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BETTERINVESTING MAGAZINE

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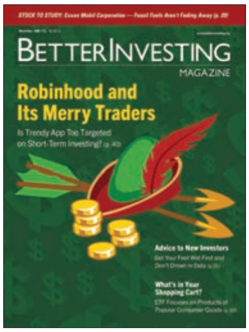
BetterInvesting's mission is to provide a program of sound investment information, education and support that helps create successful lifetime investors.

OUR PRINCIPLES

- Invest a set amount regularly.
- Reinvest earnings, dividends and profits.
- Invest in quality growth stocks and equity mutual funds.
- Diversify your investments.



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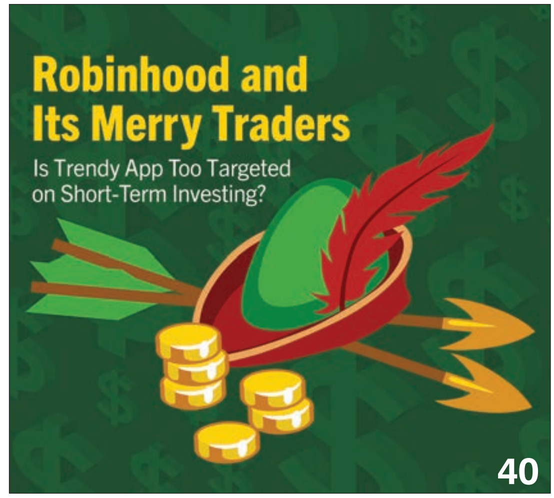

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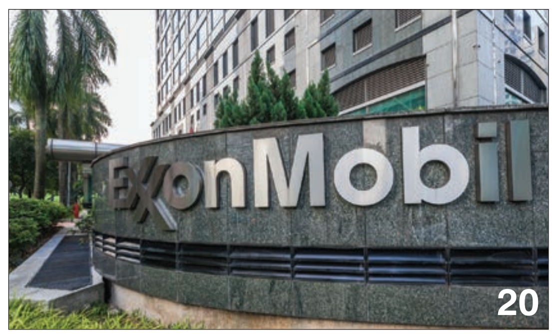

UNDERVALUED STOCK

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PERFORMANCE REVIEW

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Upcoming Events

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BetterInvesting *Online*

BetterInvesting members have the opportunity to expand their learning through online classes. Please join us for the following webinars. Most webinars last from one hour to 75 minutes. Register at: **www.betterinvesting.org/webinars**

Supercharge Your Analysis With SSGPlus
A Virtual BINC 2020 Recording

OnDemand* • *Free

Investigate the analysis techniques in SSGPlus preferred by experienced investors to help make reasonable projections on the SSG, especially in these volatile times. Topics include: Review peer data to avoid a troubled industry or stock. Dig deeper into analyst estimates to guide your growth projections; learn when it makes sense to start the growth projection from the trend line; and explore the built-in research links to analyze stocks like a pro. Presenter: Suzi Artzberger, BetterInvesting's director of information technology and product manager for the Online Stock Tools.

Investing With a Checklist
A Virtual BINC 2020 Recording

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The SSG tells us a wealth of information about a stock. Why is it that every time you buy a stock the price then seems to go down? You don't think you overlooked anything in your evaluation, did you miss something? The lowly checklist can help us not overlook items in a stock review that can lead to loss of our hard-earned money! Even Warren Buffett and Charlie Munger use a checklist. Presenter: Kim Butcher is a past member of the BetterInvesting Volunteer Advisory Board. She is currently a member of Bionic, an online club that has members from the East Coast to the West Coast.

Stock Selection Guidelines for Unusual Times
A Virtual BINC 2020 Recording

OnDemand* • *Free

Ken Kavula reviews how to handle those SSGs that just don't seem to work in today's volatile markets. The extreme movement of stock prices, the complete shutdown of major parts of the economy and the reluctance by many of us to gather in groups has made for some very unusual circumstances when it comes to looking at companies for our portfolios. Ken has some practical guidance for thinking through what might happen in the next five years and then applying some of those thoughts to the Stock Selection Guide. Keeping a clear head and applying our BetterInvesting principles should allow us to continue to invest regularly in high-quality companies that are selling at reasonable prices. Presenter: Ken Kavula has been recognized by BetterInvesting for his educational efforts, most recently with the George Nicholson Award for outstanding contributions to investment education.

Projecting Growth on the SSG From a Down Year
A Virtual BINC 2020 Recording

OnDemand* • *Free

The global health crisis has impacted markets and investors worldwide, causing an economic recession and depressing sales and earnings for many companies in 2020 (and potentially beyond), and presenting difficulties in projecting growth on the Stock Selection Guide. But with the help of a spreadsheet and analysts' estimates (or corporate guidance), it's possible to build a model for a company's five-year EPS and revenues that can then be input into Toolkit 6 or the SSGPlus. Doug Gerlach will review his spreadsheet tool for calculating long-term growth rates for companies that are facing a down year for 2020, including where to gather analysts' estimates in one step for an entire portfolio. Presenter: Doug Gerlach is the author of six books and editor in chief of the award-winning Investor Advisory Service and the SmallCap Informer newsletters. Doug is a popular speaker and contributor to *BetterInvesting Magazine* and other public webinar recordings that can be easily viewed by those in the BetterInvesting community.

Analysis Tools Can Help Winnow Out Most Adaptable Companies

The Survival of the Fittest Stocks

The ever-changing impact of government policies and regulations on corporate performance isn't easily decipherable for investors, whose priority is accurately forecasting stock performance for the long term.

A case in point is the U.S. automobile industry. General Motors, Ford and the awkwardly named Fiat Chrysler (soon to be renamed, even more awkwardly, Stellantis) were decades ago among the most reliable moneymakers on the planet. Their profits transformed Detroit into one of the globe's wealthiest cities. Years passed. Along came the Clean Air Act, the National Highway Traffic Safety Administration, the Environmental Protection Agency and NAFTA, not to mention impressive new competition from the likes of Toyota and Hyundai. The rules changed equally for all automakers who intended to sell in the U.S. — but not all automakers adjusted in equal measure. Today, once mighty GM and Ford rank low on the list of recommended stocks.

By contrast, neither Blockbuster nor Netflix encountered shifting regulations. But only one of them prospered. For Netflix, shares have racked up a compound average growth rate (CAGR) of 37.5% for the past 10 years, establishing it as a phenomenal equity. Prodigious luck and skill are needed to spot such investments in their early days. Yet some names in highly regulated and competitive industries manage to surge forward for years, maintaining remarkable records of growth in revenue and earnings, as well as top marks in standard metrics like return on equity and return on invested capital. A good example is Amgen, the biotech pharmaceutical company whose products must pass muster with the Food and Drug Administration, a fussy medical establishment, and foreign price regulators.

For the past 10 years, Amgen's CAGR of total return is 18.8%. Among drug manufacturers, the company's 10-year average growth of sales is 5.6% compared with the industry's average 2.6%, according to BetterInvesting's online analytic tools. Amgen's growth rate of earnings per share for the decade averages 9.4% versus 3.4% for the industry. Why does Amgen do well and even better on average than its peers? The reasons surely are complex, though a smart, disciplined management often is key. Almost certainly Amgen has mastered the kaleidoscopic rules and boundaries standing between it and the distribution of blockbuster drugs like Enbrel, one of the top-selling treatments for arthritis.

As Charles Darwin asserted, survival of the fittest doesn't necessarily mean survival of the strongest or the quickest; survival favors the most adaptable. Correctly forecasting changes in government policy is a dicey enterprise — picking companies that can respond successfully takes little more than understanding and using the analytic tools at your disposal.

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Recently we have significantly reduced and simplified the number of member emails being sent. Our primary form of communication is the new BetterInvesting Weekly e-newsletter. BetterInvesting Weekly is an included feature of your membership; sign up today by visiting **www.betterinvesting.org/my-account?tab=2.** As part of our simplification process, we are now exclusively sending member emails from **community@betterinvesting.org**. To ensure our emails do not end up in the spam or junk folder, we recommend that you whitelist **community@betterinvesting.org** by saving it to your email address book.

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Performance Parameter	At 8/31/2020	5-Year Change Annualized
BetterInvesting 100 Index (BIXX)	447.50	12.31%
BetterInvesting 100 Index (BIXR — Total Return)	616.51	13.96
S&P 500 Equal-Weight Index (Total Return)	8,293.06	10.11
Vanguard Total Stock Market (CRSP U.S. Total Market)	86.32	13.69
Dow Jones Industrial Average (DJIA)	28,430.05	11.46
S&P MidCap 400 Index	1,926.54	6.34
Russell 2000 (Small-Cap Index)	1,561.88	7.58
Nasdaq Composite	11,775.46	19.78
MSCI EAFE (Europe, Australasia, Far East) Index	1,909.99	1.92
MSCI Emerging Markets Index	1,101.50	6.11
Value Line Arithmetic Composite	6,512.71	8.58
Consumer Price Index (May)	259.92	2.27

Sources: Yahoo Finance, Value Line, Bureau of Labor Statistics, MSCI, Standard & Poor's, Solactive, Google, FTSE Russell

Most Active List

Here are the companies attracting the interest of the BetterInvesting community, according to about 7,700 transactions by users of myICLUB club accounting for the trailing eight weeks ended Sept. 8.

Company (Ticker)	Buys-Sells
1. Apple (AAPL)	242-138
2. Microsoft (MSFT)	116-30
3. Tesla (TSLA)	99-25
4. Amazon (AMZN)	84-38
5. Pfizer (V)	90-6
6. Disney (DIS)	38-57
7. Alphabet (GOOG)	55-30
8. Visa (V)	49-35
9. Moderna (MRNA)	64-11
10. CVS Health (CVS)	51-19
11. Intel (INTC)	45-24
12. PayPal (PYPL)	38-29

This list is presented as a source of stock study ideas. No investment recommendation is intended.

Our thanks to ICLUBcentral for this information.

We maintain a Most Active List at BetterInvesting website's homepage, and a monthly list is published at: **www.myiclub.com**

Most Active List: Bubbling Under

Nos. 13-40 With Buy-Sell Ratio Over 2:1
Transactions for trailing eight weeks ended Sept. 8.

Company	Ticker	Buys	Sells	Total
AbbVie	ABBV	55	6	61
Walmart	WMT	40	14	54
Johnson & Johnson	JNJ	38	10	48
Zoom Video Comm.	ZM	40	7	47
Verizon Comm.	VZ	27	11	38
Netflix	NFLX	30	7	37
Advance Micro Dev.	AMD	24	8	32
McDonald's	MCD	20	10	30
Qualcomm	QCOM	21	7	28
Teladoc Health	TDOC	25	2	27
Clorox	CLX	19	8	27
Lowe's	LOW	20	6	26
AstraZeneca	AZN	23	0	23
Merck	MRK	15	6	21
CrowdStrike	CRWD	17	3	20
DocuSign	DOCU	15	4	19
Novavax	NVAX	15	4	19
United Parcel Service	UPS	14	4	18
Adobe	ADBE	13	5	18
Carrier Global	CARR	12	6	18
Abbott Laboratories	ABT	17	0	17
Essent Group	ESNT	13	4	17
Fastly	FSLY	13	4	17
3M	MMM	13	4	17
Invesco QQQ	QQQ	13	4	17
Paychex	PAYX	12	5	17
Target	TGT	12	3	15
Vertex Pharma.	VRTX	10	5	15

Source: myICLUB

Apple stock not only dominates the interest of BetterInvesting members, the stock is the tail that wags the dog in terms of two big stock market indicators, the Dow Jones Industrial Average and the S&P 500. Apple, representing twice as many "buys" than the next most popular stock among BetterInvesting members, announced a 4-for-1 stock split on Aug. 10. Shares gained about 20% over two weeks, only to slide back two weeks later. Wonder of wonders, the Dow and S&P performed similarly, in part because Apple is influential, one of the 30 stocks included in both. But a critical difference should be noted: The Dow is an average based on the prices of 30 stocks. The split sliced Apple's impact on the Dow by about 75%. The S&P is an index based on market capitalization; its influence on this key indicator is unchanged. *(Stocks are mentioned only for educational purposes no investment recommendations are intended.)*

Record Low Interest Rates May Outweigh Pain of Upfront Costs

Is Refinancing Your Home Worth It?

by Natasha Gural

Plunging mortgage rates are a major incentive for homeowners to refinance, as shaving off just 0.25% could save tens of thousands of dollars over the life of the loan.

It's essential to look at this as a long-term move and not just a way to slash monthly bills.

"Mortgage rates are at record lows and homeowners can realize meaningful monthly savings by refinancing at today's rates," said Greg McBride, CFA and chief financial analyst for Bankrate. "Saving $100, $200 or more per month adds up to tens of thousands of dollars over the term of the loan."

McBride warned that "refinancing is not free."

"There are closing costs, title and settlement fees, taxes and prefunding of escrow accounts that can mean bringing a check for a few thousand dollars to the closing table — or rolling that into your loan balance," McBride said. "If you have $4,000 in closing costs and save $200 per month on the refinance, you'll earn back those costs in less than two years."

"Also, some of your closing costs are just a temporary outlay. For example, prefunding the escrow account for your property insurance and property taxes can be a chunk of change at closing," he added. "But after closing, when your old loan is paid off the escrow balance is sent back to you by your old lender."

There are multiple free mortgage refinancing calculators online to help you find the best rates.

"I always encourage clients to look at the interest they will save over the life of the loan, rather than just the monthly savings. Sometimes, refinancing and resetting a loan to 30 years is a good move if you can make a higher return with the extra cash flow you will generate," said David Dye, founder and CEO of GoldView Realty in the Los Angeles area.

"I recently had a client cash out his home to pay off his margin account with his local stock brokerage. This was a wise move for him as the interest he was paying on the margin account was two-and-a-half times that of his new mortgage interest rate. This was an acceptable move because he could still comfortably afford the monthly payment."

Dye recommends a cash-out refinance as "a fantastic way to fund other investments." Home loans are offered at far lower rates than other types of loans and a reduced interest rate on capital used for investment bolsters returns.

"The downside is that your home is at risk if the investments go sideways and you cannot afford the larger payments any longer," Dye warned.

Shedding just 0.25% could save tens of thousands of dollars over the life of the loan, Dye said. "While most borrowers worry about a few thousand in closing costs, which can often be rolled into the refinance, closing costs are often peanuts when compared to the interest savings over the life of the loan," he said.

"Right now is the best time to refinance we have seen in recorded history," said Dye. "Home values are at record highs and interest rates are at record lows.

Home loans are currently the cheapest debt available to consumers in the market, Dye said.

"It is hard to believe that in the 1980s home interest rates were being offered at over 18%," Dye recalled. "Even if you do not need the cash flow, refinancing allows you to lower your minimum payment. This allows you to make additional principal payments, accelerating the time it takes to pay off your loan."

There's motivation to act quickly.

In late August, the Federal Housing Finance Agency instructed Fannie Mae and Freddie Mac to push back implementation of a new fee that seeks to offset heavy losses brought on by the COVID-19 pandemic. The mortgage behemoths had announced earlier in August that they would begin charging lenders a 0.5% "adverse market" fee on all refinances beginning on Sept. 1, but they must now wait until December to implement the fee.

The FHFA also directed Fannie and Freddie to exempt loans with balances below $125,000, as well as loans made through Fannie Mae's HomeReady and Freddie Mac's Home Possible affordable refinance programs, which are designed for low-income Americans and first-time homeowners.

"If your interest rate is high enough and you have a significant amount of money on your loan it's absolutely worth refinancing," said real estate analyst Dennis Shirshikov. "Rates are very low and likely to stay the same or rise in the near future."

Depending on the value of your home, your current rate and the outstanding balance of your home, you could save as much as $100,000 by refinancing now, Shirshikov said.

"It's good to refinance now, just be aware of the fees," he said. "On a short-term refinance, the fees can outstrip the savings. Speak to a loan officer to make sure this isn't the case for you."

Due Diligence

Is Bipartisan Push Against Big Tech a Serious Storm or Just Hot Air Rising?

Technology's Perfect World Might Soon Be Less Perfect

by Thomas D. Saler

For investors in technology stocks, market conditions in recent years could hardly have been more favorable. With the economy expanding at a glacial pace amid a throbbing hangover from the Great Recession, investors sought out companies that could grow their top- and bottom-lines at above average rates.

In part, that faster growth was powered by global businesses needing productivity-enhancing technology to remain viable in an environment of limited pricing power. Over the 10 years through early 2020, the S&P 500 Information Technology Index averaged about a 20% annualized return, or roughly double the gain of the S&P 500 Index (*see Websites of Interest*).

Then came COVID-19, which moved more people online for longer, thus accelerating trends already in place. From January through mid-August 2020, the S&P 500 Information Technology Index returned 26% even as the broad equity market was flat, unemployment reached double-digits and the U.S. economy shrunk by almost 10%. Meanwhile, the internet retailer Amazon became the first public company to achieve a $2 trillion market capitalization. If Amazon were a country, it would own the world's eighth biggest economy, at current exchange rates.

Alas, the perfect growing conditions that many tech-related companies have enjoyed for years could be changing, and not necessarily for the better, especially for the largest businesses. Massive industry profits have caught the attention of lawmakers in Washington, who in July brought the leaders of Apple, Amazon, Google and Facebook before Congress to explain why their extraordinary market dominance doesn't stifle competition, harm consumers or qualify as monopoly power.

Importantly, the pushback against big tech has bipartisan support, although the grievances vary somewhat by political affiliation. While the Congressional hearing illuminated violations of antitrust law, it is not clear that the offenses harmed consumers, a key rationale for bringing antitrust action. In addition, unlike the industrial monopolies of the late 19th century, the "wonky" nature of technology makes it more difficult to understand its various business models.

Though the recent rally in tech stocks has pushed the sector's price-to-earnings ratio into the pricey category, valuations remain well below those of the dot-com bubble of the late 1990s. Still, investors should be aware that politicians of both parties have the industry in their crosshairs, which could presage additional oversight, like that of the auto industry in the 1960s and tobacco in the 1990s.

Of course, no one is comparing technology usage to unsafe cars or unhealthy cigarettes, but lawmakers have expressed concerns that go beyond monopolistic practices. There is also the likelihood that the tech industry will become increasingly entangled in geopolitical conflicts between the United States and China.

A generation ago, if someone wanted to copy a document, they would "Xerox it." Today, if someone wanted to do a search, they would "Google it." Keep in mind, however, that Xerox shares are down 75% since 1999. Times change, things change.

So while tech stocks aren't necessarily in a speculative bubble — and while the overall industry's long-term fundamentals remain compelling — look for those clear skies to give way to scattered clouds with a chance for scattered showers.

In other words, stay invested, but don't forget your umbrella.

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Book Value

After a 'Big Purge,' Reduce Your Paper Sorting to a Weekly Workout

Letting Go . . . for Good

by Angele McQuade

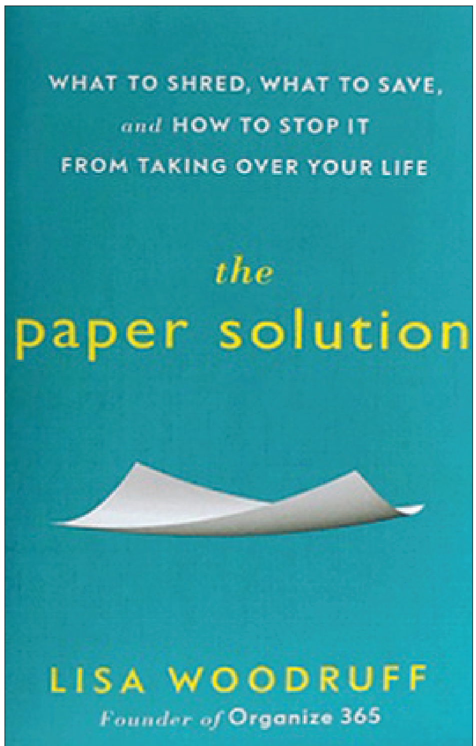
This month marks the 20th anniversary of my very first "Book Value" column — a review of Ellis Traub's "Take Stock" in our November 2000 issue — and the start of my writing career, including two books of my own, and counting! So while this month's book isn't technically financial, allow me a little celebratory leeway to prove how relevant this choice actually is.

If you've ever watched your household and personal financial paperwork expand from piles to folders to cabinets to, well, chaos, you're going to be just as grateful as I was to discover author Lisa Woodruff's latest book, "The Paper Solution: What to Shred, What to Save, and How to Stop It from Taking Over Your Life."

Based on her work as a professional organizer, Woodruff says most of us can safely let go of 85% of the paper in our homes. Keeping only those papers that are truly useful and important allows us to more easily and effectively manage our households and finances.

The goal? Reduce the amount of time we spend dealing with paper through dedicated weekly work sessions, while also storing our most important documents in a way (a small number of topic-specific binders) that makes them easily searchable and portable in the case of medical emergencies or home evacuations. (Don't worry if this streamlining sounds too radical; Woodruff does acknowledge the need for more traditional storage options for older, archived tax and financial documents.)

As Woodruff frequently reminds us, organization is a skill and one that can be learned. Her first step is sorting through all the papers — the "Big Purge." Next comes setting up a Sunday Basket (a "designated holding place for all your actionable to-dos"), then organizing your important papers into a small set of binders — financial, medical, home reference, etc. — so you and your loved ones can quickly find any reference material that might be needed. The fourth and final step is maintaining the new system weekly.



"The Paper Solution," Lisa Woodruff, G.P. Putnam's Sons/Penguin Random House (2020), hardcover ($18) and ebook, 320 pages.

What I liked: the "start where you are, do what you can" philosophy. Woodruff emphasizes this is not a do-it-all-tomorrow program, but the beginning of a project that may take a year or even more to steadily work through, and that's OK.

What I loved: all the free support and additional resources Woodruff offers on her website, on social media and on her podcast. Read the book, absolutely, but explore online, too.

What makes "The Paper Solution" worth buying: Woodruff's signature Sunday Basket paper management system. While she sells a specially designed box, plus filing accessories to organize the paper that goes into that box, she also gives detailed instructions for creating your own version with items you probably already have at home.

Read "The Paper Solution" if: you're feeling overwhelmed by the amount of paper you have, the uncertainty of how to deal with it, or both. This is a book filled with utterly practical, easily customizable action items that practically guarantee if you put in the time, you'll be rewarded with both clarity and relief. B

Websites of Interest

Website: organize365.com
Podcast: https://organize365.com/podcast/
Facebook: facebook.com/organize365
YouTube: www.youtube.com/organize365

Angele McQuade is the author of two books, including "Investment Clubs for Dummies." She lives near Bethesda, Maryland, where she also writes picture books and novels for children. You can find her online at:
www.angelemcquade.com

Be Careful You Don't Get Hit With a Big Surprise at Tax Time

Stock Gains, Losses May Impact Your Taxes

by Matt Mondoux, CFA, CFP, CMT

2020 has been a volatile year in the equity markets. If you have been trading in a nonqualified (i.e. taxable) account, it's likely that you have recognized a combination of gains and losses. Tax considerations should play some role in your decision-making process — so naturally, keeping a close watch on accumulated capital gains is good planning.

