BETTERINVESTING™ Rocky Mountain Chapter

CELEBRATING 50 YEARS OF SERVICE: 1962 - 2012

OCTOBER 2012 e-NEWSLETTER

COMING EVENTS

> **Toolkit Mechanics: Navigating Toolkit**, 9:00 – noon, Oct 20 & Feb 23, Colorado Christian University

> **Applied Toolkit Lab**, 1 - 3pm, Oct 20 & Feb 23, Colorado Christian University

> **Supercharge Your SSG with Sound Judgment**, 9am – 12:30pm Nov 3 & Mar 23, Christ Church United Methodist,

> **Advanced Toolkit: Reports, Portfolios, Libraries** 9am -noon**,** Nov 17 & Mar 9, Colorado Christian University

> **Research Resources on the Internet** 1 – 3pm, Nov 17, Colorado Christian University

> **Special Event:** The looming "fiscal cliff" is of increasing concern to all. The AAII is sponsoring a presentation on the subject that we feel may be of interest to our membership

According to Ned Davis Research, publicly traded companies paying a dividend returned 10.1% compared with just 4.1% for non-dividend companies between 1972 and 2006.

What's more, during periods when the market declined between 1970 and 2000, dividend stocks outperformed non-dividend-paying stocks by a 1.5% margin every month.

CHAPTER DIRECTOR HONORED

Chapter director Pat Wood received the

prestigious *Ken Janke Lifetime Achievement Award* at the recent national convention for her twenty-five plus years of service to the Rocky Mountain Chapter and to Better Investing. Pat served on the Youth Committee, was a Regional Director for many years, and helped Chapters with re-chartering. She served as club contact and made many club visits in her years of service. We are very proud of Pat for her service to the investing community and for this much deserved recognition

INVESTORS' FORUM HIGHLIGHTS

By John Rogers

The Fall Investors' Forum was held at Colorado Christian University on October 6th with the theme: *"Improving Your Portfolio Returns"* featuring **Ken Kavula,** who provided attendees with an entertaining, informative day of stock talk!

This was one of the very best seminars I ever attended whether at the national or local level. Ken discussed key investment principles and he gave us tips that we could take home and begin putting into practice immediately. He also gave us some great leads for companies to study.

Here are the key topics covered:

- How to find great stocks to study
- How to research and make judgments
- Industry studies: how and why
- Setting some goals: diversification and growth
- How to maintain a portfolio
- How to review a portfolio

I can hear you saying that you've heard all this before, but you haven't heard it the way Ken explains it. What's the difference?

Ken went back to the very foundation of Better Investing (which used to be called the *National Association of Investment Clubs* or NAIC) to find the **source** of the principals we learn as BI members.

The co-founders of NAIC were individual investor Tom O'Hara and stock analyst George Nicholson who designed the original Stock Selection Guide (SSG).

Nicholson and O'Hara believed that investing could be learned and successfully applied by anyone with a high school education. They wanted every American to become an investor and own a share of the American dream. Nicholson was a student of Benjamin Graham as was Warren Buffett.

The original SSG stressed growing revenue and required using the "Preferred Procedure" to forecast earnings growth. Growing revenue is the foundation of every successful company. ***Revenue growth drives earnings and earnings drive stock price.***

Let's look at one of the eye opening things Ken found. Well where did the mantra of 15% annual return on investment come from? What makes that number special? Ken found out that Nicholson thought an individual investor following a sound investment plan could beat the market by about 4 to 5% in annual returns. It so happens that the very long-term return average for the overall market is about 10%. Adding 10% and 5% we get the magic 15% return which coincidentally will double your investment in five years. But what if the market is overpriced? Then don't expect to get a 15% return on your investment. Instead, look at the market plus 5% and take that for your target. And what if the market is in a funk and underpriced? Look for stocks with returns in excess of 15%. That target return we seek is actually a moving target that moves with the overall market.

Here is another eye-opener: what was Nicholson's view of company size diversity. We are often advised to have 25% of our portfolio in large companies, 50% in mid-sized companies and 25% in small companies. Nicholson's view was that we need to diversify according to growth rate and safety. Yes, small companies tend to grow fast, but where does that put Apple? It is a giant company but it is growing like a small company. Would you exclude Apple for consideration for your portfolio just because it is big? Of course not. Small companies tend to be risky as they may not have a long history of performance and management is untested. But a large company that is well established in its industry with a proven record and a wide moat helps reduce portfolio risk. Its rate of return may only be in the 5 to 7% range but it has a record of "up, straight, and parallel" in Section 1 of the SSG and its profit margin is steady. This kind of diversity assures market beating return with a minimum of volatility and risk.

I could go on and on. Especially riveting was Ken's review of several club portfolios. He showed us how to do it and we all joined in as he went through the reviews. He made it look easy. The only thing we have to fear is fear itself to borrow from President Roosevelt. That fear of selling and the fear of making a mistake keeps us from doing our best. Sticking to Nicholson's teachings and stripping our emotions out of the equation leads to success. **Note**: Ken always tests his clubs' returns against the overall market and they have consistently beat the market over ten plus years by 4 to 5% just as Nicholson predicted.

There is no way I can cover all the rich material presented by Ken. Fortunately, we were able to successfully record the entire forum. We will be making that available as soon as we can. For those who attended the forum, these recordings can be an excellent review. For those that missed it, this is your opportunity to hear and see what Ken presented.

Here is a suggestion… no, a strong recommendation. Arrange to have a club meeting at a home with a large screen TV connected to a computer. View these presentations as the core agenda of your club meeting. The seminar was recorded in three parts. Arrange to view these one at a time over three meetings spread out over the coming year. Discuss what you learn among yourselves. I can promise you that your club and your investment returns will reward that effort.

NATIONAL CONVENTION HIGHLIGHTS

By Joan Loken, chapter president

The most amazing part of the Better Investing National Convention (BINC) that was held this September was meeting Pat & Yvonne from New Mexico and Ross from Utah. Since the Rocky Mountain Chapter recently expanded to include these states, meeting these new chapter members was truly a joy.

BINC offers six classes simultaneously so there is something for everyone. New this year, BINC did classes on *Trading* for those wanting to get a better understanding. Directors Ken and Pat Wood were impressed by Avi Horwitz's series of presentations on *Avoiding Hidden Surprises on Balance sheet, Cash Flow and Income Statements* and tying them to the SSG

Gretchen Hurt updated her presentation on cyclicals. She said the best time to buy cyclical stocks is when we are coming out of a recession. Gretchen also said that if you missed the best time and the stock has been on an uptick, then buy when the PE is very low. If there is interest, we may invite Gretchen to present to the chapter as an online class.

A few years ago, John Rogers introduced the Chapter to *Range Bound Markets* (also known as "sideways" markets). At BINC, Shanna Rendon from Grand Junction took this topic one step further in her *Sideways Investing* presentation. A sideways market is one that has its short term ups and downs but is trendless over time and just ends where it started out. Considering the overall market as represented by the S&P 500 index, the period from 2000 to 2011 has been a sideways market. However, it was primarily the large, established, lower risk, slow growing companies that were range bound. Shanna demonstrated that by investing in quality, dividend paying, growing companies and diversifying to control risk, your portfolio need not be a sideways performer even when the overall market is moving sideways.

For the Fall Investors Forum in 2013, look for presentations on investing in range bound markets and dividend investing to add cash flow to your portfolio.

WORDS OF WISDOM

"Price you pay determines your rate of return." – Benjamin Graham