

Tuesday Night Stock Club
with Doug Gerlach, gerlach@iclub.com

3/2/2021

Tuesday Night Stock Club

BY DOUG GERLACH, PRESIDENT, ICLUBCENTRAL INC. | MARCH 2021



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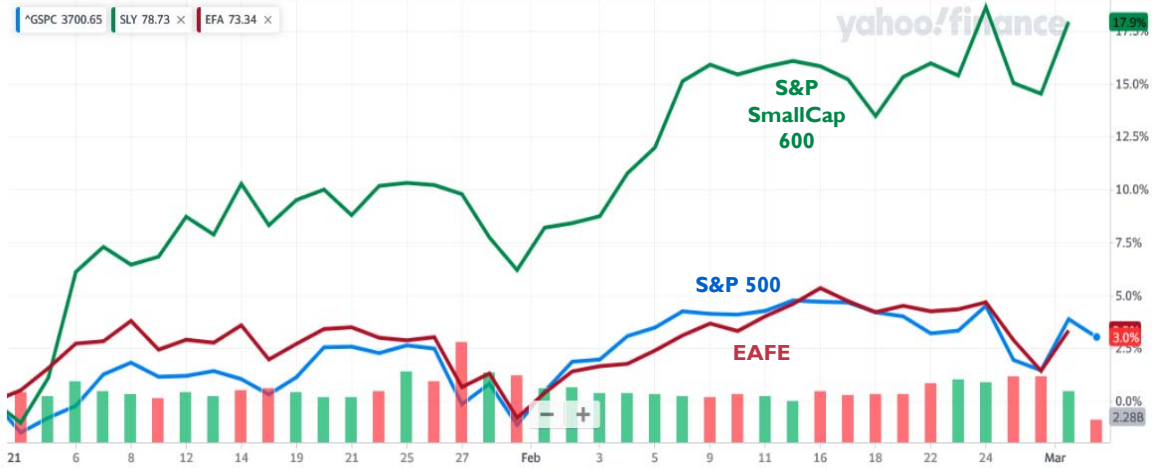
MARKET MUSINGS

A solid blue horizontal bar spanning the width of the slide, located below the 'MARKET MUSINGS' text.

