

# North Florida Chapter Space Coast Model Investment Club Investment Policy Guidelines

Approved at 9/4/2014 meeting

Technical update: para 9a modified to conform to current BI definitions (5/4/2016-rch)

1. **Purpose:** To outline basic criteria for selecting investments for the Club to buy, hold and/or replace.
2. **Application:** If any part of these guidelines conflicts with provisions in the Club's ByLaws then the terms of the ByLaws prevail.
3. **Why?**
  - a. Enforce consistency - everyone understands and accepts the Club's objectives
  - b. Prevent getting involved in investments not suitable for the Club
  - c. Help Club partners become more proficient and successful investors
  - d. Help with member recruiting into the Club (by clearly showing what we do and how and why we do it this way)
4. **The Club's Investment Philosophy:**
  - a. Invest a set amount regularly
  - b. Invest in quality growth stocks, ETFs and equity mutual funds
  - c. Diversify portfolio holdings
  - d. Stay fully invested
  - e. Reinvest all earnings, dividends and profits
5. **Investment goals & objectives:**
  - a. **Goal:** long term portfolio growth in quality growth companies.
  - b. **Objective:** overall investment portfolio total return (price appreciation plus reinvested dividends) of 15% compounded annually, or better -- ie, double our portfolio value through growth every 5 years
6. **Allowable types of assets:**
  - a. Stocks, ETFs and Mutual Funds traded on the US and Canadian stock exchanges (it is expected that most if not all Club assets will be in company stocks except under extraordinary circumstances). ADRs are generally discouraged due to the inherent risk from inadequate foreign government market regulations and reporting requirements.
  - b. The following types of assets, while they may have merit in a personal portfolio, are not allowed (due to tax issues, i of time (to achieve the benefits of being fully invested)
  - c. **Risk tolerance:**
    - i. Risk has many definitions and metrics. Rather than set limits based on technical metrics (ie, price volatility, moving averages, etc) we choose to manage our portfolio risks via our

portfolio design and rebalancing guidelines (see 9 below)

- ii. The major risks we seek to avoid are:
  - 1. Buying a stock that does not have the potential to meet our stock selection risk tolerance (ie, US/DS ratio between 3.0 and 10.0) AND total return requirements (ie, TR > 14.9%), see 11 below
  - 2. Selling a stock prematurely for reasons other than those based on the fundamental factors that supported the acquisition (ie, avoid herd mentality's manic fear/greed whiplash)
- d. Not assessing the impact that a stock's buy or sell will have on the ability to analyze using the SSG, conflicts with goals & objectives, etc):
  - i. REITs
  - ii. Limited Partnerships
  - iii. Master Limited Partnerships
  - iv. Royalty Trusts
  - v. Closed-end Investment Companies

## 7. Target asset allocation:

- a. To the extent possible the Club will be fully invested in quality growth stocks (vs bonds, mutual funds, ETFs, cash, etc)
- b. Cash balances should normally not exceed 5% of total portfolio value for any extended period overall portfolio's risk and return
  - i. Not assuring that any change to the portfolio composition will have an expected positive impact on both portfolio total return and portfolio risk

## 8. Portfolio design and rebalancing guidelines:

- a. Diversify portfolio holdings by revenue-based company size criteria:
  - i. companies with sales less than \$100 (micro/nano) should be avoided due to excessive risk and price volatility
  - ii. 25% small companies (< \$ 1B), expected growth range 12-15%++; to minimize risk in this size range the 25% should be 4 - 6 holdings and in different industries (but no holding less than 3%)
  - iii. 50% mid-sized companies ( \$ 1B to \$ 10B), expected growth range 8-12%
  - iv. 25% large companies ( \$10B to \$20B), expected growth range 7-8%
  - v. stocks over \$20B should normally be avoided due to low expected growth rate that may depress total portfolio returns
- b. Diversify by sector and industry:
  - i. No more than 30% in any one sector
  - ii. No more than 15% in any one industry

iii. No sector smaller than 10%

c. Holding size:

- i. Minimum holding size: each holding at least 3% of total portfolio (anything less is too much work for too little potential gain)
- ii. Maximum investment amount in any one security = 2 times equal share percentage (example, 15 stocks, equal share = 1/15 ~ 7%, 2 x equal share would be ~14%)

9. **Maximum commission** on any purchase: minimum investment to keep cost of acquisition less than 1% of total cost (at \$9.99 per trade that equates to \$1,000 minimum lot size)

**10. Stock selection guidelines:**

- a. all stock buy/hold/replace decisions will be supported by an up-to-date, completed Stock Selection Guide (SSG)
- b. the SSG will follow the BetterInvesting stock analysis process using either:
  - i. BetterInvesting's online **CoreSSG** or **SSGPlus**
  - ii. iClub's **Toolkit 6**
  - iii. Stock Central's **Take Stock**
  - iv. BetterInvesting's paper SSG form

**11. Portfolio Management guidelines:**

- a. all stock buy/replace decisions will reflect an assessment of the impact this action may have on the total portfolio's risk and return metrics (using Toolkit 6's **Portfolio Report Card Overview** or the online tools equivalent functionality)
- b. all monthly Club meetings will include a Portfolio Summary Report (see 13.c below) that will comment on the portfolio's:
  - i. Diversity (risk mitigation)
  - ii. Quality (consistency and predictable growth)
  - iii. Value (total return meeting our portfolio performance goals) and
  - iv. Performance (actual portfolio realized gains/losses)

**12. Additional resources/guidelines:**

- a. Guidelines on SSG Judgments [here](#)
- b. Sample Portfolio Management review (presented at a recent Club visit) [here](#)
- c. Sample Portfolio Review Summary Report [here](#)