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BETTERINVESTING

March 2023
Vol. 72, No. 6

Getting the Mix Right

Why the Recipe for Your Portfolio's Asset Allocation Is Reblended As You Age

FOR SUPER SAVERS
Retirement Savings Plan Limits Soar: Can You Max Out?

BASIC MATERIALISM
Current Market Inspires Fresh Interest in Commodities Funds

STOCKS TO STUDY
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Interested in 'Interest'?

Dividend stocks may offer a better solution.

The great bull market in stocks following the Global Financial Crisis of 2008-09 owed a great deal to interest rates hovering close to zero, which lured investors away from the paltry returns of bonds and savings instruments.

The Federal Reserve now must fight inflation by raising interest rates; hence, bonds, certificates of deposit and other savings instruments suddenly are paying decently and looking more attractive. Which raises an obvious question: Is the one-time classic 60-40 stock-to-bond portfolio strategy — which got clobbered in 2022 — worth reviving? Some asset managers say yes; others are even more enthusiastic, recommending as much as 60% in bonds and 35% in stocks for 2023 — with the assumption that a likely recession this year will extend the stock market's bearishness.

Before selling equities or deploying cash to buy bonds, as some analysts suggest, a careful reassessment is in order. First of all, forecasting the behavior of inflation and the Fed's reaction to it is, as usual, notoriously unreliable. The cooling of inflation as evidenced by December's Consumer Price Index has been hailed as an inflection point for rising interest rates, thereby making current bond yields attractive compared to what they might be a year from now.

Yet December's downturn could be a temporary blip on the way to inflation as bad or worse than the rates of last summer and fall. Remember: Bond yields and bond prices move in opposition; a big move into bonds on the expectation of lower rates could prove excruciating if higher interest rates arrive to erode their value.

Second, investors looking for cash returns at a time when stocks might appear expensive on a price-earnings basis have the option to invest in equities with a record of paying and raising dividends. According to an analysis by Fidelity, dividends (assuming reinvestment) have contributed roughly 40% of the total return of the S&P 500 since 1930. During the 1940s, 1970s and 1980s when inflation averaged 5% or higher, dividends produced 54% of that total return.

Ah, but which specific companies offer the best chance of raising dividends? Research, study and analysis should help produce answers. A good place to start would be BetterInvesting's online screening tool; with a bit of practice, it can identify plenty of dividend-paying stocks for further study. Another idea would be to examine so-called "dividend aristocrats," which are defined by Investopedia as large-cap companies that have paid and raised dividends consistently over the past 25 years. Aristocrats are easy to find on the internet or from an investment advisory firm.

Of course, popular dividend-stocks attract a healthy segment of the investing public, so it's important to research and calculate whether the share price is a fair one, compared to the others and to historic performance. But you, the savvy *BetterInvesting Magazine* reader, already knew that.

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Why We're Investors, Not Gamblers

History shows that a down market is good news for the investor.

by Ken Zendel, CEO, NAIC/BetterInvesting

The annualized total return for the weighted S&P 500 Index for 2022 was negative 18% and change. This makes 2022 the fourth worst year for the S&P 500 since the founding of NAIC/BetterInvesting more than 70 years ago.

This is excellent news!!!

Before you throw this magazine in the fireplace and scream, "he's gone mad!," let me explain with some help from words that echo through our past and sound as if they were written for today's environment.

"The experienced investor learns to expect declines in the price of his stocks from time to time. Rather than panicking at the sight of low prices, the experienced investor looks at a declining market as a buying opportunity to pick up bargains. However, few people like to see the prices of their stocks drop below their purchase price even though it may represent a bargain. One cannot realistically hope to buy at the 'bottom.' One should minimize risks of loss and enhance possibilities of profit." wrote **Ralph Seger, Jr., in the December 1969** of *BetterInvesting Magazine*.

Three years later, George A. Nicholson, Jr., NAIC founder and creator of the BetterInvesting core principles, wrote in the January 1972 issue, "Let us resolve to harness emotions…We know the emotion of greed will cause us to invest as we ought not to have invested just as we know fear will keep us from investing when we ought to have invested.

"Investment clubs use a formula to harness emotions. Clubs invest every month to get better average prices, avoiding the emotionalism of bull and bear markets. Clubs reinvest dividends for the added safety that comes from compounding income. And clubs buy growth companies to tap the potentials of expansion, even though it often means restraining greed when other stocks are rising more rapidly and overcoming fear when stocks fall because growth stocks fluctuate so widely."

Less than a decade later, **Nicholson wrote in the January 1980** magazine the following: "in periods of chaos the individual investor more or less determines his (or her) own fate. Security prices fluctuate. The more sensible people buy securities instead of selling… The people who buy and realize capital gains have more money with which to build future prosperity."

In addition to these experts' judgments, the data reverberates with proof, as former NAIC Chairman and CEO, **Kenneth S. Janke, Sr. wrote in December 2001**, "During 1973-74 those who accumulated shares of stock while the market continued to decline eventually were richly rewarded —more so than those who merely held on to their shares and did not make additional investments. The same was true after the market drops in 1989 and 1989, though those declines were of a much shorter duration. It takes courage to continue to invest when the near-term outlook appears to be one of gloom and doom, especially when stock prices continue to slide over many months."

It is amazing how lessons of the past still ring true. As a long-term investor, you should consider what happened in 2022 as a good thing.

Don't give up now! The bear market is the long-term investor's friend. A decline is what you've been waiting for — so you can pick up more high-quality growth stocks on your watch list at reasonable prices.

The BetterInvesting four proven principles are your recipe for success, in bull markets and in bear markets. They should always be followed, as opposed to when it is convenient. Chaos, volatility and declines separate out those who are investors from those who are gamblers or speculators.

I encourage you to do more than read this magazine as part of your membership.

Log into **www.BetterInvesting.org** and explore. Subscribe to, and become a regular reader of our e-newsletter, **BetterInvesting Weekly**; a benefit included with your BetterInvesting membership at no additional fee.

In times like these, my advice is to avoid sources of negativity which may increase your anxiety or fear. I encourage you to instead focus on the positive. To keep smiling. To spend a little extra time this month to uncover reasonable prices, especially on quality small-cap stocks.

And of course, remember to invest regularly.

Ken Zendel

PERFORMANCE PARAMETER	AT 12/30/2022	5-YR CHANGE ANNUALIZED
BetterInvesting 100 Index (BIXX)	491.47	7.73%
BetterInvesting 100 Index (BIXR — Total Return)	696.90	9.20%
S&P 500 Equal-Weight Index (Total Return)	10,991.14	9.11%
Vanguard Total Stock Market (CRSP U.S. Total Market)	99.36	10.14%
Dow Jones Industrial Average (DJIA)	34,589.77	9.71%
S&P MidCap 400 Index	2,557.78	7.98%
Russell 2000 (Small-Cap Index)	1,886.58	8.64%
Nasdaq Composite	11,468.00	11.78%
MSCI EAFE (Europe, Australasia, Far East) Index	1,944.03	0.77%
MSCI Emerging Markets Index	972.29	2.80%
Value Line Arithmetic Composite	8,797.13	7.91%
Consumer Price Index (November)	297.71	3.83%

Sources: Yahoo Finance, Value Line, Bureau of Labor Statistics, MSCI, Standard & Poor's, Solactive, Google, FTSE Russell

MOST ACTIVE LIST: BUBBLING UNDER

With the rise in interest rates comes increasing investor focus on securities that reliably produce cash — now. U.S. Treasuries are one category in this group; another are common stocks that pay dividends. The list of transactions by users of myICLUB accounting software includes a number of large-cap names renowned for their long history of paying dividends and increasing those payouts. Among them: Procter & Gamble, Coca-Cola, Exxon Mobil, Johnson & Johnson, Chevron, Lowe's, PepsiCo and McDonald's. Dividend aristocrats, the pros call them. Others may think of them as "old reliables."

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer in his personal portfolio.

MOST ACTIVE LIST

Here are the companies attracting the interest of the BetterInvesting community, according to about 2,039 transactions by users of myICLUB club accounting for the trailing eight weeks ended Jan. 13.

Our thanks to ICLUBcentral for this information.

We maintain a Most Active List at BetterInvesting website's homepage, and a monthly list is published at: **www.myiclub.com**

COMPANY (TICKER)	BUYS-SELLS
1. Amazon (AMZN)	216–83
2. Apple (AAPL)	69–98
3. Alphabet (GOOG)	116–49
4. Microsoft (MSFT)	63–37
5. Tesla (TSLA)	41–51
6. Disney (DIS)	45–41
7. Intel (INTC)	38–35
8. NVIDIA (NVDA)	27–39
9. Visa (V)	47–16
10. Adv. Micro Devices (AMD)	34–24
11. Costco (COST)	37–15
12. PayPal (PYPL)	16–33

NOS. 13-14 WITH BUY-SELL RATIO OVER 2.1

Transactions for trailing 8 weeks ended Jan. 13.

COMPANY	TICKER	BUYS	SELLS	TOTAL
Pfizer	PFE	25	11	36
Taiwan Semiconductor	TSM	28	5	33
Starbucks	SBUX	22	8	30
Procter & Gamble	PG	22	7	29
Johnson & Johnson	JNJ	19	9	28
PepsiCo	PEP	19	6	25
Raytheon Technologies	RTX	17	8	25
Boeing	BA	17	7	24
Chevron	CVX	19	4	23
Skyworks Solutions	SWKS	18	5	23
Lowe's Companies	LOW	17	6	23
Dollar General	DG	17	3	20
Exxon Mobil	XOM	15	5	20
NextEra Energy	NEE	15	4	19
Shopify	SHOP	14	5	19
Devon Energy	DVN	13	4	17
McDonald's	MCD	13	4	17
Bank of America	BAC	14	2	16
Invesco QQQ Trust	QQQ	12	4	16
Eli Lilly	LLY	13	2	15
Applied Materials	AMAT	12	3	15
Coca-Cola	KO	11	4	15
Albemarle	ALB	11	3	14
Valero Energy	VLO	11	2	13
Altria Group	MO	11	1	12
Vertex Pharmaceuticals	VRTX	9	3	12
JPMorgan Chase	JPM	8	4	12
Coterra Energy	CTRA	9	2	11

The list is presented as a source of stock study ideas. No investment recommendation is intended.

Source: myICLUB

How to Lend Securities and Earn Income

Your stocks stay in your account, but you're paid a rental fee.

by Jordan Chussler

Landlords get a bad rap. That should come as no surprise considering how high rents have skyrocketed in 2022. If you are a renter in a state like Florida, you know this all too well. Between 2021 and 2022, rents in the Sunshine State increased by a mind-boggling 22.59%.

But as the owners, landlords retain both the right to build equity in those properties and the right to simultaneously produce rental income from them. That, in a nutshell, is how fully paid securities lending — or FPSL — works. The practice enables shareholders to profit from existing, wholly owned securities.

Although the income strategy is nothing new — traders and institutional investors have taken advantage of the tactic, mostly for short-selling, since the inception of stock trading — FPSL is now increasing in popularity among retail investors who are looking for a means of generating passive income.

HOW DOES IT WORK?

By participating in FPSL, shareholders are able to provide liquidity for securities that are generally in short supply. To do so, the lender — through an FPSL program with their brokerage — enters into a loan agreement that outlines the terms and conditions of the program, including collateral, rates and protections for the investor.

The investor's eligible shares are then put into a lending system from which securities can be borrowed at any time. Importantly, when they are borrowed, those shares still display in the investor's account, as they have been lent but not sold.

Upon borrowing the securities, the borrower pays a loan fee to the brokerage. The fee received by the brokerage is then split with the shareholder, thereby creating income. TD Ameritrade, for example, loans the shares to third parties like brokers, traders and hedge funds, and then splits the loan fee it charges 50/50 with the lenders of those shares. These fees vary depending on the level of demand for the equities.

Generally, FPSL programs are offered to participants at no cost. An investor or the brokerage can recall the shares from a borrower at any time and terminate the loan. When that happens, the shares are fully restored to the shareholder's account.

HOW IT WORKS

A long-term investor with $10,000 worth of fully paid Ford (ticker: F) shares with no intention of selling them in the near future wants to create a passive income stream. After joining an FPSL program through their online brokerage, the brokerage loans those shares of Ford to an institutional investor.

The institutional investor is charged a 10% annualized fee, or $1,000 for borrowing the $10,000 worth of shares. Returning to the TD Ameritrade example, the fee is split 50/50 with the shareholder, equating to $500 annually, or $41.66 per month, for every $10,000 worth of shares lent.

In short, this scenario would generate a shareholder a return of 5% while the investor remains in ownership of those shares.

CONSIDERATIONS

As with any investment, there are tax considerations investors should weigh before enrolling in FPSL. This is particularly relevant for the lending of equities that pay dividends. In those instances, dividends are suspended. But shareholders who have lent those equities receive cash-in-lieu, which is then taxable as ordinary income, which could incur a higher tax rate.

Additionally, shareholders who lend certain securities may be required to forfeit their voting rights. However, once the lent shares are reclaimed, voting privileges are reinstated.

Because shareholders also lose the SIPC insurance that covers them in the event the brokerage defaults or goes out of business, brokerages typically offer collateral equal to and often up to 102% of the value of the securities.

Lastly, investors need to weigh the amount of income that is capable of being produced by FPSL and whether they intend to hold those assets long term. If so, it could make sense for buy-and-hold investors to participate in these passive income-producing programs.

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The Return of Cash, Bonds and Value Stocks

As interest rates go up, some dangerous bubbles are deflated.

by Thomas D. Saler

If you began investing in the last decade or so, it might seem hard to believe that cash, bonds and grizzled businesses that make boring stuff once were attractive. In the early 1980s, bond buyers could lock in a 15% annual return for 30 years in a Treasury security. Over those same 30 years, cash (as measured by three-month Treasury bills) returned over 6% annually, or almost three percentage points above inflation (*see Websites of Interest*).

For investors seeking a safe harbor, current income and less volatility, recent years haven't been so generous.

The decade following the global financial crisis in 2008 was notable for easy money, as the Federal Reserve worked its printing presses overtime to revive a U.S. economy severely impaired by fallout from the subprime mortgage bust. Policy responses to the coronavirus pandemic then finished the job, crushing cash and bond yields, both in nominal terms and adjusted for inflation.

All that Fed-created liquidity inflated bubbles in speculative assets like crypto and venture capital-funded startups, while boosting the relative performance of established fast-growing companies as well.

No coincidence there; low interest rates make the present value of future cash flows, like those generated by most growth stocks, appear more attractive, especially to institutional investors. Over the four years through 2021, a period of low and eventually negative real interest rates, the average tech stock nearly tripled, far outpacing the return of the broad equity market.

But since the Fed began raising rates in March 2022, tech stocks (and growth stocks generally) have lagged the value sector by a wide margin. In November, Amazon suffered the ignominy of being the first American corporation to lose $1 trillion in market value. The underperformance of growth stocks relative to their value counterparts seems likely to continue as the Fed fights inflation by moving policy rates towards — and eventually into — economically restrictive territory.

While there is no universally accepted level of interest rates considered restrictive, monetary policy is thought to be impeding economic growth when the Federal funds rate (the base cost of credit in the United States, set by the Federal Reserve) is above the core inflation rate. Before the 2001 and 2008 recessions, that number exceeded 3%; in the early 1980s, inflation-adjusted policy rates approached 10%. As of late 2022, real rates remained in negative territory despite five rate hikes.

What's a headwind for some assets, however, can be a tailwind for others. In particular, higher nominal and real rates are manna from heaven for savers, a potential windfall for bondholders in a recession, and a gentle boost for value stocks, which often outperform when inflation is elevated. The unsettled economic and geopolitical terrain also could foster a classic stock picker's market, in which individual corporate stories carry the day, regardless of style, sector or industry affiliation.

So all is not lost. The move towards positive real rates is gradually deflating dangerous bubbles and normalizing movements among and within asset classes. There are many more attractive opportunities across the various markets now than at this time last year. Choose wisely.

Websites of Interest

"Historical Returns on Stocks, Bonds and Bills: 1928-2021"
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"The Discounted Cash Flow Model." Matthew Frankel, The Motley Fool; June 28, 2022
www.fool.com/investing/how-to-invest/stocks/discounted-cash-flow-model/

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www.morningstar.co.uk/uk/news/226798/is-value-the-way-to-go-during-high-inflation.aspx

"The Federal Funds Rate," Federal Reserve Bank of Chicago
www.chicagofed.org/research/dual-mandate/the-federal-funds-rate

"Value Investing as a Hedge Against Inflation," Euclidean technologies
https://bit.ly/3ZkwOqx

The King of Cha-Ching Tells All

Illustrated money book for kids makes learning as much fun as reading.

by Angele McQuade

If there's one type of recommendation readers email me for most, it's books about money for kids. But that's only one of the reasons I'm delighted to highlight this month's book, "Make Your Own Money: How Kids Can Earn It, Save It, Spend It, and Dream Big," by Ty Allan Jackson, with (fabulous!) illustrations by Nicole Miles.

"Make Your Own Money" is written in the voice of Danny Dollar, who tells us he's also known as The King of Cha-Ching and Dan the Man with a Plan. Danny tells his young readers how his Uncle Earl's gifts of cash — along with the advice to "make it grow" — inspired Danny to learn not only about money in general, but also how to start his own business and even invest.

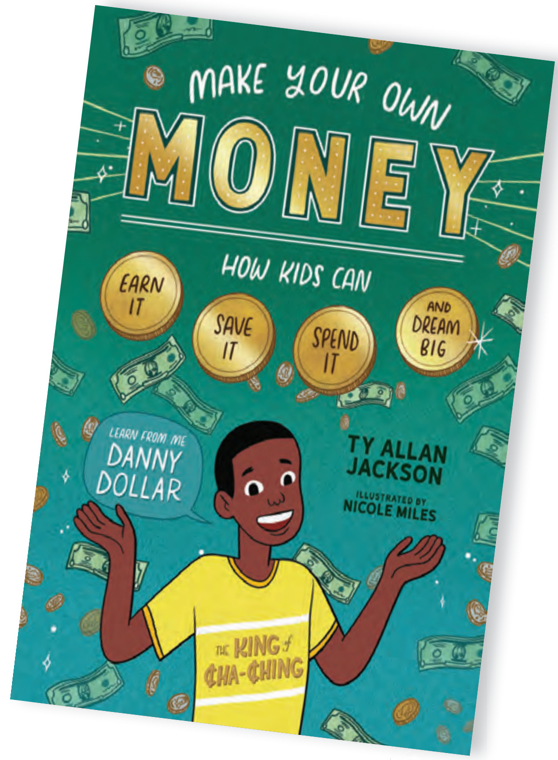
Entrepreneurship and investing are only two of the subjects Danny teaches. Young readers will also learn about banking, debt, saving and (my personal favorite) dreaming big dreams for the wealth they'll eventually create for themselves. There's also a truly thoughtful section on developing a healthy money mindset, which can make more of a difference than many investors (young or older) realize.

WHAT I LIKED: the engaging conversational voice author Ty Allan Jackson uses to tell Danny's story. This same voice carries through all the educational sidebars and "entrepreneur rock star" features about real kids who've started their own businesses, making the book as fun to read as it to learn from.

WHAT I LOVED: the incredibly life-filled illustrations by Nicole Miles. The very best illustrated books are a miracle of collaboration between author and artist, and this one hits that mark beautifully with its genius mix of content, design and that fantastic art itself.

WHAT MAKES "MAKE YOUR OWN MONEY" WORTH BUYING: the engaging story our fictional hero Danny Dollar shares, especially about his experiences with entrepreneurship and money management. Whether Danny's giving his reader friends advice on naming their business or calculating their profit, he also gives lots of ideas for real-life actions these budding entrepreneurs can make in their own lives to start following in his footsteps when they're ready.

BUY "MAKE YOUR OWN MONEY" IF: you know a young person already eager to learn more about money, or if there's someone younger in your life you've been hoping to entice to learn more about money. "Make Your Own Money" fills its pages with so much joy, even the most reluctant elementary or middle school reader will fly through each chapter with not only a grin, but most likely fresh inspiration to get started on their own financial plan, just like their new friend Danny Dollar.



"Make Your Own Money: How Kids Can Earn It, Save It, Spend It, and Dream Big," Ty Allan Jackson (author), Nicole Miles (illustrator), Storey Publishing (2021), paperback ($14), 116 pages.

Thanks to the generosity of the publisher, I have one copy of this book to send to a lucky BetterInvesting reader (U.S. only due to shipping costs). Send an email with the subject line "Kid book giveaway" to angelemcquadeauthor@gmail.com by June 30, to be entered into a random drawing from all entries received. Winner will be notified by email on July 1.

Websites of Interest

Find more online: tyallanjackson.com, nicolemillo.com
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Angele McQuade has been the Book Value columnist for 23 years. Angele's the author of three books, including "Investment Clubs for Dummies" and BI's upcoming new youth investing handbook. She lives in Maryland, where she also writes children's picture books and novels. Have a book to recommend? Email: angelemcquadeauthor@gmail.com.

Start the Year Right by Reviewing Your Workplace Retirement Savings Plan

Don’t forget: Funds within your program will have different fees.

by Matt Mondoux, CFA®, CFP®, CMT®

Defined contribution plans, i.e, 401(k)s, are the primary source of retirement savings for most of us. They can seem complicated at first, but they don’t have to be. Management comes down to a few basic decisions:

TRADITIONAL 401(k)S VERSUS ROTH 401(k)S

Roth 401(k)s are becoming a more common option on retirement platforms. The appeal of the Roth versus the traditional is the potential tax savings when distributions are finally made in retirement years. Money that goes into the Roth today is taxed today, however, all earnings and future qualified distributions are free of tax. Contrast that with the traditional plan, where money goes in tax-free and all future growth is free from tax, however, qualified distributions are taxed at ordinary income rates. Odds are, when saving in your early 20s, your marginal tax bracket will be lower than when you take distributions in the future.