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2021 Market Performance YTD



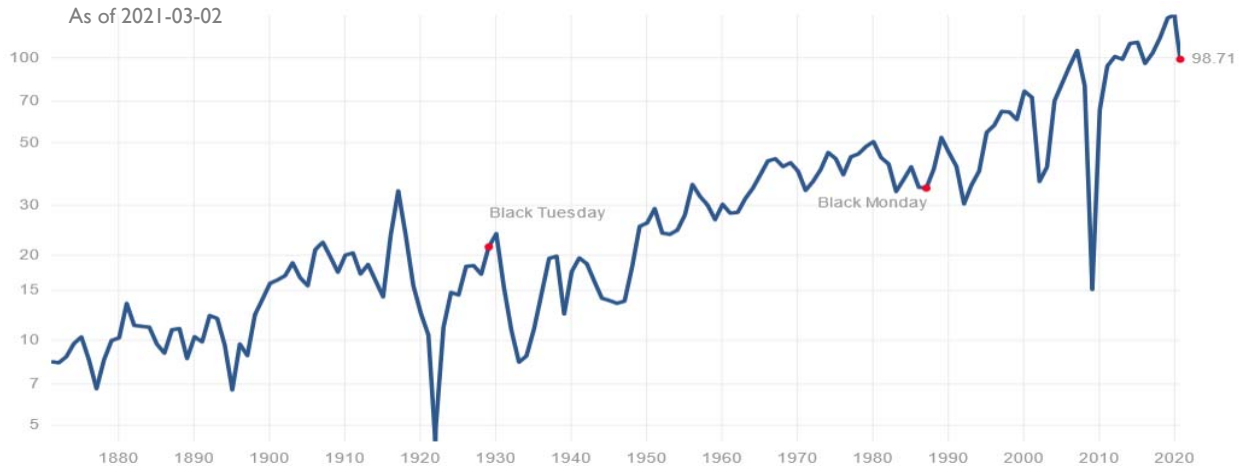
S&P 500 PE Ratio



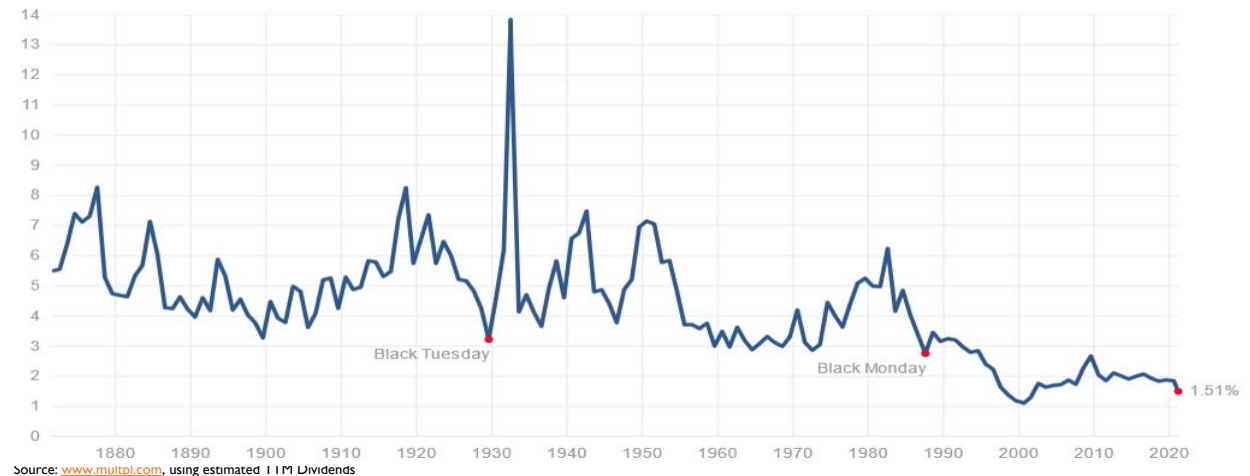
Source: www.multipi.com, using estimated TTM EPS

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S&P 500 TTM Earnings per Share



S&P 500 Dividend Yield



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15-MINUTE STOCK PORTFOLIO CLINIC

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I. Diversify by Sector & Industry

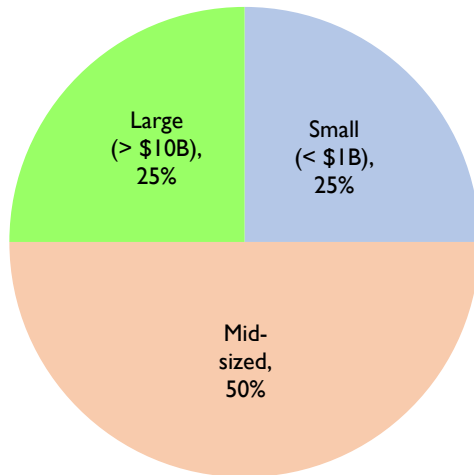


- Spread out into many industries.
 - Beware focusing too heavily on retail, consumer goods, restaurants, healthcare.
- Avoid sector concentration.
- Direct new research into finding companies in sectors/industries not currently owned.
- Where to find:
 - Toolkit 6 or myICLUB.com Sector/Industry Diversification Graph and Report
- ALSO CONSIDER:
 - International Exposure of Companies

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2. Diversify by Company Size



- **Large companies:** less volatility but less growth.
- **Small companies:** more growth, but more volatility.
- **Mid-sized companies:** good growth at reasonable volatility.
- Where to find:
 - Toolkit 6 or myCLUB.com Company Size Diversification Graph and Report
- **ALSO CONSIDER:**
 - Projected EPS Growth Rates of Companies

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Bring Portfolio (Back) Into Balance



- Set your diversification target by company size & industry group.
- Ideal allocation:
 - At least 7 sectors should be represented
 - No single stock/industry to be less than 3% or more than 15%.
 - No 2 companies in same/related industry group.
- May decide to sell or replace stocks in over-weighted segments (perhaps in conjunction with capital gain/loss review),
- OR may decide to set goal for next few months to improve diversification by adding new companies from different sectors/industries (preferred).

