



**FINAL QUARTER (OCTOBER - DECEMBER) 2015 eNEWSLETTER**

**UPCOMING EVENTS AND CLASSES (all times are MT):**

- Fall – Winter 2015/16
  - **Online Annual Meeting with Education Program (free), September 10,** 7pm via Webinar. Our special guest speaker is Cy Lynch, one of BetterInvesting’s most popular educators. Cy’s presentation is titled “Portfolio Centered Decision Making”. **REGISTER NOW! Don’t miss it!!**
  - Introduction to Investing (free), **September 12,** 9am to Noon, CCUM
  - Small Talk, **September 22,** 7pm to 8pm via Webinar
  - Stock Selection Guide (SSG), **September 26,** 9am to 3pm, CCUM
  - Judgment on the SSG, CCUM, **October 3,** 9am to 2:30pm, CCUM
  - Starting an Investment Club, CFU, **October 6,** 6pm to 7:30pm, CFU
  - Mutual Funds and Exchange Traded Funds (ETF), CFU, **October 7,** 6:20pm to 9:30pm, CFU
  - **Investors’ Education Day at CCU with guest speakers Avi Horwitz and Don Cassidy, Saturday, October 17,** 9am to 3pm, CCU. **REGISTER NOW!**
  - SmallTalk Stock Study, Monday, **October 26,** 7pm to 8pm via Webinar
  - Mutual Funds and Exchange Traded Funds (ETF), CFU, **November 7,** 9am to Noon, CCUM
  - Starting an Investment Club, CFU, **November 12,** 6pm to 7:30pm, CFU
  - SmallTalk Stock Study, Tuesday, **November 17,** 7pm to 8pm via Webinar

**Class and Event Location Addresses**

|   |   |
|---|---|
| Christ Church United Methodist (CCUM)<br>690 Colorado Blvd, Denver Co 80206 | Colorado Christian University (CCU)<br>8787 W Alameda Lakewood, CO 80226                          |
| SmallTalk Seminars via Webinar at 7pm MT                                    | <a href="#">Colorado Free University (CFU)</a><br>7653 E. 1 <sup>st</sup> Place, Denver, CO 80230 |

**EQUITY ANALYSIS**

**To Sell or Not to Sell**

By Doug Gerlach

Typically, our approach to deciding when to sell is driven by fundamentals, usually when a company is underperforming our expectations or experiences some problems that put its future prospects in jeopardy. Individual investors tend to delay deciding to sell these

companies in the (usually futile) hopes that they just *might*, if given enough time, return to their former glory.

In truth, our brains are wired to procrastinate making tough sell decisions because it delays the pain that comes from acknowledging a poor choice. If we sweep the stock under the rug, we can fool ourselves into forgetting about the company—at least until the next brokerage statement arrives.

The other kind of sell decision—selling a stock that has performed well—is also difficult, but for different reasons. Selling a solid performer from your portfolio, a stock that has earned respectable returns, means that you’re eliminating the potential of all future returns from that stock. Selling a portion of such a holding is also a surefire recipe to create regret, either because it will likely turn out that you should have sold all of the stock or none of the stock.

But stocks never grow in price linearly. With our longer-term approach, we rely on earnings to drive price appreciation. The market, however, often has other expectations about how a stock “should” perform in the near-term. Traders may look at other non-fundamental factors in order to make their buy and sell decisions, introducing volatility and uncertainty to our well-selected stock picks. Emotion-driven investors, both amateurs and professionals, make decisions that drive stock prices to both stratospheric and sub-oceanic levels. It is only over the long-term that stock valuations and prices converge and reflect the “true” value of a company.

This disconnect is apparent both in the depths of a bear market and the irrational exuberance of a bull market. In the latter, for stocks that have grown significantly in price since purchase, it can be a wise move to sell (or replace) stocks that:

1. Are selling at more than 150% of their average P/E ratio (their relative value is greater than 150%).
2. Have a reward-to-risk ratio less than 1:1.
3. Have an expected total return approaching the yields available from long-term government bonds.

An option instead of selling a highly appreciated stock is to use a trailing stop-loss order (TSLO). This order instructs your broker to sell the stock if its price falls more than the percentage you’ve designated from its high price. What’s useful about a TSLO is that the stop price keeps resetting as the stock goes up in price. For long-term investors, a trailing stop of between 5% and 10% is often suitable. Note that once the stop is triggered, the order is filled at the market, so the execution price in a fast-moving market could be well below the stop price. A TSLO can provide good insurance from a sharp and sudden market drop or the inevitable retrenchment of a stock that’s advanced beyond a fundamentally sustainable price.