Also, look out for the ability to contribute after-tax. This classification can allow you to make contributions above the individual limit (*see below*). The after-tax money can also be rolled to the Roth account with some relative frequency — this is sometimes referred to as the “mega-backdoor Roth.”

CONTRIBUTING

This boils down to two primary questions: How much? And when? The answer to the first questions is: As much as you can afford within the maximum allowed. Saving 10% to 20% of your salary is a great start. You can always adjust the percentage of your salary as you refine your budget. The key is always making sure you are taking advantage of the full company match that is offered. Not doing so would be akin to leaving free money on the table! The answer to the question “When?” is also simple and straightforward: As soon as possible! The maximum an individual can contribute in 2023 is $22,500. If you’re over the age of 50, you can contribute an additional $7,500.

ALLOCATION

Determining the allocation of your retirement account has a lot to do with risk tolerance. Risk tolerance, in its most basic form, is the number of ups and downs (mostly downs) in the market value of your account that you’re willing to stomach. In general, the more risk that an investor is willing to take, the more long-term return the investor should be compensated with as a result. Certain types of risks can be decreased through diversification.

This is a big reason why most investment advisers preach the benefits of diversified portfolios. Company retirement platforms generally offer a menu of mutual funds to create a portfolio; making certain the allocation of mutual funds you choose matches your risk tolerance and time horizon is crucial to long-term success. Target-date funds can also be a good alternative if creating your own allocation is daunting. Be sure to match the approximate year of your expected retirement and the fund will automatically reallocate based on your time horizon to retirement

BENEFICIARIES

Be sure you have selected primary and contingent beneficiaries for your retirement account. Ultimately these instructions will be used to determine who the account will go to in the event of the owner’s death. It is VERY important to annually review the selected beneficiaries. Circumstances change (e.g., marriage, kids, estate planning, etc.) so confirming accurate and up-to-date beneficiaries gives peace of mind.

BE AWARE OF FEES

The mutual funds that are available for investment within the retirement plan can have a wide range of fees. Some index funds will be low, perhaps less than 1/10 of 1%. Other managed mutual funds can have internal expense ratios in excess of 1%. It’s important to understand the total all-in cost you’re paying when building a portfolio from limited investment options. Furthermore, be aware of services that offer to manage your 401(k) for a fee. You may have to opt out of such programs, and if they are not driving value, it is likely better to forgo that service altogether.

(For more on retirement savings see Page 12.)

Matt Mondoux, CFA®, CFP®, CMT®, sits on the investment committee and is an adviser at Blue Chip Partners, Inc., a privately owned, registered investment advisory firm based in Farmington Hills, Michigan.
Visit: www.bluechippartners.com

Tax Strategies for High-Income Earners

Tactics like maxing retirement savings, timing gains can help out.

by Malik Lee, CFP®, CAP®, APMA®

Since the Tax Cuts and Jobs Act passed in 2017, Americans have been tasked with navigating an already robust tax code. As a high-income earner, the stakes are even higher if you hope to avoid tax rates as high as 37%. High as those rates may be, there are strategies and techniques buried deep down in the tax code that can benefit taxpayers savvy enough to dig them out. Although some taxpayers will be limited in their tax reduction strategies because of their sheer income level, for many staying abreast of subtle shifts in the tax code can really pay off.

MAX OUT EMPLOYER BENEFITS AND EDUCATION ACCOUNTS

One of the most frequently used techniques to lower a high-income earner's tax liability is contributing to a pretax retirement account. In 2023, the employee pretax contribution limit for 401(k) and 403(b) plans is $22,500. If you're 50 or older, you're eligible to contribute another $7,500 as a "catch-up contribution."

Contributions to these types of retirement accounts will lower your taxable income, thus lowering your overall federal tax rate. Even if your employer doesn't have a retirement account, don't fret: You're allowed to contribute up to $6,500 to a traditional individual retirement account (IRA) and up to $7,500 if you're 50 or older.

Some employers may provide additional employee benefits that allow you to lower your taxable income, such as flexible spending accounts (FSAs), deferred compensation plans and health savings accounts (HSAs). Taking advantage of these perks allows you to make pretax contributions — and, again, lower your overall taxable income.

Lastly, let's not forget about one of our favorite tools as financial planners, 529 plans. Although a 529 doesn't offer a federal income tax deduction for your contribution, it does offer tax-deferred growth on your earnings. And when withdrawals are made for qualified education expenses — including up to $10,000 in tuition for private, public or religious elementary and secondary schools — withdrawals are made tax-free.

If you're trying to reduce your federal estate taxes, contributing to a 529 is a great option, too. A 529 plan allows a participant to contribute $17,000 via the 2023 annual gift tax exclusion, or an $85,000 lump sum by implementing the five-year election strategy. This technique removes any contributions from your gross taxable estate, which can have rates as high as 40%.

TIME YOUR GAINS AND ITEMIZED DEDUCTIONS

For most investment strategies, trying to time the market is inadvisable at best. But when it comes to tax strategies, timing is essential. By controlling when you realize gains or losses, you can move your overall tax rate in the direction that lowers your tax liability.

One popular strategy for taking advantage of this tactic: a Qualified Opportunity Fund. These funds were created to defer taxes on capital gains until the tax year 2026, which means taxes won't be owed until April 15, 2027. Another way to defer or eliminate the gain on a taxable asset is by contributing your appreciated assets to a charitable trust. These trusts allow you to donate the appreciated asset now without paying any capital gains tax, all while receiving a tax deduction.

Lastly, when it comes to tax preparation, the use of itemized deductions versus standard deductions oftentimes seems more favorable for higher-income earners. Consequently, some years taxpayers just don't have enough itemized deductions to make itemizing worth their while, especially since the standard deductions were raised significantly in 2017 due to the passing of the Tax Cuts and Jobs Act.

If you are unable to take advantage of itemized deductions, then you may want to consider aggregating or "bunching" your itemized deductions together. This strategy works when you make a larger deduction every few years rather than smaller deductions annually. For example, instead of making a $10,000 charitable donation in 2023 and again in 2024 — an amount that's well below the standard deduction threshold — you'd make one $20,000 deduction in one of those years and itemize it.

SELECT TAX FRIENDLY HOLDINGS WITHIN YOUR PORTFOLIO

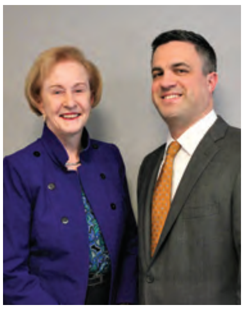
Contrary to popular belief, all investment holdings are not created equally. Some investments generate more taxable events, such as interest and dividend payouts. Therefore, being mindful of your underlying holdings can potentially lower your tax liability.

Continued on Page 27

A New Opportunity for Retirement Savings

IRA, 401(k) plan limits skyrocket in 2023: Can you afford to max out?

by Alexandra Armstrong, CFP®, CRPC® & Christopher Rivers, CFP®, CRPC®



Inflation grabbed headlines in 2022, as prices for homes, cars and everyday goods jumped significantly. For many, this was their first experience with pronounced inflation, as the Consumer Price Index remained above 5% for most of the year. For more experienced investors, memories of the 1970s came rushing back.

Inflation hurts consumers by increasing expenses and it hurts savers as increased costs eat into nominal investment returns. But there is a silver lining for those who are still working and have the ability to contribute to a 401(k) and/or individual retirement account.

The Internal Revenue Service increased retirement plan limits and phaseouts significantly for 2023, allowing taxpayers to save more than ever for retirement. In fact, the limits on company sponsored retirement plans have increased so much that truly "maxing out" retirement plan contributions may be out of reach for many investors.

401(k) LIMITS BALLOON THANKS TO INFLATION-RELATED ADJUSTMENTS

For 2023, the IRS bumped up contribution limits to 401(k), 403(b) and 457 plans by nearly 10%.

The maximum contribution to these plans jumped to $22,500 for 2023, up from $20,500 last year. In addition, the catch-up contribution for those over age 50 was increased by $1,000, to $7,500. As a result, investors over age 50 may now contribute up to $30,000 to their 401(k) plan for 2023.

Keep in mind, this limit does not include any employer contributions. The total limit on contributions to a 401(k) plan from both employees and employers is $66,000 for those younger than 50 in 2023 and a whopping $73,500 for those 50 and older. Thus, your employer can make matching or profit-sharing contributions of up to $43,500 on your behalf. These limits apply to both traditional and Roth 401(k) contributions.

IRA AND ROTH IRA LIMITS INCREASE AS WELL

The IRS announced similar increases to the limits on IRA and Roth IRA contributions, though the lower overall dollar limits on IRAs means the amount of the increases is more modest. For those under age 50, the maximum IRA contribution moved up to $6,500 for 2023, from $6,000 last year. Taxpayers over 50 get an additional $1,000 catch-up contribution, bringing their maximum contribution to $7,500 for 2023.

In addition, the income limits on Roth IRAs were increased, potentially opening the door for more taxpayers to make after-tax contributions. To fully contribute to a Roth IRA in 2023, your modified adjusted gross income (MAGI) must be below $138,000, up from a limit of $129,000 last year. Between $138,000 and $153,000 MAGI, you can contribute to a Roth IRA at a reduced amount, while taxpayers with more than $153,000 in MAGI are phased out entirely.

For joint taxpayers, the phase-out range MAGI is between $218,000 and $228,000. Joint taxpayers below the $218,000 threshold can each contribute the max to a Roth IRA for 2023. Note that unlike a Roth IRA, the Roth 401(k) has no income limits on contributions, making it particularly attractive for higher earners looking to make after-tax contributions.

IS MAXING OUT YOUR CONTRIBUTIONS FEASIBLE?

Given the magnitude of the increases, you may feel like reaching the maximum contribution limit is out of reach. If so, you're not alone. A 2021 study by Fidelity noted that just 9.7% of participants in Fidelity-sponsored 401(k) plans contributed the maximum amount. Similarly, a report by Vanguard found 14% of participants in their plans were reaching the maximum contribution. The majority of those maximizing in the Vanguard study were earning $150,000 or more.

As we can see, the majority of participants are not contributing the max, given how much discretionary income is needed to set aside up to $30,000 per year.

Even in a traditional 401(k) plan, where tax savings negate some of the lost cash flow, the impact is still significant. Take the example of Anne, a single 55-year-old earning $200,000 per year. After deductions Anne is in the 24% tax bracket and we will assume she pays state taxes at a rate of 5% as well. By contributing the maximum $30,000 (including the $7,500 catch-up) to her company 401(k) plan, Anne would save approximately $8,700 in taxes. Thus while she contributed $30,000, the change to her net cash flow would be $21,300. This illustrates the power of maximizing your tax savings with a traditional 401(k) plan. However, even at Anne's elevated income level, this still reduces her after-tax take-home pay by 15%.

In order to approach the maximum contribution level, you must have a clear cash-flow plan in place, giving you certainty that you have the ability to meet current living expenses from your take-home pay. In Anne's situation, she would need to be certain that she could fund her living expenses and other goals from the remaining 85% of her take-home pay.

In addition, she should have an emergency cash reserve of at least three to six months on hand to plan for contingencies. As we experienced in 2020, circumstances can change in an instant. While you may be able to tap into your 401(k) plan in an emergency, via a loan or early withdrawal, the costs are steep. Loans must be repaid with interest, using your after-tax dollars.

Early withdrawals meanwhile are taxed at your ordinary tax rate and assessed an additional 10% early withdrawal penalty. In Anne's case, an early withdrawal of $10,000 would be reduced by a federal tax of $2,400, a state tax of $500 and an early withdrawal penalty of $1,000, leaving her with just $6,900. Clearly, a cash reserve is a better source of emergency funding than taking a loan or early withdrawal from your 401(k).

CONTRIBUTION GOALS

Nevertheless, for higher-earners or empty nesters no longer paying to feed, clothe and educate their children, reaching the max contribution limit may be within reach.

For those earlier in their careers or at lower income levels, the max can often seem unattainable. A more productive approach can be to concentrate on saving a percentage of income in your retirement plan each year. Various studies recommend a savings rate of 15% over your earning career to provide enough in assets to replace 70%-85% of your pre-retirement income.

The starting point for most should be to contribute enough to earn the maximum matching contribution from your company. From there, as cash flow frees up thanks to career progression or changing expenses, you can build towards the maximum.

Wherever you start, it is crucial you remain diligent about increasing your contributions as your career progresses. When you receive a raise or a bonus, designate a portion of this money towards increased retirement plan contributions. You'll see an increase in your bank account and you'll accelerate your retirement savings at the same time.

CONSIDER THE ENTIRE PICTURE

While maximizing your retirement plan contributions is a worthy goal in a vacuum, it is critical to frame your savings rate within your overall financial plan. At any given stage of life, you will have goals and expenses competing for your dollars. As noted above, the benefits of maxing out contributions to your retirement accounts can be negated if you need to withdraw those funds in a pinch.

In addition, housing, education and health care expenses make up a significant portion of the expenses of the average household. Working with a financial planner on a comprehensive financial plan will give you a clear view of your cash flow and expenses, as well as your household budget, and will help you lay out a plan to best direct your income towards your savings and spending goals.

Maximizing your retirement contributions is the clearest path toward building a comfortable retirement on your own terms.

CONCLUSION

If you have the ability to do so, maximizing your retirement contributions is the clearest path towards building a comfortable retirement on your own terms. But for many, it remains an aspirational goal. Until those aspirations are met, energy should be focused on contributing the maximum amount that your situation allows, habitually increasing your savings rate as your career progresses and regularly assessing your overall financial situation with a financial plan.

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Guardrails for Market Volatility

FINRA will at times halt trading in 1 stock or even the entire market.

by Gerri Walsh, president, FINRA Foundation and senior vice president, Investor Education

On a regular day, it's easy to ignore the guardrails that line the highway to prevent cars from driving off the road. But when a car swerves suddenly, those simple dividers do a lot to increase safety for motorists.

The securities markets have guardrails, too, against periods of extreme volatility, both in individual securities and in the market as a whole.

SINGLE STOCK TRADING PAUSES

Trading in individual stocks is sometimes halted or delayed for various reasons. For example, stock exchanges have rules requiring trading in individual stocks to be halted during the trading day or delayed at the beginning of the trading day to allow the market to digest new company information.

The exchanges and FINRA are also participants in something known as the "Limit Up/Limit Down" or "LULD" Plan that is designed to pause trading in individual listed stocks when short-term price swings in those securities reach extreme levels. The LULD Plan is designed to moderate market volatility by preventing large, sudden price moves in individual stocks.

The LULD Plan works by preventing trades in individual stocks from occurring outside a specified "price band." The price band for a given stock is set at a specified percentage level above and below the average price of the stock over the immediately preceding 5-minute trading period, continually calculated on a rolling basis.

Generally, if a stock's price moves to the price band and does not move back within 15 seconds, trading in the stock is paused for five minutes.

The percentages used to calculate the price bands vary depending on the characteristics of the specific stock, as well as the time of day.

The idea is that the price bands are tighter for more actively traded stocks than for stocks that may trade more infrequently. Specifically, the percentages that apply during most of the regular trading day are as follows:

For securities in the S&P 500 or the Russell 1000 Index and some exchange-traded products (ETPs), known collectively as "Tier 1" stocks:

- 5% if priced more than $3.00;
- 20% if priced between $0.75 and $3.00; and
- The lesser of $0.15 or 75% if priced less than $0.75.

For all other securities (known as "Tier 2" stocks):

- 10% if priced at least $3.00;
- 20% if priced between $0.75 and $3.00; and
- The lesser of $0.15 or 75% if priced less than $0.75.

These percentages apply between 9:30 a.m. and 3:35 p.m. Eastern Time (ET). The percentage parameters are doubled for all Tier 1 stocks, as well as for Tier 2 stocks priced at or below $3.00, between 3:35 p.m. and 4 p.m. ET, when trading volume tends to be heaviest.

Information about current trading pauses is published daily by each market.

A trading pause must be observed by all other markets and also applies to off-exchange trading of stocks in the over-the-counter (OTC) market.

The pause across all markets allows time for buyers and sellers to consider the situation and decide what price makes sense, and to enter orders accordingly.

A pause is set to last 5 minutes, but the listing market for the paused stock can extend it if there is a significant imbalance between buy and sell orders. Other exchanges may resume trading after 10 minutes have passed and then trading can resume in the OTC market.

MARKET-WIDE CIRCUIT BREAKERS

Sometimes, market-wide volatility is so severe that exchanges and FINRA must halt all trading rather than just pausing activity in one stock.

These halts that apply to the entire stock market, known as "market-wide circuit breakers," may halt trading temporarily or may close the markets before the normal close of the trading session.

Market declines, as measured by the decrease in the S&P 500 index from its closing price the previous day. Specifically:

- if the S&P 500 falls 7% (Level 1), all trading is halted for 15 minutes;
- if the S&P 500 falls 13% (Level 2), all trading is halted for another 15 minutes; and
- if the S&P 500 falls 20% (Level 3), all trading is halted for the remainder of the trading day.

FINRA is the largest independent regulator for all securities firms doing business in the U.S. Its chief role is to protect investors by maintaining the fairness of the U.S. capital market.

Starting the Week Right With Investing!

The Monday Morning Money Makers aim to financially empower women.

by Scott D. Horsburgh, CFA®

The Monday Morning Money Makers Investment Club (4M) was founded in 1984, meeting early Monday morning before work. The inspiration to begin the club came from several founders who watched friends struggle after losing their husbands. They took matters into their own hands, determined to learn enough about investing so they could handle finances on their own if they had to. As an investment adviser for 36 years, I would advise husbands to involve their wives in financial matters and wives to take it seriously because demographic and medical realities suggest most wives will eventually be responsible for their household finances. An investment club with friends is an ideal way to learn together. I have to congratulate the 4M women for being ahead of their time!

The early morning meetings and need to get to their jobs afterward fostered an environment that was strictly business. Both characteristics, early meetings and a strict business agenda, remain 38 years after the club's founding. One founding member remains in the club, along with five who joined in the early years. These long-time veterans comprise half the total membership of 12 women.

Members all maintain SSGPlus access and must produce a stock study before recommending a new holding. Existing holdings are reviewed twice a year, but each members is given an opportunity to comment on her stocks every month. When presenting a new stock, members typically team up in pairs. The club, based in Ottawa, Illinois, finds its new stocks from a wide variety of sources, making particular use of First Cut studies and ideas that come from their own financial advisors. You have to overturn a lot of rocks to find a gem!

The resulting portfolio is a pleasing mix of long-held favorites like **Apple (ticker: AAPL)** and **Alphabet (Google) (both Class A, GOOGL and Class C, GOOG)** along with new holdings purchased over the years. It's a healthy sign that the club is happy to hold as long as a stock produces but isn't afraid to venture into new holdings.

But the 4M portfolio is very tech-heavy and this is likely behind members' concern that they are falling behind. As the club said in its Repair Shop submission, "We definitely need a tune-up!"

APPLE, ALPHABET, BROADCOM, PALO ALTO NETWORKS, VEEVA SYSTEMS

About 56% of the 4M portfolio consists of tech stocks, not including "tech-adjacent" companies like **Amazon (AMZN)** and **Visa (V)**. In fact, almost 40% of the portfolio

THE MONDAY MORNING MONEY MAKERS INVESTMENT CLUB (4M): First row, from left to right are: Jane Goetz, Judith Wrobel, Nancy Reindhardt and Kathy Morrissey. Second row: Shelli Ocepek, Bonnie McGrogan, Phyllis Palmer and Linda Cechowicz. Third row: Diane Anderson, Pamela Beckett and Deborah Reagan. President, Caroline Campagne not pictured.

is in two stocks — Apple and **Alphabet**. Alphabet's business was a little weak in the September quarter as the digital advertising industry has experienced some challenges this year. The company is so dominant in a number of arenas like the Google search engine and YouTube online videos that it's hard to see this stock not working out eventually.

Apple isn't quite as cheap with a price-earnings ratio of 22, but it too has had a few challenges this year. Supply chain issues and difficult comparisons against a very strong 2021 make this year look worse in comparison. It's still Apple, though, and while its huge size makes rapid growth more difficult it's also hard to see it not continuing to grow.

The problem is that you can't have a portfolio in which 40% of it's in just two stocks, but that is where the 4M club has found itself. At the same time, it'sn't like the club bought these stocks at such weights; these high weights are the consequence of investments that have risen 600%-900%!

Does it make sense to sell shares of companies that will likely continue to grow, and pay the resulting taxes, just to diversify? In some ways, no, but as my mentor Ralph Seger used to say, "Trees don't grow to the sky;" neither do stocks. Something always gets them in the end and that's why you diversify your portfolio.

Broadcom (AVGO) is a consolidator within the semiconductor and enterprise software industries. The firm's mergers and acquisitions strategy has led it to pursue leading technology businesses at fair prices, creating growing cash flow. It provides radio frequency filters for smartphones, network and storage equipment for cloud and enterprise customers, software for mainframes and enterprise security, and will add data center virtualization after the completion of its pending VMWare acquisition.

The company is at the center of technology growth trends that include the rollout of 5G for smartphones and businesses outsourcing some or all their computing to the cloud.

It also isn't a company we often see in investment club portfolios. The P/E is a reasonable 21 considering its rapid growth, but those earnings are quadruple what they were two years ago. It's hard to imagine maintaining this breakneck pace, but there is little doubt Broadcom is a growth company.

The 4M club says it requires stock studies before buying, but **Palo Alto Networks (PANW)** is one of those companies that doesn't fit a Stock Selection Guide. It's a leading cybersecurity company and as with many emerging technology firms has handed out employee stock options to retain talent. Palo Alto consistently loses money because of the cost of these options but has solid and growing free cash flow. We focus on GAAP (generally accepted accounting principles) earnings that include the cost of employee stock options and it's hard to justify an investment in Palo Alto on that basis. We sometimes make exceptions that we label "special situations," which we admit don't fit BetterInvesting orthodoxy. Just don't make it a habit or makes excuses for every stock that doesn't fit an SSG.

