Open House

Presented by Wayne A. Thorp, CFA
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Moderated by Derek Hageman
AAII Financial Analyst
Hosted by Jenna Brashear
AAII's Digital Content & Community Manager

Tonight's Agenda

- Introduce the Growth Investing strategy
  - Growth Grade & G-Score
  - Addition criteria
  - Deletion criteria
- Growth Investing & AAII's other portfolios
  - Shadow Stocks
  - Dividend Investing
  - Stock Superstars Report
  - VMQ Stocks
- Overview of the Growth Investing website
  - Sneak peak of the Growth Investing portfolio
  - Growth Ideas
  - Analyzing stocks using the Growth Analyzer
- Q & A session

Why Growth Now?

- In AAII annual surveys, roughly 50% of members say that "growth" is their preferred investment strategy
- Filling a hole in AAII's premium portfolio stable
- Historically, especially over the long term, growth underperforms other strategies, especially value
  - Led me to see if I could create a growth investment approach that can do growth investing "the right way"

Why Growth Now?

- No matter if "growth" or "value" is performing better, there always seem to be compelling investment opportunities throughout the market cycle for both styles
  - The key is to find a reasoned approach that resonates with you and that you can follow in a disciplined way
- My goal was to find a growth investing approach that overcame the shortfalls of many growth-oriented approaches
  - Avoid the highest growth on an absolute basis
    - Look for consistent, sustainable growth
  - History of profitability and cash flow generation
  - Fundamental factors that indicate "quality growth" going forward

Is Growth Investing Right For You?

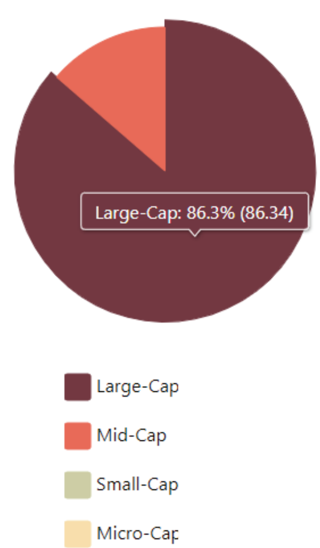
- This portfolio is geared towards investing looking for capital appreciation versus dividend income
  - Any dividend income generated is incidental
- True portfolio diversification spans not only sectors and industries, not investment “styles” as well
  - If you are looking for a “growth” component to your stock holdings, this portfolio is intended to fit that need
- However, this is a concentrated portfolio

Stock Diversification

Sector Diversification

Basic Materials	-
Consumer Cyclical	20.2%
Financial Services	4.5%
Real Estate	-
Communications Services	-
Energy	-
Industrials	4.8%
Technology	51.9%
Consumer Defensive	5%
Healthcare	13.7%
Utilities	-

Size Diversification



Growth Investing Strategy

- Cornerstone Elements
  - Growth Grade
    - Reward companies with strong and sustainable growth, not the highest absolute growth
    - Higher grades, too, for a history of annual positive cash from operations and year-over-year sales growth
  - Mohanram's G-Score
    - An eight-factor model using financial statement analysis for analyzing growth companies
    - A means of evaluating the "quality" of a company's growth prospects by looking at elements of profitability, operating stability and accounting conservatism

Growth Investing Selection Criteria

- G-Score of 7 or 8
- Growth Grade of A (score of 81 or higher)
- Quality Grade of A or B (score of 61 or higher)
- Positive year-over-year sales growth for the latest quarter
- Positive trailing cash from operations
- Minimum market cap and liquidity requirements
- Up-to-date SEC filings
- Exclude OTC stocks, REITs, Russian and Chinese firms

Where Are Earnings?

