

Digging Into the myICLUB Portfolio Review Report

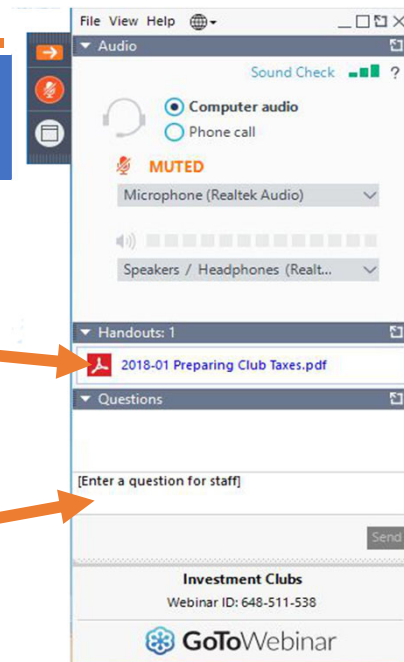
DOUG GERLACH • MYICLUB.COM • JULY 2024



Handout & Questions

Handout in PDF
format is available
in Handouts tab.

Type questions in
Questions box.



Where's Doug?



- Aug 10, 2024 - West Texas BetterInvesting Chapter
- Aug 17, 2024 - Oklahoma BetterInvesting Chapter
- Aug 24, 2024 - North Carolina BetterInvesting Chapter
- Sep 09, 2024 - New Jersey BetterInvesting Chapter [Online]
- Sep 14, 2024 - Heartland BetterInvesting Chapter
- Sep 21, 2024 - Alaska BetterInvesting Chapter
- Oct 12, 2024 - Rocky Mountain BetterInvesting Chapter [Online]
- Oct 26, 2024 - Puget Sound BetterInvesting [Online]
- Nov 02, 2024 - LA/MS BetterInvesting Chapter
- Dec 07, 2024 - Philadelphia BetterInvesting Chapter



See details at www.smallcapinformer.com/Resources/Upcoming-Events

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In This Session



- Become acquainted with the myICLUB Portfolio Review Report.
- Learn how to identify company problems before too much damage has been to stock's price.
- Discern trends that suggest further deterioration of company fundamentals is likely or possible.
- Review valuations to ensure portfolio objectives are met.
- Take action when company fundamentals weaken.

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GETTING ACQUAINTED WITH THE MYICLUB PORTFOLIO REVIEW REPORT

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Assumptions & Definitions



- BetterInvesting's **Stock Selection Guide (SSG)** was created as framework for its style of growth/value stock investing.
- **Portfolio Review Report** was created to help manage portfolio of stocks (& not other types of securities) selected using SSG.
- Factors used in Portfolio Review Report may not apply to stocks selected using other strategies:
 - Momentum, high dividend yield, technical, value, market timing, swing trading...

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Background & History



- Before personal computers, updating complete SSG by hand was **very time-consuming**.
- NAIC/BetterInvesting developed suite of **portfolio management forms** to track progress of important company fundamentals.
- Collectively, these were known as “**Portfolio Evaluation Review Technique**” (**PERT**).

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Portfolio-Specific PERT Forms & Reports



- PERT Report (aka **Portfolio Review Report**).
- Also in **myICLUB** are several reports that derive from PERT:
 - Portfolio Summary.
 - Portfolio Trend.
 - Portfolio Offense.
 - Portfolio Defense.
- Once Portfolio Review basics are understood, these should be more reliable.

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Company-Specific PERT Forms



- Not in myICLUB:
 - Portfolio Management Guide (aka Stock Management Guide).
 - PERT-A Report (aka Quarterly Trend Report).
 - PERT-A Graph (aka Quarterly Trend Graph).
 - PERT-B Report (aka Annual PE Analysis Report).

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Purpose of PERT



- Aid to **monitoring portfolio & verifying that stocks are meeting expectations** from SSG.
- Using PERT forms allows **changes in company's condition to be spotted & tracked** over time.
- Once trend develops, **action can be taken**.
- It's **good portfolio management!**

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PERT Is an Early Warning System



- There are almost always signs that tip off investors of possible trouble with company.
- Instead of merely looking at annual data (on SSG), monitor **quarterly changes in company conditions.**
- This is key to portfolio management—**regularly monitor holdings to identify small changes in fundamental trends before they add up to big disasters.**
- Quarterly review of stocks (at minimum) is required.

