

Rebalancing Your Investment Club Portfolio

JULY 2023



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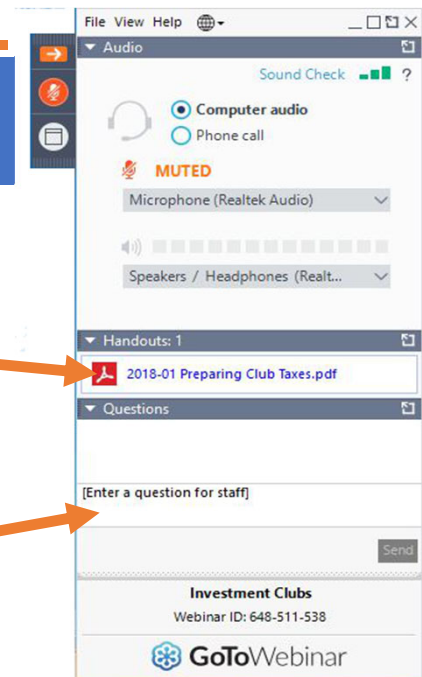


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Handout & Questions

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.



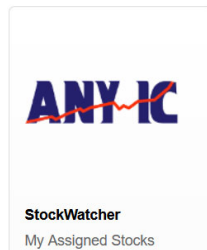
WHAT'S NEW AT MYICLUB.COM

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New Report Favorites



- Each club member can select their own favorite reports & graphs from **myICLUB Reports**.
- These appear in new **My Favorite Reports** section at top of **Reports** page.



Reports & Charts

My Favorite Reports

Reset

★ **Valuation Statement**

Displays consolidated club portfolio, cash value, and cash balance.

★ **Company Size Diversification Graph**

Displays pie chart of portfolio diversification by company size.

★ **Member Status**

Displays value of club, along with cost basis and ownership of each member.

★ **Global Diversification Graph**

Displays pie chart of diversification of club portfolio by country of

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Selecting Favorite Reports



- To mark report as Favorite, click star icon at top of page.
- Click again to remove.

StockWatcher
My Assigned Stocks
Generate Report
StockWatcher Assignments
Club Watch List

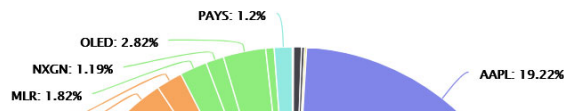
Company Size Diversification Chart

Chart as of 6/30/2023 (Most recent club valuation statement).



Exclude Cash from Percentages

Company Size Diversification Chart



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StockWatcher
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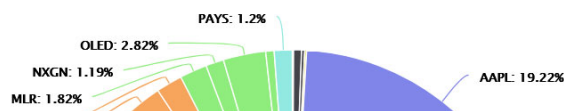
Company Size Diversification Chart

Chart as of 6/30/2023 (Most recent club valuation statement).



Exclude Cash from Percentages

Company Size Diversification Chart



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My Favorite Reports



- Members might choose different **Favorite Reports** than treasurers or other officers.
- Reports in **My Favorite Reports** appear in the same order as they do in the main reports listings.
- Click “**Reset**” link in **My Favorite Reports** header to reset to default choices.

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IMPORTANCE OF PORTFOLIO DIVERSIFICATION

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Why Diversification Is Important



- **Return & risk** levels can be improved if portfolio is diversified by **company size & by sector/industry**.
- Different characteristics of companies can **help portfolio performance** during economic or industry downturns.
 - Problems in one industry may not impact other industries.
 - Recession-sensitive stock performance can be offset by defensive stock performance.
- Spreading out holdings can **reduce risk from over-concentration** in few companies or industries.

