Your Investing Preferences and Your Portfolio

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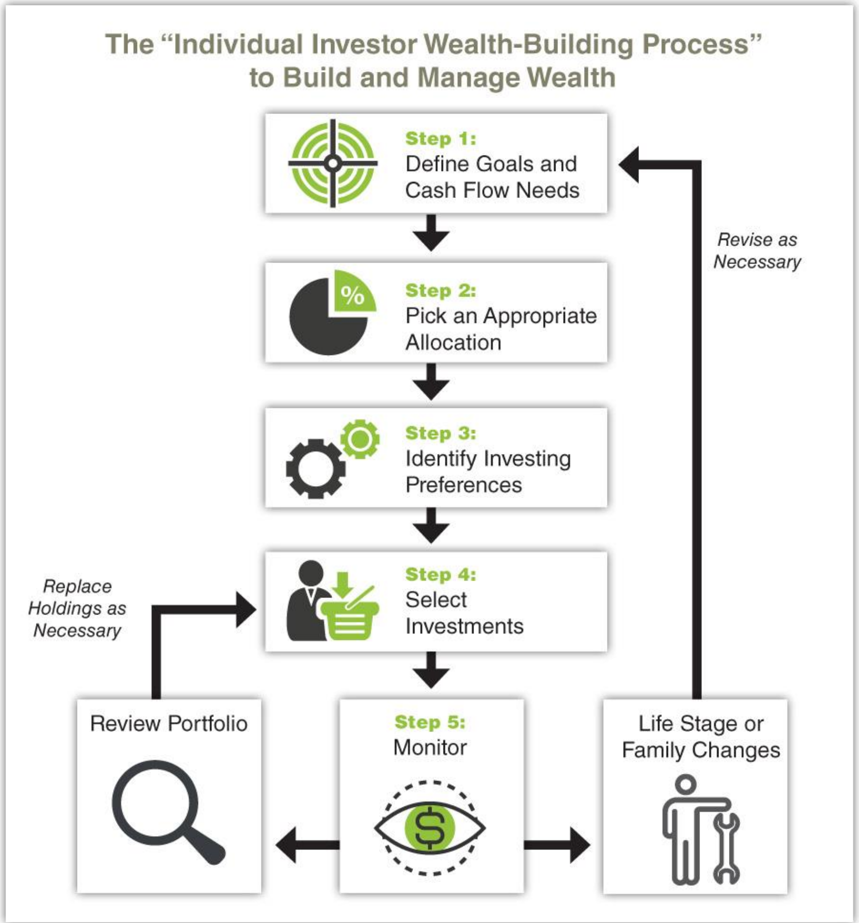
The Individual Investor Wealth-Building Process helps you create a comprehensive and personalized plan for investing.

It will help you to become a more effective manager of your own assets.

The Five-Step Process



Source: "A Process for Creating Your Own Wealth Plan," *AAII Journal*, June 2020.

Challenges to Guide You Through the Process

Home | Latest | AAII Journal | Markets | Model Portfolios | Investing Ideas | Screening | **Learn & Plan** | Community

Learn & Plan

THE INDIVIDUAL INVESTOR WEALTH-BUILDING PROCESS

You have completed 0 out of the 7 chapters in the Individual Investor journey. See the **Five Key Steps of the Wealth-Building Process** and then start creating your own personalized plan with the challenges below. To get started with the Wealth-Building Process, watch this helpful **introduction video**.

- Challenge 1: Establish Your Investing Goals
- Challenge 2: Determine Your Tolerance for Risk
- Challenge 3: Choose an Appropriate Allocation
- Challenge 4: Identify Your Investing Preferences
- Challenge 5: Create Rules for Selecting and Managing Investments
- Challenge 6: List All of Your Accounts
- Challenge 7: Analyze Your Investment Expenses

https://www.aaii.com/learnandplan

Why Focus on Preferences?