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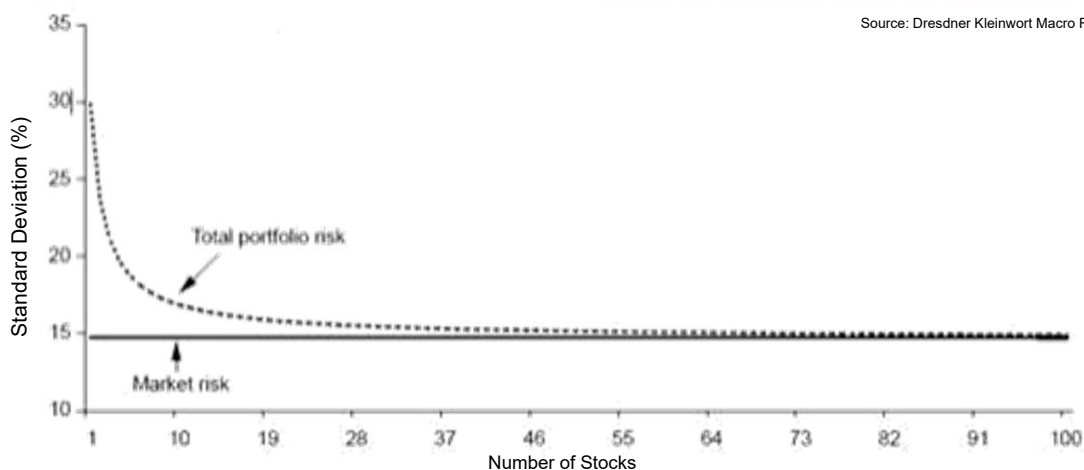
3. Don't Own Too Many Stocks



- Old rule: 10-12 stocks offer good diversification.
- Newer research: 15-20 stocks provides better benefits.
- In a club: own no more companies than members can follow effectively.
 - 1 per member?
 - No stock less than 3% of total portfolio.
- Owning too many stocks causes returns to regress to mean (average of market).

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Total Portfolio Risk as Function of # of Stocks



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4. Don't Fear Selling



- Use PERT Principles: review stocks after each quarterly EPS announcement.
- Replace (not “sell”) stocks with limited upside potential or problematic concerns.
 - Over-valued stocks are as big a risk as under-performing stocks.
- **Upgrade** your portfolio at every opportunity.
- Sell/replace on uncertainty.
- Remember: Patience is a virtue. Stubbornness is a vice!

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5. Don't Get Dragged Down by Fees



- Commissions & costs should be less than 2% per purchase.
 - Today, should be well below 1%.
 - Otherwise, fees eat excessively into returns.
 - Watch for ADR & other fees that may be hidden.
- Larger investments also force you to concentrate energy into finding absolute best candidates.

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6. Be Tax-Smart about Gains & Losses



- Whenever you are selling, consider matching sale of another stock in portfolio.
 - If selling at gain, consider selling stock held at loss.
 - If selling at loss, consider selling stock held with gain.
 - This will net out the loss, so will not have taxable realized gains.
- **BONUS:** When selling loser stocks, selling winner at same time minimizes regret that comes with dealing with stocks that declined after purchase.
- Can consider immediate repurchase of stocks sold at gain, but wait 31 days before repurchasing stock sold with loss.

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Harvest Gains & Losses



- At year-end consider selling to harvest losses/gains.
- Identify biggest losers & biggest winners in portfolio.
 - Look for large imbalances in portfolio diversification.
 - Look for companies with possible fundamental concerns or uncertain futures.
- **BONUS:** This can eliminate/reduce taxes AND eliminate future potential losses from both overvalued stocks & underperforming companies.