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What Are Poor Fundamentals?



- Something **bad happened** (or **is feared to happen**) to company:
 - Revenues & EPS aren't growing as expected.
 - Income statement/balance sheet fundamentals weaken.
 - Troubling news about company.
 - Macro concerns about economy, inflation, interest rates.
- Frequently these are easily identified.
- Some may push price down but not come to fruition or be significant to long-term prospects (**buying opportunity?**).
- Others may be start or continuation of trend which goes on for some time (**reason to sell?**).

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Spotting Signs of Poor Fundamentals



- Most problems **eventually** show up on SSG:
 - Slowing or falling revenues and/or EPS
 - Declining share price and/or P/E ratio.
 - Slowing or declining profit margins.
- However, SSG is focused on annual viewpoints, while **companies report quarterly**.
 - Only relying on SSG shows problems *after stock price is beaten down!*
- Need to **monitor holdings for signs of company troubles—before they get out of hand.**

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MYICLUB PORTFOLIO REVIEW REPORT

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Portfolio View Report Basics



- Report is “**SSG without a graph**” (in words of Ralph Seger) for entire portfolio.
- Shows changes in quarterly/TTM sales, pre-tax profits, EPS, & pre-tax profit margins as % of sales.
 - Are these rising or declining? How does rate of change match with your expectations?
- Also shows price & return metrics from stock’s current price:
 - Current & future PEs, Relative Value, projected EPS growth, upside/downside ratio, potential total return.
- Potential problem areas are highlighted

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SSGPlus & myICLUB



- PERT Report & Portfolio Review Report are intended to show same results on both SSGPlus & myICLUB:
 - Assuming same SSG inputs.
 - There may be some discrepancies.
- Help pages & document for SSGPlus PERT Report & other portfolio tools can be good reference.

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What Securities Show on Report?



- Only publicly-traded North American common companies are shown on report.
- Uses **Quote Symbol** in club's **Security Settings**.
- Includes REITs, ADRs, publicly-traded partnerships.
- Does not include most stocks selling on "pink sheets," ETFs, mutual funds, private securities, non-US stocks trading on non-US exchanges.

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How Is "Judgment" Data Handled?



- **If stock has linked SSG prepared by StockWatcher:**
 - Fundamental data & price/return are used from that SSG (no matter how old).
- **If stock has no linked SSG:**
 - Fundamental data comes from myICLUB's Morningstar data.
 - Price comes from most recent club valuation. Judgment-related return metrics show as "N/A."
- **Report is most useful when members maintain updated SSGs for all club holdings.**

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Getting Help



- Header definitions & shading explanations is available from the **Help** page:

myICLUB

Home Club Hub Sign Up Login Buy/Renew Blog Forum Help

Club Basics
How to Start a Club
About myICLUB.com
Why Switch to myICLUB?

Portfolio Review
The Portfolio Review Report lets you view quarterly operations and the percent changes from the comparable periods in the previous year to receive early warning signals when you need to investigate sub-par performance.
In the spring of 2021, the report started using information from stock studies that members could select from their

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Getting More Help



The World's Most Popular Tool for Investment Club Operations and Accounting

myICLUB.com User Guide



- myICLUB User Guide also contains explanations & descriptions.
- Available from **Help** page.

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Default vs. Extended Report



- On myICLUB, report initially shows in abbreviated format, without some fields & underlying data used in calculations.
- Easier to interpret than full version.
- Can display full version by clicking “**Show extended report**” at top.

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Default Report View



Portfolio Review Report



A comprehensive summary of key fundamental changes and values of stocks in the club's portfolio, using data and judgment from each **StockWatcher's** most recent BetterInvesting **SSGPlus** stock study. ([How do I import my SSGs?](#))

Show extended report

Tip: Move your mouse over the column headers to display definitions.

Company	Qtr End	EPS		Sales		Pre-Tax Profit		TTM EPS		Proj PE	Price	Proj RV	Est EPS Grwth	PEG Ratio	Rwd./Rsk Ratio	% Total Ret
		% Chg	% Chg	% Chg	% Sales	% Chg	% Chg									
AAPL <i>(Doug Gerlach, 7/16/2024)</i>	3/24	0.7	-4.3	-1.1	30.9	9.2	33.1	234.40	7/15/24	146.6	10.0	3.3	0.4	4.5		
AL <i>(Earl Alphonse, No SSGPlus Link)</i>	3/24	-17.9	4.3	-14.5	20.4	20.4	N/A	47.53	6/30/24	N/A	N/A	N/A	N/A	N/A	N/A	
CCS <i>(Russell Malley, 7/15/2024)</i>	3/24	92.3	26.0	91.6	8.9	-29.2	9.1	90.50	7/12/24	130.4	10.0	0.9	1.2	10.2		

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Extended Report View



Show extended report

Tip: Move your mouse over the column headers to display definitions.