- Acknowledging preferences makes it clear what you will and won’t do
- Narrows the field of investment ideas
- Helps you better define your buy and sell rules

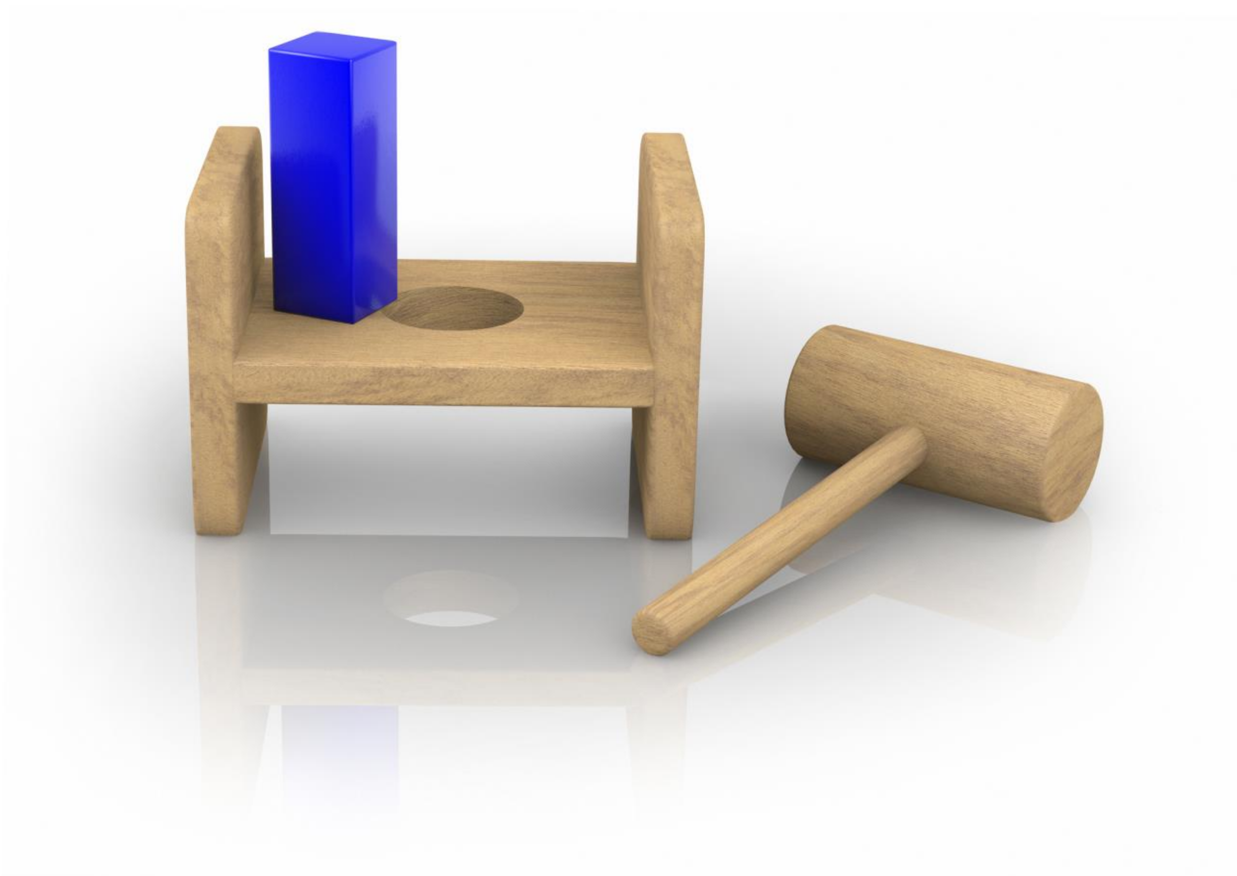
Preferences Vary by Person

- Your preferences may be different than other investors you know, and that's okay
- There is some research suggesting preferences are formed during childhood
- One study found that the inclination to be a growth or value investor is partially ingrained at birth

