with reasonable diversification
 - Test adding new stock
 - Challenge lowest return holding for possible replacement **(in this case MA)**

Assume potential market total return of 10.7%

Report Options: Summary | PERT | Diversification

Report Details

Show All entries

		Total Return	Proj Avg Return	Portfolio Total Value			\$179,797.54		
Ticker	Company	Price	Shares	Total Value	% of Portfolio	% Tot Ret	Rec		
FAST	Fastenal	55.31	160.0	8,849.60	4.9	29.8	Buy		
IIVI	II-VI	61.21	355.0	21,729.55	12.1	23.8	Buy		
BKNG	Booking Holdings	2210.31	9.0	19,892.79	11.1	16.8	Hold		
CTSH	Cognizant Tech Solns	80.90	300.0	24,270.00	13.5	16.1	Buy		
GIS	General Mills	70.73	300.0	21,219.00	11.8	11.5	Hold		
ANTM	Anthem	501.93	70.0	35,135.10	19.5	11.3	Hold		
TJX	TJX Companies	61.28	350.0	21,448.00	11.9	9.2	Hold		
MA	Mastercard	363.38	75.0	27,253.50	15.2	7.3	Hold		

Summary: % Total Return: 14.1

Total Return Matters Most Portfolio-Centered Decisions

- What about diversification?
 - Don't let it dominate decisions
 - Sector diversification works out over time
 - Let winners run
 - Consider it primarily in accumulation decisions

Keeping Focus on Total Return

- Can you have too much?
 - “If it looks too good to be true ...”
 - Be wary when total return exceeds projected market return by 10 or more points
 - Test your judgments
 - Especially projected P/Es
 - Projected growth, too
 - Does market know something you don't?

Summary

- Invest in high quality companies, selling at good values
 - Quality matters first
 - Value matters most, and is best measured by projected total return
- Focus on projected total return for overall portfolio, not just individual stocks

Summary

- Consider a variable target for portfolio return based on projected market return
- Sell when necessary to restore overall portfolio potential return to your target
- Beware of excessive projected total returns

Questions or Comments

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