

# Manage Your Risk

***risk: exposure to the chance of injury or loss***

By John Rogers, director  
Rocky Mountain Chapter of Better Investing

# INVESTMENT RISK PYRAMID?

**SPECULATIVE AND EMERGING MARKET  
STOCKS, JUNK BONDS, OPTIONS AND  
FUTURES CONTRACTS**

**INVESTMENT-GRADE CORPORATE  
BONDS, GOVERNMENT BONDS,  
HIGH-GRADE MUNICIPAL BONDS,  
FIXED INTEREST SECURITIES**

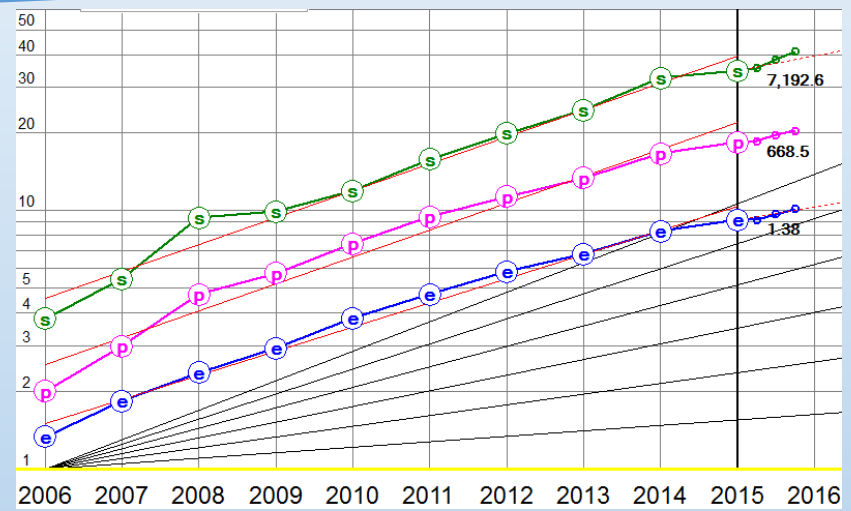
**BLUE CHIP STOCKS, REAL ESTATE  
INVESTMENTS, ROYALTY TRUSTS**

**SAVINGS ACCOUNTS, CDS,  
TREASURY SECURITIES,  
INSURANCE, MONEY MARKET  
ACCOUNTS, CASH**

# COMPONENTS OF RISK

- Uncertainty (volatility)
  - Analyst assessment (Morningstar)
  - Variation in historical P/E ratios
  - EPS Growth R<sup>2</sup>
- Time
  - Buy and Hold (not buy and forget)
  - Stay fully invested
- Quality
  - “Straight UP and PARALLEL”
  - Pre-tax profit margin and ROE up or steady
  - Positive SWOT
- Diversity of Portfolio
  - 15 or so holdings in a variety of sectors
- **You!**
  - Sell when others are euphoric
  - Buy when others are panicky

(3) Historical Earnings Per Share Growth	10.8 %
(4) Estimated Future Earnings Per Share Growth	11.3 %
(6) Earnings Per Share Growth R <sup>2</sup>	0.96