At a high level, gains and losses are netted in nonqualified accounts to arrive at a final year-end total for tax filing. Calculation of the gain/loss is important to understand. Determining the capital gains in an account can be accomplished in three steps:

- 1: **Short-term gains** are netted against short-term losses.
- 2: **Long-term gains** are netted against long-term losses.
- 3: **The short-term gains/(loss)** are netted against the long-term gain (loss).

Consider the example below:

Calculating Gains and Losses

	Short Term	Long Term
Gain	$5,000	$3,000
Loss	(2,000)	(4,000)
Net Gain/ Loss	3,000	1,000

In this example the **$1,000 long-term loss reduces the $3,000 short-term gain to net a $2,000 short-term gain** on which the investor will owe tax.

Short-Term Gains, Tax Pains?

Short-term capital gains are taxed at an investor's ordinary income rate. At the federal level, long-term capital gains, depending on income, are taxed at 0%, 15% or 20%.

The tax cost of taking a short-term gain versus a long-term gain can be significant when top brackets come

"Short-term capital gains are taxed at an investor's ordinary income rate."

into consideration. State taxes may also apply depending on the investor's residency.

Ending the year with a capital gain will likely result in taxes owed — that is unless there is a capital loss carryforward on Schedule D of an investor's prior-year tax return. Capital loss carryforwards are the result of ending the year with a realized capital loss. For example: An investor realizes a net loss of $10,000 by year-end. For that tax year the investor can take the maximum $3,000 deduction against current year income, while "rolling" $7,000 in losses into the next year.

Looking Ahead to the Next Year

Continuing with the example, during the next tax year, the $7,000 in loss carryforward can be used to offset any gains realized. On one hand, if an investor recognizes $8,000 in gains, then the net effect on the tax return will be a $1,000 gain (long or short will depend on the loss split recorded on Schedule D from the year prior). If no gains are recognized, however, then the investor can deduct another $3,000 from income and roll the remaining $4,000 capital loss carryforward into the subsequent year.

I'm not advocating that taxes should drive ultimate investment decisions, however, in many cases, particularly those involving short-term gains, taxes should be a significant consideration. Investors should also always be aware of where they stand from a realized gain perspective — along with factoring in any loss carryforwards on their Schedule D from prior years. The last thing any investor wants is a big surprise come tax time in the form of a large check written to Uncle Sam!

Matt Mondoux sits on the investment committee and is an adviser at Blue Chip Partners,Inc., a privately owned, registered investment advisory firm based in Farmington Hills, Michigan. Visit www.bluechippartners.com.

Hope for the Best, Prepare for the Worst

Planning for Possible Incapacity

by Alexandra Armstrong, CFP, CRPC, and Christopher Rivers, CFP, CRPC

The coronavirus pandemic we have lived through for the past year has many thinking about what would happen if we become too ill to manage our affairs. Our everyday lives involve a complex web of decisions regarding our families, health care, assets, liabilities and personal property. Should we be unable to handle our own affairs, someone needs to be able to make decisions on our behalf. So it's important for us to know what will be involved.

The centerpiece of any estate plan — and often the most difficult — is deciding which people you can trust to make these significant decisions should you be unable to do so. At the same time these people have to be willing to assume these responsibilities.

During your life, a trust and a power of attorney (POA) are the primary planning tools used to plan for incapacity. Below, we discuss what these terms mean, the responsibilities of each and the factors you should consider when choosing someone to act on your behalf.

At your death, your personal representative (PR) or executor takes on the same role. This person is often the same person as your trustee or POA. The duties of the executor are complex and will be covered in a future article.

Trusts and Trustees

First, some background on trusts and trustee duties. In its simplest form, a living trust is a legal document that enables you to title your assets in the name of a trust for your own benefit during your lifetime. In this case you are typically both the grantor (the one placing the assets in the trust) and the trustee (the one making decisions for the trust).

The trust also includes a set of instructions to be followed at your incapacity or death. These instructions are to be carried out by your successor trustee. Many choose spouses as their successor trustees, some choose banks or attorneys and some choose their children. Be sure you get the consent of the person who will act as a successor trustee and give the successor updated copies of the trust should there be corrections. Given the responsibility involved, it's important that everyone is on the same page.

A Trustee's Responsibilities

A trustee's primary responsibility is to follow the instructions set forth in your trust document. These will typically cover the manner in which the trustee should:

- **Provide the necessary cash flow** from the trust to meet your expenses;
- **Pay your bills** and obligations from trust assets;
- **Manage trust assets** in accordance with your wishes prior to incapacity and;
- **Ensure taxes** are filed properly for the trust assets.

In addition, the trustee is typically responsible for administering the trust assets at your death. Note that this role pertains only to the assets in the trust. For example, individual retirement account assets cannot be owned in trust and thus a trustee has no authority over them (more on this later).

After your death, we recommend the following procedure be followed:

- **The trustee should meet** with an estate-planning attorney and accountant to go over the trust document, trust assets and the trustee's responsibilities as soon as possible.
- **The trustee will need** to apply for a new employer identification number for the trust with the Internal Revenue Service.
- **The trustee must collect** all death benefits (Social Security, life insurance) and put them in a separate trust account until assets are distributed.
- **The trustee must notify** all financial service firms holding assets in the trust for which he or she is the trustee.
- **The trustee must keep** careful records of all trust expenses, verify and pay all bills and taxes of the trust, make a final accounting of assets and bills paid and give it to the beneficiaries.

If the assets are to stay in a trust after your death, your trustee will continue to oversee the trust and proper bookkeeping and reporting procedures will need to be established.

If the assets are to be fully distributed, the trustee needs to divide the cash and transfer titles according to the instructions in the trust and close the trust down.

Choosing a Trustee Wisely

We strongly recommend having one person serve as your successor trustee. Naming co-trustees means they must all agree on everything and sign off on everything, which adds difficulty and complexity to everyday tasks.

Choosing a family member, or even a close friend, as your trustee may or may not be the best choice. The trustee need not be a financial expert, but should be dependable and detail-oriented, with good, basic money skills, who knows when it's time to consult an expert for assistance.

Using a Lawyer or Bank as the Trustee

If you aren't sure that you know someone who could function as a successor trustee you may select a corporate trustee, such as a bank trust department to fill the role.

It has been our experience that someone who knows your family may be a better choice to be the trustee. That person can consult a lawyer for advice on administering the trust. But every situation is different. If there's a chance that there will be a lot of family conflict, this might not be the best choice.

If you do choose a bank as a trustee, you have a viable trustee, and you will have an objective third party administer the trust.

However, corporate trustees such as a bank generally cost more than an individual trustee, and sometimes significantly more. In addition, bank trustees can be impersonal and unfamiliar with the deceased grantor's wishes or family dynamics.

Corporate trustees may be more inflexible because of increased liability and the fact that they must answer to their shareholders. But in a situation with the potential for disagreement within the family, it can be an advantage to have a neutral party who is not subject to outside influence.

Paying Trustees

As you can see, being a trustee isn't an easy task, and we think that the trustee should be compensated for this work. But it is fairly typical for a spouse or child to administer their loved one's trust for free. You have the right to specify how your trustee should be compensated in your trust document, to eliminate any ambiguity.

While many states have statutes limiting executor and attorney commissions in settling an estate, only about half a dozen states provide specific statutory fee schedules for trustees. It is not uncommon to see corporate trustees charge a fee of between 1% and 2% of the trust's assets.

Power of Attorney

Many people think that having a trust means they have taken care of planning for incapacity. But even if you have a trust in place, we recommend you have two durable powers of attorney: one to handle your financial affairs and the other to cover your health care directives.

This may be the same person as your trustee or executor, but you may also want to appoint different people.

Durable Financial Power of Attorney

A durable financial POA allows a person whom you have designated to act on your behalf when handling your financial affairs. This person may be called your agent or your attorney-in-fact.

You retain the right to modify or revoke the power at any time. A "standing" durable power of attorney becomes effective as soon as you sign the document; a "springing" durable power of attorney becomes effective under conditions specified in your document, such as incapacity. A durable power of attorney always ends at your death.

Note that a durable POA doesn't provide your attorney-in-fact with the ability to make decisions with regard to assets that are held in a trust. Only a trustee or co-trustee has the legal right to do that. In a case where you have assets in both a trust and an IRA account, the trustee would be responsible for the assets in the trust, while the POA would be responsible for the IRA.

If you're unable to make financial or medical decisions and haven't given anyone your POA, a family member may have to petition the court to appoint a guardian for you.

Health Care Power of Attorney

The health care POA enables you to provide guidelines and instructions about the extent of medical care and intervention you'd want under various circumstances. This isn't the same as a living will. It's more flexible than a living will since it allows for advance directives for a range of personal health care decisions, not just decisions regarding life-sustaining procedures. A durable power of attorney for health care can authorize access to medical records and assign responsibility for decisions regarding diagnostic procedures, specific treatments, pain relief, the right to employ or discharge medical providers and authorization for admission to or discharge from medical facilities.

This POA will be effective if your physical or mental condition makes it impossible for you to understand, make or communicate an informed decision about providing, withholding or withdrawing treatment. The person you name would be able to talk with your doctors and nurses about your care. Doctors and hospitals today have to follow strict privacy rules designed to protect personal information, but the unintended side effect is that without your written consent, they may not be able to discuss your condition with your loved ones, without a health care POA.

In your health care POA you can describe what quality of life is acceptable to you, thus relieving your family and friends of the burden of making these difficult decisions.

Today, many hospitals require that you have one of these powers in place before undergoing an operation. In some states, the individual designated for this responsibility must sign an affidavit stating that he or she will in no way financially benefit from your demise.

Planning for the Unknown

One of the key features of these documents is the ability to spell out your wishes and make clear how you would like your affairs managed. But the future is by nature unknowable,

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From Dead Cat Bounce to LULD, Wall Street Loves to Use Jargon

A Few Terms of the Trade

by Gerri Walsh, President, FINRA Foundation and Senior Vice President, Investor Education

When financial markets experience turbulence, Wall Street employs a jargon all its own to describe important elements of tough, uncertain times.

Here's a look at some of the most common terms and what they mean.

Bear Market

When a stock or bond index, or a commodity's price, falls and keeps falling, it is considered to be in a bear market. Often a decline of 20% or more in a stock index is said to meet the threshold of a bear market. The term is often used in contrast with "bull market," which refers to a large increase in prices. The longest bear market in U.S. history occurred during the Great Depression, during which time the Dow Industrial Average fell for four consecutive years.

Bubble

When prices — be they stock, housing or other asset prices — rise to levels that appear inexplicably high, that's known as a bubble. Inevitably, a bubble pops and prices fall down to earth. Perhaps the most infamous bubble in recent U.S. history was the real estate bubble that played a major role in the 2008 financial crisis.

Correction

A correction is when stocks, bonds, commodities or indices reverse course by at least 10%, before resuming their previous upward or downward trend. Though a correction can technically describe a 10% bump or drop, usually it's used in reference to the latter. In August 2015, a number of indices saw corrections, including the S&P 500, which dropped from about 2,100 to below 1,870 in less than two weeks before trending upward again.

Dead Cat Bounce

Perhaps the most grisly term in Wall Street's lexicon, a dead cat bounce refers to the temporary spike in the price of a stock after a major decline. The phrase originates "from the facetious notion that even a dead cat would bounce slightly if dropped from a sufficient height," according to Merriam-Webster.

Hedge

In investing, to hedge refers to the act of making investments intended to offset possible losses — in other words, to mitigate risk. If, for instance, a shareholder in Company X is concerned that its share price might fall, he may hedge by buying what's known as a put option — a contract that allows an investor to sell a certain number of shares in the company at a certain price by a set date. The option would help the investor avoid at least some losses if Company X's share price does, in fact, decline.

Limit Up/Limit Down

In 2012, the Securities and Exchange Commission approved regulatory changes to address extraordinary market volatility. Specifically, the limit up/limit down requirements, often called LULD, ensures that stocks don't trade outside of particular price parameters by establishing a highest and lowest permissible price for each stock trade. The price parameters are determined by allowing a certain percentage leeway above and below a set reference price. The reference price generally is the average of the price of the trades that took place within the last 5 minutes (on a rolling basis).

Liquidity

Markets are said to have liquidity when their participants are able to quickly buy and sell securities without significantly affecting the prices of those securities. Liquidity declines when it becomes more difficult to trade an investment due to an imbalance in the number of buyers and sellers, or because of price volatility. A security that cannot be bought or sold without a major change in price may be described as illiquid.

Margin Call

Some investors might use a margin account, which can allow investors to borrow money from a broker to purchase securities. These investor loans are collateralized by either the securities they've purchased or by cash. But if the prices of the securities fall by more than a certain amount — which can happen in bear markets or during corrections — brokers may issue a margin call requiring clients to deposit additional cash or securities as collateral for their loans. If you fail to meet the margin call requirements, the firm can force the sale of those securities or other securities in your account — sometimes without notice.

Market-Wide Circuit Breaker

When the general stock market drops precipitously, a market-wide circuit breaker may be triggered. If the

S&P 500 falls either 7% or 13% from its closing price the previous day before 3:25 p.m., trading gets shut down across all stock and future exchanges. A drop of that size after 3:25 p.m. would not trigger a trading halt. If the S&P 500 drops 20% or more from its previous closing price, trading shuts down for the rest of the day.

Overbought/Oversold

When the price of a stock jumps, someone who believes that it is due for a correction might argue that the stock is "overbought." When a stock or many stocks in a market decline steeply and suddenly, some might speculate that stock or the market is due for a rebound. When making such a prediction, one would say the stock or market is "oversold."

Panic Selling

When investors suddenly conclude that a security or market is doomed to a rapid price decline, they might engage in panic selling, offloading massive amounts of shares without necessarily doing thoughtful analysis to determine whether selling is the wisest move. When investors engage in panic selling, the result may be a self-fulfilling prophecy: The widespread sale of a stock does usually lead to a decline in price. Panic selling is often associated with market crashes, notably the crash that kicked off the Great Depression in 1929, and 1987's infamous one-day crash known as Black Monday.

Risk-On/Risk-Off

In investing, certain assets, such as stocks, are considered to carry more risk than others, such as gold. During periods of market turmoil, some investors may adopt a "risk-off" strategy, meaning they sell their riskier assets to buy less risky ones. Under a "risk-on" strategy, the converse is true: Investors buy riskier assets while selling less risky ones. For example, when investors feel the market is strong and rising, they might perceive less risk about the market and its outlook, creating a risk-on environment. Alternatively, market factors that indicate a market downturn and increased risk may bring about a risk-off environment.

Safe Haven

The term safe haven may make grammarians cringe — a haven, after all, is by definition a safe place, and so "safe haven" is redundant — but that hasn't stopped brokers and investors from employing the term, especially when markets go south. Investments are described as safe havens when it's commonly believed they won't lose value in the face of market turmoil, or, in other words, the investments some might turn to when pursuing a "risk off" strategy. Exactly what types of securities and other investments are considered as safe havens can vary over time — past examples have included U.S. Treasury bonds, the Japanese yen and gold. But sometimes experts disagree as to whether a certain investment should be considered a safe haven or not. Ultimately, it's important for investors to remember that no investment is guaranteed to be "safe."

Sell-Off

On Wall Street, when the going gets tough, many start selling. A sell-off describes what happens when, following a major decline in the prices of stocks, bonds, or other securities, market participants collectively sell massive quantities of those falling securities as each participant seeks to prevent losses from future price declines.

Volatility

When a security, a commodity or an index fluctuates wildly in a short period of time, they're experiencing volatility. The Chicago Board Options Exchange's Volatility Index (VIX) measures the expected volatility of U.S. stocks by gauging investors' expectations of major market moves. Financial market regulations include buffers to limit volatility.

FINRA is the largest independent regulator for all securities firms doing business in the U.S. Its chief role is to protect investors by maintaining the fairness of the U.S. capital market.

FINANCIAL PLANNER

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as the events of this year have brought home. Thus, it's crucial that you choose wisely when selecting a trustee and an attorney-in-fact, as they will be entrusted with navigating the future on your behalf. With careful estate planning, and dependable decision-makers ready to act on your behalf, you can assure that your wishes and needs will be met even if you cannot make the decisions yourself.

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With Disciplined Portfolio Management, Club Is Willing to Take Above Average Risk

Managing Dollars With Sense in Houston

by Daniel J. Boyle, CFA

I really enjoyed my discussion with Jerry Willman, a long-time and tireless BetterInvesting member and volunteer contributor. Jerry is president/chairman of the North Texas Chapter (www.betterinvesting.org/chapters/north-texas) and president of the Lone Star Online Investment Club (www.bivio.com/lonestar/home/Public/index.html), a BetterInvesting model club whose purpose is education.

Jerry is also current vice president and former president of the Dollars and Sense Investment Club of Houston. The club was founded in June 1996 by co-workers of Dupont's former plant in La Porte, Texas. From five initial founders the club has grown to 10 today, all of whom are BetterInvesting members. The club meets the second Monday of the month from 5 p.m.–6:30 p.m.

The COVID-19 pandemic has forced meetings to go virtual instead of the club's preferred meeting place at the Clear Lake City–County Freeman Branch Library. The agenda includes a call to order, announcements, secretary's report, treasurer's report, portfolio summary, portfolio actions (new stocks/sells) and close.

During my discussion with Jerry it became apparent to me that his involvement with the club is key to its ongoing operation. Most members bring ideas for new stocks, but Jerry is the one who does the research, including constructing Stock Selection Guides and maintaining portfolio management reports. I'd like to see a consistent education slot on the club's monthly agenda but understand that a 90-minute meeting might not provide adequate time. Perhaps members would consider tuning into the Lone Star Online Investment Club broadcasts to get some additional education.

As for the portfolio, Jerry was clear that the club has a higher than average tolerance for risk, meaning that members are comfortable with holding positions in the club's portfolio that they would not hold personally. This is illustrated by the Dollars and Sense portfolio's trailing price-earnings ratio of 40 compared to a 14% growth estimate, a PEG (P/E to Growth) ratio of 2.9x. While some of this elevated PEG can be explained by depressed corporate earnings from the COVID-19 pandemic-induced recession, it is still far higher than the approximately 1.5x or less PEG I like to pay for a high-quality growth stock. Even so, I do like the emphasis on growth which is, unfortunately, expensive in this current market. But just because the club has made a conscious decision

Dollars and Sense Investment Club

Company	Ticker	No. shares	Cost	August 21, 2020 Price	August 21, 2020 Value	Gain/ (loss)	%Gain/ (loss)	Quality rating*	% Growth estimate**	% of portfolio	Trailing P/E	Trailing EPS
Air Lease Corp.	AL	489	$18,348	$ 29.10	$14,230	$ (4,118)	(22.4)	3	10	5.5	6	$ 5.03
Alphabet (Google) Class C	GOOG	8	2,818	1,580.42	12,661	9,843	349.3	1	15	4.9	35	45.47
Alphabet (Google) Class A	GOOGL	9	6,559	1,575.57	14,180	7,621	116.2	1	15	5.5	35	45.47
Amazon	AMZN	16	20,547	3,284.72	52,556	32,009	155.8	1	33	20.3	126	26.01
Apple	AAPL	24	1,142	497.48	11,940	10,797	945.4	1	12	4.6	38	13.15
CVS Health	CVS	156	9,710	63.94	9,975	265	2.7	1	6	3.9	12	5.52
EPAM Systems	EPAM	73	16,096	308.56	22,525	6,428	39.9	3	19	8.7	62	4.94
Facebook	FB	104	16,374	267.01	27,769	11,395	69.6	1	17	10.7	33	8.19
Illumina	ILMN	14	4,390	353.07	4,943	553	12.6	1	14	1.9	56	6.35
Insperity	NSP	118	7,878	69.65	8,219	341	4.3	3	13	3.2	20	3.41
Mastercard	MA	63	8,981	337.10	21,237	12,256	136.5	1	15	8.2	47	7.23
Pfizer	PFE	285	10,271	38.88	11,081	809	7.9	1	8	4.3	15	2.52
Salesforce	CRM	51	7,421	207.53	10,584	3,163	42.6	3	22	4.1	75	2.77
Signature Bank	SBNY	58	7,934	96.67	5,607	(2,328)	(29.3)	3	7	2.2	10	9.62
Ulta Beauty	ULTA	83	17,537	214.00	17,762	225	1.3	1	11	6.9	28	7.51
Universal Display Corp.	OLED	66	10,557	179.89	11,873	1,316	12.5	1	19	4.6	59	3.06
SPY/Cash			1,200		1,228			1		0.5		
Average									14		40	
TOTAL			**$167,764**		**$258,368**	**$90,576**	**54.0**			**100**		

* Based largely on rankings published by Value Line.
** As estimated by the author, with data from Thomson Financial Network.
Note: Numbers in the table have been rounded.

to take above average risk does not mean there aren't some strong disciplines around portfolio management.

The club follows PAR portfolio management technique. PAR, which stands for Projected Annual Return, is the sum of the forecast price appreciation (annualized) and the projected dividend yield over a five-year time horizon. It is another way to get at the SSG's Upside/Downside ratio, as the lower a stock's PAR the higher the risk. The club takes each stock's PAR and compares it to the PAR for the **SPDR S&P 500 ETF Trust (ticker: SPY)**, a popular exchange-traded fund that mimics the S&P 500 market index. Stocks with PARs below SPY represent potentially overvalued holdings that are candidates for full or partial selling, while those stocks with PARs above SPY are attractive candidates for new or additional purchase. I like a club having a quantitative ranking system and the Dollars and Sense use of PAR is as sensible as any.

Dollars and Sense also uses PAR to help with portfolio position sizing. The club typically carries around 15 or so stocks in its portfolio, implying an average position weight of around 6%-7%. If a holding reaches more than two times this weight, around 12%-14%, the club keeps a close eye on its PAR to help determine if it should be reduced. Similarly, positions that are less than half a weight with a low PAR become candidates for sale. Personally, I like to trim winners back to average portfolio weights regardless, but companies enjoying outstanding performance that keep their valuation within reason deserve the opportunity to continue to contribute to portfolio returns. PAR, or something similar, can help with these tough portfolio decisions.

In addition to SPY as a benchmark, Dollars and Sense buys SPY to soak up cash from new contributions or portfolio sales without an immediate replacement. Using SPY this way keeps the club fully invested on the philosophy that the stock market spends more time going up than it does going down. I like this practice but would caution clubs thinking of buying SPY as a cash replacement to ensure they do not simply leave SPY month after month with a full or more portfolio weight, therefore bypassing the reason for being in an investment club: buying stocks!

Dollars and Sense Investment Club of Houston. Top row left to right: John Pederson, Jerry Willman and Don McCurdy. Second row: Barry Poor, Brad Chandler and Donald (Wayne) Bell. Bottom row: Mark Sheridan. Shun Kwok Tse, Ronny Lai, and Jeff Miller are not pictured.

Apple, Epam Systems, MasterCard, Salesforce, Universal Display Corporation

The largest sector of the portfolio is information technology, with 30% spread across five holdings. **Apple (AAPL)** is the No. 1 holding in BetterInvesting's annual Top 100 Holdings of Investment Clubs *(see the April 2020 issue)*, so it isn't a surprise to find it in the Dollars and Sense portfolio. What is a little surprising, however, is to see the stock with only a 5% weight instead of the much larger position size I find in other club portfolios caused by the shares' exceptional performance. In fact, the stock has been hitting all time highs for a variety of reasons. The third fiscal quarter was far stronger than expected, led by a mini-upgrade cycle from the new, relatively inexpensive iPhone SE and excellent performance from services and wearables. Apple's strong free cash flow supported a 6% hike in the annual dividend and the company announced a 4:1 stock split to make the stock more affordable for retail investors.

