

OCTOBER - DECEMBER 2013 eNEWSLETTER

OVERVIEW OF UPCOMING EVENTS AND CLASSES THIS FALL:

- Beginning ToolKit and Lab, October 5
 - [Morning class plus afternoon lab](#)
 - [Afternoon lab only](#)
- **INVESTOR FORUM, OCTOBER 12**
- [Small Talk, October 16, via Webinar](#)
- [Judgment on the SSG, November 2](#)
- Small Talk, November 4, via Webinar
- Advanced ToolKit and Lab, November 9
 - [Morning class plus afternoon lab](#)
 - [Afternoon lab only](#)

PORTFOLIO MANAGER – CLUB OFFICER

Portfolio Manager (PM) is an office your club needs in addition to the standard offices of President, VP, Treasurer, and Secretary. A PM can play a vital role in helping your club view your club's portfolio as an organic whole and not merely a random collection of equities. Is your portfolio meeting expectations? Are there too many stocks in one sector? Overweight in large companies? Is one stock holding back the portfolio? Can it be replaced by one on the club's Watch List? Can the portfolio be improved? If so, what needs to be done?

ToolKit6 has a number of reports helpful in monitoring and optimizing your portfolio. These portfolio report options include:

- **PERT** – This is a full featured report that some find difficult to read.
- **Trend** – A variation on the PERT to include two quarters of data to show a developing trend in company fundamentals. Not as full featured as the PERT, many find this report easier to use.
- **Summary** – This is just a summary of some of the data found in the PERT and Trend reports.
- **Defense** – Shows companies with weakening fundamentals which should be reviewed with a bias towards a sale and replacement with a better stock
- **Offense** – Shows companies with sound fundamentals but with a price that has become excessive thus limiting the future return potential.
- **Sector/Industry** – Shows the degree of portfolio diversification aimed at limiting risk
- **Company Size** – Shows the breakdown of your portfolio holdings according to company size based on revenue.

Trying to review all seven reports at a club meeting can get confusing as there is a lot of overlap among the first five. The last two, Sector/Industry and Company Size, should always be included in a portfolio review. You should look at the first five reports as a club and decide which one or two is sufficient for your purpose. Some find the PERT quite adequate and the other four don't add much of value. Others think the Trend report is all they need. The Defense and Offense reports are unique to ToolKit and complement each other. Many find these two reports are all that is needed and don't use the PERT, Trend, or Summary. Find out which combination works best for you and your club and limit yourself to only one or two. Just don't try to use all five as it just becomes unnecessarily confusing. Try to keep it as simple as you can.

A portfolio review is only as good as the quality of the SSGs comprising it. Some clubs ask the monitor of a stock to prepare an SSG and send it to the PM a couple of days before the portfolio review. This puts the entire burden of SSG preparation on the monitor. Instead, consider having one other club member review that SSG to make sure nothing has been overlooked. The PM might be asked to look over each SSG to catch any obvious errors. With sound, thoughtful SSGs, the PM can prepare a portfolio report, distribute to members, and lead the discussion at the review meeting. Such a review can take place monthly or quarterly at your option.

Your PM will need to be knowledgeable in the use of ToolKit6 and subscribe to Better Investing's data service. The PM must have attended both ToolKit classes (Introductory and Advanced) taught by the chapter or have equivalent training and experience. All club members should also have ToolKit so they can prepare an updated SSG, export it and send it to the PM. But what if your club still has some members preparing their SSGs by hand? Yes, there are still monitors who like to prepare their SSGs by hand and do a darn good job as well. In cases like this, the monitor needs to send the following information to the PM:

- Projected Sales and EPS Growth Rates (Section 1)
- Average High and Low projected P/E ratios (Section 4)
- Projected Low Price (Section 4B)
- Projected Average Payout Ratio (Section 5)

Using these data, the PM can easily reconstruct the SSG using ToolKit and incorporate it into the club portfolio.

ICLUBcentral maintains an [extensive archive](#) of recordings of ToolKit6 online classes and they are free.

