Investor's TOOLKIT 5

for fundamental analysis of common stocks

5TH EDITION





Official Software of the
National Association of Investors Corporation

NAIC®

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"Any normal person using the customary three percent of his brain can pick stocks just as well, if not better, than the average Wall Street expert."
– Peter Lynch, *One Up on Wall Street*

"Probably nothing, since the invention of the hand-held calculator, has had as profound an impact on NAIC investing as the Investor's Toolkit. While it still can't make my decisions for me any more than a pencil could, it certainly makes my NAIC investment tasks more fun, more accurate, and definitely less time-consuming. I recommend it highly to any serious NAIC investor."
– Kenneth S. Janke, Sr., Chairman, NAIC

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TABLE OF CONTENTS

INTRODUCTION 1
OVERVIEW OF THE INVESTOR'S TOOLKIT 1
NAIC welcomes you 1
THERE'S LOTS NEW IN TOOLKIT 5! 3
ABOUT THIS MANUAL: A ROAD MAP 9
NAIC's Tools for Acquisition 13
NAIC's Tools for Portfolio Management 15
Getting Started 19
ABOUT INVESTING 35
TERMS YOU SHOULD UNDERSTAND 36
Like the Sea 38
THE NAIC PRINCIPLES 42
WHAT IS A GOOD QUALITY GROWTH COMPANY? 44
Just what do we mean by growth? . 44
How Do You Find Such Companies? 46
BENEFITS OF LONG-TERM INVESTING 49
USING THE INVESTOR'S TOOLKIT: WHAT YOU DO AND WHY YOU DO IT 51
A Tour through the Toolkit 51
ABOUT DATA 53
Data Sources 55

EVALUATION AND ACQUISITION 59
Stock Check List 59
Stock Selection Guide (SSG) 74
Stock Comparison Guide (SCG) 150
PORTFOLIO MANAGEMENT 163
The Portfolio Management Process 166
The NAIC Portfolio Management Forms 193
USING THE INVESTOR'S TOOLKIT: HOW YOU DO IT 211
WORKING WITH THE SOFTWARE 211
EVALUATION AND ACQUISITION 219
Stock Check List 219
Stock Selection Guide (SSG) 222
Stock Comparison Guide 255
PORTFOLIO MANAGEMENT 260
Portfolio Management: The NAIC Forms 275
Getting the most out Toolkit 5 288
For Advanced Users 320
APPENDICES 329
INDUSTRY MAPPING 329
MENUS AND COMMANDS 330
GLOSSARY 331
LICENSES, AND WARRANTY 364
INDEX 369

INTRODUCTION

Overview of the Investor's Toolkit

NAIC welcomes you

In October 1951, the members of several investment clubs in the Detroit area and New York joined together to form an organization to share their investment knowledge with others. So was born the the National Association of Investors Corporation (NAIC)–a non-profit educational organization that today boasts more than 250,000 members and 23,000 investment clubs worldwide.

From the early days, NAIC has provided its members with a collection of investment "tools." These were printed forms that guided them through the steps necessary to select and evaluate stocks, compare their investment value with others, and build and maintain portfolios. Using these forms, NAIC members have traditionally performed as well as or better than Wall Street's professionals. These tools included, among others:

- The **Stock Selection Guide**
- The **Stock Comparison Guide**
- The **Portfolio Management Guide**
- The **PERT** (Portfolio Evaluation and Review Technique)
- The **PERT Worksheet-A**
- The **PERT Worksheet-B**

Although the results were obviously well worth the trouble, completing these forms by hand was a long, tedious job at best.

Remember, this was a time when a calculator was an expensive device that only a business could afford. It was certainly not within the budget of the typical individual investor.

Along came the electronic calculator in the mid-sixties, and later the inexpensive, hand-held calculator. This marvelous development revolutionized NAIC investing, cutting drastically the time required to do the calculations in the Stock Selection Guide and the other forms.

Recognizing the parallel between the "calculator revolution" and today's "computer revolution," NAIC commissioned the development of the NAIC Investor's Toolkit– a computer program that incorporates and automates all of NAIC"s tools.

With the Investor's Toolkit, you can easily produce the same result in minutes that previously took hours by hand, even with a calculator.

This fifth version of NAIC's Investor's Toolkit is the result of 14 years of experience as NAIC's best selling, official software and the result of listening and responding to the requests and desires of thousands of satisfied users. We believe that it will make investing in common stocks the NAIC way a simpler and more pleasant activity for you, as well as a much more profitable one.

