Investment I Did Not Make

This might seem like a strange subject for an article. However, I think it is a very important because most teachers only show their great picks. We need to be able to recognise the ones that we should not buy.

One of the key ideas that underlie successful investing is that we select stocks to buy in a disciplined way. In my investment plan, this means that the stocks that I buy meet the criteria in my investment plan for a margin of safety. This has two important benefits:

1. It keeps me away from stocks that are high-risk, where it is possible to lose the whole sum invested if the business fails. Readers will remember some of these that crashed and burned during the 2008 bear market. My investment plan has consistently kept me out of this kind of stock over several decades of investing.

2. It puts me into stocks that are trending up, or likely to do so, and are relatively undervalued. The relative under-valuation means that there is a better chance of a good gain in price as the market re-rates the stock. It also protects the downside because the more under-valued a stock is, the less it tends to fall falls if/when things do not go well.

So, it is very important to have a disciplined way of assessing stocks that I consider for purchase. I have developed a template for a stock investment journal that I create for every stock that I consider buying. I write up this journal ***before*** I buy any stock.

If I go ahead with the purchase after evaluating the stock in my stock investment journal, I publish the journal on the members' website. This is so that members' can benefit by learning how I think about investments – real investments that I make – and in real time (or as close as I can make it).

As an investment unfolds, I update the stock investment journal on the members' website at the time I make decisions, again explaining my thinking to teach members' how I analyse stocks.

However, every time I set out to analyse a stock in my stock investment journal template I do not actually go ahead with the investment. This is because as I analyse it, the stock does not shape up the way I had thought that it might. These stock investment journals for stocks that I do not buy are a very important part of the process of disciplined investing. They should not be seen as a waste of time and effort. To the contrary, I find that I continually learn just as much from analysing the ones that do not shape up as I do from the ones that I go on to buy.

I have not been publishing the stock investment journals for stocks that I do not go ahead and buy. However, I am contemplating changing the website so that they can also be posted and studied by members.

As a first step, I am publishing below a Stock Investment Journal I wrote on 1 January 2013 and abandoned before I finished it when the stock failed to pass enough of my criteria for purchase. I hope members find it instructive. I am open to feedback about the idea of publishing stock investment journals for stocks that I do not buy.

Stock investment journal
Chandler Macleod Group (CMG)

How I found this stock

Chandler Macleod came up recently on my scan for stocks making new 52-week highs. A quick look at the chart and the fundamentals suggested that it was worth doing a more formal analysis with a view to adding it to my portfolio.

Company profile

As one of the region's largest providers of human resources solutions, Chandler Macleod has a proven track record of unleashing potential in people and companies. Founded in 1959, Chandler Macleod was built on psychological testing of employees and candidates, to ensure the best possible people were employed.

Now over fifty years on, Chandler Macleod has diversified to provide Recruitment, Consulting and Workforce Management services to some of the largest companies and organisations in the region.

Our objectives are simple; to drive client's productivity while reducing workforce risk as, in our experience, this always drives profitability. We do this by partnering with our clients to source the right talent, assess their organisation and their people, develop their workforce and manage their workforce.

Recruitment and Workforce Management

Our Staffing Services team has over 50 years' experience in partnering with clients to plan for strategic advantage, source the right talent, assess their organisation and their people, develop their workforce and manage their workforce. Our expertise covers a range of industry sectors and specialist roles:

- Accounting and Finance
- Aviation
- Banking & Financial Services
- Chandler Macleod Business Support & Call Centre, Julia Ross Recruitment
- Engineering and Technical
- Executive Recruitment
- FMCG
- Graduate Recruitment
- Health and Medical
- Human Resources
- Infrastructure
- Manufacturing
- Mining and Energy
- Sales and Marketing

- Supply Chain and Procurement
- Technology
- Trades & Labour
- Transport & Logistics
- Utilities

Consulting

In today's business world having a great human resources strategy is simply not enough. Organisations need to have their people and culture aligned to their business goals so real and consistent success can be achieved. With over 50 years of experience in rigorously assessing individuals and organisations, Chandler Macleod has an unparalleled level of understanding of people's key motivations, limitations and development opportunities through a proven psychology-based methodology. With Australia's largest number of practicing registered psychologists, we are able to partner with clients to ensure that they are getting the best from their people at each level of the organisation.