Contrast Palo Alto with **Veeva Systems (VEEV)**. While Veeva trades at a nosebleed P/E of 68, at least it has earnings even after deducting the cost of employee stock options. But we estimate Palo Alto's growth to be slightly higher than Veeva's. Veeva makes software that helps manage medical companies, particularly pharmaceuticals firms. The software doesn't help discover new drugs but helps automate and manage the workflow of running a pharma enterprise. Its revenue is mostly by subscription, giving it some pricing power when unit growth eventually slows. Veeva stock can look like a buy depending on the assumptions used, but by my estimation you'd have to stretch growth and valuation to elevated levels to make the stock look like a solid buy.

The remaining two tech holdings each make up less than 1% of the portfolio, **Adobe (ADBE)** and an exchange-traded fund focusing on lithium and battery technologies. Adobe experienced slower growth in the November quarter as currency and employee stock compensation took a bit out of revenue and earnings. With its subscription model in place, it's hard to imagine the company not growing. At just 0.5% of the portfolio, the club needs to decide whether it's in or out. I would be tempted to buy more if not for the overconcentration of tech in the portfolio.

The **Global X Lithium & Battery Tech ETF (LIT)** might be an interesting opportunity to ride the lithium and battery trends, but there is no way to learn anything from a fund. I think these are best as small but speculative investments in your own portfolio, if at all.

AMAZON, HOME DEPOT, ULTA BEAUTY, COSTCO, STARBUCKS

I put Amazon in the consumer category as it's more of a retailer that employs technology rather than being a pure tech company. If I included Amazon as a tech stock, technology would make up over 60% of the 4M portfolio. Consumer stocks, including Amazon, are 14%.

With over half a trillion dollars in sales, Amazon appears to be reaching the limits of growth. Profits have struggled this year as the company found itself with too much capacity in terms of warehouses and people. With negative earnings in the first two quarters of 2022, Amazon stock trades at 80x depressed earnings. Its P/E would be a much more reasonable 26 times peak earnings from last year, a level that it will likely return to once again. We all use Amazon and it should continue growing even if not at its historical pace. While I can see keeping the stock, I would use the loss to offset gains from trimming Apple and Alphabet.

Home Depot (HD) has aged rather gracefully and I don't see anything wrong with a P/E of 19 for consistent low double-digit growth. It makes up just 3.6% of the portfolio and I could see redeploying additional funds into the stock.

Ulta Beauty (ULTA) has performed very well in a tough year in the stock market as its business continues to rebound from pandemic-induced weakness in 2020. On a three-year basis from 2019-2022, revenue has grown 11% annually. The company will struggle to maintain this growth because it has so many stores already. Pretax margins are much higher than before the pandemic, which is terrific if they can be sustained. A P/E of 20 for 12% growth is reasonable, as long as it delivers that growth. Watch margin trends for any deterioration and consider selling the stock if it can't maintain margins.

The club also owns legendary **Costco (COST)**. It's hard to argue against retail's strongest juggernaut. My own stock study shows it as a "buy," but only because I'm using the lofty P/E ratios Costco typically sports. The PEG (P/E to growth) ratio of 3 is borderline ridiculous, but that's where this stock historically trades. It's hard to imagine doubling one's money in five years starting off at a lofty valuation, but Costco's business should continue to grow under almost all conditions.

Starbucks is the latest addition to the 4M portfolio. Starbucks' business has wobbled in recent years due to COVID-19, inflation, labor problems and management turnover. Founder Howard Schultz is back in charge and hopefully business will return to stable growth. The P/E is elevated at 33x depressed fiscal 2022 earnings per share but is still 30x peak EPS from the year before. If it returns to its prepandemic growth rate of 12%, the PEG ratio would be a lofty 2.5. I'd have rather seen the club feed some of its other small holdings than start a new one with inconsistent results and a high valuation.

UNITEDHEALTH GROUP

About 14% of the 4M portfolio is in the medical sector

THE MONDAY MORNING MONEY MAKERS INVESTMENT CLUB

COMPANY	TICKER	NO. SHARES	COST	NOV. 7, 2022 PRICE	NOV. 7, 2022 VALUE	$GAIN/ (LOSS)	%GAIN/ (LOSS)	QUALITY RATING*	% GROWTH ESTIMATE**	% OF PORTFOLIO	TRAILING P/E	TRAILING EPS
Adobe Systems	ADBE	7.0	$2,630	$341.38	$ 2,390	$ (241)	(9.1)%	2	12%	0.5%	34	$10.10
Alphabet (Class A)	GOOGL	760.0	8,710	89.58	68,081	59,371	681.7	1	15	13.8	18	5.04
Alphabet (Class C)	GOOG	162.2	1,980	90.25	14,639	12,658	639.3	1	15	3.0	18	5.04
Amazon	AMZN	294.0	30,348	86.77	25,510	(4,838)	(15.9)	1	25	5.2	80	1.09
Apple	AAPL	797.8	11,027	135.45	108,057	97,030	880.0	1	12	21.9	22	6.11
Berkshire Hathaway (Class B)	BRK.B	76.0	17,577	259.85	19,749	2,172	12.4	1	9	4.0	20	13.22
Broadcom	AVGO	72.2	12,850	561.23	40,543	27,692	215.5	3	10	8.2	21	26.43
Costco	COST	22.2	9,363	462.06	10,257	894	9.5	1	12	2.1	35	13.23
Generac Holdings.	GNRC	120.0	23,932	92.08	11,050	(12,883)	(53.8)	3		2.2	14	6.65
Global X Lithium & Battery Tech ETF	LIT	62.2	4,039	62.18	3,867	(172)	(4.3)	5	N/A	0.8	N/A	N/A
Home Depot	HD	56.0	10,594	319.36	17,899	7,306	69.0	1	11	3.6	19	16.59
Palo Alto Networks	PANW	76.0	11,382	147.42	11,204	(178)	(1.6)	3	24	2.3	N/A	(0.49)
Starbucks	SBUX	30.0	2,960	98.67	2,960	0	0.0	1	12	0.6	33	2.96
Ulta Beauty	ULTA	28.0	4,698	452.29	12,664	7,967	169.6	3	12	2.6	20	22.75
UnitedHealth Group	UNH	126.0	35,765	527.54	66,468	30,704	85.8	1	12	13.5	26	20.42
Veeva Systems	VEEV	180.0	10,668	167.52	30,154	19,485	182.6	3	20	6.1	68	2.45
Visa	V	222.7	16,607	206.81	46,061	29,453	177.4	1	16	9.3	28	7.48
Cash			1,770		1,770			1		0.4		
Average									14		31	
TOTAL			$216,900		$493,321	$276,421	127.4%			100%		

*Based largely on rankings published by Value Line. **As estimated by the author, with data from Thomson Financial Network.
Note: Numbers in the table have been rounded.

PORTFOLIO TUNEUPS

Would your club like a review of its portfolio? Send your valuation statement and a description of club challenges to Repair Shop. If you have a focused photo showing everyone's face, forward a high-resolution digital image or print. Include the names of the members, in order, plus the names of those not pictured. Send digital photos via CD or email them to janj@betterinvesting.org.

consisting of just one holding, **UnitedHealth Group (UNH)**. UnitedHealth is one of the steadiest growers in the medical sector and pretty much anywhere else. 2022 will likely represent its 13th consecutive year of record EPS. Still, some profit-taking is in order due to its over-representation in the portfolio with a P/E above its typical high.

VISA, BERKSHIRE HATHAWAY

In the financial sector, the 4M club has invested in Visa and **Berkshire Hathaway (BRK.B)**. Like so many of the high-quality growth companies in the portfolio, Visa's P/E can also be described as "lofty" at 28. But its growth rate is 16% so the PEG ratio is a more tolerable 1.75. I call it "expensive, but worth it." Visa generates significant free cash flow constituting over 60% of its revenue. It uses this to fund growth, pay dividends and buy back stock. The position size in the 4M portfolio is a little high at 9% but is not anything that needs to be addressed.

Berkshire Hathaway is fine, but really no better than that. Its P/E is 20x operating earnings, which excludes fluctuations in its investment portfolio. That is considered quite expensive for an insurance company, but Berkshire Hathaway is no ordinary insurance company. I remain a bit nervous about what happens after Warren Buffett is no longer in charge, but one could certainly do worse than this stock.

GENERAC HOLDINGS

And finally, **Generac Holdings (GNRC)** is the club's lone representation in the manufacturing sector. It's hard to imagine an established, profitable company better positioned to benefit from concerns over climate change than Generac. Its principal offerings are natural-gas powered generators for home and industrial purposes. It also features a lineup of clean energy products that enable the storage of solar power in battery packs with inverters and controls to interact with the power grid and one's home electrical system. But there have been growing pains in its clean energy business, including the bankruptcy of a major customer. Meanwhile, labor shortages have left installers unable to meet demand for residential backup generators. It's hard to know where the clean energy business will go, but Generac seems well-positioned. Not being able to meet consumer demand for generators is a short-term negative, but a long-term positive.

The stock is down a shocking 82% from its all-time high in October 2021 and the club has lost over half its investment. As discouraging as this is, Generac should recover and is trading at just 14x trailing EPS. It might be tempting to add to the holding at the lower price, but we try to adhere to a philosophy of not "rewarding failure" by automatically buying more of a depressed stock. We prefer to hold off until the fundamentals recover, even if that means buying at a higher price than the low. We almost always come to regret it when we don't adhere to this philosophy. I wouldn't sell Generac to capture the tax loss as this stock could rebound sharply at any time.

FINAL RECOMMENDATIONS

Most of my portfolio recommendations are centered around reducing portfolio fluctuation that comes from having so much invested in tech stocks. With that goal, I would trim Apple and Alphabet, and sell Adobe and Palo Alto Networks. A trim of the UnitedHealth position is also warranted given its elevated valuation and 14% weight in the portfolio. I would also sell Amazon to book a loss to help soften the tax hit from repositioning the portfolio. Lastly, I'm not sold on the recent addition of Starbucks and the Lithium ETF; I would sell both.

But it'sn't as if the 4M club rests on its laurels. In recent months it has moved on from **Edwards Lifesciences (EW)**, **Ford Motor (F)**, **Linde (LIN)** and **Zoetis (ZTS)**. In most cases, it was because the stocks weren't performing well. I might have held on to Edwards, but I agree with the other decisions.

I like to see vigorous portfolio management and the 4M ladies are doing just that. I think they will be fine, particularly if they address the overconcentration in tech that is crowding out other opportunities. Potential challengers include **Charles Schwab (SCHW)**, **FleetCor Technologies (FLT)**, **Intercontinental Exchange (ICE)** and **Lululemon (LULU)**. The best way out of underperforming stocks and lofty valuations is to challenge these holdings with strong performing businesses at good prices. Just keep doing that and the 4M club might just see another 30 years!

Scott D. Horsburgh, CFA, president of Provident Investment Management of Novi, Mich., co-authors the Investor Advisory Service newsletter. Visit www.investprovident.com.

Overcoming Some Confusion About Clubs

Ownership of assets, transferring securities, other areas raise questions.

by Russell Malley

Despite ongoing education efforts, some misinformation and confusion about investment clubs persists. I last wrote about this in an article about two years ago.

Investment clubs are typically organized as general partnerships or limited liability companies (LLC) taxed as partnerships. Investment clubs also meet the Internal Revenue Service requirements to be investment partnerships, which are distinct from business partnerships. U.S. tax law treats investment partnerships differently than business partnerships in some important ways.

One difference is **how securities are treated when transferred to a partner** when the partner liquidates (withdraws) part or all of his or her ownership in the partnership. Securities are treated as cash equivalents at their fair market value (FMV) to determine any gain a partner may realize from the withdrawal from business partnerships. For investment partnerships, securities are treated as property. The rules for property transfer to partners must be followed when transferring securities to withdrawing partners. (These rules can be complex and differ for partial withdrawals and full withdrawals and not covered here.)

Realized capital gains reporting is another issue that generates some confusion for investment club members. As partnerships, investment clubs are required to allocate any capital gains realized by the club during a tax year to the individual partners. This is done by the Allocation of Income and Expense process in myICLUB. Each partner's share is then reported on their Schedule K-1, which the club is required to supply. Each partner is required to report the K-1 reported gain on their personal tax return.

If a club member had a withdrawal during the tax year, the member may have a realized gain on her investment in the club. This is separate from her share of club capital gains. Gains from withdrawals are not reported on a Schedule K-1. The K-1 has a line for distributions that will report the total value of the withdrawal distribution. It is the responsibility of the individual member to know any gain from a withdrawal and report it. This is why ICLUBcentral recommends the Withdrawal Distribution report from myICLUB be given to all members who had a withdrawal during the year. Gains from a withdrawal will be on this report. Gains from a partial withdrawal will not be reported on the Withdrawal Distribution report until after the annual allocation of income and expenses has been processed. The reason is discussed next.

Realized capital gains from a member's withdrawal have some quirks due to clubs being organized as partnerships. A couple of these are how gains are calculated when a member withdraws. The first is the member's cost basis determination for the withdrawal. For partnerships, cost basis is an aggregate figure and unlike a stock is not associated with units acquired at specific times. So, club members do not have multiple "tax lots" of club units similar to stock tax lots from multiple purchases.

To have a realized gain from their club investment when they withdraw, a member must take out more cash than their total cost basis in the club.

To have a realized gain from their club investment when they withdraw, a member must take out more cash than their total cost basis in the club: Cash because stock transferred in a withdrawal gets a cost basis to the member. Gain from transferred stock is realized only when this stock is sold by the member. Also, the total cost basis must include a member's share of club net income through the end of the tax year. For a fully withdrawing member, her tax year in the club ends at their withdrawal date. All information needed to determine her total cost basis should be available when she withdraws.

A member taking a partial withdrawal will still have club income from after the partial withdrawal date until year end to be allocated to her. This allocated income cannot be determined until the end of the club's tax year when the allocation process is completed. In addition, a member who took a partial withdrawal can make additional capital contributions after the withdrawal. These contributions increase the member's cost basis in the club and can reduce or even eliminate what was a possible capital gain from their withdrawal.

Here is a simple example. Member A has a cost basis of $5,000 in the club and a value of $10,000. Member A takes a cash withdrawal of $6,000 on Jan. 5. This would bring the member's cost basis to $1,000, indicating a capital gain from Member A's club investment. If this member makes capital contributions of at least $1,000 before Dec. 31, the cost basis will be above zero,

Continued on Page 29

RH

Luxury home furnishings retailer adds hotels, housing to its brand.

RH (ticker: RH), a leading luxury home furnishings retailer, had phenomenal results in fiscal 2021 (ended Jan. 29, 2022). For one thing, consumers had extra cash to spend from the federal government's stimulus payments.

Job markets remained strong despite the pandemic. The growing numbers of people working from home were motivated to make their living spaces more comfortable. The trends contributed to the strong showing: Net revenues rose 32.0%, and net income more than doubled, climbing 153.3% (*see table*).

RH — originally Restoration Hardware — faces near-term headwinds, however, and may find it difficult to replicate that year's strong results. Consumers have long since spent their stimulus cash. Inflation has surged; households must count out more cash for basic needs such as food and fuel.

The higher cost of living has trimmed the money available for discretionary spending.

Inflation has also been a headache for corporate management, of course. Like other retailers, RH has had to contend with higher costs for shipping, materials and labor.

RH has experienced several quarters of supply chain difficulties. Only about 15% of its vendors are based in the United States. In 2021, Asian businesses — chiefly in China and Vietnam — accounted for about 75% of the company's spending on merchandise.

Vendors in China provided 34%. Given the supply chain issues, management limited introduction of new product lines and catalogs over the past two years.

Over the long run, however, RH may have solid growth potential, suggested members of the Editorial Advisory and Securities Review Committee. They cited the nation's chronic undersupply of housing. Demand for home furnishings should rise as more homes are built and remodeling of existing properties moves forward.

Although RH is in a cyclical industry, its target demographic — affluent households — is less sensitive to economic challenges than other consumer segments.

A trend aiding results would be an increasing wealth effect as target consumers see the values of their homes and securities recover.

The stock's $309.66 close reported Jan. 10 was 37.1% below the 52-week high of $491.95 recorded on Jan. 4. The stock underperformed the S&P 500, which over the same time frame decreased 15.5% to 3,943.25 from a Jan. 14, 2022, high of 4,665.13.

The stock's trailing 12-month price-earnings ratio was 11.8 (*see table*); the S&P 500 ratio was 20.4.

CSIMarket, a financial data service, reported a TTM, second-quarter P/E ratio average for the specialty retail industry of 85.9. Based on figures Yahoo Finance reported for Jan. 10, the P/E average was 15.8 for RH and two of three competitors named by Morningstar. (One competitor reported a loss and was omitted from the calculation.)

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 2.1 for RH, based on an average five-year expected earnings growth rate. A range of no more than 1.0 to 1.5 is generally considered desirable.

UP ON THE ROOF. The RH in New York's Meatpacking District has a rooftop restaurant, one of 16 restaurants the chain runs.

CORPORATE DESIGNS

RH markets a broad range of high-end home furnishings, including lighting, furniture, textiles, bathware, tableware, children's furnishings, and outdoor and garden goods. Its stores typically are found in upscale malls and standalone structures.

RH focuses its marketing efforts on high-income households in wealthier communities. To further those goals, the company runs 16 restaurants and wine bars adjoining select retail locations.

RH operates four stores in Canada but chiefly serves U.S. markets. In 2021 it had outlets in 29 states and the District of Columbia. Nineteen locations were in California. The chain's outlets fall into a variety of specialized categories emphasizing different merchandise lines and concepts. In addition to operating brick-and-mortar sites, RH distributes goods through its websites and "source books," or catalogs.

At year-end 2021 the chain operated 119 outlets. The total comprised 36 Legacy Galleries; 27 Design Galleries; a Modern Gallery; three Baby and Child and TEEN Galleries; and 14 Waterworks Showrooms, which market luxury bath and kitchen brands. (One Waterworks Showroom is in London, England.) In addition, the company had 38 RH Outlet and Restoration Hardware Outlet stores.

In 1981 Stephen J. Gordon launched the original

RH

	2021 (ENDED 1/29/22)	2020 (ENDED 1/30/21)	% CHANGE	FY 2022 Q3	FY 2021 Q3	% CHANGE	FY 2022 YEAR TO DATE	FY 2021 YEAR TO DATE	% CHANGE
Net Sales	$3.8B	$2.8B	32.0%	$0.9B	$1.0B	(13.6.%)	$2.8B	$2.9B	(1.3%)
Net income*	$688.5M	$271.9M	153.3%	$98.8M	$184.1M	(46.4%)	$421.7M	$541.5M	(22.1%)
Diluted EPS*	$22.13	$9.96	122.2%	$3.78	$5.88	(35.7%)	$21.31	$17.19	24.0%
Declared dividends	–	–	–	–	–	–	–	–	–

Stock exchange	NYSE
Ticker symbol	RH
Price at time of selection	$299.59
Past year's price range	$207.37 – $491.95
Recent market price	$309.66
Market capitalization	$7.1B

Value Line long-term earnings growth estimate	13.0%
Consensus long-term earnings growth estimate (20 analysts)	(5.3%)
Consensus EPS growth rate for FY ended January 2024	(5.2%)
Consensus EPS growth rate for FY ended January 2025	(29.2%)
Recent price-earnings ratio**	11.8x

*Excluding nonrecurring and special items.
**The P/E ratio is based on diluted EPS of $26.22 for the four quarters ended Oct. 29, 2022.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

business, Restoration Hardware, in Eureka, California. The business reportedly was inspired by his difficulty locating fixtures for a Victorian home. Gordon left the company in 2005. In the initial years corporate management slowly established more outlets, chiefly in northern California and Boston. The company had 47 stores when it first issued publicly traded stock in June 1998.

Catterton Partners and Tower Three Partners, private equity firms, acquired the company in June 2008 during the Great Recession. The company went public again in November 2012 and was renamed RH.

Gary G. Friedman, 64, is chairman and CEO. He has helped lead the company under various titles since joining management in March 2001. He previously served a long stint as a senior executive at competitor Williams–Sonoma (WSM). The interests of senior executives and directors appear more closely aligned with those of other investors than is typical. Company insiders owned 24.1% of common shares, according to the December proxy statement. Friedman held 21.6% and nine other insiders owned 2.5%.

Competitors include LVMH Moet Hennessy Louis Vuitton (LVMUY), Wayfair (W) and Williams–Sonoma, Morningstar reported.

BUILDING ON ADDITIONS

RH recently appeared to be in good shape to fund its expansion plans. The company reported holding $2.2 billion in cash and cash equivalents. Management has reported plans this year for expansion in San Francisco and Palo Alto, California. At the same time RH will close many of its legacy Restoration Hardware stores. Over the next five years management intends to cross the Atlantic and open outlets in several major cities, having started with London. Other target cities are in France, Germany, Italy, the Netherlands and Spain.

Management also is expanding with new product lines and merchandising initiatives. One of its most recent entries is upholstery. In December the company made two related acquisitions. Transaction terms weren't disclosed. RH acquired Dmitriy & Co., a custom upholstery firm based in New York City. Dimitriy co-founders Donna and David Feldman agreed to build on their creation and launch a new business unit, RH Couture Upholstery. The company also acquired Jeup, a custom furniture design business in Grand Rapids, Michigan. RH hired founder Joseph Jeup to form another new unit, RH Bespoke Furniture.

To further the company's branding as a luxury retailer, RH in September opened the first of its planned RH Guesthouse facilities. The New York City property offers wealthy travelers a private, luxurious "hospitality experience" during their stays. The property features six guest rooms, three guest suites, pool and rooftop garden access, and a high-end restaurant. The top floor, the residence of chief executive Gary G. Friedman, may sometimes be available for bookings.

