

Rocky Mountain Chapter Annual Meeting
Special Presentation

September 7, 2016

Use the SSG as a True Investment Guide

Presented by John Rogers, Director of the Rocky Mountain Chapter



9/7/2016

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The Stock Selection Guide:
A True GUIDE to Investing

Two Fundamental SSGs Can Reflect our Two
Basic Buy/Sell Decisions

- When buying: the Buy-side SSG
 - Conservative, Worst Case Scenario
- When selling: the Sell-side SSG
 - Optimistic, Best Case Scenario

ToolKit6 and SSGPlus give us flexibility, ease of
use, and speed to

- Maintain dual SSGs to cover a range of possibilities
 - Need for a club Portfolio Manager
- Test “what if” scenarios
- Measure impact of our judgment decisions
- Calculate “Fair Value”
 - Multiple definitions of EPS

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Stocks mentioned in this presentation without recommendation of any kind: GNTX, AAPL, and PCLN. Each of you must do your own research and make your own buy/hold/sell decisions. The presenter owns all of these stocks.

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Examples from Ticker Heat Map



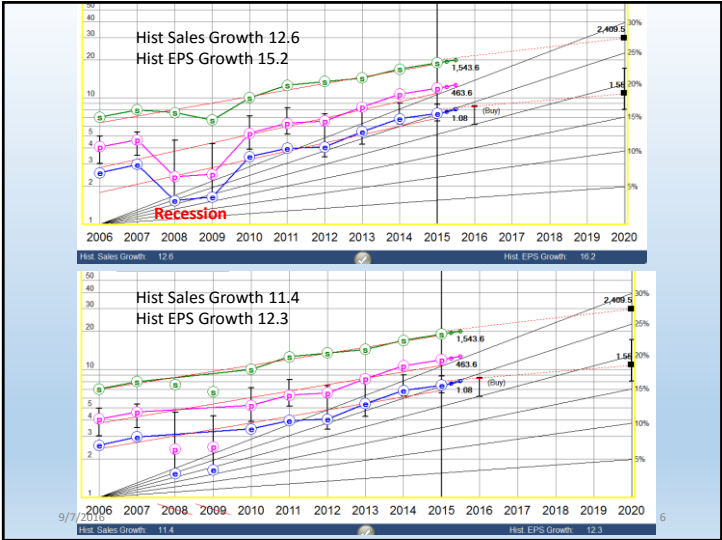
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Analysts' Projections

| GNTX | 5 YR. SALES GROWTH | 5 YR. EPS GROWTH |
|--------------------|--------------------|------------------|
| ToolKit analysts | 12.1% | 9.7% |
| BI Members | 9% | 9% |
| Morningstar | 12.1% | 9.7% |
| Value Line | 9% | 12% |
| Manifest Investing | 10.1% | 9.9% (\$1.86) |
| Yahoo | 12.4% | 10.6% |
| NASDAQ | 12.4% | 10.6% |
| Reuters | 8.2% to 17.5% | 5.9% TO 15% |
| Zacks | 12.4% | 10.6% |
| Toolkit Judgment | 11.4% | 10.2% |
| Historical | 11.4% | 12.3% |

Sales Growth Range: 8.2% to 17.5%, middle 12.8%

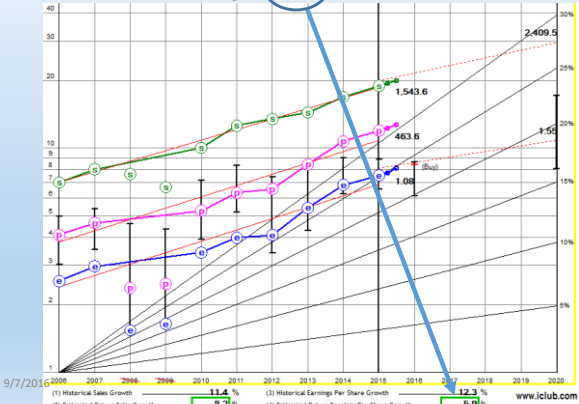
EPS Growth Range: 5.9% to 15%, middle 10.3%



