LEARN A BETTER WAY TO IDENTIFY

PROMISING GROWTH STOCKS

American Association of Individual Investors

Presented by Wayne A. Thorp, CFA

Creator, lead analyst & editor of Growth Investing

Moderated by John Bajkowski, President of AAII

Hosted by Jenna Brashear, AAII Digital Content & Community Manager

Today's Agenda

- What lead us here?
- Introducing the AAII Growth Investing Strategy
  - Growth Grade & G-Score
- Building & managing a portfolio of Growth Investing stocks
- Where Growth Investing fits among AAII's other model portfolios
- Mid-Year Review
- Overview of the Growth Investing website
  - Growth Ideas
  - Growth Analyzer tool
- Q&A session

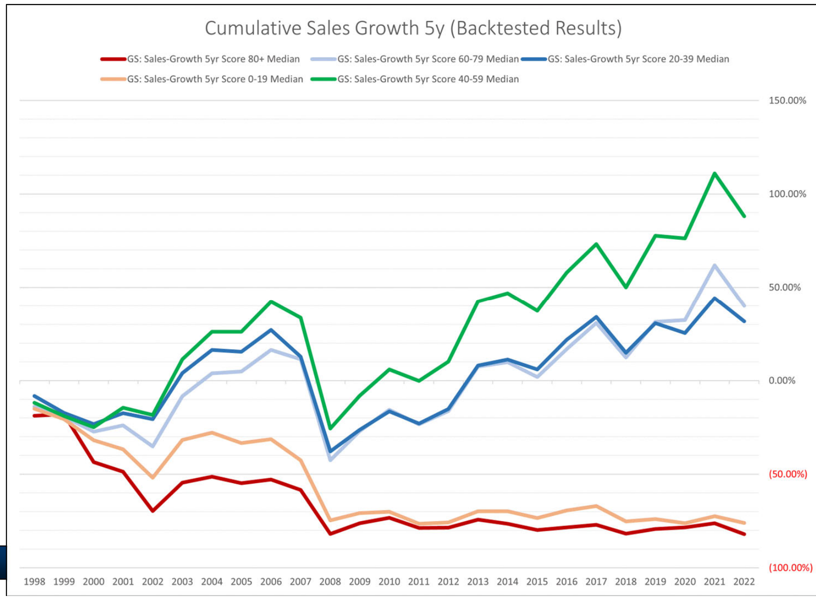
Why Growth Now?

- 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
- Is there a better way to select “growth” stocks?
  - Historically, especially over the long term, growth underperforms other strategies, especially value
  - But growth is often defined from an “academic” viewpoint, usually high price-to-book (P/B)
  - So, I set out to see if I could create an approach to 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 overcomes 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
  - Have a long-term investment horizon that offsets the impact of high current valuations

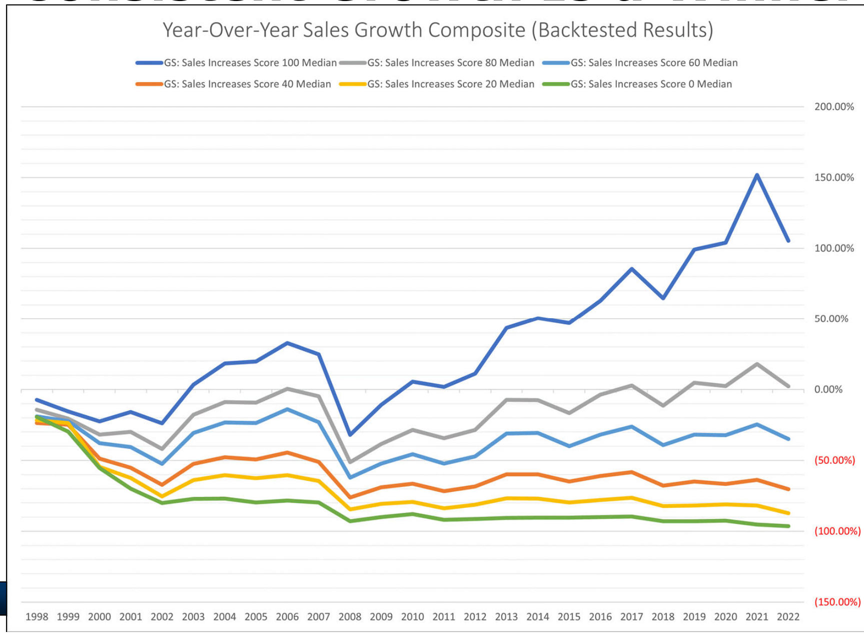
Highest Growth Usually Doesn't Mean Highest Performance



