

What BETA Might Tell Us About Risk



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About Beta

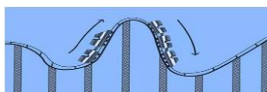
- Beta is a risk measurement
- Measures volatility compared to the broader market
 - Looks back at five years of stock's history compared to market
- Betas **greater than 1.00** tend to be more move up or down **more** than the market
- Betas **lower than 1.00** tend to move up or down **less** than the market

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Low Beta Stocks

- Utilities sector tend to have low betas
- Utilities have an average weighted five-year beta ~ 0.65
- These companies tend to be stable
- When the market moves **up**, these stocks tend see **prices grow but to a lesser degree** than the market
- When the market **falls**, **these stocks will fall less** than the market



The roller coaster is less steep, does not rise or drop as much as the market

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Higher Beta Stocks

- These stocks tend to have higher beta
 - Consumer Cyclical,
 - Basic Materials,
 - Technology, and
 - Energy sectors
- Higher betas companies tend to fluctuate more greatly with the economy
- These companies often have a Beta of 1.50 – 1.95

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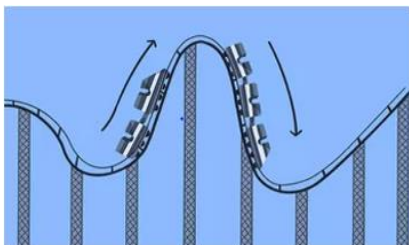
Higher Beta Stocks

- Terrific to hold in a rising market,
 - can be painful to hold in periods of decline
- Higher betas companies tend to fluctuate with the economy
- May result in higher highs and lower lows

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↑ Higher Beta Stocks

- Higher beta means more risk,
- potentially greater reward



The roller coaster is steeper,
the rise or drop is often
greater than the market

Managing Beta in the Portfolio

Owning a combination of higher and lower beta stocks makes sense

- Higher beta stocks may help **push up** portfolio **valuations** during **bull markets**
- Lower beta stocks **hold back losses** during **bear markets and recessions**
- Useful to track the beta of an entire portfolio and to assess holdings to portfolio objectives



Beta in the Portfolio

- Beta is not a predictor of returns
- It's a measure of the tendency of a particular security to rise and fall relative to the market
- Many individuals have a passing grasp of what "risk" or "volatility" means in portfolio management

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Beta in Investment Clubs

- Historically most clubs maintain an average beta close to 1.00
 - Ranging from .98 to 1.03 depending upon age of club

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Additional Beta Factors in Clubs

- Additional factors impact investment club portfolio performance:
 - **Survivorship bias:** occurs when only the winners are considered while the losers are not considered – resulting in over estimation of performance
 - **Anxiety about capital gains:** fearing tax consequences
 - **Education premium:** many clubs consider worthwhile lessons learned from actively managing a portfolio

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Beta in BI Investment Newsletters

- **Investor Advisory Service (IAS)** – professionally managed newsletter average beta is 1.17
- **Dividend Informer** - average beta is 1.10
- **Small-Cap Informer** - average beta of the 45 stocks under coverage is 1.26

- **IAS recognized on Hulbert's Investment Newsletter Honor Roll for 14 consecutive years – is one of four newsletters to receive this recognition. IAS rated #1 in performance.**
- **BI newsletters maintain a Beta greater than the average BI clubs 1.0**

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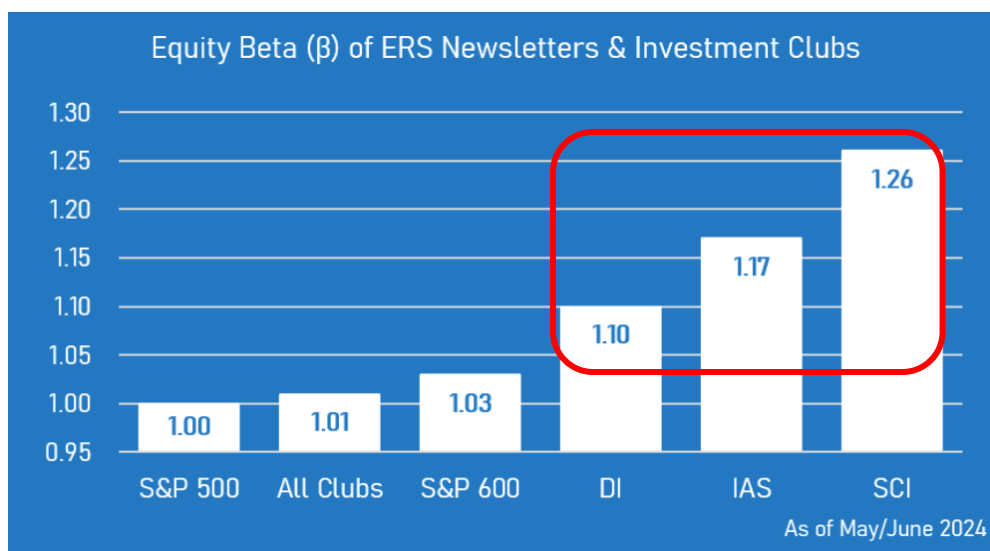
Beta and Portfolio Returns

- Smaller companies often carry higher betas
 - with greater risk should come the potential for greater returns
- Weighted average **beta greater than 1** in a portfolio is **usually desirable**
- Portfolio's beta below 1
 - **may not have enough capital appreciation** characteristics to outperform the broader market
- Beta is based on past price movement and
 - the past doesn't necessarily predict the future

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Summary of Beta in Clubs and Newsletters



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Beta Values and What They Mean

Beta	Meaning
1.0	The stock moves in line with the broader market
2.0	The stock moves twice as much as broader market
0.0	The stock moves don't correlate with the broader market
-1.0	The stock moves the opposite direction of the broader market

Negative beta is when an asset moves in the opposite direction of the stock market.

