JPMorgan Chase & Co JPM [NYSE] | ★★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
31.04 USD	61.00 USD	36.60 USD	94.60 USD	High	Narrow	A	A+	Banks - Global

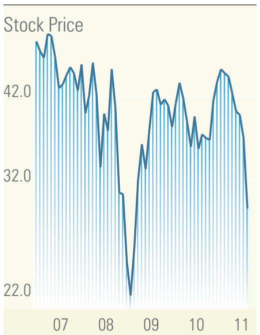
Few Surprises in JP Morgan's Third-Quarter Results

by Morningstar Equity Analysts

Analysts covering this company do not own its stock.

Pricing data through October 17, 2011. Rating updated as of October 17, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Oct. 13, 2011 | Jim Sinegal

JP Morgan Chase reported net income of $4.3 billion, or $1.02 per share, for the third quarter of 2011, which was in line with our expectations. We are leaving our fair value estimate unchanged. In our view, the primary risks to our thesis and valuation are related to loan and revenue growth in a potentially extended period of economic malaise, and we therefore have focused our attention on the bank's performance in these areas.

Overall, we were pleased with the bank's loan growth in the current environment. JP Morgan's gross loan balance increased from $690 billion to $697 billion during the quarter, driven by growth in wholesale loans. Total loans in its commercial banking segment, on the other hand, increased by $4.7 billion, with balances held in the company's Treasury and securities services, asset management, and investment bank segments also increasing during the quarter. In the bank's retail financial services segment, loans fell by about $6 billion during the third quarter, due in large part to runoff of mortgage and home equity loans. We're not surprised that consumer loan growth continues to be weak, even excluding the effects of the Washington Mutual portfolio runoff, so we were encouraged that JP Morgan managed to grow credit card loans by $1.6 billion during the quarter, following several quarters of declining balances. We expect commercial lending to continue to be the main driver of loan growth in the near term.

Net interest margin continues to be a concern due to the low rate environment. Though net interest income remained flat quarter over quarter, JP Morgan's reported interest rate spread fell to 2.56% from 2.64% in the previous quarter and 2.94% in third-quarter 2010. We think JP Morgan has achieved most of the benefit from low rates on the liability side of its balance sheet, funding its assets at a cost of less than 0.6% during the quarter, but that low rates will continue to pressure yields on the company's assets. It's possible that net interest margin may take longer to rebound than we currently expect, but we think improving asset quality and any steepening of the yield curve during the next five years will account for the modest long-term expansion incorporated in our valuation. We therefore do not see a slight near-term spread compression as overly concerning.

Not surprisingly, investment banking and private equity results were hampered by a difficult quarter for the capital markets. Though JP Morgan's net peripheral European exposure is manageable at $15 billion, in our opinion, the turmoil in Europe undoubtedly affected the bank's other business. The company's private equity business posted negative net revenue of more than $500 million on write-downs and declines in the value of publicly traded securities. Investment bank net revenue totaled $6.4 billion, including debit and credit valuation adjustments, but debt and equity underwriting fees were down 37% and 47%, respectively, year over year. Our outlook for the fourth quarter is very much the same, but we

Thesis Jul. 14, 2011 | Morningstar Equity Analysts

J.P. Morgan Chase has received--and earned--high praise throughout the credit crisis. While the company deserves kudos for its accomplishments during the crisis, as well as for the mistakes it didn't make in the preceding years, we are more excited about its future opportunities. We believe much of its success is attributable to well-known CEO Jamie Dimon and his tight grip on the risks the company takes as a whole. Now, with a stronger-than-ever franchise, J.P. Morgan must show that it can execute and meet its return targets. We believe management has laid out a clear path for each of its divisions and must now prove that its glowing reputation is well deserved.

