

P E R S P E C T I V E S

An excerpt from "Perspectives" - Volume 12 - Issue 4

Investing

Behind the Numbers, Part 6: Putting our strategies to work

By Michael Chu, Investment Advisor

In this series, we've discussed in detail how and why the Stan Clark Financial Team's strategies work. We've also talked about how our team uses a wide range of information, including price-to-earnings ratios, dividend yield, earnings momentum and price momentum. Now, in the final part of "Behind the Numbers," we look at how we integrate those strategies into your portfolio.

Individually, each of our strategies has good long-term results. This is a must, because we want each strategy to be able to stand the test of time. We use 15 different strategies to choose between 30 and 60 stocks for your portfolio. There are two important points to make here. Even though each strategy has a good long-term track record, each strategy will still underperform from time to time. So, it's important that we use different types of strategies. If one underperforms, then the other strategies can compensate.

The second point is that we invest in many different stocks to achieve a well-diversified portfolio. By selecting companies with strong characteristics, we improve the odds of success. However, the world is too uncertain for us to know exactly which stocks will succeed and which will disappoint. Owning a well-diversified portfolio makes it more likely that your overall returns will beat the market.

We select the top-ranked stocks from each strategy to form a portfolio of 30 to 60 stocks. At first, all the stocks will be rated at the top. But over time, as things change, some stocks are bound to move down in the rankings. If a stock ranks near the top, we will continue to hold it – it doesn't make sense to sell a stock just because it has fallen a few spots in ranking.

However, if a stock falls in ranking below a predetermined threshold, say the top 20% of all stocks, then it makes sense to upgrade to one that's better ranked. The stock that has fallen in rank would be ranked as a "sell." This doesn't mean that the stock is bad or will imminently drop in price. It just means that there are many other higher-ranked stocks that have a better chance of performing well.

When we are deciding to sell a stock, one thing we don't look at is whether it generated a gain or loss. It might make us *feel* better to hold on to a loser than sell it, but we know this is just an emotional bias. Based on our long-term results, stocks that are ranked higher have a better chance of doing well. So, it's better to own a higher-ranked stock rather than merely hope that a lower-ranked stock will recover.

When buying or replacing stocks, we buy the highest-ranked stock that isn't already owned but also fits with the other stocks in the portfolio. This ensures that your portfolio remains diversified. Since we have many strategies to choose from, we can always find a stock that fits your portfolio.

As mentioned, the strategies we use have excellent track records. They incorporate a wide range of useful and timely information and research. There isn't much we can add to them. But, if there ever should be, we

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would add it to our rules. We advise our clients (and ourselves) against trying to add personal judgments to the rankings. That would add bias and emotion to the selection process – and would most likely not make for better decisions or returns.

While our strategies have had good returns over the long term, they don't always work. They will underperform from time to time, but those periods are typically followed by periods of very strong, above-market performance. That's why we use many different strategies for a diversified approach. By combining all our strategies, we have consistently beat market averages over almost all rolling three-, four- and five-year periods.

In keeping with our goal of delivering exceptional growth during up markets, we've had considerably fewer losing periods, to soften the blows and ease the stress of down markets. The key is to use our strategies properly – that is, with discipline!

Please contact us for more information about our stock strategies and returns. ■



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