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The slide has a blue header bar with a white 'B' on the left and a white '2' on the right. The main content is a yellow rectangle containing the text: 'January 2023', 'Rocky Mountain Model Investment Club Education Presentation', and '“Industry Insights”'. Below the yellow rectangle, the text reads: 'Carol Haverty', 'Rocky Mountain Model Investment Club member/', and 'Channel Islands Chapter'. At the bottom left, there is a small blue text: 'Rocky Mountain Model Investment Club'.

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Our BETTER INVESTING Methodology

Our easy-to-follow methodology has been, and continues to be, proven successful for seven decades.

It starts with these basic principles:

Invest a set amount of money regularly. Do so regardless of the swings in the market. This will help you maintain a lower and more favorable average cost per share of stock.

Reinvest all earnings. By reinvesting all your dividends and profits from the sale of stock, you'll fully leverage the power of compounding.

Buy stock in high-quality growth companies. Since the price of a stock follows the company's earnings, you should search for growth companies that increase earnings consistently over time.

Diversify your portfolio. Spreading your stock investments over a number of different companies of differing sizes and industries will help reduce the risk of being in the stock market.

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Major Forces that affect the Stock Market

- Interest rates
- Inflation
- Corporate Profits

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The diagram features a large blue rectangular box on the left containing the text 'Major Forces that affect the Stock Market'. To the right of this box are three rounded rectangular boxes stacked vertically. The top box is blue and contains 'Interest rates', the middle is dark green and contains 'Inflation', and the bottom is light green and contains 'Corporate Profits'. Each of these three boxes is connected to the main blue box by a thin, light-colored line that extends to the right and then turns down to the box.

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MORNINGSTAR IS THE EXPERT

Available at the Camarillo Library resources area

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The slide has a white background with a blue header bar at the top containing a white 'B' on the left and the number '6' on the right. The main content is centered and consists of the text 'MORNINGSTAR IS THE EXPERT' in a large, bold, dark blue font. Below this is a thin horizontal line, followed by the text 'Available at the Camarillo Library resources area' in a smaller, dark grey font. At the bottom left, there is a small, dark grey text 'Rocky Mountain Model Investment Club'.

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Let's use Morningstar

- Many stock organization schemes exist
 - Standard and Poor's *GLOBAL INDUSTRY CLASSIFICATION SYSTEM (GICS)*
 - Morningstar Global Equity Classification System
 - North America Industry Classification System
 - Value Line
- Most stock organization schemes use sectors and industries

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Why use Morningstar? Because...

used in **BI Data service**

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Morningstar Sectors

Sector	# of Industries	# of Stocks covered by BI data service
Basic Materials	13	1,733
Consumer Cyclical	28	731
Financial Services	20	1,084
Real Estate	9	367
Consumer Defensive	13	278
Healthcare	10	917
Utilities	5	153
Communication Services	2	131
Energy	6	691
Industrials	23	930
Technology	19	943
Totals	148	7,958

as of October 18, 2016

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Keep your goal in mind, finding the best in an industry

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SOME GREAT ADVICE

- Don't obsess about missing companies that you feel might belong in the industry. If that company has been classified in another Morningstar industry, it's OK to add it to your list!
- The best companies demonstrates regular consistent growth in sales and earnings over periods of time longer than a couple of years and have great management. UP, STRAIGHT and PARALLEL is the model and it won't fail you!
- If you're torn about keeping a company in a study, it usually means the company is not the BEST. Leave it in the study if you're new to this process and see what happens.
- Keep reminding yourself and all of your partners that your goal is to find the BEST company within a particular industry. Your goal is NOT to find the best company in the BUY zone at the time of the study.

Lots of text but important enough to READ and INTERNALIZE!

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THE GOAL:

TO IDENTIFY THE BEST (OR MAYBE THE TWO BEST) COMPANIES IN A GIVEN INDUSTRY

REMINDERS:

- We're not only comparing direct competitors. Industry groups are made up of peers as well.
- We're not looking for the best company in the BUY zone on an SSG.
- Sometimes there are no quality companies in a particular industry.