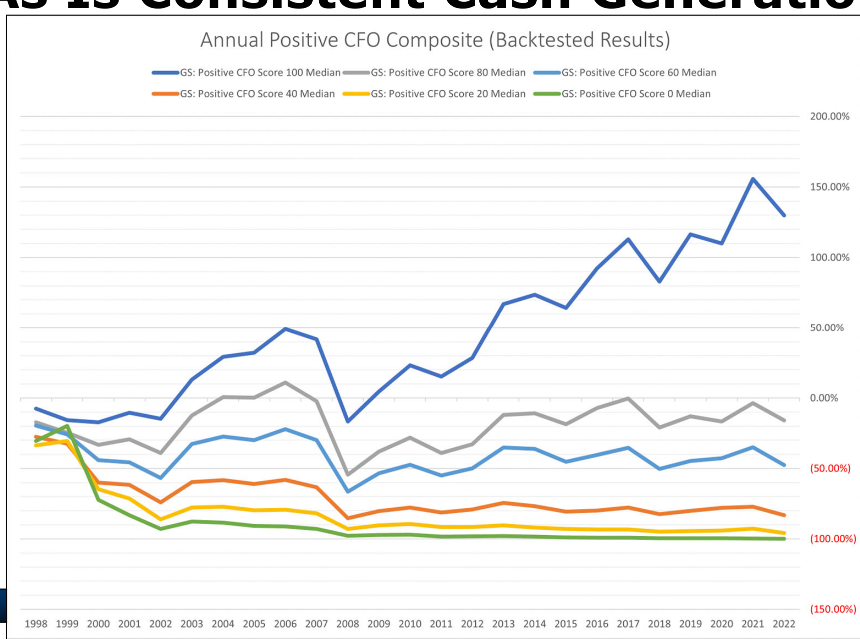
Growth Investing Strategy

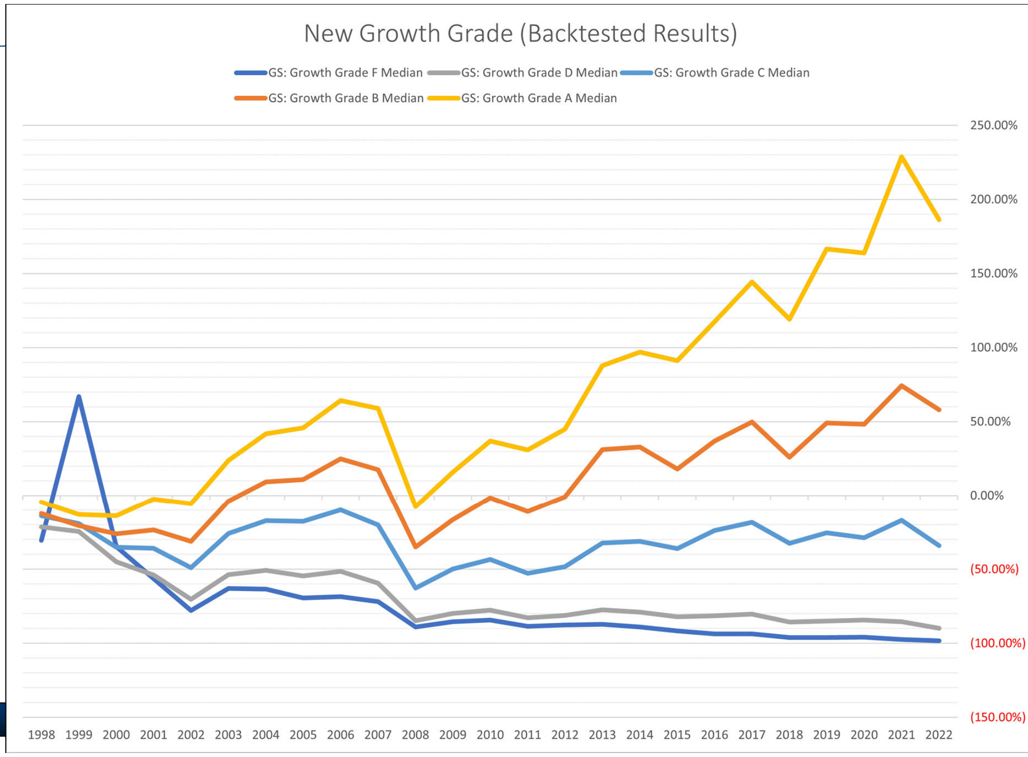
- Cornerstone Element
  - Growth Grade
    - Reward companies with strong and sustainable growth, not the highest absolute growth
    - Higher grades, too, for a history of annual positive cash from operations and year-over-year sales growth

