

REVERSION TO THE MEAN

Presented by Jane Nelson

Small Talk 11/13/2018

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Definition

- **Mean reversion** is the theory suggesting that prices and returns eventually move back toward the **mean** or average.
- This **mean** or average can be the historical average of the price or return, or another relevant average such as the growth in the economy or the average return of an industry.

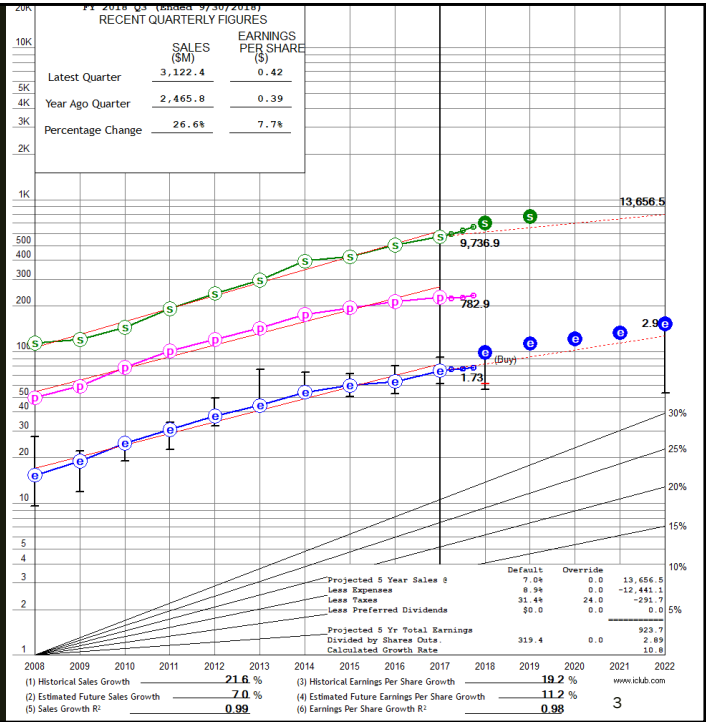
2

Up Straight and Parallel

Think of the trend line as the mean

Very little deviation

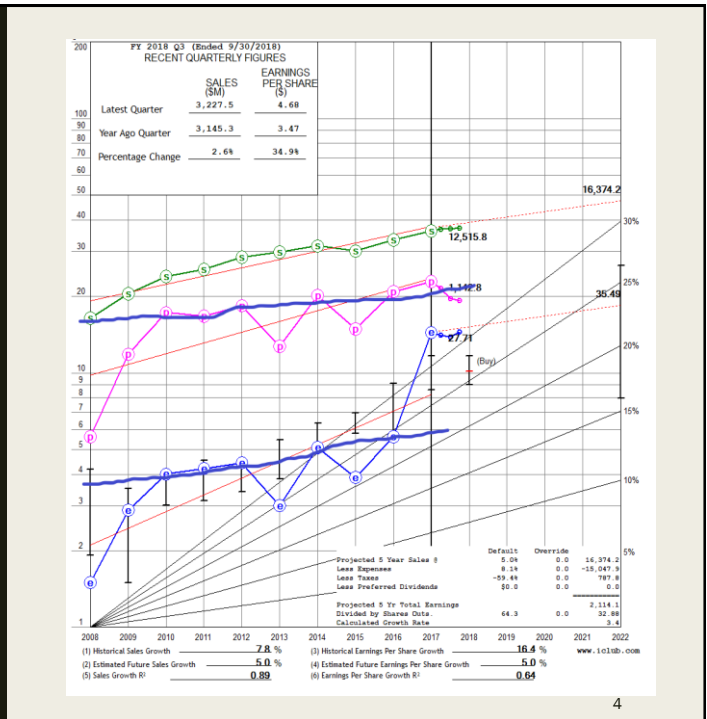
Very little reversion



Trying sooo hard to get there

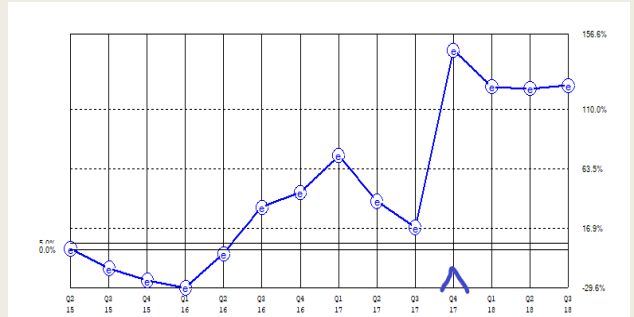
The mean = years 3,4,5,7,9?

What's with yr. 10?



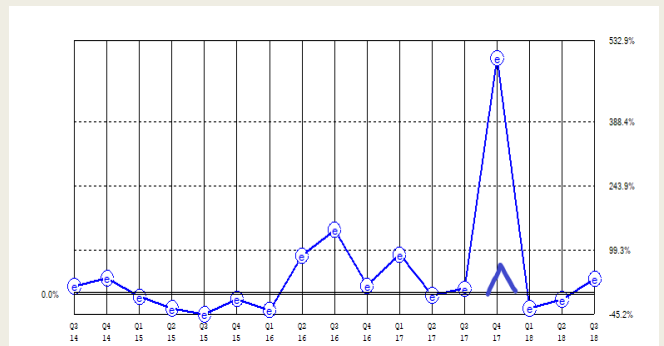
Tax law effect

This graph show Section 1 visual analysis based on TTM



Tax Law effect

This is what it looks like quarter by quarter Reality.



P/Es---High? & Low?

What to estimate going forward?

What is the mean?
Signature? Average?

3 PRICE, PRICE/EARNINGS RATIO and DIVIDEND ANALYSIS

CURRENT PRICE (P/E) 43.61 (5.2) 52-WEEK HIGH (P/E) 65.12 (5.9) 52-WEEK LOW (P/E) 27.84 (4.6)

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2013	77.6	54.3	5.78	13.4	9.4	1.080	18.7	2.0
2 2014	89.9	70.2	9.78	9.2	7.2	1.260	12.9	1.8
3 2015	98.7	81.8	7.46	13.2	11.0	1.400	18.8	1.7
4 2016	129.3	77.0	10.79	12.0	7.1	1.560	14.5	2.0
5 2017	165.1	121.9	27.71	6.0	4.4	1.730	6.2	1.4
6 AVERAGE		81.0		10.8	7.8		14.2	
AVERAGE P/E RATIO	9.3		PROJECTED P/E RATIO	4.9		TTM EPS		27.81
CURRENT P/E RATIO	5.2		PEG RATIO	1.0		FTM EPS		29.20
RELATIVE VALUE	55.9%		PROJ. RELATIVE VALUE	56.2%		AVG TTM + FTM EPS		28.51

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6 AVERAGE (10 Years):	58.9			10.6	6.9		11.4	
AVERAGE P/E RATIO	8.8		PROJECTED P/E RATIO	4.9		TTM EPS		27.81
CURRENT P/E RATIO	5.2		PEG RATIO	1.0		FTM EPS		29.20
RELATIVE VALUE	59.4%		PROJ. RELATIVE VALUE	56.2%		AVG TTM + FTM EPS		28.51

P/Es---High? & Low?

Recognize:
-what is going on year to year
-what is "consistent" for this company

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P/Es—High? & Low?

Finding the
“signature PE” using
reversion to the
mean can mean
confident decisions

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4 EVALUATING REWARD and RISK over the next 5 years

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QUESTIONS?

Thank You