Investors like the firm's outlook, including the expected boost anticipated in late 2020/early 2021 from the introduction of new iPhones that support the ultra-fast 5G communication standard, expected growth from other product introductions (like the iMac and iPad), and continuing services growth as Apple expands its iPhone user base. The market has also moved more aggressively to technology shares as the COVID-19 pandemic supports consumers working from home and seeking ways to stay connected.

But a lot of this positive future seems to be baked into Apple's stock price. Shares trade for a P/E of 38, far higher than the SSG's five-year average high P/E ratio of 17.3. The PEG ratio is 3.2x based on expected annual earnings per share growth of 12%. Investors are also overlooking some sizable risks. There is the possibility of a later iPhone upgrade cycle that might be weaker than expected due to aggressive competition from other mobile device makers, some of which are currently selling 5G-enabled phones. Also, the growing political divide between China and the U.S. that has resulted in U.S. restrictions on Chinese technology firms makes Apple vulnerable to Chinese retaliation. The firm is reliant on China for both market access and product supply, making it a natural target.

I've admired **EPAM Systems, (EPAM)** for several years. The IT services firm has a skill-set steeped in software architecture and programing, a differentiator compared to competitors that deliver lower-value software package implementation and maintenance. This skill-set is also a natural fit for implementing digital initiatives that often require customization. The combination has supported outsized annualized growth of 28.6% for the past 10 years per the SSG. Earnings growth has not been quite as robust, but still was over 20% per year.

The company has navigated the pandemic well, reporting second quarter sales growth of 15% as its largest customers aggressively accelerated their digital efforts. Unfortunately, guidance for the second half of 2020 calls for weaker growth as its supply of bodies for implementation was negatively impacted by the prudent at-the-time decision to dramatically slow hiring during the second quarter. Investors have decided to focus on the long-term opportunities, bidding up shares to a P/E ratio of 62, well above high P/E ratios observed for the past five years. For now, I'd stick with the stock but watch for signs the second half slowdown doesn't become the norm.

Like its larger rival **Visa (V)**, **MasterCard (MA)** has seen a sudden reduction in processing activity as global economies shut down during the second quarter and consumers spent less. Growth should resume as economies have opened back up and acquisitions should continue to add to growth. Like a lot of companies, investors feel that MasterCard won't be hurt long term by the pandemic and shares have been bid up to a P/E of 47. Long-term earnings growth of 15% per year is quite reasonable given the ongoing movement of transaction volume from cash to electronic payments.

Salesforce (CRM) is a natural investor favorite in response to the remote work environment spurned by the COVID-19 pandemic. The leading cloud provider of sales, service and marketing applications added a new product, Salesforce Anywhere, which integrates Zoom and other collaborative applications to help employees working remotely. Shares are at all-time highs reflecting market views that robust growth can accelerate even faster. A trailing P/E of 75 on a non-GAAP (generally accepted accounting principles) basis is very expensive even though earnings are expected to compound 22% annually. I'm comfortable with the club holding the position at a little over a half-portfolio weight of 4%, but any sudden growth slowdown could hurt share performance.

The last IT holding, **Universal Display Corporation (OLED)**, makes organic light-emitting diode (OLED) technologies and materials. You might have seen an OLED screen on your smartphone (about a third of the world's phones for sale use OLED), smartwatch or laptop. OLED is superior to light-emitting diode (LED) screens due to sharper resolution, lower power usage and a form factor that supports interesting applications such as foldable smartphones. OLED is costlier to manufacture, but economies of scale continue to drive down prices. OLED has a particularly bright (no pun intended) future in the TV market where penetration is low.

Universal Display licenses OLED technology, about a third of sales, and makes components that feed electronic contract manufacturers. The pandemic has hit the firm especially hard, largely due to plant shutdowns from global stay-at-home orders, leading to a drop in sales of around 50% in the second quarter. But the demand for electronics continues to be strong and the long-term opportunities for taking market share from the LED market, especially for TVs, remain intact. Valuation is stretched but growth should recover.

Amazon, Ulta Beauty

Two consumer discretionary stocks make up 27% of the portfolio. The No. 2 stock in BetterInvesting's Top 100 is **Amazon (AMZN)**, the ubiquitous online retailer, representing an outsized 20% of the club's portfolio. Already an incredible growth story, Amazon has benefited substantially from the COVID-19 pandemic that has stoked demand for online goods while also boosting the desire for companies to move their networks to the cloud in support of remote work. Valuation has always kept me away from Amazon shares and now more than ever as the stock carries a P/E of 126. Purely from a diversification standpoint I would recommend trimming the position, but it is hard to argue with great success that is likely to continue for a while.

Ulta Beauty (ULTA) has had a much tougher time than Amazon, because it's a brick-and-mortar retailer of beauty products that was forced to close many of its stores during the pandemic. I've admired the firm's business model emphasizing both offline and online retailing, including the millions of customers who utilize Ulta's loyalty program. A trailing P/E of 28 looks pricey, but EPS was over $12 in 2019 and after some time should return to at least that level, making the current price look reasonable.

Alphabet, Facebook

Two communication services stocks in the portfolio, **Alphabet (GOOG and GOOGL)** and **Facebook (FB)**, account for about 21% of the portfolio. Both stocks are a play on the rapid shift of advertising from traditional media, such as television and newspapers, to online through Alphabet's search and Facebook's social media platform. Although both stocks have been hurt by the COVID-19 pandemic, each should bounce back and resume double-digit growth. From a diversification standpoint I would recommend the club think about holding one stock or the other given that they're both competitors in the same online advertising market.

CVS Health Corporation, Pfizer, Illumina

Three health care stocks make up only 10% of the portfolio. Two of these stocks, **CVS Health Corporation (CVS)** and **Pfizer (PFE)**, look more like value plays than growth stocks as analysts expect EPS to grow only 6% and 8%, respectively. I'm not sure I buy the story that either company is telling investors as to why their growth will accelerate. In the case of CVS, that story centers around the expansion of clinics in stores that can deliver integrated health care. In the case of Pfizer, the growth catalyst is new oncology drugs and a promising COVID-19 vaccine. If these stories pan out both stocks should do well, but they are a gamble. I'd look for more steady growth and recommend the club examine **UnitedHealth Group (UNH)** as a challenger.

The remaining health care holding is **Illumina (ILMN)**, but I question the club's interest in the company given its low portfolio weight of 2%. Illumina has been a great partner to pharmaceutical companies utilizing its genetic analysis tool for drug discovery and improvement, but topline sales growth fell to a modest single-digit rate in 2019. The company likely needs an acquisition to bolster this level of growth and acquisitions are never a sure thing. With such a small position and a hefty valuation for the stock it might be better to move on.

Air Lease, Insperity

Both industrial stocks in the portfolio, making up about 9%, seem misclassified. **Air Lease (AL)** is more like a financial services firm as it takes possession of airplanes and leases them to carriers, saving them money as the imputed interest paid on the lease is lower than their cost of capital. Shares have been badly hurt by the uncertainty surrounding airplane travel demand caused by the COVID-19 pandemic, but near term results have been solid and the company has an experienced management team that understands how to ride out deep recessions. I'd hold on to the position given its depressed price.

Insperity (NSP) participates in the professional employer organization (PEO) industry, providing human resource benefits administration services mostly to medium and small businesses. Small companies like the offering to provide a menu of "big company" benefits to their employees and rid themselves of administrative headaches. Shares have whipsawed over the past couple of years, falling from a peak of $145 when the company was experiencing higher medical costs, recovering with better top line sales results, falling again from fears of a weak employment market due to the COVID-19 pandemic and recovering most recently as client retention has held up better than expected. The risk going forward is a weak employment market, but if the club is willing to show some patience the company should resume growth.

Signature Bank

The last holding represents the financial sector and is just 2% of the portfolio. **Signature Bank (SBNY)** caters to business owners of commercial properties in greater New York. Banks are out of favor in the current market as investors worry about the need for commercial office space in the future as remote work becomes an acceptable alternative. I'd recommend the club challenge the holding with **TCF Financial Corporation (TCF)**. **B**

Dan Boyle, CFA, is vice president of the investment management firm Provident Investment Management (www.investprovident.com), Novi, Michigan. He is also a member of the magazine's Editorial Advisory and Securities Review Committee and co-author of the Investor Advisory Service newsletter. The author and/or clients of his firm may have positions in some of the stocks mentioned in this article. No investment recommendations are intended.

Club Accounting

Clubs That Keep Accurate Books Might Wish to Retain Own Numbers

Broker Mergers May Mean Changes in a Club's Records

by Russell Malley, Club Accounting Adviser, ICLUBcentral

One of my duties at ICLUBcentral is dealing with clubs whose records do not match the records of their broker. TDAmeritrade, Folio Investing and E*Trade are about to have their mergers with other firms completed (*see Websites of Interest*). How this might affect the reconciliation of club and broker records may cause some worry among clubs.

In a well-planned and executed merger of brokers there should be no change in portfolio information, including cost basis and realized gain amounts. Usually the information is consolidated into the acquiring firm's system with no changes. There may be some glitches though that cause the new firm to change cost basis and/or gain data for a club. Even well-executed plans sometimes have problems. What can you do to be prepared for such an event if it happens to you?

The First Step

Check your records against your current broker's data. If there are discrepancies can you explain them? A spin-off or merger-with-cash in the company history are two possible reasons for legitimate differences due to differences in market value estimates in these transactions. Is the explanation reasonable?

The Next Step

Do you have securities purchased before Jan. 1, 2011? Brokers were not required to track cost basis of securities purchased before that date. If your old brokerage did not track the cost basis of those purchases, it may not be able to pass on accurate information to the new broker. Your new brokerage may claim it is mandated to assign an estimated cost basis to such purchases. Fortunately, these should be "noncovered" securities for cost basis reporting on a Form 1099. This means the broker should not report the cost basis to the Internal Revenue Service when these securities are sold, even though a cost basis is reported to you on the 1099.

What If Changes to Cost Basis Information Occur?

If your broker does make changes to cost basis information in their records, this brings up the question:

- **Should you change the cost basis/gain realized of a security in your records if the new broker uses different figures than your old broker?**

Generally, I would say no. The only reason to change your records is if you find the new figures are more accurate than your records. If you have been keeping accurate records, this will be a rare event.

Remember, the IRS holds the taxpayer, not the broker, responsible for the accuracy of tax returns. There is no mandate that a taxpayer's records must match a broker's records. In fact, the instructions for Form 8949, where capital gains are itemized, state that you use your records to calculate gain. Any difference in gain due to a different cost basis reported by your broker is entered in a column on Form 8949 devoted to adjustments to reconcile your records with your broker.

Fortunately, if you use the ICLUBcentral Tax Printer to generate your Form 1065 return, this column is automatically populated using data from your accounting records and data you enter from the 1099 in the normal operation of the program.

The completion of the upcoming broker mergers should have no effect on portfolio information for most broker clients. A little planning and information should make handling any problems that may arise fairly easy. Remember, we're here to help if a problem does occur that is out of your comfort zone.

For Help

For assistance, contact
ICLUBcentral
Phone: 248/654-3100
Toll Free: 877/33-ICLUB
Online Support: www.iclub.com/support/

Websites of Interest

"DOJ, Stockholders Approve $26 Billion Schwab-TD Ameritrade Merger," Brian Anderson, 401(k) Specialist; June 5, 2020
https://401kspecialistmag.com/doj-stockholders-approve-26-billion-schwab-td-ameritrade-merger/

"Goldman Sachs To Acquire RIA Custodian Folio Investing," Christopher Robbins, Financial Advisor; May 15, 2020
https://www.fa-mag.com/news/goldman-sachs-acquires-ria-custodian-folio-investing-55756.html

"E*Trade Shareholders Approve Morgan Stanley Takeover," Ross Snel, Barron's; July 20, 2020
https://www.barrons.com/articles/e-trade-shareholders-sign-off-on-morgan-stanley-takeover-51595270864

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Potential for Some Future Slick Results?

Exxon Mobil Corporation

With travel — and fuel demand — driven down by the coronavirus pandemic, Exxon Mobil Corporation (ticker: XOM) has experienced a reversal of fortunes. For the first time in more than two decades, the integrated fossil fuel supplier experienced two consecutive quarters of losses this year.

To cope with the downturn, Exxon Mobil has increased debt, suspended share repurchases, slashed capital expenditures and slowed development of some promising new projects. Management views the challenges stemming from reduced revenues as short-term difficulties, however.

Executives anticipate a return to long-term growth as soon as next year. They've projected higher oil and natural gas prices and stronger global demand driven by growth of the world's population.

Oil prices have regained some ground since hitting lows in April and May. At press time for this issue, oil prices were strengthening further; supply decreased as Hurricane Sally reduced domestic production in mid-September.

One immediate challenge for management is sustaining the company's track record of paying a generous dividend, which recently provided a yield of 9.2%. Exxon Mobil's senior executives appear determined to make 2020 the 38th consecutive year without a dividend decrease.

The company has suffered a lengthy decline in its market capitalization; which contributed to its departure from the Dow Jones Industrial Index in late August after spending almost a century as a component of the benchmark. The company's share price has declined approximately 60% over the past six years.

The share price has drifted downward throughout 2020. At its $39.11 close on Sept. 3, the stock was 48% below the 52-week high of $75.18 reported on Sept. 16, 2019. The company's trailing 12-month price-earnings ratio was 23.3 (*see table*). The ratio for the S&P 500 Index recently stood at 29.4.

CSIMarket, a financial data service, recently set the TTM ratio average for the oil and gas integrated operations industry at 24.7. According to figures Yahoo Finance reported in mid-September, the three competitors listed by Morningstar all showed TTM losses; a meaningful earnings per share comparison with Exxon Mobil therefore wasn't possible.

For P/E to projected growth, or PEG, Yahoo Finance recently reported a ratio of 1.9 for Exxon Mobil, based on an average five-year expected earnings growth rate. That was above the range of 1.0 to 1.5 generally considered desirable.

Locally Owned. Exxon Mobil markets its products through a network of independent distributors and resellers, about half in the U.S.

Corporate Geology

Exxon Mobil reportedly is the world's largest publicly traded integrated fossil fuel supplier, right behind the governmental enterprise Saudi Aramco. The company combines upstream operations — crude oil and natural gas exploration and production — with downstream activities — refining and transporting fuel and other petroleum-based products, supplying petrochemicals and distributing fuel through its global network of retail sites.

At the close of 2019 (ended Dec. 31, 2019) Exxon Mobil was marketing refined products through a worldwide network of 21,409 retail fuel outlets, almost all of them operated by independent distributors and resellers. The United States hosted 50.6% of the sites. Internationally, the company owned or leased 989 stations.

The company also distributes fuel for transportation fleets, power generation companies, agricultural businesses, manufacturers and mining operations. It provides fuel for ferries, cruise ships, tankers, and bulk and container carriers. Exxon Mobil is a leading supplier of aviation fuel and is a major producer of synthetic lubricants and lubricant base stocks.

From Cleveland's Rockefellers to the Global Stage

The company had varying ownership stakes in refineries at 21 locations worldwide. In most cases the refineries adjoin Exxon Mobil petrochemical production facilities, generating significant cost efficiencies.

The United States accounted for 35.1% of 2019 revenues. Canada produced 7.7%, and the United Kingdom, 6.8%. The rest of the world accounted for 50.4%, led by France, Singapore, Belgium and Italy.

Overseas properties constituted 54.8% of long-term assets at year-end, with Canada representing 15.5%. In descending order of scale, other countries in which the

Exxon Mobil Corporation									
	2019 (ended 12/31/19)	2018 (ended 12/31/18)	% change	FY 2020 Q2	FY 2019 Q2	% change	FY 2020 year to date	FY 2019 year to date	% change
Net sales	$255.6 billion	$279.3 billion	(8.5%)	$32.3 billion	$67.5 billion	(52.5%)	$87.4 billion	$129.1 billion	(32.3%)
Net income*	$14.3 billion	$20.8 billion	(31.1%)	($1.1 billion)	$3.1 billion	—	($1.7 billion)	$5.5 billion	—
Diluted EPS*	$3.36	$4.88	(31.1%)	($0.26)	$0.73	—	($0.40)	$1.28	—
Declared dividends	$3.43	$3.23	6.2%	$0.87	$0.87	—	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	4.5%
Ticker symbol	XOM	Consensus long-term earnings growth estimate (23 analysts)	12.9%
Price at time of selection	$39.19	Consensus EPS growth rate for FY ended Dec. 2020	(107.6%)
Past year's price range	$30.11 – $75.18	Consensus EPS growth rate for FY ended Dec. 2021	1,006%
Recent market price	$39.11	Recent price-earnings ratio**	23.3x
Market capitalization	$165.4 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $1.68 for the four quarters ended June 30.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

company had holdings were Australia, Singapore, Kazakhstan, Papua New Guinea, Nigeria, Angola, the United Arab Emirates and Russia.

The company traces its beginnings to Standard Oil, the energy conglomerate that John D. Rockefeller and several partners incorporated in 1870. Originally based in Cleveland, Standard Oil by 1882 had grown to control an estimated 80% of American refining capacity and 90% of the country's oil pipelines.

The company's degree of industry dominance generated growing criticism. Reporting on Standard Oil's history in 1902 by muckraker Ida M. Tarbell fueled antitrust sentiment and regulatory scrutiny that culminated in the company's court-ordered breakup in 1911.

Exxon Mobil's recent history therefore represents a closing of the loop. In 1999 the corporation emerged in its current form when regulators allowed the recombination of Exxon and Mobil. Standard Oil had adopted the name Exxon in 1972. Mobil resulted from the 1931 merger of Vacuum Oil Company and Standard Oil Company of New York, one of the 33 new businesses resulting from the 1911 breakup.

Darren W. Woods, 54, became chairman and CEO in January 2017. He took over from Rex W. Tillerson. The long-serving chief executive left Exxon Mobil to serve as U.S. Secretary of State for just over a year. Woods joined Exxon Mobil in 1992. He has served a stint as chairman of the American Petroleum Institute, a leading industry trade organization.

Competitors include BP (BP), Chevron (CVX) and Total (TOT), Morningstar reported.

Belt-Tightening in Order

Adjusting to the company's anemic financial results, management reduced its capital expenditure budget for this year by about 30%. Exxon Mobil cut about $10 billion, bringing the figure down to $23 billion.

Management achieved the reduction partly by slowing or suspending unconventional production in the company's shale fields in the Permian Basin, which encompasses western Texas and southeastern New Mexico. Unconventional production encompasses hydraulic fracturing — fracking — and horizontal drilling.

Operations expected to be growth drivers going out five years include offshore fields in Guyana. Another is the Golden Pass liquefied natural gas project in the U.S. Gulf Coast. Other offshore projects with intermediate-term growth potential include sites in Brazil, Mozambique and Papua New Guinea.

To improve its liquidity — and protect the dividend — management increased the company's debt load early this year. Executives reported they don't expect to take on more debt going forward.

The move raised Exxon Mobil's total debt to capitalization ratio to 28.7% for the second quarter (ended June 30, 2020), up from 18.3% in the year-earlier period. Despite the increase, analysts have reported the debt ratio remains below levels taken on by several peer companies.

Political risk remains one of the challenges facing Exxon Mobil's industry. Regulatory pressures can constrain profitability. Government hostility and civil unrest can limit overseas exploration and production opportunities.

Being starved of investment is another risk. In light of ESG considerations — environmental, social and corporate governance — some institutional investors are expressing disdain for fossil fuel investments, contrasted with their enthusiasm for renewable energy producers.

In August, for example, alumni opposing fossil fuel investments gained a majority of the seats on one of the boards overseeing Harvard University, which has a $40 billion endowment. The activists campaigned to end the university's investments in oil and natural gas companies. Harvard is just one of several colleges, universities, pension funds and other institutions facing pressures to step back from fossil fuel investments.

Final Notes

BetterInvesting is profiling Exxon Mobil for educational purposes only. No investment recommendation is intended. The Stock to Study goal is a doubling in investment value (market price appreciation plus dividends) within five years.

BetterInvesting featured Exxon Mobil as the Undervalued Company for September 2010. The magazine featured pre-merger Exxon as the Stock to Study for April 1985.

> **"Exxon's board suspended share repurchases."**

The company ranked No. 27 in the Top 200 Survey of investor holdings for 2019 (*see the April 2020 issue*). A projected 278 clubs owned shares.

Except for small upward moves in 2010 and 2017, the share total has declined annually for 16 years, Value Line reported.

During the first quarter the company spent $305 million on repurchases, buying back six million common shares. Given weakening financial results, however, the company's board subsequently suspended any additional share repurchases.

Exxon Mobil offers a dividend reinvestment and direct share-purchase program. Shares underwent five 2-for-1 stock splits over the past half century — in 1976, 1981, 1987, 1997 and 2001.

More background on Exxon Mobil and its industry, including the Value Line analyst and Value Line industry reports, can be found in the Additional Resources menu in the magazine's section of the website. For more information, contact Investor Relations, Exxon Mobil Corporation, 5959 Las Colinas Blvd., Irving, TX 75039-2298.

The Editorial Advisory and Securities Review Committee met on Oct. 1. The Stock to Study and Undervalued Stock that its members selected were announced shortly afterward. Look for the Stocks to Study box on the right-hand side of the homepage. The link will take you to the announcement at the BetterInvesting Newsroom:

www.betterinvesting.org/Public/MediaCenter/MediaCenter/News+Releases/default.htm

Websites of Interest

Exxon Mobil Corporation
https://corporate.exxonmobil.com/

U.S. Energy Information Administration
www.eia.gov

American Petroleum Institute
www.api.org

The author of this profile doesn't directly own any shares of Exxon Mobil.

— Reporting by contributing editor Kevin J. Lamiman

SSG Study Notes

During your analysis of Exxon Mobil, you might consider the following comments and questions for further study:

- **Capitalization section:** Starting in 2014, with the global collapse in oil prices, Exxon Mobil's debt-to-capital ratio rose as the company increased borrowing by more than $10 billion to compensate for the reduced cash flow. The company's return on equity during the period fell from a high of 17.68% to its current level below 9%, still above the industry average.

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** Due to the steep drop-off in oil prices, Exxon Mobil's 10-year average sales growth stands at (7.4%), in line with the industry average. Price erosion was caused by an oil glut due to massive investment in new production set up by an earlier run-up in prices of above $100 a barrel, as well as a decision by Saudi Arabia to maintain production and protect market share rather than cut production to support pricing. The company's current share price of about $37 as of this writing is well off a $104.76 high in 2014.

- **Section 2 (Evaluating Management):** Management is under pressure due to depressed demand caused by the worldwide pandemic yet seems dedicated to maintaining the dividend, which has pushed current yield to more than 9.2%. But in July a high company officer announced a plan to reduce operating expenses for the purpose of maintaining the quarterly payout without increasing debt. For the past five years, pretax profit on sales has been 7.78%, well down from 2014 levels but above the industry average of just under 7%.