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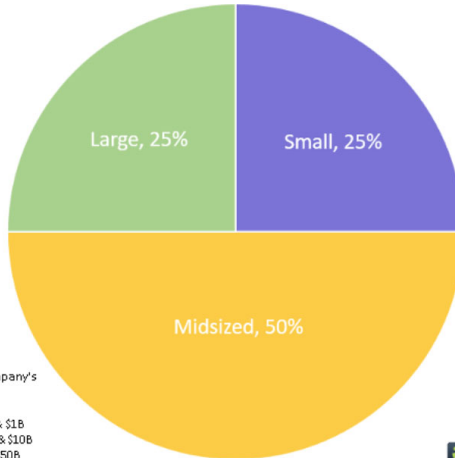
Basic Diversification Recommendations



- Build portfolio of 20-30 stocks, with no position < 3% or > 25%.
- Include many sizes of companies: 25% small, 50% mid, 25% large.
- Include many sectors/industry groups.
 - All 3 super sectors (Defensive, Sensitive, Cyclical), each between 15% & 50%.
 - 8 or more sectors represented.
 - Each company from different industry (minimize holding stocks from closely-related industries).

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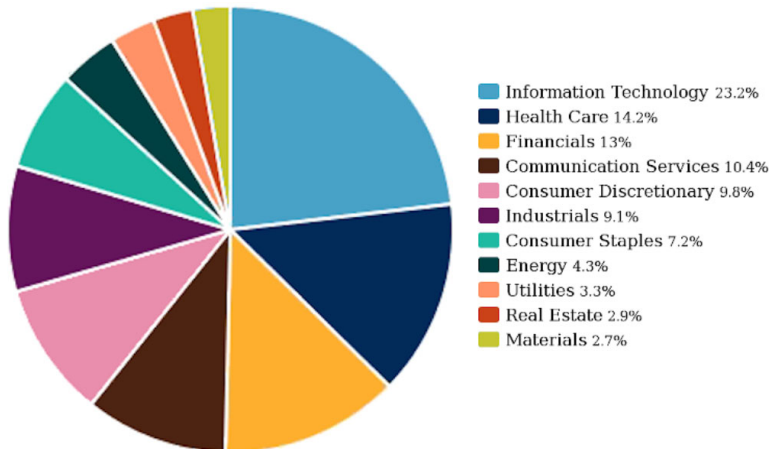
Size Diversification Targets (BetterInvesting)



Size is determined by a company's annual revenues:
* **Micro** < \$100M
* **Small** between \$100M & \$1B
* **Midsized** between \$1B & \$10B
* **Large** between \$10B & \$50B
* **Mega** > \$50B



Consider Sector Weighting of S&P 500



Based on GICS® Sectors as of 12/31/2019. Values rounded to nearest tenth of a percent. Source: www.spindices.com.



myICLUB Diversification Reports



- Several myICLUB reports & graphs aid club in monitoring diversification:
 - Company Size Diversification.
 - Sector & Industry Diversification.
 - EPS Growth Rate Diversification.
 - Global Diversification.

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BUILDING A DIVERSIFIED PORTFOLIO

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Stock Portfolio Construction



- When starting club, members can build portfolio without too much worry about diversification.
 - However, try to avoid “doubling up” in any sector/industry.
- At some point, club must shift from “collecting stocks” to “managing portfolio.”
- Diversification then becomes more important.

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Portfolio Management Tasks



- Take action to ensure all holdings are working towards portfolio objectives.
 - High quality companies that have potential to deliver market-beating returns over time.
 - All holdings working together – & not against each other – towards portfolio goals.
- Diversification considerations become key whenever change to portfolio is considered (buy, sell, replace).

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APPROACHES TO REBALANCING

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Calendar Rebalancing



- Adjust holdings on regular schedule (quarterly, semiannually, annually).
 - Automatic, no analysis required after security held in portfolio.
 - Often used in ETF/mutual fund portfolios.
 - Requires no active management.
 - By selling shares that are performing well, may be left with underperformers.

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Threshold Rebalancing



- Adjust holdings whenever they exceed/fall below target percentage.
 - Frequently used in ETF/mutual fund portfolios.
 - Automatic, no analysis required after security held in portfolio.
 - Requires discipline & constant monitoring.

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Band Rebalancing



- Allow holdings to remain out of balance while they remain within pre-set “tolerance band.”
 - Similar to threshold rebalancing, but allows for wider swings.
 - Can remediate with other portfolio moves over time.
 - Requires active portfolio monitoring.
 - Often preferred method of keeping portfolio in balance.

