

Armchair Quarterbacking Your Portfolio



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Armchair Quarterbacking Your Portfolio

- Managing your portfolio like a sports team...
 - Hypothetical 25 stock portfolio
 - Average position size is 4% ($100\%/25$)
 - Portfolio divided into 3 groups (or squads)
 - Practice Squad/Injured Reserve
 - Starters
 - All-Stars

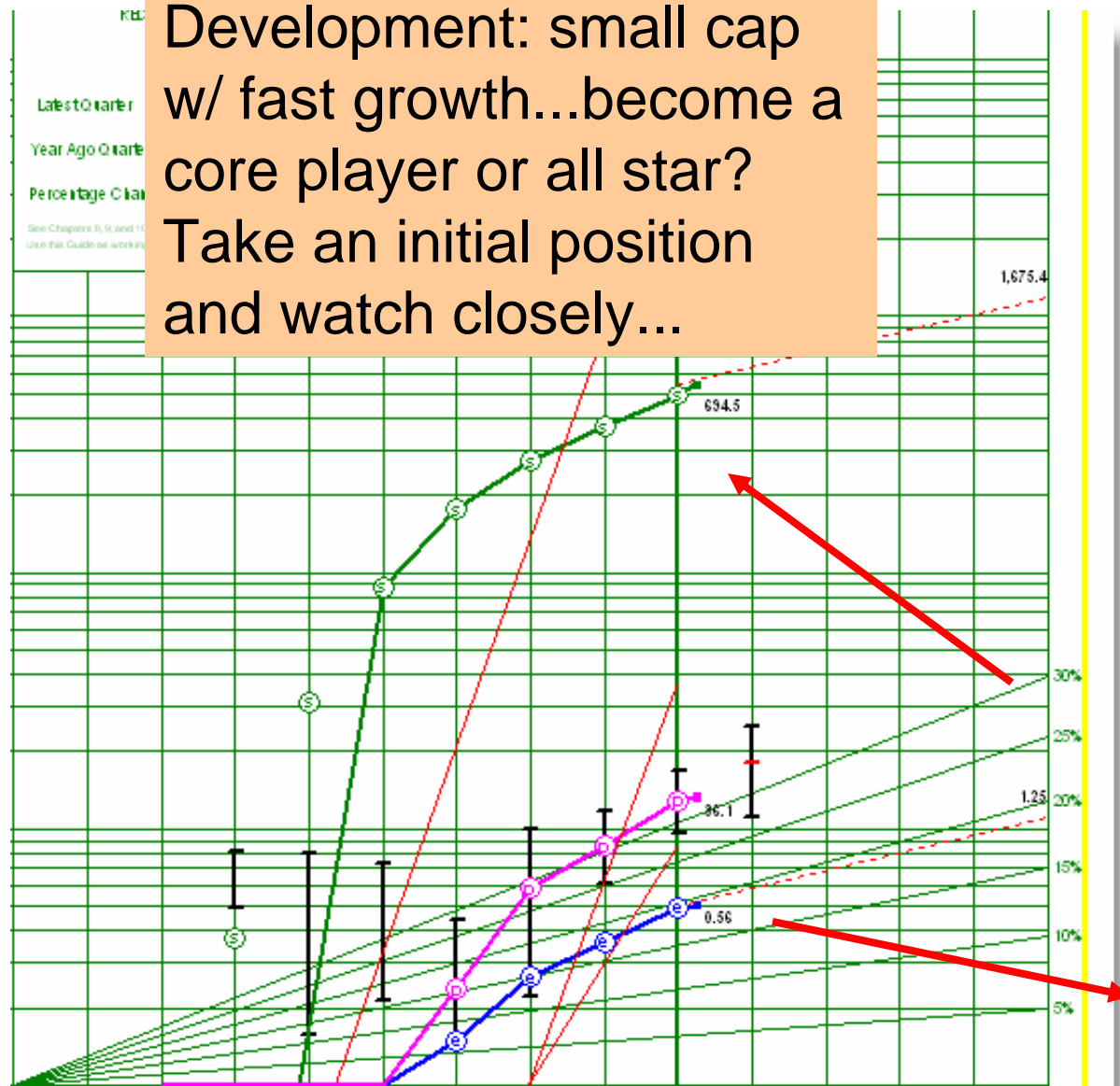
Armchair Quarterbacking Your Portfolio

<p><u>Practice Squad</u> 20% of Portfolio</p> <p><i>Purpose:</i></p> <ul style="list-style-type: none">▪ Development▪ Injured Reserve <p>~ 5 stocks 2% Position Size</p>	<p><u>Starters</u> 60% of Portfolio</p> <p><i>Purpose:</i></p> <ul style="list-style-type: none">▪ Core <p>~ 15 stocks 4% Position Size</p>	<p><u>All-Stars</u> 20% of Portfolio</p> <p><i>Purpose:</i></p> <ul style="list-style-type: none">▪ Performance <p>~ 5 stocks 6% Position Size</p>
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Armchair Quarterbacking Your Portfolio

- Practice Squad (smaller position size ~ 2%)
 - Development:
 - Proving ground for new investments
 - Small initial positions, that typically grow to become starters
 - Let's look at an example....

Development: small cap
w/ fast growth...become a
core player or all star?
Take an initial position
and watch closely...

