

# Stock-Picking Contest

To Beat Benchmark Consistently

Michael Pang 11/20/2013

## Why do we have an “Investment-Picking Contest”? — Objectives

1. To establish a platform for AAll members to practice investment-picking skills.
2. To share and understand hand-picked investment ideas among the members.
3. To improve the investment performance of AAll participants.
4. To beat the market benchmark on a consistent basis.
5. To have fun!

## Brief Introduction of Contest Rules

Hand pick 5-10 investments (stocks or funds, unit >\$5) with \$100,000 paper money, hold it for next 12 months (April to next year April, Oct. to next year Oct.), then compute the total return (price movement plus dividends minus transaction cost), compare it to broad index (S&P 500) performance.

Note: Due to seasonality of the stock market, we decided to have two contests per year, starting in the Spring and Fall. Recently, we moved to June 30 and December 31.

## A Diversification Strategy by Investment Styles

1. A traditional diversification strategy in investment is to invest in different industries, subgroups, national and international, etc.
2. A new strategy I use is to invest in stocks by investment styles (value, growth, momentum, earning estimate rise, technical).

➔ The stock market is dominated by institutional investors who invest according to their styles above (or combination).

## Constructing a contest portfolio by diversification

My contest portfolio typically contains the following buckets:

- 1) High Yields (yield >5-7%)
- 2) Dividend Growth (Div. increase rate >10% per year)
- 3) Value — out of favor, price <80% fair or intrinsic value
- 4) Growth — PEG <1.2, EPS growth rate 15-20%
- 5) Momentum
- 6) Special situation (spin-off, M&A)

Note: Above 6 components => “YVG” (yield, value and growth), weighted based on market/economic cycles

## Typical Stock Selection Process

- 1 Extensive readings/online search to find stock candidates.
  - a) AAll stock screens (Piotroski, William O’Neil, and Earnings Estimates Up 5%).
  - b) Barron’s — weekly
  - c) Subscribed investment newsletters (Personal Finance, Upside, High Yield Wealth) and magazines (Fortune, etc.)
  - d) Value Line, S&P Outlook, etc.
  - e) Read Zack, Yahoo, CNBC web daily.
2. Each stock candidate is put into 1 of 6 “buckets”
3. In each bucket, several stocks are assessed, compared relatively based on 1) upside, 2) Beta -> rank by MSN/Value Line rating.
4. Assemble a portfolio with best picks in each bucket.

## A close look at a contest portfolio — Oct. 31, 2012

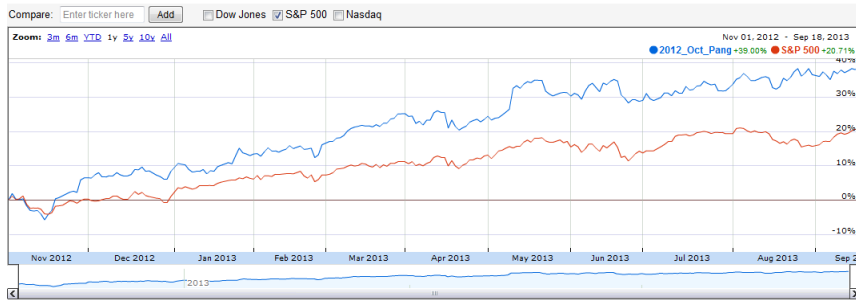
Oct 31, 2012 Investment Picks						
		Symbol	No of share	share price		Notes
	Cash				100,000.00	
1	Annaly Capital Management Inc	NLY	600	16.14	(9,684.00)	High yield
2	Fifth Street Finance Corporation	FSC	900	10.916	(9,824.40)	High yield
3	Phillips Morris Int'l	PM	100	88.56	(8,856.00)	Div. growth
4	Coinstar, Inc	CSTR	200	46.97	(9,394.00)	value
5	AGCO Corp	AGCO	200	45.51	(9,102.00)	Value
6	Green Mountain Coffee Roasters, Inc	GMCR	400	24.18	(9,672.00)	Value
7	Dollar Tree Inc.	DLTR	300	39.87	(11,961.00)	value
8	First Cash Financial Service, Inc	FCFS	250	44.66	(11,165.00)	Growth
9	Petsmart Inc.	PETM	150	66.39	(9,958.50)	high growth
10	Triumph Group Inc.	TGI	150	65.42	(9,813.00)	steady growth
11	Transaction Fee		10	20.00	(200.00)	
	Balance				370.10	
Index Data --- Oct 31, 2012						
S & P 500				1412.16		
DJ Industrial				13096.46		
Nasdaq				2977.23		