Company	Qtr End	EPS		Sales		Pre-Tax Profit			TTM EPS		Proj PE	Price	Proj RV	5 Yr Avg P/E Ratio			Est EPS Grwth	PEG Ratio	Rwd / Rsk Ratio	% Total Ret	5-Yr Est Prices	
		\$	% Chg	Mill \$	% Chg	Mill \$	% Chg	% Sales	\$	% Chg				Hi	Avg	Lo					Lo	Hi
AAPL (Doug Gerlach, 7/16/2024)	3/24 03/23	1.53 1.52	0.7	90753.0 94836.0	-4.3	28058.0 28382.0	-1.1	30.9 29.9	6.43 5.89	9.2	33.1	234.40 7/15/24	146.6	27.5	22.6	17.7	10.0	3.3	0.4	-4.5	114	285
AL (Earl Alphonse, No SSGPlus Link)	3/24 3/23	0.87 1.06	-17.9	663.3 636.1	4.3	135.3 158.3	-14.5	20.4 24.9	4.96 4.12	20.4	N/A	47.53 6/30/24	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
CCS (Russell Malley, 7/15/2024)	3/24 03/23	2.00 1.04	92.3	948.5 753.0	26.0	84.3 44.0	91.6	8.9 5.8	9.01 12.73	-29.2	9.1	90.50 7/12/24	130.4	10.0	7.0	4.0	10.0	0.9	1.2	10.2	45	145
CHD (Doug Gerlach, 7/16/2024)	3/24 03/23	0.93 0.82	13.4	1503.3 1429.8	5.1	284.1 268.8	5.7	18.9 18.8	3.15 1.66	89.8	30.0	101.18 7/15/24	110.4	32.2	27.2	22.2	7.0	4.3	1.3	8.3	70	142

What's Different in Extended Report?



Show extended report

Tip: Move your mouse over the column headers to display definitions.

Company	Qtr End	EPS		Sales		Pre-Tax Profit			TTM EPS		Proj PE	Price	Proj RV	5 Yr Avg P/E Ratio			Est EPS Grwth	PEG Ratio	Rwd / Rsk Ratio	% Total Ret	5-Yr Est Prices	
		\$	% Chg	Mill \$	% Chg	Mill \$	% Chg	% Sales	\$	% Chg				Hi	Avg	Lo					Lo	Hi
AAPL (Doug Gerlach, 7/16/2024)	3/24 03/23	1.53 1.52	0.7	90753.0 94836.0	-4.3	28058.0 28382.0	-1.1	30.9 29.9	6.43 5.89	9.2	33.1	234.40 7/15/24	146.6	27.5	22.6	17.7	10.0	3.3	0.4	-4.5	114	285
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CCS (Russell Malley, 7/15/2024)	3/24 03/23	2.00 1.04	92.3	948.5 753.0	26.0	84.3 44.0	91.6	8.9 5.8	9.01 12.73	-29.2	9.1	90.50 7/12/24	130.4	10.0	7.0	4.0	10.0	0.9	1.2	10.2	45	145
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Shows underlying values for each quarter.

Shows projected high, low & average PEs from SSG (used in Proj RV calculation).

Shows projected high & low prices from SSG (used in Rwd/Rsk & Tot Ret calculations).

Report Organization



Left side shows fundamentals.

Right side shows price & return.

