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Session Overview

- Review "piecemeal" portfolio management
- Define & examine portfolio-centered approach
- Apply portfolio-centered decision making to various scenarios
- Briefly survey additional tools for implementing approach

3

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Piecemeal Portfolio Management

- Considers stocks in isolation (what many investors do)
 - Potential criteria used to maximize total return (TR) – our measure of value
 - Can stock double in 5 years (15% avg. annual compound return)?
 - Upside/downside (U/D) ratio of 3 to 1 or greater
 - Relative value less than 100-110%

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Piecemeal Portfolio Management

- Considers stocks in isolation (what many investors do)
 - Potential criteria to maintain sufficient quality:
 - Consistent and sufficient growth on Section 1, Stock Selection Guide (SSG)
 - Consistent and steady to up trends in Section 2, SSG
 - Compare profit margins and return on equity to industry peers

5

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Portfolio-Centered Decision-Making Defined

- Make buy/accumulate/sell decisions based on their impact on overall portfolio
 - Consider impact on portfolio total return (TR) -Value
 - Consider impact on overall quality

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Portfolio-Centered Decision-Making Advantages

- Focuses on the "team"
 - Your portfolio results are determined by the whole team, not an individual stock (team member)
- Lends focus and simplicity to decisions
 - Focuses on objective, quantifiable criteria, not "gut" feelings
- Helps take emotion out of selling

7

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Portfolio-Centered Decision-Making Not Entirely New

- You are likely already considering diversification by size, sector & industry
 - Those are "portfolio-centered" criteria
- Spreadsheet of weighted averages (of total return & U/D ratio) mentioned in very first Investors Manual I had (mid-70s)
- Portfolio Summary screen beginning in Investors Toolkit 5

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Portfolio-Centered Decision-Making The Process

- Establish goals
- Choose tools
- Put into action!

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Portfolio-Centered Decision-Making Establish Goals

- For portfolio Total Return (TR)
 - "Traditional" BetterInvesting goal is 15% compound average per year (fixed goal)
 - Based on history, beat "market" by average of about 5 percentage points per year
 - But prices change, so does potential return
 - When market high, average expected return low, 15% looks great (but is hard to find)
 - When market low, average expected return high, 15% doesn't look so good (and is easy to find)
 - So consider a variable goal (topic for another day)

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Portfolio-Centered Decision-Making Establish Goals

- For portfolio quality
 - Difficult to do "objectively" since
 BetterInvesting tools don't quantify quality
 - Consider impact of buying/accumulating/selling a stock on diversification
 - We'll introduce concept of quantifying quality

1

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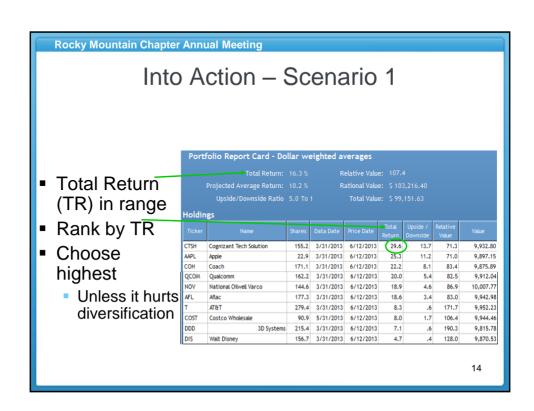
Portfolio-Centered Decision-Making Choose Tools

