

Stock Selection Guide & Report[®]

Company _____ Date _____

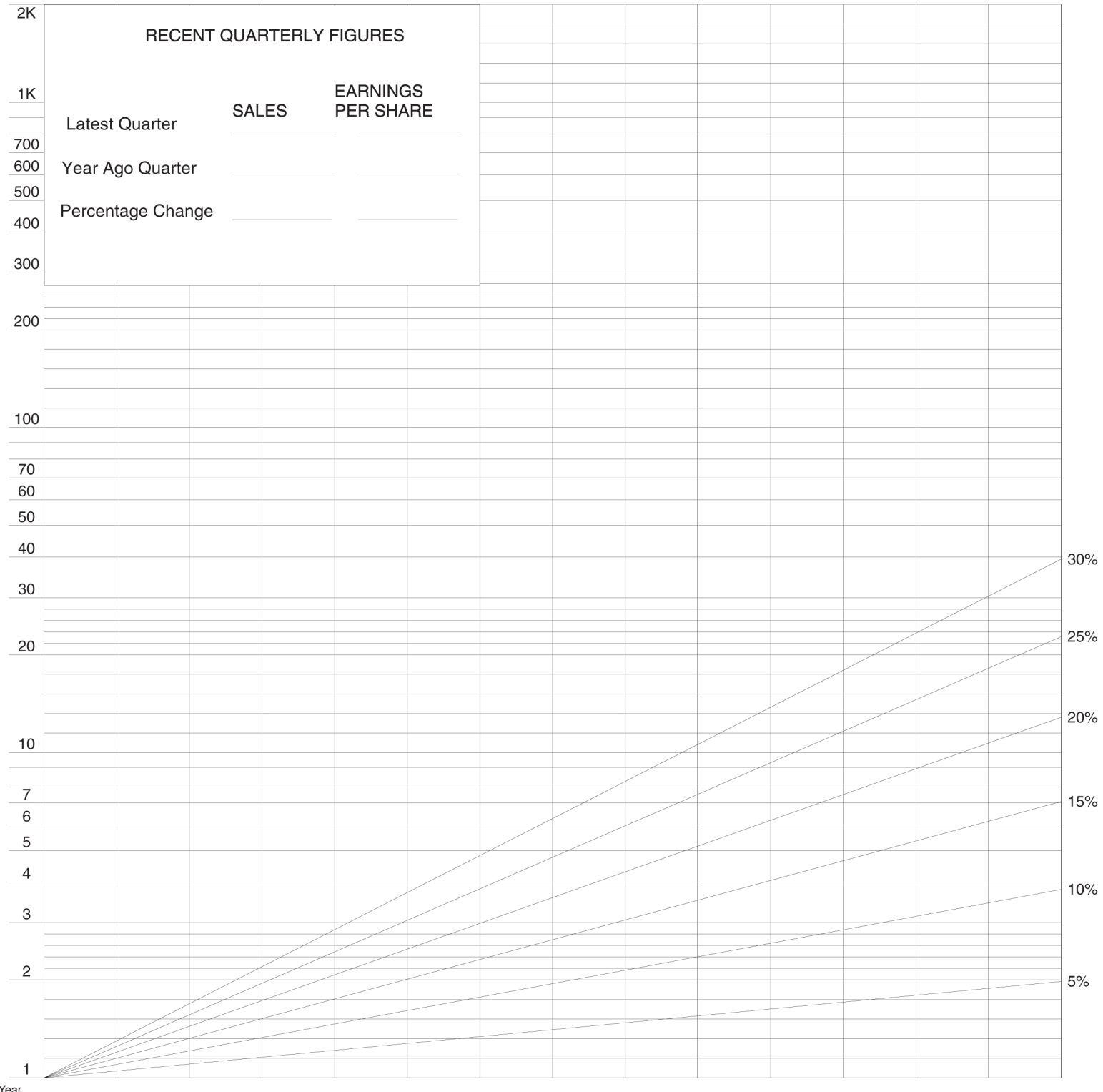
Prepared by _____ Data taken from _____

Where Traded _____ Major product/service _____

CAPITALIZATION --- Outstanding Amounts _____ Reference _____

Preferred	% Insiders	% Institution
Common		
Debt	% to Tot.Cap.	% Potential Dil.