Consistent Growth Is a Winner

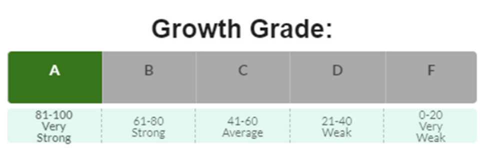


As Is Consistent Cash Generation





A+ Stock Evaluator Growth Grade for HubSpot (HUBS)



Metric	Metric Score	HUBS	Sector Median
Sales Growth 5yr Ann'l	48	35.7%	9.2%
Sales Increases YoY Last 5 yrs	86	5 of 5	3 of 5
Cash from Operations Ann'l Positive Last 5 yrs	64	5 of 5	3 of 5

HUBS 5-year sales growth ranks in the 89th percentile

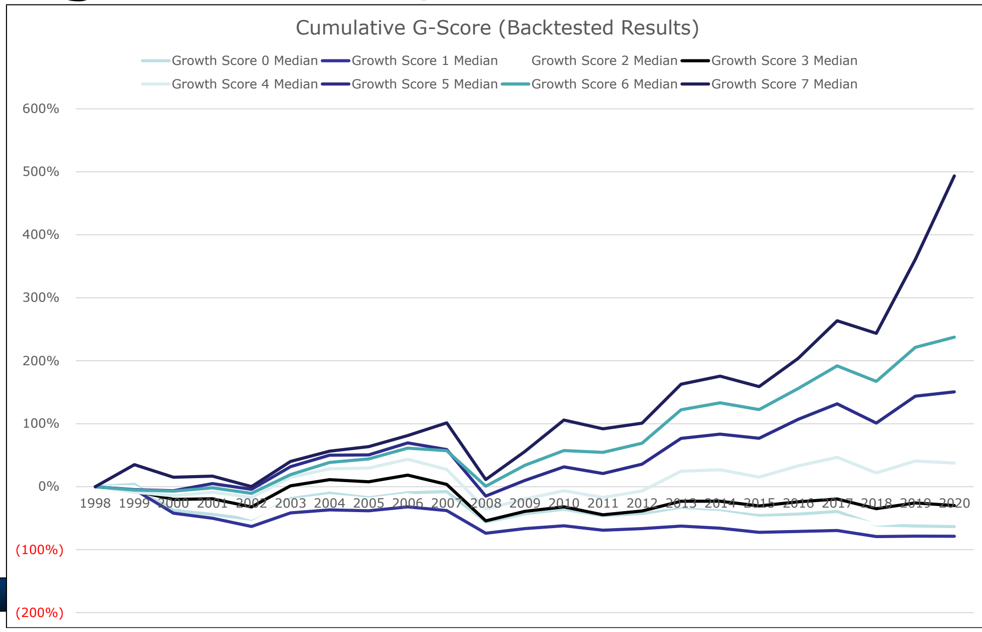
Growth Investing Strategy

- Cornerstone Element
  - 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

G-Score Tests

- Profitability
  - ROA > Industry
  - Cash Flow ROA > Industry
  - Operating Cash > Net Income
- Earnings Stability
  - Earnings Variability < Industry
  - Sales Growth Variability < Industry
- Accounting Conservatism
  - R&D Intensity > Industry
  - CAPEX Intensity > Industry
  - Adverting Expenditure Intensity > Industry