An example is gold during economic downturns.

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Advantages of Beta

- Helps investors analyze securities before investing
- Helps assess market risk related to stock
- High beta stocks useful when seeking substantial profits
- Low beta stocks helpful when looking for stable returns

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Disadvantages of Beta

- Past data not fully reliable in predicting the future
- Severe market fluctuations make stocks very volatile and unpredictable
- It does not measure risks like company debt and lawsuit



Using Beta during Bull & Bear Markets

Beta Score	Bullish Sessions	Bearish Sessions
High-Beta Stocks	Ideal for Bullish Sessions	Don't invest in them during bearish sessions
Low-Beta Stocks	Not suitable for bullish sessions because of lower returns	Invest in them during bearish sessions

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Steps to Find Beta Report

- myICLUB.com**
 Home Accounting **Reports** Watch List Taxes People Voting Discussions File Store
 Your Clubs: RMC Model Club
- StockWatcher**
 My Assigned Stocks
 Generate Report
 StockWatcher Assignments
 Club Watch List
 Monthly
 Unified Report
 Valuation Statement
 Member Status
Portfolio
 Company Size
 Sector/Industry
 EPS Growth Rate
 Global
 Club Performance
 Portfolio Yield
 Portfolio Review
 Portfolio Offense
 Portfolio Defense
 Portfolio Summary
 Portfolio Trend
 Portfolio Gain/Loss
Portfolio Beta
- Portfolio**
 Company Size
 Sector/Industry
 EPS Growth Rate
 Global
 Club Performance
 Portfolio Yield
 Portfolio Review
 Portfolio Offense
 Portfolio Defense
 Portfolio Summary
 Portfolio Trend
 Portfolio Gain/Loss
Portfolio Beta
- Weighted Average Portfolio Beta: 0.9**

Ticker	Security	Shares owned	Price/share	Market value	% of Total	5-year Beta	Beta Weight
CPRX	Catalyst Pharmaceuti	100.0	\$20.20	\$2,020.00	6.6%	0.76	0.05
DAR	Darling Ingredients	60.0	\$36.98	\$2,218.80	7.3%	1.24	0.09
EW	Edwards Lifesciences	18.0	\$68.13	\$1,226.34	4.0%	1.13	0.05
GRBK	Green Brick Partners	40.0	\$79.39	\$3,175.60	10.4%	1.80	0.19
IMXI	Intl Money Express I	96.0	\$17.65	\$1,694.40	5.6%	0.81	0.05
MNST	Monster Bev Corp	22.0	\$51.31	\$1,128.82	3.7%	0.74	0.03
PLUS	Eplus Inc	25.0	\$100.02	\$2,500.50	8.2%	1.12	0.09
ROL	Rollins Inc	30.0	\$49.66	\$1,489.80	4.9%	0.70	0.03
USLM	United States Lime &	50.0	\$101.81	\$5,090.50	16.7%	0.84	0.14
WAL	WESTERN ALLIANCE BAN	45.0	\$88.69	\$3,991.05	13.1%	1.44	0.19
Totals				\$24,535.81			0.90

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Model Club Portfolio

Weighted Average Portfolio Beta **0.9**

Beta of each stock in portfolio ↓ Weighted Average ↓

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Portfolio Average

If recalculated on only the holdings excluding cash = Beta 1.12

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RMC BI Director's Clubs – 20+ years old

Club #1 - **Weighted Average Portfolio Beta:** **1.13**

Club #2 - **Weighted Average Portfolio Beta:** **1.18**

Club #3 - **Weighted Average Portfolio Beta:** **1.19**

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Club Portfolios Summary

- These portfolios have Beta greater than average BI club
- Beta is closer to **IAS Newsletter Beta of 1.17**
- Higher Beta means greater potential return compared to S&P 500 Equal Weight Index (RSP)

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Steps to Change Index Comparison

1. myICLUB .com

Home Accounting **Reports** Watch List Taxes People Voting Discussions File Stor

2. StockWatcher

- My Assigned Stocks
- Generate Report
- StockWatcher Assignments
- Club Watch List

Monthly

- Unified Report
- Valuation Statement
- Member Status

Portfolio

- Company Size
- Sector/Industry
- EPS Growth Rate
- Global
- Club Performance**
- Portfolio Yield
- more ▾

3.

4.

Custom Dates and Indexes

from: to:

Index #1: Vanguard 500 Index

Index #2: **S&P 500 Equal Weight (RSP)**

Custom Ticker: (What's this?)

Why change index?

- S&P 500 includes magnificent seven over-weighting index 30+%**
- Equal weight index starts with same \$ amount of each stock – similar to clubs**
- Provides clubs a better comparison**

Click "v" to change index

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Take-a-ways

- **To improve portfolio performance:**
 - Consider adding small company stocks or stocks with higher beta
- **For a more accurate beta:**
 - MyICLUB counts cash into beta calculations. So, if holding cash, may want to recalculate beta with just the holdings and eliminate cash in the calculation
- **For better portfolio comparison index:**
 - Consider changing index comparison to S&P 500 Equal Weight Index in the Club Performance and Benchmark Report (eliminates the Magnificent 7 effect)


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Model Investment Club
Rocky Mountain Chapter

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Puget Sound Investor Education Day

- If you've ever wondered where the concept of Beta came from,
- Listen to Betsy Wills' presentation next Saturday, October 26 at 9:45 a.m. MT.
- The title of her presentation is "**The Size Effect: How Small Stocks Came to be Part of a Well Diversified Portfolio.**"
- To register, go to [Local Events | Better Investing](#)

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Qualys (QLYS)



Jane Nelson
Director / Rocky Mountain

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