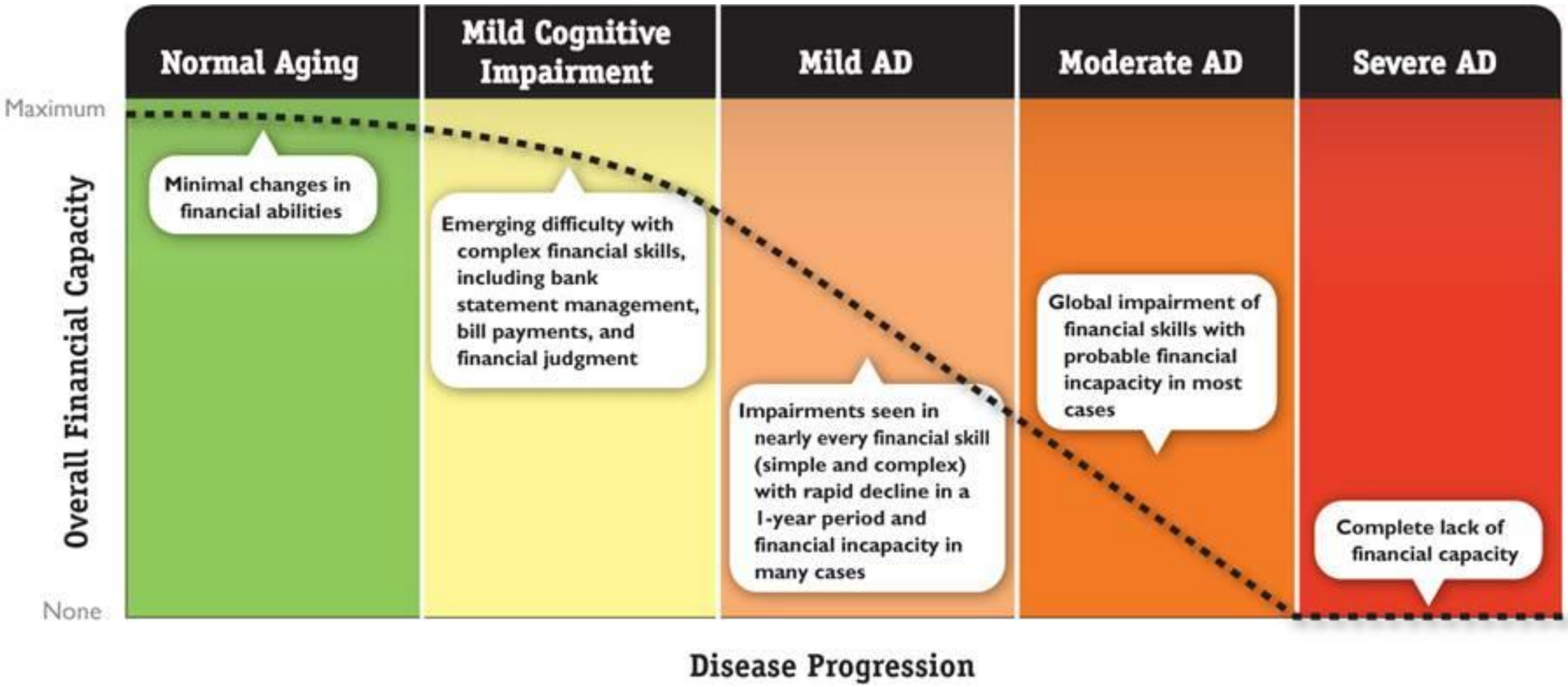
Any Limitations or Restrictions?

- Is your 401(k) plan limited to funds?
- How much time do you have to spend researching individual securities?
- Do you find financial statement analysis and reading earnings reports interesting?
- What is your spouse or significant other comfortable with you doing?
- How knowledgeable are you?

Don’t Force Square Peg Preferences Into Round Holes



Simplify as You Get Older



Source: "Finances in the Older Patient With Cognitive Impairment," by Eric Widera, Veronika Steenpass, Daniel Marson and Rebecca Sudore, JAMA, February 16, 2011.