1 VISUAL ANALYSIS of Sales, Earnings and Price



(1) Historical Sales Growth _____ % (3) Historical Earnings Per Share Growth _____ %

(2) Estimated Future Sales Growth _____ % (4) Estimated Future Earnings Per Share Growth _____ %

2 EVALUATING MANAGEMENT

Company _____

											LAST 5 YEAR AVG.	TREND	
												UP	DOWN
A	% Pre-tax Profit on Sales (Net Before Taxes ÷ Sales)												
B	% Earned on Equity (E/S ÷ Book Value)												

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

Year	PRESENT PRICE		HIGH THIS YEAR		LOW THIS YEAR		C Earnings Per Share	D Price Earnings Ratio		F Dividend Per Share	G % Payout F ÷ C X 100	H % High Yield F ÷ B X 100	
	A PRICE	B PRICE	E		E			HIGH A ÷ C	LOW B ÷ C				
	HIGH	LOW											
1													
2													
3													
4													
5													
6	TOTAL												
7	AVERAGE												
8	AVERAGE PRICE EARNINGS RATIO							9	CURRENT PRICE EARNINGS RATIO				

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE -- NEXT 5 YEARS

Avg. High P/E _____ X Estimate High Earnings/Share _____ = Forecast High Price \$ _____
(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E _____ X Estimated Low Earnings/Share _____ = \$ _____
(3E7 as adj.)

(b) Avg. Low Price of Last 5 Years = _____
(3B7)

(c) Recent Severe Market Low Price = _____

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}}$ = _____ = _____

Selected Estimate Low Price _____ = \$ _____
(4B1)

C ZONING

_____ High Forecast Price Minus _____ Low Forecast Price Equals _____ Range. 1/3 of Range = _____
(4A1) (4B1) (C) (4CD)

(4C2) Lower 1/3 = _____ to _____ (Buy)

(4C3) Middle 1/3 = _____ to _____ (Maybe)

(4C4) Upper 1/3 = _____ to _____ (4A1) (Sell)

Present Market Price of _____ is in the _____ Range
(4C5)

D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)

High Price _____ Minus Present Price _____
Present Price _____ Minus Low Price _____ = _____ = _____ To 1
(4A1) (4B1) (4D)

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price _____
Present Market Price _____ = (_____) X 100 = (_____) - 100 = _____ % Appreciation
(4A1) (4E)

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

Note: Results are expressed as a simple rate; use the table below to convert to a compound rate.

A Present Full Year's Dividend \$ _____
Present Price of Stock \$ _____ = _____ X 100 = _____ Present Yield or % Returned on Purchase Price
(5A)

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years _____ X Avg. % Payout _____ = _____ = _____ %
(3G7) (5B)

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential _____
5
Average Yield (5B) _____ %
Average Total Annual Return Over the Next 5 Years (5C) _____ %

Table to Convert From Simple to Compound Rate

Simple Rate	2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40
Compound Rate	2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40

GOALS IN SELECTING A STOCK

You want to look ahead five years by **judging Management** capability and **evaluating** the Price you should pay for a stock. You should also look at **Other Considerations** and reach a **Conclusion**. **Your findings are registered in the table at the right and your Conclusion below.**

Novice and professional investors to varying degrees may act hastily on new products, tips, technical clues and short term factors rather than being methodical in their decisions. Thirty years of experience with this type of report tends to show that there is a **RULE OF FIVE**, which is this: If five companies are analyzed for their five year future, one may have unforeseeable trouble, three may be on target, and one may have unpredictable good fortune.

CONCLUSION: _____

(1) Our goal is to find a company with **able MANAGEMENT**; and (2) to buy a stock at a **good PRICE**.