Higher G-Score, Better Performance



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

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

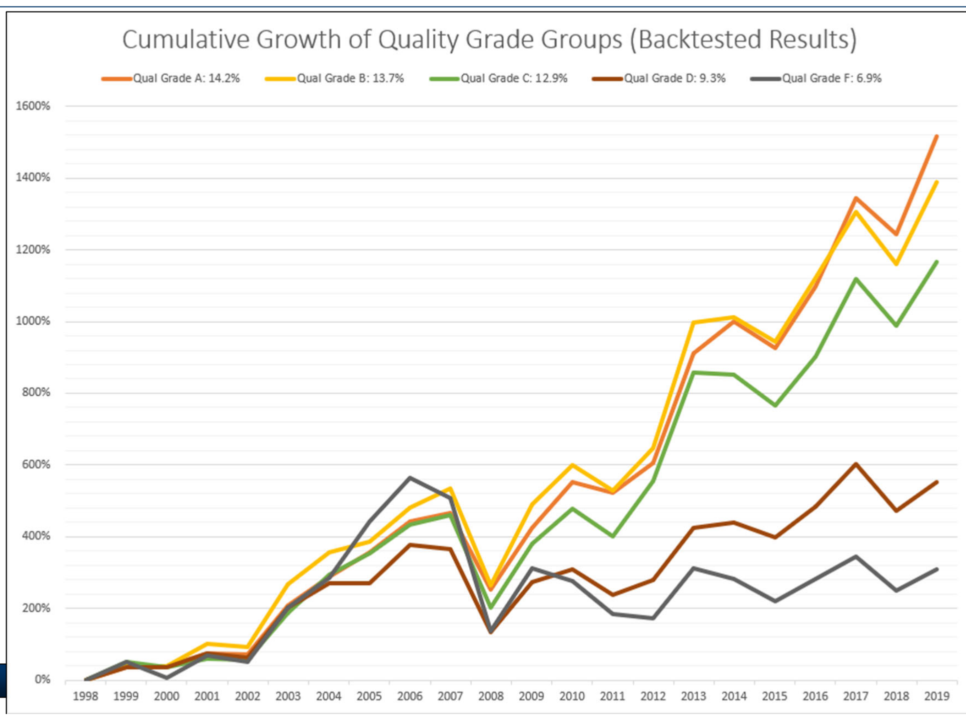
Metric	Score	HSY	Sector Median
Return on Assets (ROA)	93	15.9%	2.3%
Return on Invested Capital (ROIC)	81	48.8%	18.9%
Gross Income to Assets	79	40.8%	22.8%
Buyback Yield	8	(40.6%)	(0.4%)
Change in Total Liabilities to Assets	26	10.2%	3.2%
Accruals to Assets	62	(5.2%)	(2.7%)
Z Double Prime Bankruptcy Risk (Z) Score	59	5.41	5.35
F-Score	53	4	4

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.

HSY has a quality score of 73, which is Strong.



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

Intersection of High-Quality Companies With Top G-Scores & Growth Grades

AAII Growth Investing Ideas

growth.aaii.com/growthideas.cfm

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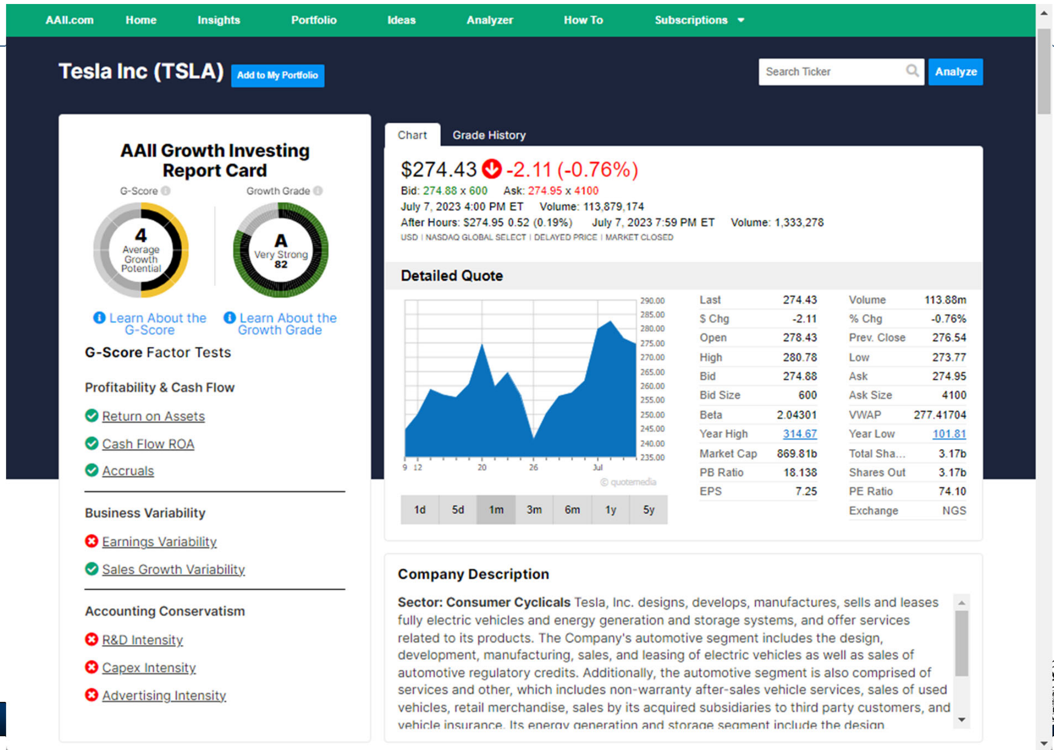
Ideas Overview | Ideas Growth Analysis | Ideas Characteristics

Price data delayed up to 20 minutes. All other data as of 07/07/2023.

