Twelve Steps to Complete a SSG
By Kevin Gillogly, Better Investing DC Chapter

We covered the key points of the SSG, but remembering them and how they interact with one another can be challenging. Using Classic will help you do the SSG in an orderly process. Below are twelve simple steps to completing the SSG.

The first five steps help measure growth & quality – is this a quality company? The last seven steps help measure value – am I paying too much for this stock? To learn more, go to pages 77-105 of the Classic Manual. To download the Classic Manual in PDF – even if you don't own it – go to: http://www.iclub.com/classic/tips/

1. Consistent Sales & EPS Growth

- Look for straight lines in sales and EPS
- Look for rising lines

2. Measure the Historic Growth Trends

- Look for relevant growth
- If you can't draw a line through 3 of the last 5 years it is probably not relevant
- Give greater weight to the most recent 5 yrs.
- Eliminate early years WITH rapid growth
- Eliminate years (as outliers) only if it reduces historic avg.
- Do NOT Eliminate years (as outliers) if it increases the historic avg.

3. Projecting Future Growth

- Find out what has caused growth in the past?
- New/ Better Product;
- Higher Prices;
- Gained Greater Market Share; or
- Acquisitions
- Use Better Investing's guidelines for growth by company size
- Large greater than $5 billion per yr (7-10%);
- Medium between $5 million and $5 billion (10-15%);
- Small less than $5million (> 15%)
- Future EPS Growth should almost never be greater than future Sales Growth
- Limit EPS growth to a max. 20%
- Don't expect growth to exceed 15% for any length of time. Only 2 companies have done it.
- If the Quarterly growth is < 10% then it may be hard to get > 15% growth in the future

4. Determine Consistency & Trends

- Is the trend for the last 5 years consistent or trending upward?
- Don't ignore the trends of the industry and the overall economy

5. Compare Sec. 2 figures to industry competitors

Look for the industry leaders

- 2A > 10% (non-retail); 2B >15%
- Industry competitors – using OPS data -- found at:
  www.iclub.com/investing/stock_watch_list_industry.asp

6. Look For Unusual Valuation Figures

- P/E > 50% of the 5 Yr. ave. P/E is unusual
- Problems in the past have been corrected
- Lookout for high, wide-ranging, or rising P/Es
- Limit your P/E to 150% of your EPS growth rate
- Limit your high P/E, to a maximum of 30

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7. Look for Valuation Trends

- Stable trends in Cols. D & E of Sec. 3 should coincide with stable trends for Price and EPS on the SSG Graph. Downtrends in P/Es should be a flag that value is dropping.
- Varying P/E indicate volatility & increase risk
- Dividend payout ratios (Sec. 3-G) greater than 25% can negatively impact future EPS growth

8. Determine Future Value

Most Companies evolve slowly

- Look for consistent P/Es
- Historic Ave. P/E becomes the basis of PE comparisons (Sec. 3-8)
- P/Es are not static numbers; expect change
- Be wary of low current P/E (Sec. 3-9), as it might be a sign of a problem you don't know about.
- Be wary of current price close to 52-week low sales price, could be a sign of a problem you don't know about
- Payout ratio greater than 60% is a red flag (3-G-7); Payout greater than 40% is a pink flag; and payout ratio under 25% is ideal for growth companies

9. Develop a Potential High Price

- Sec. 4-A (high P/E) probably should not exceed Sec. 1-4 (future EPS) by 150%
- Are your estimates for future growth (EPS) and future value (P/E) reasonable?
- Remember this is your BEST case scenario
- Don't estimate high price greater than 200% than current price

10. Estimate the Potential Low Price

- What's the lowest price in the next 5 years?
- Is it lower than the 52 week low?
- Remember this is YOUR realistic worst-case scenario
- Question an estimated low price greater than 80% of the current price
- Question an estimate low price less than 50% of current price, when dealing with quality companies.

11. Zoning & Upside/Downside (U/D) Ratio

- Look for 3:1 U/D Ratio
- Anything over 10:1 is a red flag means you need to revisit your selected high and low prices.
- If U/D is over 10:1 make your first check future low price. Your low price has its greatest impact on U/D Ratio. Have you set your low price too optimistically?
- If U/D is over 7:1 it could be a great buy or a pink flag. Confirm your high and low prices in Sec. 4A and Sec. 4B.

12. Price Appreciation

- Seek 100% price appreciation (Sec. 4E) in 5 years, which will help you double your money.
- Getting 200% price appreciation (Sec. 4E) in 5 years is a red flag. Too optimistic. Check your high and low prices in Sec. 4A and Sec. 4B.
- 15% Compounded Annual Growth Rate (CAGR) is our goal
- CAGR > 18% may be too optimistic. Check your forecasted high and low prices in Sec. 4A / 4B.
- If CAGR is > 18% make your first check future high price. Have you set your high price too optimistically?

Prioritize and analyze the information you have about a company

- Everyone interprets the same information differently
- Better Investors call this "judgment