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About Tax Selling Decisions



- Tax selling decisions are often made with temporary intent.
- Are often great way to remove emotion from dealing with unfavorable stocks.
- **WASH SALE RULE:** When selling at a loss, can not repurchase same security until 31 days later.
 - Revisit stocks sold at loss in 31 days to determine if repurchasing is good move.
 - Does not apply to stocks sold with gains.

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ADJUSTING VISUAL ANALYSIS GRAPH IN TOOLKIT 6

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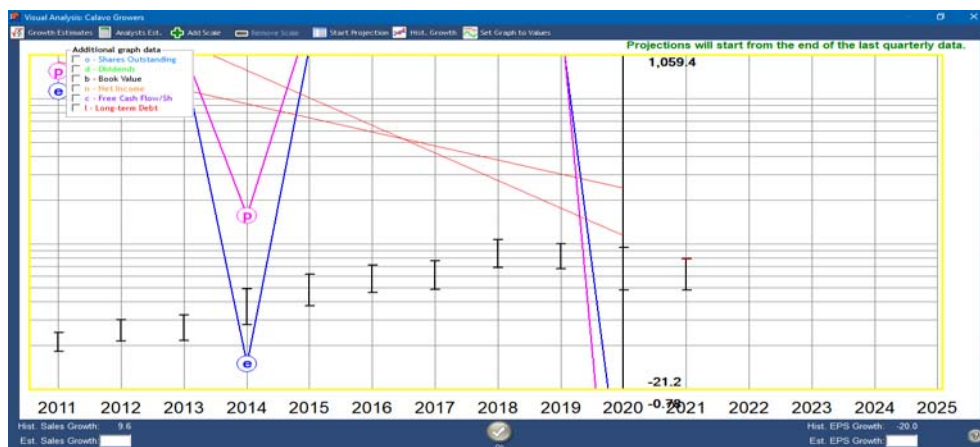
What If Data Doesn't Fit on Chart?



- Some companies may not display fully on Visual Analysis chart when initially displayed.
- Toolkit has several features to adjust display:
 - Preferences > Stock Study option for “Initially Place Lines” Scaled or On Values.
 - **Set Graph to Values** menu option in Visual Analysis window.
 - Click & move series with mouse (Ctrl-click & drag to “pop” to nearest scale).

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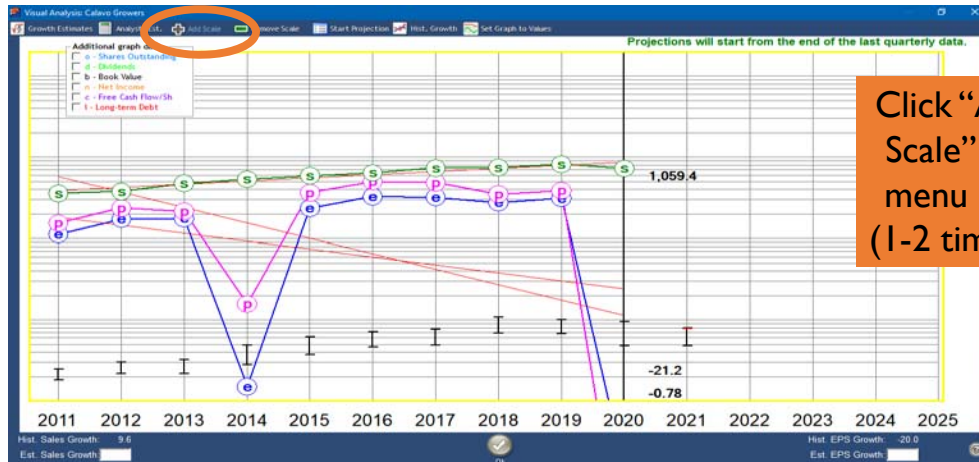
Example #1: Data Off Top of Chart