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Sector List, 3 sections, 10 industries

- 1 Cyclical**
 - Basic Materials
 - Consumer Cyclical
 - Financial Services
 - Real Estate
- 2 Defensive**
 - Consumer
 - Defensive Healthcare Utilities
- 3 Sensitive**
 - Communication Services
 - Energy
 - Industrials
 - Technology

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Peer? Or Competitor? Know the *difference*

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PEER: Operates in same industry with same business model but competes partially or not at all.
***William-Sonoma and Dick's Sporting Goods
Cedar Fair and Royal Caribbean Cruises***

COMPETITOR: Operates in same industry with same business model AND competes directly.
***Buffalo Wild Wings and Darden Restaurants
Hasbro and Mattel***

Find competitors on Morningstar site or in company's annual report. Sometimes there are no real direct competitors, especially for large diversified companies.
General Electric, Alphabet or Apple

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Super Sectors, impacted by economic shifts

- **cyclical super sector**, *most sensitive to ups and downs, betas greater than 1*
- **defensive super sector**, *relatively immune to economic cycles, stuff we need in good times and bad, betas of less than 1 (healthcare, utilities)*
- **sensitive super sector** *ebb and flow with the overall economy, fall between cyclical and defensive and have betas close to 1*

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Consumer Cyclical Industries

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Industries in the Consumer Cyclical Sector
(a partial list, according to Morningstar)

- Apparel Manufacturing
- Auto & Truck Dealerships
- Broadcasting – TV
- Gambling
- Home Furnishings and Fixtures
- Leisure
- Packaging & Containers
- Restaurants
- Specialty Retail
- And 19 more...



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Summation.....

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Class Summary

- Stocks are classified into sector and industry groups
- A well-diversified portfolio consists of stocks from **four** or more sectors
- **Not all sectors and industries contain growth stocks, and may be omitted from your portfolio**
- Select an industry that will benefit your portfolio
- Don't forget the portfolio's size diversification issues
- Identify the highest quality companies to form the initial list of stocks for the industry study

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Buy the Best – A guide in Industry studies

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Buy the Best – A Guide to Industry Studies

1. Sectors, Industries and Your Portfolio
2. **A Step-By-Step Guide to an Industry Study**
 - Make the final stock selections for the industry study from the list of initial candidates
 - Complete basic research for the industry
 - Prepare the SSGs for the industry study
 - Present the industry study stocks using a standard format
3. Select the Best Using the Stock Comparison Guide

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Reinforce learning the SSG

- Section 2 is the highlight for establishing **quality** and relates to: **Management**.
- Comparing the section 2 of companies in the same industry will help you make better choices and understand what is sustainable.
- Sections 1 and 2 of SSG are how we analyze a company's business model or MOAT>
- MOAT stocks are typically expensive
 - Dollar cost average over time can get you invested
 - Timing and watching may not work out well.
 - (Morningstar has a whole section on "Moat stocks".

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Online screener in SSGPlus

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Activity

- 1) Review the Diversification report for the sample portfolio posted in My Classes.
- 2) Identify 2-3 recommendations to improve the portfolio diversification.
 - 1) What sector(s) would you avoid? Add?
 - 2) What size companies would you avoid? Add?
- 3) Name two industries that are part of your selected sector.
- 4) Using the online screener in SSGPlus, select the initial candidates for one of the selected industries.
- 5) Check your recommendations against the sample recommendations posted for the sample portfolio. A list of initial candidates is provided for two selected industries that would fit in the sample portfolio.

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SSG PLUS

Search for a Company

Stock screener in SSGPLUS Logout

Search Criteria

- 9 Yr Sales Growth (%): > 12%
- 9 Yr Earnings Growth (%): > 12%
- 5 Yr EPS R-squared: Any
- Size: Small Medium Large
- Sector: Any
- Dividend Yield (%): Any
- Pre-Tax Profit Trend: Up Even Down
- Return on Equity Trend: Up Even Down
- Morningstar Growth Grade: >= B
- Morningstar Profit Grade: >= B
- Morningstar Financial Health: >= B
- PE / Historical EPS Growth: < 1.0
- Traded Exchange: US Exchanges Only

Predefined Screens

- Quality
- Value
- Quality + Dividend Yield
- Small Company
- Roster of Quality

Ticker Heat Map

Looking for more in-depth screening? Check out MyStockProspector.com

MyStockProspector

A resource of stock ideas based on the top 100 studies created by members in the last 90 days.