	Page	Good	Average	Poor
Judging Management				
Driving Force	3			
Earned on Sales	3			
Earned on Equity	3			
Evaluating Price				
High in 5 Years	4			
Low in 5 Years	4			
Upside-Downside Ratio	4			
Yield Current	4			
Total Return	4			
Other Considerations				
Industry Potentials	4			
State of Business Cycle	4			
Stock Price Trends	4			
Quality of Stock	4			
Capitalization and Finance	2			

METHOD-DATA-INSTRUCTIONS

This report organizes data presentation in a concise professional manner, avoiding among other things the agony of deciding what factors to cover. Because writing is a chore, the cross-out-method lets you report your judgments with ease. The data used comes from Value Line and Standard and Poor's Reports that are available on many listed and unlisted companies. You may wish to check your 5 year "high estimate" with Value Line's estimated Target Price Range for 3 to 5 years hence.

Other sources of data are annual and quarterly reports from companies, brokers reports and visits to company annual meetings. You may learn by yourself, or with several friends, or by actually investing \$20 or \$50 a month through an investment club you have formed with friends.

1 WHAT DOES THE VISUAL ANALYSIS SHOW?

The trend of (sales) (revenues) is (up) (down) (sideways).

The trend of earnings per share is (up) (down) (sideways).

The price trend of the stock is (up) (down) (sideways).

If sales trend is up, the increase seems to have come from (taking a greater share of the market) (mergers and acquisitions) (new products or new product applications produced by research).

In my opinion, the stock should be (investigated) (discarded) because the trend of sales is (favorable) (neutral) (unfavorable); the trend of earnings per share is (favorable) (neutral) (unfavorable); the price is (favorable) (neutral) (unfavorable).

Also for other reasons as follows: _____

2 DOES THE COMPANY PASS THE THREE MANAGEMENT TESTS?

Investors lose money because of failing to test for good management. Instead they rely on outlook for the industry, new products, or a plausible story for protection and often lose.

TEST I: DRIVING FORCE OF MANAGEMENT

Management as indicated by the past record has the necessary ability to expand sales (yes) (no). The rate of sales expansion on the VISUAL ANALYSIS looks like _____% annually. The rate of sales expansion is likely to be (better) (same) (worse) in the next five years.

TEST II: EARNED ON SALES

Management seems to have the ability to (maintain) (increase) profit margins (see 2A, Evaluating Management on page 2 at left). It shows the Pre-Tax Profit Margins for each of the last five years as follows in

chronological order:

_____% , _____% , _____% , _____% , _____% .

TEST III: EARNED ON EQUITY

The company has earned on invested capital from _____% to _____%. See 2B, Evaluating Management on page 2 at left. Earnings on equity are (above) (below) 10%.

I conclude from these three tests that the company has (good) (average) (poor) management and will be (stronger) (same) (weaker) in five years.

Over a period of five years, a well-managed company will generally gain ground while a poor one loses its earning power. Remember this in making your decision.

continued . . .

3 WHAT IS THE PRICE RANGE LIKELY TO BE FOR THE NEXT FIVE YEARS?

Complete Section 3 of the Stock Selection Guide & Report (page 2). Two considerations are important: (1) It is usually better to project sales and apply profit margins and taxes than to project earnings per share on the chart because profit margins tend to have definite upside limits; and (2) it is well to pay less attention to, or discard the much higher price-earnings ratios existing in years of low earnings. Also, avoid being misled by sales increases in early years of a new product or attributable to government or other types of contracts that may not be renewed or are due entirely to the upswing of a business cycle.

Have price-earnings (P/E) ratios for the past five years been trending (downward) (level) (upward)? Is the P/E ratio (higher) (same) (lower) than its competitors? Have the average price earnings ratios of the

past five years been influenced by years when the ratio was (unusually high) (unusually low)?

Over the next five years, the stock might be expected to reach a high price of _____ and also a low of _____ when the next depression comes. It now sells at _____, indicating (little) (average) (great) risk. Its suggested buy prices should range from _____ to _____, hold from _____ to _____, and sell from _____ to _____.

These are the zones calculated in the Stock Selection Guide & Report (Section 4C, page 2). Be a careful buyer.