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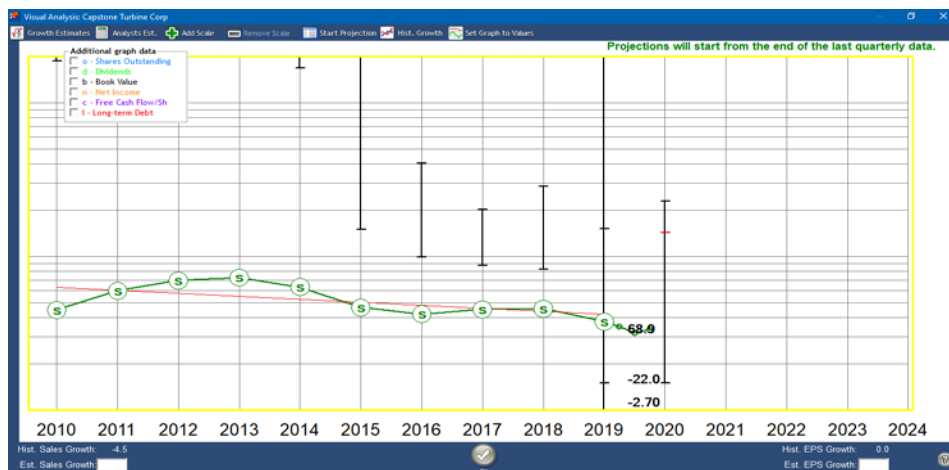
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Example #1: Data Off Top of Chart



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Example #2: Data Off Bottom of Chart



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Example #2: Data Off Bottom of Chart

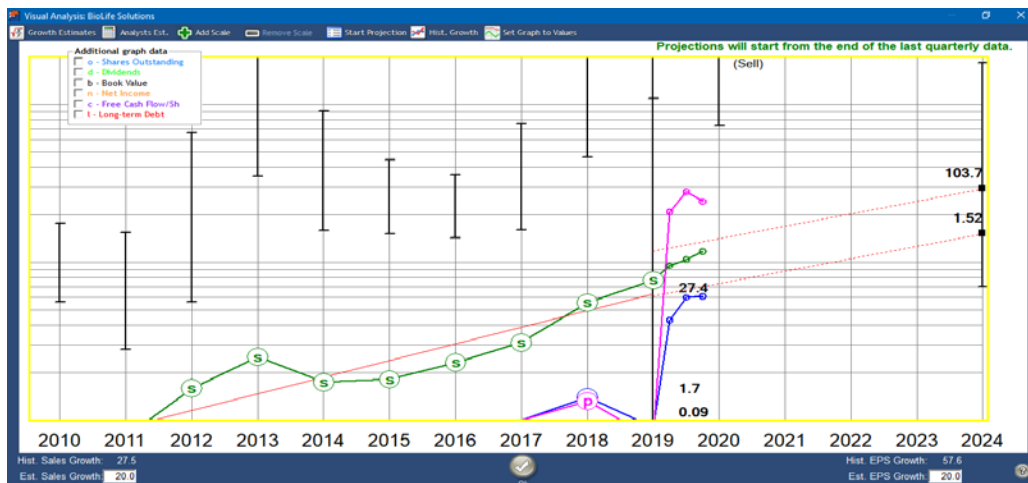


In Data, window EPS is negative for all years—no EPS data can be displayed on semi-log graph.



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Example #3: Data All Over the Place



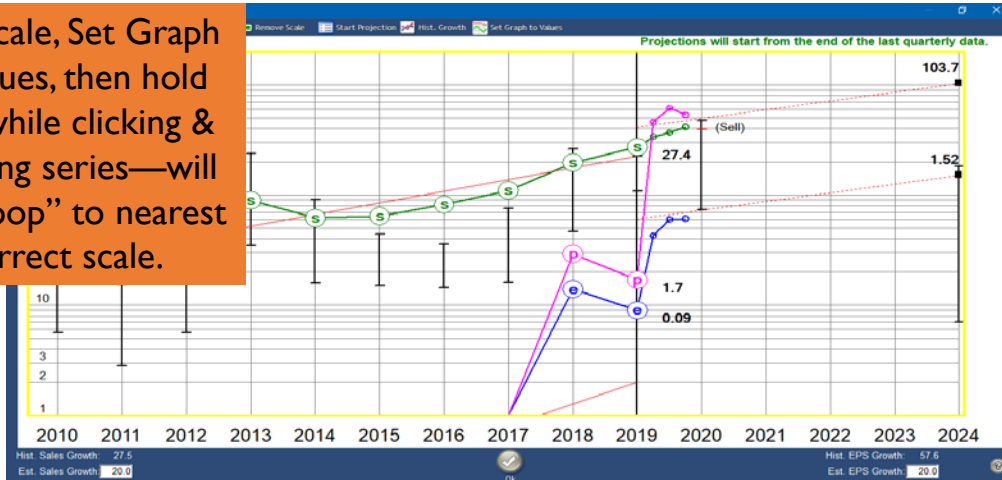
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Example #3: Data All Over the Place



