Options to specify in Maestro

Eventually this step will be the default setting. Until then, under "*Configure*", "*Configure Values*":

1. Under "*General Information"* enter your name in "Analyst's Name", select "Risk Ratio" (new terminology) or "Upside/Downside" (traditional terminology).
2. Under "*Corporation Size*" enter (from left to right) 100, 500, 5000, 15000 in the top row and 5, 7, 15, 17 in the bottom row
3. Under "*Portfolio Thresholds*" enter (from left to right) 30, 15 in the top row and 12, 2 in the bottom row
4. Under "*Buy Criteria (must meet all)*" enter (from top to bottom) 14, 11, 80, 9.1, 3, and 6 in the first column and 100, 25, and 10 in the second column.
5. Under "*Sell Criteria (meet 1 or more)*" enter (from top to bottom) 5, 4, 30, 62.5, .6, and 8 in the first column and 145 in the second column.
6. Click the "*Save*" button.
7. And under "*Configure", "Configure Judgement Sharing"* select "All" for judgement sharing option.
8. Click the "*Save*" button.

Adding Judgment to an SSG for BUYING

Stock Analysis consists of making 5 major judgments, several minor judgments and reviewing/analyzing the results. First, we determine if this is a quality company. Then, if it is, we continue our analysis to determine the value of the company, which helps us to determine the price at which the stock is a buy.

1. *Visual Analysis* tab: on the top is some basic company data. There is a blue-filled cell called, "% Debt to Cap." Check the debt level listed. Except for financial companies, we do not like to see this above 33%. If the debt is greater, move on to another company.

2. Verify that the three lines (Sales, PTP, EPS) are all relatively straight, trending upwards (left to right), and generally parallel to each other, especially the most recent 3-5 years. Straight lines are better than wavy lines. Straight, up, and parallel is our goal! Only if this is true do we continue with our analysis.

3. *Management* tab: Verify that, after eliminating any obvious outliers, management is on the "up and up". See Appendix A for further discussion on this topic. Compare the most recent *Profit Margin* value to the industry average and to the closest competitors. We want this value to be higher (better) than both of these. We do NOT want to see an obvious "down" trend in *Return on Equity*, especially into single-digit numbers, although "Even" is acceptable. *Return on Equity* numbers above 20 are excellent. Around 15 is average; lower is not good.

4. If either of these two tabs isn't acceptable, **QUIT NOW**. This is the "Barbed-Wire Fence". We don't cross it unless the company's stock is worth owning (high quality); the remaining tabs will tell us at what price to buy it.

5. Return to "*Visual Analysis"* tab and apply judgment to sales growth and earnings estimates (below the semi-log chart):
   a. (Eventually the software will allow you to remove a plotted data point. For now this is strictly a visual process.) If you delete an outlier (sales or earnings) and it decreases the historical growth rate, it probably makes sense to delete it.

   b. Never project earnings at a rate higher than sales (without an *exceptional* reason).
   c. Never project future growth rates to be greater than recent historical rates (without an *exceptional* reason). Historical growth rates are to the right of the semi-log graph.
   d. ***Rarely*** use rates greater than 15%, and **NEVER** greater than 20%. It is better to be conservative than aggressive.
   e. Do an analysis of the most recent 10, 7, 5, and 3 years to identify any historical trends for both sales growth and earnings estimates.
   f. Your EPS % Growth should never be greater than that of the Analysts' Estimate shown.
   g. Your growth estimates should **NEVER** exceed the Sustainable Growth value displayed beneath it.
   h. Click on "*Save Changes"* before proceeding.

6. *Historical PE* tab:
   a. Check for obvious outliers in High and Low PE Ratio columns. Definitely remove an *excessively* high one; consider removing an *excessively* low one. It is excessive if removing it changes the Signature PE by 15% or more. Moderate outliers should be left alone. The values in this section are used strictly to calculate relative value and projected relative value.
   b. Click on "*Save Changes"* before proceeding.