Company	Qtr End	EPS		Sales		Pre-Tax Profit		TTM EPS		Proj PE	Price	Proj RV	Est EPS Grwth	PEG Ratio	Rwd / Rsk Ratio	% Total Ret
		% Chg	% Chg	% Chg	% Sales	% Chg	% Chg									
AAPL <i>(Doug Gerlach, 7/12/2023)</i>	3/23	0.0	-2.5	-5.8	29.9	-4.4	29.6	188.08 7/11/23	176.5	8.0	3.7	0.0	0.2			
AL <i>(Earl Alphonse, No SSGPlus Link)</i>	3/24	-17.9	4.3	-14.5	20.4	20.4	N/A	50.24 4/30/24	N/A	N/A	N/A	N/A	N/A			
CCS <i>(Russell Malley, 7/15/2024)</i>	3/24	92.3	26.0	91.6	8.9	-29.2	9.1	90.50 7/12/24	130.4	10.0	0.9	1.2	10.2			

Matters of "fact"

Matters of "judgment"

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Start with Left Side Fundamentals



Company	Qtr End	EPS		Sales		Pre-Tax Profit		TTM EPS		Proj PE	Price	Proj RV	Est EPS Grwth	PEG Ratio	Rwd / Rsk Ratio	% Total Ret
		% Chg	% Chg	% Chg	% Sales	% Chg	% Chg									
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AL <i>(Earl Alphonse, No SSGPlus Link)</i>	3/24	-17.9	4.3	-14.5	20.4	20.4	N/A	N/A	N/A	N/A	N/A	N/A	N/A			
CCS <i>(Russell Malley, 7/15/2024)</i>	3/24	92.3	26.0	91.6	8.9	-29.2	9.1	90.50	130.4	10.0	0.9	1.2	10.2			
CHD <i>(Doug Gerlach, 7/16/2024)</i>	3/24	13.4	5.1	5.7	18.9	89.8	30.0	100.00	100.00	10.0	1.0	1.0	8.3			
DRI <i>(Doug Gerlach, 7/16/2024)</i>	5/24	0.0	6.8	2.2	12.2	6.8	15.4	100.00	86.0	9.0	1.7	7.5	16.4			
ELUXY <i>(Unassigned, No SSGPlus Link)</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A			

Pink shading is first indication that trouble may be brewing.

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Interpreting Pink Shading on Report



- Items are shaded pink if actual results are **less than projected growth rate on StockWatcher's SSG**.
 - *Though SSG doesn't include projected pre-tax profit growth, PTP should track EPS over time & thus will be compared to SSG projected EPS growth rate.*
- **If company is growing EPS, PTP, or Sales more slowly in recent quarters than long-term SSG growth estimate, further analysis is likely required.**

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Evaluating Quarterly Performance



- Any company can slip for quarter or two.
- StockWatcher should be able to explain **why** (from company reports & earnings calls).
- Due to cockroach theory, price often declines for these companies, which could **be buying opportunity**.
- However, companies should be watched closely since **continuing fundamental downtrends could cause devastating price declines**.

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Focus on Changes in Pre-Tax Profits



- Problems with EPS can be masked:
 - By share buybacks.
 - By earnings adjustments.
 - By changes in tax rate.
- However, pre-tax profits are not as easily manipulated.
 - Reviewing PTP trends regularly may spot problems before other market participants do (& price falls still further).
- Monitor SSG Plus **Quarterly Growth Trend Graph** for these stocks.

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Interpreting Quarterly Growth Trends



- **Look for trends**, short- & long-term.
 - 1 or 2 quarters is *not* a trend
 - Consider industry cycles or seasonality (may be useful to look at Quarterly instead of TTM for seasonal companies).
- Trends do not predict the future, however, **the bigger the boat, the harder it is to change course.**
- Greater number of quarters PTP is affected, greater chance that long-term shift is in place.
- Company recovery to prior rate of growth (**if it happens**) may take several years.

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Using PTP Trends as Early Warning System



- Pre-Tax Profit (PTP) should regularly grow at same rate as EPS.
 - Except if shares are bought back/issued, EPS adjusted, or tax rate changes.
- If PTP grows **slower** than estimated EPS growth rate and/or PTP growth rate declines, then:
 - Estimated EPS growth on SSG is too high, and/or
 - Something is negatively affecting company's profitability.
- **Growth below 0% is always troublesome.**
- Companies with negative trends may appear fine on SSG, *but must be watched closely.*

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5 Key Questions to Ask



1. Why are sales, PTP, EPS not growing well?
 - Investigate & understand reasons.
2. What does management say?
 - If reason for disappointment makes sense, give them some slack.
3. Is this tip of iceberg?
 - Often, small visible problems mask larger concerns.
4. Is problem temporary or permanent?
 - If temporary, how long will you hold? **Set a deadline, no more than 5 quarters.**
5. Can you find replacement?
 - Almost certainly!

