


NORCAL WEBINAR
Quick "Sniff Tests"
for
Stocks to Study
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Sniff Tests

Agenda

- What's a sniff test? Why develop one
- Where to find stocks to "sniff"
- Some sniff test examples
- No time for even a sniff test?




Sniff Tests


Universe of Stocks (Thousands)



How do we get from the universe to our watch list?



Stocks we'd buy at a good price (watch list)



Sniff Tests

It's a filtering process

1. Universe of stocks
2. Ideas to narrow down the universe
(Suggestions, lists, your interests)
3. Sniff tests
4. Stocks to study (research)
5. Watch list

You want to spend most of your time on
research, including your SSG



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Sniff Test

What: It's **your mini-screen**. Your own small set of indicators you use to decide in **60 seconds or less** whether to study a stock.

Why:

- To focus your time
- To compare/contrast competitors
- To find 5-10 potentially good stocks to research
- **To stay focused on quality – BI definition**



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Sniff Tests

Focus on Quality – BI Style Quality

- We are all hunting for good quality companies
- BI quality standards are tough. That's why:
 - Many companies don't meet them
 - Our hunt is harder
- Try to incorporate quality measures into every step of your hunt, including your sniff test
- Even when the stock prices soar, we need to find quality companies we might buy later at more reasonable prices



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Sniff Tests: What You Need

Let's start with the obvious

To run a sniff test you need:

- **A stock or list of stocks**
- **A financial website or print publication**

Experienced investors intuitively use sniff tests

Bring your intuition to the forefront

Is company quality part of your test?



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Sniff Tests

Poll & Question Break

Do you already have a "sniff test" – your own mini-screen for finding stocks to study?

- Yes
- No
- Haven't really thought about it



Sniff Tests – Ideas for Stock Lists

You can quickly check individual stocks for quality – for example, the "hot tip"

- You can also use a list already screened on quality
 - ✓ BI Stock Screen of the Week
 - ✓ Morningstar.com – Terrific 10-year Records*
 - ✓ BI Magazine Repair Shop
- You can make up your own screen to create a list

*Not endorsed by BI. Used only for educational purposes.



Sniff Tests – Ideas for Lists

BI Stock Screen of the Week

Weekly free subscription email newsletter

www.betterinvesting.org/weekly

Stocks meet a subset of BI quality criteria over a 5 or 10 year period



Sniff Tests – Ideas for Lists

Morningstar.com preset screen

Free if your library has an online subscription
Free if you register with Morningstar.com



Terrific 10-Year Records

Sales have increased every year
Earnings have been positive every year

Name	Market Cap	P/E	...
Morningstar.com
...



Sniff Tests – Ideas for Lists

[BI Magazine Repair Shop](#)



Clubs submit their portfolios to BI for analysis

- ✓ **The author groups holdings, then comments**
- ✓ **Says which stocks he thinks are worth holding**
- ✓ **Makes recommendations for replacements**

Make a list of the stocks he mentions favorably plus his suggested replacements for others



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Sniff Tests

Poll & Question Break

Do you typically find stocks to study by:

- Using a list
- Suggestions from family/friends/co-workers
- Feature stories in the financial media about stocks/industries
- Generating your own screens
- Other



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Sniff Tests - Financial Sites

Some financial sites are easier to use for a sniff test.
Their information has some "BI-like" snapshots

Suggestions – These sites have some BI-like features*

- Morningstar.com
- Market Watch
- MSN Money

Have you evaluated the site you normally use?

***NOTE: BetterInvesting does not endorse these sites. They are mentioned or used for educational purposes only.**



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Sniff Tests

For This Presentation

- Stock list: I created a screen for mid-cap companies using my library's Morningstar subscription
- Financial website: I'm using Morningstar.com
 - In particular, I'm using their Key Stats section, which is midway down the first page




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Sniff Tests

What I like about Mstar Key Stats

- Short
- Info about revenue, earnings, management
- Trend information
- Percentage information
- Comparison to industry
- Bar graph
- Lots of other information just by scrolling



Sniff Tests


Morningstar Key Stat Format

Key Stats	Stock	Industry	Relative to Industry
Price/Earnings TTM			
Price/Book			
Price/Sales TTM			
Rev Growth (3 Yr Avg)			
Net Income Growth (3 Yr Avg)			
Operating Margin % TTM			
Net Margin % TTM			
ROA TTM			
ROE TTM			
Debt/Equity			

Green and Red Bar Graph on this side helps to interpret the stats

Focus on items below my blue line for quality

Suggest 10% passing standard, except for Debt/Equity. D/E less than industry or less than 50%.




