

KEYHOUSE ANALYTICS

RIA

Investment Advisory Service



KIP DAVID SCHOONOVER | PRESIDENT AND CEO

— MISSION —

KeyHouse Analytics, an investment Advisory service, is dedicated to providing investment returns above that of the S&P 500 while concurrently minimizing risk in individual, publicly-traded American companies. To provide this service with the highest integrity, and to choose only the highest quality companies available for investment.

— PHILOSOPHY —

With over 25 years of investment management experience, I have developed a discipline for owning a portfolio of American growth companies that both minimizes risk and enhances the potential for growth. The discipline to give clients an opportunity to achieve reasonable growth with a portfolio of 15 to 20 publicly-traded corporations is to first identify long term trends that are occurring domestically and globally, and directly own those businesses that are leaders participating in those trends. To employ a criteria for choosing the best companies involved in a trend and to identify businesses that that have valuation expansion potential.



— CRITERIA —

The criteria that we use is as follows:

- *At least 8% earnings per share growth year over year.*
- *Excess cash after all costs.*
- *Purchase companies involved in a long-term trend*
- *Pay attention to future valuation which is extrapolated by dividing the current stock price by the projected earnings per share for the coming year. The result is called a price to earnings ratio.*

— TRENDS —

There are 4 major long-term trends that are occurring into the near future.

- *Artificial Intelligence or AI, which will affect nearly everything.*
- *Urbanization, which affects travel and lodging increased product sales and services.*
- *Aging of the American population as well as the growing wealth power and wealth transfer of the GEN- X generation born between 1961 and 1981.*
- *Increasing industrial productivity through the use of new technologies.*

Our investment discipline is to adhere to only companies that are participating in trends and to use criteria for choosing the best businesses that are involved in trends makes up part of the philosophy of KeyHouse Analytics.

—— TRENDS IN DETAIL ——

TODAY WE ARE STANDING at the beginning of what will be one of the biggest revolutions we have ever seen. It is Artificial Intelligence or AI and the graphic processing unit invented by a company called Nvidia in 1999. Originally used for gaming the GPU is now in every self-driving car and is being used in every aspect of business and technology. Essentially it is a self-learning machine brain. GPU deep learning is a new computing model in which deep neural networks are trained to recognize patterns from massive amounts of data. Every industry has awoken to AI. Artificial Intelligence amplifies our cognitive abilities letting us solve problems where the complexity is too great or the information is incomplete. Learning from data, a computers version of life experience is how AI evolves. New technologies through deep neural network learning and AI are rapidly changing the abilities of industrial businesses that build things, pharmaceutical businesses that cure disease and industrial businesses that help rebuild, remake or redo our aging American infrastructure.

Urbanization is another long-term trend whereby the world is modernizing. Standards of living are rising which creates demand for more goods and services. Travel and lodging are especially benefiting from this trend as more people can afford to move about the world. Aging of the population drives recreation, travel, lodging, medicine and healthcare to name a few. Aging is also what drives wealth transfer. Wealth transfer to the Gen-x generation fuels technology, recreation and housing. As this wealth is transferred the views of living today have changed and are different for the Gen-x then from their more conservative budget-conscience parents. Increased industrial

productivity is a trend that will hit its stride in the coming years. This is occurring with the help from new technologies such as AI.

—— VALUATION AND FUTURE
EARNINGS TO MINIMIZE RISK ——

FINDING A SUITABLE candidate for investment is a bit like looking for a high quality bargain, or finding a company that has the potential for valuation expansion. For example, if company A trades at \$55 per share and their current earnings are \$6 per share we divide \$55 by \$6 to get a price to earnings ratio of 9.16 times this year's earnings. Next, we predict company A's earnings for the following year through knowledge of company A obtained from published earnings projections, annual and quarterly reports as well as company conference calls produced by company A.

Let's assume in this example that company A expects to earn \$7 per share in the following year and we believe, because of the amount of excess cash flow being produced and the quality and stability of the business, that it should trade at 15 times next year's earnings. We then multiply the projected future PE of 15 times the expected earnings per share of \$7 to get a future price of \$105. In this example the potential return over the next 12 months for company A is 90%.