Dimon joined J.P. Morgan in 2004 following the acquisition of Bank One, which he then ran. The integration was not a smooth one, and returns suffered. By the time Dimon assumed the top spot in 2006, he inherited a wide-ranging empire that did not function all

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
JPMorgan Chase & Co	USD	121,027	101,922	—	18,632
Wells Fargo & Co	USD	128,934	83,083	—	13,680
Citigroup Inc	USD	81,498	79,554	—	9,817
Bank of America Corporation	USD	61,110	89,211	—	-16,600

Morningstar data as of October 17, 2011.

that well as a whole. Precrash returns on equity were only 8%-13%, while other major players were posting returns in the high teens. Dimon set about consolidating operations with a focus on profitability and intelligent risk-taking. He ensured that individual business lines did not simply shift questionable assets and activities into other pockets of the firm. These efforts were key to J.P. Morgan's success as the credit crisis hit.

Having created a "fortress balance sheet" leading up to the crisis, J.P. Morgan was able to expand while rivals faltered. In 2008, the bank acquired Bear Stearns and Washington Mutual--relative giants on their own--on terms so attractive they would have been unthinkable only months before the deals were struck. While the bank--like all of its peers--accepted government Troubled Asset Relief Program capital during the crisis, it was the first to return these funds to the taxpayer when the storm began to pass. It was also one of the first to be approved for a dividend increase. The new rate of $0.25 per quarter is meaningful, but still allows the bank to expand its capital base to meet the upcoming Basel III requirements.

As a result of the savvy moves made during the crisis, J.P. Morgan is positioned to have earnings exceed our estimated 11% cost of equity despite the hits it will take from the financial reform bill and Basel III rules. J.P. Morgan's internal return on equity goals average out to a 14.6% return on equity for the company through the cycle. Each business line's goals are attainable even with the burden of overdraft regulation, debit card interchange fee losses, and higher capital standards. If J.P. Morgan can continually hit its goals, this stock will be a winner for investors, but it will require the discipline and close eye on risk that Dimon has become famous for.

Valuation, Growth and Profitability

We are maintaining our $61 fair value estimate. The Basel III standards confirm our expectations that banks will hold substantially more capital after the crisis, reducing long-term returns on equity for shareholders. We currently believe J.P. Morgan can achieve a decent 13% return on equity in the long run. If the company could bump that up to a 14.6% long-run ROE, our fair value would be $73. We believe consumer credit is stabilizing, but lingering problems and high unemployment will force charge-offs to remain elevated in 2011, with total charge-offs running around 2%. We believe noninterest income will increase slightly in 2011 as the loss in overdraft fees and debit card interchange fees are offset by improvements in other business lines. However, over the long run, we expect fee income to grow at a nearly 7% clip--showing the strength of the credit card, asset management, and investment banking businesses.

Risk

Despite some heroic actions during the crisis, J.P. Morgan's size and profits have made the company a target of legislators looking to score political capital. This has resulted in items like the upcoming reduction in debit card interchange fees. Additionally, much of the Dodd-Frank bill was written so vaguely that it is difficult to say with certainty the bank will not suffer permanent harm. On top of all of this, J.P. Morgan is facing years of legal struggles associated with issues including robo-signing, Bernie Madoff, and its purchases of Bear Stearns and WaMu.

Bulls Say

- J.P. Morgan's reputation and conservative balance sheet have allowed the company to maintain customer confidence during recent times of stress.
- J.P. Morgan purchased failed WaMu from the FDIC for just $1.9 billion, gaining national scale and one of the largest deposit bases in the U.S.
- J.P. Morgan's management has laid out clear, obtainable goals for returns that should help instill discipline in its business lines.

Bears Say

- Although J.P. Morgan makes substantial profits from its derivative book, it is an opaque area of the balance sheet and unexpected losses could occur in any quarter. Much of this exposure is offsetting, but it is nearly impossible to get a grasp on the real underlying risk this book could generate in another crisis.
- J.P. Morgan's net exposure to troubled European countries amounts to only $15 billion as of June 30. However, if these countries default, the secondary effects on other European nations and the global economy would mean larger losses for the bank.
- Regulatory reform is forcing J.P. Morgan to review and alter the way it does business in some of its most profitable lines.
- As baby boomers go from peak earning years to retirement, their borrowing capacity is likely to decline. This shift could put a damper on consumer loan growth.