Ticker	Company	Latest Price	Risk Index	Growth Composite Score	Growth Composite Grade	G-Score	Sector	Industry
HSY	Hershey Co	$242.98	0.85	97	A	7	Consumer Non-Cyclicals	Food Processing
PG	Procter & Gamble Co	$148.80	1.03	89	A	7	Consumer Non-Cyclicals	Personal Products
ZTS	Zoetis Inc	$167.14	1.27	97	A	7	Healthcare	Pharmaceuticals
INCY	Incyte Corporation	$62.07	1.30	89	A	7	Healthcare	Pharmaceuticals
CSGS	CSG Systems International, Inc.	$51.67	1.38	90	A	7	Technology	IT Services & Consulting
BJ	BJ's Wholesale Club Holdings Inc	$63.75	1.50	97	A	7	Consumer Cyclicals	Retailers - Discount Stores
WIT	Wipro Ltd (ADR)	$4.75	1.56	97	A	7	Technology	IT Services & Consulting
DECK	Deckers Outdoor Corp	$527.18	1.58	94	A	7	Consumer Cyclicals	Footwear
GDDY	Godaddy Inc	$75.52	1.58	94	A	7	Technology	IT Services & Consulting
ERIC	Telefonaktiebolaget LM Ericsson	$5.38	1.59	90	A	7	Technology	Communications & Networking



What About Earnings?

- Earnings stability is examined 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 at forecasting earnings
  - David Dreman suggests that only 1 in 4 analysts can correctly estimate future fundamentals within 5 percentage points
- Management guidance is incorrect roughly 70% of the time

Strong Growth Potential = High Valuation

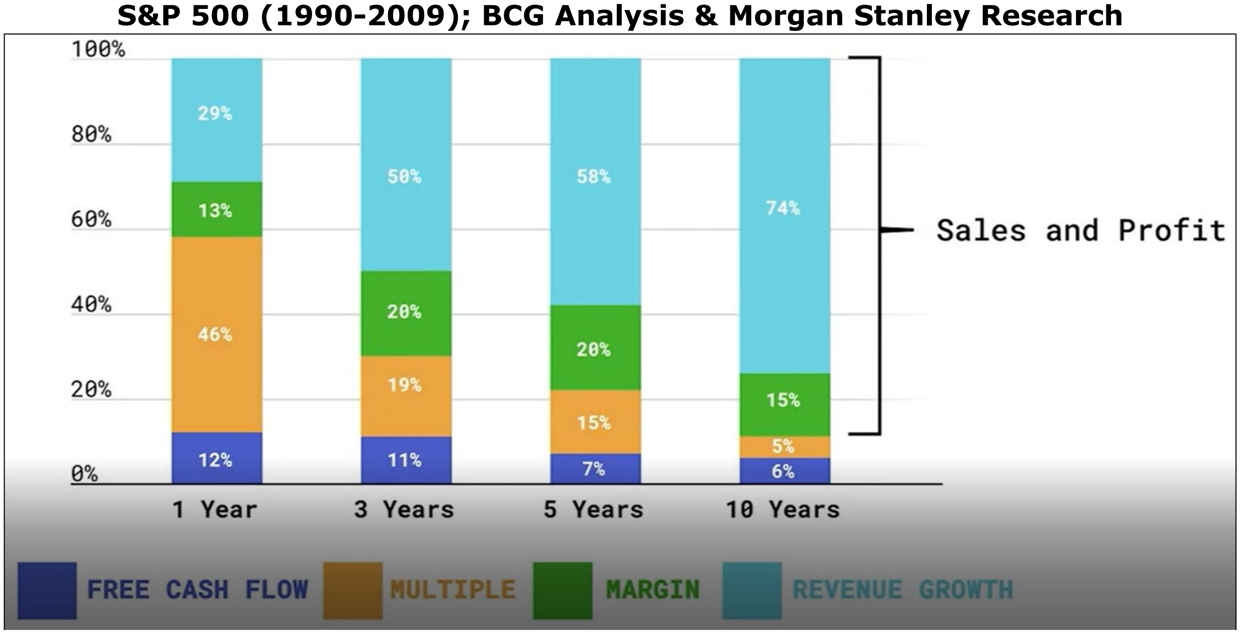
Stock Grades

Name	Ticker	Value Score	Value Grade	Growth Score	Growth Grade
		2	F	82	A
		2	F	82	A
		3	F	82	A
		3	F	82	A
		4	F	97	A
		6	F	82	A
		7	F	97	A
		7	F	94	A
		9	F	94	A
		10	F	82	A
		10	F	82	A
		11	F	94	A
		12	F	94	A
		12	F	82	A
		20	F	89	A
		21	D	90	A
		25	D	94	A
		28	D	97	A
		45	C	94	A
		58	C	97	A