Being Unaware of Cognitive Decline Leads to Bigger Losses

Changes in Wealth (Thousands of U.S. Dollars)

	Stocks	Bonds	Debt	CDs	Checking/ Savings	Other Assets
Aware	(1.909)	0.053	(0.102)	0.956	(1.357)	3.958
Unaware	(11.887)	0.281	(0.148)	(1.483)	(4.106)	(4.063)

Source: "Investors Unaware of Cognitive Decline Are Likelier to Lose Wealth," *AAII Journal* Dispatches, November 2020.

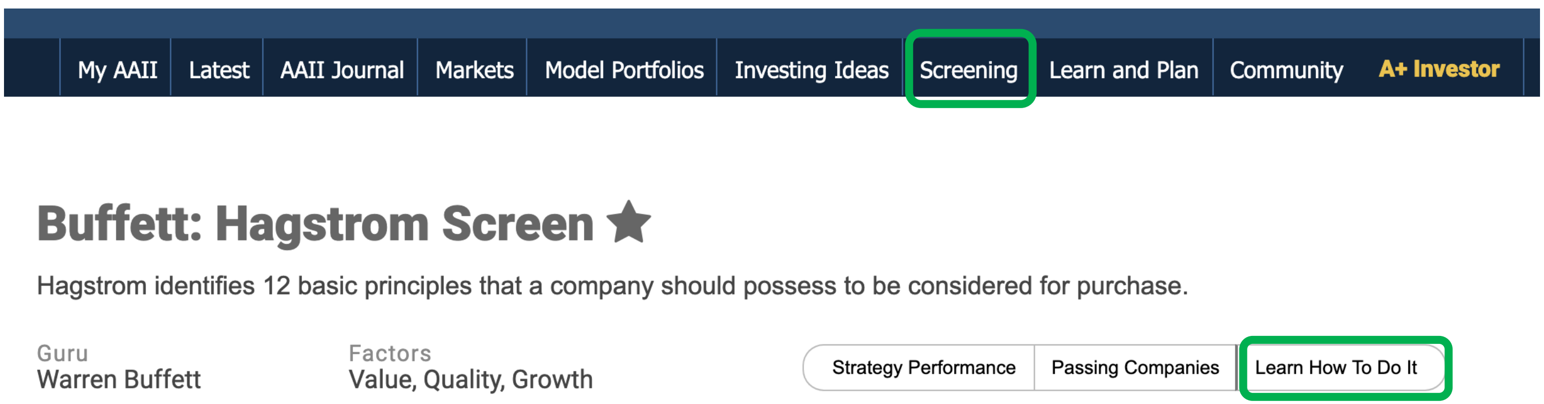
Types of Investors

- Fully Hands-On: Handpicks stocks and bonds
- Partially Hands-On: Combines individual securities with mutual funds and ETFs
- Index: Prefers index mutual funds and ETFs
- Fund: Considers actively managed funds
- Combo hands-on/adviser: Combines using an adviser with personal control of investments

Broad Characteristics of Successful Investing Strategies

- Understanding why you bought an investment and what would cause you to sell it
- Systematic and repeatable
- Simple enough to routinely follow
- Cost effective
- Require only as much time as you are reasonably able and willing to devote

AAII Stock Screens Can Provide Ideas for Rules



AAII Buffett Hagstrom Screen, https://www.aaii.com/stocks/screens/75

Buffett: Hagstrom Screen

- Market cap of $1 billion or more
- Profitable over past 12 months
- ROE above 15% of each of last 3 years
- Below industry median debt-to-equity
- Above industry median operating margin
- Above industry median net profit margin
- Price change greater than book value growth over last five years
- Low price-to-free-cash-flow ratio

What Do We Know?