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Tactical Rebalancing



- Rebalance **not** by taking directed action on existing holdings, but rather by **considering actions** in next portfolio moves (buys, sells).
- Seek to improve balance with each new purchase.
- Over time, portfolio moves closer to targets.

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Avoid “Diworsification”



- Coined by Peter Lynch, refers to adding securities to portfolio in way that worsens diversification:
 - Holding too many stocks in particular sector/industry such as technology.
 - Holding securities with similar characteristics/correlation:
 - CVS & Walgreen’s.
 - Lowe’s & Home Depot.
 - Holding securities with overlapping holdings:
 - Total stock market ETF & S&P 500 ETF.
 - S&P 500 ETF & Apple (7.5% of S&P 500).
 - Holding more than 30 individual stocks.

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Meeting Your Targets



- Don't get frustrated if you set sector/industry/size targets but can't find opportunities.
 - Market is saying that selected sector may be in favor & thus expensive.
 - Defensive stocks sell at premium during recessions & periods of slowing economic conditions.
- Like insurance, need to have portfolio components in place before they are needed.
 - Over long-term, you will have plenty of opportunities.

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REBALANCING IN ACTION

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Create an Action Plan



- It's good for clubs to have *specific* goals.
- Set your Portfolio Diversification goals using my & BI's recommendations as starting point.
 - Feel free to adjust as fits your objectives.
- Set clear targets as matter of policy so all members understand & are working towards same goals.

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Determine Current Diversification



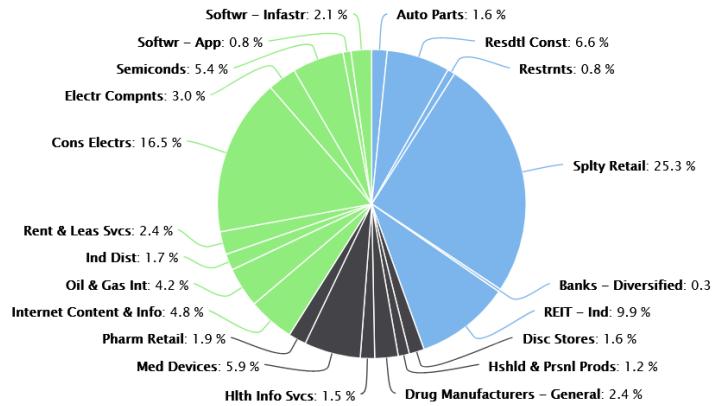
- You can't fix what you don't know is broken.
- Evaluate diversification of current portfolio by sector/industry & by company size & other categories you believe are important.
- myICLUB provides useful graphs and reports.

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myICLUB Portfolio Graphs

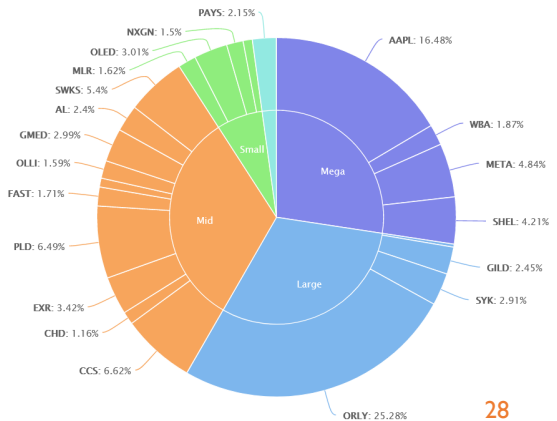
Industries

(Excludes Cash)



Company Size Diversification Chart

(Excludes Cash)



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Scenario #1: Too Many Large Companies



- Many investors & clubs gravitate to high-profile, brand-name large or mega company stocks.
- If satisfied with those holdings, deploy new capital into small & mid-sized company stocks.
- Pay special attention to fundamentals of large holdings to take advantage of opportunities to sell on fundamental weakness or hypervaluation.