## Analysis of a contest portfolio — Oct. 31, 2012

			Beta	Upside_est
1	Annaly Capital Management Inc	NLY	0.19	10%
2	Fifth Street Finance Corporation	FSC	0.97	10%
3	Phillips Morris Int'l	PM	0.91	8%
4	Coinstar, Inc	CSTR	0.85	15%
5	AGCO Corp	AGCO	2.13	20%
6	Green Mountain Coffee Roasters, Inc	GMCR	0.09	25%
7	Dollar Tree Inc.	DLTR	0.11	15%
8	First Cash Financial Service, Inc	FCFS	0.84	20%
9	Petsmart Inc.	PETM	0.42	15%
10	Triumph Group Inc.	TGI	0.83	15%
	Average		0.73	15.30%

This portfolio has an estimated Beta <1 and a potential return 15% better than S&P (Beta = 1, Avg. = 11%)

## Relative performance of the portfolio (up to Sept. 18, 2013)



## Stock-Picking Contest Results

April 2011 → April 2012		Oct 2011 → Oct 2012		May 2012 → May 2013		Oct 2012 → Oct 2013	
	(closed)		(closed)		(closed)		(closed)
Griffiths	15.0 %	Wickman	50.9%	Pang	90.4%	Wickman	84.1%
Pang	12.1 %	Pang	14.0%	Skiffington	27.8%	Pang	32.7%
Chung	1.8%	Skiffington	12.0%	Snofsky	10.1%	Webb	25.8%
Wickman	-0.1%	Johnson J	6.0%	Wickman	-45.3%	Skiffington	14.2%
Skiffington	-8.8%					Snofsky	10.0%
Holliday	-9.1%						
Lunkes	-15.7%						
Webb	-32.1%						
S&P 500	4.93%	S&P 500	9.87%	S&P 500	23.9%	S&P 500	24.7%

## Closing Remarks

- 1 Stock-picking contest — It's a journey, not for a single or a few test periods. We're in the first stage, give us the next 5-10 yrs., we'll be better able to evaluate the merits of this approach.
- 2 Every avenue leads to Rome, this approach is just one "avenue," each investor can develop a unique approach based on his/her risk tolerance and investment style.
- 3 YES, You Can — A retail investor with \$100K can beat the benchmark on a consistent basis, just like a stock pro with \$10B (see Appendix), by constructing a concentrated and balanced portfolio, as illustrated by this presentation.
- 4 THANK YOU!

## Appendix

Table A.18 Berkshire Hathaway 1994 Common Stock Portfolio

No. of Shares	Company	Cost	Market Value	Percentage of Portfolio	Industry	Business
93,400,000	The Coca-Cola Company	\$1,023,920	\$ 5,150,000	36.9	Consumer staples	Beverage
24,000,000	The Gillette Company	600,000	1,797,000	12.9	Consumer staples	Toiletries
20,000,000	Capital Cities/ABC, Inc.	345,000	1,705,000	12.2	Consumer cyclical	Broadcasting
34,250,000	GEICO Corporation	45,713	1,678,250	12.0	Finance	Insurance
6,791,218	Wells Fargo & Company	423,680	984,272	7.0	Finance	Bank
27,759,941	American Express Company	723,919	818,918	5.9	Finance	Financial services
13,654,600	Federal Home Loan Mortgage Corp.	270,468	644,441	4.6	Finance	Financial services
1,727,765	The Washington Post Company	9,731	418,983	3.0	Consumer cyclical	Publishing
19,453,300	PNC Bank Corporation	503,046	410,951	2.9	Finance	Bank
6,854,500	Gannett Co., Inc.	335,216	365,002	2.6	Consumer cyclical	Publishing
	Total Common Stocks	<u>\$4,280,693</u>	<u>\$13,972,817</u>	<u>100.0</u>		

Source: Berkshire Hathaway 1994 Annual Report.  
 Note: Dollar amounts are in thousands.