# NORMALIZED P/E RANGE

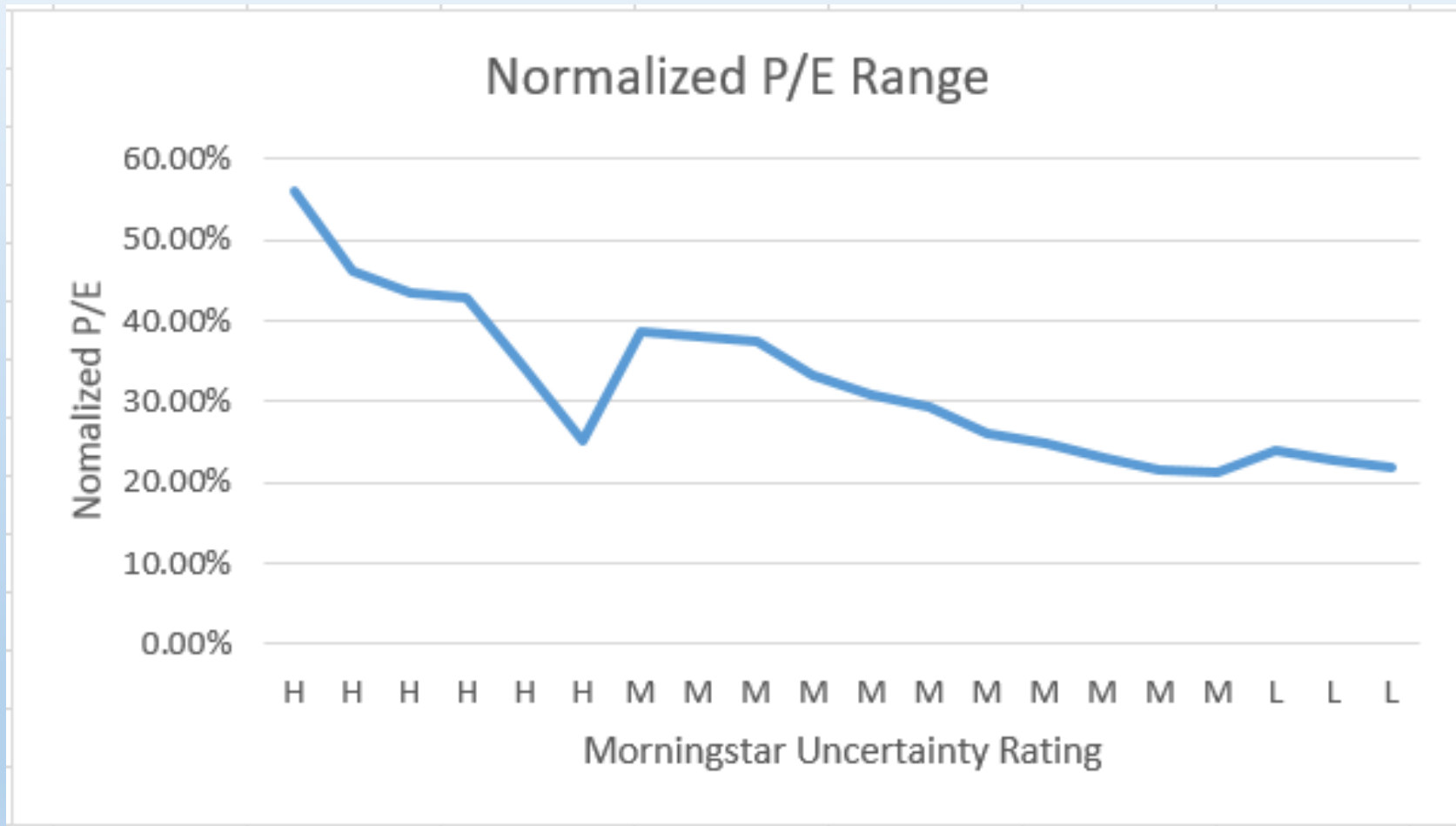
Normalized Range = (Avg. High – Avg. Low)/Avg. P/E

	Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E
1	2012	49.8	40.8	3.03	16.4	13.5
2	2013	72.0	49.0	3.75	19.2	13.1
3	2014	98.6	65.0	3.96	24.9	16.4
4	2015	113.7	81.4	4.62	24.6	17.6
5	2016	106.7	69.3	4.91	21.7	14.1
6	AVERAGE		61.1		21.4	14.9
AVERAGE P/E RATIO		18.2		PROJECTED P/E RATIO		14.8
CURRENT P/E RATIO		16.3		PEG RATIO		1.4