- Companies must be profitable
- Operating and net profit margins must be greater than peers
- Debt must be below median
- ROE above 15%
- Price change above that of book value
- Low price-to-free-cash-flow ratio desired

AAII Stock Evaluator

Stock Evaluator: Tractor Supply Company (TSCO) Follow This Stock

POWERED BY STOCK INVESTOR PRO

Snapshot | Charts | News & Events | Grades | Valuation | Growth | Ratios | Analysts | Earnings | Financials | Insiders

Tractor Supply Company (TSCO)

$ 134.97 -4.85 | -3.47%

Bid: 134.92 x 200 Ask: 135.09 x 100

October 26, 2020 3:22 PM EDT Volume: 1,069,529

USD | NASDAQ GLOBAL SELECT | DELAYED PRICE

COMPANY SUMMARY

Tractor Supply Company is an operator of rural lifestyle retail stores in the United States. The Company is focused on supplying the needs of recreational farmers and ranchers and others, as well as tradesmen and small businesses. It is engaged in the retail sale of products that support the rural lifestyle. The Company operates retail stores under the names Tractor Supply Company, Del's Feed & Farm Supply and Petsense, and operates Websites under the names TractorSupply.com and Petsense.com. The Company's selection of merchandise consists of various product categories, including equine, livestock, pet and small animal products; hardware, truck, towing and tool products; seasonal products, including heating, lawn and garden items, power equipment, gifts and toys; work/recreational clothing and footwear, and maintenance products for agricultural and rural use. Its brands include 4health, JobSmart, Bit & Bridle, Paws & Claws, Blue Mountain, Redstone, Dumor, Equistages and Royal Wing.

Share Statistics	TSCO	Retailers - Other Specialty Median	Percentile (All Stocks)
Market Cap (Mil)	$15,925.0	$260.0	90%
Shares Out (Mil)	117.7	55.9	73%
Institutional Ownership	89.0%	40.5%	85%
Float (Mil)	115.4	42.2	76%
Beta	1.00	1.81	39%
Avg Daily Volume (000s)	1,742	376	86%
Price Change (52-week)	42.7%	66.5%	80%

Financial Statement Data	TSCO	Retailers - Other Specialty Median	Percentile (All Stocks)
Sales (TTM) (Mil)	$9,934	$665	90%
Net Income (TTM) (Mil)	$757	$-0	93%
EPS (TTM)	$6.496	$0.000	96%
Operating Cash Flow (TTM) (Mil)	$1,402	$33	91%
Net Cash Flow (TTM) (Mil)	$1,029	$0	95%
Long-Term Debt (Q1) (Mil)	$562	$20	71%
Enterprise Value (Q1) (Mil)	$16,511	$340	89%

Sell When the Opposite Occurs

- No longer profitable
- Operating and net profit margins less than peers
- Debt rises above industry median
- ROE falls below 15%
- Price return lags growth in book value
- Price-to-free-cash-flow ratio becomes expensive or negative

Basic Buy Rules for Funds and ETFs

- Fills an allocation need for your portfolio
- Outperforms category peers over several periods
- Low cost
- Understandable objective and strategy
- Tolerable level of risk
- Stable management if active
- Tax-efficient, if held in a taxable account

ETF Evaluator

Fund Evaluator: Renaissance IPO ETF (IPO) Follow This Fund

Overview | Insights

Equity Global Asset Class	$28.564 NAV (as of Oct 07)	$ 224 Mil Assets	0.3% TTM Yield
U.S. Equity Fund Group	$0.00 Minimum Initial	Open Status	0.00% Max Load
Mid-Cap Growth Category	0.60% D Expense Ratio	na 12b-1 Fee	92% Portfolio Turnover

Best Performing in Mid-Cap Growth Over the Last Year

115.6%	Morgan Stanley Inst Discovery IS (MMCGX)
115.3%	Morgan Stanley Inst Discovery I (MPEGX)
105.4%	Baron Partners Institutional (BPTIX)
94.3%	Baron Focused Growth Institutional (BFGIX)
69.5%	Delaware Smid Cap Growth Instl (DFDIX)

Data as of 9/30/2020

1-Mo Return	3-Mo Return	YTD Return	1-Yr Return	3-Yr Return	5-Yr Return	Category Risk Index	Total Risk Index
8.2% A	29.0% A	67.9% A	85.8% A	25.5% A	21.6% A	1.20 F	1.85

Basic Sell Rules for Funds and ETFs

- Keep an eye on the objective
- Monitor performance against peers; should outperform over time
- Higher cost with corresponding outperformance
- Watch for a change in manager for actively managed funds and ETFs
- Not as tax-efficient as expected