Sniff Tests – Company 1

Green bar = stock better than industry

Red bar = industry better than stock

	Stock	Ind Avg	Relative to Industry
	24.2	20.9	
	3.9	2.9	
	0.5	1.9	
Rev Gro -3 yrs	10.3	4.3	
Net Inc Gro -3 yrs	22.1	7.3	
Op Marg % ttm	22.8	14.0	
Net Marg % ttm	14.4	9.1	
Return on Assets ttm	9.5	4.2	
Return on Equity ttm	18.1	14.2	
Debt/Equity	0.3	0.9	
			AVG

Note: Stock used for educational purposes only. No recommendation implied.




Sniff Tests – Company 2

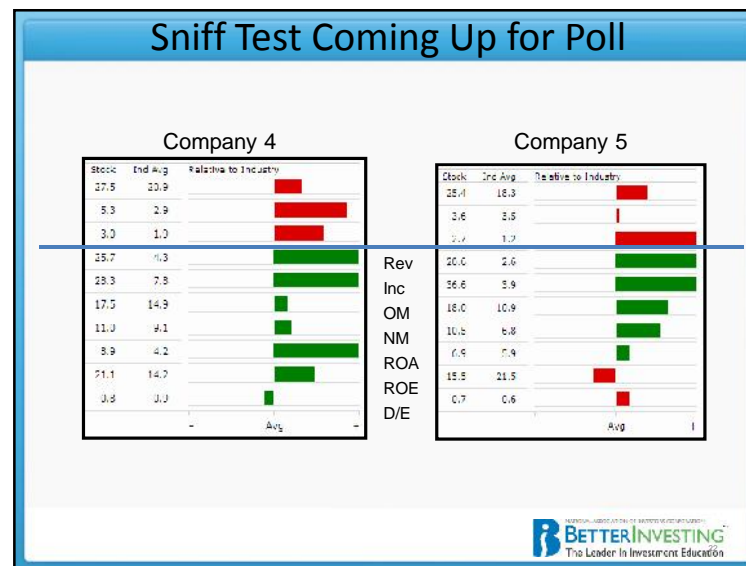
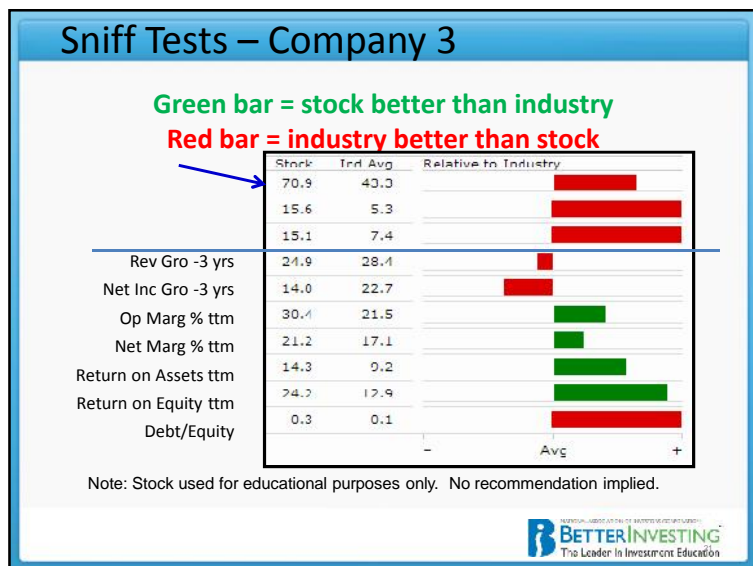
Green bar = stock better than industry

Red bar = industry better than stock

	Stock	Ind Avg	Relative to Industry
	40.2	31.2	
	24.4	2.7	
	1.4	1.1	
Rev Gro -3 yrs	10.0	9.4	
Net Inc Gro -3 yrs	-20.0	10.4	
Op Marg % ttm	9.4	7.3	
Net Marg % ttm	3.4	3.5	
Return on Assets ttm	3.3	3.6	
Return on Equity ttm	104.5	9.2	
Debt/Equity	11.9	0.8	
			AVG

Note: Stock used for educational purposes only. No recommendation implied.





Sniff Tests

Poll & Question Break

Would you research (study)

- Company 4
- Company 5
- Both
- Neither

Sniff Tests

Poll Companies

Company 4 - MIDD
The Middlebury Corp
Mid-sized company
Industry: Diversified Industrials
Makes equipment for commercial & institutional kitchens & food processors

Company 5 - BEAV
B/E Aerospace Inc.
Mid-sized company
Industry: Aerospace & Defense
Makes items for aircraft cabin interiors and aerospace fasteners

Note: These companies are for educational purposes only. No endorsement implied.