The Buy-side SSG

Sales Growth Range: 8.2% to 11.4%, middle 9.8%

EPS Growth Range: 5.9% to 15%, middle 10.3%



The Buy-side SSG

| Company Gentex Buy-side (GNTX) 09/02/16 | | | | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|------------|-----------------|--|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 5 YEAR AVG | TREND UP / DOWN | |
| A % Pre-tax Profit on Sales | 27.8 | 27.5 | 14.8 | 17.7 | 24.9 | 23.9 | 23.2 | 28.0 | 30.2 | 30.0 | 27.1 | UP | |
| B % Return on Equity | 15.0 | 15.2 | 8.8 | 8.8 | 15.6 | 16.7 | 14.9 | 18.0 | 19.3 | 18.8 | 17.6 | UP | |
| C % LT Debt to Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 21.3 | 17.3 | 13.3 | 17.3 | DOWN | |

| 3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS | | | | | | | | | |
|---|---------|----------------------------------|-----------|----------------------------------|---------|--------------------------------|----------|----------|--------------|
| | | CURRENT PRICE (P/E) 17.86 (15.4) | | 52-WEEK HIGH (P/E) 18.30 (15.8) | | 52-WEEK LOW (P/E) 12.93 (11.1) | | | |
| Fiscal Year | | High Price | Low Price | EPS | High PE | Low PE | Dividend | % Payout | % High Yield |
| 1 | 2011 | 17.7 | 10.9 | 0.57 | 31.1 | 19.1 | 0.240 | 42.1 | 2.2 |
| 2 | 2012 | 15.7 | 7.2 | 0.59 | 26.8 | 12.3 | 0.260 | 44.4 | 3.6 |
| 3 | 2013 | 17.1 | 9.1 | 0.78 | 22.1 | 11.7 | 0.280 | 36.1 | 3.1 |
| 4 | 2014 | 19.1 | 13.2 | 0.98 | 19.5 | 13.5 | 0.310 | 31.6 | 2.3 |
| 5 | 2015 | 18.8 | 13.8 | 1.08 | 17.4 | 12.8 | 0.335 | 31.0 | 2.4 |
| 6 | AVERAGE | | 10.8 | | 21.5 | 12.6 | | 37.0 | |
| AVERAGE P/E RATIO | | 16.2 17.1 | | PROJECTED P/E RATIO 14.5 | | TTM EPS 1.16 | | | |
| CURRENT P/E RATIO | | 15.4 | | PEO RATIO 2.5 | | FTM EPS 1.23 | | | |
| RELATIVE VALUE | | 82.6% 90.3% | | PROJ. RELATIVE VALUE 77.0% 85.3% | | AVG TTM + FTM EPS 1.19 | | | |

The Buy-side SSG

4 EVALUATING REWARD and RISK over the next 5 years

A FUTURE HIGH PRICE ANALYSIS - NEXT 5 YEARS

Selected High P/E 21.5 X Estimated High Earnings/Share 1.55 = Forecast High Price \$ 33.3

B FUTURE LOW PRICE ANALYSIS - NEXT 5 YEARS

(a) Sel. Low P/E 12.6 X Estimated Low Earnings/Share 1.08 = \$ 13.6

(b) Average 5-Year Low Price = 10.8

(c) Recent Severe Low Price = 12.9

(d) Price Dividend Wk Support = Present Divd. + High Yield = 0.36 + 0.036 = 10.0

Selected Estimated Low Price 12.9

C PRICE RANGES

Forecast High Price 33.3 - Estimated Low Price 12.9 = Range 20.4 25% of Range = 5.1

BUY (Lower 25% of Range) = 12.9 to 18.0

MAYBE (Middle 50% of Range) = 18.0 to 28.2

SELL (Upper 25% of Range) = 28.2 to 33.3

Current Price 17.86 is in the Buy Range

D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 33.3 - Current Price 17.86) / (Current Price 17.86 - Estimated Low Price 12.9) = 3.1 To 1

5 TOTAL RETURN ANALYSIS

A CURRENT YIELD

Present Full Year's Dividend \$ 0.360 + Current Price of Stock \$ 17.86 = 2.0 % Present Yield or % Returned on Purchase Price

B AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout 37.0 = Forecast High P/E 21.5 = Avg. Yield 1.7

AVERAGE YIELD - USING FORECAST AVERAGE P/E

Avg. % Payout 37.0 = Forecast Avg P/E 17.1 = Avg. Yield 2.2

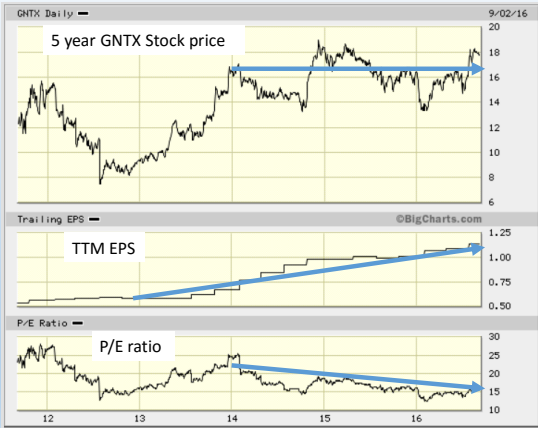
C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E

Average Yield 1.7 % + Annual Appreciation 13.3 % = Compound Annual Total Return 15.0 %

D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E

9/7 Projected Yield 2.2 % + Annual Appreciation 8.2 % = Projected Average Total Return 10.3 %

The Buy-side Value Chart



“Fair Value” Estimation

Morningstar Premium Analyst Report GNTX

Genetex creates auto-dimming rear- and side-view mirrors that use electrochromic technology. These mirrors automatically darken to eliminate headlight glare for drivers and have many...

Fair Value Estimate \$20.00

Consider Buying \$12.00

Consider Selling \$31.00

Fair Value Uncertainty High

Economic Moat Narrow

Stewardship Standard

Growth

Profitability

Morningstar Credit Rating*

Better Investing “Fair Value”: Average P/E times FTM EPS

Buy-side Buy Prices

| | CURRENT PRICE (P/E) 17.86 (15.4) | | 52-WEEK HIGH (P/E) 18.30 (15.8) | | 52-WEEK LOW (P/E) 12.93 (11.1) | | | |
|-------------------|----------------------------------|-----------|---------------------------------|----------------------------|--------------------------------|-------------------|----------|--------------|
| Fiscal Year | High Price | Low Price | EPS | High PE | Low PE | Dividend | % Payout | % High Yield |
| 1 2011 | 17.7 | 10.9 | 0.57 | 31.1 | 19.1 | 0.240 | 42.1 | 2.2 |
| 2 2012 | 15.7 | 7.2 | 0.59 | 26.0 | 12.3 | 0.260 | 44.4 | 3.6 |
| 3 2013 | 17.1 | 9.1 | 0.78 | 22.1 | 11.7 | 0.280 | 36.1 | 3.1 |
| 4 2014 | 19.1 | 13.2 | 0.98 | 19.5 | 13.5 | 0.310 | 31.6 | 2.3 |
| 5 2015 | 18.8 | 13.8 | 1.08 | 17.4 | 12.8 | 0.335 | 31.0 | 2.4 |
| 6 AVERAGE | | 10.8 | | 21.5 | 12.6 | | 37.0 | |
| AVERAGE P/E RATIO | 18.7 | 17.1 | | PROJECTED P/E RATIO 14.5 | | TTM EPS | | 1.16 |
| CURRENT P/E RATIO | 15.4 | | | PEG RATIO 2.5 | | FTM EPS | | 1.23 |
| RELATIVE VALUE | 82.6% | 90.3% | | PROJ. RELATIVE VALUE 77.9% | 85.3% | AVG FTM + TTM EPS | | 1.19 |

Fair Value = Avg. P/E times FTM EPS = 18.7 * 1.23 = \$23

- Warren Buffet's Buy Price Recommendation: buy below
- 20% Discount to Fair Value or below \$18.40
- Our Buy-side SSG says buy below \$18.00