Add Scale, Set Graph to Values, then hold Ctrl while clicking & dragging series—will then “pop” to nearest correct scale.



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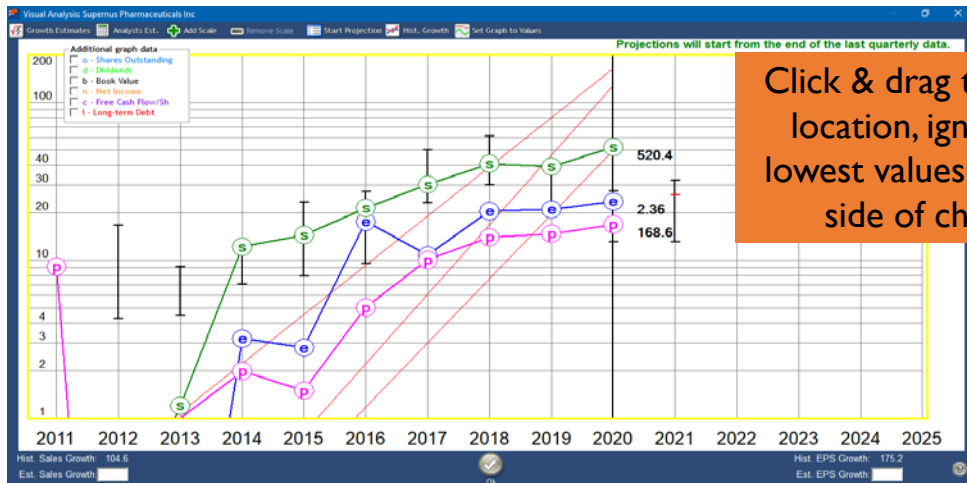
Example #4: Data Off Bottom & Top



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Example #4: Data Off Bottom & Top



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Final Adjustments



- Negative values never show on semi-log graph, so in extreme cases may delete negative EPS/PTP values (or data for whole years) in Data window.
 - This may be suitable for emerging businesses if you are confident that they won't show losses in future.
- Check if company provides Non-GAAP data which may be more useful, then hand enter those figures for EPS into TK6.

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STOCK OF THE MONTH

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Automatic Data Processing (ADP)



- Recommended in March 2020 *Investor Advisory Service* stock newsletter:
- www.InvestorAdvisoryService.com
- Use promo code TUESDAY for discount on online subscription.



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IAS



- ADP is longest-continuously covered stock in *IAS* history.
- First recommended on 6/9/1975 at split-adjusted price of \$2.91.
- Re-recommended on 2/22/1990.
- Re-recommended on 5/9/1997.
- Recent price: \$173.16.
- Total gain (through 11/18/2020): **5,945.4%**



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Automatic Data Processing



- Founded 1949.
- NYSE:ADP.
- Largest global payroll processor, with 860,000 employer clients in 140 countries & territories.
- Operates in 3 segments:
 - Employer Services, 65% of revs.
 - PEO Services, 31% of revs.
 - Interest earned on employer deposit of payrolls: 4% of revs.