MUTUAL FUNDS AND INVESTMENT CLUBS

The Boston Personal Property Trust, formed in 1893, was the first [closed-end fund](#) in the U.S. The creation of the Massachusetts Investors' Trust in Boston, Massachusetts, heralded the arrival of the modern [open-end mutual fund](#) in 1924. The modern investment club is organized as a self-managed open-end fund with no more than 100 active members by SEC regulations. The first investment club was established in 1898 in Texas. The National Association of Investment Clubs was founded in 1951. Co-

founder and brilliant stock broker analyst George A. Nicholson, Jr. designed the Stock Selection Guide still in use today. Nicholson firmly believed that just about anyone can be a successful investor with basic training in fundamental analysis, investing in growing companies with sound management, and maintaining a diversified portfolio.

WORDS OF WISDOM

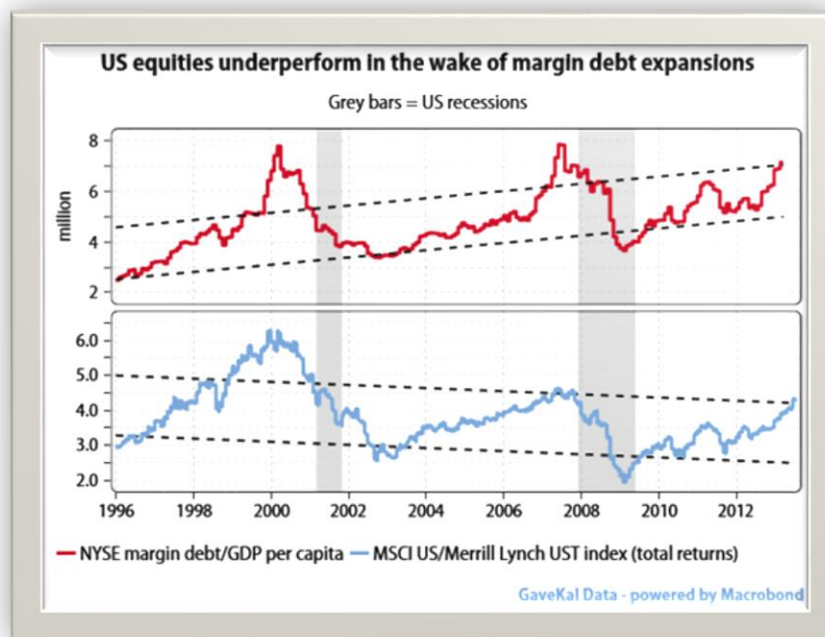
The following story by Charles Gave is taken from the [August 17th issue of "Thoughts from the Frontline"](#) by John Mauldin.

"I started in the fascinating business of trying to understand why markets go up and down in February 1971. The old money manager in the French bank which had hired me straightaway said: "Charles, you will never get rich in this business using other people's money. Do NOT leverage your positions. Leverage might be all right for fellows who deal in real estate, but for those in stock markets, it only brings misery."

Being young and smart (or so I thought), I assumed this advice could not conceivably apply to me. A few margin calls later, accompanied by quite a string of sleepless nights, I came to realize that the old gentleman had a point.

Now that I am quite old myself and certainly not as smart as I thought I was in 1971, I find myself tracking the moves of the poor souls who believe they can leverage profitably. Then I do the opposite. This is why Charles the 70-year-old is watching what Charles the 30-year-old is doing—to do the reverse. Have a look at the graph.

The red line at the top is New York Stock Exchange margin debt as a multiple of US GDP per capita, the blue line on the bottom pane is a ratio between US stocks and (government) bonds. It seems that the fellows using other people's money to get rich



have an uncanny ability to leverage up when shares become overvalued vs. bonds. They also seem to get most enthusiastic just before a recession, usually after a prolonged outperformance of equities against bonds.

They leverage in order to participate as much as possible in what looks like a free ride, with no downside risk. There are always a number of good reasons why the stock market cannot change direction. Take your pick: "technology has created a new type of economy," or "house prices never go down," or "we have recently discovered an infinite source of wealth called QE." These reasons can be added to a long roster of other excuses such as, "I can get insurance against the next market decline" (1987) or "the Fed will never, ever allow for positive real rates to appear" (1979) or "oil prices cannot quadruple" (1974)." - [Charles Gave, GaveKal Research](#)