Financial Overview

Financial Health: After sailing through two rounds of government stress tests, J.P. Morgan was the first of the top four retail banks to repurchase its TARP funds and one of the first to raise its dividend. J.P. Morgan remains well capitalized, with the resources to withstand the economic recession. As of June 30, J.P. Morgan's Tier 1 common equity ratio was 7.6% on a Basel III basis--meaning it already meets the 2019 basic standards.

Company Overview

Profile: J.P. Morgan Chase is one of the top four bank holding companies in the United States, based on assets. It is the top corporate syndicated lender and operates banking offices globally. It is also a large investment bank specializing in debt markets, and it operates large units focused on securities custody, credit cards, asset management, and cash flow servicing.

Management: Jamie Dimon has led J.P. Morgan since Jan. 1, 2006. Since then, he has made his mark on the financial giant, showing the brilliance and long-term strategic thinking that made him such a force at Citigroup and Bank One (even earning our CEO of the Year award in 2002 for his work at Bank One). With strict attention to detail, Dimon has reorganized and integrated J.P. Morgan into today's powerhouse. This positioning allowed J.P. Morgan to take advantage of government aid with two acquisitions in 2008. As a strong leader, he is an excellent captain to steer J.P. Morgan through the current financial turmoil, in our opinion. Dimon's success has also allowed him the ability to be candid. His shareholder letters are frank assessments about each business line, stating the bad and outlining his plans for improvement when necessary.

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Oct. 13, 2011

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Jul. 14, 2011

J.P. Morgan's 2Q Results Impressive, but Risks Remain

Once again, J.P. Morgan Chase beat our expectations, earning $1.27 per share in its second quarter. While the net interest margin remains under pressure from low interest rates and losses from mortgages continue to punish the

Analyst Notes (continued)

bank's bottom line, strong commercial banking, investment banking, treasury services and asset management results delivered an annualized return on equity of 12%. The bank was able to offset charges related to foreclosure delays and mortgage litigation with some gains on sale and another $1 billion release in credit card reserves. While the company beat our expectations, it was not enough to move the needle on our fair value estimate.

Problems related to mortgages are affecting the company more than just the $954 million of charge-offs for the quarter. The company reserved another $1.3 billion for litigation fees this quarter, which is partly an accrual for an eventual settlement with the state attorneys general. The bank also had another $398 million of put-back charges this quarter. While we don't believe J.P. Morgan will have the same problems with put-backs as Bank of America (which is expected to book $14 billion of charges related to put-backs this quarter, much of it related to its Countrywide acquisition), we note that J.P. Morgan has not accrued for any put-backs related to Washington Mutual. J.P. Morgan only purchased assets and assumed some debt from Washington Mutual; it did not buy the complete entity as Bank of America did with Countrywide. However, J.P. Morgan and the FDIC are facing off over the WaMu put-back losses--both believe the other is responsible. This matter is likely to go to court, and if an adverse decision is made, J.P. Morgan could be on the hook for billions of dollars of losses. Washington Mutual loans make up about a third of the bank's total mortgage issuances, and those loss rates, we presume, would be much higher than J.P. Morgan-originated loans.

As if problems in its home country were not enough, J.P. Morgan also talked about its exposure to the distressed European nations of Portugal, Ireland, Italy, Greece, and Spain. While gross nonsovereign exposure exceeds $100 billion, exposure net of collateral and hedging is actually around $15 billion. CEO Jamie Dimon's personal estimates suggest that the bank may take a loss of $3 billion after taxes if catastrophe hits all the countries. But he also wisely pointed out that it is not the direct effects that would be the biggest issue for the bank. Knock-on effects at other European countries may far outweigh the direct exposure. If the euro were to fall apart because of these issues, the global economy would be greatly affected and recession may come once again. At this point, it is anyone's guess what the magnitude of the impact would be on J.P. Morgan or the global economy. It is a situation that investors need to keep their eyes on, in our opinion.