In a related branding foray, RH announced in January 2021, that it had invested $105 million in an upscale residential enclave in Aspen, Colorado. The community will include a boutique hotel, restaurants and several large homes.

FINAL NOTES

BetterInvesting Magazine hasn't previously featured RH. The stock didn't appear in the Top 100 Survey of investor holdings for 2021 (*see the April 2022 issue*).

The company doesn't offer a direct stock purchase plan. Shares haven't undergone any stock splits to date.

Note that the partially completed Stock Selection Guide available at the BetterInvesting website uses Morningstar data, which reports fiscal-year share pricing.

In contrast, Value Line offers calendar-year pricing information. The following are Value Line's rounded calendar-year price ranges for the past five years:

- **$24.40 to $109.50 (2017)**
- **$74.50 to $164.50 (2018)**
- **$84.10 to $243.70 (2019)**
- **$73.10 to $494.40 (2020)**
- **$411.90 to $744.60 (2021)**

The share count has fluctuated over the 10 years since RH again went public. Management has periodically repurchased stock when shares appeared undervalued. Near the end of fiscal 2021 the company bought back 2.3 million shares.

No repurchases occurred during the previous two years. Following the buybacks, RH had $450 million remaining of a $950 million repurchase authorization. In June the board approved an additional $2 billion for future repurchases.

More background on RH and its industry, including the Value Line analyst and Value Line industry reports, can be found in the Analyst Reports and Other Resources section of the website. For more information, contact Investor Relations, RH, 15 Koch Road, Corte Madera, CA 94925.

— Reporting by contributing editor Kevin J. Lamiman

NEXT MONTH'S STOCK TO STUDY AND UNDERVALUED STOCK

The Editorial Advisory and Securities Review Committee met Jan. 30. The Stock to Study and Undervalued Stock that its members selected were announced afterward. The link takes you to the announcement at the BetterInvesting Newsroom: **www.betterinvesting.org/about-us/news-releases**

SSG Study Notes

During your analysis of RH you might consider the following comments, data points and questions for further study.

- **Capitalization section:** The company went public once, was bought by private equity in 2008 and relaunched a second time as a public company in 2012. Though conditions have changed in the past three decades, might it be that the concept of luxury furniture and fixtures may be too difficult to scale in order to afford a reasonable return for the investor in common shares? CEO Gary Friedman owns more than a fifth of the company, which suggests a strong commitment by top management to the venture. The depth of top-management talent would be a key factor in assessing risk versus reward.

- **Section 1 (Visual Analysis of Sales, Earnings and Price):** RH's percentage of pretax profit on sales has grown robustly over the past few years, continuing through the pandemic. The metric suggests that the management's restructuring and reframing of RH's value proposition has been working. Luxury goods in every industry usually are disproportionately profitable. Might RH's profit increases of the past few years lure competitors into its segment? RH's diversification into real estate looks like it might have an ancillary purpose, namely to familiarize high-end vacationers to places like Aspen with RH's products.

- **Section 2 (Evaluating Management):** The growth of RH's revenue since the 2012 initial public offering looks solid, averaging 10.8%, though slipping badly in the latest quarter, mostly due to higher interest rates and the housing slowdown. The amount of capital available for expansion and share buybacks is impressive, giving management an excellent chance to take advantage of the next housing boom. Historical EPS growth and stock price increases suggest that other investors have been paying attention — meaning that the stock isn't cheap on a P/E basis. Total debt doubled between 2020 and 2021. Should the amount of debt give an investor pause, given the rise in interest rates and the possibility it will continue? Sizable investment, according to Value Line, is expected to pay off "beyond 2023," which means investors must brace for a disappointing 2022, as the company has acknowledged.

- **Section 3 (Price-Earnings History):** RH has said it expects the current year to produce lower earnings than the fiscal year ended in January. Does it make sense to invest in RH at the current price or to monitor performance of the current year to assess management's ability to forecast and contend with adverse operating conditions? RH's situation could dictate a more measured approach, that is, to amass a position incrementally. The company's above average financial strength is a plus given the economic tumult facing luxury consumer goods and discretionary items. With no record of dividend payments and some rough short-term conditions in play, this stock is definitely one for the patient investor who can sit tight for two or more years before realizing substantial return.

RH

Stock Selection Guide

Figure 1
Capitalization information.
Besides background about the company, including the data source used for the study, this section provides information about the number of common and preferred shares and the percentages held by insiders and institutional investors. Total debt and the percentage of debt to total capital also are detailed.

Figure 2
Recent sales and earnings results.
This section contains the company's most recent quarterly results along with a comparison of results from the same quarter a year ago.

Figure 3
Visual view of sales/earnings/price.
The graph provides a quick view of the company's financial results. A long-term history of consistent sales and earnings growth at relatively high rates indicates the company is well-managed and worth further study. Historical sales growth is plotted on the green line and historical earnings growth is represented by the blue line. The black bars provide information about the stock price. For each year, the top of the bar is the annual high price, while the bottom is the low price.

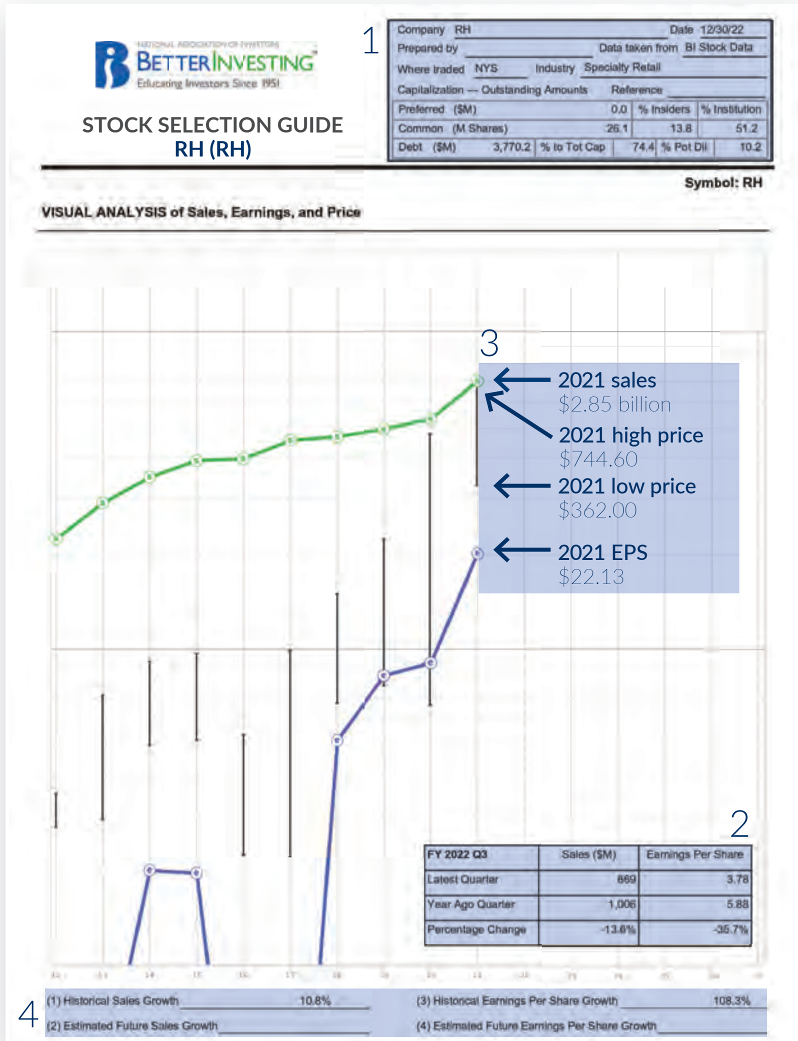

Figure 4
Forecasting future sales and earnings growth rates.
The core of the BetterInvesting methodology is this: Sales growth drives earnings growth, and earnings growth drives stock price. Using the Stock Selection Guide, you'll forecast growth rates and determine the stock's potential high and low prices over the next five years.

Step one is to forecast sales growth. The company's historical performance is helpful, but you'll need to do some research to decide whether revenue growth will remain at the historical level, slow down or speed up.

After estimating sales growth, the next step is to forecast earnings per share growth. Often you can estimate EPS growth at a similar rate used for sales. EPS growth can differ from sales because of rising or falling expenses, an increasing or decreasing number of outstanding common shares and changing tax rates. Even though a company can grow earnings faster than sales by cutting costs or buying back shares, this can't last. EPS growth and sales growth eventually equalize.

Use the estimated growth rate for earnings to forecast the earnings per share five years from now. On the second page of the SSG, use the future EPS to determine potential high price. Ask yourself if the company is growing at a sufficient rate relative to its size; higher growth rates for small companies, compared with medium and large caps.

Editor's note: The Value Line and Morningstar company and industry reports are found at the website's homepage under the Learning Center tab, BetterInvesting Magazine *section, for your use in conducting stock studies. You'll need Adobe Acrobat software to read the PDF files.*

RH

Stock Selection Guide

Figure 5

Evaluating management.

The key to successful investing is finding well-managed companies with reasonably priced stocks. Historical growth rates provide evidence of good management, as do the numbers in this section. Pre-tax profit margins represent how much of each sales dollar a company keeps before taxes. Look at pre-tax margins because companies have limited control over their tax rates. Look for stable or growing margins. Return on equity indicates how well the company manages shareholders' investments. Remember, look for stable or growing returns.

Figure 6

Price-earnings ratio history.

Section 3 includes information you'll use in Sections 4 and 5. Columns D and E detail the high and low P/Es for each of the past five years. You can also see the average P/E for the last five years as well as the current P/E. Information about the dividend yield also is offered.

EVALUATING MANAGEMENT Company RH (RH)

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	LAST 5 YEAR AVG.	TREND UP	TREND DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)	-6.3	3.2	7.9	7.1	0.4	1.2	7.2	10.2	13.2	22.1			
B	% Earned on Equity (E/S ÷ Book Value)	-19.3	3.4	13.8	10.4	0.6	-5.9	376.4	-273.2	70.4	47.2			

5

PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

PRESENT PRICE ______ HIGH THIS YEAR ______ LOW THIS YEAR ______

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH A ÷ C	E Price Earnings Ratio LOW B ÷ C	F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100
1	2017	109.5	24.4	0.07	1564.7	348.7	0.000	0.0	0.0
2	2018	164.5	74.5	5.68	29.0	13.1	0.000	0.0	0.0
3	2019	243.7	84.1	9.07	26.9	9.3	0.000	0.0	0.0
4	2020	524.0	73.1	9.96	52.6	7.3	0.000	0.0	0.0
5	2021	744.6	362.0	22.13	33.6	16.4	0.000	0.0	0.0
6	TOTAL								
7	AVERAGE								
8	AVERAGE PRICE EARNINGS RATIO				9 CURRENT PRICE EARNINGS RATIO				

6

EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE — NEXT 5 YEARS
Avg. High P/E ______ (3D7 as adj.) X Estimate High Earnings/Share ______ = Forecast High Price $ ______ (4A1) 7

B LOW PRICE — NEXT 5 YEARS
(a) Avg. Low P/E ______ (3E7 as adj.) X Estimated Low Earnings/Share ______ = $ ______
(b) Avg. Low Price of Last 5 Years = ______ (3B7)
(c) Recent Severe Market Low Price = ______
(d) Price Dividend Will Support Present Divd. / High Yield (H) = ______ = ______
Selected Estimate Low Price ______ = $ ______ (4B1) 8

C ZONING
______ (4A1) High Forecast Price Minus ______ (4B1) Low Forecast Price Equals ______ (C) Range. 1/3 of Range = ______ (4CD)
(4C2) Lower 25% = (4B1) ______ to ______ (Buy)
(4C3) Middle 50% = ______ to ______ (Maybe)
(4C4) Upper 25% = ______ to ______ (4A1) (Sell) 9

Present Market Price of ______ is in the ______ (4C5) Range

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) ______ Minus Present Price ______ / Present Price ______ Minus Low Price (4B1) ______ = ______ = ______ (4D) To 1 10

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
High Price (4A1) ______ / Present Market Price ______ = (______) X 100 = (______) - 100 = ______ (4E) % Appreciation

5-YEAR POTENTIAL This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.
Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend $ ______ / Present Price of Stock $ ______ = ______ X 100 = ______ (5A) Present Yield or % Returned on Purchase Price

B AVERAGE YIELD OVER NEXT 5 YEARS
Avg. Earnings Per Share Next 5 Years ______ X Avg. % Payout (3G7) ______ = ______ / Present Price $ ______ = ______ (5B) %

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS
5 Year Appreciation Potential (4E) ______ / 5 ______ %
Average Yield (5B) ______ %
Average Total Annual Return Over the Next 5 Years (5C) ______ % 11

Figures 7 & 8

Forecasting the high and low prices.

P/E history will inform judgments about the potential high and low prices. Multiply your predicted high P/E by the high EPS you calculated on the first page to determine the potential high price. Multiplying the expected low P/E by the low EPS (for a growth company, this often is the most recent year's earnings) is one way to predict the future low price.

Figures 9 & 10

Buy-Hold-Sell zones and upside-downside ratio.

After calculating the potential high and low prices, use the SSG to determine whether the stock is reasonably priced. The upside-downside ratio compares the potential price increase to the potential price drop. Look for stocks that are both in the Buy zone with an upside-downside ratio of at least 3 to 1; beware of abnormally large or small ratios.

Figure 11

Estimated average annual return over the next five years.

In this final section, you'll learn about the stock's potential return over the next five years. This figure includes both the expected return from increases in the stock's price and predicted dividends.

FedEx Corporation

Adjusting to a post-pandemic world is now a key challenge.

FedEx Corporation (ticker: FDX) recently has been going through a rough patch. With easing of pandemic conditions, the shift in consumer discretionary spending to services and away from goods has reduced demand for its shipping and delivery offerings. Slowing economies in Europe and Asia, particularly China, further dampened demand.

COVID-19 illnesses created shortages of ground staff and air crews last winter. That, and adverse weather conditions, scrambled the schedules of cargo flights. In January 2022 the company briefly suspended some air freight services.

Competition from passenger carriers has resumed post-pandemic. With international travel recovering, passenger jets are again transporting some cargo.

Inflation raised fuel costs, hurting the more than 6,000 contractors running the FedEx ground-delivery system. Jet fuel costs in 2021 climbed 87.3% year over year. Tight domestic labor markets pushed wages higher.

After the Sept. 15 release of weak first quarter results, some stockholders rushed for the exits. The share price rode a waterfall, plunging 21.7% the next morning.

Analysts have suggested corporate management was slow in adjusting to the cascade of challenges. Sorting out the recent problems and engineering a recovery therefore has topped the priority list for the new head of FedEx, noted members of the Editorial Advisory and Securities Review Committee.

Rajesh Subramaniam, 56, became CEO and president in June 2022. He joined FedEx in 1991.

Subramaniam took over from Frederick W. Smith, 78. Smith remains active in the company he launched in 1971, serving as executive chairman. The company, known earlier as Federal Express, went public in 1978.

With help from stronger second quarter financials, the share price has recovered somewhat from a 52-week low of $141.92 Sept. 27. Nevertheless, the stock's $188.74 close reported Jan. 10 was still 27.4% below the 52-week high of $260.11 recorded Jan. 13, 2022. The stock underperformed the S&P 500, which during the same time frame decreased 16.0% to 3,919.25 from a Jan. 14, 2022, high of 4,665.13.

Committee members said that with new leadership, corporate management will have a reasonable shot at overcoming the headwinds that have beset FedEx — although the turnaround will take time. Meanwhile, they suggested, the stock's valuation may represent opportunity.

The stock's trailing 12-month price-earnings ratio was 14.8 (*see table*); the ratio for the S&P 500 was 20.4.

CSIMarket, a financial data service, reported a TTM P/E ratio average of 12.7 for the company's industry, transport and logistics.

Based on figures Yahoo Finance reported, the ratio average for FedEx and three competitors named by Morningstar was 12.7.

For P/E to projected growth, or PEG, Yahoo Finance reported a ratio of 1.5 for FedEx based on an average five-year expected earnings growth rate. A range of no more than 1.0 to 1.5 is generally considered desirable.

HEAVY MOVER. FedEx has a network of some 100,000 ground vehicles operated by independent contractors, plus 700 aircraft.

CORPORATE PACKAGING

FedEx remains the largest provider of express delivery services worldwide. It ships freight and provides overnight, door-to-door delivery of packages and documents. The company also operates about 2,200 stores providing customers with access to printing and shipping services.

In fiscal 2021 (ended May 31, 2022) FedEx employed a distribution network comprising almost 700 aircraft, plus about 100,000 ground vehicles operated by independent contractors. The company ran more than 680 North American facilities for sorting and handling packages.

Editor's note: Morningstar, BetterInvesting's data source, defines the 12 months through May 31, 2022, as fiscal year 2021. The company classifies that period as fiscal 2022.

FedEx operates in more than 220 countries. International business generated $28.6 billion in 2021 — 30.6% of net revenues.

FedEx Express is the company's largest segment. It accounted for $45.8 billion of 2021 net revenues —

FEDEX CORPORATION

	2021 (ENDED 5/31/21)	2020 (ENDED 5/31/20)	% CHANGE	FY 2022 Q2	FY 2021 Q2	% CHANGE	FY 2022 YEAR TO DATE	FY 2021 YEAR TO DATE	% CHANGE
Net Sales	$93.5B	$84.0B	11.4%	$22.8B	$23.5B	(2.8%)	$46.1B	$45.5B	1.3%
Net income*	$3.8B	$5.1B	(25.8%)	$0.08B	$1.0B	(92.5%)	$1.7B	$2.2B	(22.9%)
Diluted EPS*	$14.33	$19.45	(26.3%)	$3.07	$3.88	(20.9%)	$6.40	$7.97	(19.7%)
Declared dividends	$3.00	$2.60	15.4%	$1.15	$0.75	53.3%	–	–	–

Stock exchange	NYSE
Ticker symbol	FDX
Price at time of selection	$189.74
Past year's price range	$141.92 – $260.11
Recent market price	$188.74
Market capitalization	$47.4B

Value Line long-term earnings growth estimate	13.0%
Consensus long-term earnings growth estimate (27 analysts)	(33.9%)
FY ended May 2023 consensus EPS growth estimate	23.3%
FY ended May 2024 consensus EPS growth estimate	4.1%
Recent price-earnings ratio**	14.8x

*Excluding nonrecurring and special items.
**The P/E ratio is based on diluted EPS of $12.734for the four quarters ended Nov. 30, 2022.

Sources: Morningstar, Yahoo Finance, Value Line and company reports

49.0% of the total. The business provides domestic and international package and freight shipping services.

FedEx Ground, North America's second-largest ground package shipper, produced $33.2 billion — 35.5% of the total. The segment provides small-package ground delivery services in the United States and Canada.

FedEx Freight contributed $9.5 billion —10.2%. The unit offers less-than-truckload delivery services.

FedEx Services accounted for $253 million — 0.3%. The segment offers sales, marketing, information technology, communications, customer service, technical support, billing and collection services. It also handles certain back office functions for other FedEx segments.

Accounting for cross-segment eliminations, corporate and other revenue sources stood at $4.6 billion — 5.0%. Other services include customized logistics, customs brokerage and clearance solutions and expedited critical shipment delivery.

Competitors include Deutsche Post (DPW), Old Dominion Freight Line (ODFL) and United Parcel Service (UPS), Morningstar reported.

ADJUSTING THE LOADS

Given high fixed costs, FedEx is contending with soft demand by aggressively cutting costs to shore up its margins. Forecasts of impending recession have further pressured the company to trim expenses.

Management is striving for $3.7 billion in savings during the current fiscal year. The cost-cutting was ramped up from earlier targets of $2.2 billion to $2.7 billion in savings.

One measure was idling some aircraft and reducing frequency of flights in the FedEx Express segment. The company closed some of its sorting facilities. It suspended certain Sunday operations at FedEx Ground.

FedEx cut worker hours and closed more than 90 storefront sites. Management also trimmed corporate expenditures.

FedEx has rolled out a global transformation program intended to save an extra $4 billion by 2025. Reducing certain inter-segment overlaps in operations and otherwise optimizing network efficiency was forecast to produce about $2 billion in long-term savings.

The most recent large FedEx acquisition was its May 2016, $4.8 billion purchase of TNT Express. The deal enhanced its position in European delivery markets.

The new division experienced a disruption early in fiscal 2017 from a cyberattack traced to malware that had been released in Ukraine. Operations were largely back to normal within a few weeks. The disruption trimmed an estimated $300 million from 2017 net income.

Management took a break from deal-making over the past two years. Focusing on foreign businesses, however, FedEx has made one or two mostly small acquisitions in 13 of the past 22 years.

A recent example was the December 2020 acquisition of ShopRunner. The e-commerce platform connects brands and merchants with online shoppers. Terms of the transaction weren't disclosed.

In May 2019 FedEx acquired the international express business of Flying Cargo Group in Israel. Terms weren't disclosed.

One lingering uncertainty is whether Amazon (AMZN) will become a serious competitor. The e-commerce giant has recently built out a freight and delivery network to transport some of its own orders. Amazon might someday opt to market such services to other businesses.

FINAL NOTES

BetterInvesting Magazine profiled FedEx as the Stock to Study for May 2006 and July 2018. The company ranked No. 60 in the Top 100 survey of investment club holdings for 2021 (*see the April 2022 issue*). A projected 133 clubs owned FedEx shares.

The share count has fluctuated over the past 16 years, Value Line reported. In 2021 FedEx repurchased 8.9 million shares for $2.2 billion. No buybacks occurred the previous year.

In October the company announced it would enter into an accelerated share repurchase agreement with Morgan Stanley (MS). FedEx will buy back an aggregate of $1.5 billion of its common stock. The initial delivery estimate was for about 7.9 million shares, based on October market prices.

FedEx has a long history of increasing its dividend, with the cash payout to shareholders rising in 11 of the past 16 years, Value Line reported. The board approved a 53.3% second quarter dividend increase to $1.15 from $0.75. The annual dividend yield recently stood at 2.4%.