- **Section 3 (Price-Earnings History):** Exxon Mobil's current P/E of 22 has remained quite close to the five-year average, suggesting that the stock has continued to attract investors even through a difficult period caused by low oil prices and weak economic demand. Maintaining the dividend has been key.

Figure 1
Capitalization information. Besides background about the company, including the data source used for the study, this section provides information about the number of common and preferred shares and the percentages held by insiders and institutional investors. The company's total debt and the percentage of debt to total capital also are detailed.

Figure 2
Recent sales and earnings results. This section contains the company's most recent quarterly results along with a comparison of results from the same quarter a year ago.

Figure 3
Visual analysis of sales, earnings and price. The graph provides a quick view of the company's financial results. A long-term history of consistent sales and earnings growth at relatively high rates indicates the company is well-managed and worth the time to study further.

The company's historical sales growth is plotted on the green line and historical earnings growth is represented by the blue line. The black bars provide information about the stock price. For each year, the top of the bar is the annual high price, while the bottom is the low price.

Figure 4
Forecasting future sales and earnings growth rates. This is the section in which you provide the first two primary judgments. The core of the BetterInvesting methodology is this: Sales growth drives earnings growth, and earnings growth drives stock price. Using the Stock Selection Guide, you'll forecast growth rates and determine the stock's potential high and low prices over the next five years.

NATIONAL ASSOCIATION OF INVESTORS CORPORATION
BETTERINVESTING™
Educating Investors Since 1951

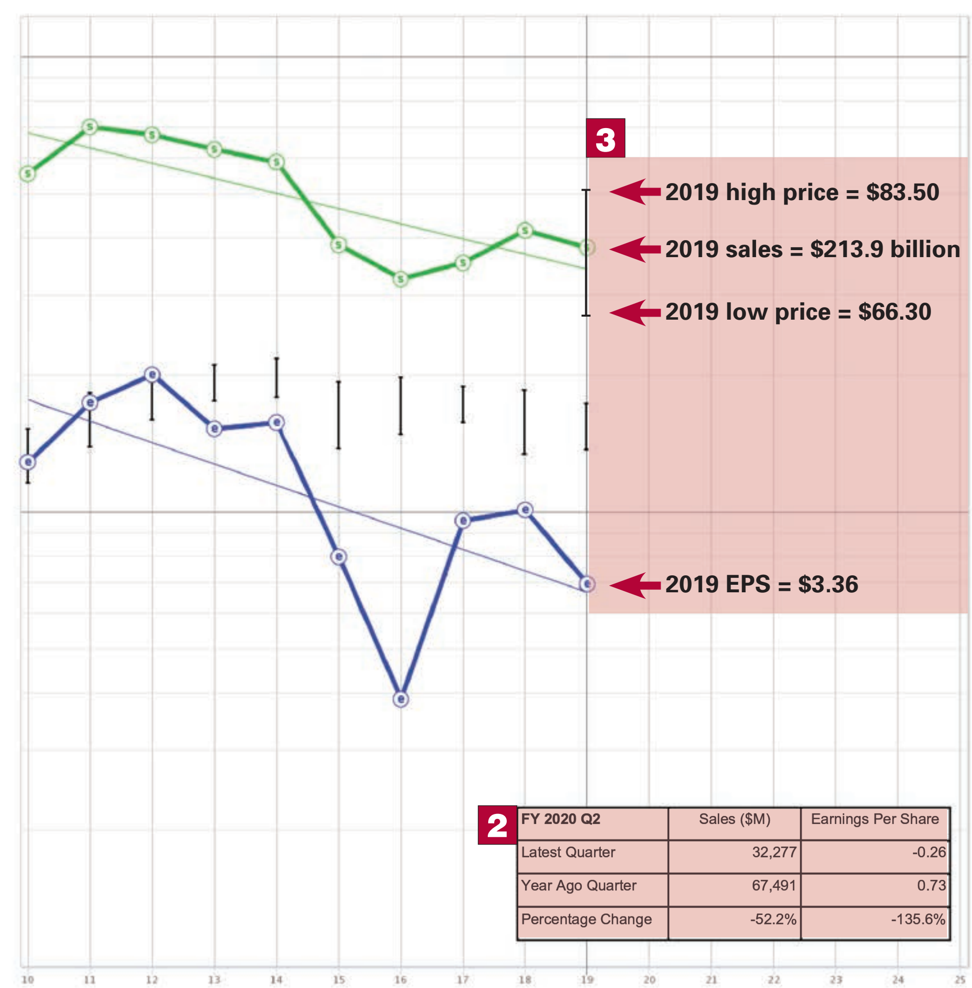
Stock Selection Guide

1

Company Exxon Mobil			Date 08/26/20
Prepared by Bilkie		Data taken from BI Stock Data	
Where traded NYS	Industry Oil & Gas Integrated		
Capitalization --- Outstanding Amounts	Reference		
Preferred ($M) 0.0	% Insiders		% Institution
Common (M Shares) 4,271.0	0.7		39.5
Debt ($M) 69,515.0	% to Tot Cap 27.8	% Pot Dil	0.0

BetterInvesting Magazine is now using the Online Tools, rather than Toolkit 6 to create this SSG. **Symbol: XOM**

1 VISUAL ANALYSIS of Sales, Earnings, and Price



2

FY 2020 Q2	Sales ($M)	Earnings Per Share
Latest Quarter	32,277	-0.26
Year Ago Quarter	67,491	0.73
Percentage Change	-52.2%	-135.6%

4

(1) Historical Sales Growth -7.4%
(2) Estimated Future Sales Growth
(3) Historical Earnings Per Share Growth -10.2%
(4) Estimated Future Earnings Per Share Growth

The first step is to forecast sales growth. The company's historical performance is useful information, but you'll need to research the company and decide whether its revenue growth will continue at the historical level, slow down or possibly speed up.

After estimating sales growth, the next step is to forecast growth in earnings per share. In many cases you can estimate EPS growth that's similar to the rate you used for sales. EPS growth can differ from sales because of rising or falling expenses, an increasing or decreasing number of outstanding common shares and changing tax rates.

Remember, however, that even though a company can grow earnings faster than sales by cutting costs or buying back shares, this can't last forever. EPS growth eventually will drop to the same rate as sales.

You'll use the estimated growth rate for earnings to forecast the earnings per share five years from now. On the second page of the SSG, you'll use the future EPS to determine the stock's potential high price.

A key question to ask yourself is whether the company is growing at a sufficient rate relative to its size. Look for higher growth rates for small companies compared with medium-size and large companies.

Editor's note: The Value Line and Morningstar company and industry reports are available at the website's homepage under the Learning Center tab, BetterInvesting Magazine *section, for your use in conducting stock studies. You'll need Adobe Acrobat software to read the Portable Document Format files.*

2 EVALUATING MANAGEMENT

Company Exxon Mobil Corporation (XOM)

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	14.2	15.5	17.4	13.7	13.1	8.5	3.6	7.9	11.1	7.8			
B	% Earned on Equity (E/S ÷ Book Value)	21.1	25.6	26.3	18.9	17.7	9.4	4.6	10.8	10.9	7.5			

5

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

PRESENT PRICE ______ HIGH THIS YEAR ______ LOW THIS YEAR ______

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2015	93.5	66.6	3.85	24.3	17.3	2.88	74.8	4.3
2	2016	95.6	71.6	1.88	50.8	38.1	2.98	158.5	4.2
3	2017	91.3	76.1	4.63	19.7	16.4	3.06	66.1	4.0
4	2018	89.3	64.7	4.88	18.3	13.2	3.23	66.2	5.0
5	2019	83.5	66.3	3.36	24.8	19.7	3.43	102.1	5.2
6	TOTAL								
7	AVERAGE								
8	AVERAGE PRICE EARNINGS RATIO				9 CURRENT PRICE EARNINGS RATIO				

6

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one 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 ______ (3D7 as adj.) X Estimate High Earnings/Share ______ = Forecast High Price $ ______ (4A1) 7

B LOW PRICE — NEXT 5 YEARS
(a) Avg. Low P/E ______ (3E7 as adj.) X Estimated Low Earnings/Share ______ = $ ______
(b) Avg. Low Price of Last 5 Years = ______ (3B7)
(c) Recent Severe Market Low Price = ______
(d) Price Dividend Will Support Present Divd. / High Yield (H) = ______ = ______
Selected Estimate Low Price ______ = $ ______ (4B1) 8

C ZONING
______ (4A1) High Forecast Price Minus ______ (4B1) Low Forecast Price Equals ______ (C) Range. 1/3 of Range = ______ (4CD)
(4C2) Lower 25% = (4B1) ______ to ______ (Buy) 9
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell)
Present Market Price of ______ is in the ______ (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) ______ Minus Present Price ______ / Present Price ______ Minus Low Price (4B1) ______ = ______ = ______ (4D) To 1 10

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
High Price (4A1) ______ / Present Market Price ______ = (______) X 100 = (______) - 100 = ______ (4E) % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.
Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ ______ / Present Price of Stock $ ______ = ______ X 100 = ______ (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
Avg. Earnings Per Share Next 5 Years ______ X Avg. % Payout (3G7) ______ = ______ / Present Price $ ______ = ______ (5B) %

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS 11
5 Year Appreciation Potential (4E) ______ / 5 ______ %
Average Yield (5B) ______ %
Average Total Annual Return Over the Next 5 Years (5C) ______ %

of the past five years. You can also see the average P/E for the last five years as well as the current P/E. Information about the dividend yield also is offered.

Figures 7 & 8

Forecasting the high and low prices. The stock's P/E history will inform your judgments about the potential high and low prices. Multiply your predicted high P/E by the high EPS you calculated on the first page to determine the potential high price. Multiplying the expected low P/E by the low EPS (for a growth company, this often is the most recent year's earnings) is one way to predict the future low price.

Figures 9 & 10

Buy-Hold-Sell zones and upside-downside ratio. After calculating the potential high and low prices, you can use the SSG to determine whether the stock is reasonably priced. The upside-downside ratio compares the potential price increase to the potential price drop. Look for stocks that are both in the Buy zone and have an upside-downside ratio of at least 3 to 1; beware of abnormally large or small ratios.

Figure 11

Estimated average annual return over the next five years. In this final section, you'll learn about the stock's potential return over the next five years. This figure includes both the expected return from increases in the stock's price and predicted dividends.

Figure 5

Evaluating management. The key to successful investing is finding well-managed companies whose stocks are reasonably priced. The company's historical growth rates provide evidence of good management, as do the numbers in this section.

Pre-tax profit margins represent how much of each sales dollar a company keeps before taxes. We look at pre-tax margins because companies have limited control over their tax rates. Look for stable or growing margins.

Return on equity indicates how well the company manages the money share-holders have invested in the company. Again, look for stable or growing returns.

Figure 6

Price-earnings ratio history. Section 3 includes information you'll use in Sections 4 and 5. Columns D and E detail the high and low P/Es for each

Editor's note: Those who want to learn more about estimating future growth rates, predicting a stock's potential return and other issues regarding the SSG are urged to contact their local chapter for a schedule of classes. See the Regional Notices section in this issue for a list of chapters and contact information. A number of resources also are available at the BetterInvesting website. Among them is the Introduction to the SSG Series, a webinar series available free to members. The sessions explain how to select the best companies, determine a fair price, estimate future growth and project future P/Es. Go to the Video Learning Library at the organization's homepage and scroll down to the Stock Selection Programs to access this series.

EXXON MOBIL NYSE-XOM

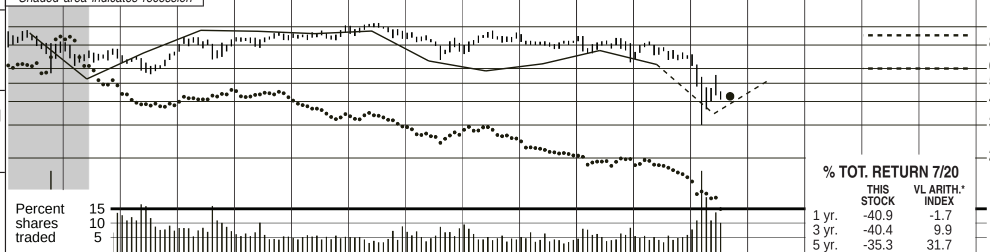
RECENT PRICE **42.64** | P/E RATIO **NMF** (Trailing: 25.4 / Median: 16.0) | RELATIVE P/E RATIO **NMF** | DIV'D YLD **8.2%** | VALUE LINE

TIMELINESS 3 Raised 6/12/20
SAFETY 3 Lowered 5/29/20
TECHNICAL 3 Raised 4/17/20
BETA 1.15 (1.00 = Market)

High:	82.7	73.7	88.2	93.7	101.7	104.8	93.4	95.6	91.3	89.3	83.5	71.4	
Low:	61.9	55.9	67.0	77.1	84.8	86.2	66.6	71.6	76.1	64.6	66.3	30.1	

Target Price Range 2023 | 2024 | 2025

LEGENDS
— 8.0 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



18-Month Target Price Range
Low-High $22-$57 | Midpoint (% to Mid) $40 (-5%)

2023-25 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	90	(+110%)	*25%*
Low	60	(+40%)	*15%*

Institutional Decisions

	3Q2019	4Q2019	1Q2020
to Buy	1032	1093	1057
to Sell	1251	1392	1519
Hld's(000)	2332605	2329397	2200783

Percent shares traded 15 / 10 / 5

% TOT. RETURN 7/20

	THIS STOCK	VL ARITH.* INDEX
1 yr.	-40.9	-1.7
3 yr.	-40.4	9.9
5 yr.	-35.3	31.7

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
41.24	53.52	58.49	66.63	85.42	58.30	68.60	91.58	93.45	90.02	86.83	56.98	54.51	57.65	68.49	62.57	*43.90*	*53.15*	Sales per sh A	*74.40*
5.48	7.19	8.82	9.82	11.58	6.60	9.08	11.97	11.83	11.48	11.86	8.23	7.27	7.94	9.34	7.87	*4.30*	*6.60*	"Cash Flow" per sh	*10.50*
3.89	5.35	6.55	7.28	8.69	3.98	6.22	8.42	8.09	7.37	7.60	3.85	1.88	3.24	4.88	3.36	*d.40*	*1.75*	Earnings per sh B	*5.00*
1.06	1.14	1.28	1.37	1.55	1.66	1.74	1.85	2.18	2.46	2.70	2.88	2.98	3.06	3.23	3.43	*3.48*	*3.48*	Div'ds Decl'd per sh C†■	*3.60*
1.87	2.26	2.70	2.86	3.88	4.76	5.40	6.54	7.61	7.77	7.84	6.37	3.90	3.63	4.62	5.75	*4.00*	*4.00*	Cap'l Spending per sh	*5.00*
15.90	18.13	19.87	22.62	22.70	23.39	29.49	32.61	36.84	40.14	41.51	41.10	40.34	44.28	45.27	45.26	*42.50*	*40.75*	Book Value per sh	*41.50*
6401.0	6133.0	5729.0	5382.0	4976.0	4727.0	4979.0	4734.0	4502.0	4335.0	4201.0	4156.0	4148.0	4239.0	4237.0	4234.0	*4235.0*	*4235.0*	Common Shs Outst'g D	*4235.0*
11.7	10.9	10.0	11.4	9.5	17.8	10.5	9.5	10.7	12.3	12.8	21.5	45.8	25.3	16.3	22.0	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
.62	.58	.54	.61	.57	1.19	.67	.60	.68	.69	.67	1.08	2.40	1.27	.88	1.19	*Value Line*		Relative P/E Ratio	*.85*
2.3%	2.0%	2.0%	1.6%	1.9%	2.3%	2.7%	2.3%	2.5%	2.7%	2.8%	3.5%	3.5%	3.7%	4.1%	4.6%	*estimates*		Avg Ann'l Div'd Yield	*4.8%*

CAPITAL STRUCTURE as of 6/30/20
Total Debt $69515 mill. **Due in 5 Yrs** $11211 mill.
LT Debt $46563 mill. **LT Interest** $1300 mill.
(Total interest coverage: 8.0x)
(20% of Cap'l)
Leases, Uncapitalized Annual rentals $1361 mill.

Pension Assets-12/19 $36.6 bill.
Obligation $50.9 bill.

Pfd Stock None
Common Stock 4,228,233,288 shares

MARKET CAP: $180 billion (Large Cap)

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		23-25
341578	433526	420714	390247	364763	236810	226094	244363	290212	264938	*186000*	*225000*	Sales ($mill) A	*315000*
16.1%	16.1%	15.6%	14.7%	14.1%	13.1%	13.6%	16.0%	17.4%	15.1%	*12.0%*	*14.5%*	Operating Margin	*17.5%*
14760	15583	15888	17182	17297	18048	22308	19893	18745	18998	*20000*	*20500*	Depreciation ($mill)	*23000*
30460	41060	37380	32580	32520	16150	7840.0	13768	20840	14340	*d1700*	*7400*	Net Profit ($mill)	*21200*
40.7%	42.4%	43.6%	42.0%	34.9%	24.7%	- -	25.5%	30.8%	26.3%	*NMF*	*31.0%*	Income Tax Rate	*31.0%*
8.9%	9.5%	8.9%	8.3%	8.9%	6.8%	3.5%	5.6%	7.2%	5.4%	*NMF*	*3.3%*	Net Profit Margin	*6.7%*
d3649	d4542	321.0	d12416	d11723	d11353	d6222	d10637	d9165	d13937	*d8000*	*d10000*	Working Cap'l ($mill)	*d5000*
12227	9322.0	7928.0	6891.0	11653	19925	28932	24406	20538	26342	*47000*	*47000*	Long-Term Debt ($mill)	*47000*
146839	154396	165863	174003	174399	170811	167325	187688	191794	191650	*180000*	*172600*	Shr. Equity ($mill)	*175700*
19.4%	25.3%	21.7%	18.2%	17.7%	8.5%	4.1%	6.6%	10.0%	6.8%	*NMF*	*4.0%*	Return on Total Cap'l	*9.5%*
20.7%	26.6%	22.5%	18.7%	18.6%	9.5%	4.7%	7.3%	10.9%	7.5%	*NMF*	*4.5%*	Return on Shr. Equity	*12.0%*
14.8%	20.6%	16.3%	12.3%	11.9%	2.4%	NMF	.4%	3.7%	NMF	*NMF*	*NMF*	Retained to Com Eq	*3.5%*
29%	23%	28%	34%	36%	75%	NMF	94%	66%	102%	*NMF*	*NMF*	All Div'ds to Net Prof	*72%*

CURRENT POSITION ($MILL.)	2018	2019	6/30/20
Cash Assets	3042	3089	12576
Receivables	24701	26966	19036
Inventory	18958	18528	19567
Other	1272	1469	1747
Current Assets	47973	50052	53016
Accts Payable	37268	41831	33216
Debt Due	17258	20578	22952
Other	2612	1580	1102
Current Liab.	57138	63989	57270

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '17-'19 to '23-'25
Sales	-1.0%	-7.0%	*3.0%*
"Cash Flow"	-1.0%	-6.5%	*4.0%*
Earnings	-5.5%	-13.0%	*4.5%*
Dividends	8.0%	6.0%	*2.0%*
Book Value	7.0%	2.5%	*-1.5%*

Cal-endar	QUARTERLY SALES ($ mill.) A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	58522	58142	61184	66515	244363
2018	68211	73501	76605	71895	290212
2019	63625	69091	65049	67173	264938
2020	56158	32605	*47000*	*50237*	*186000*
2021	*50000*	*60000*	*60000*	*55000*	*225000*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	.95	.78	.93	.58	3.24
2018	1.09	.92	1.46	1.41	4.88
2019	.55	.73	.75	1.33	3.36
2020	d.14	d.26	*d.10*	*.10*	*d.40*
2021	*.15*	*.60*	*.60*	*.40*	*1.75*

Cal-endar	QUARTERLY DIVIDENDS PAID C■† Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.73	.75	.75	.75	2.98
2017	.75	.77	.77	.77	3.06
2018	.77	.82	.82	.82	3.23
2019	.82	.87	.87	.87	3.43
2020	.87	.87			

BUSINESS: Exxon Mobil Corp. is one of the world's largest oil companies. Daily production in 2019: oil, 2.4 mil. barrels (+5.3% vs.'18); natural gas, 9.4 billion cubic feet (flat vs. '18). On an oil-equivalent basis, total production rose 3.1% in '19. Daily refinery runs, 4.0 million barrels (-7% vs. '18); product sales, 5.5 mill. bbls (-1% vs. '18). Chemical sales, 25.5 mill. tonnes (-5.0% vs. '18). Proved reserves (12/31/19): 22.4 bill. barrels of oil equivalent, 65% oil, 35% gas. Equity companies account for 17% of reserves. Owns 69.6% of Imperial Oil (Canada). Vanguard owns 8.4% of stock; BlackRock, 6.7% (4/20 Proxy). Employs 71,100. Chrmn., Pres., and CEO: Darren Woods. Inc.: NJ. Addr.: 5959 Las Colinas Blvd., Irving, TX 75039-2298. Tel.: 972-444-1000. www.exxonmobil.com.

Once-mighty Exxon Mobil is now dealing with losses and questions about the sustainability of its dividend. The company turned in a deficit of $0.26 a share in the second quarter. The damage would have been worse without the benefit of a $0.44-a-share LIFO inventory gain. Low oil prices and reduced fuel demand are the primary causes of the slump. Given extensive cost reductions and somewhat improved oil prices as fuel consumption has picked up, near break-even results could be in store for the balance of 2020. But that is not inspiring confidence on the part of investors. The share price has done little in the past few months. The stock's high yield also points to skepticism that the dividend can be maintained, particularly since a couple of other big oil companies have reduced their payouts.

We look for better performance in 2021, based on the prospect of a closer-to-normal economy. Exxon Mobil's reliance on oil prices may work in its favor for much of next year, stacked up against weak 2020 realizations. The company has also identified further significant efficiency measures, which will help support the bottom line and the cash dividend. Still, the upcoming 12 months look to be more about productivity on a reduced budget than growth. Possibilities to mid-decade appear brighter, assuming conditions allow Exxon to ramp up production moderately. Pumping volume is currently easing a bit on lower energy consumption.

Notably, management has indicated that it does not plan to take on more debt. That might change if another unexpected slide in the industry backdrop were to develop, of course. But the current "make do" approach could prove the right formula to manage through the downturn. The investment community has been concerned about the buildup in financial obligations here, even if the associated interest expenses are relatively low.

The shares are ranked 3 (Average) for Timeliness. Aggressive income investors might be attracted to the stock's high yield, although the caveat is that the payout is not underpinned by earnings. Longer term, the issue's 3- to 5-year total return potential is appealing, assuming the dividend is preserved.

Robert Mitkowski *August 28, 2020*

(A) Net of gasoline excise taxes through 2015.
(B) Based on diluted shares. Excludes nonrecurring gains (losses): '05, 36¢; '06, 7¢; '12, $1.61; '17, $1.39.
Next earnings report due late October.
(C) Dividends historically paid in the second week of March, June, Sep., and Dec.
■Dividend reinvestment plan available.
† Stock Purchase Plan available w/o broker.
(D) In millions.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	10
Earnings Predictability	45

Three-Quarters of Company's Dealerships Are Overseas

Caterpillar Inc.

