

Maintain An Even Keel during Rough Weather

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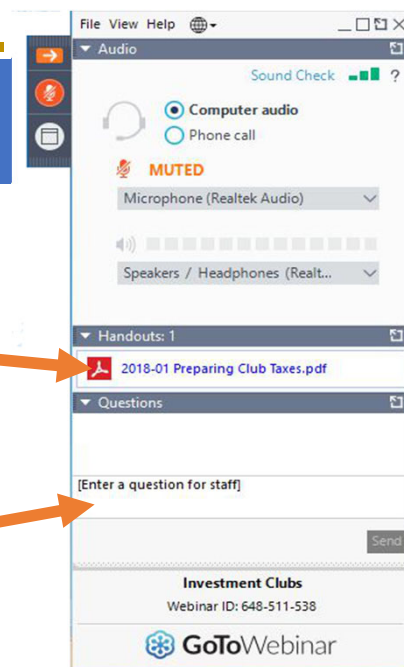


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Type questions in
Questions box.



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In Today's Session



- Understanding recessions & how they affect your portfolio.
- Navigating bear markets with a stock portfolio.
- Tips to maintain confidence in your portfolio during turbulent times.

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Maintain an Even Keel during Rough Weather

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Are You Prepared for Turbulent Markets?



“If you’re not willing to react with equanimity to a market price decline of 50% 2 or 3 times a century, you’re not fit to be a common shareholder, and you deserve the mediocre result you’re going to get.”



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Managing Your Portfolio During a Recession



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Worried About Recession?



- Recession is normal part of economic cycle.
- Broadly defined as slowdown of economic growth for several quarters.
- Symptoms of recession include rising unemployment, slowing or declining production, slowing or declining sales.
 - Companies defer big purchases/expansions.
 - Worried consumers spend less, especially on discretionary purchases.
- Recessions & bear markets **do not** always arrive together.

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Not All Companies Impacted Similarly



- During recessions:
 - **Cyclical** super-sector industries see earnings slow or decline.
 - Basic Materials, Consumer Cyclical, Financial Services, Real Estate.
 - **Sensitive** super-sector industries are impacted to lesser degree.
 - Communication Services, Energy, Industrials, Technology.
 - **Defensive** super-sector industries are not as impacted.
 - Healthcare, Consumer Defensive, Utilities

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Some Cyclical Hold Up Better in Recessions



- Restaurants are in Consumer Cyclical industry, but quick-service restaurants may perform well while high-end & sitdown casual restaurants may see sales slow.
- Healthcare-related real estate may not be as impacted as retail real estate.
- Government spending on infrastructure may support engineering & construction companies.
- Always analyze on company-by-company basis.

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Changing Economic Cycle



- Since World War II in U.S.:
 - Economic expansions have been getting longer (10+ years in 1990s, 2000s, 2010s).
 - Recessions have been getting shorter (10.3 months on average).
- By time economists register that recession began, it's nearly over.

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Managing Portfolio during Recession



- Best portfolio protection in recession comes from healthy allocation of **Defensive** sector companies.
- But during recession, these stocks are expensive, so you must build your defensive position before it's needed.
- Look for healthcare, consumer defensive (grocery, discount, drug stores; food; beverages; household & personal products) & utilities stocks.

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Managing Your Portfolio in a Bear Market



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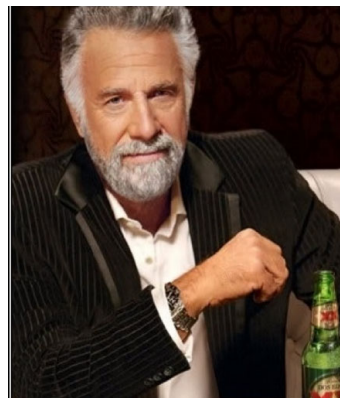
2 Ways to Face Bear Markets



Panic.



Deal with it.



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Panic Selling Never Works



- Never sell in a panic.
- Allowing fear to drive investing decisions will only amplify losses.
- There is always time for analysis & reason.
- Having right mindset & understanding market's personality is key.