The recent emphasis on shareholder returns stems at least partly from the urgings last year of activist hedge fund D.E. Shaw, which reportedly held about 1.0% of FedEx shares. After talks with the hedge fund, FedEx also added two independent directors to its board.

The company offers a dividend reinvestment and direct stock purchase plan. Its stock has undergone five 2-for-1 splits, the most recent occurring in 1999.

FedEx remains the largest provider of express delivery services worldwide. It ships freight and provides overnight, door-to-door delivery. The company also operates about 2,200 stores providing shipping and printing services.

The interests of senior executives, directors and director nominees appear somewhat more closely aligned with those of other investors than is typical. Company insiders owned 8.6% of common shares, according to the September proxy statement. Founder Frederick W. Smith held 8.0% and 23 other insiders owned 0.6%.

More background on FedEx and its industry, including the Value Line analyst and Value Line industry reports, can be found in the magazine section of the website.

For more information contact Investor Relations, FedEx Corporation, 942 S. Shady Grove Road, Memphis, TN 38120–4117.

Websites of Interest

FedExCorporation
www.fedex.com

— Reporting by contributing editor Kevin J. Lamiman

THINK TANK

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For example, when you purchase tax-exempt municipal bonds, the interest received on those bonds is excluded from federal income tax and the net investment income tax (Medicare surtax). In addition, if you purchase the same bond from your state of residence, the interest on those bonds may be state income tax-free as well.

Another example: a technique called "asset location," which is the practice of placing high-tax investments in tax-deferred or tax-exempt accounts rather than taxable accounts.

Therefore, if your goal is to minimize taxes and you purchase a small-cap technology stock, you may want to consider placing those assets within a taxable brokerage account. Generally, these companies don't have a dividend payout and all of your growth will be from stock price appreciation.

Realizing gains from a growth-oriented stock allows you to hold it for longer than 12 months and ensure that you are taxed at long-term capital gain rates versus higher short-term gain rates.

UTILIZING CASH VALUE LIFE INSURANCE POLICIES

Once you have exhausted all pretax savings mentioned above, you might turn your attention to tax-deferred saving options.

A life insurance policy designed to accumulate cash — one with a minimal death benefit and the allowable maximum premium — can be used as a tax-favored vehicle for savings. Using life insurance as an investment vehicle can provide benefits such as tax-deferred growth within your cash value and tax-free cash withdrawals via policy loans — all without being subject to annual contribution minimums like 401(k)s and IRAs are.

And perhaps most importantly for high-income earners, life insurance policies aren't subject to restrictive income thresholds.

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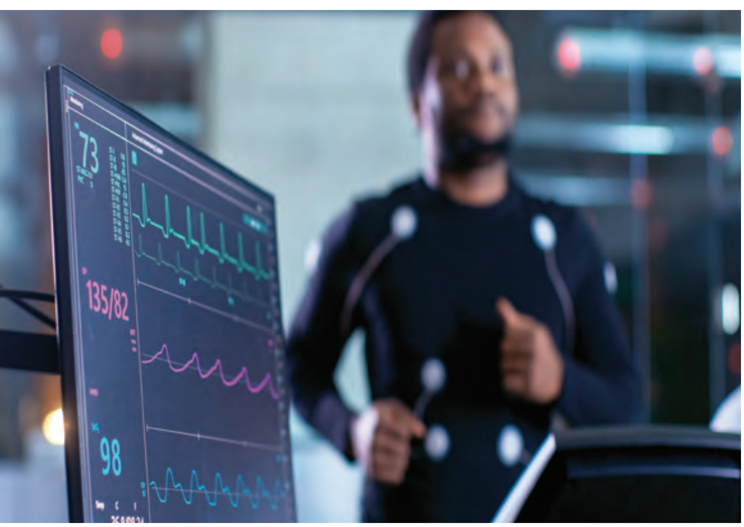
Does Your Portfolio Need a Stress Test?

Investors should know if their stash will carry them through retirement.

by Jeffrey Steele

As a stock market beginner, you've started to invest smartly in a diversified portfolio of investments. But you have a number of concerns. One of the biggest is how your portfolio will fare over coming years as it endures yo-yo stock market performance, tax law changes, inflation and a variety of other "what-if?" scenarios. There's one very wise way to find out and that is by submitting your portfolio to a stress test.

Stress testing not only probes how well a portfolio will perform during economic ups and downs, but can also deliver a sense of comfort when investors see the test results in front of them. So said Eric Mangold, founder of independent financial planning firm Argosy Wealth Management in Westfield, New Jersey. "It's also a good



Stress testing not only probes how well a portfolio will perform during economic ups and downs, but can also deliver a sense of comfort when investors see the results.

way to show the amount of risk [investors] are taking – or not taking — that relates to the portfolio," he added.

One of the most common errors investors make is using straight-line projections of stock market performance, said Christian Cyr, a registered investment adviser with Cyr Financial Wealth Advisors in Hennepin, Illinois. Markets have provided somewhat consistent performance over time, but "you don't know what the future will bring," he said. In other words, past performance does not guarantee future results.

Someone retiring in May 1970 would go on to enjoy one of the best periods in stock market history, with portfolio growth at 10% a year on average for the next 30 years. Conversely, someone who retired in September 1929 would have seen much less stellar results over a subsequent typical retirement period, Cyr said. Stress testing is a way of moving from what's expected to the consideration of all kinds of market performance, including unexpected events that could derail retirement plans.

SPOTTING VULNERABILITIES

Much of the focus of financial planning is on hoping for the best but planning for the worst, says David Ybarra, with Consilio Wealth Advisors in Bellevue, Washington. The start of the COVID-19 pandemic in March 2020 and the high inflation environment of 2022, present two fresh examples of why submitting portfolios to stress tests is vital, he said.

For instance, a stress test may indicate a portfolio is vulnerable to sequence of returns risk. In such a case, a financial markets downturn at the same time with the start of retirement could deplete a significant portion of assets in the retirement's first years. That would consign the portfolio owner to lower returns throughout retirement.

Stress tests work by simulating a variety of market conditions, said Harry Turner, founder of the investing education website The Sovereign Investor. They allow investors to gain an understanding of how their portfolios will stand up under pressure and where weak spots exist, allowing them to make adjustments as necessary. Of particular value is the ability to prepare for worse-case scenarios that could devastate retirements.

Stress tests can be performed a number of ways. "The most common approach is to use historical data to simulate different types of economic scenarios and run a Monte Carlo analysis to determine how your portfolio would have performed," Turner said. One example: A test run might show how well the portfolio would respond to drops of 20% in stock prices or 50% in bond prices, based on historical correlations.

TESTING EVERYTHING

"The American College of Financial Planning calls the

10 years before and the 10 years after retirement the retirement red zone," Ybarra said, adding decisions future and current retirees make in the red zone will exert outsized impacts on the remainder of their retirement years. That's why it's essential to stress test not only for future market highs and lows, but for major legislative changes and several other eventualities.

Portfolios must be stress tested for the chance of tax rate hikes eroding distributions from taxable retirement accounts. They must be stress tested for the possibility inflation rises over time, eating away at ability of retirement funds to cover costs.

They must be stress tested for the odds the Social Security trust fund goes broke, forcing retirees to live on substantially less than they expected Social Security to pay them. And they must be stress tested for the possibility health care and long-term care costs rise beyond anticipated levels. All these situations and a number of others can be accounted for in a stress test, and thus addressed pre-retirement, Ybarra said.

In the event of a portfolio stress test fails, four primary levers can be pulled, he said. Some are easier approaches for investors to swallow than others. The first: **Save more money**. "If your portfolio stress test shows a shortfall in your retirement plan, your best option is to look for tax-efficient ways to save money that can be earmarked for your retirement goal. Max out 401(k)s, individual retirement accounts and health savings accounts for tax deductions. If you have extra cash each month, save and invest it in a [taxable] brokerage account that can be used in addition to your employer-sponsored retirement plan."

Second, work longer. Often, the highest-earning years arrive as individuals near retirement. Those are often also the years when the kids are out of the house and college and home debt has been paid off. That makes those immediate pre-retirement years some of the best opportunities to pile up savings. An investor not only delays drawing down assets, but substantially increases assets that will be drawn, Ybarra said.

The third approach is to spend less. Typical retirement scenarios are based on assumptions, the most important of which is how much will be spent per month to maintain the retiree's lifestyle. "If lifestyle creep has overtaken a retiree's financial situation, the first recommendation will be to thoroughly revisit [his or her] budget," Ybarra said. "If the budget needs to be maintained as-is, then it's up to the other three levers to create a successful financial plan through stress testing."

The last lever is to alter your investment strategy. Ybarra often refers to risk tolerance as spanning a spectrum from too conservative to too aggressive. "Stress testing can provide insight as to whether someone is being too risky or too conservative, while also being able to show hypothetical benefits and outcomes for a more appropriate balance."

To summarize, at some point in your life, your doctor may recommend a stress test to make sure your heart performs well for years to come. Giving your portfolio a stress test can help make sure your retirement years turn out to be just as robust.

THE CLUBHOUSE

Continued from PAGE 19

indicating no capital gain from their withdrawal. The cost basis used to calculate gain, in such cases, is the cost basis at the end of the tax year. This is why gains from partial withdrawals cannot be determined until the end of the tax year and the annual allocation of income is processed. Any additional capital contributions after the partial withdrawal and allocated club income contributing to a member's cost basis can then be included.

Another misconception is related to ownership of club assets. It has been common for club members to believe ownership of stocks in the club portfolio is by the members of the club in proportion to each member's percent ownership of the club. For example, a member who has a 10% interest in the club owns 10% of each of the club's assets. This is definitely not the case. The club is its own separate legal entity apart from all of its members. The club is the owner of all the club assets. All the members have an ownership interest in the club, not in the individual assets of the club.

Finally, two items related to club expenses cause confusion. The first is the allocation of club expenses to the individual partners. The second is the deductibility of a member's share of club expenses on their personal income tax return. How income and expenses are allocated among partners is set forth in Section 704 of the tax code (26 USC § 704). The partnership agreement is the determining document for the allocation. If the partnership agreement is silent on the matter, then expenses must be allocated by ownership percentage. If your club partnership agreement does not specifically provide for equal allocation of some expenses, then you should not allocate any expenses equally.

Changes to tax law in 2017 made all expenses related to investment income nondeductible. As investment partnerships, essentially all club expenses are related to investment income so are not deductible on personal returns. Prior to 2017, club expenses would be included in Miscellaneous Deductions. Only the amount of the sum of all Miscellaneous Deductions over 2% of adjusted gross income would be deductible, a threshold rarely met by club members. The 2017 tax law changes made club expenses nondeductible from rarely deductible.

Questions concerning these issues often fall on the club treasurer. With a bit of luck, this will alleviate some of that burden as treasurers have enough work already.

Ready to Prep Your Portfolio for the Recovery? Small Caps May Be the First Index to Take Off

A look at the Invesco S&P SmallCap 600 Pure Growth ETF.

by Jeffrey Steele

Any investor who spent any time at all watching the U.S. stock market should have been prepared for what the past year delivered. After more than a decade of robust growth, stocks fell off the cliff in 2022. Numerous catalysts, ranging from the unexpected war in Ukraine to the Federal Reserve's ongoing skein of interest rate hikes, left stock market investors seeking answers. Many would like nothing more than an idea on where to place their money next. What better time to dig into an edition of Fund in Focus, which just might provide investors a possible path out of the quagmire?

To pick one fund out of 20,000 isn't easy, said Dan Casey, CEO of the Bloomfield Hills, Mich.-based Bridgeriver Advisors, to whom we turned. But if he had to pick one fund for this moment in time, it would be, he said, the **Invesco S&P SmallCap 600 Pure Growth ETF (ticker: RZG)**. A fund of the 600 top small-cap companies on the S&P Index, it has been in existence since 2006, Casey said. "Why I like this particular fund right now is that smaller-cap firms are usually the first to come out of the gate in a recession," he said.

"We can debate whether we're in a recession right now or not. But this would be a good fund for this particular point in the cycle. There's the fact that the dollar is so strong, mostly because everyone in the world feels [the U.S.] is the nicest house in a bad neighborhood. A lot of the world's investment is coming into the U.S. And the strong dollar is a headwind for large companies, which typically have a lot of overseas sales and revenues. But by contrast, that's a tailwind for smaller companies."

BROAD DIVERSIFICATION

Because it's an exchange-traded fund, Casey said, the Invesco S&P SmallCap 600 Pure Growth ETF provides the advantages ETFs offer over mutual funds. The cons of ETFs — including small dividends and sizable bid-ask spreads — notwithstanding, the upsides are many, which is why the mutual fund industry hit the summit of its growth arc five years ago and has since declined, while the investments in ETFs continue to grow. Projections show ETFs outpacing mutual funds in total investment volume by 2024.

Just as traditional mutual funds delivered advantages over accumulating individual stock investments — offering professional management, comparative affordability and wide diversification — ETFs represent an advancement over traditional mutual funds. Because they don't have to shoulder the expenses associated with active professional management, ETFs can provide investors with a lowered cost structure, which can translate to significantly greater returns over time.

ETFs don't have to pay portfolio management fees, operational fees, administrative costs, marketing expenses and custody costs.

And ETFs don't have to dispatch regular statements and reports to shareholders, as open-end fund companies are required to do. Because ETFs are sold through brokerage firms, they rather than ETF firms bear that responsibility. That enables ETFs to enjoy lower overhead and pass lower fund expenses on to investors.

One more saving for investors results from the lack of redemption fees linked to mutual funds. ETF investors sidestep some open-end funds' short-term redemption fees.

Among the most attractive aspects of ETFs for many investors is that ETFs can be comparatively more tax efficient vis-a-vis mutual funds. When mutual fund managers sell securities at a profit, those funds are mandated to distribute taxable capital gains commensurate with investors holdings. By comparison, because ETFs are not actively managed, they realize more modest capital gains than actively managed funds.

In addition, ETFs are purchased and sold while markets are open, unlike traditional mutual funds traded only after markets close at the end of the trading day. This means the pricing of ETFs changes all day long. Those investing in ETFs are almost instantly aware of the price they paid for shares, which greatly simplifies portfolio management.

It also makes it possible for investors to benefit from well-timed decisions to invest. As many experts note, this is really no different from buying shares in an individual stock.

Because ETFs are traded on every major asset class, it's easy to diversify with them, investing in a variety of industries, sectors or countries. It's just as simple to zero in on, say, a particular area of interest to gain exposure to that sector.

KEY BENCHMARK

About 30 years ago, providers of indices began unveiling the first indices that set out to expressly sidestep large-capitalization names and focus solely on small-cap stocks. It was just about that time that the S&P SmallCap 600 was introduced. This index offered a clear point of differentiation that separated it from other small-cap indices.

Unveiled in 1994, the S&P SmallCap 600 represents a market segment associated with lowered liquidity and the potential for diminished financial stability when compared to large-cap stocks. Over time, small-cap stocks have usually performed better than their large-cap brethren. Investing in small-cap stocks has been regarded as a way of gaining diversification, while at the same time enjoying higher returns, albeit with higher risk.

To gain its aforementioned differentiation, the S&P SmallCap 600 instituted an earnings requirement that through the years has been said to help it attain comparatively robust monthly and yearly returns, while also delivering the possibility of downside protection.

The S&P SmallCap 600 covers about 2.5% of the U.S. equities market. A share of small-sized stocks commensurate with each of their respective industries' market capitalization within the U.S. equities market is allocated to the S&P SmallCap 600.

The S&P SmallCap 600 index encompasses 11 sectors, with the top five sectors accounting for more than three-quarters of the index. The sectors: communication services, consumer discretionary, consumer staples, energy, financials, health care, industrials, information technology, materials, real estate and utilities.

TRACKING STRONG GROWTH

Based on the index of the same name, Invesco S&P SmallCap 600 Pure Growth ETF invests no less than 90% of its total assets in securities that make up the index. The fund tracks the S&P SmallCap 600 Pure Growth Index, which measures the performance of a subset of securities comprising about one-third of the S&P SmallCap 600 Index that display particularly robust growth traits. Strongest growth characteristics are gauged by the following risk factors: sales growth, earnings change to price and momentum.

The fund and the index undergo yearly rebalancing. Annual fund operating expenses consist of a management fee of 0.35% of investment value. As of early November 2022, fund holdings comprised: health care, 22.23%; financials, 20.72%; information technology, 15.11%; consumer discretionary, 14.1%; industrials, 12.34%; energy, 5.98%; consumer staples, 5.5%; real estate, 1.96%; communication services, 1.75%; materials, 0.36%; and cash, 0.03% of the total holdings.

Among the principal risks of investing in the fund are the following. First, there exists market risk, due to the fact the securities in the underlying index are subject to market fluctuations. The value of the ETF's shares should approximately drop in correlation with declines in the value of the underlying index's securities.

Another is the risk associated with investing in small- and mid-capitalization companies, a risk often greater than investing in large, established companies. Compared with that of more established companies, these equities may be associated with reduced liquidity and greater volatility.

Moreover, their returns may vary significantly from the securities market as a whole. And changing market conditions may impact these small- and mid-sized companies to a comparatively greater extent, due to the fact that the companies and the very industries in which they're based are still evolving.

Yet another risk of investing in the fund is industry concentration risk. That is seen in those instances when the index's investments are disproportionately concentrated in securities of companies from a single industry or industry group. This concentration could subject investors to greater risk than would be the case were the fund to be broadly diversified across a number of industries or industry groups.

FINAL ANALYSIS

Analysts weighing in on the Invesco S&P SmallCap 600 Pure Growth ETF noted the investment argument underpinning the fund is that high-growth, small-cap firms tracked by its underlying index should have a more unfettered path to growth than their large-cap cousins. Even though the volatility for which these securities are known can over short periods provide substantial gains or losses, no investor should fail to make such a fund a component of his or her portfolio at this point in the economic cycle.

Small-cap firms have an inclination to move independently of larger-capitalization companies. That may leave them a better bet when it comes to trying to profit from the current state of the U.S. economy.

Due to its bias toward small-cap growth stocks, the fund likely does not offer as broad a sampling of small-cap firms as competitive funds, and may suffer from significantly greater volatility as well. That said, it stands out within its space in its insistence that providers categorize companies as either growth or value.

It thereby not only eliminates any overlap with its value fund counterpart, but narrows its securities holdings to a more concentrated, comparative few. Unlike competitive funds that incorporate more than 1,200 securities, Invesco S&P SmallCap 600 Pure Growth ETF holds only 150 stocks, and places almost 17.5% of its assets in the top 10 holdings.

According to one analyst, the fund should most appeal to those investors intent on completely excluding value equities and instead leveraging growth firms, particularly if they believe the fund's approach justifies its higher-than-average cost.

How to Target the Commodity Bull

As inflation spikes, funds focused on raw materials reap rewards.

by Jordan Chussler

While companies in Big Tech grab headlines and dominate the media's attention, ongoing demand for commodities continues to swell, as do the performances of funds with holdings in resources and the companies involved in sourcing and manufacturing them.

As we find ourselves in the midst of an enormous digital transformation, a significant portion of media coverage — specifically, financial media coverage — is allotted to tech companies, their earnings (or lack thereof) and the role they play in America's consumer-driven economy.

This holds true whether those companies are rising or falling. The latter has been the case since the beginning of 2022. Last year, the S&P 500's tech sector saw a staggering loss of around 22% with household names losing billions in market capitalization. That, of course, has been reflected in the share depreciation of individual companies in the tech-heavy Nasdaq. In 2022, broad sell-offs impacted tech stocks from medium-cap companies like DocuSign (ticker: DOCU), which lost an astounding 70%, to large-cap behemoths like Netflix (NFLX), with its 52% loss, and Meta Platforms (META), which shed around 68%.

UNDER THE RADAR

While clickbait headlines and trending social media stories often fixate on companies providing goods and services related to microchips, Web3, cloud storage, the metaverse and more, less trendy companies involved in producing material inputs that do not grab the attention of readers traditionally fly under the radar. That has precisely been the case with commodities, which entail economic goods — usually resources — that historically outperform the market during periods of high inflation. And despite signs that inflation is cooling, the Consumer Price Index (CPI) remains near 41-year highs.

Commodities have traditionally been viewed as a worthy means of diversifying investors' portfolios and include everything from precious metals and so-called energy metals (e.g., those central to the development of electric vehicle [EV] batteries and photovoltaic solar panels) to agriculture goods (e.g., milk, corn and soybeans) and fossil fuels like coal, natural gas, crude oil and petroleum products.

PASSING THE BUCK

Input inflation tends to benefit companies — and investors — despite hurting ancillary sectors, industries and ultimately consumers. This is evident in companies like ExxonMobil (XOM), for example, which posted record earnings of $19.7 billion in Q3 of 2022 despite the price of crude oil trading around $100 for the entirety of that quarter. Similarly, McDonald's (MCD) outpaced its input cost increases by raising its prices by 10% last year. The result? Shares rose by 3.5% in Q3 of 2022.

Cost pass-through, which refers to manufacturers passing along inflation-driven cost increases to consumer-facing businesses and consumers themselves, is measured by the Producer Price Index (PPI). The PPI is a leading indicator for the CPI; when the PPI increases, the CPI tends to follow suit. As these costs are passed along, funds with holdings that factor into those price increases serve as powerful hedges against elevated inflation and the share depreciation affecting much of the market.

RIDING THE BULL

Beyond inflation, various trends and geopolitical events impact the prices of commodities, many of which we're presently seeing. For example, as EV sales continue to set new records both globally and domestically, the price of lithium carbonate — the benchmark for the lithium industry and the central component in EV batteries — surged a jaw-dropping 190% in 2022.