- The stocks in the Growth Investing portfolio are not "GARP" stocks
- Most Growth Investing stocks trade at high price multiples
  - Multiples are a function of the market's expectations of the stock's prospects
  - The expectations for these companies are high, which are warranted based on their track record of consistent growth, cash flows and quality
- In the near-term, reversion to the mean may be a headwind, but the longer your investing time horizon, the less impactful valuations become

Top-Line Growth the Long-Run Driver of Stock Performance

Sources of Total Shareholder Return of Top-Quartile Performers
S&P 500 (1990-2009); BCG Analysis & Morgan Stanley Research



Building A Growth Investing Portfolio

- For sufficient diversification, look to invest in at least 10 Growth Investing Stocks
  - Invest equal dollar amounts
- Look to "currently qualifies" from current portfolio holdings
- Take note of holdings are on "probation"
- Ideas list covers stocks that currently meet the minimum requirements but are not in the Growth Investing tracking portfolio
  - Updated daily
  - No guarantee that these stocks will end up in the tracking portfolio, so you are responsible for identifying when to sell

Portfolio Holdings | Portfolio Performance | Portfolio Analysis | Portfolio Characteristics

Price data delayed up to 20 minutes. All other data as of 07/07/2023.

Ticker	Company	Portfolio Addition Alert		Latest Price	Currently Qualifies	G-Score	Growth Composite		Quality Grade	Industry	Notes
		Date	Price				Score	Grade			
		10/31/2022	$73.84	$75.82	✓	7	89	A	A	Personal Products	Sales Growth - 5yr nearing deletion
		11/14/2022	$356.06	$450.29	✗	8	97	A	A	Pharmaceuticals	
		11/14/2022	$51.55	$50.72	✗	7	82	A	C	Software	
		11/14/2022	$129.56	$130.28	✗	6	90	A	A	Software	
		11/07/2022	$6.26	$4.61	✗	7	97	A	A	Broadcasting	
		11/07/2022	$90.53	$127.34	✗	7	82	A	C	Retailers - Department Stores	
		11/07/2022	$347.93	$349.23	✗	6	97	A	A	Restaurants & Bars	
		10/31/2022	$41.95	$43.26	✗	6	97	A	A	Business Support Services	
		10/26/2022	$482.64	$706.80	✗	6	94	A	A	Semiconductor Equipment & Testing	
		11/14/2022	$230.84	$223.25	✓	7	94	A	A	Investment Banking & Brokerage Services	
		11/14/2022	$329.82	$332.49	✓	7	82	A	A	Software	
		11/07/2022	$299.54	$497.59	✓	8	94	A	A	Software	
		11/07/2022	$88.49	$117.01	✓	7	94	A	A	Online Services	
		10/31/2022	$120.78	$130.06	✓	8	82	A	A	Medical Equipment, Supplies & Distribution	
		10/31/2022	$420.74	$563.41	✓	8	82	A	B	Software	
		10/31/2022	$1,498.33	$2,083.74	✓	7	94	A	A	Restaurants & Bars	
		10/26/2022	$72.32	$51.15	✓	8	82	A	A	Medical Equipment, Supplies & Distribution	
		10/26/2022	$273.35	$521.07	✓	8	82	A	B	Software	
		10/26/2022	$292.73	$444.78	✓	7	94	A	A	Software	
		10/26/2022	$833.36	$1,066.60	✓	7	82	A	A	Online Services	

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
- Negative trailing 12-month cash from operations
- After being held for three years, stock has underperformed the benchmark
  - iShares Core S&P 500 ETF (IVV)

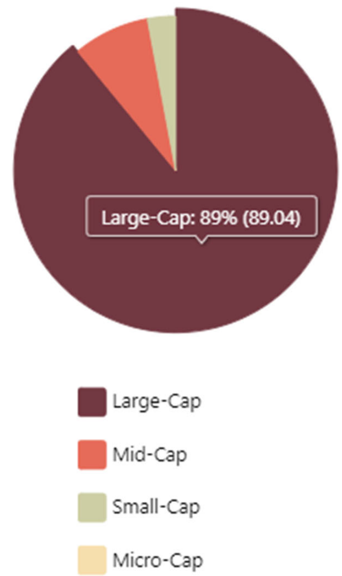
Is Growth Investing Right For You?