4 HOW DOES THE STOCK MEET THE THREE SAFETY TESTS OF PRICE?

Unsuccessful investment clubs and investors make two mistakes; (1) selection of poorly managed companies, (2) pay too much for stocks. The second mistake is by far the most prevalent and most damaging, and is easily corrected. Big losses have been taken in high grade stocks because they were bought mainly, "because they were moving" or sold "because they went down"—not because of price. The best results have been obtained by investors that buy carefully.

TEST I: SHOWS PROBABILITY OF GETTING OUT EVEN

The stock under review has sold at its present price in (_____) * (none) of the last five years. The risk of loss seems (small) (average) (considerable) at the present price on the basis of price history.

* Three of five is a good standard.

TEST II: STACK THE ODDS IN THE INVESTORS FAVOR

The upside-downside ratio from Section 4D, page 2 of the Stock Selection Guide & Report is _____ to 1. This is (favorable) (average) (unfavorable), indicating that we need to pay attention to past price history (considerably) (some) (not much).

TEST III: THESE STANDARDS HELP INVESTORS AVOID LOSS

The pay-off test is whether at least 100% appreciation is possible in five years—or in the case of cyclical stocks, 20% a year for the number of years held. Analysis shows a high price of _____ is reasonable in _____ years, equal to _____ % a year.

In the case of cyclical stocks, comment should include the number of months the cycle has advanced and the dangers on this account.

5 WHAT ARE THE INVESTMENT CHARACTERISTICS OF THE COMPANY?

The Company is (well established) (new) and operates (internationally) (nationally) (regionally). The product line or service is (diversified) (narrow) and sold to (consumers) (manufacturers) (government). The business cycle affects sales and earnings (not much) (severely) (average). The company is (largest) (in top four) (a smaller factor) in its industry. The company and products are (well known) (average)

(not known) to the investing public. Its common stock is listed on (New York) (American) (other exchange) (unlisted) and has price records covering (five years) (only _____ years). It has (a continuous dividend record dating from _____) (a spotty dividend record) (no dividend record). Investment characteristics are (good) (average) (poor).

6 WHAT ARE THE CHARACTERISTICS OF THE COMPANY'S MAJOR INDUSTRY?

The _____ industry is (established) (new) and has (exceptional) (average) (below average) potential. The potential is based on (population) (product development) (science) (international expansion). Sales, profit margins and earnings per share fluctuate with the business cycle (widely—like the steel industry) (narrowly—like food) (average—like oil). Capital investment per dollar of sales in the industry is (high—like chemicals) (low—like clothing manufacture) (aver-

age—like metal products manufacturing), making it (easy) (difficult) for new competition to enter the business. Price competition between companies is (no problem) (severe) (average).

In my opinion, the major industry, everything considered, is (favorable) (average) (unfavorable). The company being analyzed will be (aided by the trend of the industry) or (will have to take business from competitors to grow).

7 WHAT ABOUT THE BUSINESS CYCLE?

About 33 months is an average business cycle, though variations from this norm are wide.

A well-managed company gains on marginal competitors in a depression or inflation as a general rule. In a period of business recovery, high grade stocks advance first, second grade stocks next, and marginal stocks last, as a general rule. Also, non-growth cyclical stocks are good purchases when business

turns up and should be sold in the later stages of the cycle because of exposure to substantial drops in price, earnings, and sometimes dividends.

The trend of business has been (up) (down) for _____ months. The current stage of the business cycle tends to (help) (not affect) (hurt) profits of the company. The present stage of the business cycle suggests (no concern) (caution) (daring) for the stock under review.

8 WHAT ABOUT THE STOCK MARKET AND YIELDS ON BONDS?

The price the stock is selling at is _____ and the Dow Jones Averages are at: Industrials _____, Transportation _____ and Utilities _____. This provides a reference in case of review of this stock in the future.

From the Value Line, it is seen that the stock under review has performed, as compared relatively (better) (same) (below).

You may also want to comment on the behavior of bond yields and Treasury Bill rates. Yields tend to rise in the later stages of a business cycle (attracting money from the stock market) and fall when business slows and investors want safety.

Bond yields may (attract) (not affect) (discourage) investment in this stock currently