Russia's ongoing war with Ukraine has adversely affected energy and grain supplies, which contributed to the price of coal rising over 135% last year, natural gas surging nearly 40% and the cost of corn rising over 15%. In Europe, where much of the continent depended upon Russia's natural gas supply before the country's invasion of Ukraine, natural gas futures increased to nearly €340 per megawatt hour (Mwh) last summer. Prior to December 2021, the price had never exceeded €116 per Mwh. That increase is the result of bans on Russian supply as well as Russia shutting down the Nord Steam 1, a pipeline that runs beneath the Baltic Sea and provided Europe with 35% of its imported Russian natural gas.

It's also no coincidence that the recent, well-documented rash of catalytic converter thefts around the country has coincided with the price of palladium surging from $484 an ounce in 2016 to an all-time high of $2,940 per ounce in 2021. That all-time high represents a 500% increase from the cost of palladium just five years prior. These factors, among others, play an immense role in why investors are experiencing an ongoing commodity bull market despite being mired in the broader bear market. In fact, as the S&P 500 shed around 25% of its value in the first 10 months of 2022, the Commodity Research Bureau Index, or CRB, gained more than 21% over the same period.

COMMODITY MUTUAL FUNDS

Mutual funds take many forms, from equity funds and fixed-income funds, the latter of which I wrote about in November's issue, to environmental, social and governance (ESG) funds and target date funds.

But less popular are commodity funds, which typically have three structures: **(1) equity holdings in commodity-related companies, (2) futures-based funds and (3) combination funds, which include both equities and futures.** Their lack of popularity can be attributed to their inherent price volatility and historical correlation to inflation. But given the persistence of global and domestic inflation, these types of funds carry tremendous intrinsic value in the current environment.

PROS AND CONS

The cons of investing in commodity funds have already been delineated, most notably the volatility associated with commodity markets in general. Additionally, the initial required minimum investment in some of the commodity funds may be prohibitively expensive for retail investors. But the pros, including portfolio diversification, inflation hedging and substantial distribution yields, can easily outweigh that volatility and perceived barriers to entry.

This is largely based on the historical tendency for commodities and stocks to have an inverse relationship: When stocks suffer, commodities thrive. And that is indeed what we're seeing with present market conditions, as demonstrated by the below performance chart of the CRB Index and the S&P 500, which illustrates that very inverse nature. But rather than exposing themselves to increased risk by attempting to identify which individual stocks in the commodity space will be the biggest winners, or by trying to invest in higher-risk commodity futures, investors are able to diversify their holdings and reduce their risk exposure through commodity-leveraged mutual funds.

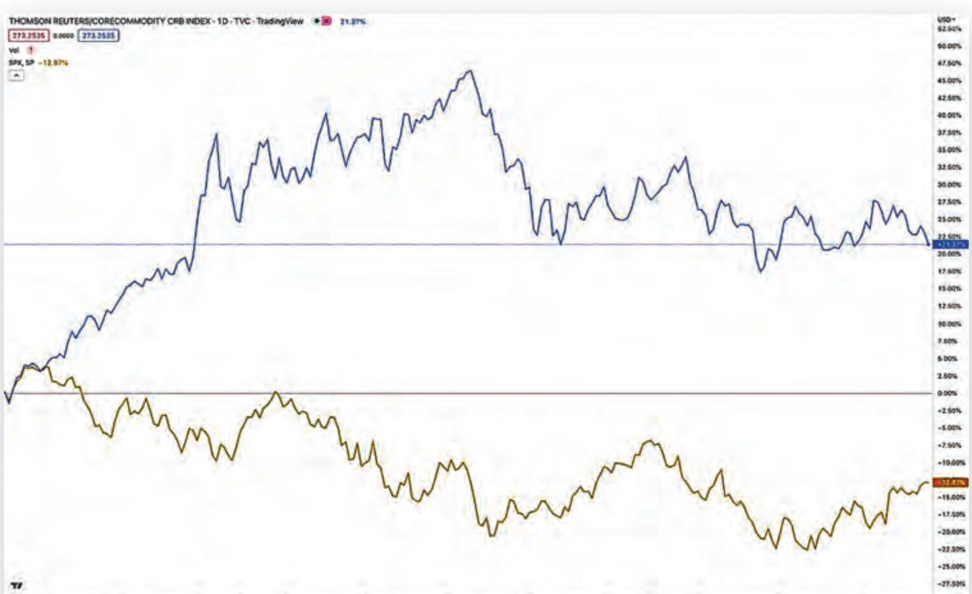
These funds tend to have holdings that incorporate both the companies involved in the sourcing and production of the given commodity (e.g., midstream companies that transport oil extracted by upstream drillers before onwards to downstream refiners) and the commodities themselves (e.g., West Texas Intermediate, the American benchmark for crude oil).

The benefit of this approach is that even when the price of one is underperforming, the price of the other can outperform, offsetting potential losses on either side of the equation. This was seen late last year when the price of oil was divergent from the price of oil stocks. Before the second half of 2022, such a drastic disconnect between oil prices and their associated equities hadn't been seen since 2006. Commodity funds with holdings in the resources and the companies linked to them were insulated from potential losses caused by the decrease in the price per barrel of crude oil in late 2022.

Another benefit is that commodity funds present an enormous opportunity for buy-and-hold investors. In an environment where it's increasingly difficult for investors to find viable yields, commodity funds routinely offer distribution yields as much as 25 times that of the S&P 500's dividend:

- **S&P 500 dividend yield:** 1.62%
- **Average Dividend Aristocrat yield:** 2.5%
- **Average Dividend King yield:** 2.85%

Continued on Page 43



Year-to-date performance of the Commodity Research Bureau Index (blue line), a measure of core commodities, versus the S&P 500 (rust line).

Source: TradingView

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer in his personal portfolio or those of his clients.

Taiwan Semiconductor Manufacturing

Model portfolio adds shares of world's largest chip foundry.

by Cy Lynch

PORTFOLIO OVERVIEW
REVIEWING HISTORICAL STOCK AND PORTFOLIO RETURNS

The model portfolio's relative return since it began in October 2006 is 1.6% versus our goal of 5.0% based on its annualized total return of 10.4% compared to 8.8% for the stock market represented by the Vanguard Total Stock Market exchange traded fund (ticker: VTI). The percentage of selections outperforming the stock market increased since my last column to 50.6%, inside our goal range of 50%-55%.

REVIEWING FUNDAMENTAL PROJECTIONS IN LIGHT OF LATEST FINANCIAL REPORTS

All of the 31 companies in the portfolio, except FedEx Corp. (FDX) issued new financial reports. Most companies reported results in line with our projections and expectations.

Booking Holdings (BKNG) continued its post-COVID-19 recovery reporting both sales and earnings per share well above our projections. Installed Building Products (IBP) reported sales and EPS well above our projections for the second quarter in a row.

EPAM Systems (EPAM), which continued to overcome difficulties caused by Russia's invasion of Ukraine, reported revenues and EPS significantly greater than expected.

At the negative end of the spectrum, three companies' reports merit comment. Bristol-Myers Squibb (BMY) reported declining sales, although EPS nearly met our projection. The company continues to seek growth through acquisition, and we'll watch to see how sales shake out. Coherent Corp. (COHR, formerly II-VI, Inc.) reported sales well above our projections as it completed its merger of the two companies. On the other hand, EPS were negative due primarily to merger financing and integration costs. We'll continue to hold the company and see how the merger works out going forward.

First American Financial Corp. (FAF) reported declines in both revenues and EPS. Some of the declines result from the company's continued closing of its property and casualty insurance business. Most of the decline is due to market pressures, especially selling fixed income assets at reduced prices and marking down holdings to current market value as interest rates rise. These challenges are significant but are the nature of FAF's business. We'll be patient for now and await turns in the financial markets, especially a leveling of interest rates.

The portfolio's overall projected sales growth is 10.5% (*see graphic on next page*), above our goal of at least 10%. Value Line's "Median Price Appreciation Potential" (VLMAP) over the next three to five years for its standard edition stocks is a nominal 60% (12.5% annualized), making the minimum target return for the model portfolio 17.5%, five percentage points over the expected market return. Projected total return for the model portfolio is 20.5%, well above our target, so no sales or challenges are needed to increase projected return.

FABRICATING PROFITS FROM SILICONE

This month's feature, Taiwan Semiconductor Manufacturing Co. (TSM), is the world's largest dedicated chip foundry, with over 57% market share in 2021 according to Morningstar. The company manufactured 12,302 different products using 291 distinct technologies for 535 different customers in 2021.

TSM's scale and high quality technology allow the firm to generate solid profit margins, even in the highly competitive foundry business.

The company has a large and diverse global customer base, including Apple, AMD and NVIDIA. Its products are used in a wide range of applications in a broadly diversified variety of end markets including mobile devices, high performance computing, automotive electronics and the Internet of Things (IoT).

TSM employs more than 65,000 people worldwide providing customer support, account management and engineering services through offices in North America, Europe, Japan, China and South Korea.

While the company has some sensitivity to the semiconductor business cycle, TSM's market share and wide geographic and customer diversification flattens the impact of the cycles. As a result, its historical sales, pretax profits and EPS have increased relatively consistently over the last 10 years averaging sales growth of 12.2%, with EPS increasing an average of 13.9%.

I project sales to grow an average of 11% over the next five years, just under the historical growth rate and between the 7.0% projected by Value Line over the next three to five years and 15.9% projected by Morningstar analysts over the next five years.

TSM's scale and high-quality technology allow the firm to generate solid profit margins, even in the highly competitive foundry business. Over the last 10 years, pretax profit margins have also been high and consistent, ranging from a low of 35.9% in 2012 and a high of 43.6% in 2020, averaging 40.2% over the last five years. I will use the five-year average of 40.2% as my projection over the next five years.

I find Value Line's projected income tax rate of 15% (above the 10.6% current rate) to be reasonable and will use it as my projection five years out. Diluted American depositary receipts (ADR) shares outstanding have remained relatively steady over the past 10 years at around the currently outstanding 5185.6 million, which I will use as my projection for five years out.

These projections lead to earnings per share of $7.96 in 2026. I will use the 10-year median high price-earnings ratio of 21.2x as my projected high P/E.

Combining these judgments leads to a forecast high price of $168.80 and potential compound annual return (using high P/E) of 19.4%, including a healthy projected dividend yield of 2.2%.

IMPACT ON THE PORTFOLIO

Investing our regular $1,000 in TSM leaves our portfolio projected sales growth and projected total return (calculated using projected high P/Es) at 10.5% and 20.5%, respectively.

Securities mentioned are illustrations or for study and presented for educational purposes only. They are not to be considered as endorsed or recommended for purchase by NAIC/BetterInvesting. Investors should conduct their own review and analysis of any company of interest using the Stock Selection Guide before making an investment decision. Securities discussed may be held by the writer in his personal portfolio.

Taiwan Semiconductor Joins Portfolio

COMPANY	12/19/2022 VALUE	% OF PORTFOLIO BEFORE/AFTER TAIWAN SEMI	PROJ. SALES GROWTH	PROJ. TOTAL RETURN	HIST. RETURN RELATIVE TO MARKET
Alphabet (Google)	$4,051.31	2.4/2.4%	18.0%	27.9%	159.1%
Coherent (was II-VI) (12/5/18)	945.99	0.6/0.6	14.0	27.6	(48.0)
Coherent (was II-VI) (10/10/19)	5,996.46	3.5/3.5	14.0	27.6	(24.7)
C.H. Robinson (5/31/13)	1,979.47	1.2/1.2	6.0	27.0	(61.9)
C.H. Robinson (6/30/14)	3,042.12	1.8/1.8	6.0	27.0	(39.7)
C.H. Robinson (7/6/15)	4,830.21	2.9/2.8	6.0	27.0	(25.3)
Installed Building Products	9,673.85	5.7/5.7	13.0	26.9	1.7
Lam Research (1/4/22)	616.14	0.4/0.4	14.0	26.8	(16.7)
Lam Research (3/8/22)	4,251.97	2.5/2.5	14.0	26.8	(0.9)
Axos Financial	794.01	0.5/0.5	13.5	26.5	(9.5)
MKS Instruments (7/29/21)	521.41	0.3/0.3	12.0	26.1	(31.4)
MKS Instruments (3/8/22)	5,345.19	3.2/3.1	12.0	26.1	(34.1)
Skechers (3/12/20)	1,604.39	0.9/0.9	12.0	25.1	6.0
Skechers (3/8/22)	5,255.87	3.1/3.1	12.0	25.1	20.2
NetEase.com	8,309.13	4.9/4.9	15.0	24.2	512.9
FedEx	745.13	0.4/0.4	7.0	24.2	(8.3)
Cognizant (6/3/08)	3,292.22	1.9/1.9	7.0	23.8	(22.4)
Cognizant (8/6/10)	2,464.09	1.5/1.4	7.0	23.8	(134.3)
First American Financial	6,505.80	3.9/3.8	7.0	23.7	0.7
Maximus	6,530.62	3.9/3.8	12.0	23.5	(18.7)
T. Rowe Price	1,597.11	0.9/0.9	9.0	22.5	(43.7)
Gentex (9/5/14)	3,392.28	2.0/2.0	10.0	20.6	0.9
Gentex (7/6/15)	5,133.86	3.0/3.0	10.0	20.6	(14.6)
Starbucks	7,777.06	4.6/4.6	9.0	20.4	13.7
Littelfuse	1,067.91	0.6/0.6	7.0	20.4	2.5
First Financial Bankshares	3,299.75	2.0/1.9	9.0	19.3	(0.3)
Genpact Limited	1,066.25	0.6/0.6	9.0	18.5	9.1
EPAM Systems	1,728.55	1.0/1.0	15.0	17.0	15.9
Fastenal	5,408.51	3.2/3.2	9.0	16.8	74.5
CVS Health (7/27/16)	6,513.10	3.9/3.8	8.0	16.7	(70.4)
CVS Health (2/7/18)	5,651.40	3.3/3.3	8.0	16.7	(7.2)
Bristol-Myers Squibb	3,122.43	1.8/1.8	8.0	16.6	18.7
MSC Industrial Direct	1,412.00	0.8/0.8	7.0	16.1	(107.1)
LKQ	5,202.23	3.1/3.1	9.0	15.5	4.9
Texas Roadhouse	1,322.21	0.8/0.8	13.0	15.4	34.6
Booking Holdings (8/31/18)	989.70	0.6/0.6	14.0	15.3	(33.1)
Booking Holdings (4/15/19)	4,520.23	2.7/2.7	14.0	15.3	(26.7)
AbbVie (7/31/20)	11,922.76	7.1/7.0	11.0	15.3	55.0
AbbVie (10/9/20)	3,874.16	2.3/2.3	11.0	15.3	23.1
Regeneron Pharmaceuticals	1,532.20	0.9/0.9	9.0	13.2	59.6
Elevance Health (was Anthem)	7,529.42	4.5/4.4	8.0	12.5	398.3
TJX Companies	8,127.55	4.8/4.8	9.0	9.6	80.7
Totals Before Taiwan Semi.	**168,946.03**		**10.5**	**20.5**	
Taiwan Semiconductor	1,000.00		11.0	19.4	
Totals After Transactions	**169,946.03**		**10.5**	**20.5**	

Economic Moats — The Big Picture

Key concept pairs well with the Stock Selection Guide.

by Craig Braemer, CFA®, CFP®

This article will be the first in a multi-faceted discussion of articles about economic moats. We will start by reviewing the big picture, follow that by getting into various details and finish by combining moats into our world of the Stock Selection Guide. In my opinion, economic moats can help us own better companies for longer periods of time. As a trained financial analyst, I see the framework of economic moats as being one of the more important investment concepts developed in recent years because it could help people generate potentially better financial results.

In general terms, the idea of an economic moat is for a company to have a sustainable competitive advantage over its rivals. This potentially allows that company to make above average profits and possibly earn better stock returns.

WHAT IS AN ECONOMIC MOAT?

The term "economic moat" was popularized by Warren Buffett. It refers to a company's ability to maintain competitive advantages over other firms in order to protect long-term profits and market share. One of the best analogies of this concept is medieval castles. They had moats of water around them to protect themselves from anyone that wanted to do them harm. Companies that have sustainable competitive advantages or a wide moat have a similar advantage over their competitors. While this is a simple concept, its execution can be complex.

MORNINGSTAR IS CONSIDERED THE LEADER IN ECONOMIC MOATS

In my opinion, the leading research firm on economic moats is Morningstar. They have built a framework for categorizing moats: defining the strength of the moat; determining if the moat is improving or declining; identifying the source of its strength and figuring how to value this advantage. Since Morningstar only covers about 1,500 companies, not every stock is covered. This does not mean other investment firms do not carry out similar research, however Morningstar's equity research process focuses on economic moats. Their research reports are interesting and valuable but can be fairly long at 12 pages per report on average. They do not think the same way as Wall Street's research firms. Morningstar's focus is not on the next quarter's earnings or how they can get into the company's next corporate syndication to earn fees. Instead, they are looking longer term, past more than the company's next few quarters of earnings. This is one of the reasons it resonates with me and why it is so easy for me to see the connection with Stock Selection Guides (SSGs).

ECONOMIC MOATS MAY HELP IMPROVE RETURNS

When I first saw the results on economic moats published by Morningstar in 2017, I thought this was great information for an investor. Here was a study done in the real markets that showed certain kinds of companies performed better than others over time. After reading it, I started to think about how I could bring this concept into my investment process. It changed how I thought about companies and it drove me to focus more of my time on the **quality of a company** or Section Two of our SSG (Stock Selection Guide). It even led me to create my first attempt at a moat class for the BetterInvesting National Conference in 2018.

What drove me to change the thoughts behind my investment process? In simple terms, it was the numbers! I saw how it could potentially improve my returns. Morningstar's reports presented a 15-year chart showing that the Morningstar Wide Moat Focused Index beat the general market by 4.5% on an annualized total return.

I realized the most important item about this index, though wide moats were important, is that **stock selection is key**. They found that buying the cheaper valued stocks led to outperformance. This sounds similar to the BetterInvesting investment process. What I found interesting from this strong outperformance — and it is a bit contrary to the mantra from the index, folks — is that active management can beat passive index funds. Morningstar

has a real and documented track record over 15 years of results that disagreed with the passive thesis. This got my attention and prompted me to want to learn more.

What does Morningstar do to find an economic moat? First, companies had to earn a superior return over what it costs a company to get capital; and second, these companies need to be able to sustain this return for many years by having a competitive advantage. Basically, Morningstar separated stocks into t**hree types of moats — wide, narrow and none**. The best companies on this rating system are identified as having a wide moat because these companies could generate a superior return for at least 20 years. Narrow moats are projected to generate excess returns for a minimum of 10 years.

If you have neither, you have no moat. I found this investment concept to be very intuitive and easy to share and the structural advantages of moats are important for long-term investors to know and use. So, it seemed to fit very well with the BetterInvesting world.

WHAT ARE THE 5 SOURCES OF ECONOMIC MOATS

Economic moats are created from at least one of five sources of competitive advantage: c**ost advantage, intangible assets, switching costs, efficient scale and network effect.** Companies can have multiple sources of advantage, but usually one source is dominant. This advantage allows wide moat companies to grow their cash flow faster over time, which is worth more to a stock over time. Moats provide a margin of safety due to their structural advantages.

Of these moats, some are more powerful than others. When looking at historical performance, the network effect moat has shown to be more powerful than other moats according to Morningstar. The source of this moat is present when the value of a product or service grows as its user base expands. Each additional customer increases the product's or service's value exponentially. In the age of computers, you can see how and why this moat can be so powerful. Some examples of this moat's source would be Visa and Alphabet (Google), as identified by Morningstar.

It is easy to understand the moat concept with these two companies because as they add more customers and vendors, their products or services become more valuable. We now see many technology companies building their business models to follow this moat. In our article next month, we will address this portion of economic moats in much more detail.

YOU CAN SEE IT IN THE NUMBERS

Because a moat provides companies an edge due to the concept of competitive sustainable advantage, it makes sense for them to possibly charge more for their products and services. In financial terms, this is called earning excess return over the cost of capital. In simple terms, it means making more of a profit due to this advantage versus what it costs to run the business.

Again, Morningstar is looking for this excess profit to last for 10- or 20-plus years (depending on the moat). I contend when you look at companies with a moat, it shows up in the numbers in Section 2 of our SSG. You should see it in the companies with absolute numbers that are higher than companies without moats in potentially both the pretaxed profit margins and Return on Equity (ROE) tables. The data shows companies with moats having higher pretax margins and ROEs than their universe. Companies without a moat show as having numbers significantly less than their universe. Thus, you can see it in the numbers. In addition, wide moat companies typically have higher numbers than narrow moat companies. For me, this data presents the financial picture of a company's business model.

MY SIMPLE INVESTMENT PROCESS FOR A STOCK

First, does a company have five-10 years of sales and earnings growth? Are the lines on Section 1 of my SSG fairly straight, parallel and going up to the right? If so, this looks like a potential growth company. Second, does the company have a quality Section 2 of our SSG? Meaning, does this company have a growing or flat pre-tax margin and ROE over the years? Are they absolutely or relatively high numbers: If this company has been identified as having an economic moat, you should see it in the numbers versus companies with no moat. If so, I become interested and start to do more research. This would include a visit to the company's website to learn more about the organization. I also look to see if they have a financial presentation in their investor section.

The financial presentation will present whether the company understands they have a strategic advantage. All of this information helps me to know the company better versus just looking at a bunch of numbers on my SSG. Usually, there is a company comment or two confirming that they believe they have a competitive advantage. Then I go back to the SSG and look for strong absolute numbers in Section 2 that would confirm this stock has an economic moat. This is why moats make so much sense to me and why I feel they are interconnected with our SSG. We will spend more time on some of these financial differences in future articles.

