

2 for 1 Index[®]

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December 17, 2021

The 2 for 1 Index's detour to 29 positions last month was brief. Two stocks will be added to the Index this month, bringing us back to full strength. Even though there have been only two eligible split announcements since the last update, both stocks, for different reasons, are worthy of inclusion in the Index.

The small cap Merchants Bancorp (MBIN) of Carmel, Indiana announced a 3 for 2 split last month. 2 for 1 has had generally good, to very good, returns from its positions in small banks over the years and I'm counting on MBIN to add to that string of winners. Merchants appears to be significantly undervalued. Earnings have averaged over 40% growth annually for the last five years while the PE ratio comes in at just over six. MBIN currently has an ROE (return on equity) of 25.60%, three time higher than the industry average of 8.46%. Insiders own almost 7% of the shares of MBIN, always a good sign in my opinion. This certainly looks to me like a stock "flying under the radar".

NAPCO Security Technologies, Inc. (NSSC) is also a small cap with heavy insider ownership but NSSC appeals for different reasons. The company offers access control systems, door-locking products, intrusion and fire alarm systems, and video surveillance systems for commercial, residential, institutional, industrial, and governmental applications. NSSC announced a 2 for 1 split earlier this month and the stock market paid little attention. This exemplifies one of the findings of the original study that inspired the 2 for 1 Index. In his 1996 study, David Ikenberry described how the market usually under-reacts to the positive signal sent by a split announcement. I call this the Stock Split Advantage. In addition to having this advantage, NSSC is profitable and is growing fast with zero debt on the books. These good numbers are offset by the lack of a dividend and somewhat elevated valuation numbers. Combining all the numbers, NAPCO's score is only slightly positive on the 2 for 1 proprietary ranking scale, but I'm going with it anyway. It's a sad truth that the equipment and services offered by NSSC are in high demand now in a world beset by uncertainty and declining civility.

AT&T (T) will be deleted from the Index. I stated in the January 2019 newsletter, T would be added to the portfolio as a "place holder ... a relatively safe bet". Wrong! AT&T has been a big loser for 2 for 1 even after figuring in the generous dividend. When deleted from the Index on Monday, T will have returned an overall negative $\pm 5.75\%$ or -2.0% annualized, while the 2 for 1 Index has grown 66% over the same period. Proof once again that diversification matters!

In summary, **MBIN and NSSC will be added and T will be deleted this month.** There will be a rebalance, bringing the 2 for 1 Index to 30 equally balanced positions, as of the market close on Monday, 12/20.

Happy Holidays and Best Wishes for the New Year!

Neil Macneale

T	AT&T	JAN-19	TREX	TREX COMPANY INC	AUG-20	2 for 1 Index inception 7/31/1996
WRB	W. R. BERKLEY	MAR-19	AAPL	APPLE INC.	SEP-20	
WHF	WHITEHORSE FINANCIAL	APR-19	NEE	NEXTERA ENERGY INC.	OCT-20	Value at inception = 100
FFIN	FIRST FINANCIAL BANKSHARES	MAY-19	BEP	BROOKFIELD RENEWABLE	NOV-20	
PPL	PPL CORP	JUN-19	WAFD	WASHINGTON FEDERAL, INC	DEC-20	Value as of 12/16/21 = 2041.92
KELYA	KELLY SERVICES, INC	JUL-19	SHW	SHERMAN-WILLIAMS, INC.	FEB-21	
FAST	FASTENAL CO	AUG-19	LSI	LIFE STORAGE, INC.	MAR-21	All time high - 11/16/21 = 2056.60
MBCN	MIDDLEFIELD BANC CORP	OCT-19	HWKN	HAWKINS, INC.	APR-21	
TKR	TIMKEN CO.	NOV-19	CP	CANADIAN PACIFIC	MAY-21	52 week low - 12/22/20 = 1606.03
TU	TELUS COMUNICATIONS INC	MAR-20	CSX	CSX CORPORTION	JUN-21	
BEN	FRANKLIN RESOURCES	APR-20	SCVL	SHOE CARNIVAL, INC.	JUL-21	Overall annualized return = 12.6%
AWR	AMERICAN STATES WATER	MAY-20	ISRG	INTUITIVE SURGICAL, INC.	AUG-21	
EW	EDWARDS LIFESCIENCES	JUN-20	RJF	RAYMOND JAMES FINANCIAL	SEP-21	Comparable S&P total return = 10.2%
MRTN	MARTEN TRANSPORT LTD	AUG-17	TM	TOYOTA MOTORS CORP	OCT-21	
COST	COSTCO WHOLESALE CORP	JUL-20				