**Normalized P/E Range = (21.4 – 14.9)/18.2 = 35.7%**

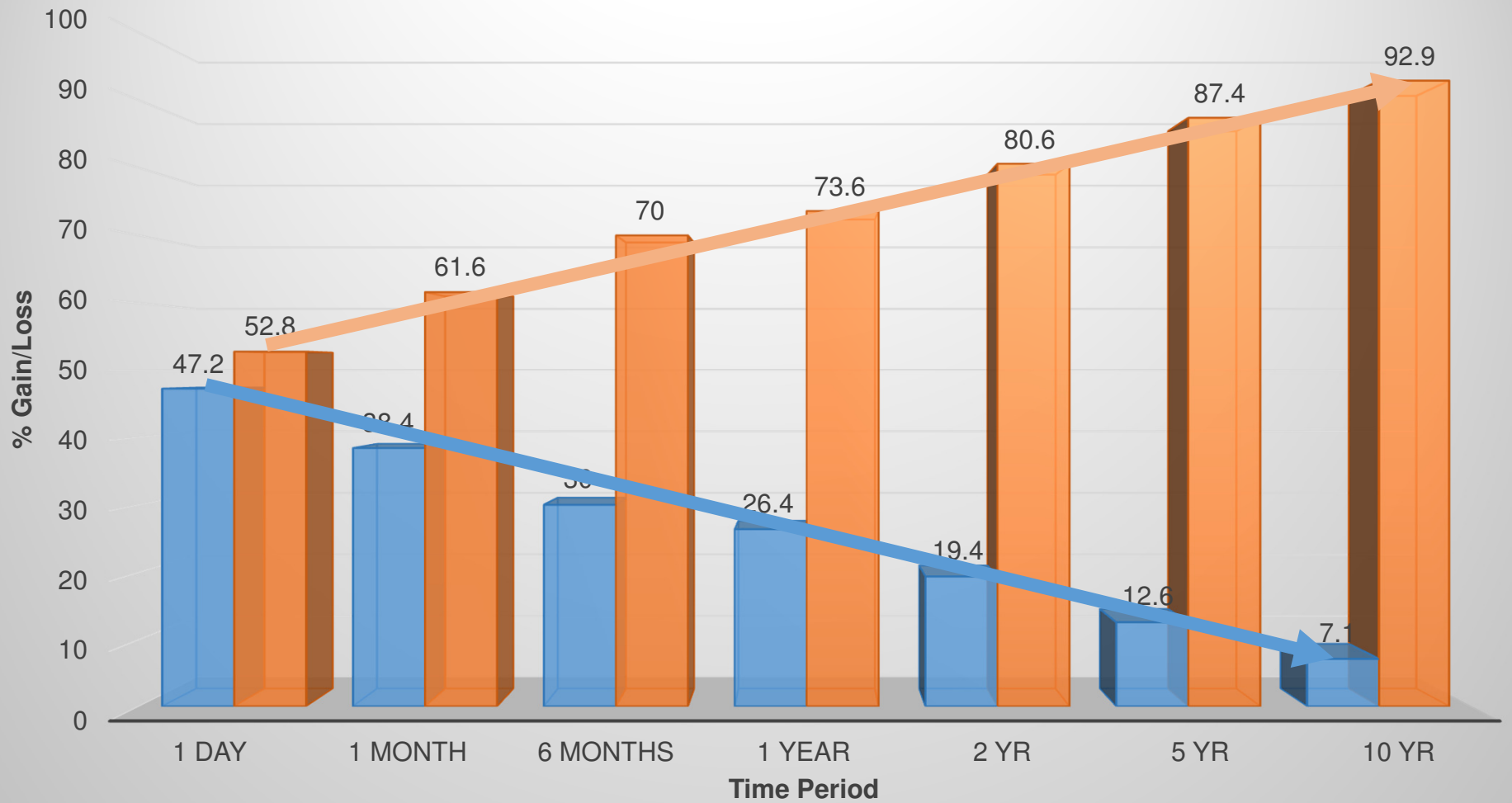
**Morningstar Uncertainty: Medium**

# NORMALIZED P/E RANGE AS A MEASURE OF VOLATILITY

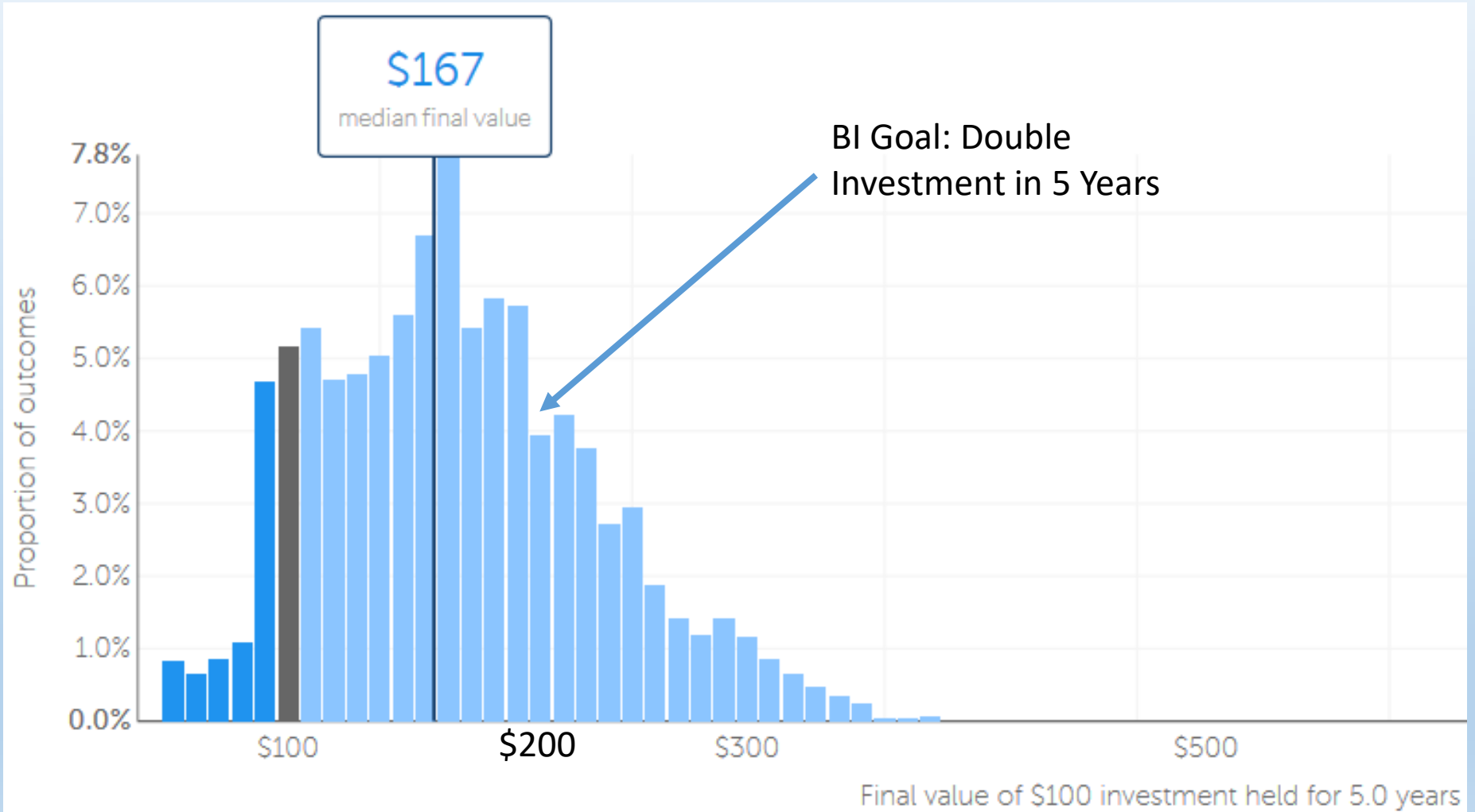