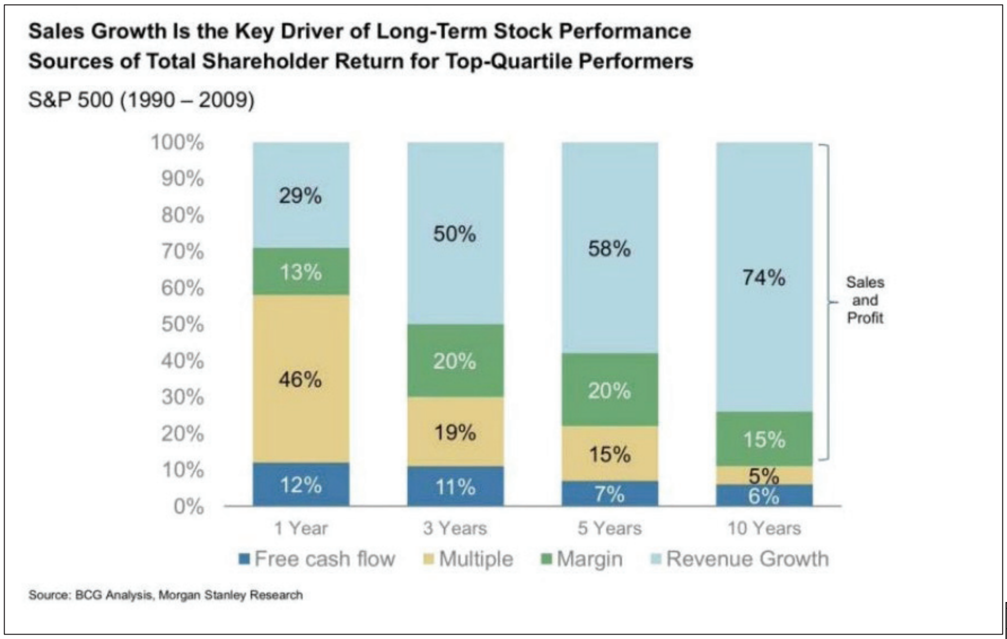
- Look at earnings stability as part of G-Score
- A company needs to produce top-line growth to grow earnings
- "Profitable" companies can still go bankrupt if they don't generate sufficient cash
- Earnings are an accounting measure impacted by management decisions
- Analysts aren't the most reliable
  - David Dreman suggests that only 1 in 4 analysts can correctly estimate future fundamentals within 5 percentage points
- Dreman suggests only 1 in 4 analysts are able to correctly estimate the future fundamentals within five percentage points.

What About Valuation?

Stock Grades

Name	Ticker	Value		Growth	
		Score	Grade	Score	Grade
		16	F	82	A
		29	D	82	A
		13	F	82	A
		12	F	82	A
		9	F	94	A
		16	F	89	A
		1	F	82	A
		13	F	82	A
		27	D	94	A
		20	F	89	A
		6	F	89	A
		5	F	82	A
		34	D	94	A
		5	F	82	A
		4	F	82	A
		6	F	98	A
		2	F	82	A
		33	D	94	A
		2	F	82	A
		7	F	94	A

- The stocks in the Growth Investing portfolio are not "GARP" stocks
- The expectations for these companies are high, which are warranted based on their track record of consistent growth, cash flows and quality