Note: There is no longer a distinction between the Investor's Toolkit and the PRO version which added the portfolio management tools. The Investor's Toolkit now includes all of the tools and functions that were available in the PRO version.

There's Lots New in Toolkit 5!

Version 5 of the NAIC Investor's Toolkit is the result of years of user experience with four previous versions, and its enhancements have been distilled from the consolidated input from our users who told us what else they wanted. The program has once again been rewritten in order to take advantage of improvements in technology that would permit us to make life easier and better for our users.

Because the Internet and the World Wide Web are now so closely integrated into Toolkit 5, an Internet connection is required for its use. Toolkit 5 includes, among others, the following enhancements:

General Enhancements

Once again, an updated "**look and feel**" retains the comfortable familiarity that goes with the older version, but substantially increases "user friendliness" and ease of use.

The program opens with a **"home page"** which displays items that require attention and those tasks that you should perform next.

The **Portfolio Report Card** is one of our exciting new enhancements to the program. The Portfolio Report Card displays each portfolio with its aggregate Total Return, Upside Downside Ratio, and Total Value at the current price.

Navigation throughout the program has become yet easier with a more "Web-like" interface that makes access to the tasks much more intuitive.

Data access has never been easier. Entering a ticker symbol or name automatically opens an SSG for virtually any company for which data is available. User must be subscribed to NAIC's **Online Premium Service (OPS)** to use this service.

New stock library format: Lets you view status of the companies at a glance. Stale data and prices are high-

lighted and may be updated with a mouse-click. Locked data alerts signal you that you have locked the data and it will not be updated during an automatic update.

Enhanced Note Support Toolkit 5 provides a separate screen in addition to the traditional note field to enable the user to enter the company description.

Automatic program updating: Lets you know when a new version is available and installs it right away with your permission.

Update prices for a single company or your entire library with a single mouse-click (one-click price updating eliminates the past process of seeking and downloading price files to import into the Toolkit) – for both individual companies and for your entire portfolio.

Enhanced import for online services

The Web interface has been further enhanced as it relates to data download and other online services:

Multiple company import Users will now be able to import a list of companies from online subscription services rather than being restricted to doing so one at a time.

Enhanced company update The mechanism for updating company data is much more discoverable and intuitive (see also Data Discrepancy). Data for a single company may be updated from the SSG.

Improved labeling to assist with data mixing More prominent and suitable labels will identify the sources and dates of data.

Data Discrepancy User may globally decline or accept handling of data discrepancies during data updating instead of having to make a decision for each such event.

Smart Challenge

Selecting a company to be challenged will invoke the "**Smart Challenge**" screen which will display all of the companies in the Stock Library that have been evaluated, ranked in order of potential return, with the challenged stock highlighted. The display will include the industries and the data necessary to determine whether a stock with better return is of equal or better quality.

The customary, detailed analysis of the cost of swapping is accessed by double-clicking the selected challenger in the "Smart Challenge" display.

Portfolio Management Enhancements

The key focus in Toolkit 5 is in the often intimidating task of portfolio management. One of the strong suits ascribed to the Toolkit products is its emphasis on simplicity and intuitiveness.

In this regard, and to make the tasks more understandable, portfolio management tasks have been separated into **defensive** and **offensive** tasks. No longer will the user have to view and analyze the complex **PERT** report to determine if a company has qualified for either defensive or offensive attention.

Changes in any company's status caused either by new data or prices will trigger an alert and call the user's attention to the chores that need to be accomplished.

New Stock Library

The new Stock Library allows you to see at once all of your stocks, portfolios, and portfolio contents.

Data Import

Select files to import from a wide variety of data source options, many of which are free of charge.

Associations are now fully supported, which means that you can double-click on any SSG file–even one out on

a Web site–and have the SSG open in Toolkit 5.

Zipped SSG files do not need to be unzipped to open in Toolkit 5. In fact, you can even export a file as a zipped SSG file, along with your Notes.

A wider variety of import options allows you to import SSG or other Toolkit-compatible files easily–usually with a sin - gle mouse-click.

Stock Selection Guide

A **still wider variety of supplemental charts** and graphs is now available to help you analyze profit margins, P/E ratios, risk and reward, and study results.

