

2 for 1 Index[®]

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May 14, 2021

As the market and the 2 for 1 Index bounce around near all-time highs, it's hard to remain focused on, and abide by, the rather mechanical nature of the 2 for 1 Index methodology. One of the great strengths of 2 for 1, reinforced by its almost 25-year track record, is the discipline enforced by the buy one/sell one and monthly rebalancing approach to index management. When the market is going crazy, we just keep doing our thing. With this in mind, on Monday I will be adding Canadian Pacific Railway Ltd. (CP) to the Index for May's selection even though it's near an all-time high and, just yesterday, split its stock 5 to 1. However, for my own IRA account, and for the readers of this newsletter, I think it would be prudent to wait a bit before actually putting in a buy order for CP. Trading at the split-adjusted price began today. There is likely to be a bit of volatility in this name for a while. For buyers, a low-ball limit order might be the way to go until the post-split picture comes into focus. But to be clear, CP will be going into the index on Monday and I will be buying CP for my own 2 for 1 portfolio in the near future.

So, what's to like about Canadian Pacific in addition to its 5 to 1 split? At the moment, this is the smaller of the two major Canadian railroads. This will change when (if) the proposed merger with Kansas City Southern (KSU) is fully implemented, probably in mid-2022. At that time, the merged company will be on the same plane as Canadian National (CNI) and CSX, a major US railroad. The merged rail line will be the only fully integrated Canadian-USA-Mexican system.

Warren Buffett likes railroads, owning BNSF outright through Berkshire-Hathaway. I like railroads. The 2 for 1 Index has included Union Pacific (UP) and Canadian National (CNI) in the past. For CP, we find a super solid business, comparing well to all its peers, and poised to benefit significantly when (if) the synergy with KSU is fully realized. In the meantime, CP has been growing earnings at over 12%/year over the last five years, has a healthy cash flow, and is more profitable than the average high-tech firm. The 0.79% dividend has been improving and interest on debt is well covered. There is general agreement in the press, regarding the merger with KSU, that CP has the superior management and that CP's best practices and cost controls will improve the operations of the KSU routes. Theoretically, this should result in a merged company that would be greater than the sum of its parts. Even if the merger fails, CP would remain a strong company and would still be a good fit for the 2 for 1 Index.

Stanley Black & Decker (SWK) will be deleted from the 2 for 1 Index on Monday. SWK has been a winner for the 2 for 1 Index since its addition in May, 2018, giving us a little better than a 71% return over three years, or 19.7% annualized. SWK has been on a tear for the last few months and it seems a shame to part with it, but its 3-year "Stock Split Advantage" has worn off and we're going to stay true to the 2 for 1 Index methodology.

In summary, **CP will be added and SWK will be deleted this month.** There will be a rebalance, maintaining the 30 equally balanced positions in the 2 for 1 Index, as of the market close on Monday, 5/17.

Neil Macneale

SWK	STANLEY BLACK & DECKER	MAY-18	TKR	TIMKEN CO.	NOV-19	2 for 1 Index inception 7/31/1996
HBNC	HORIZON BANCORP INC	JUN-18	TU	TELUS COMUNICATIONS INC	MAR-20	
NEW	NORTHWESTERN CORP	JUL-18	BEN	FRANKLIN RESOURCES	APR-20	Value at inception = 100
PFC	PREMIER FINANCIAL CORP	AUG-18	AWR	AMERICAN STATES WATER	MAY-20	
NHC	NATIONAL HEALTHCARE	SEP-18	EW	EDWARDS LIFESCIENCES	JUN-20	Value as of 5/13/21 = 1865.06
TJX	TJX COMPANIES	OCT-18	MRTN	MARTEN TRANSPORT LTD	AUG-17	
CASS	CASS INFORMATION SYS.	NOV-18	COST	COSTCO WHOLESALE CORP	JUL-20	All time high - 5/07/21 = 1898.56
T	AT&T	JAN-19	TREX	TREX COMPANY INC	AUG-20	
WRB	W. R. BERKLEY	MAR-19	APPL	APPLE INC.	SEP-20	52week low - 5/14/20 = 1154.00
WHF	WHITEHORSE FINANCIAL	APR-19	NEE	NEXTERA ENERGY INC.	OCT-20	
FFIN	FIRST FINANCIAL BANKSHARES	MAY-19	BEP	BROOKFIELD RENEWABLE	NOV-20	Overall annualized return = 12.5%
PPL	PPL CORP	JUN-19	WAFD	WASHINGTON FEDERAL, INC	DEC-20	
KELYA	KELLY SERVICES, INC	JUL-19	SHW	SHERMAN-WILLIAMS, INC.	FEB-21	Comparable S&P total return = 9.8%
FAST	FASTENAL CO	AUG-19	LSI	LIFE STORAGE, INC.	MAR-21	
MBCN	MIDDLEFIELD BANC CORP	OCT-19	HWKN	HAWKINS, INC.	APR-21	