When to Sell

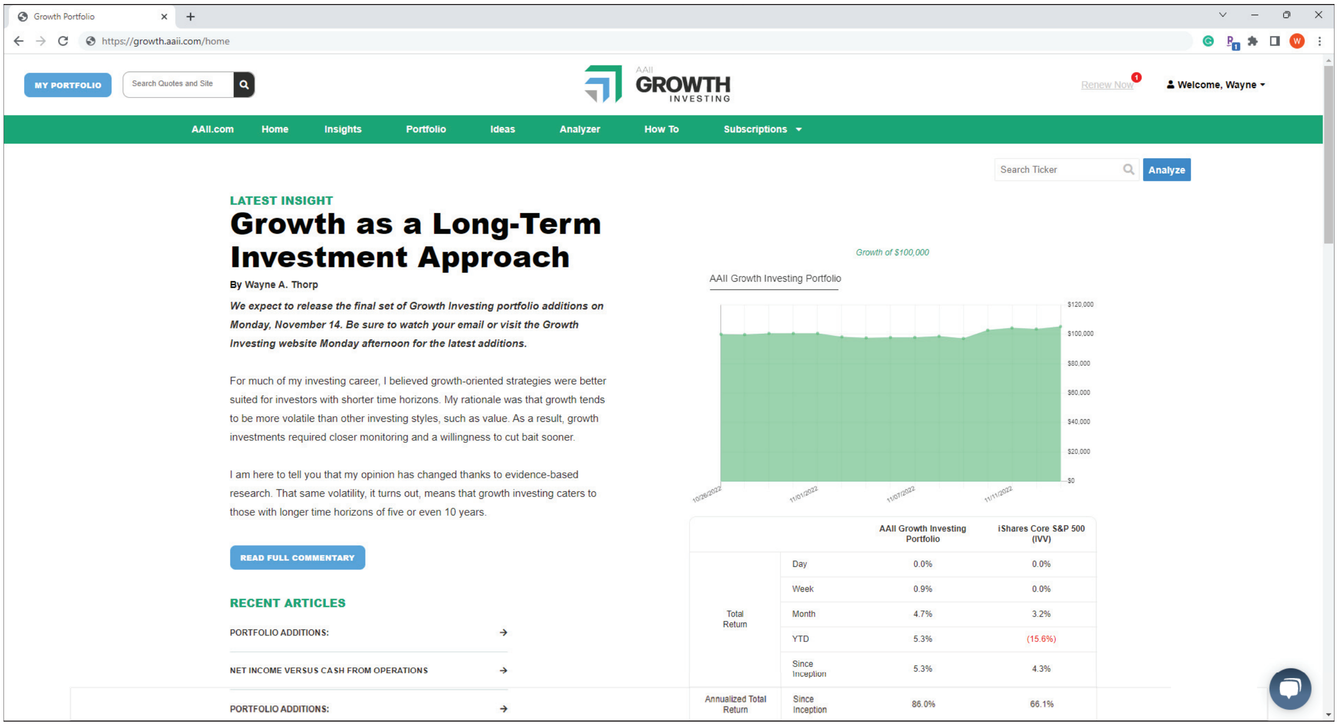
- G-Score falls to 2 or lower (from 7+)
- Growth Grade falls to D or lower (score below 41, from 81+)
- Quality Grade falls to F (score below 21, from 61+)
- Negative year-over-year sales growth for four consecutive quarters
- Five-year sales growth falls to bottom 20% of stock universe
- Trailing cash from operations turns negative
- After being held for three years, stock has underperformed the benchmark
  - iShares Core S&P 500 ETF (IVV)

Investing Across AAII's Model Portfolios

- Shadow Stocks
  - Deep value (low P/B)
  - Micro-cap
- Dividend Investing
  - Low/reasonable valuations
  - History of earnings & dividend growth
  - Positive free cash flow
- Stock Superstars Report
  - Style diversification using distinct approaches from 4 Wall Street gurus
- VMQ Stocks
  - Factor investing
  - Low valuations
  - Strong price momentum
  - Underlying quality

Growth Investing Website growth.aaii.com

- Current Growth Investing Portfolio
- Ideas List
- Growth Analyzer
- Portfolio Addition & Deletion Alerts
- Analyst Insights articles
- User "How To" Materials


Growth Portfolio

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LATEST INSIGHT

Growth as a Long-Term Investment Approach

By Wayne A. Thorp

We expect to release the final set of Growth Investing portfolio additions on Monday, November 14. Be sure to watch your email or visit the Growth Investing website Monday afternoon for the latest additions.

For much of my investing career, I believed growth-oriented strategies were better suited for investors with shorter time horizons. My rationale was that growth tends to be more volatile than other investing styles, such as value. As a result, growth investments required closer monitoring and a willingness to cut bait sooner.

I am here to tell you that my opinion has changed thanks to evidence-based research. That same volatility, it turns out, means that growth investing caters to those with longer time horizons of five or even 10 years.