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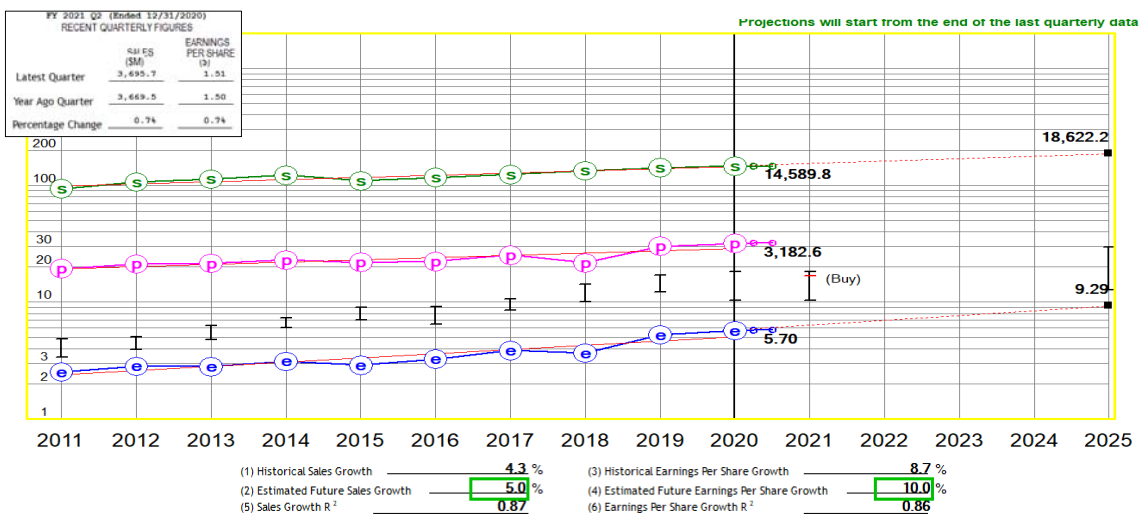
Sources of Current & Future Growth



- Expanding overseas opportunities.
- Long history of earnings leverage from automation.
- Business recovery from pandemic.
- Rising interest rates.

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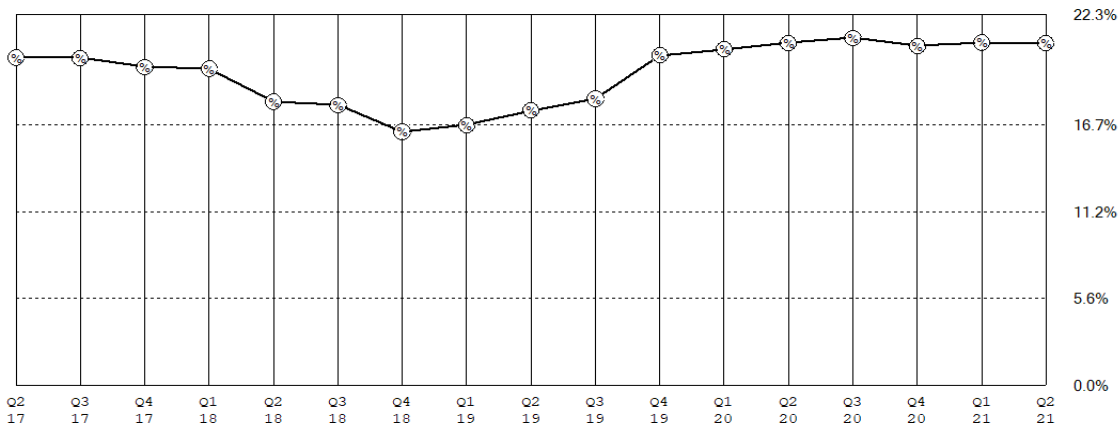
ADP Historical & Projected Growth



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ADP Quarterly %PTP Graph (TTM Basis)



