Lunchtime Learning Webinar Series
with Doug Gerlach, ICLUBcentral Inc.

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This Month’s Market Musings

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LUNCHTIME LEARNING WITH DOUG GERLACH
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YTD Market Performance

S&P 500 PE Ratio

Source: http://www.multpl.com/
It’s just as possible, in our view, that market prices could turn sideways for a period, waiting for company earnings to catch up to share price valuations. The market tends not to act so rationally, however, so this may not be as probable as an overall correction.

There is some history that would support this view. In the early-1990s, small-caps surged ahead, and then in the mid-90s experienced a period of several years when returns lagged large-caps—even though those small companies were delivering growth at higher rates than large companies.

In bull markets, investors tend to gravitate towards large-caps since they can earn desirable rates of returns without taking on the risk that comes from investing in smaller companies. The downside of grabbing only the low-hanging fruit is that these investors miss the opportunities of nabbing well-run small businesses at more favorable prices which will blossom later in the market cycle.

Always Remember...

You aren’t buying the market. Buy **good companies** at **good prices**.
What’s Doug Reading?

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LUNCHTIME LEARNING WITH
DOUG GERLACH

The Success Equation

Untangling Skill and Luck in Business, Sports, and Investing

by
Michael J. Mauboussin
Observed outcome = skill + luck

Managing Luck & Skill

- Your success equation is a combination of skill & luck & both are manageable.
- As skill improves, performance becomes more consistent, and therefore luck becomes more important.
- As population of skilled investors increases, with individual retail investors retreating to sidelines, variation in skill narrows, and luck becomes more important.
Managing Luck & Skill

} Individuals have well-proven knack for acting on insufficient data with a great deal of confidence.

} A checklist is often helpful. Hedge developed a checklist for responding when company suddenly announces bad news.
   ◦ Helps keep heads cool as they decide which is the better decision.”

} Feedback is single most powerful way to improve skill.

4 Quick Tips for Coping with Corrections & Bear Markets
4 Tips for Bear Market

1. Create & manage stock wish list.
   - Be ready to jump on opportunities when they present themselves.
2. Watch especially for small company opportunities.
   - Small companies typically hit harder during correction.
3. Upgrade portfolio whenever possible.
   - Take advantage of opportunities to replace stocks with those with higher total returns/higher quality.
4. Remember: bear markets never last forever!

Finding Undervalued/Higher Return Stocks
Picking from Current Holdings & Watch List

- 3 ratios to use to quickly test if stock may be a buy candidate:
  1. Total Return
  2. Relative Value
  3. Reward/Risk Ratio
- Always update stock studies before reviewing watch list or portfolio.

Projected Total Return

- IAS ranks all currently-covered stocks by **Total Return**.
- Idea is to help find best ideas at current time for adding to portfolio if none of issue’s 3 picks are suitable.
- However, high total return stocks are sometimes cheap for a reason – always investigate.
Total Return

Very high projected rates of total return can indicate:
- Problem with your analysis – too much upside or too little downside; projected growth too high; projected high P/E too high.
- Or can indicate good opportunity.
  - IAS analysts sometimes sees projected total return potential of nearly 30% for some newly recommended stocks.

Relative Value

If Relative Value is less than 100% (Current P/E is less than Average P/E), then:
- Stock may be undervalued.

However, if RV is below ~65% then:
- Stock may be devalued for a reason.
- OR stock may be changing stages of life cycle into slower growth/slower P/E stage.
Reward/Risk (Upside/Downside)

- Should be 3:1 at minimum when purchasing.
- May be less than that when adding to existing holdings.
- If much about ~12, may be problem with your analysis:
  - Projected low price set too high.
  - Projected growth/high P/E set too high.
  - OR may indicate undervalued opportunity.

### SmallCap Informer

Top Stocks Ranked by Total Return

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Name</th>
<th>Total Return</th>
<th>Reward/Risk</th>
<th>Rel. Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>SODA</td>
<td>SodaStream</td>
<td>28.9</td>
<td>8.9</td>
<td>85.4</td>
</tr>
<tr>
<td>CRUS</td>
<td>Cirrus Logic</td>
<td>28.0</td>
<td>12.1</td>
<td>65.0</td>
</tr>
<tr>
<td>YNDX</td>
<td>Yandex</td>
<td>27.5</td>
<td>7.3</td>
<td>82.3</td>
</tr>
<tr>
<td>FRAN</td>
<td>Francescas</td>
<td>26.8</td>
<td>14.1</td>
<td>73.2</td>
</tr>
<tr>
<td>SSNC</td>
<td>SS&amp;C Technologies</td>
<td>24.6</td>
<td>7.4</td>
<td>81.6</td>
</tr>
<tr>
<td>PFMT</td>
<td>Performant Financial</td>
<td>22.7</td>
<td>13.5</td>
<td>73.5</td>
</tr>
</tbody>
</table>
Investor Advisory Service

Top Stocks Ranked by Total Return

<table>
<thead>
<tr>
<th>Ticker Name</th>
<th>Total Return</th>
<th>Reward/Risk</th>
<th>Rel. Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>ONE Higher One Holdings</td>
<td>33.8%</td>
<td>7.2</td>
<td>54.2%</td>
</tr>
<tr>
<td>GILD Gilead Sciences</td>
<td>29.9%</td>
<td>5.5</td>
<td>65.3%</td>
</tr>
<tr>
<td>LQDT Liquidity Services, Inc.</td>
<td>26.4%</td>
<td>6.0</td>
<td>80.0%</td>
</tr>
<tr>
<td>YNDX Yandex</td>
<td>26.2%</td>
<td>5.6</td>
<td>95.0%</td>
</tr>
<tr>
<td>UTHR United Therapeutics</td>
<td>23.0%</td>
<td>3.1</td>
<td>82.8%</td>
</tr>
<tr>
<td>RMD ResMed</td>
<td>23.0%</td>
<td>6.3</td>
<td>80.5%</td>
</tr>
<tr>
<td>TFM The Fresh Market, Inc.</td>
<td>21.6%</td>
<td>6.7</td>
<td>84.4%</td>
</tr>
</tbody>
</table>

Challenge Current Holdings

Use TK6 Challenger or Challenge Tree to compare 2 stocks to determine if switching is a good idea.
Where’s Doug?

- April 25, 2014: Pittsburgh BetterInvesting Chapter Workshop, Pittsburgh, PA.
- May 3, 2014: NE Ohio BetterInvesting Chapter Workshop, Mayfield Village, OH.
- May 16-18, 2014: BetterInvesting National Convention, Chicago, IL.

Thank You!

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www.myICLUB.com

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