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Scenario #2: Too Few Sectors Owned



- Aim for 8 (of 11) sectors.
 - Often difficult to find growth companies in Utilities & Energy, but may wish to consider as part of mature growth businesses in portfolio.
- List sectors not owned (find on myICLUB diversification report) & direct research in those areas.
 - Use stock screener to find candidates.
 - **TIP:** Combine attributes (such as company size) with sector criteria to do double duty in searches.

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Scenario #3: Overweighted Single Stock



- Often caused by big moves in price over several years.
- Sale (even of partial holdings) may not be preferred due to capital gains that would be incurred.
- In club, consider transferring some shares to pay off **full member withdrawal**.
 - Capital gains are deferred for remaining members & position in portfolio is reduced.

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Scenario #4: Overweighted Single Stock



- Over time, possible to invest in other sector/industry/company size categories to offset overweight position without selling.
- May take extremely long-time to see size of position as % of portfolio decrease.
- **Think in terms of opposites when researching replacement candidates.**
 - To offset impact of mega-cap tech stock in portfolio, seek out small company defensive stocks, for example.

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QUESTIONS?

USE QUESTIONS BOX IN WEBINAR APPLLET

The screenshot shows a sidebar of a webinar application. At the top is a 'File View Help' menu. Below it is an 'Audio' section with a 'Sound Check' indicator. The audio output is set to 'Computer audio' and is currently 'MUTED'. The microphone is set to 'Microphone (Realtek Audio)'. Below the audio settings is a 'Handouts' section with one document titled '2018-01 Preparing Club Taxes.pdf'. Underneath is a 'Questions' section with a text input field containing the placeholder '[Enter a question for staff]' and a 'Send' button. At the bottom of the sidebar, it displays 'Investment Clubs' and 'Webinar ID: 648-511-538', along with the 'GoToWebinar' logo.

CONCLUSION

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Lather, Rinse & Repeat



- Portfolio management to maintain targeted diversification is **ongoing task**.
- If target is reached, chances are good that single holding's next big price move (up or down) will **turn everything upside down**.
- Small & mid-sized companies grow to be mid-sized & large companies, requiring **constant search for smaller companies**.

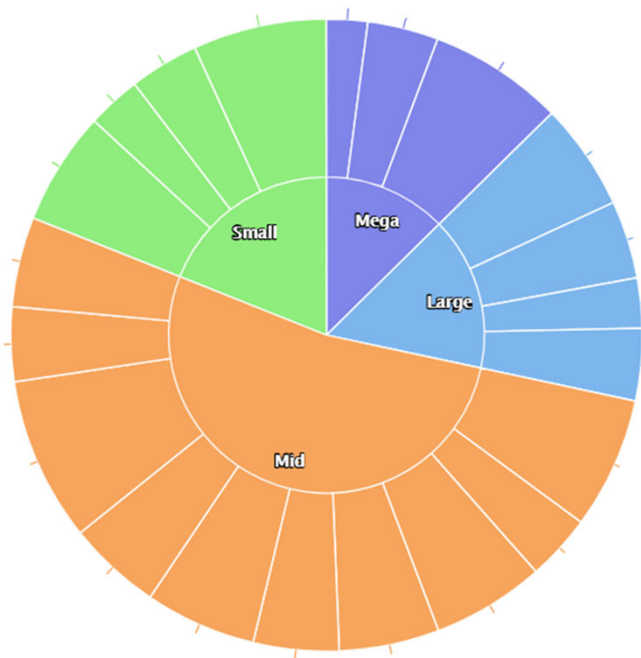
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Final Tips