7. *Risk vs. Reward* tab:
   a. In the drop-down for Average type, select Low Avg. If additional value(s) in column High PE Ratio or Low PE Ratio are still obviously not part of the remaining values, then select it also. Click the two buttons at the bottom of the column
   b. Rarely should the projected High P/E be above 30. If it is, you can be conservative by setting the High P/E to 30 and the Low P/E to: (Avg Low)/(Avg High) * 30
   c. Many people limit High P/E to 2 x Projected EPS Growth (from Visual Analysis tab).
   d. If the most recent 4-5 years show a definite downtrend, then use the most recent year's P/E if it is lower than what was calculated in steps 7a, 7b or 7c.
   e. There is an ultra conservative approach for deriving future high and low P/E values. For the high P/E, take the lowest of: the step 7a-d process, 1.5 times the estimated sales growth (from Visual Analysis tab), or 30. For the low P/E, take the lowest of the step 7a-d process or 1 times the EPS growth (from Visual Analysis).
   f. Click in the box for Est Low EPS. The value displayed is the Current P/E Based on Last 4 qrtr. EPS. The software calculates this automatically. If two values are displayed (Current Value and Old Value), select Old Value; otherwise, click Cancel. One may wish to use analysts' estimates of the next 12 months' EPS if it can be found online.
   g. The value for Selected Low Price should be less than the 52 Week Low as shown above section A. Generally, click in the first box 'Forecast Low Price' (a). If the stock pays a dividend that, divided by price times 100, approximates the T-bill rate, then click in the fourth box (d). If the current stock price is too close to the chosen value then click in the box for 'Market Drop' (f), 'Recent Severe Market Low' (c), or consider the 52-week low price.
   h. If the Upside/Downside is greater than 10:1 (or Risk Ratio is less than 9.1%), review the Selected Low Price to see if it can be lowered. This stock is probably too risky to buy without deeper analysis.

8. *Summary* tab:
   Action will be colored green and say BUY when:

a. Relative Value (RV) is between 85% and 105% (a little less *may* be ok, more is *not*) and Proj. Relative Value is between 80% and 100% [Relative Value is computed as Current P/E / Average P/E. Proj. Relative Value is computed as Projected P/E / Average P/E (both shown on Historical PE tab)], and
b. Total Return (TR) is >= 15% and/or PAR is >= 13%, and
c. US/DS is between 3:1 and 10:1 or Risk Ratio is between 9.1% and 25%, and
d. Total debt < 1/3 of assets (shown on Visual Analysis, called % Debt to Cap.) and
e. Top two or more rows on Trend Analysis are not pink nor low single digits nor negative…
f. **…then this is a stock that can be purchased now,** which will be obvious because all values in Conclusion will be colored green.

Otherwise, we put it on our pounce list and wait when **ANY** of steps 8a-f are not met.

Adding Judgment to an SSG if OWNED

When buying a stock, we want to exhibit very conservative estimates. Once we own a stock our estimates no longer need to be as conservative. An SSG for an owned stock serves two purposes. One is for analyzing whether the company is growing according to our original estimates. The other is for determining whether it has peaked and should be replaced.

Prior to changing our original SSG, we should save the following original values in the notes section:

Estimated Sales and EPS growth
Average High and Low P/E
Buy range
High price
PAR and Total Return
Date

One change to make (but not the only one!) is in tab Risk vs Reward. Change Average Type to Median. Click on the two boxes to transfer the averages into Avg High PE and Avg Low PE. The Selected Low Price is automatically recalculated.

Appendix A

The ***Best*** companies will have increasing values for the last 5 years. Trends of "Up and Even" or "Even and Up" indicate ***Better*** companies. The minimum acceptable trends are "Even and Even". The only time a company with a "Down" trend is considered is when the values are all 20 or higher AND the last four years are not obviously trending down. Otherwise, we *ALWAYS* abandon the SSG if "Down" appears anywhere!

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