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Why This Early Warning System Works



1. Company missteps, & market penalizes stock.
2. Stock drifts along, with market participants ambivalent to fundamentals, for several quarters **until company improves or crashes**.
3. During this period of drift, savvy individual investors can spot downtrends & extricate themselves before others see trends.
4. In some cases, companies may reverse trends—but companies with more consistent results usually prove better suited to buy-and-hold portfolio.
5. Never look back once decision has been made to sell or replace stock.

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Next, Consider Value & Return Metrics



GILD <i>(Russell Malley, 7/15/2024)</i>	3/24	-517.5	5.3	-445.1	-67.1	-91.9	174.1	69.96 7/12/24	1105.6	11.6	15.0	-4.4	-28.2
GMED <i>(Doug Gerlach, 7/16/2024)</i>					-1.4	-67.5	101.4	72.00 7/15/24	353.1	11.0	9.2	-0.6	-11.9
META <i>(Doug Gerlach, 7/16/2024)</i>				38.9	116.0	26.9	496.14 7/15/24	136.5	6.0	4.5	0.6	6.2	
MLR <i>(Doug Gerlach, 7/16/2024)</i>				6.1	137.8	9.8	60.50 7/15/24	78.8	8.0	1.2	13.6	18.1	
MSFT <i>(Unassigned, No SSGPlus Link)</i>				43.2	25.1	33.7	446.95 6/30/24	N/A	N/A	N/A	N/A	N/A	
NVO <i>(Unassigned, No SSGPlus Link)</i>				48.8	52.7	42.2	142.74 6/30/24	N/A	N/A	N/A	N/A	N/A	
OLED <i>(Doug Gerlach, 7/16/2024)</i>	3/24	43.4	26.7	36.5	42.7	10.0	43.5	230.22 7/15/24	174.1	15.0	2.9	0.3	4.5

Yellow highlighting indicates possible areas of concern re: valuation & return.

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Interpreting Yellow Highlighting on Report



- Portfolio Review Report flags values in **yellow** if:
 1. Upside/Downside Ratio < 1:1.
 2. Projected Relative Value > 150% OR < 80%.
 3. Projected Total Return below 10%.
- *Stocks may be overvalued due to success OR to failure!*

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“4 Strikes, You’re Out”



- Stock that meets all 3 previous criteria AND is in SSG sell zone is strongest candidate for replacement.
- **Stocks with limited upside threaten total portfolio returns.**
 - However, market loves success stories & may carry these stocks along at excessively-high valuations for some time.
 - *Always exercise care when holding over-priced stocks.*

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Look for Signs of Irrational Exuberance



- Often, underperformers may appear to be “good values.”
 - But fundamental problems can quickly turn “bargain” stocks into “out of business” stocks.
- In other cases, prices may reach historically-high levels (as measured by P/E ratios).
- Often best to **hold overvalued stocks during overvalued markets**, but should **replace hypervalued stocks when they reach historically-high valuations**.

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TAKING ACTION

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Portfolio Review Report Is No Crystal Ball



- Portfolio Review Report is **aid to judgment, not replacement.**
- By monitoring companies regularly, can spot troubles earlier than others & take action before greater damage is done.
- Often, weather reports predict storms that don't materialize – but it's always better to be prepared.

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Understand & Categorize Company Problems



- Company problems fit into 3 categories:
 1. Temporary problems that resolve quickly.
 2. Temporary problems that turn into permanent problems.
 3. Permanent/long-term problems.
- Put stocks with high levels of uncertainty “**On Probation.**”

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Don't "Buy and Forget"



- Fundamental problems should be addressed before valuation concerns.
- Like radar operator, you should be constantly scanning portfolio for signs of real fundamental trouble.
- Even if you are occasionally wrong, **if you are uncertain about company, replacing it will likely improve portfolio.**

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Don't Hold Uncertainty



- Holding "uncertainty" is never recommended.
- If unsure, ask "can you find stocks that stimulate more confidence?"
- **Use logic & experience to evaluate & take action.**

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Is Replacement Needed?



- If unsure about company, label stock in question “**Available For Cash**” (**AFC**).
- Over next few meetings, search for replacement candidates.
- If company recovers before replacement is found, **great!**
- If not, **compelling candidates will provide ample rationale to replace underperformers.**

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More Questions?



CONTACT ME AT
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