# TIME REDUCES RISK OF LOSS

S&P500



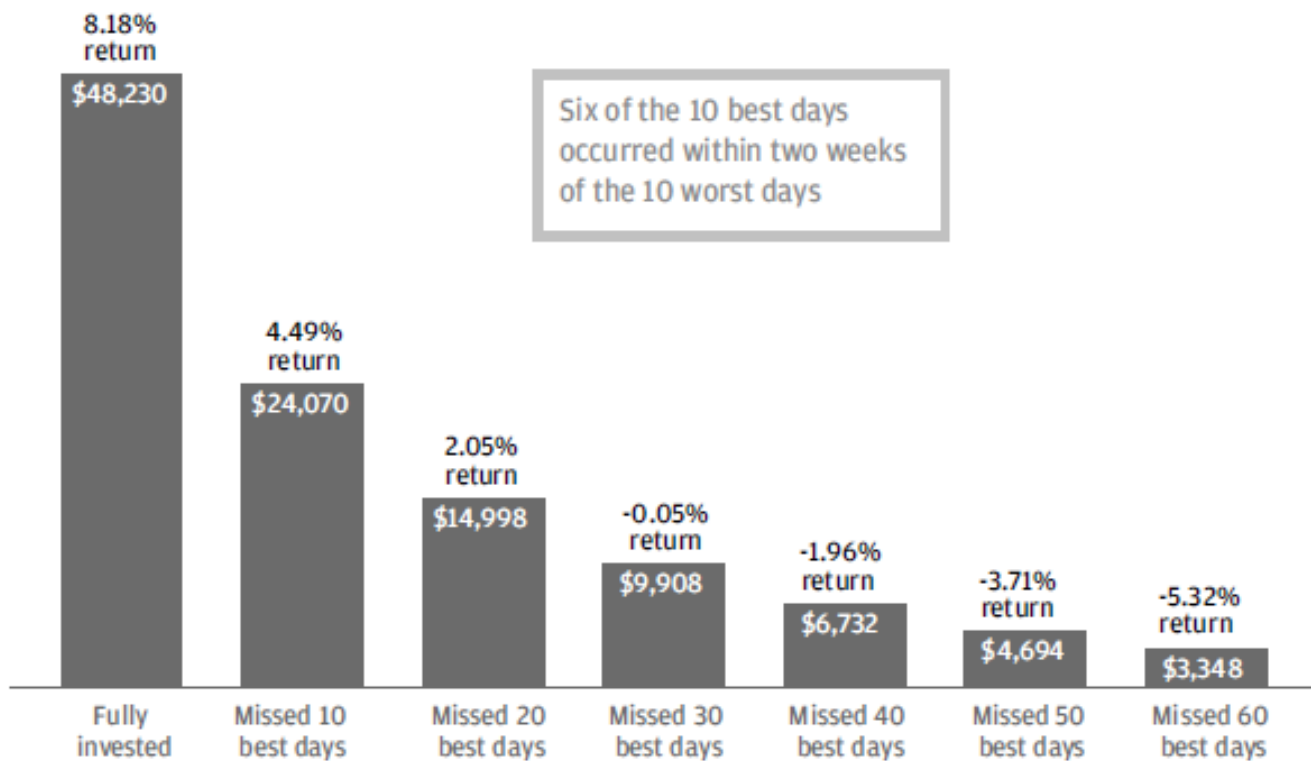
# TIME REDUCES RISK OF LOSS



# STAY INVESTED

## Returns of S&P 500

Performance of a \$10,000 investment between January 2, 1996 and December 31, 2015



### PLAN TO STAY INVESTED

Trying to time the market is extremely difficult to do consistently. Market lows often result in emotional decision making. Investing for the long term while managing volatility can result in a better retirement outcome.