With such strong earnings and a relatively low dividend payout, the bank's capital position strengthened once again. The Tier 1 common ratio under Basel III rules now stands at 7.6%, above the minimum 2019 requirement, but probably still somewhat below the ultimate level J.P. Morgan will be forced to hold as a systemically important financial institution. The bank should have no problems reaching the necessary levels when they are finally spelled out, but in the meantime, capital continues to build up on its balance sheet and we suspect the company will soon apply to regulators for additional share-repurchase authorization above the $8 billion it received in March.

JPMorgan Chase & Co JPM

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
101,922	121,027	Banks - Global	Financial Services

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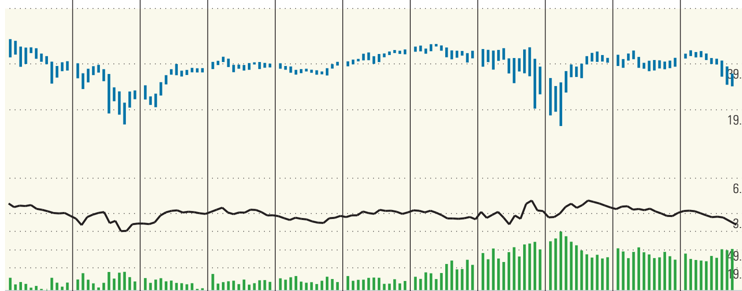
Phone: 1 212 270-6000 Website: http://www.jpmorganchase.com

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
★★★★★	31.04	61.00	High	Narrow	A

per share prices in USD

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	
57.30	39.68	39.23	43.84	40.56	49.00	53.25	50.63	47.47	48.20	48.36	Annual Price High
29.04	15.34	20.13	34.62	32.92	37.88	40.15	19.69	14.96	35.16	27.85	Low
											Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
48.36 - 27.85
10 Year High/Low
57.30 - 14.96
Bear-Market Rank
4 (10=worst)
Trading Volume Million

Stock Performance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
-16.7	-30.6	58.7	9.9	5.2	25.1	-6.7	-24.3	33.8	2.3	-24.9	Total Return %
-3.7	-7.2	32.3	0.9	2.2	11.5	-10.2	14.2	10.4	-10.5	-20.4	+/- Market
-9.7	-9.0	9.2	-3.5	-2.2	3.6	13.2	29.5	21.9	1.2	1.1	+/- Industry
3.7	5.7	3.7	3.5	3.4	2.8	3.3	4.8	1.3	0.5	2.6	Dividend Yield %
72520	47916	74939	138972	138878	167551	146622	117681	164261	165875	121027	Market Cap USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Financials
10802	11526	12337	16761	19831	21242	26406	38779	51152	51001	48345	Net Interest Inc USD Mil
18248	18088	20919	26336	34702	40195	44966	28473	49282	51693	53577	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
1628	1612	6668	4414	8470	14440	15365	5605	8774	15764	18632	Net Income USD Mil
0.80	0.80	3.24	1.55	2.38	4.04	4.38	1.37	2.26	3.96	4.69	Earnings Per Share USD
1.36	1.36	1.36	1.36	1.36	1.36	1.48	1.52	0.20	0.20	0.60	Dividends USD
2024	2009	2055	2851	3557	3574	3508	3605	3880	3977	3976	Shares Mil
20.19	20.68	22.13	29.56	30.60	33.38	36.68	36.16	39.88	43.04	44.90	Book Value Per Share USD
693575	758800	770912	1157248	1198942	1351520	1562147	2175052	2031989	2117605	2246764	Assets USD Mil
41099	42306	46154	105653	107211	115790	123221	166884	165365	176106	182879	Total Equity USD Mil
2933	456	2871	-55033	6925	5865	7934	-38058	13247	6629	8476	Free Cash Flow

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Profitability
0.2	0.2	0.9	0.5	0.7	1.1	1.1	0.3	0.4	0.8	0.9	Return on Assets %
4.0	4.0	15.4	5.9	8.0	13.0	12.9	4.3	6.0	9.7	11.0	Return on Equity %
5.6	5.4	20.1	10.2	15.5	23.5	21.5	8.3	8.7	15.4	18.3	Net Margin %
0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.04	0.05	0.05	0.05	Asset Turnover
17.3	18.4	17.1	11.0	11.2	11.7	12.7	16.1	12.9	12.6	12.8	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	06-11	Financial Health
212920	211014	214995	394794	412058	475848	510140	721734	601856	660661	661216	Net Loans USD Mil
43622	45190	54782	105718	119886	163683	227845	403083	322058	304978	279228	Long-Term Debt USD Mil
293650	304753	326491	521456	554991	638788	740728	1009277	938367	930369	1048685	Deposits USD Mil