- This portfolio is geared towards investing for capital appreciation versus dividend income
  - Any dividend income generated is incidental
  - Initial investment of $81,230.57 has generated dividends of $266.03 and interest of $20.63 through 6/30/2023
- True portfolio diversification spans not only sectors and industries but 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

Sector Diversification

Basic Materials	-
Consumer Cyclical	19.1%
Financial Services	3.9%
Real Estate	-
Communications Services	-
Energy	-
Industrials	4.3%
Technology	55.7%
Consumer Defensive	4.3%
Healthcare	12.9%
Utilities	-

Size Diversification



Style Diversification Across AAII's Model Portfolios

- Shadow Stocks
  - Deep value (low P/B)
  - Micro-cap
- Stock Superstars Report
  - Style diversification using distinct approaches from 4 Wall Street gurus
    - O'Neil: price momentum, growth
    - Dreman: Deep Value, Dividends
    - O'Shaughnessy: Value, Earning Quality, Financial Strength
    - Neff: GARP
- Dividend Investing
  - Low/reasonable valuations
  - History of earnings & dividend growth
  - Positive free cash flow
- VMQ Stocks
  - Factor investing
    - Low valuations
    - Strong price momentum
    - Underlying quality

Mid-Year Review

Growth Investing 2023 Performance

- Through June 30, 2023, the Growth Investing portfolio gained 24.7% YTD versus 16.9% total return for the iShares Core S&P 500 ETF (IVV)
- Top Performers YTD
  - HubSpot Inc. (HUBS) +84.0%
  - Amazon.com Inc. (AMZN) +55.2%
  - Chipotle Mexican Grill (CMG) +54.2%
- Weakest
  - Sirius XM Holdings (SIRI) —21.7%

2023 Sector/Factor Performance

- Top/Bottom S&P 500 Sectors YTD
  - Information Technology +42.8%
  - Communication Services +36.2%
  - Consumer Discretionary +33.1%
  - Energy —5.5%
  - Utilities —5.7%
- Top/Bottom Factor Indexes YTD
  - High Beta +23.2%
  - Growth +21.3%
  - Quality +15.7%
  - Low Volatility —0.5%
  - Low Volatility High Dividend —3.5%
  - High Dividend —4.1%

Growth Investing Portfolio Composition

- Technology 55.7%
  - ~50% at inception
- Consumer Cyclicals 18.9%
  - ~20.0% at inception
- Healthcare 12.8%
  - ~15.0% at inception
- Consumer Non-Cyclical 4.3%
  - ~5.0% at inception
- Industrials 4.1%
  - ~5.0% at inception
- Financials 3.8%
  - ~5.0% at inception
- Cash ~0.4%

Data as of 6/30/2022; TRBC sector classifications from Refinitiv

Since Inception Performance

- Since inception on October 26, 2022, the Growth Investing portfolio gained 25.4% through June 30, 2023, versus a 17.6% total return for the IVV ETF
- Top Performers Since Inception
  - HubSpot Inc. (HUBS) +92.3%
  - Adobe Systems (ADBE) +63.3%
  - ASML Holding (ASML) +51.4%
- Weakest
  - STAAR Surgical (STAA) —27.3%
  - Sirius XM Holdings (SIRI) —26.9%

Looking Ahead

- The market environment this year has defied conventional thinking
  - Rising interest rates haven't hurt growth stocks
  - As of the close on 7/12, there was an 80% chance that short-term interest rates would be higher by the end of the year (down from 89% on 7/13)
- Inflation is cooling, with June CPI up 0.2% from May and up 3% from a year ago, the lowest level since March 2021
  - Core inflation at 4.8%, still well above the Fed target of 2%
- Are we heading for a soft or hard landing?
  - Ycharts has the probability of a recession at 67.3% compared to 70.9% last month and 5.9% last year
  - The Conference Board had the likelihood of a recession at 99% as of February
  - St. Louis FED's smoothed probability was 0.62% at the end of May
- The current earnings season will provide additional insights

Outlook for Growth Investing

- The Growth Investing approach seeks out secular growth
  - Sustainable growth that is influenced less by the business and economic environment than cyclical firms
- While an economic slowdown or recession will most likely create headwinds for the Growth Investing companies, their products or services are such that demand should defy the overall trend
- Knowing when the market's preference for growth vs. value will shift is almost impossible
- Our rules-based approach to buying and selling and long-term investment horizon helps us navigate any market or economic turmoil

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

growth.aaii.com/home.cfm?ct=0c6b232acc69ffdd174d29f7170af6e08cb8eb21f4ab0189081d0aa0c1c39ec17a8b7254a7186992bec14bc...