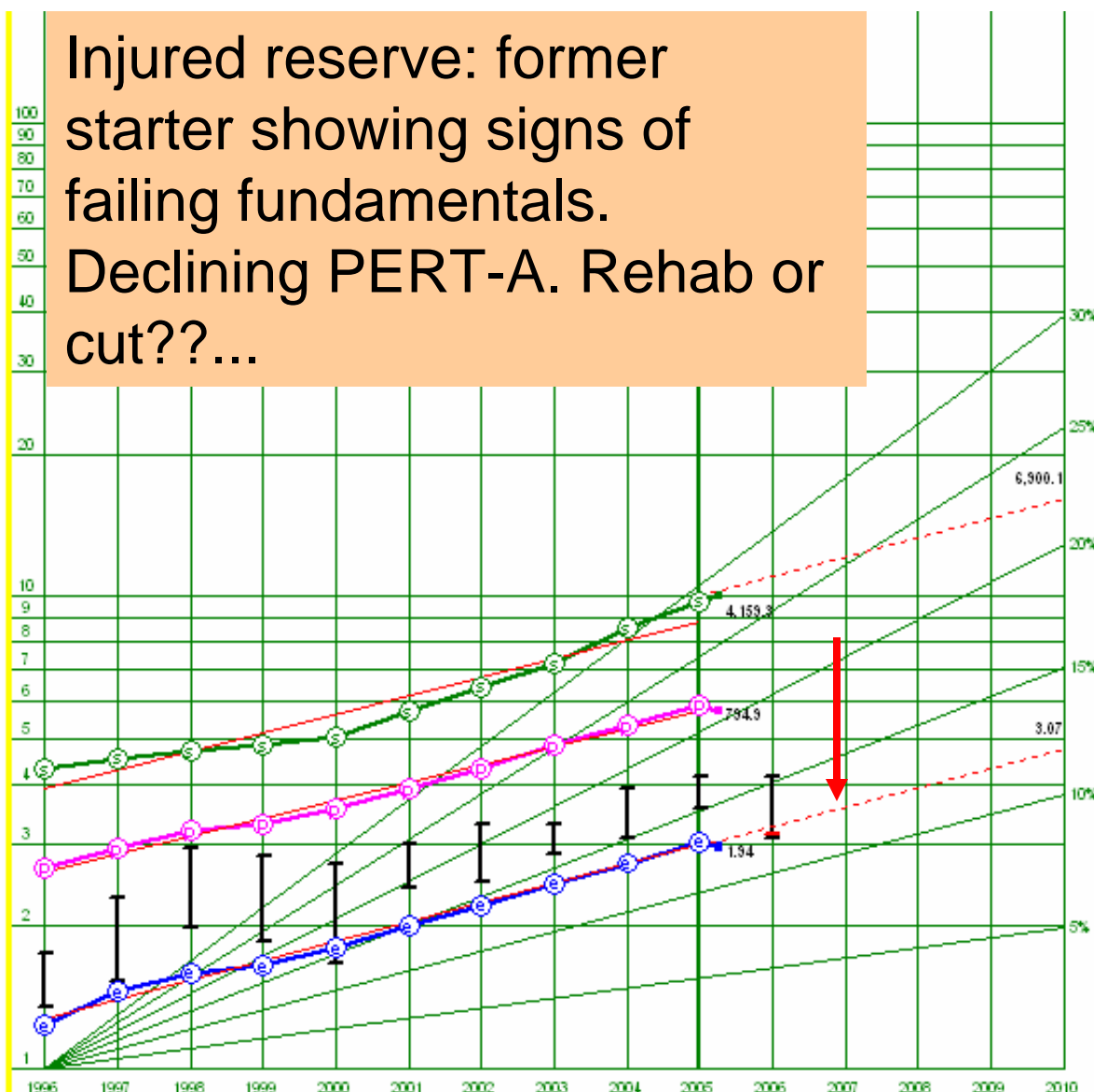


% CHANGE		
EPS	PRE-TAX PROFIT	SALES
NME	NME	146.9
NME	NME	138.2
NME	NME	110.1
NME	NME	88.9
144.4	268.7	76.0
78.6	213.2	61.7
66.7	147.9	54.6
70.0	125.5	41.1
59.1	89.5	30.4
56.0	64.2	32.6
40.0	45.9	35.7
32.4	40.9	43.9
45.7	56.5	52.0
38.5	53.9	41.5
33.3	49.4	33.2
26.7	39.4	31.8