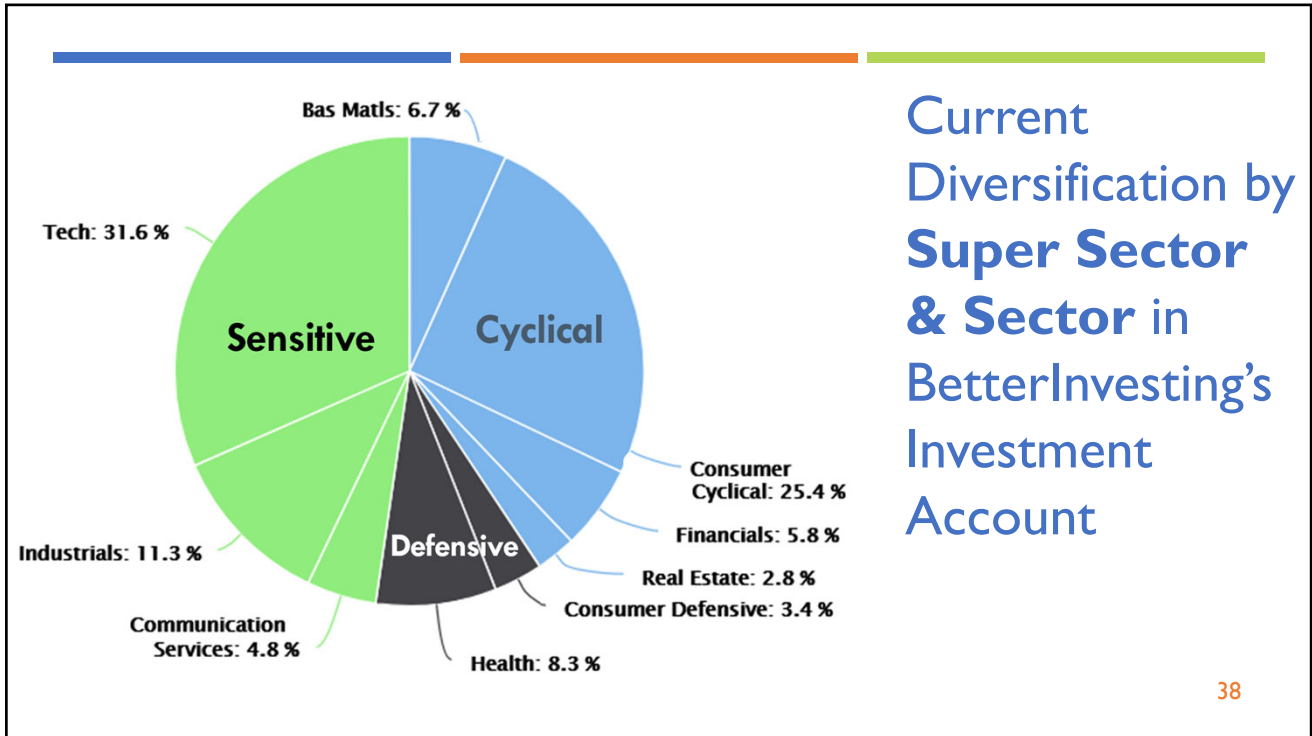
- **Don't sweat the details.** Managing diversification in broad swaths/within certain margins is perfectly fine.
- **Ignore diversification at your own peril.** Tech stocks were big in 1990s, but the crash of 2001 decimated investors who were overloaded in tech.

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Current
Diversification by
Company Size of
BetterInvesting's
Investment Account

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NEED HELP FINDING STOCKS?

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Tools from ICLUBcentral

StockCentral

- Low-cost subscription site features plethora of tools for individual investors including easy-to-use stock screener.
- Free trial.
- www.StockCentral.com

MyStockProspector

- Comprehensive stock screener with 120+ criteria & custom report builder.
- Demo available + short-term subscriptions.
- www.MyStockProspector.com

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Newsletters from ICLUBcentral

Investor Advisory Service

- **Celebrates 50th Anniversary in 2023.**
- Recommends long-term stock picks (small, mid, large).
- Named to **Hulbert Investment Newsletter Honor Roll** for last 13 years for long-term outperformance in both bull & bear markets.
- **#1 stock newsletter of all Honor Roll newsletters in 2021 & 2022.**
- www.InvestorAdvisoryService.com