READ FULL COMMENTARY

RECENT ARTICLES

PORTFOLIO ADDITIONS:

NET INCOME VERSUS CASH FROM OPERATIONS

PORTFOLIO ADDITIONS:

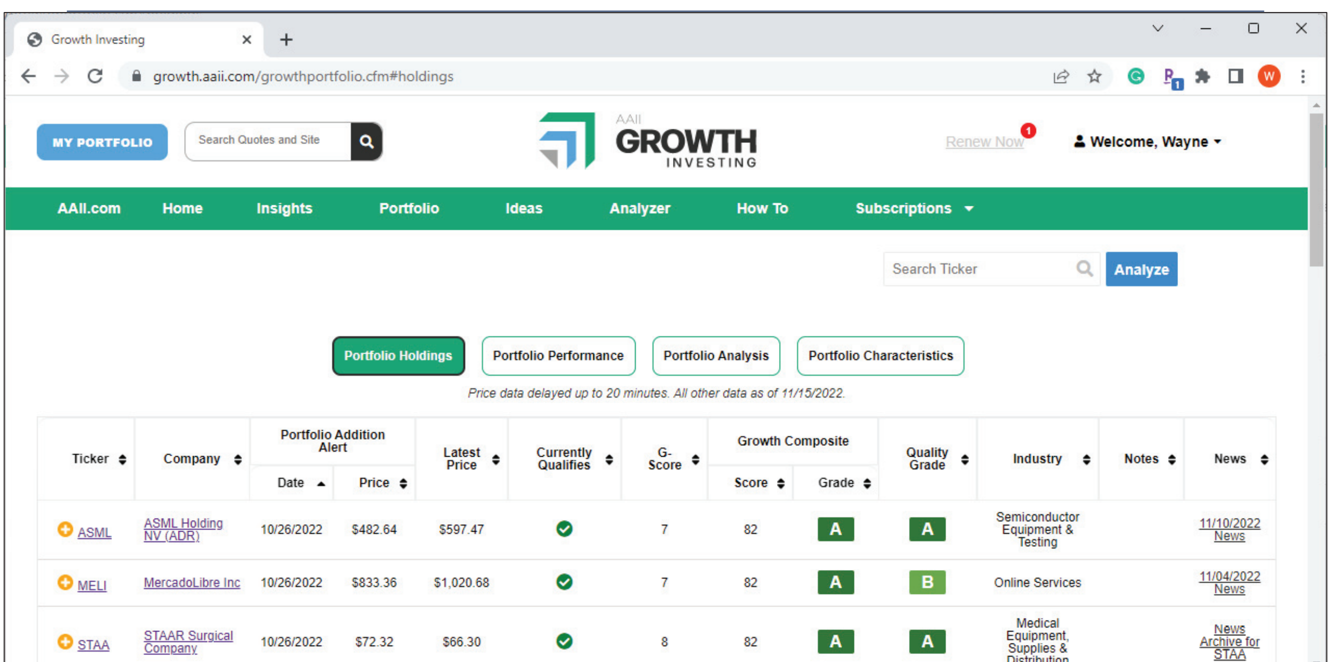
Growth of $100,000

AAII Growth Investing Portfolio

$120,000 | $100,000 | $80,000 | $60,000 | $40,000 | $20,000 | $0

10/26/2022 | 11/01/2022 | 11/07/2022 | 11/11/2022

		AAII Growth Investing Portfolio	iShares Core S&P 500 (IVV)
Total Return	Day	0.0%	0.0%
	Week	0.9%	0.0%
	Month	4.7%	3.2%
	YTD	5.3%	(15.6%)
	Since Inception	5.3%	4.3%
Annualized Total Return	Since Inception	86.0%	66.1%