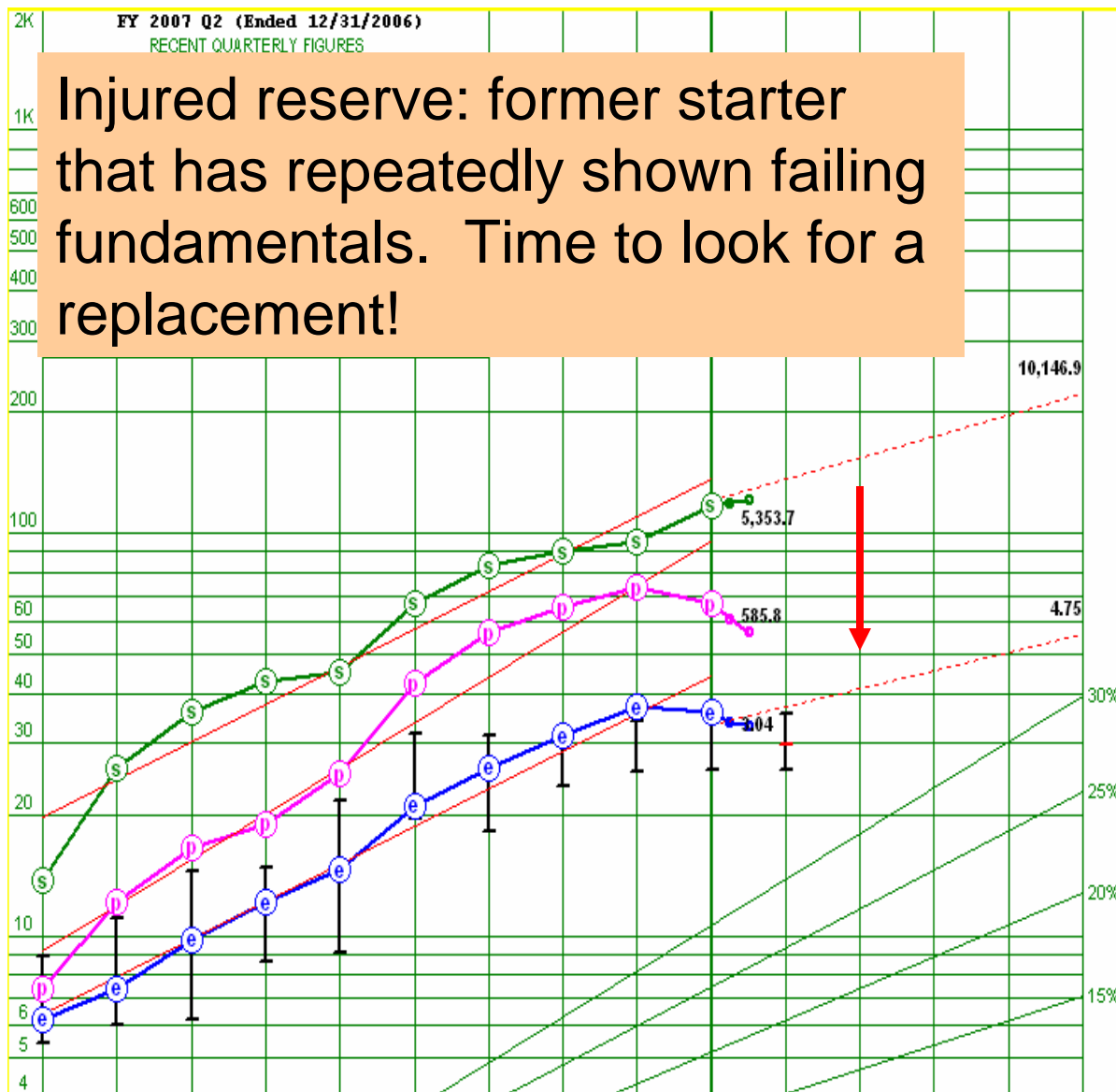
Armchair Quarterbacking Your Portfolio

- Practice Squad (smaller position size ~ 2%)
 - Injured Reserve (IR)
 - Older investments that are not performing as expected
 - Finite period to recover
 - Improve or be 'cut' from team
 - Let's look at two examples, one just starting to fail; another that should have been 'cut' several quarters earlier – **lost opportunity cost!**

Injured reserve: former starter showing signs of failing fundamentals.
Declining PERT-A. Rehab or cut??...



% CHANGE		
EPS	PRE-TAX PROFIT	SALES
9.6	9.7	14.9
11.2	10.6	14.4
12.9	13.0	15.4
13.7	14.4	14.5
15.2	16.3	12.9
10.6	11.7	11.8
10.9	11.7	13.8
9.9	10.4	16.2
9.6	9.4	17.4
10.6	10.6	18.9
11.8	11.7	18.0
13.3	13.4	14.7
12.5	12.1	14.4
11.0	10.3	14.0
4.4	3.2	13.1



% CHANGE		
EPS	PRE-TAX PROFIT	SALES
25.6	27.6	23.7
23.5	14.1	19.5
22.2	12.0	15.5
20.4	10.7	11.5
19.9	11.6	8.3
20.0	33.0	5.1
23.7	38.2	12.4
30.4	52.1	23.3
36.2	65.1	35.0
43.9	68.1	48.4
42.5	71.6	46.9
37.0	59.0	38.5
31.9	46.7	31.7
25.4	33.2	23.6
23.0	26.0	19.8
18.0	19.2	16.9
18.0	16.0	11.8
18.9	15.5	8.4
17.6	11.9	4.4
22.9	15.9	2.9
20.5	15.0	3.5
16.7	11.1	6.0
14.2	9.5	12.1
8.7	4.7	19.1
1.7	-2.2	23.5
-2.9	-7.8	23.0
-8.3	-15.6	17.6
-11.3	-22.2	11.6

Opportunity Cost of holding onto IR stocks...taking up a place in your portfolio that could be held by a starter, all-star...