Security selection is key with moats. Buying the cheaper moat stocks has statistically been a way for an investor to potentially generate better than market returns. Morningstar has a solution to help you identify the cheaper stocks of economic moat companies: Morningstar employs a ranking system ranging from one star where the stock is expensive to five stars where it is cheap. The stars are based upon the stock price relative to its fair value estimate that the Morningstar analyst

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Why a Non-Transitory Recession Is Coming

And how you can weather it by investing humbly and patiently.

by Vitaliy N. Katsenelson, CFA®, CIO of Investment Management Associates

This article from Vitaliy Katsenelson includes discussion of assets mentioned only for educational purposes; no investment recommendations are intended. For more articles, go to Vitaliy's Contrarian Edge website (www.contrarianedge.com). You can sign up at the site to receive articles by email.

I am not an economist, but, looking at this picture, it is hard to see how we can avoid a recession. Ironically, we've been in a recession most of 2022 — real gross domestic product declined in the first and second quarters. Economists attributed declining GDP to a "transitory" recession caused by an overhang of pandemic-induced supply chain issues.

As inflationary pressures squeeze consumers from all directions, they simply will not be able to buy as many widgets as they bought the year before. Demand for widgets will decline; companies will have to readjust their workforce to the realities of new demand and thus reduce their employee headcount; and this will lead to higher unemployment.

All this, in turn, will lead to lower demand, and voila, we'll find ourselves in a non-transitory recession. Recessions do not worry us. Though I am sympathetic to people losing jobs and suffering economic hardships, recessions are a natural part of the economic cycle. They force both companies and individuals to become more efficient and thus make them stronger in the long term.

Recessions are like forest fires — small ones are healthy for the forest, as they get rid of dead wood and convert it to fertilizer.

However, the longer you suppress the fire (with the best intentions, thinking you are doing a good thing) the more dead material the forest accumulates. Eventually, when fire does pay a visit, it is more devastating and its effects are more long-lasting.

THE FED, THE DEFICIT AND TAXES

Some folks are upset about what the Federal Reserve is doing now. First off, it is not clear that it is the Fed that is in control of interest rates today and is responsible for their going up. Since inflation is running 7%–9%, where would we expect interest rates to be?

Second, we should be upset at Uncle Fed for allowing negative real rates for almost a decade, manipulating the price of one of the most important commodities of all, the interest rate (the price of money). This caused bubbles across all assets except one: Common sense did not experience much growth.

Since we are on the subject of uncles, we should also not forget to thank another uncle — Uncle Sam. The one who ran our debt from $10 trillion in 2008 to $31 trillion today. When our debt is $31 trillion, each incremental 1% interest rate increase costs the government about $310 billion in interest payments, which equates to a major category of our government spending.

The cost of the first 1% increase equates to about how much we spend on Medicaid, a 2% hike in rates costs us about as much as our defense spending, and 3% about equals our Social Security outlays.

Though we have to accept the new reality that income tax rates are likely going higher, it is going to be difficult to tax ourselves out of the current situation we are in — the hole we have dug is simply too big and deep.

Also, we are not going to cut Medicaid, Social Security, and especially defense (now that we are in the foothills of Cold War 2.0 with China and/or Russia).

That would be a sure way for politicians to lose their jobs. No, we are going to do what every country that can issue its own currency has done since the beginning of time: We are going to print money and thereby try to inflate ourselves out of trouble.

LIVING WITH THE HEADACHE OF A RECESSION

Summing up, the economy is likely heading into a non-transitory recession, and this one may last longer than past ones (we have accumulated a lot of dead wood).

The recession should lead in time to lower interest rates (good news for the housing market) and higher unemployment (bad news for the housing market). Consumer spending is going to be under significant pressure from all directions — a significant headwind for the economy.

Recessions in theory should reduce inflationary pressures. However, the combination of lower tax revenues and higher interest expense (interest rates may decline from the current level, but they are unlikely to come back to 2021 levels) means that our government debt will continue to climb, and the resulting money printing will bring higher inflation (more money chasing fewer goods), thus keeping interest rates not far from their current level or even pushing them higher.

As unemployment rises and we slide into a recession, the Fed may start lowering rates and fall back on its old tricks (buying back government bonds) that we saw over the last decade and a half.

However, if inflation persists the Fed may find that the problem it has created over that time is bigger than it can handle.

If reading this gave you a minor headache, imagine what I experienced writing it. Neil deGrasse Tyson has observed that, "The universe is under no obligation to make sense to you." This also applies to the current economy.

To make things even more interesting, while we are facing this economic whirlwind, the market (the average stock) is still expensive.

Bonds, though they are yielding more than they did six months ago, still provide negative real (after-inflation) yields and are thus not an attractive asset from a long-term capital-preservation perspective.

What is our strategy in an economy that makes little sense and is under no obligation to do so?

Invest humbly and patiently. Humbly because we don't know what the future will hold (nobody does!).

We'll invest patiently because we don't get to choose the economy or the overall market valuations we find ourselves stuck with — stoic philosophers would call those externals — and we have no control over them. The only thing we can control is our strategy and how we execute it. (Stoics would call that an internal.)

We are going to continue to do what we've been doing: patiently and methodically keep building a portfolio of "all-wheel-drive," undervalued, high-quality companies that have pricing power and should get through anything the economy throws at them.

In fact, if you look carefully through our portfolio — and this is the beauty of custom, separately managed accounts — you'll see that the revenues of most of the businesses we own are not tied to the health of the economy. Also, though we may end up being wrong on this (not the first time), the consumer seems like the weakest link in the economy.

Recessions are like forest fires — small ones are healthy for the forest, as they get rid of dead wood and convert it to fertilizer.

Though completely eliminating the consumer is an impossibility in a diversified portfolio, over the last year we have significantly reduced our exposure to consumer spending. Our current exposure to the consumer is tiny.

One last thing.

We've been slightly reducing the size of individual positions to avoid the potential impact of unknown unknowns, shifting us from 20–25 to 25–30 stock positions.

BETWEEN THE LINES

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calculates for the stock. Thus, you could have an expensive wide moat stock. This means it might be a good company, but maybe not a great stock.

THERE IS A NEGATIVE WITH THIS CONCEPT

Unfortunately, Morningstar only covers about 1,500 companies and those companies tend to be larger companies. In the BetterInvesting world, we would like to have portfolios with 75% of the stocks in mid-sized or smaller companies based upon sales. Thus, many of these companies might not be followed by Morningstar. However, if these smaller companies do have an economic moat, I suspect you will see it in their numbers in Section 2 of the SSG. Though Morningstar might not rank their moat, the company might share comments about their advantages on their website or in their financial material.

READING BETWEEN THE LINES

When buying a share of stock, you are buying a small piece of a business. I believe that an important component of successful investing involves an evaluation of whether a business will stand the test of time. I have found the concept of economic moats fits well with how BetterInvesting members invest. I think you can marry the concepts of a strong SSG with a wide economic moat. By doing so, it could potentially allow you to own better companies for longer periods of time. The financial benefit to you as the share owner is that you can compound cash flow at a potentially quicker rate than an average company, while theoretically growing your returns faster. In the end, I think economic moats are an important concept that investors should understand.

Sources: *"Moats Stake Their Claim," Morningstar Magazine, August/September 2017.*
"What Makes a Moat? Morningstar's Five Sources of Moat," Van Eck, September 2022.

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Getting the Mix Right

Why the Recipe For Your Portfolio's Asset Allocation Is Reblended As You Age

by Craig L. Israelsen, Ph.D.

When assembling an investment portfolio, we must decide how much to invest in various asset classes, such as U.S. and non-U.S. stock, real estate, commodities and fixed income (bonds and cash). This decision is the essence of "asset allocation." And, of course, it's not a one-time decision. Our asset allocation likely changes over our life cycle.

This article examines several different portfolios and how they performed over the past 50 years (from 1973-2022). The portfolios included the following: 100% equity, 80% equity/20% fixed income, 60% equity/40% fixed income, 40% equity/60% fixed income, 20% equity/80% fixed income and 100% fixed income.

The historical annual returns of seven well known indexes were utilized in this analysis. Large-cap U.S. stock was represented by the annual returns of the S&P 500 index from 1973-2022. Small-cap U.S. stock was represented by the Ibbotson Small Stock Index from 1973-1978 and the Russell 2000 Index from 1979-2022. Non-U.S. stock was represented by the MSCI EAFE Index from 1973-2022, and real estate performance was measured by the NAREIT Equity REITs Index from 1973-1977 and the Dow Jones U.S. Select REIT Index from 1978-2022. The performance of commodities was measured by the annual returns of the S&P Goldman Sachs Commodity Index. Bond performance was measured by the Ibbotson Intermediate Term Government Bond Index from 1973-1975 and the Bloomberg Aggregate Bond Index from 1976-2022. Finally, the performance of cash was determined by the annual returns of the 90-day U.S. Treasury bill. (*See the first chart at the top of the next page*.)

Shown in the first table is the 50-year return (average annualized return or geometric mean) and the 50-year standard deviation of annual returns for the seven indexes in this analysis. For example, the half-century return of large U.S. stock (S&P 500 index) from Jan.1, 1973 to Dec. 31, 2022 was 10.32% with a standard deviation of annual returns of 17.69%. As a comparison, the 50-year standard deviation of "cash" (90-day T-Bills) was 3.64%. Thus, the year-to-year variation in annual returns for large U.S. stock is nearly five times more volatile than an investment in cash.

The "reward" for the higher volatility is a return that was 2.3x higher (10.32% versus 4.49%). Volatility of an investment is often measured by a standard deviation of return, or essentially the amount of variation in the monthly or annual returns above and below the "average" rate of return. Commodities had the highest standard deviation of return and cash had the lowest.

If $10,000 had been invested in the S&P 500 index (via a mutual fund that mimics the index) at the start of 1973 the ending balance would have been $1,359,860 at the end 2022. Of course, unlike an index, an actual mutual fund has an annual expense ratio so the ending balance would have been smaller. For example, if the mutual fund that mimicked the S&P 500 index had an annual expense ratio of 0.50% (or 50 basis points) the

Performance of Individual Asset Classes: 50 Years from 1973–2022

50-Year Returns of Various Asset Classes	Type of Asset Class	50-Year Average Annualized Return	Growth of $10,000 After 50 Years	50-Year Volatility (Standard Deviation of Annual Returns)
Large U.S. Stock	Equity	10.32%	$1,359,860	17.69%
Small U.S. Stock	Equity	11.07	1,904,243	21.34
Non-U.S. Stock	Equity	7.77	421,744	21.15
U.S. Bonds	Fixed Income	6.60	244,213	7.06
U.S. Cash	Fixed Income	4.49	89,692	3.64
U.S. Real Estate	Equity/ Diversifier	10.65	1,577,484	20.10
Commodities	Diversifier	5.90	176,096	25.13

ending balance would have been $1,079,679 — or over $280,000 lower over a 50-year holding period!

Big lesson here: Use mutual funds and exchange-traded funds that have reasonably low expense ratios. Remember that published returns for mutual funds and ETFs already have the expense ratio deducted. Secondly, some types of mutual funds and ETF's will naturally have higher expense ratios, such as international stock funds and commodity funds.

The purchasing power of the ending balance of $1,359,860 in the S&P 500 index would have been $193,514 after accounting for inflation, which averaged 3.98% per year over this particular 50-year period. The impact of inflation upon the purchasing power of our investments is staggering. Alas, it is what it is. Purchasing power over time would be worse if we didn't invest! Don't let the reality of inflation ever stop you from investing.

PORTFOLIO ANALYSIS

Let's now evaluate the performance of various investment portfolios that were built with these individual indexes. Remember, these indexes are representative of mutual funds and ETFs that would be used in our actual investing. The first portfolio (*see second chart, below*) is a 100% equity model that had a 40% allocation to large U.S. stock, 20% allocation to small U.S. stock, 15% allocation to non-U.S. stock, 15% allocation to U.S. real estate (which, by the way, focuses on commercial real estate, not residential real estate) and a 10% allocation to commodities. Each allocation was maintained by annual rebalancing at the end of each year.

This 100% equity portfolio produced a 10.48% average annualized return with a standard deviation of 15.29%. Impressive numbers, but this aggressive portfolio took quite a hit in 2008 as shown by the return of (38.59%). It was also hit hard last year (2022) posting a return of (14.79%).

An 80/20 portfolio demonstrated an odd outcome in 2022, posting a slightly worse return than a 100% equity portfolio. This is due to the negative return of (13.02%) posted by U.S. bonds in 2022.

The 60% equity/40% fixed income portfolio is a classic asset allocation that is often referred to as a "balanced" portfolio (despite a ratio of 60%/40% not technically representing an equal "balance" between the two broad asset categories of equity and fixed income). Over this 50-year period a 60/40 portfolio rebalanced annually produced a return of 9.09% with an associated standard deviation of 10.08% —nearly a one-to-one relationship between return and volatility of return. This one-to-one relationship is a desirable combination that is created by genuine asset allocation — or the process of blending various asset classes together in a portfolio.

This blend of assets is analogous to making salsa. Salsa is the result of blending very different ingredients together — some of which we would not necessarily want to consume just by themselves.

Think of an investment portfolio in the same way — we blend various mutual funds and/or ETFs together to create a symbiotic mix of return patterns that produce a result that can be better than any individual ingredient by itself. A very interesting observation is the relationship between return and volatility across the spectrum of portfolios that range from 100% equity to 100% fixed income. A 100% equity portfolio had a 50-year return of 10.48% and a 100% fixed income portfolio had a return

Performance of Various Portfolios: 50 Years from 1973–2022

Portfolio Asset Allocation Models	PERCENTAGE ALLOCATION TO EACH ASSET CLASS							50-Year Average Annualized Return	50-Year Volatility (Standard Deviation of Annual Returns)	Portfolio Return in 2008	Portfolio Return in 2022
	Large U.S. Stock	Small U.S. Stock	Non-U.S. Stock	U.S. Bonds	U.S. Cash	U.S. Real Estate	Commod-ities				
100% Equity	40%	20%	15%	0%	0%	15%	10%	10.48%	15.29%	(38.59)%	(14.79)%
80% Equity/ 20% Fixed Income	35	15	10	15	5	15	5	9.89	12.89	(29.70)	(15.29)
60% Equity/ 40% Fixed Income	30	10	5	30	10	10	5	9.09	10.08	(21.18)	(13.20)
40% Equity/ 60% Fixed Income	15	10	5	45	15	5	5	8.14	7.64	(12.82)	(11.04)
20% Equity/ 80% Fixed Income	10	5	2.5	65	15	2.5	0	7.32	6.58	(3.84)	(12.01)
100% Fixed Income	0	0	0	80	20	0	0	6.21	5.97	4.47	(10.02)

(Allocations to each individual asset class maintained by annual rebalancing)

of 6.21% — a difference approximating a two-to-one relationship. In other words, the all-equity portfolio had a return that was 1.7x higher than the all-fixed income portfolio. That is rather astonishing. If we move from an all-fixed income portfolio to an all-equity portfolio we can expect our return to basically double (at least, based on the performance of the past half century). I suspect that many would assume the difference in performance would have been much larger.

It's a different story when we consider the volatility of an all-bond portfolio versus an all-stock portfolio. The 100% equity portfolio had a standard deviation of return that was almost 3x higher than the 100% fixed income portfolio. As we consider the level of "control" we have through our chosen asset allocation it is clear that we have more influence over volatility than we do over return. Moreover, volatility (as measured by standard deviation of returns) is more predictable than performance. This is so because standard deviation of return can never be negative whereas returns can be negative. As a result, the variation of returns (measured by rolling three-year returns, rolling five-year returns, etc.) can be much larger than the variations in standard deviation.

PERFORMANCE IN 2022

The calendar year we've recently completed (2022) was not much fun for investors. It was an all-time horrible year for bonds. In fact, the return of the Bloomberg Aggregate Bond index had a return of (13.02%), which was far worse than ever experienced. The previous worst year return for U.S. bonds since 1970 was (2.92%). Bond performance in 2022 took us to new — not so good — territory.

While atypical for bonds, the performance of the U.S. bond index in 2022 serves as a reminder of the importance of being diversified across a wide variety of asset classes — especially for retirees and others who are withdrawing money from a portfolio. We simply need more "buckets"— not less — when a portfolio is in distribution mode. Said differently, if we had to pick a time in our investing life cycle to be the most broadly diversified it would be in retirement. Making big bets on individual asset classes (other than cash) simply isn't worth the risk.

When building a portfolio spread the allocations across a wide variety of mutual funds and/or ETFs. The third chart (*below*) is an example of a 7Twelve® Portfolio that uses Vanguard funds only. I designed the 7Twelve® model in 2008 and have continued to monitor it since. While this particular version of the 7Twelve® model uses only funds available at Vanguard, there are other versions that use mutual funds and ETFs from other companies also. The percentage allocation to each of the 12 funds is up to you — but if each fund is equally weighted at 8.33% the overall allocation of the model is roughly 65% equity/35% fixed income.

The eight asset classes highlighted in purple (large U.S. stock through commodities) can be thought of as the "engines" of the portfolio while the four asset classes highlighted in pink represent the "brakes" of the portfolio. Maintaining both types of portfolio ingredients is crucially important, even when the engines are outperforming the brakes and vice versa.

Maintaining a balanced portfolio requires a balanced perspective. This 50-year look back provides a sense of what we might expect from various types of asset allocations. The more compelling question is "what can we expect from ourselves?" The whole notion of "better investing" requires as much from us as from the portfolio we build. After building a well-designed portfolio will we have the courage to stay with it and rebalance it, year after year? The performance results in this article assume we did. Better investing is the result of better behavior and not because of a magically wonderful portfolio.

Craig L. Israelsen, Ph.D., teaches in the Financial Planning Program at Utah Valley University. He is the developer of the 7Twelve® Portfolio. He can be reached at: craig@7TwelvePortfolio.com.

A Broadly Diversified Portfolio for All Seasons

7Twelve® Portfolio Asset Class	Vanguard 7Twelve® Portfolio Model
Large U.S. Stock	Vanguard Growth & Income (VQNPX)
Mid-Cap U.S. Stock	Vanguard Mid-Cap Index Admiral (VIMAX)
Small-cap U.S. Stock	Vanguard Strategic Small-Cap Equity (VSTCX)
Non-U.S. Developed Stock	Vanguard Developed Markets Index Admiral (VTMGX)
Real Estate	Vanguard Global ex-U.S. Real Estate Index Admiral (VGRLX)
Natural Resources	Vanguard Materials Index ETF (VAW)
Commodities	Vanguard Global Capital Cycles (VGPMX)
U.S. Bonds	Vanguard LifeStrategy Income Fund (VASIX)
Inflation Protected Bonds	Vanguard Short-Term Inflation Protected Securities Index Admiral (VTAPX)
Non-U.S. Bonds	Vanguard Total International Bond Index Admiral (VTABX)
Cash	Vanguard Federal Money Market (VMFXX)

BetterInvesting 'Legend' Dies at 95

Peggy Schmeltz helped promote NAIC and investing at the national level.

Peggy Schmeltz, a long-time BetterInvesting member who was featured in the national media for her enthusiastic support of the organization and her successful investing, died Dec. 10, 2022, at the age of 95.

Schmeltz, of Bowling Green, Ohio, was an ardent supporter of investing, especially for women. She was a stay-at-home wife, mother of four, MBA and investor who began to knock down a six-figure income from stock market investments in the 1980s.

Schmeltz was a committed teacher of NAIC/BetterInvesting's principles and with her late husband, William, was instrumental in building the Northwest Ohio Chapter. She toured nationally as a speaker on investing, including to the military. It wasn't long before her success with stocks led to a string of news clippings in the 1980s through the 2000s, not only in this magazine and her local papers, but in others, including The New York Times, The Wall Street Journal, Woman's Day and Money Magazine (twice), along with a Money cover photo.

But it was a quote from CNN's Financial News that has been most often repeated about Schmeltz, as in 2017 when she won the George A. Nicholson Jr. Distinguished Service Award in Investment Education. CNN said on July 1, 1998: "When you think about the pantheon of investors, many names come to mind: Warren Buffett; his financial partner Charles Munger; and, of course, Peggy Schmeltz."

Along with her role as a national educator, Schmeltz served on the NAIC/BetterInvesting Board of Directors from 1980-1995, the last three years as chair; was a member of the Investors Advisory Committee of the New York Stock Exchange; and was named a living legend of NAIC by this magazine in 2001.

Robert Wynn, a former Board of Directors member, says he feels "very lucky and blessed" that his path and Peggy's crossed through BetterInvesting. "She shared her good fortune and wealth of knowledge along the way as a volunteer and a trustee. She was transparent and authentic. My favorite memory of Peggy is that she often referred to her personal investments as examples to teach stock selection and portfolio management. That was so trusting and generous," Wynn said.

MUTUAL FUND MATTERS

Continued from Page 33

- **Distribution yield of the Van Eck CM Commodity Index Fund:** 20%.
- **Distribution yield of the Vanguard Commodity Strategy Admiral Fund:** 27.32%
- **Distribution yield of the DFA Commodity Strategy Institutional Class Shares:** 40.54%

There is, however, one caveat: Distribution yields are not paid out by commodity funds on a recurring basis like other equities traditionally distribute quarterly dividends. Rather, they are calculated as annualized distributions. Distribution yields take the most recent distribution, which may include interest, a special dividend or capital gains, which is then multiplied by 12 to get an annualized total. In short, a distribution yield includes two components: dividends and capital gains.

POPULAR COMMODITY MUTUAL FUNDS

There are numerous commodity mutual funds investors can choose from, each with varying ratings, expense ratios, distribution yields and required minimum initial investments. Many of these funds are so-called broad basket portfolios, which include an array of commodities ranging from metals, minerals, grains and livestock and agricultural goods, like cotton, sugar and coffee.

The Van Eck CM Commodity Index Fund Class A (CMCAX) was awarded four out of five stars by Morningstar. It has a one-year gain of 12% after posting a satisfying return of 32.96% in 2021. The fund boasts a robust yield of 20%, its expense ratio is 0.95% and shares currently trade at $5.67. However, online brokerages will require a minimum initial investment of $1,000 to hold the CMCAX.