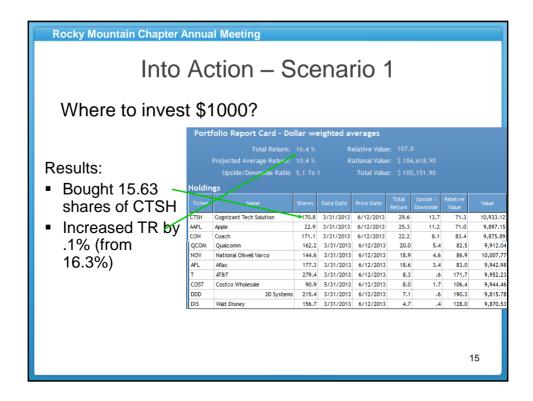
- Today's focus will be on Portfolio Overview ("dashboard") in Investor's Toolkit 6
- Alternatives:
 - Portfolio "Dashboard" spreadsheet
 - Online Dashboards (ManifestInvesting.com)
 - These are mentioned later in handout, but won't be covered in detail

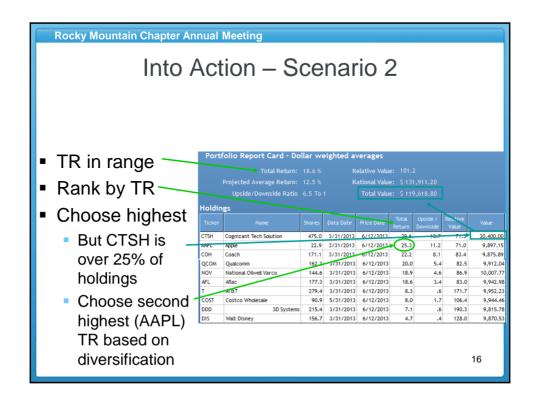
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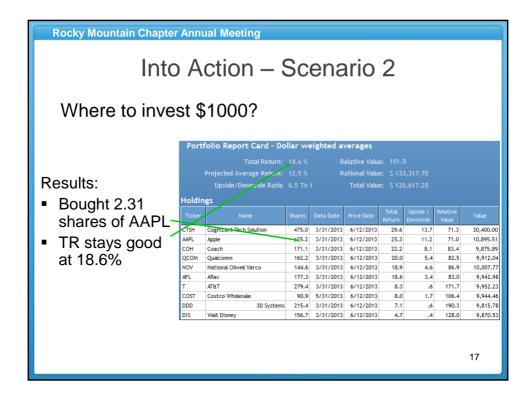
Portfolio-Centered Decision-Making Into Action

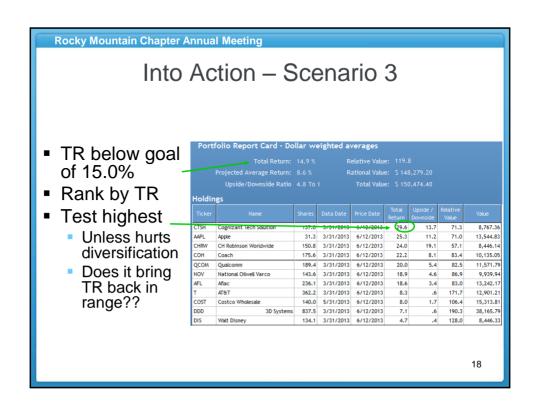
- Scenarios 1 4
 - Allocating regular "new cash" under various circumstances
- Scenario 5
 - Taking emotion out of selling by challenging holding with lowest TR
- Scenario 6
 - When adding stock with "just 13.7%" TR makes sense

