

NOVEMBER 2011 e-NEWSLETTER

UPCOMING CLASSES & EVENTS

> [StockTalk](#): November 12th at [Southglenn Library](#). Featured stocks: Cognizant Technology Solutions (CTSH) and Infosys (INFY). Compare and choose the best investment by group consensus.

> [Portfolio Decision Making & Lab](#): November 19th, 9am to noon and [Secrets to Club Success](#) from 1pm to 4pm, both at Colorado Christian University, Beckman Center.

TALES FROM THE BRIGHT SIDE

We were very privileged to have Gretchen Hurt as our star speaker at the Investors' Forum on September 24th. She is a popular speaker and a member of the BI Volunteers Board. One topic Gretchen addressed is of particular interest to everyone and that is how to incorporate fast growing, small companies promising outsized returns into our portfolios.

We define a small company as one with sales less than \$500 million. We don't use the more common classification based on capitalization as that can vary wildly day to day.

Better Investing advises diversifying our portfolios by industry, sector, and size. The rule of thumb on size is to construct portfolios consisting roughly of 25% large, 50% middle sized, and 25% small companies. However, it is often difficult to find information on small companies since they may be too small to justify an analyst's time and effort to study them. One commonly finds the small company of interest isn't covered in the Value Line standard edition but in the small and mid-cap

edition. The companies in the S&M edition are not followed by a Value Line analyst. But it does have lots of pertinent financial information you can study.

Small companies tend to be young, without much of a track record, more risky than large or medium sized companies, and their stock price is typically very volatile. In any case, always insist on at least three years of performance history. It is important that one understand what the small company does so one can better predict future sales and earnings. Small companies are not for the faint of heart even though they do often offer the possibility of outsized return on investment.

A great source for finding small company opportunities is at the Manifest Investing [website](#). You can try it for free. Login and go to the list of published dashboards and find the one for Forbes Best Small Companies of 2010. It's a great starting place. Have fun!

WHAT IS GOING RIGHT

The following article discusses some of the positive developments in our economy often downplayed by commentators because of the dominance of the news from Europe. Our thanks to Charles Schwab for permitting us to reprint the following excerpt from a recent article by Liz Ann Sonders, Sr. Vice President and Chief Financial Officer at Schwab. Click [here](#) to read the entire article.



"I often begin client presentations, *Market Snapshot* videos and talks to outside organizations with

a comparison of the bearish and bullish arguments about the economy and markets. Accompanying those, I usually make the following comment: ***"I'm always most intrigued by the story no one is telling and least intrigued by the story everyone is telling."***

Today, the story everyone is telling is the bearish story as follows:

- The cycle of debt deleveraging will be a significant weight upon economic growth for as far as the eye can see.
- Job growth is moribund and economic growth is unlikely to increase sufficiently to bring down the unemployment rate.
- Housing—the lifeblood of the last economic cycle—is at best bouncing along the bottom, with no sign of a meaningful lift.
- The more acute debt crisis in Europe means financial system contagion risk and a severe weakening of economic activity in that region, which itself has contagion risk.
- China's growth is slowing, and given its importance as the key global engine of growth, this bodes ill for global growth.
- Finally, the US political situation is toxic and the consensus about the debt super-committee deliberations is that there's no room on either side for compromise, suggesting the "grand bargain" that markets are hoping for will not happen.

It's a recipe for stagnation, if not something worse. But what if a few things actually went right? What could happen that would make us look back 10 years from now and think: "What do you know ... we did it again. We pulled out of the slump and the economy powered ahead." A pipe dream? Not necessarily.

I write this without blinders to the obvious plights still facing the economy and the psyche of many individuals who are struggling. I write it with hope for the future and as a contrarian who always likes to look down the path on which few are looking.

I think the recent 17% stock market rally in less than a month may be sending a signal that the expectations bar has been set either too low, or at least sufficiently low such that hurdling that bar has become easier.

Recession risk is fading quickly. Only a month ago, the consensus was that a new recession was likely. That was never my view, but I certainly took some heat. I breathe easier today given the string of much stronger economic data received in the past couple of weeks, including:

- 2.5% real gross domestic product (GDP) growth in the third quarter, up from 0.4% and 1.3% in the first and second quarters, respectively (with the third quarter likely to be revised higher)
- Real GDP now in "expansion" having surpassed 2007 high
- Thirty-nine-point positive reversal in the Philly Fed Index, which had been an initial trigger of the recession consensus
- Sixteen percent year-over-year S&P 500 earnings growth reported so far for the third quarter, with 10% revenue growth
- Consumer confidence down, but retail sales up sharply
- Homebuilding stocks up more than 40% in past month, suggesting a greater likelihood of a bottoming process than many believe
- Ten-year Treasury bond yields up 0.7% from late September through recent high
- M2 money supply growth up nearly 20% annualized over past 18 weeks; bank lending picking up, too “

Important Disclosures

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. The investment strategies mentioned here may not be suitable for everyone. Each investor needs to review an investment strategy for his or her own particular situation before making any investment decision.

WORDS OF WISDOM

“Patience, planning, and perspective always win in the end” – Nilus Mattive