“Put it before them briefly so they will read it, clearly so they will appreciate it, picturesquely so they will remember it and, above all, accurately so they will be guided by its light.” — Joseph Pulitzer

“Who are you people? Some kind of cult? You keep putting up these graphs and the audience in unison, without being prodded, ooohs or ahhhs like the crowd at a 4th of July fireworks display. Then you guys put up an image and the audience giggles and guffaws.” — David Carson. My wife and I went to the Broadway musical, “Newsies” with a couple of dear friends this past week and I was reminded of the 1899 newsboy strike/uprising and the work of one Joseph Pulitzer, founder of the St. Louis Post Dispatch. (Joe is the villain in the play.) But we know him for his Prize, his endowments for education and his guiding principle about clarity and vision.

I’m still working on forgiving David Carson and the St. Louis Post Dispatch. Because David was the one who took the accompanying picture where I, as one of the “Two Guys” was NOT PICTURED!!!

David was on hand for his day job as a photographer for the Post-Dispatch and he stuck around and asked a whole bunch of questions. It is our hope that he left the national convention and continued to seek successful investing for his personal endeavors. Welcome to our current fireworks show.
Business Model Analysis: Apple (AAPL). Apple is the most widely-followed company by Manifest Investing subscribers. 10% growth, 20% net margins and a projected average P/E of 18x combine to deliver a return forecast of approximately 15%.

Business Model Analysis: Context, Results & Potential Imagined

The screening results article for December (see page 6) provides a dozen stocks that appear to be well positioned and should make for good stock studies. Any stock study involves an audit of historical results from top-line sales to bottom line earnings. The high and low stock prices are displayed so we can be vigilant for those times when the price is historically “closer” to the EPS trend line. We derive growth expectations from the sales trend and profitability (distance between the sales and EPS data/trends). For the core component of our portfolios, we seek UP, STRAIGHT AND PARALLEL as meeting these characteristics means that we’re likely studying a quality company.
Prices Follow Earnings

In general, we all believe that stock prices eventually follow earnings. Think gravity. In the case of Oceaneering (OII), the roiled waters of petroleum prices has caused much turbulence for 2015-???. When you hear of an investment club accumulating OII — it's because they believe oil prices will — one day — increase again and the growth trend can be become a reality. When that happens, the Value Line 3-5 year price range of $60-90 is feasible and we can “see it” here:

**F5 Networks (FFIV).** 12-14% growth seems achievable and the EPS uptick for 2017 is “compelling.” Optimistic rhinos?
Analysis Tools

What-We-Do is not about the hammer. There are a variety of tools that can be used. The FFIV graphic was prepared with Toolkit software. The important thing to take away is the growth rate regression and we believe it’s extremely important to account for the next couple of annual forecasts (sales and EPS) made by the analysts. We include the influence of these estimates on the trend formation and regression. Our weekly updates are vigilant for any influences—positive or negative—with respect to sales and profitability trends and expectations. Ultimately, the impact of any adjustments or new information is measured to gauge any impact on the long-term return forecast.

As the accompanying business model analysis for Waddell & Reed (WDR) shows, we keep it simple for asset-based companies like asset managers, banks, brokers, insurance companies and REITS, we track book value vs. earnings with profitability measured by return-on-equity.

![Image](image_url)

**Waddell & Reed (WDR).** For asset-based companies like asset manager WDR, we use book value vs. EPS for trending and forecasting. The distance between book value and EPS is return on equity (ROE) so profitability is displayed. Low- to mid-single digit growth leads to above-average returns but 2015-16 could be lackluster.

Judgment Milestones

We believe that any stock study should emphasize three primary fill-in-the-blanks decisions. (1) What is the growth forecast? (2) What is the profitability trend? This produces the EPS forecast as part of the business model analysis. (3) What is a reasonable long-term average P/E ratio for the company? Keep in mind that the distance between the price bars and the EPS points/trend is actually a visual representation of the historical P/E ratio.
Stericycle (SRCL). Using the online SSG tool via NAIC, it’s fairly easy to see why Nick Stratigos selected SRCL for our Round Table with 14-15% growth and Eddy Elfenbein added the company to his Buy List for 2016 at http://crossingwallstreet.com.

Big Picture: Long-Term Perspective

Many of the remaining companies from the Christmas Countdown screen have been featured in the Solomon Select feature. Scripps Networks (SNI) is an example this month. We’ll add updated business model images for all (in the Forum) of the remaining companies but take a look back at previous features for Maximus (MMS), Cognizant (CTSH), Skyworks (SWKS). Let the analysis be picturesque, clear and guiding.

Mark Robertson

Mark Robertson is founder and managing partner of Manifest Investing, a source for research and portfolio management focusing on strategic long term investors.