BUY (Lower 25% of Range) = 12.9 to 18.0

MAYBE (Middle 50% of Range) = 18.0 to 28.2

SELL (Upper 25% of Range) = 28.2 to 33.3

Current Price 17.86 is in the Buy Range

WARNING: The EPS Problem

There are 5 definitions of earnings, only two concern us today

- Morningstar: GAAP compliant, as reported to the SEC
 - Must use for Buy-side and might use for Sell-side SSGs
- Value Line: "Normalized" by analyst to remove "one time events"
 - Don't use for Buy-side SSG (too optimistic), OK for Sell-side SSG

| Morningstar (GAAP) | | | | Value Line (normalized) | | | |
|--------------------|-----------|-----------|-------|-------------------------|-----------|-----------|-------|
| Year | High | Low | EPS | Year | High | Low | EPS |
| 2006 | 44.280 | 21.060 | 1.68 | 2006 | 44.300 | 21.100 | 0.93 |
| 2007 | 120.670 | 41.960 | 3.42 | 2007 | 120.700 | 41.800 | 4.04 |
| 2008 | 144.340 | 45.150 | 3.98 | 2008 | 144.300 | 45.200 | 5.96 |
| 2009 | 231.490 | 64.947 | 9.88 | 2009 | 231.500 | 64.900 | 8.55 |
| 2010 | 428.100 | 173.320 | 10.35 | 2010 | 428.100 | 173.300 | 13.49 |
| 2011 | 561.880 | 402.250 | 20.63 | 2011 | 561.900 | 402.300 | 23.45 |
| 2012 | 774.960 | 467.710 | 27.66 | 2012 | 775.000 | 469.300 | 31.28 |
| 2013 | 1,198.750 | 627.670 | 36.11 | 2013 | 1,198.000 | 627.700 | 41.72 |
| 2014 | 1,378.960 | 1,017.280 | 45.67 | 2014 | 1,379.000 | 1,017.000 | 53.31 |
| 2015 | 1,476.515 | 990.691 | 49.45 | 2015 | 1,476.000 | 990.700 | 58.33 |

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The Sell-side SSG

Switching from Pessimistic (buy-side) to Optimistic (sell-side)

Sales Growth Range: 8.2% to 17.5%, middle 12.8%

EPS Growth Range: 5.9% to 15%, middle 10.3%

Make these changes to SSG decision points

| | Buy-side | Sell-side |
|------------------------|----------|-----------|
| Est. Future EPS growth | 5.9% | 15% |
| High P/E | 21.5 | 23.4 |
| Low P/E | 12.6 | 13.9 |
| Est. Low Price | \$12.90 | \$12.90 |

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With These Results

Buy-side SSG

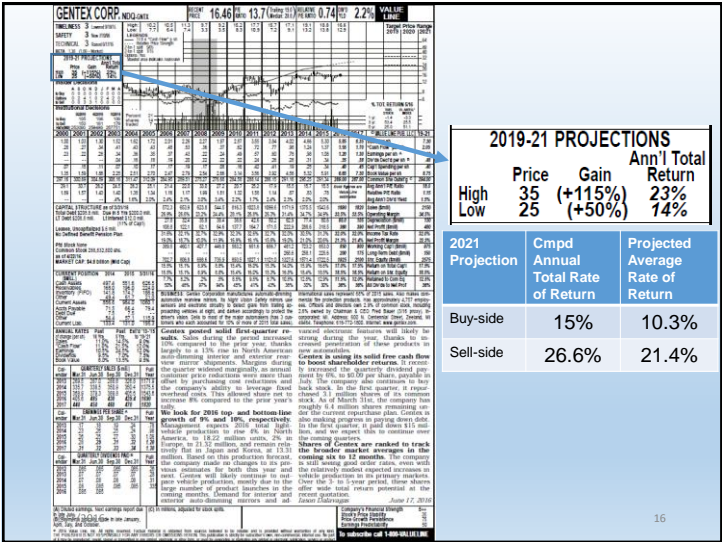
| | | | |
|--|-----|-------------------------|--|
| C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E | | | |
| Average Yield | 1.7 | % + Annual Appreciation | 13.3 % = Compound Annual Total Return |
| 15.0 % | | | |
| D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E | | | |
| Average Yield | 2.2 | % + Annual Appreciation | 8.2 % = Projected Average Total Return |
| 10.3 % | | | |