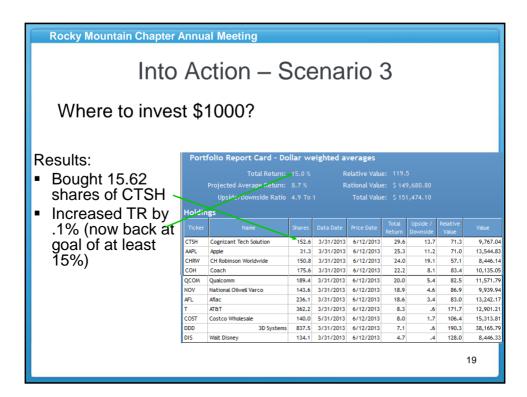








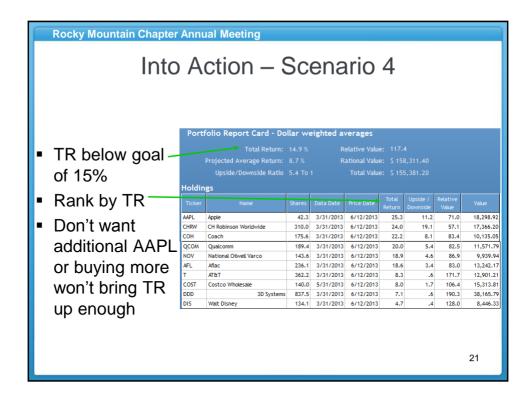


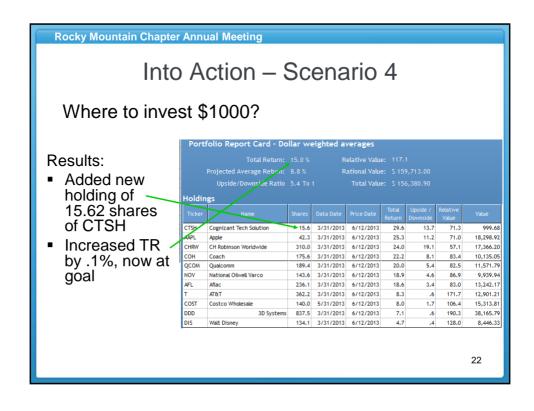


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Into Action

- But what if accumulating CTSH wouldn't have brought avg. TR up to goal?
 - Two options:
 - Find new addition with sufficient TR (Scenario 4)
 - Replace all or part of a holding (Scenario 5)
 - YIKES, you mean we have to sell something?





Rocky Mountain Chapter Annual Meeting Into Action – Scenario 5 ■ TR is 14.6%. below 15% goal Relative Value: 120.8 Rational Value: \$ 144,017.20 Total Value: \$ 147,449.10 Accumulating more CTSH won't be enough 24.3 3/31/2013 6/12/2013 71.0 10,519,50 Apple CH Robinson Worldwide ■ Can't find a stock CHRW CH Robin 150.8 3/31/2013 6/12/2013 19.1 57 1 8 446 14 175.6 3/31/2013 6/12/2013 83.4 10,135,05 82.5 86.9 to add enough TR | QCOM | Qualcomm | 189.4 | 371/2013 | 6712/2013 | NOV | National Oliveil Varco | 143.6 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | 6/12/2013 | AFL | Aflac | 236.1 | 3/31/2013 | AFL | Aflac | 236.1 | Aflac | 236 18.9 4.6 9 939 9 236.1 3/31/2013 6/12/2013 18.9 236.1 3/31/2013 6/12/2013 18.6 362.2 3/31/2013 6/12/2013 8.3 83.0 171.7 either T ALC: 1 COST Costco Wholesale 140.0 5/31/2013 6/12/2013 DDD 30 Systems 837.5 3/31/2013 6/12/2013 124 4 3/31/2013 6/12/2013 106.4 7.1 ■ POLL: What 190.3 38,165.7 would you sell? 23

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Into Action – Scenario 5

- Results of implementing action selected in poll
- Watching impact of decisions on portfolio as a whole keeps emotions in check & helps focus on what matters (return)

Into Action – Scenario 6

- What about buying/accumulating a stock with current TR below your goal ("out of the 'buy' range")?
- Sure:
 - If overall portfolio TR remains at or above goal
 - Especially if it upgrades overall quality of portfolio

