**George Nicholson Jr**

**Trees and Corporations**

**An Approach to Inflation Investing**

Most of the annual reports are in for 1988. What did the stockholders learn from them? Here are two suggestions as you study them.

First think of your investment as trees. Why? An old German in a Southern community did not invest in a "get rich quick" venture that had cost his neighbors dearly when it failed. He did not go into things he did not know about. Instead he bought trees. He could see them grow each year. He would have more timber to sell as he got older and had to live off his investment. Also each year he could tap them for by-products (turpentine) and realize a bit of income.

Secondly, study your stock reports with an NAIC Stock Selection Guide in hand. You will see how they compare with the old gentleman's trees. A growth stock usually keeps 40% to 60% or more of earnings in the business for financial strength, new products and expansion. Five years hence, this money begins to grow and the stockholder benefits just as he would in the case of the trees. From your Standard & Poor's stock reports you will see how much the business earns on its invested capital. Naturally you will not want to invest in a company that only earns 6% or less on its capital, but will be very anxious for those with earnings of 14% or more.

Occasionally, investors can find a stock where a **TRIPLE PLAY** can be made.

The triple play possibility occurs when you find a stock that is very depressed in price and also appears to be on the verge of substantially boosting its profit margins. The triple play effect is possible in that:

(1) The depressed price of the stock can return to
      normal levels;
(2) the increased profit margins can produce increased EPS and a higher price;
(3) may also cause higher P/E ratios, or P/E expansion.