On Monday, March 25, the Breakfast Club met again, for another roundtable of lively and interesting discussion. A new and corrected portfolio (our 44th) and the pending close of the year’s first quarter were topics of interest. But first things first, the trivia challenge for the month was presented to the group.

**Trivia**. There is nothing so constant as change. **(1) After a disastrous year in 2023, when its stock price fell more than 30%, Walgreen’s Boots Alliance (WBA) was removed from the Dow Jones Industrial Index. What stock was added to the index to replace WBA?** The stock chosen to replace WBA was Amazon (AMZN). The argument made for this choice was that AMZN increases the index exposure to “… consumer retail and other business.” (2) **Walgreen’s tenure in the index was relatively short lived. Can you recall when WBA was added to the index?** Walgreen was added to the DOW in June, 2018. (3) **And what stock did Walgreen’s replace in the index?** WBA replaced GE in the index. (4) **What was the nostalgic significance of the stock WBA replaced?** There was nostalgic significance to this move … GE was the last company still present in the index since it was introduced in 1896. Over the years, buggy whip manufacturers (eg. US Leather) were replaced. (5) **Bonus. What did Walmart (WMT) just do?** On February 26, Walmart split, 3:1.

**Portfolio Review.** Portfolio 43 keeps rolling along. We are reminded this portfolio – just a short time ago (end of November) - was still negative and trailed each of the three indices. Yet here we are in March and the portfolio is just cruising along. Portfolio return has grown to 24.8% and now outperforms the indices. The DOW stands at 14.4%, the S&P 500 at 16.2% and NASDAQ at 16.4% returns. As the portfolio tilts toward tech, it is the Occam’s Razor answer. Leading this portfolio is Frank C’s selection of Nvidia (NVDA) at 106.8% return, a result hardly surprising to anyone following the “Magnificent Seven.” Mention is also made of the following trio of stocks, each returning upward of 70%. Terry B’s Quick Logic (QUIK) has returned 83.3%, Thomas R’s elf Beauty (ELF) sits at 77.9% return, and Sandy G’s Micron Technology (MU) is returning 72.4%. Perhaps most impressive is the fact that over half portfolio entries deliver a return greater than 33.3%. Once again, we salute the market-beating performance of the Breakfast Club. When the portfolio ends in June, we are hopeful our outperformance continues over this upcoming quarter. Bragging rights are at stake.

Portfolio 44. “The first shall be last.” In scripture and the market, a truism. Frank C, with his choice of NVDA, leads and is first in Portfolio 43. Frank C with his choice of Tesla (TSLA) in Portfolio 44, trails and is last. This may very well be a “transitory” result, after all, we have nine months yet to run. Also … is it wise to bet against Elon Musk? Overall, the portfolio is finding its way. Since January 19, the portfolio has returned 5.5%, compared against 4.3% for the DOW, 8.1% for the S&P 500, and 7.3% for NASDAQ. In a departure from Portfolio 43, this portfolio is led by Thomas R’s selection of Abercrombie& Fitch (ANF), which has returned 33.5% to date. Also providing healthy returns are Cathy G’s American Eagle Outfitters (AEO) at 25.8% and Sandy G’s American Express (AXP) at 23.4%. These leaders are hardly stalwarts of tech, the sector which again dominates the selections of the portfolio. When our April meeting (the 29th) takes place, we should have a better idea of the arc the portfolio will take.

**Handouts**. Discussion of several handouts followed, and these proved to be of some interest to all. Paul G’s handout was a ranked ordering of the Dividend Aristocrats. The aristocrats are those stocks of the S&P 500 which have raised their dividend each year for a minimum of twenty-five years. Ranking criteria were the profitability (quality) of the stock, its value (Price/Book Value), and price momentum (52 weeks). Financial stocks of the aristocrats were excluded, owing to the differing valuation of these firms’ assets and the subsequent effect on profitability scores. Fifty-seven aristocrats were ranked. The ranking is useful, especially in buy decisions, because it alerts the investor to those high-quality stocks which are already fully valued. It is these stocks which Peter Lynch scolds against, “… great, you’ve bought a great company, but you still haven’t made any money.” Stocks bought at high or full price offer lesser returns; it is the value factor at work. It is just harder to go higher when already high. Among the Aristocrats, several offer return opportunities, having scored well on profitability, value and momentum. Familiar names ranking high are Walmart (WMT), the top ranked stock; Lowe’s Companies (LOW), one of Bill Ackman’s favorites; Sherwin Williams (SHW); Ecolab (ECL), a favorite of Bill Gates; and Abbot Labs. (These stocks are among the top ten in the ranking.) Be like Buffett, “you don’t have to swing at every pitch.” Among familiar Aristocrats to avoid at this time, whether for low profitability, a high price, or poor momentum, singly or in combination, are: Hormel Foods (HRL), 3M (MMM), Clorox Company (CLX), Coca Cola Company (KO), Kimberly Clark Corporation (KMB). No need to swing at these stocks. Thanks, Paul.

Next up, a handout from Sam Stovall’s presentation to the New York City AAII chapter meeting this past January. Breakfast Club members have followed sector performance for years, and so has Sam. After studying investing approaches that specifically pay attention to the sectors, Sam points out a successful approach: buy last year’s top three performing sectors after an up year for the S&P 500, buy last year’s bottom three sectors after a down year for the S&P 500. In the 33 years of study, this “rule” provided an average return of 12.3% per year, enjoyed a positive return in 82% of those years and outperformed the index 70% of the time. (If you concentrated on the top or bottom ten sub-industries, you would have earned an even higher return, 18% per year!) The performance of the Breakfast Club Concentrated Large Cap Portfolio mirrors and enlarges on this approach. At last year’s half-way mark, in June, the top four sectors of the market were screened and stocks drawn. The stocks were evaluated according to their quality, value, and momentum measures. The top twenty stocks entered the portfolio, and its performance has been reviewed at each of our monthly meetings. In the latest review, as of March 22, 2024 (nine months), this portfolio has returned 40.0%. Over the same horizon, the S&P 500 has returned 18.7%. Well done, again, Breakfast Club!

We meet again the final Monday of the month, April 29. Hoping to see you all again then. In the meantime, best wishes to you and yours over this holiday (holy days?) season. Gotta say it, go Yankees.