Growth Investing

growth.aaii.com/growthportfolio.cfm#holdings

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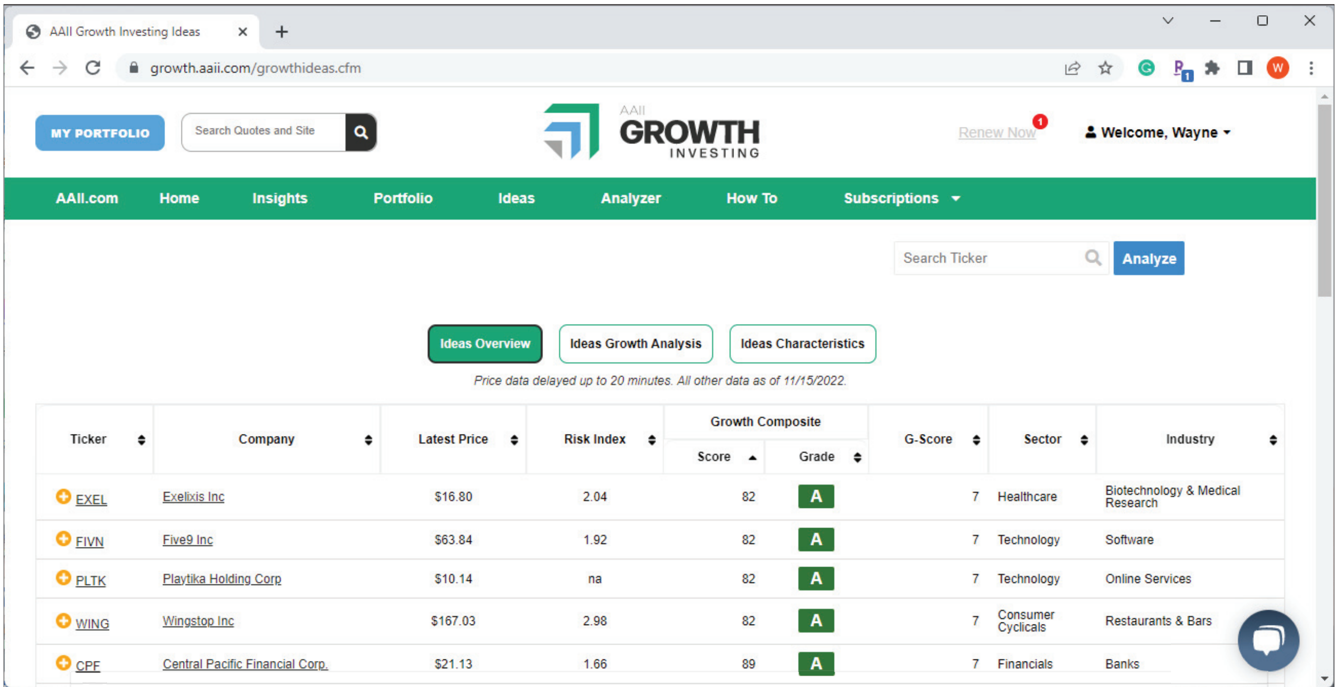
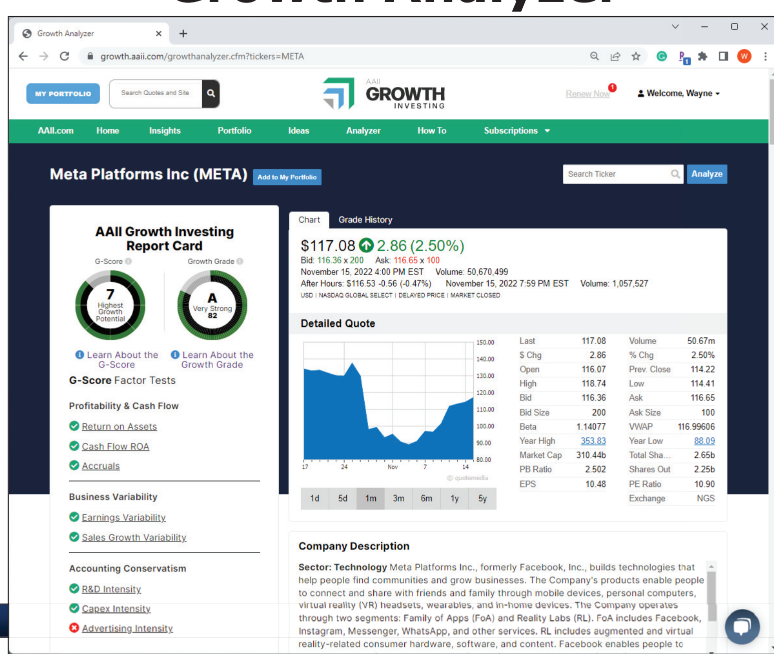
Price data delayed up to 20 minutes. All other data as of 11/15/2022.