Sell-side SSG

| | | | |
|--|-----|-------------------------|---|
| C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E | | | |
| Average Yield | 1.6 | % + Annual Appreciation | 25.0 % = Compound Annual Total Return |
| 26.6 % | | | |
| D % PROJECTED AVERAGE RETURN - USING FORECAST AVERAGE P/E | | | |
| Average Yield | 2.0 | % + Annual Appreciation | 19.5 % = Projected Average Total Return |
| 21.4 % | | | |

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| 2019-21 PROJECTIONS | | | |
|---------------------|-------|---------|--------------------|
| | Price | Gain | Ann'l Total Return |
| High | 35 | (+115%) | 23% |
| Low | 25 | (+50%) | 14% |

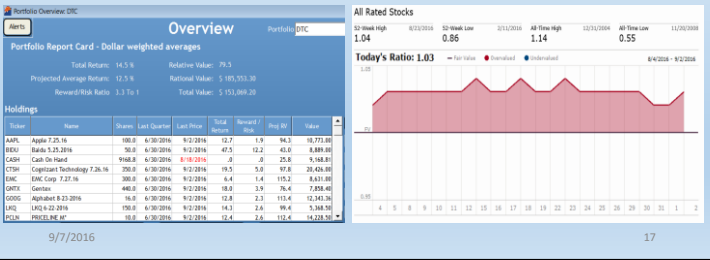
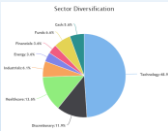
| 2021 Projection | Cmpd Annual Total Rate of Return | Projected Average Rate of Return |
|-----------------|----------------------------------|----------------------------------|
| Buy-side | 15% | 10.3% |
| Sell-side | 26.6% | 21.4% |

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Portfolio Manager

Maintain the club's SSG Library

- Buy-side and Sell-side Report monthly to club
- Portfolio Overview
- Portfolio Review Report (PERT)
- Status of the Overall Market



Examples from Ticker Heat Map

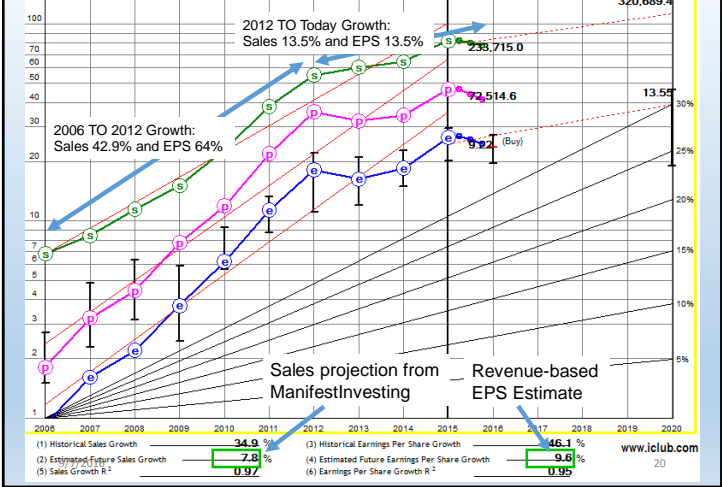


Using the SSG to Test Scenarios
"What if" Testing

- Bears Say**
- Apple's recent decisions to maintain a premium pricing strategy may help fend off gross margin compression but could limit unit sales growth as devices may be unaffordable for many emerging market customers.
 - Apple has a host of large tech rivals, many of which are willing to sell devices at bare-bones prices in order to earn income elsewhere.
 - Apple's less-than-stellar launches of Apple Maps and iOS 8.0.1 were near-misses that frustrated many users for short periods of time, but any other buggy software launches could diminish Apple's reputation for building products that "just work."

Problem: What if margins are cut? Can sales increases reasonably compensate and keep EPS growth attractive?

SSG Section 1 for AAPL



Revenue-based EPS Est.