All sorts of imponderables are hovering about large manufacturers such as Caterpillar Inc. (ticker: CAT). Perhaps the biggest question is when the global economy will emerge from the coronavirus crisis. Given the uncertainties, company management withdrew its earnings guidance for this year and hasn't issued a fresh financial outlook.

Optimism is growing, however, that distribution of a safe, effective vaccine will help create a post-pandemic environment relatively soon. Company management and many analysts anticipate stronger results in 2021, when customers may ramp up projects requiring heavy equipment such as Caterpillar supplies.

This year, however, Caterpillar dealers have reduced their orders, adjusting inventories downward in response to weakened customer demand. Value Line recently projected dealer inventory cuts of about $2 billion for all of 2020. Standard and Poor's cited estimates of a 7.5% decline in global nonresidential construction activity this year. That will drive ongoing weakness in Caterpillar's results through the remainder of 2020.

Heavy Lifting. Caterpillar Inc., based in Illinois, remains the world's largest producer of mechanized earth-moving machines.

Earlier cost-cutting efforts helped reduce the downturn's impact. Caterpillar began to slice costs aggressively in 2014 and those efforts continued. In 2018 Caterpillar consolidated manufacturing facilities in Europe and the U.S. In 2019 management aimed for cost savings of $100 million to $200 million. This year the company froze salaries and incentive-based compensation.

Investors appear to be anticipating improvement in the company's prospects. At its $146.76 close on Sept. 3, the stock was 2.9% below the 52-week high of $151.20 reported on the same day. (On Sept. 17, near press time for this issue, the share price had risen further to a close of $153.87.) The company's trailing 12-month price-earnings ratio was 19.7 (*see table*). The ratio for the S&P 500 index recently stood at 29.4.

CSIMarket, a financial data service, set the TTM ratio average for the construction and mining machinery industry at 20.9. The average was 21.2 for Caterpillar and two publicly traded competitors, based on figures Yahoo Finance reported in mid-September. (A third competitor listed by Morningstar reported a ratio that wasn't meaningful; it was omitted from the calculation.)

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 5.9, based on an average five-year expected earnings growth rate — significantly above the range of 1.0 to 1.5 generally considered desirable.

Corporate Tracks

Caterpillar is the world's largest producer of earth-moving equipment, industrial engines and turbines, and diesel-electric locomotives. The company manufactures mechanized equipment for use in industries such as agriculture, building, energy, mining, logging and road construction. Equipment the company manufactures includes tractors, bulldozers, compactors, lift trucks and off-highway trucks.

The company's operations include manufacturing diesel- and natural gas-fueled engines for its own vehicles and for customers' field operations. Caterpillar provides customers and dealers with financial services such as loans and insurance.

At the close of fiscal 2019 (ended Dec. 31, 2019) the company was marketing products and services, with the exception of turbines and rail locomotives, primarily through 165 independent dealers, 72.1% of those outside the U.S.

Construction Industries accounted for $22.6 billion of sales and revenues in 2019. That was 38.4% of the total before items such as eliminations — adjustments for intersegment sales. The unit manufactures equipment such as loaders and excavators for building and infrastructure projects. Customers are found in the heavy construction, general construction, mining and quarry and aggregate markets.

Energy and Transportation Systems generated $22.1 billion — 37.5% of unadjusted sales and revenues. The segment produces engines and industrial turbines for applications in the marine, railway, manufacturing, electrical power, and oil and natural gas industries. This includes manufacturing diesel-electric locomotives.

Resource Industries produced $10.3 billion — 17.4% of the total. The segment manufactures off-highway trucks, shovels and underground equipment for mining and quarrying operations. Other machinery is for paving, logging, industrial and waste management uses. Examples include bulldozers and timber harvesters.

Financial Products generated $3.4 billion — 5.8% of the total. The segment primarily provides customers and dealers with equipment financing. Along with

Caterpillar Inc.									
	2019 (ended 12/31/19)	2018 (ended 12/31/18)	% change	FY 2020 Q2	FY 2019 Q2	% change	FY 2020 year to date	FY 2019 year to date	% change
Net revenues	$53.8 billion	$54.7 billion	(1.7%)	$10.0 billion	$14.4 billion	(30.7%)	$20.6 billion	$27.9 billion	(26.0%)
Net income*	$6.1 billion	$6.1 billion	(0.9%)	$0.5 billion	$1.6 billion	(71.7%)	$1.6 billion	$3.5 billion	(55.7%)
Diluted EPS*	$10.74	$10.26	4.7%	$0.84	$2.83	(70.3%)	$2.82	$6.08	(53.6%)
Dividends	$3.95	$3.36	17.6%	$1.03	$0.86	19.8%	—	—	—

Stock exchange	NYSE	Value Line long-term earnings growth estimate	4.0%
Ticker symbol	CAT	Consensus long-term earnings growth estimate (26 analysts)	(3.3%)
Price at time of selection	$149.27	FY ended December 2020 consensus EPS growth estimate	(53.1%)
Past year's price range	$87.50 – $151.20	FY ended December 2021 consensus EPS growth estimate	39.7%
Recent market price	$146.76	Recent price-earnings ratio**	19.7x
Market capitalization	$79.5 billion		

* Excluding nonrecurring and special items.

** The P/E ratio is based on diluted EPS of $7.45 for the four quarters ended June 30.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

loans, it offers insurance products facilitating the purchase and lease of equipment.

All other business operations generated $482 million — 0.8%.

Caterpillar expanded into foreign markets in the 1930s and in 1950 the company built its first overseas plant, in England. International business accounted for about 52% of unadjusted 2019 sales and revenues, Standard and Poor's reported.

Competitors include Deere (DE), Komatsu (6301.T) and Terex (TEX), Morningstar reported. According to Standard and Poor's, other competitors for the Resource Industries unit include Epiroc (EPOKY), Hitachi Construction Machinery (HTCMY), Sandvik (SDVKY), Volvo (VLVLY) and privately held Liebherr.

Excavating Growth Opportunities

Much of Caterpillar's growth has been organic, but the company has made a few notable acquisitions over the past 15 years. The company entered the rail equipment market through two transactions: the 2006 acquisition of maintenance and repair business Progress Rail Services, valued at $1 billion; and the 2010 purchase of locomotive manufacturer Electro-Motive Diesel, valued at $820 million. The largest deal in Caterpillar's history was its 2011 acquisition of Bucyrus International, a leading manufacturer of surface and underground mining equipment. The cash deal was valued at about $8.8 billion, including assumed debt.

The company faces competition not just on pricing, but in technological innovation. Caterpillar and some of its rivals are striving to perfect technologies in areas such as autonomous industrial vehicles. Caterpillar devotes substantial resources to research and development. Management estimates more than 2 million pieces of Caterpillar equipment are operated worldwide. Of those, about half are fitted with telematics technology allowing the long-distance transmission of computerized information.

Final Notes

The goal for an Undervalued Company is a 20% increase in investment value (market price appreciation plus dividends) within 18 to 24 months. *BetterInvesting* is profiling Caterpillar for educational purposes only. No investment recommendation is intended.

BetterInvesting featured the company as the Stock to Study for January 2011 and October 2019. Caterpillar was the Undervalued Company for the July 2005, February 2007 and January 2015 issues. Caterpillar ranked No. 40 in the Top 200 Survey of investor holdings for 2019 (*see the April 2020 issue*). A projected 208 clubs owned shares.

The company's share count has fluctuated over the past 15 years but took a downward path since 2017. Caterpillar spent $4 billion on repurchases in 2019; the share count declined 4.4% year over year. The company reportedly won't buy back more shares this year. The company offers a dividend reinvestment and direct stock-purchase plan. Shares underwent a 2-for-1 split in 2005. Nine stock splits of varying ratios were authorized in the previous century, plus two small special dividends issued in the form of stock.

More background on Caterpillar and its industry, including the Value Line analyst and Value Line industry reports can be accessed through the Additional Resources menu in the magazine's section of the website. For more information, contact Investor Relations, Caterpillar Inc., 510 Lake Cook Road, Suite 100, Deerfield, IL 60015-5031.

The author of this profile doesn't directly own any shares of Caterpillar.

— Reporting by contributing editor Kevin J. Lamiman

CATERPILLAR INC. NYSE-CAT

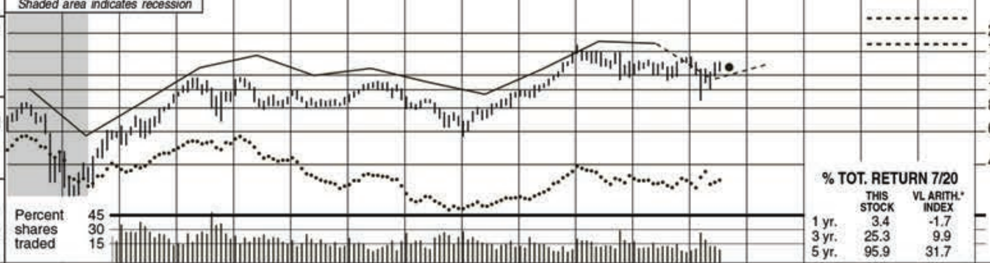
RECENT PRICE 131.78 | P/E RATIO 23.1 (Trailing: 16.6 / Median: 15.0) | RELATIVE P/E RATIO 1.08 | DIV'D YLD 3.1% | VALUE LINE

TIMELINESS 3 Raised 12/13/19
SAFETY 2 Raised 11/21/14
TECHNICAL 4 Lowered 6/19/20
BETA 1.15 (1.00 = Market)

High:	61.3	94.9	116.6	116.9	99.7	111.5	92.4	97.4	158.6	173.2	148.9	150.5	
Low:	21.7	50.5	67.5	78.3	79.5	85.9	63.0	56.4	90.3	112.1	111.8	87.5	

Target Price Range 2023 | 2024 | 2025

LEGENDS
— 11.0 x "Cash Flow" p sh
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



18-Month Target Price Range
Low-High: $88-$187 | Midpoint (% to Mid): $138 (5%)

2023-25 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	240	(+80%)	18%
Low	175	(+35%)	10%

Institutional Decisions

	3Q2019	4Q2019	1Q2020
to Buy	598	752	646
to Sell	772	672	848
Hld's(000)	364583	368663	347632

% TOT. RETURN 7/20

	THIS STOCK	VL ARITH.* INDEX
1 yr.	3.4	-1.7
3 yr.	25.3	9.9
5 yr.	95.9	31.7

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	© VALUE LINE PUB. LLC	23-25
44.11	54.17	64.29	73.22	85.32	51.86	66.67	92.87	100.57	87.26	91.04	80.73	65.71	76.07	95.08	97.80	*77.55*	*83.45*	Sales per sh	*114.20*
5.00	6.46	8.03	8.64	9.25	5.17	7.82	11.93	13.87	10.82	11.82	10.00	8.60	11.68	16.48	16.06	*10.25*	*12.45*	"Cash Flow" per sh	*18.95*
2.88	4.04	5.25	5.32	5.71	1.43	4.15	7.81	9.36	5.79	6.37	4.62	3.44	6.88	11.20	11.06	*5.50*	*7.40*	Earnings per sh A	*12.20*
.80	.96	1.15	1.38	1.62	1.68	1.74	1.82	2.02	2.32	2.70	3.01	3.08	3.11	3.36	3.95	*4.12*	*4.12*	Div'ds Decl'd per sh B ■	*4.74*
3.08	3.60	4.14	4.95	6.67	3.71	4.05	6.06	7.75	6.97	5.57	5.60	4.99	3.91	5.07	4.85	*3.70*	*3.75*	Cap'l Spending per sh C	*5.00*
10.89	12.57	10.62	14.47	10.12	14.12	16.94	19.97	26.84	32.73	27.76	25.56	22.53	23.03	24.48	26.59	*25.65*	*27.60*	Book Value per sh D	*37.70*
685.87	670.87	645.81	613.99	601.53	624.72	638.82	647.53	655.05	637.82	606.17	582.32	586.49	597.63	575.54	550.08	*541.50*	*531.00*	Common Shs Outst'g E	*499.50*
13.9	12.6	13.1	13.7	11.4	29.4	16.6	12.4	10.0	15.1	15.8	17.1	22.8	16.4	12.9	12.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*17.0*
.73	.67	.71	.73	.69	1.96	1.06	.78	.64	.85	.83	.86	1.20	.82	.70	.65			Relative P/E Ratio	*.95*
2.0%	1.9%	1.7%	1.9%	2.5%	4.0%	2.5%	1.9%	2.2%	2.7%	2.7%	3.8%	3.9%	2.8%	2.3%	3.0%			Avg Ann'l Div'd Yield	*2.0%*

2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021		23-25
42588	60138	65875	55656	55184	47011	38537	45462	54722	53800	*42000*	*44300*	Sales ($mill)	*57050*
16.8%	19.3%	20.1%	18.7%	19.5%	19.0%	17.2%	22.5%	24.1%	24.0%	*18.5%*	*20.0%*	Operating Margin	*22.0%*
2296.0	2527.0	2813.0	3087.0	3163.0	3046.0	3034.0	2877.0	2766.0	2577.0	*2550*	*2650*	Depreciation ($mill) F	*2950*
2700.0	5201.0	6270.0	3815.0	4003.0	2778.0	2010.0	4104.0	6718.0	6260.0	*2995*	*3950*	Net Profit ($mill)	*6525*
25.8%	24.6%	28.6%	25.6%	25.6%	21.0%	8.7%	26.3%	20.2%	21.9%	*22.0%*	*22.0%*	Income Tax Rate	*22.0%*
6.3%	8.6%	9.5%	6.9%	7.3%	5.9%	5.2%	9.0%	12.3%	11.6%	*7.2%*	*8.9%*	Net Profit Margin	*11.4%*
9790.0	9567.0	12769	11038	10990	8115.0	5835.0	9313.0	10385	12572	*12385*	*13800*	Working Cap'l ($mill)	*17720*
20437	24944	27752	26719	27784	25247	22818	23847	25000	26281	*26500*	*26000*	Long-Term Debt ($mill)	*20000*
10824	12929	17582	20878	16826	14885	13213	13766	14090	14629	*13900*	*14600*	Shr. Equity ($mill)	*18830*
10.1%	14.8%	14.7%	8.8%	9.7%	7.7%	6.4%	12.2%	18.6%	16.7%	*9.0%*	*11.0%*	Return on Total Cap'l	*18.0%*
24.9%	40.2%	35.7%	18.3%	23.8%	18.7%	15.2%	29.8%	47.7%	42.8%	*21.5%*	*27.0%*	Return on Shr. Equity	*34.5%*
14.9%	31.3%	26.5%	13.0%	14.2%	6.9%	1.6%	16.5%	33.8%	28.2%	*5.5%*	*12.0%*	Retained to Com Eq	*22.0%*
40%	22%	26%	29%	40%	63%	90%	45%	29%	34%	*75%*	*55%*	All Div'ds to Net Prof	*37%*

CAPITAL STRUCTURE as of 3/31/20
Total Debt $34.3 bill. Due in 5 Yrs $26.0 bill.
LT Debt $26.9 bill. LT Interest $970 mill.
Incl. $25.0 bill. in debt held by CAT Financial.
(LT interest earned: 7.8x;
Total interest coverage: 7.8x) (64% of Cap'l)

Leases, Uncapitalized Annual rentals $289.0 mill.
Pension Assets-12/19 $20.5 bill. **Oblig.** $22.4 bill.
Pfd Stock None

Common Stock 541,500,000 shs.

MARKET CAP: $71.4 billion (Large Cap)

CURRENT POSITION ($MILL.)	2018	2019	3/31/20
Cash Assets	7857	8284	8784
Receivables	8802	8568	7134
Inventory (LIFO)	11529	11266	11371
Other	10415	11075	10573
Current Assets	38603	39193	37862
Accts Payable	7051	5957	5083
Debt Due	5830	6210	7401
Other	15337	14454	12747
Current Liab.	28218	26621	25231

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '17-'19 to '23-'25
Sales	2.5%	-.5%	4.0%
"Cash Flow"	6.5%	4.0%	4.5%
Earnings	9.0%	6.5%	4.0%
Dividends	8.5%	8.0%	5.5%
Book Value	6.5%	-3.0%	7.5%

Cal-endar	QUARTERLY SALES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	9822	11331	11413	12896	45462
2018	12859	14011	13510	14342	54722
2019	13466	14432	12758	13144	53800
2020	10635	9997	*10100*	*11268*	*42000*
2021	*10300*	*11000*	*11000*	*12000*	*44300*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2017	1.28	1.49	1.95	2.16	6.88
2018	2.82	2.97	2.86	2.55	11.20
2019	2.94	2.83	2.66	2.63	11.06
2020	1.60	1.03	*1.25*	*1.62*	*5.50*
2021	*1.80*	*2.00*	*1.90*	*1.70*	*7.40*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2016	.77	.77	.77	.77	3.08
2017	.77	.77	.78	.78	3.10
2018	.78	.78	.86	.86	3.28
2019	.86	.86	1.03	1.03	3.78
2020	1.03	1.03			

BUSINESS: Caterpillar Incorporated is the world's largest producer of earthmoving equipment. Major global markets include road building, mining, logging, agriculture, petroleum, and general construction. Products include tractors, scrapers, compactors, loaders, off-highway truck engines, and pipelayers. Also makes diesel & turbine engines and lift trucks. Foreign sales 58% of total; R&D: 3.1% of sales. 2019 depreciation rate: 8.8%. Has about 102,300 employees. Officers & directors own less than 1.0% of common stock; The Vanguard Group, 8.9%; State Street, 8.1% (4/20 proxy). Chairman & Chief Executive Officer: Jim Umpleby. Incorporated: DE. Address: 510 Lake Cook Road, Suite 100, Deerfield, IL 60015. Tel.: 309-675-1000. Web: www.caterpillar.com.

Caterpillar reported better-than-expected second-quarter results. While revenues of $10.0 billion decreased 31% compared to the year-earlier period, the fall was less than we had called for ($9.80 billion). The decline was due to depressed volumes, driven by lower end-user demand and the negative impact of efforts by dealers to curtail inventory levels. Specifically, dealers slashed machine and engine inventories by $1.4 billion during the period, compared to an increase of roughly $500 million during the second quarter of 2019, with many of the changes occurring in the Construction Industries and Resource Industries divisions. Unfavorable price realization and utilization rates at factories led to an operating margin of 7.8%, which was well below the 15.3% registered in the year-ago period. Decreases in manufacturing costs, as well as SG&A and R&D expenses, however, provided some support. Altogether, share earnings of $1.03 decreased 64% over the year-earlier period, but eclipsed our $0.70 call.

But management expressed uncertainty about the remainder of 2020. As of mid-July, Caterpillar continued to operate all of its facilities. And production levels will depend on the pace of economic recovery and the potential for additional COVID-related shutdowns, which are possible as the number of cases has surged in various parts of both the United States and certain other countries. Management withdrew its 2020 earnings guidance earlier in the year and is not providing a financial outlook. However, the company said that end-user demand in the third quarter is liable to remain weak, and expects dealers to cut stockpiles by more than $2.0 billion for full-year 2020. In all, despite its surprising performance in the June period, we are leaving intact our 2020 top- and bottom-line calls of $42.0 billion and $5.50 a share, respectively, to account for the uncertainty.

Caterpillar shares have rebounded 51% from their 52-week low price of $87.50 established in March. The recent gains, however, limit the stock's recovery appeal over the 3- to 5-year pull. At the recent quotation, CAT stock is trading at a P/E multiple that is above the level we expect out to 2023-2025.

Dominic B. Silva — *August 14, 2020*

(A) Diluted earnings. Excl. net nonrecurring gain (losses): '07, 5¢; '08, (5¢); '11, (41¢); '12, (88¢); '13, (4¢); '14, (49¢); '15, ($1.12); '16, ($3.55); '17, ($5.62); '18, (94¢); '19, (32¢). Includes 75¢ of restructuring costs in '09; est'd Health Care Reform chg of 11¢ in 1Q, '10. Next egs report late Oct. (B) Div'ds historically paid mid-May, July, August, November. ■ Div'd reinvestment plan avail. (C) Incl. equip. purch. for leasing. (D) Incl. intang. In '19: $7.8 bill., $14.11/sh. (E) In mill., adjusted for split. (F) Accelerated basis.

Company's Financial Strength	A+
Stock's Price Stability	70
Price Growth Persistence	30
Earnings Predictability	45

Norwegian Carrier's Stock Hasn't Yet Recovered From Pandemic-Based Recession

Tanker Company Calls Itself a 'Cash Cow' for Dividends

by Nic Van Broekhoven

Despite the economic impact of the COVID-19 pandemic, the U.S. stock market was on a tear at the time of writing. The fastest risers were in the tech space. Certain industries have been slow to recover with stocks in the tanker industry particularly bad hit. Frontline is one of the largest petroleum and refined product tanker companies but its valuation was down around 40% since the start of 2020.

Day rates spiked after the coronavirus outbreak as very large crude carriers (VLCC) were used for storage purposes as the oil market went into contango. Contango occurs when the futures price of a commodity is higher than the spot price. Rates have since fallen dramatically as the excess oil needs to be absorbed.

Once this storage backlog is worked off later in 2020, the fundamentals of the oil tanker market point to a sharply tighter market as underinvestment and a low order book of new ships will haunt the industry. Frontline is a contrarian investment idea that has historically paid great dividends to its shareholders.

The corporation is based in Oslo, Norway. American depositary receipts representing Frontline are traded on the New York Stock Exchange under the ticker FRN Frontline was first listed in Oslo in 1985 and the ADR was listed on the NYSE in 2001.

Frontline's founder and main owner, John Frederiksen, has a reputation as a risk taker.

The company currently operates a fleet of 71 vessels, which consist of mostly Suezmax (28 vessels), VLCC (23 vessels) and Aframax (20 vessels). Tanker companies operate in a volatile pricing environment with day rates for ships fluctuating wildly.

Despite these fluctuations, Frontline refers to itself as a "Very Large Cash Cow," as it has paid over $6 billion in dividends since 2001. Frontline is attractive for dividends that are paid quarterly. The current dividend yield is over 7%.

Frontline management is bullish on these dividends continuing as the age of the average ship is rising drastically and the order book of new ships is at a 23-year low. A low number of incoming ships means the existing assets will have better pricing power. And better pricing power ultimately means more dividends for shareholders.

Frontline currently has a market cap of $1.48 billion. Revenues at Frontline have grown from $458 million in 2015 to $957 million in 2019. Net income in 2019 reached $139 million.

Unlike its peers Frontline has always worked with substantial leverage, which works well in bull markets but hurts the company in bear markets.

Investor worries about Frontline focus on the future of VLCC day rates and the use of petroleum-related products in the world economy. While we assume oil-based products remain the bedrock of global economic activity for decades to come, a quicker shift to alternative energy sources or a revolutionary technology breakthrough might leave the assets and services that Frontline provides obsolete. Accidents or terrorist activity on its ships are other risks investors will need to take into account.

Companies mentioned in this article are for educational purposes only; no investment recommendation is intended. Readers are urged to conduct their own studies of any stocks of interest.

Nic Van Broekhoven holds no position in Frontline.