Workforce Services

Chandler Macleod's Workforce Services approach is an evolution in the way complex workforces are sourced and managed, bringing about enhanced cost efficiency and productivity, and mitigating many of the risks inherent in traditional labour models. Chandler Macleod's Workforce Services Offering comprises a multi-disciplinary approach to people sourcing and management, incorporating functions which cover:

- Workforce Recruitment and Engagement
- Industrial Relations
- Workforce Planning, Rostering and Training
- Underpinned by Technological Platforms

The model leverages improved organisational alignment to bring about talent retention, development and mobility to drive the strategic alignment of culture to the client organisations strategy and provide superior return on workforce investment.

- Contract Recruiting of Talent
- Creating Local Talent Pools
- Local and Domestic Sourcing
- International Sourcing
- Workforce Mobility
- Candidate Competency and Skills Fit
- Candidate Behavioural and Cultural Fit
- Induction Services
- Payroll Services
- Safety

Source: Company website

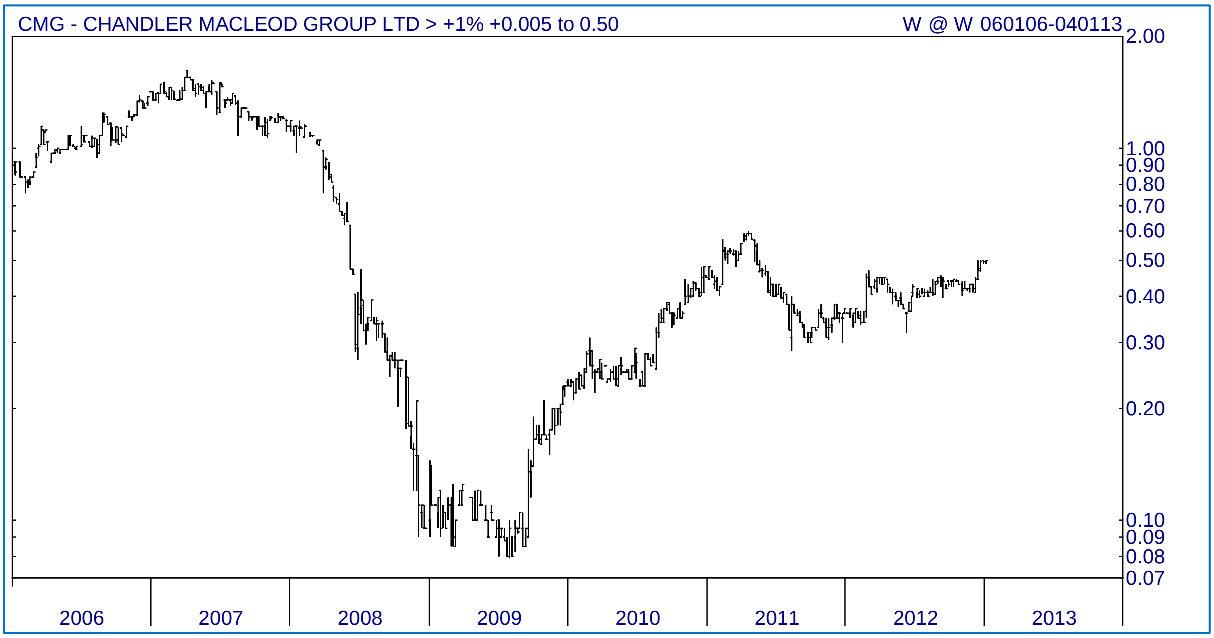
Which model?

This is not an ideal chart. It required some analysis before I formed a view about the model.

From listing until 2007, were that the entire chart I could see, I would classify it as a rubbish chart; neither growth nor value model.

However, from the rounded top in 2006-2007, we have a decline in the GFC. This bottomed in a short accumulation pattern. There was then a rise to about $0.60 and another, higher accumulation pattern has formed. My thought is that if the GFC had not happened, the fall in 2007-2008 may have bottomed around $0.30 and an accumulation pattern formed between that level and $0.60.