**J.P.Morgan**  
Asset Management

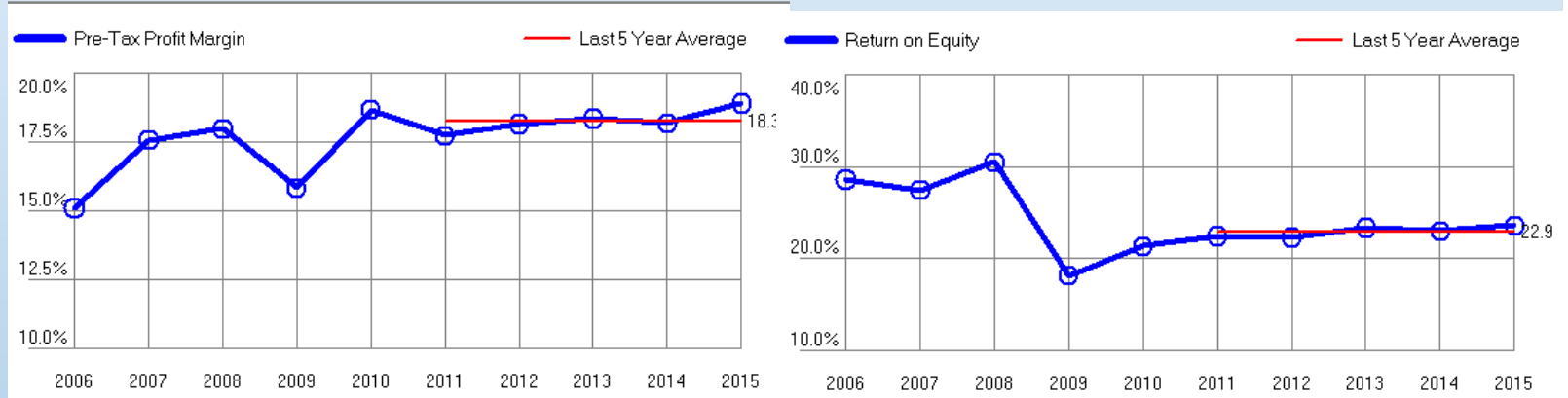
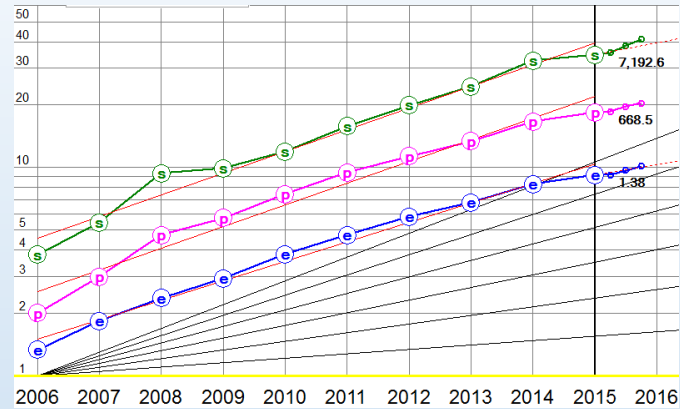
This chart is for illustrative purposes only and does not represent the performance of any investment or group of investments.

Source: J.P. Morgan Asset Management analysis using data from Morningstar Direct. 20-year annualized returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2015.