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LATEST INSIGHT

June 2023 Midyear Growth Investing Portfolio Review

By Wayne A. Thorp

As we cross the halfway mark of 2023 and welcome the third quarter, it's time for our monthly review of the Growth Investing portfolio's performance. For the fourth consecutive month in its eight-month tenure, the Growth Investing portfolio reported monthly growth in June. A 4.2% increase for the month built on gains of 5.2% in May, 1.6% in April and 6.8% in March. The iShares Core S&P 500 ETF (IVV), the benchmark for the Growth Investing portfolio, delivered a total return of 6.6% in June, including a dividend paid on June 7.

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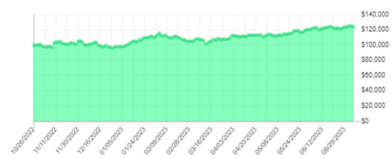
- GARBAGE IN, GARBAGE OUT: COMPANY EARNINGS GUIDANCE OFTEN INACCURATE
- RECONCILING THE NEW BULL MARKET AND POOR MARKET BREADTH

Growth of $100,000

AAII Growth Investing Portfolio



		AAII Growth Investing Portfolio	iShares Core S&P 500 (IVV)
Total Return	Day	(0.3%)	(0.3%)
	Week	(1.5%)	(1.1%)
	Month	(1.5%)	(1.1%)
	YTD	22.8%	14.7%
	Since Inception	23.5%	15.8%

Performance data delayed at least 20 minutes during regular trading hours.
For more Information about the AAII Growth Investing Portfolio click here

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AAII Growth Investing Ideas

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Ideas Overview | Ideas Growth Analysis | Ideas Characteristics

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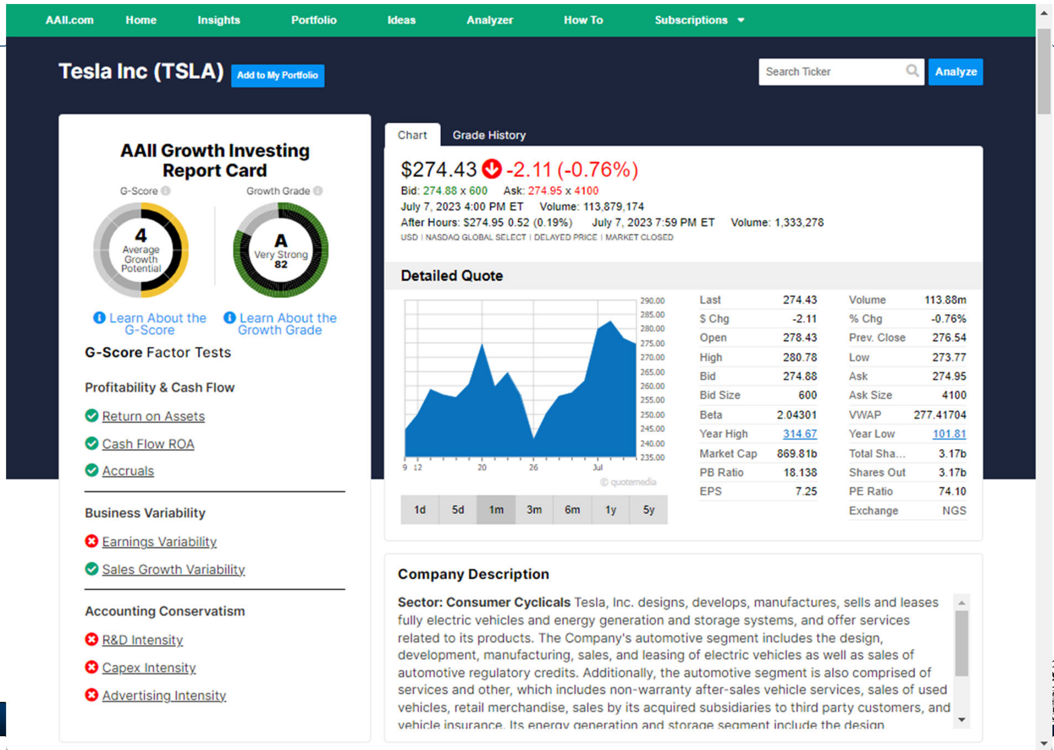

How To Materials

- AAII Growth Investing Strategy
- Quick Invest Guide
- Portfolio Addition & Deletion Alerts
- Growth Ideas List
- Using the Growth Analyzer
- FAQ
- Glossary
- Videos

Questions?

Give Us Your Feedback

- Let us know how we're doing
- What can we provide or do to make the service easier to use or understand?
- Feel free to share your thoughts or comments with Wayne at wayne@aaii.com

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