The Visual Analysis screen, now more conveniently accessible from both the front and back of the SSG, permits easier placement of lines on the graph and other functions that allow you to customize the graph. You now have a several options for the initial default placement of the lines.

The Growth Analysis chart and tabulation, which assists you in analyzing the trends in sales and earnings growth, now includes a **measurement of stability (R-squared)**

Values of plotted items are visible whenever the mouse passes over any point on the **Visual Analysis** screen. When the plots do not correspond to the numbers on the left of the graph, you may choose not to display those numbers.

Stock Comparison Guide

Display a "quick view"–a small replica of the **SSG** graph–by clicking on the company label at the top of the **Comparison Guide** columns.

Right-clicking that label will open the **Stock Selection Guide** for that company.

Portfolio Management

By far, the most significant improvements in Version 5 of the Investor's Toolkit are in the area of portfolio management.

Where the forms were previously the main focus, Toolkit 5 provides a simple ***process*** to perform the essential portfolio management tasks and produces those useful forms as a byproduct. (All of the forms are still a part of the Toolkit and may be used in the same manner as before by those more comfortable doing so.)

The portfolio management process has been logically separated into the **Defensive** and **Offensive** functions.

A mechanism has been provided to remind you to update the data for any company when it's due to be available.

A **Portfolio Report Card** on the home page provides continuing portfolio statistics to show aggregate portfolio potential return and risk and indicates when any portfolio calls for defensive or offensive attention.

The **Overview** window serves as the portal to initiate the process. It shows the performance and value of each stock in the portfolio and the aggregate statistics for the whole portfolio.

The **Alerts** window displays all companies in the portfolio that fall below your selected thresholds for both defensive or offensive action. From the Alerts window, you may rank the stocks in order of severity, hold those that you deem to be suitable, research those that are questionable, and record your decisions to hold or sell.

The new "**Smart Challenge**" allows you to instantly select, from all of the companies in your stock library, any that would make suitable replacements for those with insufficient return or too much risk.

Set your own thresholds for determining when prices should be updated, when data should be downloaded, and when stocks should be considered for replacement.

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About This Manual: A Road Map

Organization of this Manual

This manual needs to serve two purposes. Of course, it's primarily an instruction manual written to helpfully guide you through the steps that you must take to get the most out of the Investor's Toolkit program.

Secondly, if you're new to NAIC or to investing, we have to provide you with enough information about the NAIC investment methodology so that you can make sense out of what the Investor's Toolkit is supposed to do for you. The trick is to satisfy both needs without imposing on you. Step-by-step instructions, buried in text, are difficult to find and to follow.

Our solution has been to break up the manual into two sections: "**What you do and why you do it**", followed by "**How you do it**"

These sections will cover the same ground but from different perspectives. Those who are just interested in finding out what buttons to push to accomplish a certain objective can go right to the "**How to**" section. Those who want some background information about each of the things that need doing can consult "**What and Why**."

Each of the sections is laced with cross-references so that you can refer back and forth, page for page, to the correlative section.

About Investing

"**About Investing**" is for the newcomer to NAIC. Starting with the few, basic terms you need to know, it explains long-term investing and why it is successful. It then explains the basic NAIC principles, identifies what good quality growth stocks are, and how to find them, and talks about where to get the data you need to analyze them.

If you are already familiar with NAIC and its investment philosophy, you may wish to skip this section and go directly to the "**How to**" section at page 211.

If you are new to NAIC investing, however, we recommend that you read and digest the information in that section to provide you with sufficient background to make the most of your experience with the NAIC Investor's Toolkit.

We also urge you to use the NAIC's new ***Stock Selection Handbook,*** as a companion reference since it is that source to which you should look for the most authoritative information about the concepts.

Organization of the Investor's Toolkit

The Investor's Toolkit is the NAIC's official program for stock analysis and evaluation based upon the **Stock Selection Guide** and **Stock Comparison Guide**

The Investor's Toolkit 5 is comprised of ten forms: the **Stock Check List**, **Stock Selection Guide** and **Stock Comparison Guide**, **Portfolio Management Guide** (PMG), **PERT** (Portfolio Evaluation Review Technique), **PERT Worksheet-A** (with graphs), **PERT Worksheet-B** and the **Challenge.** New to Toolkit 5 are the **Home Page** and the **Portfolio Report Card** summary reports.