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
45.7	30.0	11.3	25.2	16.7	12.6	10.0	37.6	18.6	10.7	6.1	Price/Earnings
—	—	—	—	—	—	—	—	—	0.6	0.5	P/E vs. Market
2.5	1.6	2.3	2.6	2.6	2.8	2.1	1.7	1.6	1.6	1.2	Price/Sales
1.8	1.2	1.7	1.3	1.3	1.5	1.2	0.9	1.0	1.0	0.7	Price/Book

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	2.3	12.9	13.5	12.0
Operating Income %	—	—	—	—
Earnings/Share %	76.8	-3.3	10.7	3.3
Dividends %	0.0	-48.7	-31.8	-16.9
Book Value/Share %	7.9	5.5	7.1	3.3
Stock Total Return %	-14.3	-6.1	-5.8	1.7
+/- Industry	8.9	8.2	14.5	6.9
+/- Market	-16.4	-14.6	-3.3	0.9

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	11.0	9.2	5.9	24.5
Return on Assets %	0.9	0.7	0.3	9.6
Revenue/Employee USD K	407.5	393.0	—	1020.6
Compensation Exp/Rev	0.3	0.3	—	—
Operating Margin %	—	—	48.4	16.1
Net Margin %	18.3	15.5	11.4	10.9
Free Cash Flow/Rev %	8.3	—	—	0.1

Financial Position

Grade: D	12-10 USD Mil	06-11 USD Mil
Loans (Gross)	692927	689736
Less: Allowances	32266	28520
Net Loans	660661	661216
Securities	806228	324741
Trading Assets	489892	—
Intangibles	66542	64804
Other	94282	1196003
Total Assets	2117605	2246764
Deposits	930369	1048685
Short-Term Debt	35363	81368
Long-Term Debt	304978	279228
Other	670789	654604
Total Liabilities	1941499	2063885
Preferred Stock	7800	7800
Total Equity	176106	182879

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	6.1	17.9	10.2	13.3
Forward P/E	6.3	—	—	13.0
Price/Free Cash Flow	14.6	—	14.9	15.8
Dividend Yield %	2.6	—	2.8	2.1
Price/Book	0.7	1.1	0.6	1.7
Price/Sales	1.2	2.0	1.1	1.1
PEG Ratio	0.7	—	—	1.7

Quarterly Results

Revenue USD Mil	Sep 10	Dec 10	Mar 11	Jun 11
Most Recent Period	23824.0	26098.0	25221.0	26779.0
Prior Year Period	26622.0	23164.0	27671.0	25101.0

Rev Growth %	Sep 10	Dec 10	Mar 11	Jun 11
Most Recent Period	-10.5	12.7	-8.8	6.7
Prior Year Period	80.7	34.5	10.6	-2.0

Earnings Per Share USD	Sep 10	Dec 10	Mar 11	Jun 11
Most Recent Period	1.01	1.12	1.28	1.27
Prior Year Period	0.82	0.75	0.74	1.09

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
JPMorgan Chase & Co	121027	101922	6.1	11.0
Wells Fargo & Co	128934	83083	9.0	11.6
Citigroup Inc	81498	79554	8.4	5.9

Major Fund Holders

	% of shares
	—
	—
	—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- ► Economic Moat™ Rating
- ► Discounted Cash Flow
- ► Discount Rate
- ► Fair Value
- ► Uncertainty
- ► Margin of Safety
- ► Consider Buying/Consider Selling
- ► Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis →	**Economic Moat™ Rating** →	Company Valuation →	**Fair Value Estimate** →	Uncertainty Assessment →	★★★★★
Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow
This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate
We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value
This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty
To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety
This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling
The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades
We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."