Ticker	Company	Portfolio Addition Alert: Date	Portfolio Addition Alert: Price	Latest Price	Currently Qualifies	G-Score	Growth Composite: Score	Growth Composite: Grade	Quality Grade	Industry	Notes	News
ASML	ASML Holding NV (ADR)	10/26/2022	$482.64	$597.47	✔	7	82	A	A	Semiconductor Equipment & Testing		11/10/2022 News
MELI	MercadoLibre Inc	10/26/2022	$833.36	$1,020.68	✔	7	82	A	B	Online Services		11/04/2022 News
STAA	STAAR Surgical Company	10/26/2022	$72.32	$66.30	✔	8	82	A	A	Medical Equipment, Supplies & Distribution		News Archive for STAA



Growth Analyzer



A+ Quality Grade

Quality Grade:

A	B	C	D	F
81-100 Very Strong	61-80 Strong	41-60 Average	21-40 Weak	0-20 Very Weak

Metric	Score	META	Sector Median
Return on Assets (ROA)	94	17.0%	(3.1%)
Return on Invested Capital (ROIC)	69	32.7%	21.0%
Gross Income to Assets	87	53.0%	27.0%
Buyback Yield	90	4.7%	(1.6%)
Change in Total Liabilities to Assets	25	10.4%	3.2%
Accruals to Assets	82	(14.1%)	(7.0%)
Z Double Prime Bankruptcy Risk (Z) Score	88	9.48	4.93
F-Score	76	6	3

The Quality Grade is the percentile rank of the average of the percentile ranks of the return on assets (ROA), return on invested capital (ROIC), gross profit relative to assets, buyback yield, change in total liabilities to assets, accruals, Z Double Prime bankruptcy risk (Z) score and F-Score. The score is variable, meaning it can consider all eight measures or, should any of the eight measures not be valid, the remaining measures that are valid. To be assigned a Quality Score, stocks must have a valid (non-null) measure and corresponding ranking for at least four of the eight quality measures.

The Quality Score is used to assess the "quality" of a particular stock. A higher quality stock possesses traits associated with upside potential and reduced downside risk.

Stocks receive better grades (higher scores) for having higher scores for the quality sub-components and worse grades (lower scores) for lower scores for the sub-components.

META has a quality score of 97, which is Very Strong.

A+ Value Grade

Value Grade:

A	B	C	D	F
81-100 Deep Value	61-80 Value	41-60 Average	21-40 Expensive	0-20 Ultra Expensive

Metric	Rank	META	Sector Median
Price/Sales	60	2.66	2.14
Price/Earnings	35	11.2	20.1
EV/EBITDA	44	8.3	11.8
Shareholder Yield	17	4.7%	(1.5%)
Price/Book Value	67	2.53	2.32
Price/Free Cash Flow	39	12.3	26.8

The Value Score is the percentile rank of the average of the percentile ranks of the price-to-sales ratio, price-earnings ratio, enterprise-value-to-EBITDA (EV/EBITDA) ratio, shareholder yield, price-to-book-value ratio and price-to-free-cash-flow ratio. The score is variable, meaning it can consider all six ratios or, should any of the six ratios not be valid, the remaining ratios that are valid. To be assigned a Value Score, stocks must have a valid (non-null) ratio and corresponding ranking for at least two of the six valuation ratios.

META has a Value Score of 60, which is considered to be Average.

Learn More About the Growth Investing Approach

- AAII Growth Grade
  - October 2022 issue of the AAII Journal
  - https://www.aaii.com/journal/article/21690-uncovering-consistent--sustainable-growth-with-the-revised-growth-grade
- Mohanram's G-Score
  - September 2022 issue of the AAII Journal
  - https://www.aaii.com/journal/article/20261-segmenting-growth-stocks-with-the-g-score

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As a Thank You for Attending Our AAII Growth Investing Open House, We'd Like to Offer a Special Charter Rate

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