25

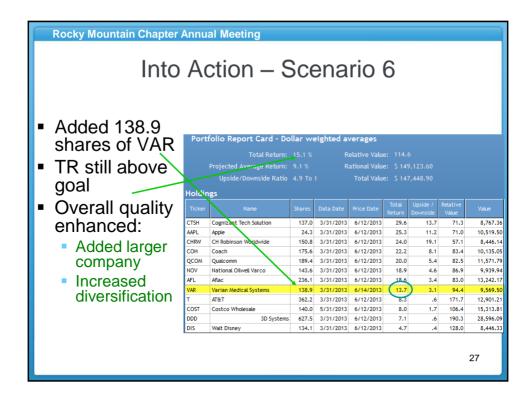
Rocky Mountain Chapter Annual Meeting Into Action — Scenario 6

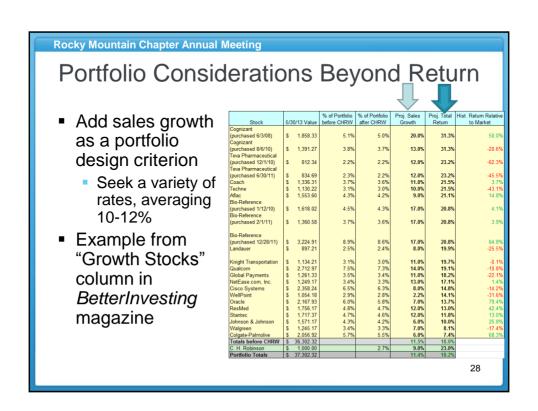
- Sell 25% of DDD for \$9,570
- Does adding "just" 13.7% make sense?

Consider:

- TR above goal
- Technology stocks make up over 1/3 of portfolio
- Concern over potential "hear"

	Total Return:			elative Valu				
	Projected Average Return:			ational Valu		3,989.40		
	Upside/Downside Ratio			Total Valu		7,879.40		
Holdin	igs							
	Name	Shares	Data Date	Price Date	Total Return	Upside / Downside	Relative Value	
CTSH	Cognizant Tech Solution	137.0	3/31/2013	6/12/2013	29.6	13.7	71.3	8,767.3
AAPL	Apple	24.3	3/31/2013	6/12/2013	25.3	11.2	71.0	10,519.5
CHRW	CH Robinson Worldwide	150.8	3/31/2013	6/12/2013	24.0	19.1	57.1	8,446.
СОН	Coach	175.6	3/31/2013	6/12/2013	22.2	8.1	83.4	10,135.0
QCOM	Qualcomm	189.4	3/31/2013	6/12/2013	20.0	5.4	82.5	11,571.
NOV	National Oilwell Varco	143.6	3/31/2013	6/12/2013	18.9	4.6	86.9	9,939.9
AFL	Aflac	236.1	3/31/2013	6/12/2013	18.6	3.4	83.0	13,242.
Т	AT&T	362.2	3/31/2013	6/12/2013	8.3	.6	171.7	12,901.
COST	Costco Wholesale	140.0	5/31/2013	6/12/2013	8.0	1.7	106.4	15,313.
DDD	3D Systems	627.5	3/31/2013	6/12/2013	7.1	.6	190.3	28,596.
DIS	Walt Disney	134.1	3/31/2013	6/12/2013	4.7	.4	128.0	8,446.





Portfolio Considerations Beyond Return

- Consider objective quality criteria
 - Value Line Financial Strength rating
 - Value Line Earnings Predictability rating
 - Or R² from Investor's Toolkit
 - Value Line Safety Rating
 - Morningstar has Growth, Profitability and Credit Ratings
 - S&P Credit Rating
- But some of these are not numerical

29

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Quantifying Quality

- Articles on quantifying stock quality
 - The Role of Quality in Portfolio Management:

http://www.betterinvesting.org/Members/Tools/Articles/Archives/WebFeatures/Archive/2002/2002TheRoleofQualityinPortfolioManagement.htm

- Quality: A Measure Of Excellence: http://www.betterinvesting.org/Members/Tools/Articles/Archives/ WebFeatures/Archive/2003/2003QualityAMeasureOfExcellence. htm
- Can use Reuters.com and Value Line data for an overall quality rating