SmallCap Informer

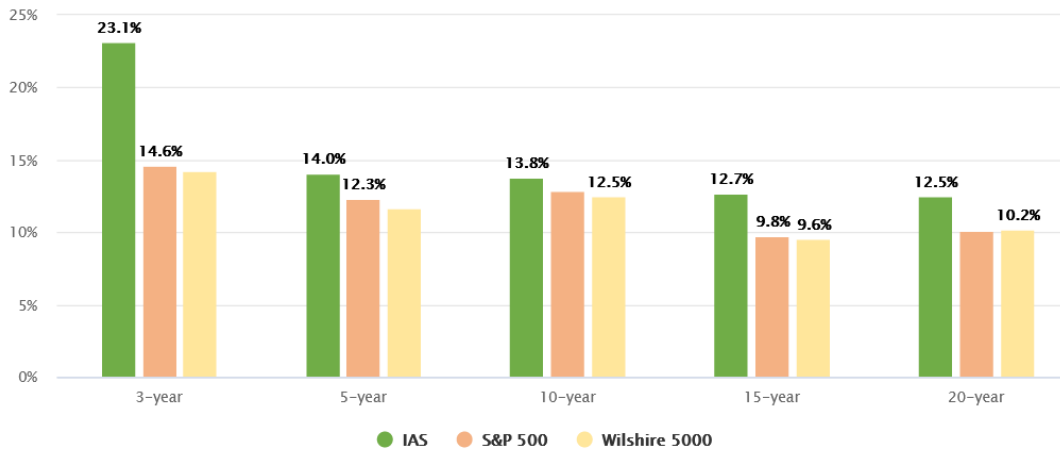
- Started in 2012.
- Recommends long-term-oriented smaller company stocks.
- Provides monthly follow-ups & sale recommendations.
- Array of online tools for more insights on covered companies
- **Regularly outperforms S&P SmallCap 600.**
- www.SmallCapInformer.com

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IAS Newsletter Performance



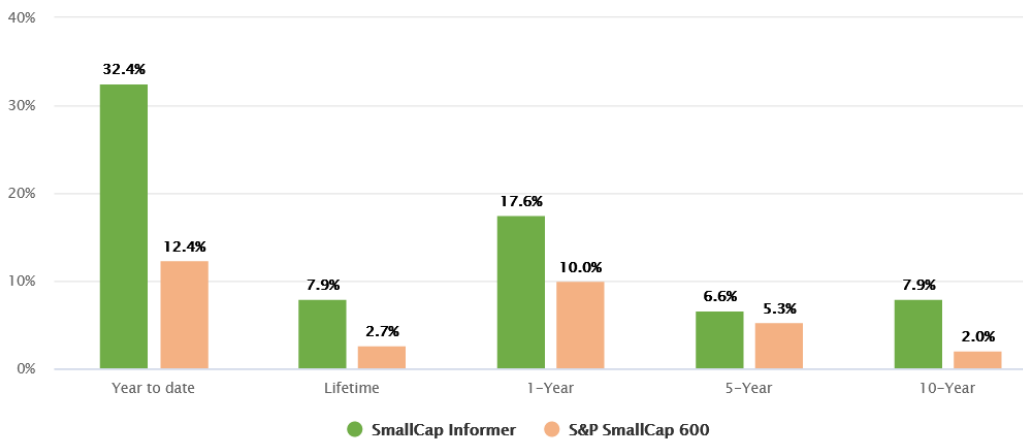
As of 6/30/2023



SmallCap Informer Newsletter Performance



As of 6/30/2023



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- **October 29-31, 2023 at Omni Orlando Resort at Championsgate, FL.**
- [Maximizing Dividend Yield in a High-Quality Stock Portfolio.](#)
Sun, Oct 29, 5:30-6:15 pm.
- [The Best Stock Picks for 2024.](#)
Tues, Oct 31, 9:15-9:35 am.
- Registration is free:
<https://conferences.moneyshow.com/moneyshow-orlando/>

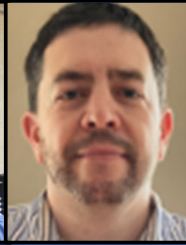
Thank You!



**Doug
Gerlach**



**Russell
Malley**



**Sean
Pulrang**