2 QUALITY ANALYSIS

CompanyApple(AAPL)09/02/16

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 5 YEAR AVG | TREND UP/DOWN |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------------|---------------|
| A % Pretax Profit on Sales | 14.6 | 20.9 | 21.2 | 28.1 | 28.4 | 31.6 | 35.6 | 29.3 | 29.3 | 31.0 | 31.4 | EVEN |
| B % Return on Equity | 20.8 | 25.6 | 22.6 | 25.8 | 29.0 | 33.6 | 37.1 | 29.0 | 31.3 | 40.9 | 34.4 | UP |
| C % LT Debt to Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.3 | 23.0 | 45.0 | 25.7 | UP |

Revenue-based EPS Estimate

Revenue-based EPS Estimate

Defaults

Overrides

Projected 5 Year Sales @:7.8%0.0\$320,689.4

Less Expenses(5 Yr Avg % Pre Tax Profit Margin):31.4%0.0-219,992.9

Less Taxes(Last yr. Tax Rate):26.3%0.0-26,483.2

Less Preferred Dividends (Current Pref'd Div):\$0.00.00.0

Projected 5 Yr Total Earnings\$74,213.3

Divided by Curr. Diluted Shares Outst. (M):5472.80.013.58

% Pretax Profit Margin (2A)

| | |
|------|------|
| 2006 | 14.6 |
| 2007 | 20.9 |
| 2008 | 21.2 |
| 2009 | 28.1 |
| 2010 | 28.4 |
| 2011 | 31.6 |
| 2012 | 35.6 |
| 2013 | 29.3 |
| 2014 | 29.3 |
| 2015 | 31.0 |

Make Earnings Per Share Selection Here:

EPS \$

EPS % Growth

EPS by "Revenue Estimate":13.589.6

Projected EPS:13.559.6

Other:0.000.0

9/7/2016Analysts' 5-yr EPS Est. (\$):11.9421

Step 1: Reduce PTPM by 10% (28.3)

Revenue-based EPS Estimate

Revenue-based EPS Estimate

Defaults

Overrides

Projected 5 Year Sales @:7.8%0.0\$320,689.4

Less Expenses(5 Yr Avg % Pre Tax Profit Margin):31.4%28.3-229,934.3

Less Taxes(Last yr. Tax Rate):26.3%0.0-23,868.6

Less Preferred Dividends (Current Pref'd Div):\$0.00.00.0

Projected 5 Yr Total Earnings\$66,886.5

Divided by Curr. Diluted Shares Outst. (M):5472.80.012.22

Make Earnings Per Share Selection Here:

EPS \$

EPS % Growth

EPS by "Revenue Estimate":12.227.4

Projected EPS:13.559.6

Other:0.000.0

9/7/2016Analysts' 5-yr EPS Est. (\$):11.9422

Can we increase Sales growth to get the EPS growth back to 9.6% ?

Step 2: Keep Increasing Sales until the EPS growth returns to 9.6%

Revenue-based EPS Estimate

Revenue-based EPS Estimate

Defaults

Overrides

Projected 5 Year Sales @:7.8%10.1356,391.6

Less Expenses(5 Yr Avg % Pre Tax Profit Margin):31.4%28.3-255,532.8

Less Taxes(Last yr. Tax Rate):26.3%0.0-26,525.9

Less Preferred Dividends (Current Pref'd Div):\$0.00.00.0

Projected 5 Yr Total Earnings\$74,332.9

Divided by Curr. Diluted Shares Outst. (M):5472.80.013.58

Make Earnings Per Share Selection Here:

EPS \$

EPS % Growth

EPS by "Revenue Estimate":13.589.6

Projected EPS:13.559.6

Other:0.000.0

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If AAPL must cut prices (reduce margins) but stimulate an increase in Sales growth to 10.1%, the EPS growth of 9.6% will hold