Learn Investing as You Go Along and Don't Let Details Overwhelm You

What You Need to Know — and What You Don't

by Sam Levine, CFA, CMT, Contributing Editor

It's easy to buy stock. It can take as little as 10 minutes to open an account, fund it and enter a buy order. But people new to investing sometimes get caught up in the oceans of data, skills to acquire and dumb opinions that can flood anyone's brain to the point where it just seems easier to do nothing at all. If you're drowning in information — professionals call it "analysis paralysis" — allow me to offer some advice that just might be the life jacket you need to get started.

Your goal should be to be more right than wrong and always keep learning. Investors should have at least a working knowledge about what's on a Stock Selection Guide. Luckily there is plenty of material that explains the SSG and if you do get stuck, there are plenty of sites that might cover the topic with a different slant. My first stops are Investopedia.com, followed by Wikipedia.org.

You'll also want to become familiar with the S&P 500's structure. The BetterInvesting Top 100 Index (ticker: BIXX) compares itself to the S&P 500 and so do many individual investors. The 500 stocks in the index (you don't need to memorize them) split into 11 groups called sectors, then into different industries and so forth. Stocks within the same sectors and industries tend to move together.

"We look at stock prices the same way a shopper would buy groceries: How can we buy what we want at the lowest price?"

You Can Never Know It All

The sooner you put aside the thought of learning everything there is to know about investing, the less you'll be intimidated. No one person can know everything. The best investors focus on developing a process that suits their personality and interests. BetterInvesting provides a framework to help you get started picking stocks, but even within that structure, you can still fall as far into the rabbit hole of detail as you want. Spare yourself. Learn at your own pace and invest gradually.

Opinions

Opinions are like noses; everyone has one. Be wary about whose nose you let into your business. That includes the so-called expert talking heads. Portfolio managers and market strategists generally try to be interesting when they are on TV but try to be right once they're back in their office. They know few people will remember what they said on TV that day, but they will note their fund's performance.

Free advice is worth exactly what you paid. Financial commentators don't know what's in your portfolio and why you are saving. They might forecast the market action for the next week when you should focus on the next five or 10 years. Or they might recommend stocks that don't fit with what's already in your portfolio.

Ignore What the Charts Are Saying

There are infinite ways to analyze the market. BetterInvesting's method only focuses on three factors: the appeal of the company's products and services, how well management is turning that into profit, and buying growing companies at reasonable prices.

We look at stock prices the same way a shopper would buy groceries: How can we buy what we want at the lowest price? And we look for growing profits and sound management first and trust the stock prices will — at least enough of the time — eventually reflect that.

None of those factors look at whether the stock chart is beginning to form some pattern, like a "head-and-shoulders top" or "forming a base." Knowing a stock's price alone doesn't tell us much. Stock charts can tempt us to forget about the company's business and profitability and just react to what might turn out to be momentary fluctuations. It's all too easy to get caught up in what stocks are doing minute to minute (*see the cover story on Page 40*).

There are legitimate applications of charting, but they require experience and perspective you'll acquire over time. You might want to know how a stock reacted to a piece of news or compare the stock movement against the markets, which provides some idea about how a stock might act when the market is rallying or reversing. Some investors eventually find charts quite handy. But experience will teach you not to treat these findings as gospel.

It's OK to Let Most of the Big Fish Escape

Ideally, you'll develop a style that encourages you to buy and sell stocks very selectively, sort of like the Oracle of Omaha, Warren Buffett. His firm, Berkshire Hathaway, would often pass on some of the biggest market gainers because the companies didn't fit his criteria. Your best defense against analysis paralysis will be building experience. Until then, keep your process simple and enjoyable.

ETF Is a Cartful of Dividend-Paying, Name-Brand Companies

What's Cooking? A Consumer Staples Sector Fund

by Danielle Schultz, CFP, CDFA, Contributing Editor

If you follow the advice to buy what you know, you'll certainly recognize the names in this fund. Unless you live completely "off the grid," you'll surely have products from these companies. In fact, consumers have come to blows over some of these items, because as we've seen recently, toilet paper is definitely a consumer staple.

Introduction to Type of Fund

Consumer staples are supposed to be products in demand no matter what the economic conditions. Few people will go without toilet paper, cleaning products or at least some types of packaged food (ask most kids about mac and cheese). The category also includes beverages and tobacco products. Demand for this sector is relatively inelastic: There are only so many boxes of tissue or jars of processed cheese that most people can use, but people also have strong preferences for brand names and view many of these products as having no substitute.

Some of these staples are subject to trends and companies tend either to turn up their burners or deep freeze some. For example, keto is slowly taking the place of low-fat and tobacco has grown increasingly unpopular while growing more expensive as health consequences are known.

Still, this is a relatively stable market and, unless companies can quickly latch on to a trend, sales are relatively stable. In deep recessions, consumers can select a cheaper brand of toilet paper, or reduce soft-drink consumption, but products in some forms continue to sell. Market share comes more from slicing and dicing existing product lines rather than actual innovation. Clever advertising campaigns attempt to lodge a brand name in your mind.

This sector attracts investors seeking low volatility and good dividend payouts — once known as "widows and orphans" stocks, for their dependable performance. But scandal has burned companies in the past; as we all know, nothing in investing is a sure thing.

Investing Philosophy

I considered a number of mutual funds for this article. There's every flavor available, in all types of attractive packaging. You can choose actively managed or indexed funds, and global or just U.S. Investors should realize, however, that funds invested primarily in large corporations headquartered in the U.S. are still exposed to international commerce. For example, Procter & Gamble, the largest holding In the Vanguard Consumer Staples ETF (ticker: VDC), operates in more than 80 countries and only about 40% of revenue comes from North America (*Source: P&G Global Operations Fact Sheet*).

At first, I considered T. Rowe Price Global Consumer Fund (PGLOX) for this article. While it's had outstanding performance since its inception, it's only been around since June 27, 2016, has a high management fee of 1.07% and has no yield. As with all actively managed funds, you're betting on the skill of the chef.

Vanguard Consumer Staples ETF strives to replicate the MSCI US Investable Market Index/Consumer Staples 25/50. "25/50" means that no more than 25% of assets should be invested in one company. Also, if you add up all the companies representing 5% or more of assets, they shouldn't total more than 50% of total assets.

The fund invests more than 99% of assets in U.S. based companies, albeit they are also multinationals. In replicating the index, the fund will invest in large-, medium- and small-sized companies as contained in the index.

Portfolio

VDC has been in operation since Jan. 26, 2004. It has $5.6 billion in total assets, and holds 94 stocks.

The 10 largest holdings constitute about 65% of total assets, so the fund is clearly emphasizing large-cap companies: The holdings and percent of assets for each are:

- **Procter & Gamble**, 15.62%
- **Coca-Cola**, 9.15%
- **PepsiCo**, 9.11%
- **Walmart**, 8.70%
- **Philip Morris International**, 4.58%
- **Costco Wholesale**, 4.37%
- **Mondelez International, Class A**, 4.01%
- **Altria Group**, 3.55%
- **Colgate-Palmolive**, 3.17%
- **Kimberley-Clark**, 2.67%

Source: Morningstar

You'll have to pour through about 30 holdings before you find medium- or small-sized companies. These can often prove interesting if you're looking for ideas for individual stocks, but sometimes running a Stock Selection Guide on them makes me wonder what managers of funds are thinking.

Consumer staples companies often make up a large portion of so-called socially-responsible funds as well. I'll leave you to decide whether Walmart or Cheez Whiz fits your definition. Morningstar rates funds on three pillars. VDC scores below average on environmental; below average on social; and above average on governance.

Comparing the Vanguard Consumer Staples ETF (VDC) to the S&P 500 Index

Investment	YTD (8/21/20)	1 Year	3 Years	5 Years	10 Years	15 Years	Standard Deviation	Value of $10K After 10 Years
VG Consumer Staples ETF	3.06%	9.35%	7.75%	8.64%	12.20%	9.93%	13.64	$32,320
S&P 500 Index	5.15	16.16	11.84	11.50	12.33	7.07	17.17	30,465

Source: Morningstar

Performance

VDC has done pretty well overall and held its own, as investors might expect, even in a bad year. For comparison, let's look at the broader S&P 500 performance over the same periods. I've used VDC's price, rather than NAV (net asset value), as what an investor might actually realize (*see chart above*).

We should be rewarded for tolerating the risk inherent in the S&P 500. As soon as you start selecting for specific sectors, you change the recipe. But if we look at the 15-year picture, encompassing the more prolonged Great Recession, and the standard deviation, we see that VDC has less volatility.

The dividend yield of the S&P 500 is about 1.89%; VDC yields 2.54%. Reinvesting dividends and capital gains in the fund probably accounts for the higher value at 10 years, even though the VDC 10-year return is slightly lower. Dividends do count, especially for slower growth companies.

We might conclude that VDC is a good dish for patient investors with a long time horizon to stay invested. But how did it do in the most recent crash, from the market high on Feb. 14, 2020, to the low point on March 23, 2020? VDC lost 25.62%; the S&P 500 was down 33.81%.

Costs

VDC is a no-load fund. Its management fee (expense ratio) is 0.10% and there's no minimum investment because it's an ETF. Vanguard's corresponding Admiral class mutual fund has a $100,000 minimum.

Caveats

As with all sectors, you're taking a chance on the specific segment of (in this case) primarily large- or mega-cap companies. Because the big 10 are also significantly multinational, you're incorporating potential international exposure to your portfolio, whether you want it or not.

Finally, some of these companies have been cited as particularly bad for fair labor practices and some of their products may be considered junk or harmful. If any of these factors are a concern for you, you might not be comfortable with the strong emphasis this portfolio represents in these companies.

These funds are mentioned for educational purposes only; no investment recommendations are intended. The author and some of her clients may have positions in some of the funds mentioned in this article.

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A Fund Blending Both Styles Offers Less Risk

Understanding Growth Versus Value

by Danielle Schultz, CFP, CDFA, Contributing Editor

Growth stocks are hot stocks that can be expected to get hotter. Typically, these equities pay no or low dividends, because they're reinvesting earnings into developing — "growing" — the business. On one hand, if the share price doesn't increase, you'll have nothing. On the other, these investments tend to be more tax efficient, because you'll only incur taxable return when you sell, i.e., capital gains (*see Page 9*).

Or you can choose the exchange-traded fund version to minimize impact in taxable accounts. Because they produce no dividends and because analysts expect spectacular growth, growth companies are riskier. Analysts can be wrong, high flyers can crash, and by the time we hear they're "hot" they may already be overvalued. But growth companies purchased at the right time can deliver spectacular run-ups in price.

Companies that are underpriced for their worth are considered a good value — hence the name value stocks. Frequently these companies are out of favor with the crowd. Maybe they sell products or services with no serious potential to greatly increase their market, either because of finite demand or regulation. These companies often pay a dividend because investors don't expect much share price gain. Value companies may be value priced because they're terrible companies and they may appear cheap because they're about to go belly up. Also, you can wait a long time before the rest of the market recognizes what you think you already know. Value stocks are often considered less risky, in part because the payouts give you something back, even if the share price wobbles a bit.

The art and skill of investing is being able to use analysis to determine what's a good buy and what's a clunker. The BetterInvesting approach for individual stocks is actually a combination of these two orientations: We want stocks that have good growth potential, are underpriced for their worth, and if possible, pay a dividend that we can reinvest. But what about your accounts that are limited to purchasing mutual funds: your 401(k) or other employer retirement accounts? Should you choose funds emphasizing growth, value or some combination?

Conventional Wisdom and Current Performance

Most financial planners have been taught that there's a "value premium" and that this is especially strong for small-cap stocks. But we are also warned that past performance is no guarantee of future results. The market is never static, but you obtain different results depending on the time period you're examining. Perhaps most important is your own timeline for the investment. Are you likely to hold the fund for many years? Will there be a trigger where you'd want to move from one to the other? Or would you prefer to set it and forget it?

In 2015, Craig Israelson published a study in Financial Planning Magazine (**https://bit.ly/3gDVVNm**) that looked at all cap levels over the past 25 years, as well as examining specific periods:

"As the length of the investing period increases (from one-year rolling periods up to 10-year periods), the frequency of a value premium tends to increase.

"In small-caps, for example, value outperformed growth 52% of the time over the 23 three-year rolling periods between 1990 and 2015, 76% of the time over the five-year rolling periods and 88% of the time over 10-year rolling periods.

"Among large-caps, value has outperformed growth 69% of the time over the rolling 10-year periods in the past quarter-century. Among U.S. mid-cap equities, value has outperformed growth in 81% of the rolling 10-year periods.

"As noted above, the most compelling value story is seen among small-cap U.S. equity, with value beating growth 88% of the time over rolling 10-year periods."

That was five years ago. Let's take a look at a more recent period, beginning in 2010. We'll look at ETFs for large-cap and mutual funds for small-cap.

For large-caps, see the chart below:

Growth, Value ETFs Compared to an Index

Investment (All Invesco Funds)	Ticker	Value of $10K after 10 years beg. 2010
SPDR S&P 500 Large-Cap Growth ETF	SPYG	$51,524
SPDR S&P 500 Large-Cap Value ETF	SPYV	27,807
SPDR S&P 500 (index)	SPY	38,101

This makes it look like growth would be the clear choice. Since 2010, growth has indeed beat value in large-caps, and those last 10 years built up a head of steam. Frequently I see portfolios where the investor has divided their large-cap allocation half and half between value and growth. As with stocks, pick one, not competitors. Putting $5,000 each in SPYG and SPYV over the period of the chart would have resulted in $39,665 — not so far from taking the simple route and going for the combined total of SPY.

The top 10 holdings are the usual suspects: **See the top chart at right.**

Looking at the top 10 holdings, it's pretty easy to guess why growth stocks have surged ahead: the explosion in the tech sector. The value orientation appears to emphasize more consumer, health care and financials.

For small-cap stocks, see below:

Comparing 3 Vanguard Small-Cap Mutual Funds

Investment	Ticker	Value of $10,000 after 10 yrs beg. 2010
V.G.Small-Cap Growth	VISGX	$38,460
V.G. Small-Cap Value	VISVX	25,524
V.G. Small-Cap Blend (index)	NAESX	31,248

Here again, it appears that growth is the winner. But not so fast. If we look at every period beginning in 1998, when they were all in existence, value led or tied in nearly every period up until early 2018, when it pulled dramatically ahead. Again, if you'd mixed your own blend, 50/50 of VISGX and VISVX, you'd have $31,992, or about what the blended fund would have given you. Value orientation is the preferred choice of most asset advisers. Like all predictions, it was correct until it wasn't.

What's actually in these three funds? In the **chart at below right** are the 10 top holdings. Because of the large number of holdings in these funds, the stake in individual companies is rarely more than 1%. As is usual with small-caps, many of these names will be unfamiliar, unlike the well-known components of large-cap funds. Many people choose a small-cap fund simply because it is harder to select small, often thinly followed small companies.

Top 10 Holdings of Invesco Large-Cap Growth ETFs

SPYG (279 holdings)	SPYV (391 holdings)	SPY (506 holdings)
Apple	Berkshire Hath. Cl. B	Apple
Microsoft	UnitedHealth Group	Microsoft
Amazon	Verizon Comm.	Amazon
Facebook Cl. A.	Johnson & Johnson	Facebook Cl. A
Alphabet Cl. A	Pfizer	Alphabet Cl. A
Alphabet Cl. C	AT&T	Alphabet Cl. C
Visa Cl. A.	Bank of America	Berkshire Hath. Cl. B
Nvidia	Walmart	Johnson & Johnson
Mastercard Cl. A.	Cisco Systems	Visa Cl. A
PayPal	Exxon Mobil	Procter & Gamble

Source for all graphics: Morningstar as of Aug. 24.

Top 10 Holdings of Vanguard Small-Cap Mutual Funds

VISGX Small-Cap Growth (591 Holdings)	VISVX Small-Cap Value (894 Holdings)	NAESX Small-Cap Blend (1,386 Holdings)
Coupa Software	Peloton Interactive	Coupa Software
Teladoc Health	PerkinElmerc	Teladoc Health
EPAM Systems	Atmos Energy	EPAM Systems
Zebra Technologies	IDEX	Zebra Technologies
Teradyne	Booz Allen Hamilton Cl. A	Teradyne
Catalent	Essential Utilities	Catalent
Etsy	Brown & Brown	Etsy
Insulent	Molina Healthcare	Steris
Fair Isaacs	Medical Properties Trust	Peloton Interactive
Pool Corp.	RPM International	Insulet

Which Should You Choose?

Surprise, there's no easy answer. Reviewing the research graphically illustrates that past performance does not predict future success. Before choosing any of these funds, it might be worthwhile to review some of the holdings using the Stock Selection Guide. Would you invest in the top 10 holdings?

Next, you have to decide your own vision of the future. Will the pace of tech slow down or is it high but headed higher? Is the market or the company already overvalued, so that this is a time to look for undervalued or dividend paying investments? Or are value stocks out of favor for good reason? In case your crystal ball is cloudy, blended funds may allow you to take some advantage of the upside of growth, while offering some cushioning of value.

Interested in Morningstar? For a sidebar to this story, see Page 47.

These funds are mentioned for educational purposes only; no investment recommendations are intended. The author and some of her clients may have positions in some of the funds mentioned in this article.

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A Picture May Not Tell the Full Story, But It's a Start

How to Read OHLC and Candlestick Charts

by Sam Levine, CFA, CMT, Contributing Editor

When the market gets frisky, sometimes a line chart isn't enough. Hidden within the chart settings of Yahoo Finance, Morningstar and Google's stock pages are powerful tools to easily visualize market action. Chances are, you've already seen candlestick and OHLC charts pop up many times. They have been around for so long in fact, it's assumed all readers know how to interpret them. That's doubtful, since I was a broker for several years and no one even discussed how they work. Once I did learn about these charts, I never looked back.

Candlestick and OHLC charts present four times as much information as a basic line chart in the same sized graph and that information can be very handy. For example, I was recently wondering what sort of economic data might drive retail stocks. I became curious to see how Amazon reacted to consumer confidence data. The Conference Board's Consumer Confidence Index was released during market hours on July 28, so I wanted to see whether AMZN became more volatile when it was released.

The daily line chart (*this page, below*) doesn't tell us much, since it just draws lines between the daily closing prices.

OHLC Charts

I could, of course, look at an hourly line chart for the day, but that would require the additional steps of resetting the chart to a new date range and hourly prices. I'm a lazy chart reader, so allow me to reintroduce you to the OHLC chart (*the top chart at right*). Yahoo Finance calls it a bar chart. Both names are common. OHLC stands for "open, high, low [and] close." Each line in the top part of the chart represents one day. The horizontal line to the left of each vertical line is where the stock opened. The line represents the range the stock traded over the day (the high and the low) and the horizontal line on the right of each bar is where the stock closed on the day. The red and green bars on the bottom of all these charts are the trading volumes. Volume helps you evaluate the significance of a price change.

The lower the volume, the less excited buyers are about the higher price. Compare that to stocks that rise on increasing volume. That implies there's still untapped buying interest. But always remember these are signals, not rules.

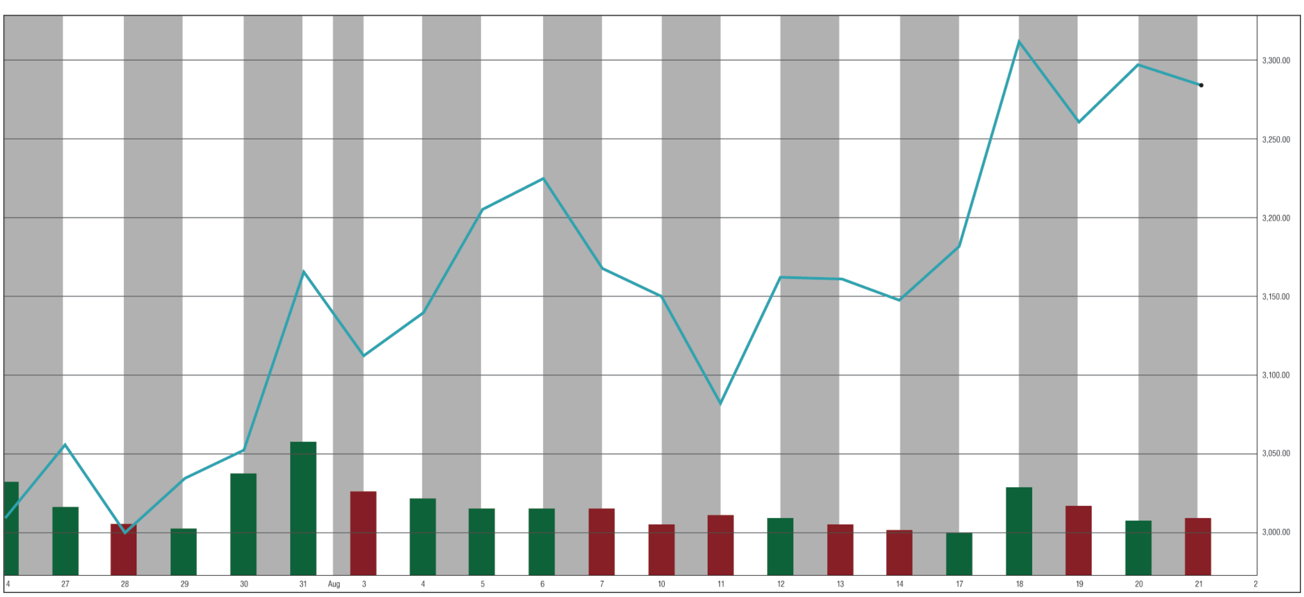
The first conclusion I drew from this OHLC chart was that AMZN stock didn't seem to give a hoot about the consumer price data on Aug. 28. The stock doesn't appear to have been unusually volatile that day. That month won't tell me that much.

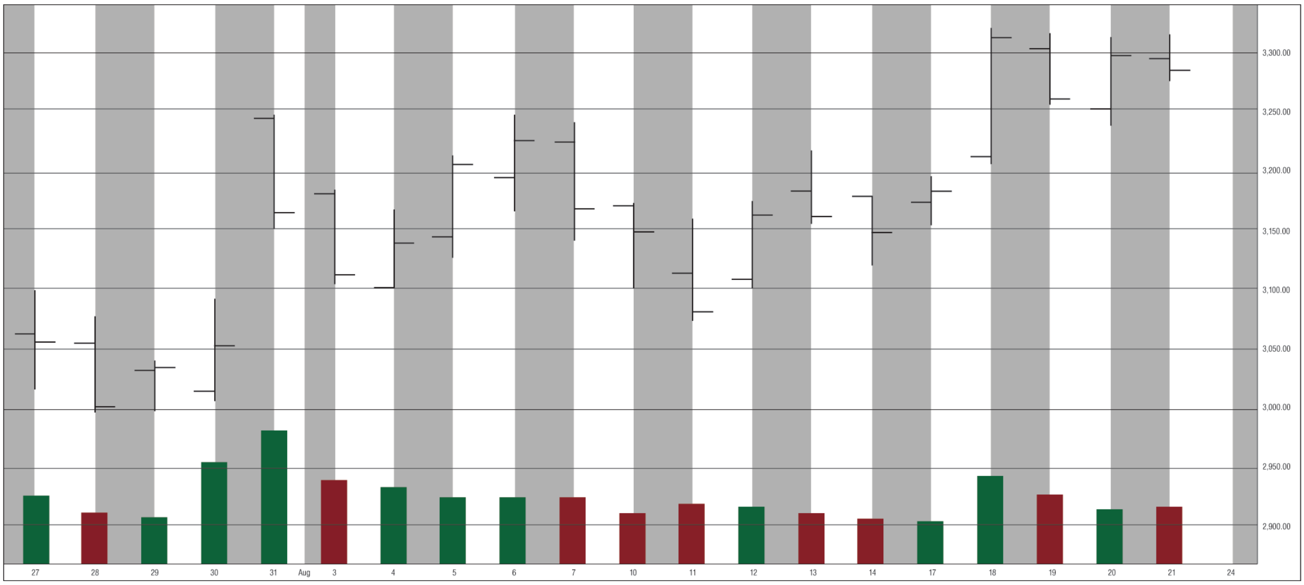
But I did note the big gap between the closing price of Aug. 30 and the opening price of Aug. 31. Not surprisingly, Amazon reported earnings after the close on Aug. 30 and the Street reacted positively.