Some of this is a bit clearer if I look at the weekly chart since 2006:



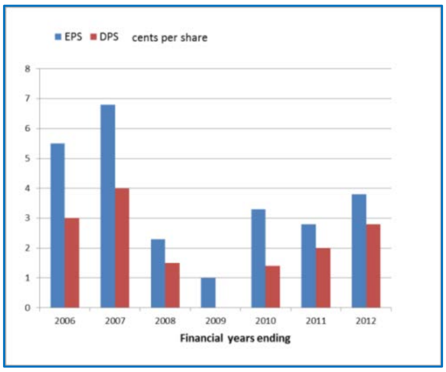
Now I am seeing a value model chart more clearly: A rounding distribution pattern, a downtrend, an accumulation pattern, and uptrend and a further accumulation pattern.

There is one big risk in this interpretation: that the sideways pattern from 2011 is not another, higher accumulation pattern but a distribution pattern. The only way that we can know for sure is to have a breakout and a trend form. If the breakout is down and a downtrend forms, then we have a distribution pattern. If the breakout is upward and we have an uptrend, then we have a second higher accumulation pattern.

The low-risk decision is to wait for a breakout above the 2011 high with trending price action. This is what I would suggest strongly to beginners and investors without my experience, risk tolerance and discipline. This is because to buy Chandler Macleod now is risky and absolute discipline in executing stops is critical to keeping a loss manageable. This is also a small company, as we will see, so it is far more risky that larger companies.

It looks to me as though Chandler Macleod is breaking out upwards. The big test is the resistance level around the 2011 high. I am contemplating buying a small position. However, I know fully that I would be taking on a more than usual risk with this stock and may well make a small loss if the apparent breakout falls over on me.

Earnings and dividend quality



This is not a great picture. However, there is some early sign of a possible increasing trend in earnings and dividends developing towards the end of the graph. I am cognisant of the fact that the last four years have been difficult times in the Australian economy. If the economy begins to pick up over the next few years then business should also pick up for the company.

Pre-purchase checklist

Date	1/01/2013			
Stock	Chandler Macleod Group			
ASX Code	CMG			
Model	Value			
Stage	Possible breakout			
Margin of safety criteria	**Stock**	**Mkt Av**	**Assessment**	**Guidance and comments**
		Plan Req	**V Plan**	
Price Earnings Ratio	13	**15.43**	just OK	Guidance was mixed. Restructuring costs with benefits next year. Some recent takeovers.
Dividend Yield	5.60%	**4.38%**	OK	
Franking	100%	**Yes**		
Return on Equity	15%	**>15%**	OK	was lower
Debt/Equity Ratio	57.00%	**<60%**	OK	There is a high intangible assets amount on the balance sheet
Mkt Capitalisation	235m	**>$100m**	OK 2%	
Liquidity (22-day Av)	100-400k	**Enough**	OK 2%	

This is as far as I took this analysis. I felt at this point that the picture had too many negatives or doubts. It simply lacked a compelling case to invest at this point.

These were the negatives that had compounded into my judgement not to proceed at this time:

1. The model identification was questionable.
2. There was not a complete breakout –I was anticipating one.
3. The earnings and dividend quality were weak.
4. The PE ratio was on the high side – I prefer for a value model stock for it to be *significantly* lower than the market average
5. Return on Equity was just a pass and only in the last period.
6. Debt to Equity was just inside my limit, but the equity consisted largely of intangibles (goodwill from acquisitions).
7. Recent liquidity was OK, but in the recent past it had been much lower.
8. The guidance is weak, being a promise for the future from a corporate reorganisation. There are also recent unproven acquisitions.
9. This stock is very much a view about the economy going forward, because it will rely on a pickup in employment.

There were just too many negatives and risks when it was all put together.

I will therefore file this Journal for future use if the situation warrants a fresh look at it. The stock will remain on my watch list.

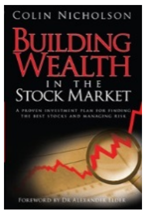
To read more of my work

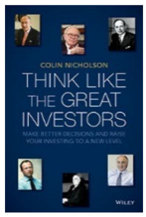
Previous Articles

All my previous articles for the free website are now on the *Educational Articles* page on the Free Resources menu. They are now listed alphabetically by title with a brief description of their contents.

Books

I have written two books, both of which are available for purchase from the ***Buy Books*** menu:





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I am one of the very few investors who publishes their investment results each year, which I have done since 2000 – see the Investment Returns page on the About Colin menu on the website