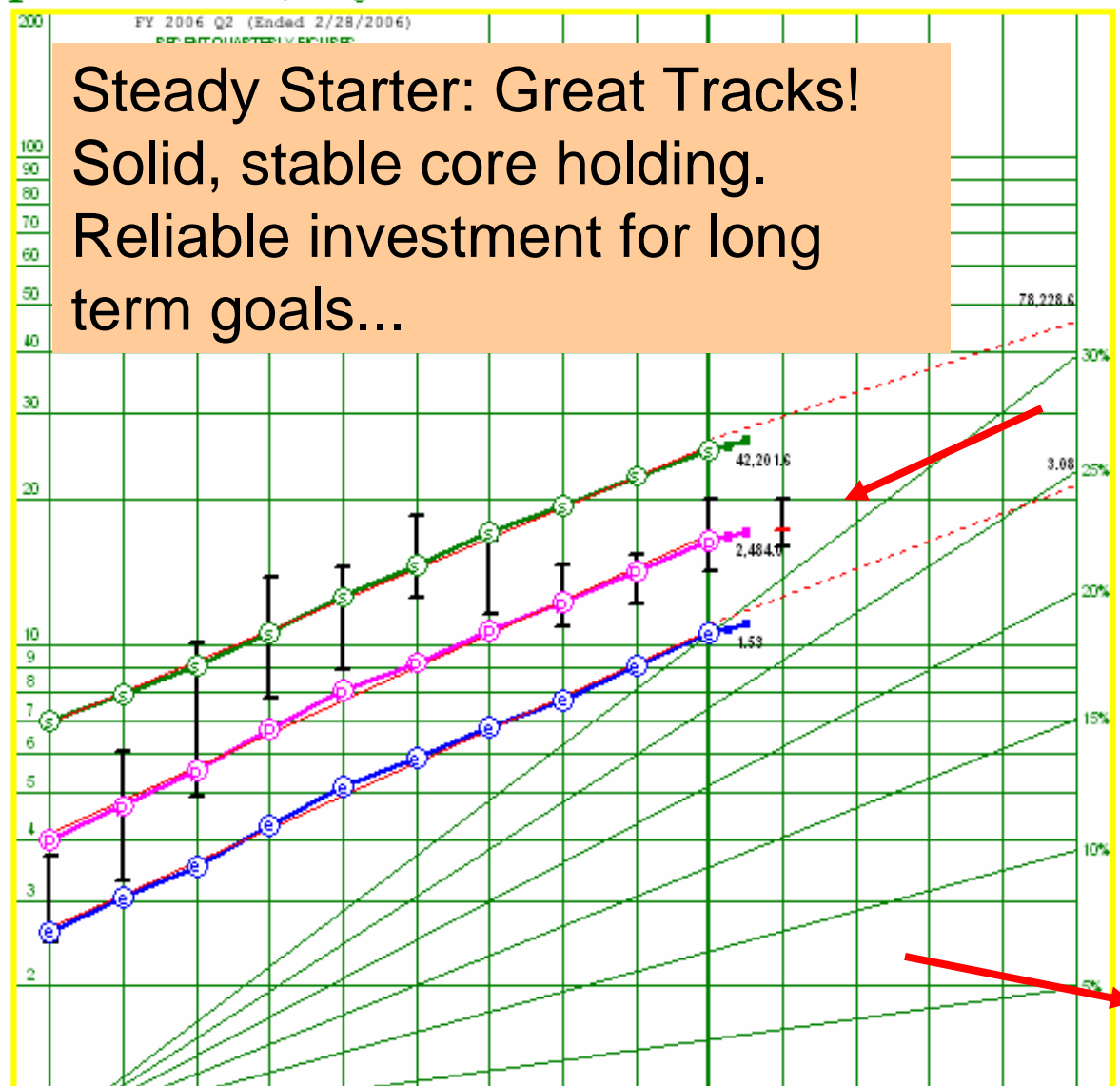
\$10,000 invested @ 7% annual growth rate	\$10,000 invested @ 3% annual growth rate	Return required to catch up
\$10,700	\$10,300	11.2%
\$11,449	\$10,609	15.5%
\$12,250	\$10,927	20.0%
\$13,108	\$11,255	24.6%
\$14,026	\$11,593	29.5%