Candlestick Charts

A candlestick chart (*the bottom chart at right*) uses all the information available in the OHLC chart but makes it slightly easier to read.

Instead of marking the open and close with short lines





to the left and right of the range, the candlestick colors in the range with red or green to indicate whether the day was positive or negative. If the day was negative, the box is red. The top of the box is the opening price and the bottom is the closing price.

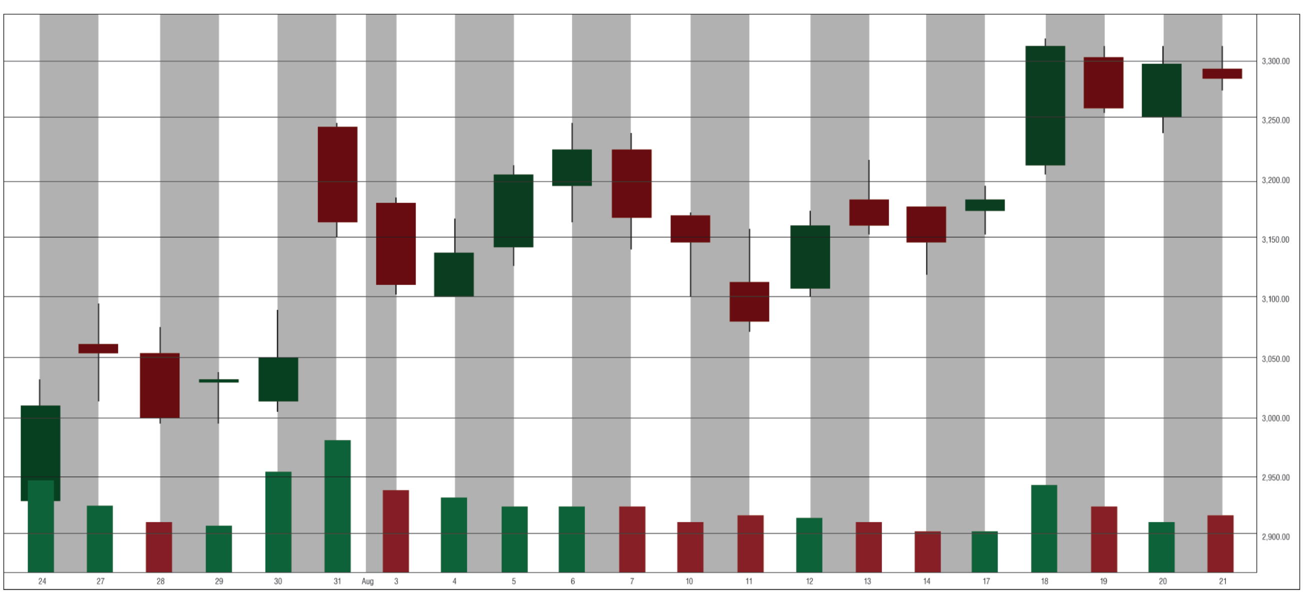
The lines above and below the box remain the same as the OHLC chart. They indicate range. If the box is colored green, then the bottom of the box is the opening price and the top is the close.

Just as with line charts, you can change each bar to represent anything from a stock tick to a year. The interpretation remains the same. The advantage of the candlestick chart over the OHLC chart is that it's easier to tell whether a bar was positive or negative without staring at it. OHLC charts can start to blur if you stare at them for too long.

Note that I haven't mentioned how to interpret chart patterns. Human beings are pattern recognition machines. Many traders could look at this chart and confidently express a buy or sell opinion.

You won't hear that too often in BetterInvesting circles, but technical analysis remains popular in the financial media because it's sound bite friendly: "The stock has been steadily establishing a base on declining volume," sure sounds impressive.

There are stacks of books on how technical analysts use these charts to predict stock moves. Many chartists don't even glance at a stock's fundamentals, believing that all the fundamentals are already baked into the price. As much as a picture might be worth a thousand words, many of the rules technicians cite sound appealing but haven't held up well under careful scrutiny. But charts do provide a quick way to look at market action and begin to investigate what might be driving a stock's or even a market's price.



Credit: Yahoo Finance

A Chance to Buy Shares in the Swedish Bank, Svenska, Can't Be Resisted

How to Use Book Value

by Vitaliy N. Katsenelson, CFA, CIO of Investment Management Associates

This article from Vitaliy Katsenelson includes discussion of assets mentioned only for educational purposes; no investment recommendations are intended.

Go to Vitaliy's Contrarian Edge website (www.contrarianedge.com) for more articles. You can sign up at the site to receive articles by email.

Svenska, based in Sweden, is one of the best-run banks in the world. We wanted to own it for a long time and finally got the opportunity. When we look at a financial company, we zoom in on its performance during a past financial crisis. The Great Recession was the ultimate stress test so far for financial firms being subjected to incredible pain. Svenska sailed through the crisis as if 2008 was just another year – its loan losses "spiked" from 0.1% to 0.2%. (By comparison, JP Morgan's losses were 3.5% in 2008.)

Here is an interesting fact: The debt of JP Morgan, Wells Fargo and Bank of America — the largest and the best-capitalized banks in the U.S. — is rated A- by Standard & Poor's. Svenska's rating is AA-. To put that in the proper context, the U.K. — a country that can print its own money and has nuclear weapons — also has a debt rating of AA-.

Svenska's greatness starts from how it is structured. It is decentralized — the branches are responsible for their own profits and losses and underwriting decisions. Each branch strives to achieve above-average performance and thus pull up the profitability of the whole company. Svenska does not pay bonuses, and thus there are no short-term profit incentives. Instead, the employees are owners of the firm — they own about 10% through a special account funded by the company.

Svenska's lending practices are very conservative — loan-to-value for Svenska-generated mortgages is 55%. House prices would have to drop 45% before Svenska would start losing money on mortgages. The coronavirus crisis may rival the magnitude of the Great Recession, but Svenska's conservative lending practices and incredibly strong balance sheet should get us through the thick and thin without even minor scratches.

We bought one of the best banks in the world for less than book value, or less than 10 times earnings. Earnings will likely grow about 5% a year; and in addition, at some point Svenska's valuation will come back to normal, increasing 50-80%. Svenska has historically traded at 1.5-1.8 times book. It also pays a 7.5% dividend, which it has raised over time with earnings.

In early March European governments asked all banks to suspend their dividends due to the coronavirus. They did not want to run into political issues like the airlines did in the U.S., where bailout money will go to plug the hole freshly created in companies' balance sheets by share buybacks. Svenska complied (begrudgingly); however, it said that just as in any other banking crisis over the last 50 years, it would not need government assistance. It will not actually cancel its dividend but postpone the decision on paying it until fall 2020.

A Look at Book Value

Since we rarely refer to book value, let's take a small detour and explain what it means. If you look at a company's balance sheet, book value is the difference between the company's assets and its liabilities — it is the company's equity. We rarely use it as yardstick of value when we analyze nonfinancial companies, and for a good reason: a large chunk of the assets (and some of the liabilities) on a typical company's financial statements are divorced from economic reality.

In the very, very old (manufacturing) economy, the cost of land and building a factory, less a company's borrowings, was indicative of what the company's equity (book value) was. However, even then the book value measure was not without flaws, as it recorded the value of long-term assets (land, for instance) at cost. If land appreciated over the years, its value in the company's financial statements did not change.

Book value in today's economy is even less relevant for most companies. Take Apple, for instance: One of the most valuable companies in the world, it doesn't even own its factories. The value that you don't see on Apple's balance sheet is that sparkle in Apple customers' eyes when they use the company's products. That sparkle is the intangible good that Apple created by building (often) revolutionary products. That good — Apple's brand — is created by R&D (research and development) and marketing, and both of these expenses are income statement items and never make it to the balance sheet, at least not in a tangible, easily observable form.

To make things even more complicated, share buybacks are not kind to book value. Despite Apple's earnings rising from $37 billion in 2013 to $57 billion in 2020, its book value declined from $123 billion to $78 billion over the same time period. How could this happen? Apple bought a few hundred billion dollars of its own stock in the open market and reduced its book value. We can keep going into the not-so-exciting weeds of book value, but we won't — just trust us; share buybacks distort the book value of the company. When we analyze Apple, along with many other things we pay close attention to its assets (mainly cash, accounts receivable, and inventories) and its liabilities (accounts payable and debt), but we pay little attention to its book value. Financial companies are different beasts. Their assets (loans) and liabilities (customer deposits and borrowings) must be marked to market (values) quarterly, and thus book value becomes a useful metric. At one times book, we basically bought Svenska at its liquidation value and paid nothing for the company's future ability to grow, its superior return on capital, its unique culture, etc. In other words, buying a poorly run bank at book value may or may not be a bargain, but buying one of the best-run banks in the world at book value is an incredible steal.

Investment Research Never Stops

And one more thing …

I am not a journalist or reporter; I am an investor who thinks through writing.

This and other investment articles are just my thinking at the point they were written.

However, investment research is not static, it is fluid. New information comes our way and we continue to do research, which may lead us to tweak and modify assumptions and thus to change our minds.

We are long-term investors and often hold stocks for years, but as luck may or may not have it, by the time you read this article we may have already sold the stock. I may or may not write about this company ever again.

Think of this and other articles as learning and thinking frameworks. But they are not investment recommendations. The bottom line is this. If this article piques your interest in the company I've mentioned, great. This should be the beginning, not the end, of your research. ß

Robinhood and Its Merry Traders

Is Trendy App Too Targeted on Short-Term Investing?

by Sam Levine, CFA, CMT | Contributing Editor

My $200 account on Robinhood went down by 7 cents today. I'm in a cold sweat. I have two decades' experience in the markets and teach investment management at a state university. Now I'm reduced to obsessing over moves I might make to reverse that wretched 7 cent loss. If this roller coaster is any indication of how Millennials and Generation Next invest in the market, we have some work ahead of us. Investing doesn't have to be and shouldn't be this stressful.

A few industry veterans still remember May Day of 1975, when stock commissions changed from a fixed schedule to commissions set by competition. Industry pioneer Charles Schwab led the foray into discount brokerage, offering lower commissions for do-it-yourself investors. Since then, as we all know, investing costs have been on the decline. And, thanks to the internet, information once solely available to professionals is available to almost everyone.

Now there's a new wave of discount financial services that are going even further than Chuck Schwab. These brokerages don't charge commissions and allow beginning investors to start without a substantial deposit. They don't trade in shares; they trade in dollar amounts and fractions of shares while still obtaining timely executions.

The industry leader of this next wave of financial services is the privately held broker Robinhood. To learn more about this wildly growing platform, I opened a small account and took a stroll through Sherwood Forest to see what exactly Robin has in his quiver. Joining Robinhood in its quest to rob fat cat larger brokerage firms of clients are the Merry Men competitors such as Stash, Acorns and roboadvisor firms like Betterment that manage your money for you.

Making Investing Easy and Fun

Robinhood offers a dramatically different user experience tailored to younger investors when compared to traditional online brokerages. Much of its appeal centers around an attractive interface and instant service. If you use the app to initiate a cash transfer from your bank, you won't need to wait for it to clear your bank. Robinhood can instantly credit the account, up to $5,000.

It's also upbeat. It minimizes all the dry disclosures and maximizes emojis to the point where I felt like I was using a self-affirmation app. Almost every action I took, from opening the account through funding it and buying a stock (well, a fractional share), was acknowledged with a colorful emoji and exclamation point. That's a growing trend. Online insurance provider Lemonade also makes getting a homeowner's policy an emoji laden event.

Robinhood offers one free share of stock when you open an account and another if you refer a friend. Immediately after opening my account, I "won" one share of WPX Energy (ticker: WPX), a $3.4 billion energy exploration company recently trading at around $6.00 per share. You won't get to pick which stock you'll receive. There's a 98% chance the granted stock will be worth between $2.50 and $10. The highest price share will be up to $200. Other firms use different strategies to buy your loyalty. For example, Acorns ties in with major retailers to offer you bonuses when you spend money.

Commission-Free Investing Explained

Robinhood can offer commission free trading through economies of scale and payments for order flow. Order flow is the volume of trades directed to a broker who might be able to earn money on the trade. Regulators have worked to make sure this practice is disclosed to clients and doesn't affect the quality of the trade, meaning the client will still get an attractive price when buying or selling stock. The smaller the order, the more impact a fixed commission has on returns.

Robinhood also offers additional data and other benefits through its Gold program for $5 a month. According to a recent news release, the firm is growing like fire. The number of revenue generating trades doubled from the first quarter of this year to the next. Not surprisingly, this allowed the firm to raise additional capital at a higher valuation. As of the last funding round, Robinhood's valuation was north of $11 billion.

There are three ways the company can grow its revenue from that vital order flow. It can attract more clients, encourage its clients to trade more frequently or it can steer clients toward securities that generate higher payments. Option trades generate more money for Robinhood than buying and selling S&P 500 stocks. An option trade can be worth around four times as much as a stock trade to the brokerage firm, but if the same amount of money gets invested in options instead of stock, the revenue could be multiples of that.

That might explain why it is so easy to open an option account. I was able to do just that with only that $200 deposit, entering in very typical net worth and income figures, and checking a few boxes declaring myself an "expert" with a desire to speculate. The risks of option trading (and there are many) were easy to miss when opening an account, and, once my profile was enabled for options, the option trading button is hard to ignore.

That user experience seems perfectly designed to tempt investors into short-term trading. The app opens with a chart showing how your account is doing that day. Though you can tweak the page to see your account performance over longer time horizons, you have to manually change that each time you open the app or the website. There's no option for your home page defaulting to, say, a monthly or annual view that truly reflects whether you're making progress toward your goals or at least beating a benchmark. The first view always seems to be how you are doing for the day.

Thus, my cold sweat. I am down by 7 cents, and Robinhood won't let me forget it.

What the home page does offer are lists. Those lists include cryptocurrency, cannabis, the most popular stocks and top movers, along with the more standard fare of industries and sectors. There's nothing wrong with offering ready made screens. We all need sources for ideas. But there's little encouragement for clients to do additional research into the company or consider how buying that stock will affect the risk of their total portfolios.

That apparent emphasis on short-term trading has driven criticism that the platform contributed to a 20-year-old client committing suicide over what he thought was a $730,000 loss. Though it's not certain, he may have simply misunderstood how options work. The firm didn't have a spokesperson available to comment for this article, but Robinhood's executives told Barrons for an Aug. 16 article that they are seeking to add educational tools, and it's not their responsibility to police clients who presumably should know what they are doing. Robinhood's executives have consistently argued the brokerage gives small investors access to tools they say were previously available only to larger investors.

That might prove to be a short-sighted view. Lawmakers and regulators are beginning to warily examine Robinhood's hands-off approach and re-examine precisely where a client's responsibility ends and the firm's responsibility begins. There's a good reason for regulators to be concerned. Robinhood has spawned a passionate and vocal client base that's reminiscent of internet stock chat boards in the late 1990s.

Interested *BetterInvesting Magazine* readers can go on Facebook and find groups devoted to discussing Robinhood stock picks. With some rare exceptions, there's a ton of enthusiasm and little careful analysis and discussion.

As this article was bring written, Tesla (TSLA) was the darling of the moment. It was discussed to the point of beginning to look like a feedback loop. Posters were enthusiastic about TSLA because it went higher, which led others to believe the buzz would drive the stock even further, regardless of what the fundamentals might indicate. Once the buzz dissipates, the stock collapses. Unfortunately, bubbles are very difficult to spot, except in hindsight.

This sort of social investing makes

stock fraud a piece of cake through what's known as "pump and dump scams." Savvy fraudsters first build positions in penny stocks, start rumors to drive prices up and then dump their positions at a profit, leaving victims with worthless positions. But these comments do offer opportunity. They give more sophisticated investors a better idea about senti ment. We can follow these threads and use them for contrarian ideas, provided we can live with all the hyperbole as well.

Robinhood may have played a bit fast and loose with required disclosures, too.

The Wall Street Journal reported on Sept. 3 that until 2018, the firm allegedly neglected to inform clients it sold order flow to electronic traders. If true, that could have represented a potential conflict of interest with the broker's obligation to pursue best trade execution for its retail clients.

Will the Next Generation Abandon Stocks?

Most day traders fail to make money. Some lose all or most of their capital. One concern about Robinhood and firms like them is how reliant they are on bull markets. When the stock market plateaus or plunges into a prolonged bear market, Millennials and Next-Gen investors may attribute their losses to being unlucky or associate stocks with gambling instead of not having acquired the skills and patience of long-term investors. Rampant speculation preceded the market crashes of 1929 and 2000.

There's more buzz surrounding Robinhood today than ever, but there isn't nearly enough thought about how alienating a generation of investors might impact the economy. We should know better. Economic history is full of lessons on the dangers of speculation. We'd do well to heed them, if only to avoid having our kids live with us for the rest of our lives.

Fintech Advance or a Bubble Machine?

Innovative technology, enlightened regulation and robust competition have made investing accessible to more people than ever before. Robinhood offers a valuable service by making it easy for people to begin their investing careers with fractional shares and zero commission trades. But investors' passions also need to be matched up with educational opportunities.

Robinhood is some slick software and it's hard to beat the free commissions. Their posted margin rate of 5% (for Robinhood Gold members at $5 a month) is also significantly less than rates recently offered on TD Ameritrade, both as of late August. Some BetterInvesting members might be able to distance themselves from Robinhood's circus-like atmosphere and might appreciate the lower costs. Traditional online brokerages offer much more information and investor education and, for that reason alone, might be worth the slight premium requested.

If Robinhood continues to promote carefree fun instead of a more sober approach to building wealth, we BetterInvesting members have an important job to do. We must encourage the next generation to stay invested long enough for basic investing principles to win out over random or short-term fluctuations.

Companies mentioned in this article are for educational purposes only; no investment recommendations are intended.

Readers are urged to conduct their own studies of any stocks of interest. BI

Contributing editor Sam Levine does not own shares in any stocks mentioned in this article.

BIVA Board Member Says She's Made 'Great' Friends Through BetterInvesting

Ex-BINC Chair an Investor Since Her College Days

As told to Angele McQuade by Sue Spurlin of suburban Chicago (Chicagoland Chapter).

In the late 1980s, I formed an investment club with several of my friends from college. We really didn't understand what we were doing and made a lot of mistakes. Our broker even went bankrupt. Finally, one of us brought a copy of *BetterInvesting Magazine* to a meeting and suggested we join. That put us on the right track.

No surprise here, but I find investing and the financial markets fascinating! BI's approach to investing and the tools can make successful investors of anyone, regardless of prior financial skills (or lack thereof). I think it's important to spread the word about investing in stocks and to provide people with the confidence to tackle it.

I truly appreciate my fellow volunteers in the Chicagoland Chapter, who work very hard to make our chapter successful. I also enjoy working with the BIVA Board (BetterInvesting Volunteer Advisory Board). My favorite BI memory so far is chairing the BetterInvesting National Convention in 2017 and 2018. The BINC team is devoted to making our convention the best it can be and I've made several great friendships over the years.

An American Explorer. Chicago resident Sue Spurlin hopes to see as much of the United States as possible, especially the national parks. She's already taken a memorable trip to the Grand Canyon with her twin sister.

Retired With More Time to Read

I've been retired about five years from the financial services industry, where I worked for over 35 years in a number of different roles. I've lived in Chicago my entire life and currently live in the southwest suburbs. I come from of family of five siblings and we all still live in the Chicago area. Adding in all my nieces and nephews and their children, our family has grown to about 26 people. Holidays are always fun when we get together. Lots of noise and love.

I joined a book club three years ago and have read many books I may not have read otherwise. So far, "A Gentleman in Moscow" by Amor Towles has been one of my favorites. Charles Schwab's "You're Fifty — Now What?" is one of my favorite financial books. He has a great back of the envelope calculation for determining income needed in retirement.

'Don't Fudge the Numbers'

My own advice to fellow investors is don't buy a stock until you've prepared an "honest" Stock Selection Guide. By that, I mean don't fudge the numbers so the stock falls in the buy range. My advice to anyone going through a down market for the first time is DON'T GIVE UP. The stock market can be exciting when it's up but scary on the way down. Have patience and stay the course. Over time, you'll be glad you persevered.

BI's teachings allowed me to retire early and determine my financial future. My dream is to see as much of America, including our national parks, as possible. I'm nowhere near fulfilling this dream yet but I'm sure going to try.

In 2019, I traveled to Utah and Arizona and saw several of our parks — Zion, Arches, Bryce Canyon and the north rim of the Grand Canyon, among others. My identical twin sister is my travel buddy. It's so much fun when people give us that confused look and ask, "Are you twins???"

Angele McQuade is the author of two books, including "Investment Clubs for Dummies." She lives near Bethesda, Maryland, where she also writes picture books and novels for children.

If you'd like to be featured in a future profile, please contact Angele through her website:

www.angelemcquade.com

Retailer Views Itself as America's Neighborhood General Store

Dollar General Corp.

by Kamie Zaracki

Editor's note: This month's First Cut — a Stock Selection Guide completed by a member of the BetterInvesting community — is of Dollar General Corp. (ticker: DG), completed on Aug. 14. This study was submitted by Kamie Zaracki, Southeast Michigan Chapter. First Cut studies, found at the BetterInvesting website, are an efficient source of stock ideas and a way to compare your judgments with those of other members. SSGs are available for companies such as Gilead Sciences, LGI Homes. T. Rowe Price Group and many others.

This First Cut is offered for educational purposes only. No investment recommendation is intended.

We invite you or your club to provide SSGs as well. Just click the "view all" button under the First Cut section at the BetterInvesting homepage.

Discuss why you consider this to be a high-quality growth company that should be investigated further.

Dollar General has posted 30 consecutive years of consistent comparable sales growth. Since its founding in 1939, the retailer, which considers itself America's neighborhood general store, has grown to a $27.8 billion company with a historical annual sales growth of 8.4%. This rate is higher than the target 5%-7% growth rate desired for firms of this size. Historical EPS is 15% and historical PTP is 7.9%, both indicating strong sustained financial performance.