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ADP P/E History



CURRENT PRICE (P/E) **167.03 (28.9)** 52-WEEK HIGH (P/E) **182.32 (31.6)** 52-WEEK LOW (P/E) **103.11 (17.9)**

Fiscal Year	High Price	Low Price	EPS	High P/E	Low P/E	Dividend	% Payout	% High Yield
1 2016	91.9	64.3	3.25	28.3	19.8	2.080	64.0	3.2
2 2017	105.7	85.5	3.85	27.5	22.2	2.240	58.2	2.6
3 2018	141.5	100.5	3.66	38.7	27.5	2.520	68.9	2.5
4 2019	170.5	121.4	5.24	32.5	23.2	3.060	58.4	2.5
5 2020	182.3	103.1	5.70	32.0	18.1	3.520	61.8	3.4
6 AVERAGE		95.0		31.8	22.2		62.3	
AVERAGE P/E RATIO		27.0	PROJECTED P/E RATIO		26.3	TTM EPS		5.77
CURRENT P/E RATIO		28.9	PEG RATIO		2.6	FTM EPS		6.35
RELATIVE VALUE		107.0%	PROJ. RELATIVE VALUE		97.5%	AVG TTM + FTM EPS		6.06

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ADP Reward & Risk



A FUTURE HIGH PRICE ANALYSIS — NEXT 5 YEARS

Selected High P/E 31.8 X Estimated High Earnings/Share 9.29 = Forecast High Price \$ 295.4

B FUTURE LOW PRICE ANALYSIS — NEXT 5 YEARS

(a) Sel. Low P/E 22.2 X Estimated Low Earnings/Share 5.70 = \$ 126.5

(b) Average 5-Year Low Price = 95.0

(c) Recent Severe Low Price = 103.1

(d) Price Dividend Will Support = Present Divd. + High Yield = 3.72 + 0.034 = 109.0

Selected Estimated Low Price = \$ 126.5

C PRICE RANGES

Forecast High Price 295.4 - Estimated Low Price 126.5 = Range 168.9 25% of Range = 42.2

BUY (Lower 25% of Range) = 126.5 to 168.7

MAYBE (Middle 50% of Range) = 168.7 to 253.2

SELL (Upper 25% of Range) = 253.2 to 295.4

Current Price 167.03 is in the Buy Range

D REWARD/RISK ANALYSIS (Potential Gain vs. Risk of Loss)

(Forecast High Price 295.4 - Current Price 167.03) ÷ (Current Price 167.03 - Estimated Low Price 126.5) = 3.2 To 1

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ADP Total Return Analysis



A CURRENT YIELD

Present Full Year's Dividend \$ 3.720 ÷ Current Price of Stock \$ 167.03 = 2.2 % Present Yield or % Returned on Purchase

B AVERAGE YIELD - USING FORECAST HIGH P/E

Avg. % Payout 62.3 ÷ Forecast High P/E 31.8 = Avg. Yield 2.0

C % COMPOUND ANNUAL TOTAL RETURN - USING FORECAST HIGH P/E

Average Yield 2.0 % + Annual Appreciation 12.1 % = Compound Annual Total Return 14.0 %

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Where's Doug?



- March 16-18, 2021 - [The MoneyShow](#)
- March 27, 2021 - [South Florida BetterInvesting Chapter](#)
- April 17, 2021 - [NE Ohio BetterInvesting Chapter](#)
- April 20-22, 2021 - [The MoneyShow](#)
- May 8 - [West Texas BetterInvesting Chapter](#)
- June 15-17, 2021 - [The MoneyShow](#)
- June 29-July 1, 2021 - [The MoneyShow](#)
- July 12, 2021 - [Research Triangle AAll Chapter](#)
- July 13-15, 2021 - [The MoneyShow](#)
- August 10-12, 2021 - [The MoneyShow](#)
- August 24-26, 2021 - [The MoneyShow World of ETF](#)
- October 5-7, 2021 - [The MoneyShow](#)
- August 21, 2021 - [Georgia BetterInvesting Chapter](#)
- October 8-10, 2021 - [American Association of Individual Investors \(AAll\) National Conference](#), Las Vegas
- October 21-24, 2021 - [BetterInvesting National Convention](#), Dallas
- December 14-16, 2021 - [The MoneyShow](#)

Most upcoming events are presented online. Confirm details with presenting organization.

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Questions?

EMAIL ME: GERLACH@ICLUB.COM



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CALM
AND
STAY THE
COURSE**