Sniff Tests

No Time for Sniffing?


Go straight to your SSG software

- Toolkit (desktop)
- Core SSG (online)
- SSG Plus (online)

Quickly scan (sniff) the quality sections:

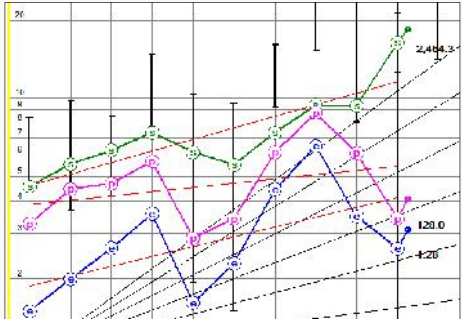
- Sales/earnings/PTP graph
- Management

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Sniff Tests

Toolkit Scan (sniff) - TPX: (Company #2)



Very erratic graph lines. Are they likely to go up next? Down?
The problems showed up in Mstar Key Stats too

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Sniff Tests

SSG Plus Scan (Sniff): TPX


Evaluate Management	2004	2005	2006	2007	2008	2009	2010	2011	2012	2012	5 Yr Avg	Trend
EP % Return on Sales	17.8%	19.9%	19.2%	19.2%	1.0%	15.4%	22.9%	23.2%	-0.3%	0.2%	10.2%	DOWN
EP % Return on Equity	32.4%	41.3%	48.9%	27.3%	11.2%	48.7%	117.3%	687.6%	461.6%	86.0%	283.7%	DOWN
EP % Debt to Capital	07.0%	00.2%	02.9%	02.0%	02.0%	03.0%	10.4%	30.0%	31.0%	30.9%	30.2%	UP

All the management indicators are going in the wrong direction:
PTP on Sales, ROE, Debt/Equity.

It takes less than 60 seconds to realize that I don't want to spend my research time here. So I quickly move to searching for (sniffing out) a better prospect for my study list.

The problems showed up on Mstar key stats too

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Sniff Tests

In Conclusion

- Develop a small set of quality indicators for your own "sniff test" – **your own mini-screen**
- Use it to check out "hot tips" or single stocks or lists
- If you use a list, **think about list quality**
- Use a **website that features quality indicators** you can get to fast (the first few keystrokes)
- Always remember: At this point, you're deciding whether to research stocks, not buy them**

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Thank you for attending!

Contact Marion Michel, SVC Director:
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[Upcoming Events](#)

Next NORCAL Webinar – in the fall, date TBA
San Francisco Bay Area Ed Day: Mills College, Oakland
Oct. 18
Sacramento Area Breakfast with the Champions,
Feb 2015
BI National Convention (BINC): May 14-17, 2015
San Jose

Contact your chapter for more information

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BetterInvesting National Convention

May 14 -17, 2015
DoubleTree San Jose, CA



Do you know the way to San Jose

**Find your way to San Jose
to fine tune your investment
skills and ways.**

Take advantage of the spousal rate. Plan a pre or post stay to explore San Francisco, wine country, Carmel and Monterey.

www.betterinvesting.org/biconvention



Additional Information


Company #1: Ametek (AME)
Industry: Diversified Industrials
Makes electronic/electromechanical devices

Company #2: Tempur Sealy International, Inc. (TPX)
Industry: Home Furnishings & Fixtures
Makes bedding

Company #3: TripAdvisor, Inc. (TRIP)
Industry: Internet Content & Information
Travel search/fare service

Note: These stocks were used for educational purposes only. No recommendation is intended or implied.

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Additional Information

[Morningstar mid-cap screen used in presentation](#)

Equity style box = mid growth
Growth Grade = A or B or C
Profitability Grade = A or B or C
Financial Health Grade = A or B or C
3-Year Revenue Growth Rate = or > 10%
ROE = or > 10%
5-Year Forecasted Earnings Growth = or > 10%

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Additional Information

Other Websites for Sniff Tests

(Not endorsed by BI. Mentioned for educational purposes only)

- MarketWatch.com >Enter stock ticker>Financials
Bar graphs for 5-year trends on many variables
- Money.MSN.com: Enter stock ticker>Key Ratios
YoY latest quarter & 5-yr industry comparison for sales and earnings

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Additional Information

Accounting Terminology

Morningstar has a glossary at the foot of each web page

Investopedia.com > Dictionary

Note: Neither of these sites is endorsed by BI. They are mentioned for educational purposes only.

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