In the past few years, DG has invested in strategic initiatives, which lower its long-term operating costs and help to maintain its position as a leading discount retailer. In 2020, sales, earnings and PTP growth have improved dramatically. The company has been buying back shares, which can unfavorably distort debt to capital. As a result, I am not troubled by these negative trends and still consider Dollar General a quality growth company.

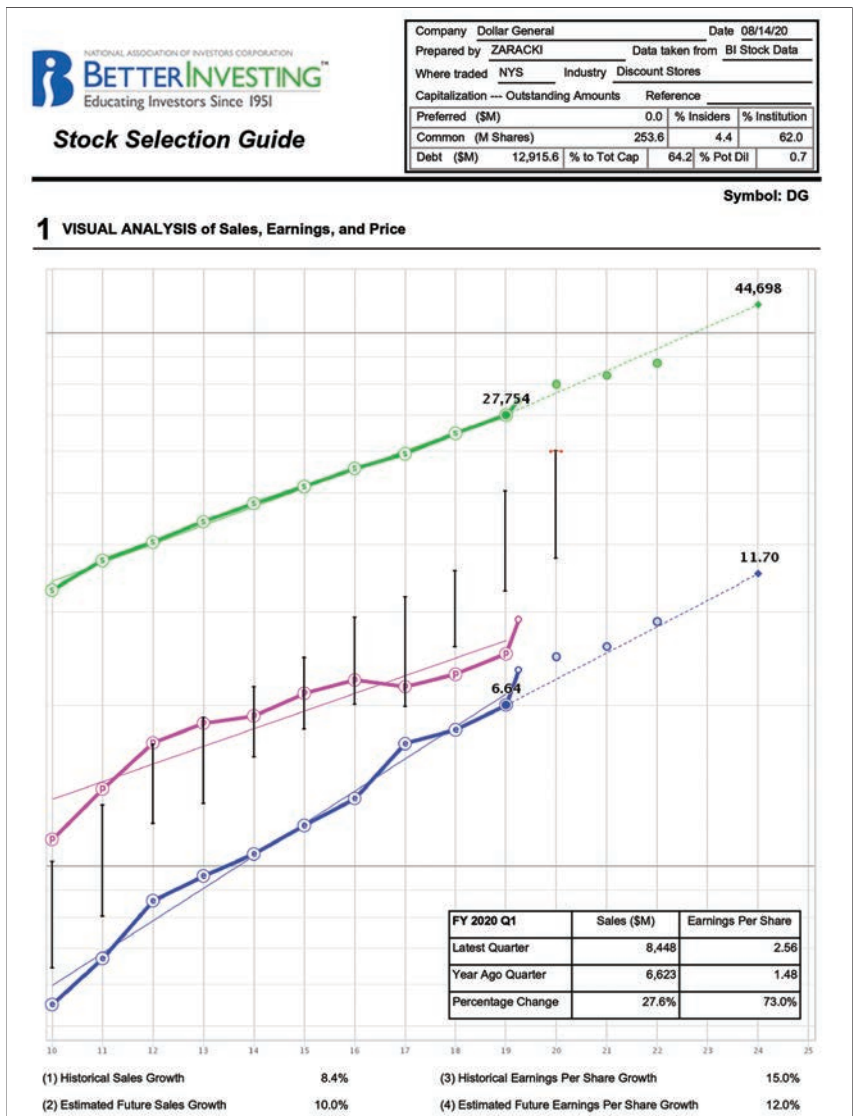
Describe how the company makes money.

Dollar General is a large U.S. discount retailer with approximately 16,000 stores in 45 states. Its offerings include consumables, seasonal, home products and apparel. The company has a compelling value proposition of discounted prices and convenient locations. Approximately 75% of the U.S. population lives within 7 miles of a DG store. Dollar General stores were classified as essential and remained open during the lockdown. Its smaller store format appeals to consumers wishing to avoid crowds. This is a boon for the retailer in 2020.

Projected growth rate for sales: 10%

Why did you select this rate?

Value Line estimates future sales growth of 9.5%; CFRA



estimates 11.6% and Analyst Consensus Estimates (ACE) is 8.9; 10% seemed a reasonable and conservative estimate. Dollar General is currently implementing plans to open new stores in new geography, open new stores in existing geography (to increase the density of stores in a market) and upgrade some older stores. This expansion and enhancement of its retail footprint should attract more customers and sustain sales growth into the future.

Projected growth rate for earnings per share: 12%

Why did you select this rate?
Dollar General offers a limited selection of name brands in each category it sells. This strategy enables DG to concentrate its buying power in those specific areas and thus offer very competitive prices on those brands. Private label merchandise augments their product selection and supports improved margins.

Dollar General is in the midst of implementing initiatives to expand self-servicing in their stores and to open two new warehouses. These projects will lower in-store operating costs and lower transportation costs associated with stocking their stores. Additionally, DG is working to improve their product mix to include a higher percentage of higher margin products and fewer consumables. These operational changes support a forward looking EPS growth rate of 12%. (Value Line estimates 12% and ACE estimates 11.2%.)

Dollar General Corp.	
Industry: Discount Stores	
Price at time of study	$198.55
Current P/E	25.7
2019 revenues	$27.8 billion
2019 EPS	$6.64
Pretax profit on sales (five-year average)	8.4%
2019 pretax profit on sales	7.9%
Percent earned on equity (five-year average)	24.1%
2019 ROE	25.2%
Annual dividend	0.7%

Projected high P/E: 22

Why did you select this value?
Dollar General P/Es have generally been very "reasonable" during the last five years. The high P/E has ranged from 18.8-25.1; 22 is half way between the two and seems appropriate.

Projected low P/E: 14

Why did you select this value?
Five-year low P/Es range from 11.7-16.4, with the average at 14.5. I rounded down to be a little more conservative in my analysis.

Projected low price: $108.20

Why did you select this value?
This low price is near the 2019 low price of $108.70. While the pandemic, civil unrest and the upcoming election create economic uncertainty, my sense is the share price will unlikely fall below this level.

At the current price, the stock is a:
Hold

At the current price, the upside-downside ratio is: 7 to 1

Projected compounded rate of return: 6.3%

Your final recommendation:
Hold. Dollar General is a quality company widely held by BetterInvesting clubs and members. It's a good company to hold in a portfolio, providing both stability, growth and reasonable returns for a large company. Should the share price drop below $146, which it did in March, clubs and investors may want to consider adding this consumer defense stock to their portfolio.

MN Summit Investment. In the back row are Colleen Callander, Bill Prelgo, Claudia Prelgo, Barbara Grotkin, MaryEllen Moore and Bill Moore. In the front row are Donna Oman, Mary Callander and Dick Riener.

Minnesota Club, Founded for Women, Went Co-Ed in 2011

1960s-Era Club Updates for Today With Virtual Meetings

Article by Karla Barrett, a director of the Northern Lights Chapter, Minnesota, following a Chapter Visit and recently updated by the club.

A very special BetterInvesting 50 year anniversary was celebrated on June 13, 2019, by the MN Summit Investment, a club based in the very eastern suburbs of St. Paul, Minnesota. The original Summit Investment Club was launched in May 1969.

The club was started by members of the American Association of University Women, AAUW; an organization established in 1881 and dedicated to promoting equity and education for women and girls.

One of the 20 original members of the investment club, Donna Oman, serves as the current secretary. The first male joined the group in April 2011 and the group's name was soon changed to MN Summit Investment.

Currently, they have nine members, six women and three men. Everyone holds an office. Bill Moore serves as president and Colleen Callander as vice president. MaryEllen Moore is treasurer with an assistant treasurer, Dick Riener. Mary Callander holds a role with the title of "Sunshine" and Barbara Grotkin is the meeting coordinator. Bill and Claudia Prelgo are the stock reviewers.

Today, COVID-19 hasn't stopped this club from their monthly meetings. By changing the location to a semi-outdoor venue, the members are able to ensure social distancing in a controlled environment. Virtual meetings are planned for the upcoming winter months.

They are very thorough in their reporting and based the information on BetterInvesting principles utilizing the Stock Selection Guide Plus.

The group launched their club in June 1969 with one stock, Continental Oil, and a portfolio value of $516.43. At present, MN Summit Investment has 18 stocks with a portfolio value of greater than $200,000. The oldest position held is 20 shares of IBM purchased on July 1979 at $69.25 a share.

The original cost was $25 to join plus $10 monthly dues. Monthly meetings were held at a member's house and were usually followed by a social dinner at a local restaurant. Before COVID-19, the club met at various restaurants around the Twin Cities.

Their anniversary meeting found them at a lovely restaurant overlooking the St. Croix River. The group put together a wonderful 50-year celebration that included a quiz on happenings from 1969, a delicious cake and then topped it off with chocolate truffles in gold packaging.

Two Views on a Club Visit

From Northern Lights Chapter Director Karla Barrett: "It was an honor to be able to celebrate with MN Summit Investment and present their 50-year anniversary certificate from BetterInvesting. They truly represent an outstanding and enduring investing club. The members of MN Summit Investment plan on many more years of success!"

From the MN Summit Investment: "The BetterInvesting representative offered some valued suggestions to the club's monthly reports, which were implemented subsequent to the club's celebration."

New Members Have Long History of Service to Bi and Its Principles

BetterInvesting Board Adds 2 New Directors

Two new members have joined the BetterInvesting/NAIC Board of Directors, Patrick Donnelly and Ionnie McNeill. They fill the positions left open by departing members Roger H. Ganser and Phillip J. Keating, CFA.

Donnelly

McNeill

Donnelly joined BetterInvesting in 1999 and soon became a Pittsburgh Chapter volunteer. He has held the chapter offices of secretary, vice president, education chair and president, and is also an instructor.

From 2000 to 2007, Donnelly became involved in the Pittsburgh Investor's Fair and after two years took over as chair of the annual event. "We held our last event in 2007 or 2008 and I'm still apologizing to my wife, Sue, for getting her involved!" he said.

In 2008, Donnelly became active with BetterInvesting on the national level, serving on the BetterInvesting Volunteer Advisory Board until 2019. His roles included assistant regional manager for Mid-Central, regional manager for Mid-Central, secretary, president and chairman. Donnelly began supporting the BetterInvesting National Convention as a BIVAB member. His BINC roles have included computer lab technical support, teacher and marketing committee leader.

McNeill is also a longtime BetterInvesting member and volunteer, joining as a youth member. Her early work included teaching youth the importance of investing, the power of compound interest and how to become a corporate shareholder. A Howard University graduate, she is a director of the South Florida Chapter and a member of the chapter's model investment club.

After publishing her first book, "The Baby Billionaire's Guide to Investing," McNeill began working with organizations such as Capital One, ING, The Heart of America and Girls, Inc. to create and deliver financial education curriculum and experiences to grade-school students.

"Growing up in my house, there was always reading materials, namely small books and copies of *BetterInvesting Magazine*," McNeill said. "Every time I read an article, I said to myself 'I want to be like that! I want to be an investor!' I wanted to be someone that had their money working for them and not the other way around."

MUTUAL FUND MATTERS

Continued from p. 35

How to Compare Funds' Historical Performance

by Danielle Schultz, CFP, CDFA, Contributing Editor

You don't need a subscription to Morningstar to look at a fund's basic performance. Simply type in the name or ticker symbol of the fund you want to examine in the search box at the upper left of your screen on the Morningstar website. A drop-down menu will appear and you can select the fund.

Next, you'll see basic data. As you scroll down the page, you'll see an analyst report, which won't be available in full unless you have a subscription or have accessed the site free through your library. Scroll until you see the heading, "Growth of $10,000." Beneath that you'll also see annualized return by year, going back 10 years. Look for the tiny bubble on the chart graphic that says, "Show Interactive Chart."

If you click on that, you'll get a screen that will allow you to input the name or ticker symbol for other funds and choose any time period, or specific days and years, to compare the funds. Don't be fooled into comparing only on the basis of how much $10,000 would have grown from 10 years ago. It doesn't give you an adequate picture of how a fund might have done in a prolonged recession. On the other hand, viewing different time periods can tell you how the fund has performed recently and allow you to view whether or not it has been consistent over various time periods. Most returns tend to drop over longer time periods because hills and valleys smooth out.

Using This Section

In this section readers seeking to network with other long-term investors will find resources for information about programs in their communities. Meetings provide investment education for interested individuals of all ages and experience levels.

We've listed each BetterInvesting chapter along with the chapter's website, contact information and whether the chapter offers:

NEW – new meetings listed at the chapter website

MC – model club meetings for learning about club operations and stock selection

CV – club visits during which a chapter volunteer can answer questions about operations and portfolio management

SSG – upcoming classes on the Stock Selection Guide and related stock study forms

SOFT – upcoming seminars on using computers and BetterInvesting-related software

TREAS – upcoming classes for club treasurers and those interested in club accounting

CG – Computer Group

Upcoming Investors Fairs, Educational Fairs, annual meetings and other major events are listed at the end of this section. For current details on any meeting, go to the relevant chapter's website.

We urge investors to contact the chapter for full details about any event and to learn of any changes in time or location.

The regional programs described in this section are the heart of BetterInvesting's educational effort. Some request a modest fee to defray costs, while others are free.

BetterInvesting's objective is to help people learn about long-term investing in an atmosphere in which they are free from pressure to buy anything.

CHAPTER CONTACTS

Contact your local chapter for details such as changes in time or location. You may also go to the BetterInvesting website at **www.betterinvesting.org** and visit **My Chapter**.

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NEW • CV • SOFT

WYOMING

See Colorado, Rocky Mountain

BetterInvesting's **Online Chapter** offers support both to members and clubs without a local chapter and to the public. The chapter's leadership provides a variety of high-quality programming and support.

The leadership of the **Online Chapter** is Jane Chatterjee, Chair/President; Howard Johnson, VP–Club Support; Joe Farrell, VP–Model Clubs and Visit-A-Club; Saul Seinberg, VP–Education; Linda Hunt, VP–Financial Literacy & Outreach; Jie Eagleson, VP–Communications; Cliff Trent, Treasurer; Bob Houle, Secretary.

Visit the **Online Chapter** at **www.betterinvesting.org/online**

ONLINE INVESTOR EVENTS *(DUE TO COVID-19, PLEASE CHECK WITH YOUR CHAPTER TO CONFIRM EVENT SCHEDULES)*

ALASKA

Alaska
10 a.m. – 1 p.m., Oct. 17
Online
Alaska's 2020 Investing Education Fair
Virtual event with Suzi Artzberger, BetterInvesting's director of information services and expert on BetterInvesting's Online Stock Selection Tools. Cost: free. For registration and further details, see website below in future. For information: contact David Lenig, president at president@alaska.betterinvesting.net.
www.betterinvesting.org/alaska

COLORADO

Rocky Mountain
9 a.m. – 3 p.m., Oct. 17
Online
Investor Education Day, Focus on Retirement Planning and "Economic Outlook & Market Opportunities." Speakers: Christi Powell, CFP, RICP, Heart of Oklahoma director, BINC presenter and BI national webinar speaker presents the following: Building a Retirement Paycheck, Part 1: Foundation and Basics; Building a Retirement Paycheck, Part 2: Resources, Risks, Tax Implications; Estate Planning Decisions — Wills, Trusts, and Much More; 30 Minutes to Savvy Cybersecurity: 5 Threats — How to Fight Them; and Hack-Proof Your Smartphone — iPhone or Android. Cayman B. Wills, CFA, managing director, JPMorgan Private Bank, Global Head of Equities, will present "Economic Outlook & Market Opportunities." Cost: $10. Register: https://bit.ly/3bNnLG4. Event contact: rmchapter9@gmail.com.
www.betterinvesting.org/rockymountain

DISTRICT OF COLUMBIA

D.C. Regional
7 p.m. – 9 p.m., Oct. 17
Online
Money Matters Book Discussion. The Financial Book Discussion Group meets monthly and is open to anyone. While prereading of the selection is encouraged, provided summaries and presentations will allow all to follow along with the group. Topic this month: "Your Complete Guide to a Successful and Secure Retirement" by Larry Swedroe and Kevin Grogan, 2019. One stop resource for those preparing for retirement. Covers Social Security, Medicare, investment planning strategy, portfolio maintenance, preparing your heirs and much more. Cost: free. See website below for GoToMeeting launch. For information, contact: contact@dc.betterinvesting.net.
www.betterinvesting.org/dcregional

FLORIDA

North Florida
7:30 p.m. – 8:30 p.m., Nov. 3
Online
Stock Investment Workshop — November. A sequence of sessions alternating between bringing the beginner investor in individual stocks up to speed and sessions on tips, tricks and techniques for more experienced investors. Topics will be chosen from those requested earlier and selected from those most requested. Experienced instructors have been selected based on their experience with the topic.
Cost: free.
Register:
https://bit.ly/2ZtlR7D. Contact: Dan Harter biscc.bod@gmail.com.
www.betterinvesting.org/space

MISSOURI

St. Louis
7 p.m. – 8:30 p.m., Oct. 13
Online
Let's Talk Stocks — October. In a roundtable format, everyone is invited to discuss a stock of interest to them or their club. Participants are encouraged to bring copies of supporting documents to share, such as Value Line or an SSG. This is a good opportunity to gather ideas from like-minded investors. Cost: free. For further registration info, see website below. Contact: candaceb@charter.net.
www.betterinvesting.org/stlouis

PENNSYLVANIA

Central Pennsylvania
7 p.m. – 8 p.m., Oct. 13
Online
Stock Study — Walt Disney (Dis). A series of Stock Study webinars will be presented by the chapter in 2020. Companies will be in different sectors, industries and investment situations. The studies will include background information and a description of products/services provided by the company. Detailed financial data will be presented and compared with competitors. Reviews by Value Line and Morningstar analysts will be included in each stock study, if available. Finally, an SSG will be presented with a discussion of judgments used to build the SSG. Walt Disney is a diversified worldwide entertainment company. The company is in the entertainment industry and the consumer cyclical sector. Cost: free. Register: https://bit.ly/3k1JBIS. Contact: John Diercks, wdiercks@aol.com or contact@centpenn.betterinvesting.net.
www.betterinvesting.org/centpenn

TEXAS

Houston
7:30 p.m. – 8:30 p.m., Oct. 19
Online
Let's Talk Stocks. Houston Chapter directors Jeann Howse and Jerry Pillans will give their viewpoint on stocks of interest to them. Specifically: AbbVie (ticker: ABBV) and Synnex (SNX). They will present information about each company and do a Stock Selection Guide. Jeann was part of the original group forming the Houston Model Club and has held numerous officer positions, including serving as the current president. Jerry has been a volunteer Houston Chapter director since 2001 and is an associate director for the BetterInvesting Volunteer Advisory Board. Cost: free. Register: https://bit.ly/3mfz9ze.
Contact: president@houston.betterinvesting.net.
www.betterinvesting.org/houston

North Texas
9 a.m. – noon, Oct. 17
Online
North Texas Investor Education Day: Smarter Stock Selection in Seven Easy Steps. Our discussion leader will be Doug Gerlach, who believes that investors can outperform the market with a sensible buy-and-hold strategy. He will cut through the noise and present an approach to stock analysis, focusing on the key factors that reveal a company's true underlying growth prospects, quality and realistic valuation potential. Working together we will apply the Seven Easy Steps to stocks presented by the participants. This will be an interactive class with discussion and a follow-up practice session. Doug is the president of ICLUBcentral and editor-in-chief of ICLUBcentral's three investing newsletters, including the SmallCap Informer. Cost: $15, includes a three-month trial subscription to the SmallCap Informer newsletter.
Register: https://bit.ly/3inMZ0g.
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Reviewing Stock to Study, Undervalued Selections

Penske Automotive Group, Inc.; CarMax, Inc.

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

Penske Automotive Group, Inc.
Ticker: PAG

Company description: Penske Automotive Group owns and operates 145 U.S. light-vehicle franchises in 21 states and Puerto Rico. It has 172 franchises overseas, primarily in the United Kingdom. The company is the second-largest U.S.-based dealership by light-vehicle revenue and sells more than 35 chiefly luxury and import brands. Services include parts, repair, finance and insurance. Its Premier Truck Group owns 25 truck dealerships selling mostly Freightliner and Western Star brands. Penske owns the CarSense and CarShop used-vehicle stores. Michigan-based, the company was United Auto Group before its 2007 name change.

Price at time of selection: $49.81
High price during past five years: $56.05
Closing price 5 years later: $58.59
Total return at 5-year price (including dividends): 12.3%
S&P 500 5-year total return: 77.1%
Value Line long-term earnings growth estimate when featured: 14.0%
Consensus long-term earnings growth estimate when featured: 11.4%
Five-year sales growth rate: 5.0%
Five-year EPS growth rate: 11.1%
Five-year pretax profit on sales: 2.6%
Five-year return on equity: 20.3%

Comment: Penske was selected as the November 2015 Stock to Study because of the company's long-term growth prospects related to its significant overseas operations and rapidly expanding truck dealership networks. The company's five-year growth rate fell well short of the goal of doubling within five years.

UNDERVALUED

CarMax, Inc.
Ticker: KMX

Company description: CarMax sells, finances and services used and new cars through a network of more than 220 retail stores. It was formed in 1993 as a division of Circuit City and spun off as an independent company in 2002. Used-vehicle sales account for 85% of revenue and wholesale about 12%. The remaining portion comprises extended service plans and repairs. In fiscal 2020 CarMax retailed and wholesaled 832,640 and 466,177 used vehicles, respectively.

Price at time of selection: $62.10
High price during past 18 months: $109.15
Closing price 18 months later: $106.32
Total return at 18-month price (including dividends): 13.7%
S&P 500 18-month total return: 23.2%
Value Line long-term earnings growth estimate when featured: 11.5%
Consensus long-term earnings growth estimate when featured: 13.5%.
Most recent quarter sales growth: (39.8%)
Most recent quarter EPS growth: (98.1%)

Comment: The corporation's proven business model and track record of strong financial results were among the reasons CarMax was selected for May 2019. The absence of significant competition to date was another reason. Nevertheless, the stock's total return of 13.7% fell below the 20% goal for an Undervalued Company and was below the 23.2% total return of the S&P 500 index over the 18-month period.

No investment recommendations are intended. The author does not hold shares in these stocks.

Contacting BetterInvesting

To ensure faster service, please have the following information ready: BetterInvesting Membership Number (on your *BetterInvesting Magazine* mailing label).

When calling BetterInvesting please listen to the recording that will direct you to the service you require. You can reach a specific department by dialing the extension below:

DIAL #	DIAL 0	DIAL 1	DIAL 2	DIAL 4	DIAL 5
Then the extension for a specific employee	For the Employee Directory	For Membership and Subscription Services	For Investment Products	For Club Accounting Products	For Chapter Services

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SmallCap Informer

Discovering Superior Small-Cap Stocks

www.smallcapinformer.com

June 2020 Volume 9, Issue 6

In This Issue

Editor's Comments

Adjusting Company Growth Projections for a Down Year

The effects of the global pandemic and recession are difficult to quantify, but we do know that even the best-managed companies are likely to see their profits drop in 2020 and perhaps 2021. Hopefully, companies will then recover and be on to the next stage of their growth with greater consistency and predictability.

It is possible, however, to build a model to forecast a company's expected long-term results that incorporates a short-term decline. In the company updates in this issue of the ***SmallCap Informer***, I have done just that. The technique is not especially complicated, but here is an explanation that may help you inte-