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History of Bull & Bear Markets



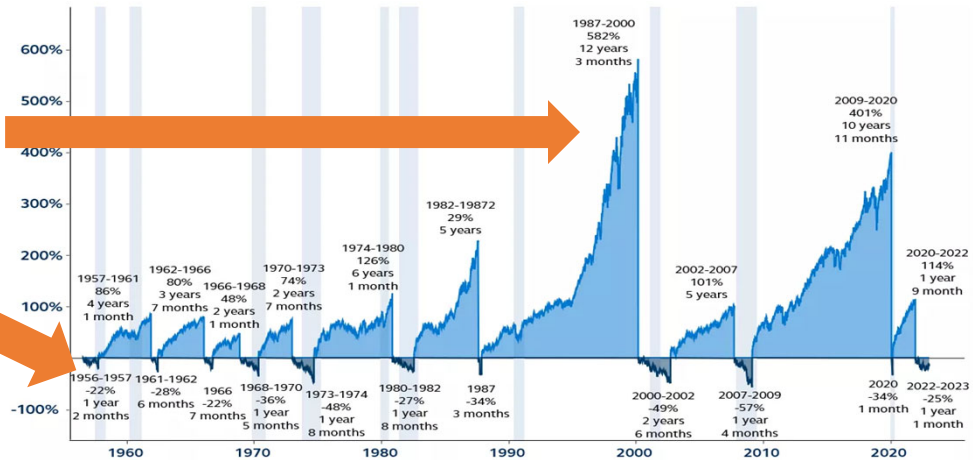
CHOOSE ONE:

1, Optimize to maximize returns.

OR

2, Optimize to minimize risk.

You can't have both!



Source: Principia Investment Management

When Is the Next Bull or Bear Market?



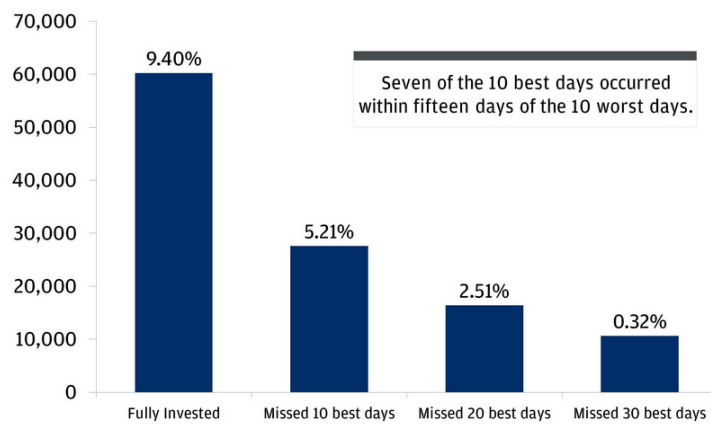
- BI teaches to not worry about predicting bear or bull markets.
 - Strategy is independent of market cycle.
- Risk of trying to time market – guessing when to pull money out & then put money back in – are too great.
- Historically, no one has consistently been able to predict market cycles.
 - Why would you think you can?

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Returns Worse If You Miss the Best Days



Annualized Returns of \$10,000 investment in S&P 500 between January 2002 and January 2022



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Don't Be Distracted by Short-Term



- In short-term, many drivers of stock market are not rational.
- In long-term, earnings growth **always** wins out.
- Sound fundamentals **always** (eventually) beat behaviors driven by panic.
- Bull markets drives stock prices into overvaluation territory, often irrationally.
- Occasional corrections are healthy.

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Wait for Recovery with Confidence



- Focus on good times to come—over long-term, market is **always** bullish.
- Your timeframe should extend well beyond any bear market.
 - Any sustained bear market/recession will have ended by 2028 (in 5 years) & new record highs likely reached.
- In history, average bear is 10 months, occurring every 3.4 years.
 - Recent bear markets have happened less frequently.
- **No bear market has continued forever.**

Remember Law of Supply & Demand



- Stock valuations are driven by supply & demand in both bull & bear.
 - Interest rates, economic indicators, market sentiment, fundamentals, fear all drive investor behavior.
- Low demand for a company's stock does not necessarily indicate fundamental problems with its business.
- Don't think "Stock prices are crashing." Instead, think "**Investors with different timeframes than me are creating opportunities.**"

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See Market Sell-Offs as Opportunities



- Bear markets & "buying the dip" are opportunities to build wealth.
- As prices fall, many investors panic & sell, creating or exacerbating bear market, but also driving prices into undervaluation territory.
- As stocks drop into fair valuation range (& below), opportunities are created for long-term oriented investors.
- Buy stocks, not the market.
- Seek out best values for higher-quality companies.

