HOW TO BEAT S&P 500

CONCLUSION

This portfolio has a good chance of outperforming the S&P 500 index over the next three years. It consists of 10 companies, all of which are both superior and cheaper than the index average.

Portfolio	ROIC	Operating Margin	FWD PE	Industry
The Buckle	103%	20%	14,3	Apparel Retail
PDD	99%	19%	8,3	Internet Retail
Philip Morris	64%	39%	19,3	Tobacco
NVR	53%	17%	16,2	Residential Construction
Cisco	40%	26%	18,0	Communication Equipment
Applied Materials	40%	27%	19,7	Semiconductor Equipment & Materials
Adobe	38%	32%	20,1	Software - Infrastructure
Qualcomm	37%	28%	16,3	Semiconductors
Caterpillar	31%	15%	18,1	Farm & Heavy Construction Machinery
Crocs	29%	26%	8,2	Footwear & Accessories
Average	**54%**	**25%**	**15,8**	
S&P 500	**17%**	**15%**	**24,0**	

A simple way to outperform the S&P 500 index is to identify companies with a minimum ROIC of 20%, an operating margin of at least 15%, and a forward P/E ratio no higher than 21

WHAT IS A GOOD COMPANY?

Return on Invested Capital (ROIC) is a strong indicator of whether a company is good or bad. Put simply, ROIC measures how much profit a company generates relative to the capital it has invested in factories, software, or other assets.

For example, if a company invests $1 billion in a factory or software development and subsequently earns $80 million per year, its ROIC is 8%.

Historically, the average ROIC for S&P 500 companies has been around 10%, but over the past decade, it has risen to 15-17%. Moving forward, it is more likely that ROIC will remain elevated rather than revert to the historical average. This is because modern companies—such as software firms—require significantly less capital to generate profits compared to traditional industrial companies.

To outperform the index, a good starting point is to identify companies with a high ROIC, ideally at least 20%.

For companies that do not have significant capital tied up in operations but primarily invest in sales and marketing, the **operating margin** serves as a useful measure of business quality. Since the S&P 500 average operating margin is 15%, we should target companies that exceed this benchmark.

WHAT ABOUT THE PRICE?

An investment in a good company could end disastrously if the price paid is too high, just as an investment in a poor company can turn out fantastic if the price is right.

Too often, investors focus solely on buying high-quality companies without considering valuation.

Currently, the forward P/E ratio for the S&P 500 in 2025 is around 24. One effective way to gain an edge over the index is to invest in companies that are not only fundamentally superior but also cheaper.

To build in a **margin of safety**, we focus on identifying companies that are at least 15% cheaper than the index. This means looking for stocks with a **forward P/E below 21.**

WHAT DO WE DO AT ULVEMAN PARTNERSHIP?

At Ulveman Partnership, our goal is not just to outperform the index—but to achieve the highest possible returns.

While we consider the above criteria, we also conduct a thorough analysis of the market, the competitive landscape, the product, the customer base, the company's debt levels, cash position, and much more.

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