Results

Show 10 entries Search all columns:

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SSG PLUS

Search for a Company

Example of recent search for small stock companies.

Do we look at ADR's?

Results

Show 10 entries Search all columns:

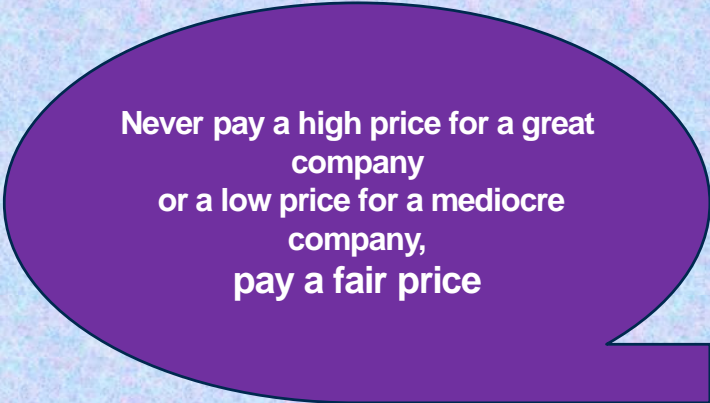
Actions	Company	Ticker	Sector	Industry	Size	Sales Growth (%)	Earnings Growth (%)	EPS R2	Current P/E	PE / Hist EPS	Growth Grade	Profit Grade	Financial Health
	Halozyme Therapeutics Inc	HALO	Healthcare	Biotechnology	S	26	113.4	0.18	39.9	0.4	B	A	B
	Pure Cycle Corp	PCYO	Utilities	Utilities - Regulated Water	S	43.7	145.3	0.69	26.5	0.2	B	B	A
	Silicon Motion Technology Corp	SIMO	Technology	Semiconductors	S	13	14.7	0.42	10.3	0.7	B	B	B
	Staar Surgical Co	STAA	Healthcare	Medical Instruments & Supplies	S	14.5	101.9	0.64	83.3	0.8	B	B	B
	SWK Holdings Corp	SWKH	Financial Services	Asset Management	S	40.5	50.6	0.46	14.8	0.3	B	B	A

Showing 1 to 5 of 5 entries

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Never pay a high price for a great company
or a low price for a mediocre company,
pay a fair price

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Introduce our unique investment education to others!

Share **BetterInvesting** materials with your family and friends!

BetterInvesting.org/InvestBetter

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What happened in 2022?

- **The S&P 500 Index plunged 25% in the first nine months of 2022** but has rebounded 14% since the end of September.
- **All 11 sectors have risen since September**, strongest gains coming from
 - energy (up 25%),
 - industrials (22%), and
 - materials (21%).
- **The labor market continues to roll**,
 - with nonfarm payrolls up 263,000 in November and the October number revised 23,000 higher to 284,000.
 - Unemployment held steady at 3.7%.
 - Transportation i.e. railroads and airlines are experiencing high wages, benefits (25% plus)
 - However, not all parts of the job market are created equal.
 - Retail trade, transportation, and warehousing jobs declined, continuing a multimonth trend.


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Wider moats help in tough times

- **Recession of 2008:**
- 3 types
 - Wide -----down----- 28.2
 - Narrow-----down--- ----40.6
 - No moat-----down-----



An economic moat protects a company's profits from being attacked by business forces.

"SUSTAINABLE COMPETITIVE ADVANTAGE
OR ENTRY BARRIERS"

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Club wisdom

In the club is where you learn:

In your own portfolio, is where you earn.

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References and resources

- BI's SSGPlus
- Morningstar's industry classifications
- "only the best" with Ken Kavala and Ann Cuneaz
- *www.betterinvesting.org/ basic*
- *Chuck Carlson's Market Watch*
- *Morningstar, moat stocks*

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Question and Comments

Industry Insights

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