By using this method, we have minimized our risk in several ways. We have chosen a field that is a long-term trend and not subject to short term change. We have chosen a company with excess cash flow which is used for additional business expansion, paying dividends, buying back stock, which reduces the share count and hence increases value, and we have chosen a company that has valuation expansion potential.

In the example given, even if it takes five years to reach a PE of 15 times earnings, the return would be nearly 15% compounded over the 5-year period or a near doubling of one's assets in that time. Reducing risk by following a discipline and select criteria, while at the same time creating an opportunity to achieve a satisfactory return above that of the S&P 500, is the focus of KeyHouse Analytics.

A bit more on valuation or the price to earnings ratio. Valuation is what value the market currently believes a business can command. Business valuation changes based on earnings growth or decline. Individual corporations, based on the type of business, command different valuations. Industrial corporations, lodging and travel, commodities, banking, computer engineering, or a product company all carry different valuation high points based on the business they are in and the growth rate they are achieving. For example, banks typically trade at a lower valuation than a computer tech company. A company that has sustained high earnings growth into the foreseeable future will command a higher PE than a company with little growth or even shrinking growth. Valuations on all companies can change based on the state of the American and global economy. The challenge and goal of a successful portfolio is to minimize the risks of each of the individual companies owned in the portfolio by adhering to the discipline explained, and to pay attention to movements in the economy and events globally.



— REDUCING RISK —

POLITICS ARE NOT INVOLVED in our investment strategy. However, the result of politics effects the American business climate and can create favorable times as we are now in. Lowering corporate taxes which has been recently passed will have a positive effect as we invest only in American companies. Not because we are overly American biased. We do this to further reduce risk in our strategy which allows us to focus on only American accounting standards.

Owning a balance of different businesses also helps us to reduce risk. Choosing the best companies that serve completely different markets gives us diversification sufficient to protect against an investment sector slowdown.

We will not, however, invest in banking due to the leverage involved in such a business. We will not invest in commodities due to the fickle nature involved in oil, gold and other commodities.

— CONCLUSION —

WE BELIEVE that the future of the American economy is strong and full of long-term prosperity. We cannot predict the near-term future. Therefore, a program that is disciplined and designed to minimize risk should deliver our objective which is to have a return greater than that of the S&P 500. Lack of patience and a tendency toward fear are usually the cause of poor investment results. We look forward to the opportunity to work with you to grow and preserve your assets and hence have the potential to enhance and sustain the quality of life you strove to achieve.

— FEES AND LOGISTICS OF WORKING —
WITH KEYHOUSE ANALYTICS

- 1% annually or ½% each six months on assets under \$1 million
- .7% on assets above \$1 million
- *Paying the management fee is based upon client complete satisfaction.*
- *All managed accounts which include IRA's self-directed 401K's trusts, brokerage accounts, ROTH, and custodial accounts are held at Charles Schwab and held in the client's name and are not co-mingled.*
- *Management of accounts is achieved through a limited power of attorney form created by Charles Schwab. KeyHouse Analytics does not have possession of client assets. LPOA's can be evoked at any time. The LPOA only allows KeyHouse Analytics to buy and sell stocks.*
- *Assets are in the custodian of Charles Schwab.*
- *Performance reports are produced using a software service provided by Charles Schwab called Centerpiece. A performance report can be requested at any time. A performance report is sent with each bill presented.*
- *A quarterly letter communicating the investment environment in general is produced each quarter for a total of 4 each year.*
- *Open communication between KeyHouse Analytics and clients is encouraged. Meetings, either in person or by phone or email is granted upon client request.*
- *ADV forms are provided to each new client.*

— INVESTMENT RETURN OF A PORTFOLIO —
OF 15 TO 20 STOCKS THAT IS ADHERENT TO THE
INVESTMENT PRINCIPLES,
DISCIPLINE AND CRITERIA OF KEYHOUSE ANALYTIC

— 2017 —

S&P 500	KEYHOUSE ANALYTICS	RELATIVE RESULT
+19.8%	+28.5%	+8.7%

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