Understand Emotional Drivers of Investing



Make & Maintain a Watch List



- Develop watch list of stocks you'd own if price was right.
- Use screening tools to find candidates that are good, well-managed companies but are too pricey.
- Do preliminary research & SSGs on candidates, then occasionally update studies.
- In bear market, use watch list to quickly find opportunities.

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Manage Volatility to Your Advantage



- Use corrections to clean up portfolio.
 - Sell depreciated securities to capture capital losses to offset gains.
- Protect large unrealized gains with stops or TSLOs.
- Deploy available cash to improve portfolio quality & return.
- Consider replacement of companies that linger in “expensive” valuation ranges with those more attractively priced.

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Maintain Focus on Fundamentals



- **Companies that grow their EPS over time will see their share prices grow over time.**
- Focus on higher-quality companies relative to peers.
- Avoid buying stocks solely due to near-term catalysts **unless** you have plan to mitigate volatility.
- Be prepared for sudden market reversals, but know that they may only be temporary.
- Maintain plan & stay the course.

Final Thoughts



- Things could always get worse before they get better.
- End of bear market won't be announced with personal invitation to you.
- Well-constructed, diversified portfolio will always stand test of time.

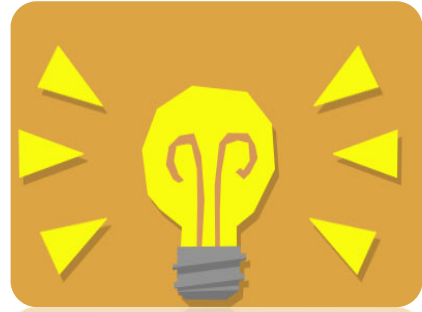
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Questions?

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DOUG'S FAVORITE STOCKS FOR 2023 (AND BEYOND)



Stock Ideas for BI Members & Clubs



- Here are stocks to study for you & your investment club.
- All are followed in *SmallCap Informer* stock newsletter.
- ***Do your own research before investing.***

Thoughts on Small Company Stock Selection



- Opportunities shifting as result of market & economic cycle changes.
- Many **SCI** companies profiled in 2023 are in cyclical or sensitive industries & have performed quite well.
- Could be early & some level of economic risk remains, but patient investors could benefit from moving into these companies.
- Valuation opportunities now becoming focus from growth opportunities evident when market turned downward.
- Here are my current best opportunities for small company stocks for rest of 2023 & beyond.

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NOTES (Companies Discussed in Live Session)



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NOTES (Companies Discussed in Live Session)



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NOTES (Companies Discussed in Live Session)



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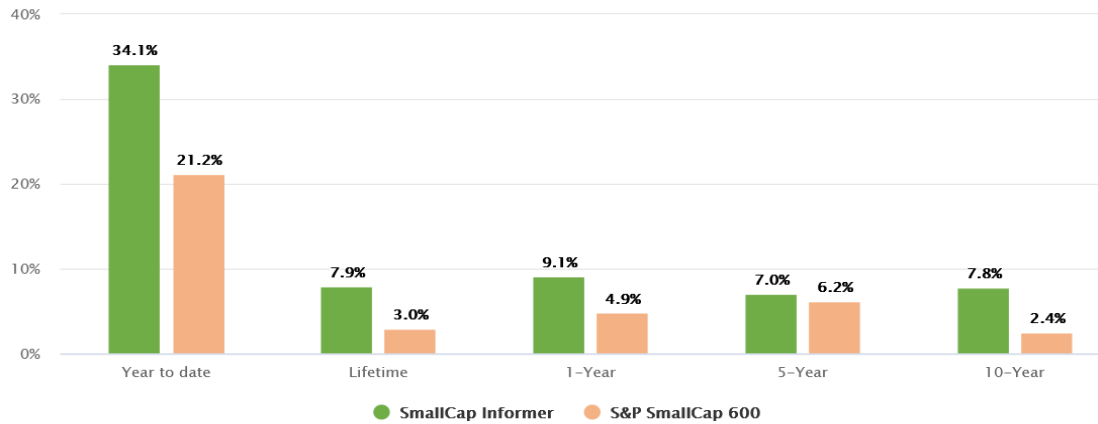
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SCI Newsletter Performance



As of 7/31/2023



IAS Newsletter Performance



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