\$2,433 better than 'IR' stocks... Increasingly difficult to catch up

Armchair Quarterbacking Your Portfolio

- **Starters (4% Position Size)**
 - **Core**
 - Most investments spend bulk of time as starters
 - Providing many of the portfolio responsibilities, such as diversification
 - Occasional appearance as all-star, or on injured reserve
 - Example

I VISUAL ANALYSIS of Sales, Earnings and Price



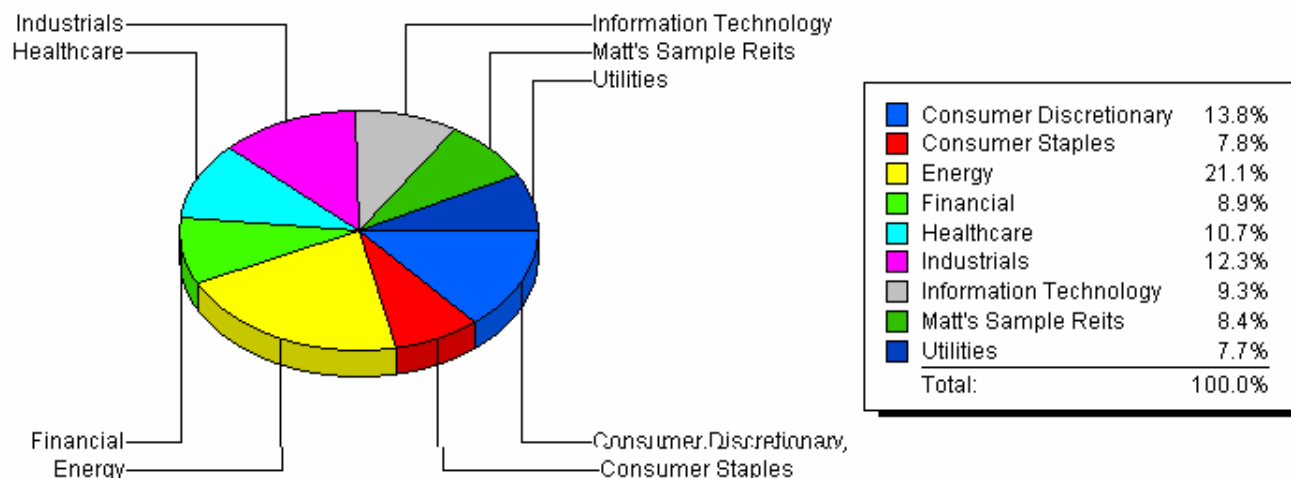
% CHANGE

EPS	PRE-TAX PROFIT	SALES
	23.0	19.0
	21.3	19.1
18.4	19.7	18.9
16.9	19.4	18.0
19.1	18.7	16.6
16.9	16.0	16.4
14.9	13.9	16.1
15.8	12.5	16.2
13.6	12.0	16.7
15.7	14.7	16.9
16.5	16.5	16.5
15.9	17.9	15.8
15.2	17.4	14.8
13.5	15.1	13.6
13.1	14.0	13.3
12.7	12.6	14.0
13.2	12.7	14.8
14.7	14.2	15.3
16.1	15.3	15.4
19.1	17.4	14.6
19.2	17.5	13.7
20.0	17.9	13.2
17.7	15.9	12.5

Starters maintain diversification...

	Total Cost	Market Value	% of Portfolio	Unrealized Gain/Loss	% G/L	Estimated Income	Estimated Yield
Energy	26,331.01	33,554.63	13.39	7,223.62	27.43	417.10	1.2
Consumer Discretionary	15,814.54	21,966.08	8.77	6,151.54	38.90	183.65	0.8
Industrials	15,558.09	19,604.54	7.82	4,046.45	26.01	421.82	2.2
Healthcare	16,225.58	16,963.80	6.77	738.22	4.55	450.45	2.7
Information Technology	11,128.48	14,719.08	5.87	3,590.60	32.26	230.12	1.6
Financial	11,206.31	14,075.60	5.62	2,869.29	25.60	307.69	2.2
Matt's Sample Reits	12,000.00	13,374.00	5.34	1,374.00	11.45	492.00	3.7
Consumer Staples	9,727.23	12,410.26	4.95	2,683.03	27.58	78.09	0.6
Utilities	11,962.98	12,291.00	4.91	328.02	2.74	450.00	3.7
TOTALS FOR PORTFOLIO :	129,954.22	158,958.99		29,004.77	22.32	3,030.92	1.9