# QUALITY REDUCES RISK OF LOSS

## Stock Selection Guide

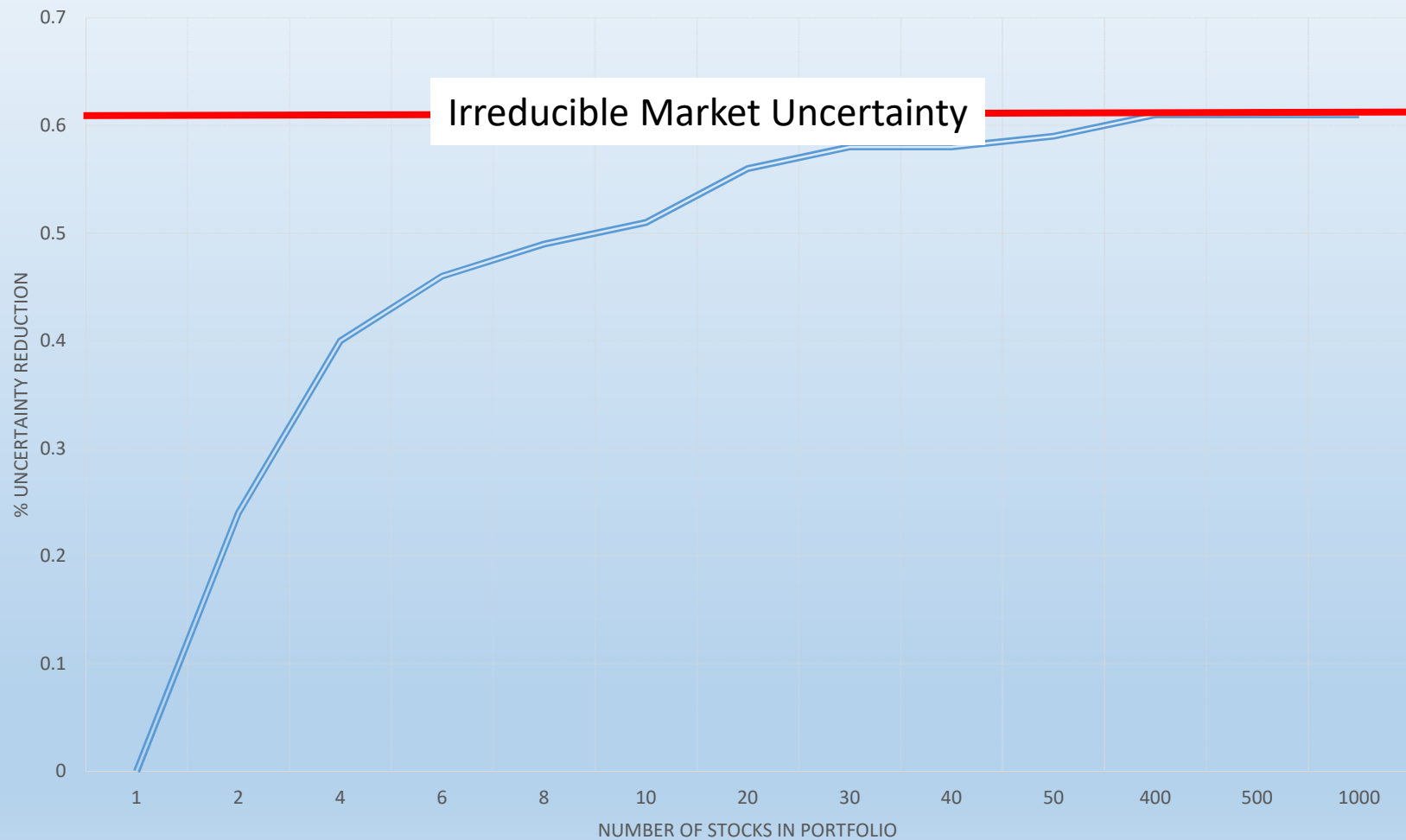


## Positive SWOT

- Strengths
- Weaknesses
- Opportunities
- Threats

# DIVERSITY REDUCES RISK OF LOSS

## DIVERSITY REDUCES UNCERTAINTY



# MANAGE YOUR RISK

- **Uncertainty**
  - Analyst assessment (Morningstar)
  - Variation in historical P/E ratios
  - EPS Growth  $R^2$
- **Time**
  - Buy and Hold (not buy and forget)
  - Stay fully invested
- **Quality**
  - “Straight UP and PARALLEL”
  - Pre-tax profit margin and ROE up or steady
  - Positive SWOT
  - Keep Focused on the Fundamentals
  - Buy when others are panicky
  - Sell when others are euphoric
  - Buy a good company at a good price
  - Sell if business fundamentals deteriorate
- **Diversify Your Portfolio**
  - 15 or so holdings in a variety of sectors

# THANK YOU FOR YOUR ATTENTION



Send questions to [80108jrr@gmail.com](mailto:80108jrr@gmail.com)