Always keep in mind your personal capital gains tax situation when deciding to sell on overvaluation. In a tax-advantaged retirement account, where there is little or no

downside to capturing gains on a regular basis, you might be quicker to sell than in a taxable account.

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## The Sectors View of the Market

by John Rogers

Where is the market headed over the next few years? Which sector has the best prospects? Nobody really knows, but Morningstar isn't afraid to give it a go.

An exchange traded fund (ETF) is like a mutual fund in that they hold a basket of stocks. However, the ETF trades just like an ordinary stock while a mutual fund trades only at the end of the trading day. The sector ETF is simply a fund composed of a basket of stocks in a given sector. Morningstar already follows most of the stocks in each of the sector ETFs. So it is easy for them to roll all those stocks together to calculate an overall rate of return.

In the table below, we have the Vanguard sector ETFs plus the Vanguard Total Market Index ETF.

- The “% Expected Return” is Morningstar’s projected rate of return over the next few years.
- The “% Dividend Yld” column is the yield based on actual trailing twelve month (TTM) payouts and today’s ETF price.
- Right now, according to Morningstar, the **best investment opportunities** can be found in

- Energy (highest in the group),
- Consumer Discretionary,
- Financials,
- Info Tech, and
- Materials.

- The **poorest sector prospects** include

- Consumer Staples,
- Healthcare,
- Industrials,
- REITs,
- Telecom Services, and
- Utilities.

| What's Hot and What's Not |              |                   |                |                       |
|---------------------------|--------------|-------------------|----------------|-----------------------|
| SECTOR                    | Vanguard ETF | % Expected Return | % Dividend Yld | Above or Below Market |
| Consumer Discretionary    | VCR          | 12.08             | 1.22           | ABOVE                 |
| Consumer Staples          | VDC          | 9.61              | 1.84           | BELOW                 |
| Energy                    | VDE          | 17.95             | 2.26           | ABOVE                 |
| Financials                | VFH          | 12.65             | 1.73           | ABOVE                 |
| Healthcare                | VHT          | 9.91              | 0.89           | BELOW                 |
| Industrials               | VIS          | 11.88             | 1.6            | BELOW                 |
| Information Technology    | VGT          | 12.25             | 1.08           | ABOVE                 |
| Materials                 | VAW          | 13.96             | 1.85           | ABOVE                 |
| Real Estate (REIT)        | VNQ          | 10.04             | 3.86           | BELOW                 |
| Telecom Services          | VOX          | 11.03             | 2.61           | BELOW                 |
| Utilities                 | VPU          | 9.28              | 3.45           | BELOW                 |
| <b>Total Stock Market</b> | VTI          | 12.02             | 1.84           |                       |

- Looking for low risk dividend current income with yield greater than 2.5%? Look no further than **REITs, Telecom Services, and Utilities**. All three pay decent, growing dividends with a respectable total return greater than inflation (3% historical average) plus risk (6% commonly assumed average level). The risk is kept fairly low since each of these ETFs are highly diversified within their sector.

Below is the five and ten year history of the two sectors with the best (VDE) and worst (VHT) return outlooks compared to the Total Market Index. Healthcare has really roared the past five years and may be a bit pricey right now. Still great outlook, but only at a better price. Can you still find good individual prospects in Healthcare? Of course, but you will just have to dig deeper. On the other hand, Energy is a long period cyclical sector and these deep funks come and go every ten years or so. Right now, the Energy sector is filled with interesting opportunities. But you must remember that Energy is cyclical and the current deterioration in earnings DOES NOT necessarily imply an impaired company, only a short term oil price that is low due to a temporary mismatch in supply and demand. Better Investing doesn't generally recommend investing in cyclicals because of their increased complexity. But if you feel brave and confident in your understanding of the Energy sector and its industries and willing to look five years and more in future, this may provide a great opportunity.



### **WORKING TOGETHER**

The Rocky Mountain Chapter directors see their main duties as 1) supporting clubs and individuals, and 2) providing quality education for everyone. All directors are unpaid volunteers who want to “give back” for the support they’ve received in the past. The

board meets monthly over the internet using GoToMeeting. But the chapter has the special challenge of providing for a membership spread across Colorado, Utah, Wyoming, and the northern 2/3 of New Mexico. If you live in one of these areas, please volunteer to become a contact for those in your area. For more info [email](#) our chapter president.

### **WORDS OF WISDOM**

*"Investments that are denominated in a given currency include money-market funds, bonds, mortgages, bank deposits, and other instruments. Most of these currency-based investments are thought of as "safe. In truth they are among the most dangerous of assets. Their beta [i.e., volatility] may be zero, but their risk is huge." – Warren Buffett*

Successful Investing  
Better Investing, Rocky Mountain Chapter