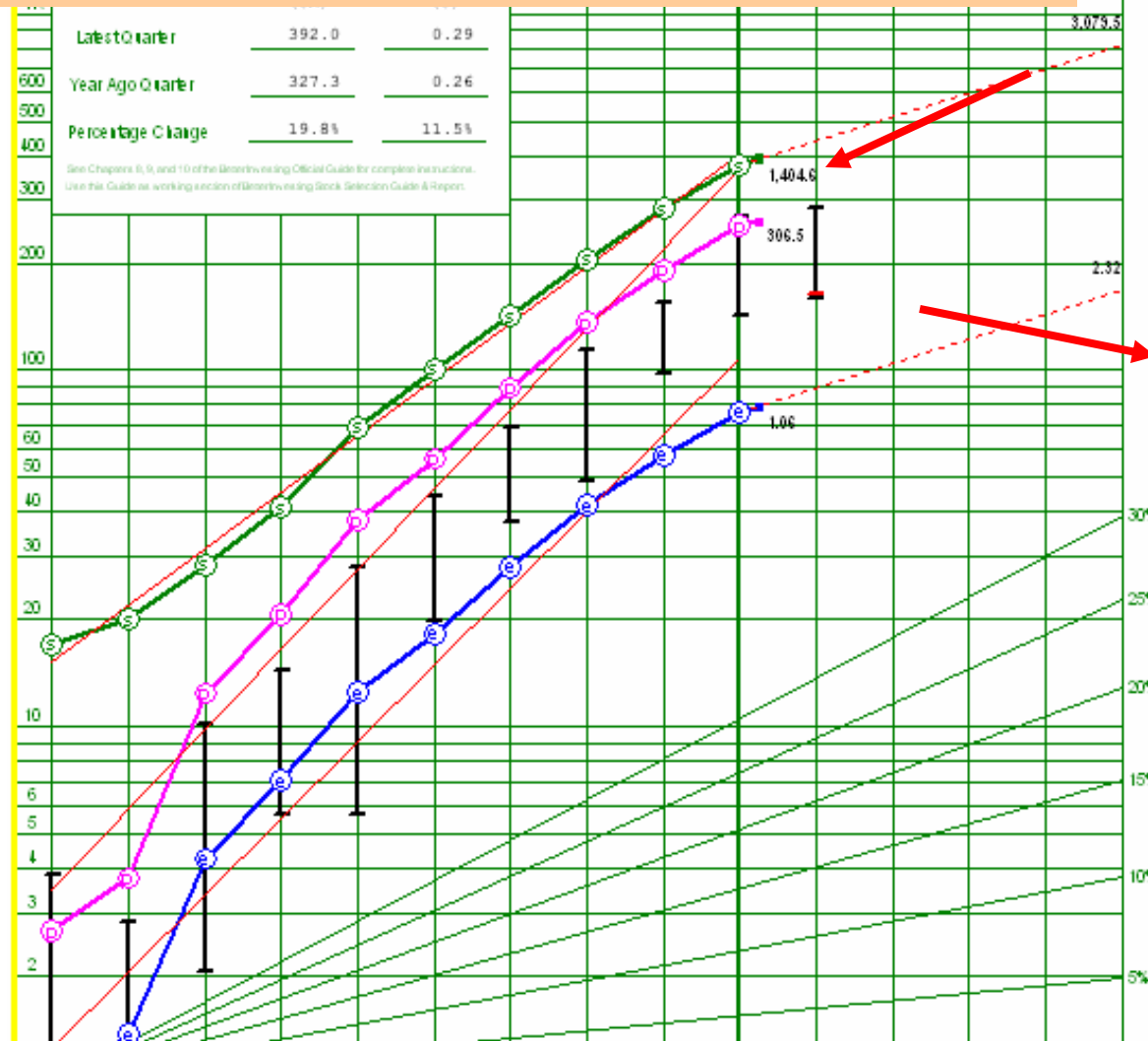
% of Common Stocks



Armchair Quarterbacking Your Portfolio

- All-Stars (overweight 6% position size)
 - Transitory:
 - Only an all-star for a portion of time in portfolio
 - Slots reserved for those investments w/ highest probability of success
 - Unlike starters, bear few portfolio responsibilities
 - Main objective is performance
 - Example

All Star: High performers....3x, 5x, 10x baggers!!!



% CHANGE			
	EPS	PRE-TAX PROFIT	SALES
L			
P	266.7	86.9	63.0
S	199.7	83.2	67.4
P	121.3	77.5	68.9
P	79.0	66.8	63.1
P	42.9	46.9	53.4
S	45.1	48.7	45.7
L	43.6	49.0	40.3
S	42.7	48.4	38.8
L	55.7	61.6	41.3
S	51.6	58.2	40.5
S	38.2	41.9	37.2
L	40.2	42.9	37.1
S	45.3	48.6	39.9
P	50.6	52.8	44.7
P	59.3	62.5	50.3
L	55.6	59.8	51.7
P	43.3	46.4	44.2
S	37.9	40.3	38.8
L	33.3	34.6	32.8
P	33.6	33.0	30.7
S	36.9	36.0	31.9
P	32.5	32.8	31.7

Armchair Quarterbacking Your Portfolio

- This class reviews steps for managing your portfolio so your team consists of the proper mix between practice squad vs. starters vs. all-stars
 - Manage so that 'core' starters do not fall onto injured reserve, or if so, rehab or cut;
 - As all-stars grow, move into 'core starters' and look for replacements to all-star category;
 - Are practice players growing into 'starters' or all stars? ? If not, time to cut and look for replacements

Armchair Quarterbacking Your Portfolio

- While managing your team roster mix, this class will also show why you must consider:
 - Investment Record Keeping
 - Managing impact of your activity
 - Buys, sells, reinvestments...
 - Monitoring diversification...
 - Performance measurements...
 - Tax Planning Tools
 - Managing gains/losses...

Armchair Quarterbacking Your Portfolio

- Using BetterInvesting's Portfolio Manager, we will look at a sample starting roster and:
 - Review its allocation and diversification.
 - Identify those “injured reserve” stocks that need replacement.
 - Maintain a “reserve list” or “watch list” for possible replacements. Import such a list from Investor's Toolkit 5.
 - Consider the tax consequences and effect on diversification of our decisions.

Armchair Quarterbacking Your Portfolio

- Practice/IR v. Starters v. All-Stars:
 - Growing to become core
 - Time to cut former starters that are destined to IR
 - Are all-stars meeting objective of performance
- Add organization to your playbook
 - BI Portfolio Manager offers tools to organize and manage
 - Verify stocks are meeting their goals
 - Understanding where you are, to know 'who to bench, who to draft'
- Tax Planning Tools
 - Opportunity costs, managing gains/losses
- Decision tools
 - Making the right calls

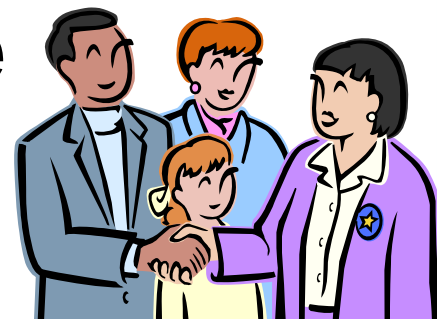
Requirements & Purchase Information Portfolio Manager v5.

- \$129 for BetterInvesting Member
- \$169 non BetterInvesting Member
- Available here at BINC 2009
 - BetterInvesting Software Sales in Expo
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