The Invesco Balanced-Risk Commodity Strategy Fund Class A (BRCAX) was awarded three out of five stars by Morningstar. Though not as high as the CMCAX's yield, the BRCAX distribution yield spins off a slightly less impressive 16%. The fund has managed a near gain of 4.5% over the past year after posting a return of 18.87% in 2021. Shares currently trade at $7.24.

But its expense ratio, at 1.4%, is considered to be on the high end and the fund also requires a minimum initial investment of $1,000, both of which may be points of contention for some investors.

Lastly, the DFA Commodity Strategy Institutional Class Shares (DCMSX) provides one of the more appealing expense ratios at just 0.31%, a massive 41.47% distribution yield and no minimum investment requirement. Its 12.63% gain over the past year is admirable as well, and it comes on the back of a sizable 28.46% return in 2021. The fund receives a three-star rating from Morningstar and shares currently trade at $5.35.

Michigan BI Member Buys 'Boring Stocks'

BetterInvesting was her gift from 'genius' father who knew 1 of NAIC's founders.

As told to Angele McQuade by Sam Hyer of Michigan.

A LITTLE ABOUT ME: I'm a retired groomer and kennel owner, married with children and grandchildren. I've lived north of Grand Rapids, Michigan, for 30 years.

SOME OF MY HOBBIES: Reading (especially *BetterInvesting Magazine*), knitting, sewing and playing online games with my grandchildren. They say I need more practice, as I'm always eaten or unable to balance on jumping floating items. I also adore rock hunting and camping in Northern Michigan.

A FEW OTHER FUN FACTS ABOUT ME: My husband and I bred Champion Cocker Spaniels and were honored by the AKC as a Breeder of Merit. We placed Solomon with Stedman and Oprah.

Think of down markets as Black Friday. Listen to everyone, but invest on your own research and gut feeling.

HOW I FOUND BETTERINVESTING: My membership was a Christmas gift from my father, a genius mathematician, who knew one of the original creators of BI and felt the information was presented in a selfless manner that really cared that others succeeded.

MY BEST INVESTING MOVE: Finding Vanguard, where I make my own stock choices (after my former brokers talked me into letting go of half of my RPM and told me Target and Panera had no future). Now I invest the fees I used to pay them, and work on getting back what I lost. I don't chart and hover over my investments as my father did, though. I wanted a different path, to let my investments earn in the background. While I do have stocks that will be gone when they hit a target price, I don't want my waking hours to be about what the market is doing today.

ADVICE I'D GIVE TO NEWER INVESTORS: Buy boring…things people need but don't even think about. Think of down markets as Black Friday. Listen to everyone, but invest on your own research and gut feeling.

WHAT I APPRECIATE MOST ABOUT BI: Investing through BI at my father's insistence (though I procrastinated until I was 40) has saved us from poverty, as all my education from Tufts, The Ohio State University and

Sam Hyer

Ferris State with careers in animal behavior, grooming and pet care were not financially overly compensating. Having to retire to disability without my investments would have left me impoverished.

MY CURRENT BIG FINANCIAL DREAM: I've never been one to have goals or dreams. That's why my former brokers couldn't get a grip on how much my goal should be. As a non-actualizing person, I love seeing if anyone else has a dream or goal I can make my own.

HOW I PLAN TO USE MY INVESTMENT RETURNS: Next year, I'm splurging to go back to the Netherlands to visit a friend I met there in 1976. I also plan to help finance my nine grandchildren's further education. And being that my body is fast failing, I'll also pay for the care and equipment I need so I won't be a burden to my family.

ONE LAST THING: This magazine is the first piece of mail I crack open on my 500-foot walk home from the mailbox, and I read and reread it until the next issue comes.

Angele McQuade has been *BetterInvesting Magazine's* Book Value columnist for 23 years. She's the author of three books, including "Investment Clubs for Dummies" and BI's upcoming new youth investing handbook. Angele lives in Maryland, where she also writes children's picture books and novels. Email her at angelemcquadeauthor@gmail.com.

BetterInvesting's Corporate Partners

BetterInvesting's Corporate Partners consist of publicly traded companies. Some are just getting started with BetterInvesting, while others have supported the association and its mission for many years.

The companies have one thing in common, however, and that is the desire to attract the interest of long-term retail investors.

Corporate Partners support the organization by paying membership dues, participating in events and providing investors with the information needed to make well-informed investment decisions.

As a service to both the corporations and our readers, the editors are pleased to present the listing and information that follows, including the company name, website address, stock exchange, ticker symbol and the date the company joined BetterInvesting.

Companies are presented in three groups, separated according to annual revenues.

The first, large companies, includes companies whose total annual sales were $10 billion or more.

Medium companies include those with annual sales between $1 billion and $10 billion and small companies include those with revenues of less than $1 billion.

A company's market capitalization often differs significantly from its revenues; as a result, the company's sales figures might place it in one category while its market capitalization would place it in another grouping.

GET THE FACTS

For information on BetterInvesting's Corporate Partners including links to their websites, visit us at www.betterinvesting.org.

LARGE COMPANIES (more than $10 billion in revenues)

COMPANY	JOIN DATE	WEB ADDRESS	EXCHANGE	TICKER
Aflac	5/1/21	investors.aflac.com	NYSE	AFL
Deutsche Bank AG	5/22/01	www.adr.db.com	NYSE	DB
Duke Energy Corporation	3/15/93	www.dukeenergy.com	NYSE	DUK
Kellogg's	12/7/21	www.kelloggcompany.com	NYSE	K

MEDIUM COMPANIES ($1 billion to $10 billion in revenues)

COMPANY	JOIN DATE	WEB ADDRESS	EXCHANGE	TICKER
AllianceBernstein	7/1/20	www.alliancebernstein.com	NYSE	AB
MGE Energy, Inc.	5/24/01	www.mge.com	NASDAQ	MGEE
RPM International, Inc.	5/1/88	www.rpminc.com	NYSE	RPM

SMALL COMPANIES (less than $1 billion in revenues)

COMPANY	JOIN DATE	WEB ADDRESS	EXCHANGE	TICKER
Middlesex Water Company	9/1/12	www.middlesexwater.com	NASDAQ-GS	MSEX
National Retail Properties	5/16/02	www.nnnreit.com	NYSE	NNN
Safehold, Inc.	1/23/18	www,safeholdinc.com	NYSE	SAFE
Unitil Corporation	6/24/94	www.unitil.com	NYSE	UTL
York Water Company, The	2/1/01	www.yorkwater.com	NASDAQ	YORW

A Clear Declaration of Pecuniary Interest

Pennsylvania club celebrates 31st anniversary this month.

by the Pecuniary Investment Club of Upper Merion, Pennsylvania

The Pecuniary Investment Club of Upper Merion, Pennsylvania, is celebrating 31 years with BetterInvesting. It was founded in March 1992 by five co-workers. Pecuniary means money in Latin and the members thought that would be eye catching for people who knew Latin. The club's first stock purchase was Johnson & Johnson, which was held for 25 years.

For a few years meetings were held in their company's conference room in Philadelphia. That meeting space was lost while the company was in transition. The club relocated approximately 20 miles west to Upper Merion Township, first meeting at a member's home and later finding the township library as their regular meeting place.

The club's membership varied over the years from between five and 12 members. Members were mostly comprised of a combination of co-workers, family members or friends. At its 2015 peak there were 12 members and the portfolio value was over $350,000. The club currently has five members. Current member tenure ranges from 24-plus years to more than one year. The portfolio consists of the stocks of 13 companies.

THE PECUNIARY INVESTMENT CLUB. From left to right: Brian Jones, Ken Luciani, Jack Shannon and Kris Calidas. Jim Lacavino is not pictured.

WHAT HAS CHANGED?

Technology advancements are a major contributor to our club's longevity and prosperity. The speed and extent of information available with a few clicks from your mobile device, tablet or computer creates time and opportunities for people. Members have been able to utilize this to become better informed. Gone is the time and effort to travel to attend meetings, as well as manually completing Stock Selection Guides using a pencil, ruler, calculator and eraser. Stock screening, conducting research, education, records, meetings and making club contributions can be done electronically.

Today's automated SSG includes many features that easily allow comparison against industry peers and benchmarks, access to analyst consensus estimates, and modification of judgment. Additionally, the SSG includes a variety of trended quarterly performance results displayed numerically or in a charted format and direct connections to various external research sources.

In 2017 the club transitioned to myICLUB. Its automated record-keeping functions and extensive club and member reports eliminated the manual effort and three-ring binder need to keep the books and records straight. Today, reports are produced instantaneously. Books and records are updated and available at all times throughout the year for members. Integration of the SSG and myICLUB has been extremely useful, providing an additional assortment of club performance and member reports.

As a result of the pandemic, clubs switched from meeting in-person to virtually. We learned to embrace virtual meetings, allowing us to add a new member during the pandemic. Virtual meetings may continue to benefit clubs by eliminating travel and allowing for greater geographical scope in membership.

WHAT HAS STAYED THE SAME?

It remains challenging to find new members willing to adopt investing education in a manner that is consistent. The BetterInvesting methodology is consistent in the way you analyze a company on fundamentals and a value-based perspective. The main source of prospective members still comes from co-workers, family members and friends.

While methods to learn have evolved, the underlying fundamentals to analyze a company haven't. We subscribe to research and avoid reactionary buying and selling. We think long term and don't want frequent churn. Performing good research and leading group discussions on the research is key to long-term success. More importantly, we continue to encourage members to use the club principles and apply them personally.

We don't know what the future holds, but we know that informed and disciplined investing using the BetterInvesting methodology is wise investing.

California Investors Have High Hopes

For 40-plus years, club has striven to update tech, stay educated.

by Janice Sung, president; Ellen Juan, secretary and Mary Lynn Pelican, treasurer, of the High Hopes Investment Club of Fremont, California

Over these 40 years, the High Hopes Investment Club of Fremont, California (*at right*), has gained new members and sadly lost a few good ones.

Our ages range from 30 years to 80 years, but one thing is clear: We all have the same objective. By utilizing the group's knowledge through BetterInvesting and personal experience, we have built a very strong stock portfolio that we all can be proud of.

Of our original founders, only two remain both active and seasoned members. Their contribution to the club is very valuable and they are dedicated to helping any club member.

A STATE OF THE ART APPROACH

During 2021, we acquired five new members, now totaling 16 and going strong.

High Hopes has always striven to maintain the state of the art by utilizing tools such as the Stock Selection Guide, Toolkits 3, 4, 6 and the SSGPlus. And after 38 years of using Excel spreadsheet for our accounting records, we transferred our data to myICLUB, the online accounting program, which gives us better and more accurate information at a click of a button.

MEMBER EDUCATION IS A PRIORITY

BetterInvesting has updated its website so it is user friendly. Our club has remained a member of BetterInvesting for the past 40 years and is in the process of reeducating all our members on how to access BI resources to obtain stock market information.

Through the downturns and growth of more than 40 years our group has survived.

Since we now use the myICLUB accounting program, we can easily check our club's performance by clicking on the Reports section, then the Club Portfolio section to see our results. For example: From September 1990-September 2021 our club grew 64% and from January 2021-September 2021 our percentage gain was 23%. Therefore, we will be looking forward to finding new ways to grow our High Hopes Investment Club portfolio.

Chapter Contacts

Contact your local chapter for specific details on an event or visit www.betterinvesting.org/chapters.

USING THIS SECTION

Seeking to network with other long-term investors? Use these resources for information about programs in your community. Meetings provide investment education for individuals of all ages and experience levels. Each BetterInvesting chapter is listed with its website and contact information. We urge readers to contact the chapter directly for complete details about any event.

For those not covered by an area chapter, please see the Online Chapter listing for information or assistance.

Upcoming Investors Fairs, Educational Fairs, Annual Meetings and other major events are listed at the end of this section. These regional programs are the heart of BetterInvesting's educational effort. Some request a modest fee to defray costs, while others are free.

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WYOMING

See Colorado, Rocky Mountain

The 2022 Kenneth Janke Award for Lifetime Achievement: South Florida Chapter's Phil Keating

Since 1987, when he founded the South Florida Chapter, Phil Keating, CFP®, has been a chapter director every year. Not only was he the first president of the chapter, he has served two terms on the NAIC/BetterInvesting Board of Directors, in the late 1980s and again in 2016 through 2019.

Phil currently serves as chairman of the South Florida Chapter, where he is known for welcoming and encouraging newcomers.

In 1991, he founded NAIC's CompuFest. He has also administered and judged the South Florida Chapter's Annual Portfolio Competition since 1990. He also arranges the chapter's Investor Education Day program. On top of all that, he is praised for his captivating speaking ability.

Barbara Foor Larson said that Phil "charmed" her into accepting the role of chapter vice president. She first met him when he was a speaker at a CompuFair in the 1990s.

"His calmness [and} slow methodical speaking made his presentations understandable for me, year after year. His presentations have always been informative and well received," Foor Larson wrote in his nominating form.

Graciela Moses, of the South Florida Chapter, noted: "For decades, besides his contributions on the national level, Phil has been there for the chapter in countless little ways not listed in the chapter history."

ANNUAL MEETINGS & INVESTOR EVENTS

DISTRICT OF COLUMBIA

D.C. Regional

7:30 p.m. – 9 p.m., third Tuesdays online, including Feb. 21, March 21 and April 19

Money Matters Book Discussion. The Financial Book Discussion Group meets monthly and is open to all. While prereading of the selection is encouraged, summaries are provided and the presentations permit everyone to follow along. The topic schedule is at www.signupgenius.com/go/10c0545a8a622a75-better. No registration required. Access the event at the website below. Cost: free. Contact: join.money.matters@gmail.com.
www.betterinvesting.org/dcregional

FLORIDA

South Florida

9:30 a.m. – noon, March 25, online

Club Portfolio Competition Review and Evaluation Seminar. Benefit from the close examination of portfolio competition entries. Gain portfolio management tips in this interactive session and acquire actions needed for your portfolio. Presenter: Phil Keating, CFP®, chapter founder, director, and *BetterInvesting Magazine* Editorial Advisory and Securities Review Committee member. Cost: $20, open to all. Registration: www.betterinvesting.org/chapters/south-florida/local-events.
www.betterinvesting.org/southflorida

South Florida

8:30 a.m. – 11:30 a.m., April 22, online

Investor Education Day. Guest speakers, Doug Gerlach, president of ICLUBcentral and Phil Keating, CFP®, will discuss: Finding Gems in an Unpredictable Market; Strengthening Your Portfolio with Dividend Stocks; Understanding Profit Margins to Predict Growth or Decline; Market Mistakes Everyone Makes…but You Don't Have to. Also announcing the finalists of the 2023 Investment Club Portfolio Competition. Cost: $20, open to all. Registration: www.betterinvesting.org/chapters/south-florida/local-events.
www.betterinvesting.org/southflorida

South Florida

noon – 1 p.m., April 22, online

Annual Elections Meeting. Follows the Investor Education Day. Cost: free and open to all. Registration: www.betterinvesting.org/chapters/south-florida/local-events.
www.betterinvesting.org/southflorida

MARYLAND

Maryland

6:30 p.m. – 9 p.m., April 13, April 20
College of Southern Maryland
Prince Frederick Campus
A-Building, Room PFA124
115 J.W. Williams Road
Prince Frederick

Stock Analysis, In-Person Class. BetterInvesting will introduce you to selecting companies for investment using the Stock Selection Guide form of analysis. Topics include: investment terminology, sources of investment information, as well as understanding and interpreting financial information. SSG analyses for several companies within one industry will be done. Register through the website below. For information, contact@maryland.betterinvesting.net.
www.betterinvesting.org/md

OHIO

Northeast Ohio

10 a.m. – noon, April 1, online

Doug Gerlach, Back by Popular Demand. Session One: Sell Indicators on the Stock Selection Guide. Selling a stock is more difficult than buying! Learn how to interpret the SSG indicators that suggest when it may be time to sell. Learn Doug's "Four Strikes & You Are Out!" **Session Two: Dividend Analysis for the Growth Stock Investor.** The two keys to successful growth stock investing that the Investor Advisory Service uses are: Buy using low P/Es in SSG Section 4, with a strong Total Return in the SSG Results Summary in Section 5. Learn about concepts such as yield, the payout ratio and the importance of balancing income and capital appreciation in your portfolio. Cost: $20. Register at the website below. For information: education_programs@neohio.betterinvesting.net.
www.betterinvesting.org/neo

OREGON

PORTLAND

10 a.m. – 2 p.m., April 8
Tualatin Library
18878 SW Martinazzi Ave., Tualatin

Two investor classes, with lunch. Suzi Artzberger, BetterInvesting director of Online Stock Tools Suite, Information Technology and Data, will show advanced features of the SSGPlus. Robin Ware (president of the North Florida Chapter) will demonstrate advanced Morningstar Investor Service features. Limited to 24 registrants. To register, see website below.
www.betterinvesting.org/portland

WASHINGTON, ALSO SERVING IDAHO, MONTANA, OREGON

Inland Empire

6:30 p.m. – 7 p.m., April 24, online

Annual Meeting, Election of Chapter Directors, With Educational Program. Open to all. Following this short business meeting, there will be a presentation, **A 'Cheat Sheet' for the Stock Selection Guide (SSG).** It's suitable for beginners and is a review of the basics for seasoned users. The Achieving Critical Mass (ACM)/IEC-BI Model Stock Investing Club (MSIC) will be called to order afterwards. All are invited to participate in this meeting. Cost: free. Register at the website below. For info: contact@inlandempire.betterinvesting.net.
www.betterinvesting.org/inlandempire

Gildan Activewear Inc. Centene Corporation

Reviewing past Stock to Study and Undervalued selections.

by Kevin Lamiman, Contributing Editor

STOCK TO STUDY

Gildan Activewear Inc.

Ticker: GIL

Company Description: Montreal-based, vertically integrated Gildan produces basic apparel, including T-shirts, underwear, socks and hosiery. Its primary market is the sale of blank T-shirts, sweatshirts and other apparel to wholesalers, major clothing brands and producers of printwear. Incorporated in 1984, Gildan also sells branded clothing through retail and direct-to-consumer channels. Brands include Gildan, American Apparel, Comfort Colors and Gold Toe. Gildan produces most of its clothing in Latin American factories while generating most of its sales in the United States.

Price at Time of Selection: $32.38

High Price During Past Five Years: $43.63

Closing Price 5 Years Later: $29.15

Total Return at 5-Year Price (Including Dividends): (3.6%)

S&P 500 5-Year Total Return: 42.9%

Value Line Long-Term Earnings Growth Estimate When Featured: 8.5%.

Consensus Long-Term Earnings Growth Estimate When Featured: 13.8%

Five-Year Sales Growth Rate: (2.6%)

Five-Year EPS Growth Rate: (45.8%)

Five-Year Pretax Profit on Sales: 15.1%

Five-Year Return on Equity: 19.8%

Comment: Gildan's commanding market share and improving margins were among reasons for its 2018 selection. The five-year total return of (3.6%), however, fell short of the Stock to Study goal of doubling over that time span. At the five-year high of $43.63 Nov. 16, 2021, the stock's total return was 44.3%.

UNDERVALUED STOCK

Centene Corporation

Ticker: CNC

Company Description: Centene is a managed-care organization focused on government-sponsored health care plans, including Medicaid, Medicare and the individual insurance exchanges. Centene served 23 million medical members as of September 2022, mostly in Medicaid (70% of membership); the individual exchanges (9%); Medicare Advantage (7%); and the balance in Tricare (West region), correctional facility and commercial plans. The company also serves 4 million users through the Medicare Part D pharmaceutical program.

Price at Time of Selection: $73.75

High Price During Past 18 Months: $98.53

Closing Price 18 Months Later: $76.12

Total Return at 18-Month Price (Including Dividends): 4.4%

S&P 500 18-Month Total Return: (8.8%)

Value Line Long-Term Earnings Growth Estimate When Featured: 9.5%.

Consensus Long-Term Earnings Growth Estimate When Featured: 11.3%.

Most Recent Quarter Sales Growth: 10.7%

Most Recent Quarter EPS Growth: 28.3%

Comment: One completed major acquisition and another pending, plus the stock's compelling valuation, were among reasons committee members cited for the company's 2021 selection. The total return of 4.4% fell short, however, of the goal for an Undervalued Company — a 20% increase over 18 to 24 months. At the 18-month high of $98.53 Aug. 15, 2022, however, the total return was 35.1%.

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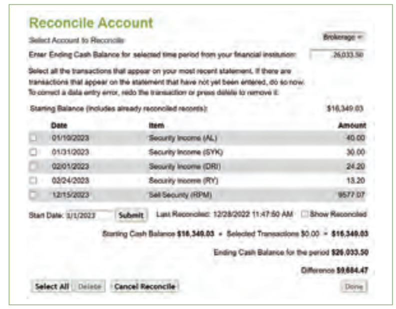
How to Reconcile Your Investment Club Accounts



Keeping an investment club's books accurate is a key task of the treasurer's job. Transposed digits, misplaced decimal points, or skipped transactions can all wreak havoc with the club's operations.

To keep a club's books in balance with its bank and brokerage accounts, **myICLUB.com** now includes a **Reconcile Account** tool. With this feature, a treasurer can identify problems that may exist between entries in the club's accounting records and items on the corresponding financial institution accounts, and also make any necessary corrections. Simply enter the ending balance from the club's most recent bank or brokerage statement, check the items that match, and myICLUB will let you know when the amounts agree.

When using unit value accounting, catching and correcting errors quickly is key to preventing bigger problems that may arise down the road. Treasurers should reconcile club accounts regularly.

It's time your investment club switched to myICLUB.com. Try our free 45-day trial today and get two free e-books filled with myICLUB.com User Tips, Quick Start Guides for Members and Treasurers, and more!

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- Receiving assistance from a local chapter volunteer?
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- Visiting the in-depth and growing learning center with resources for both beginning and experienced investors?
- Accessing the online stock selection tools featuring the extremely effective Stock Selection Guide® (SSG®)?

Explore More Features at www.BetterInvesting.org/Features