Finding Ideas on AAII

AAII Resources for Finding Investment Ideas

	Equites: Blend	Equites: Growth	Equites: Value	Equites: Income	Bonds: All	Allocation
AAII Stock Screens	✔	✔	✔	✔		
Model Shadow Stock Portfolio			✔			
Mutual Fund Guide	✔	✔	✔	✔	✔	✔
ETF Guide	✔	✔	✔	✔	✔	✔
A+ Investor	✔	✔	✔	✔	✔	✔
AAII Dividend Investing			✔	✔		
Stock Superstars Report	✔	✔	✔	✔		
VMQ Stocks			✔			

Keep Track of Why You Own Certain Investments

Frank and Sue are a young couple with a three-year son. They own both stocks and mutual funds. They view their savings as being designated to cover emergencies and therefore not part of their overall portfolio allocation for the purposes of this exercise.

Here's how they would fill out the worksheet.

Portfolio Composition and Notes

Equities	Portfolio Allocation	Strategies, Types of Investments and Rules
Large-Cap Stocks	15%	Frank uses value-oriented AAII Stock Screens and My Portfolio, sells stocks with Value Grades of F
Mid-Cap Stocks		
Small-Cap Stocks		
International Stocks		
Balanced/Target-Date Fund Portion	20%	Total market index funds; keep track of objective and index followed
Other:	40%	Equity portion of target-date funds held in 401(k) plans; keep track of objective and index followed
Total Equity Allocation	75%	
Fixed-Income Allocation		
Short-Term	10%	Bond funds held in Sue's inherited IRAs; monitor with AAII My Portfolio
Intermediate-Term		
Long-Term		
Balanced/Target-Date Fund Portion	15%	Fixed-income portion of target-date funds held in 401(k)s; keep track of objective and index followed
Other:		
Total Fixed-Income Allocation	25%	

You Can Also Use My Portfolio

My Portfolio

Learning My Portfolio

Sample Portfolio — CREATE MODIFY DELETE MANAGE ALERTS

Portfolio | News | Grades | Diversification Analyzer | Insights

Default View | Snapshot | Intraday | Monthly | Gain/Loss Since Purchase | Fundamentals | My Notes

Name	Ticker	Current Price	Daily % Change	Shares Held	Market Value	Daily $ Change	Portfolio Weight
Baxter International Inc	BAX	$79.830	-1.55%	100.00	$7,983.000	-$126.000	8.56%
Fidelity® OTC Portfolio	FOCPX	$15.970	0.57%	500.00	$7,985.000	$45.000	8.56%
iShares Core Aggressive Allocation ETF	AOA	$58.420	-1.60%	100.00	$5,842.000	-$95.000	6.26%
Microsoft Corporation	MSFT	$209.240	-3.23%	50.00	$10,462.000	-$349.500	11.22%
PIMCO Fixed Income SHares: Series M	FXIMX	$10.860	0.09%	500.00	$5,430.000	$5.000	5.82%
SPDR® Dow Jones Industrial Average ETF Trust	DIA	$275.885	-2.63%	100.00	$27,588.500	-$745.500	29.58%
Vanguard Small Capitalization Index Fund Investor Shares	NAESX	$79.790	0.64%	100.00	$7,979.000	$51.000	8.55%
BOND	$BOND	$1.000	--	10000.000	$10,000.000	--	10.72%
CASH	$CASH	$1.000	--	10000.000	$10,000.000	--	10.72%

https://www.aaii.com/myportfolio

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Upcoming Webinars

Register at www.aaii.com/webinars

Wayne Thorp on Making the Grade: Highlighting New Features of A+ Investor
Wednesday, November 4th, 2020, 7:30 p.m. CDT

Derek Hageman on Secrets Behind AAII's New Dividend Grader
Wednesday, November 11th, 2020, 7:30 p.m. CDT

Wayne Thorp on A+ Investor: Idea Discovery Made Simple
Wednesday, November 18th, 2020, 7:30 p.m. CDT