Step 2+: Reduce PTPM by 20%

Revenue-based EPS Estimate

Revenue-based EPS Estimate

Defaults

Overrides

Projected 5 Year Sales @:7.8%12.7400,507.3

Less Expenses(5 Yr Avg % Pre Tax Profit Margin):31.4%25.1-299,980.0

Less Taxes(Last yr. Tax Rate):26.3%0.0-26,438.7

Less Preferred Dividends (Current Pref'd Div):\$0.00.00.0

Projected 5 Yr Total Earnings\$74,088.6

Divided by Curr. Diluted Shares Outst. (M):5472.80.013.54

Make Earnings Per Share Selection Here:

EPS \$

EPS % Growth

EPS by "Revenue Estimate":13.549.6

Projected EPS:13.559.6

Other:0.000.0

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Should stiff competition and bad luck reduce Pre-tax Profit Margin by 20% (25.1), then Sales would have to grow by 12.7% to keep EPS constant at 9.6%

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Our Question Answered

| % Margin Reduction | Pre-tax Profit Margin (PTPM) | % Sales Growth Required for a Constant 9.6% EPS Growth |
|--------------------|------------------------------|--|
| 0 | 31.4 | 7.8 |
| 10 | 28.2 | 10.1 |
| 20 | 25.1 | 12.7 |
| 30 | 22.0 | 15.7 |
| 40 | 18.8 | 19.4 |

| | | | | | | | | | | | | | |
|--------------------|---------------------------|----------------------|------|------|------|------|------|------|------|------|------|------------|---------------|
| 2 QUALITY ANALYSIS | | Company Apple (AAPL) | | | | | | | | | | 09/02/16 | |
| | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 5 YEAR AVG | TREND UP/DOWN |
| A | % Pre-tax Profit on Sales | 14.6 | 20.9 | 21.2 | 28.1 | 28.4 | 31.6 | 35.6 | 29.3 | 29.3 | 31.0 | 31.4 | EVEN |
| B | % Return on Equity | 20.8 | 25.6 | 22.6 | 25.8 | 29.0 | 33.6 | 37.1 | 29.0 | 31.3 | 40.9 | 34.4 | UP |
| C | % LT Debt to Equity | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 13.3 | 23.0 | 41.0 | 25.7 | UP |

Sales Growth 2012 to Today: 13.5%
AAPL could tolerate up to a 20% reduction in PTPM and still grow EPS at 9.6%

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Summary and Review

- Prepared a buy-side (worst case scenario) and a sell-side (best case scenario) SSG for GNTX
- Reviewed Better Investing Ticker Heat Map available with online tools
- Compared array of analysts sales and EPS growth projections for GNTX
- At current stock price of \$17.86, the buy-side SSG showed a buy point of \$18 and a Compound Annualized Rate of Return of 15%
- Examined the GNTX P/E trend and analyzed the Chart
- Defined the SSG “Fair Value” and compared to Morningstar
- **WARNED** of the EPS definition problem
 - Morningstar is GAAP compliant as reported to SEC
 - Value Line “normalizes” for “one time events”
 - Morningstar for buy-side SSG (more conservative)
 - Value Line (more optimistic) or Morningstar for sell-side SSG
- The sell-side SSG projected a Cmpd Rate of Return of 26.6% for GNTX
- Reviewed the duties of and need for a Portfolio Manager
- Used the “Revenue-based EPS estimate” option to test the affect of PTPM (margin) reductions on AAPL EPS growth

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Additional Study

- StockUp Archive (login required):
<http://www.betterinvesting.org/Members/Tools/StockUp/archive.htm>
- February 3, 2016: “Research Your Way to Better Stock Selection”
 - May 6, 2015: “Bridging the GAAP – How to Evaluate Data Differences”

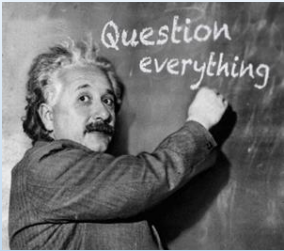
Screening & Stock Ideas Quick Start Guide
<http://www.betterinvesting.org/NR/rdonlyres/933ECA6B-F013-4496-8786-1D43BC468ABD/0/ScreeningQuickStart.pdf>

The Five Types of Earnings per Share (EPS)
<http://www.investopedia.com/articles/analyst/091901.asp>

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Questions and Comments



Send questions and comments to John Rogers

80108jrr@gmail.com

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