The ***Investor's Toolkit*** is conveniently oriented around **Companies** and **Portfolios**.

The Company

A ***company*** is the primary unit we study.

You may view a company using the **Stock Study** or **Check List** buttons on the Main Toolbar.

The **Stock Check List** has been traditionally used as an entry-level device for learning the basics of NAIC investing. In the Toolkit, you will find a tutorial that leads you through the form and holds you by the hand as you do a rudimentary study of a company. To begin a Check List,

click the "Check List" button on the Main Toolbar.

The primary stock study program is the Stock Selection Guide. Clicking the "Stock Study" button on the Toolbar calls for the Stock Selection Guide to be displayed. You can have as many as nine companies open at the same time.

You can update a stock study by opening a company currently in your Stock Library, or you can begin a new study by manually entering data or by importing it electronically.

Once you have completed your stock studies on a number of stocks with the **Stock Selection Guide**, you may use the **Stock Comparison Guide** to compare the quality and potential return of as many as five of these companies. To begin the comparison, click the "**Comparison**" button on the Toolbar.

The Portfolio

A portfolio is a collection of companies.

You may create and manage as many portfolios as you wish and use these portfolios to select just those companies you wish to work with as you go about your investment activity.

Portfolio Management Tools

The Investor's Toolkit 5 includes all of NAIC's portfolio management tools and can print reports for a selected portfolio or for your entire stock library. These tools are described below.

The Stock Library

The Stock Library is the collection of companies for which you have saved data–whether or not they have been evaluated or assigned to portfolios. A click on the "**Library**" button gives you instant access to your Stock Library, its companies and portfolios whenever you need it.

Using the Investor's Toolkit 5

The manual follows the normal pattern of investing activities, with emphasis on Acquisition– analyzing and evaluating stocks to determine if they are good companies and whether their stock is a good value, and then comparing them to see which of several would be the best investment.

It goes through each of the tools, step-by-step, discussing each of the opportunities for judgment and some of the conclusions that you might draw from what you see.

Drawing from the information contained in the NAIC ***Official Guide***, the "**What and Why**" sections for each step give you detailed, simple guidelines for making your investment decisions as you use the program.

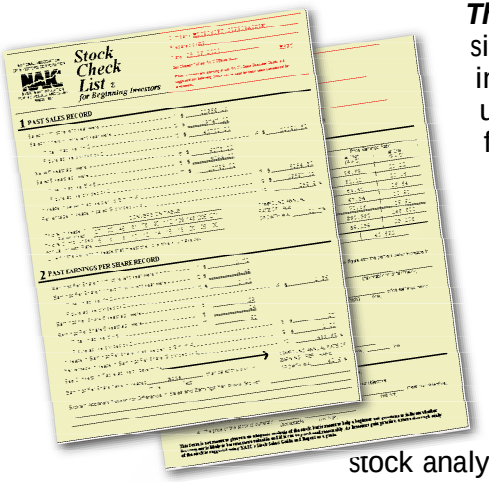
You will find that it is not difficult to learn the elegantly simple ideas behind NAIC's investment tools–and the steps required to use their computerized version.

Should you require further help with the methodology, and if you are fortunate enough to live within an area served by an NAIC chapter, you may benefit from attending its workshops and other regular programs.

The basic NAIC principles are neither elaborate nor difficult to understand. And they are certainly successful.

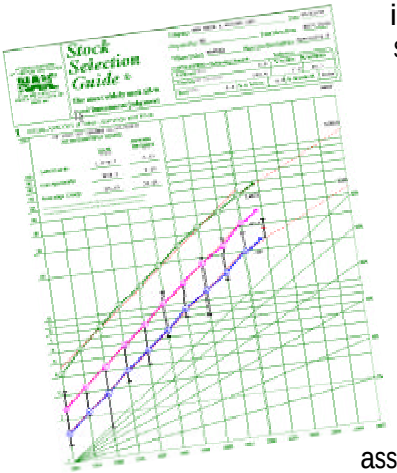
NAIC's Tools for Acquisition

Stock Check List



The Stock Check List is NAIC's simplest form, to be used as 'training wheels' for the inexperienced user. With it, you can learn to find and enter data in order to review a company's sales, earnings, and price history. You will also learn some basic judgment analysis to help decide if a stock is suitable for purchase, now or in the future. When you are ready, you may then step up to the **Stock Selection Guide** for a more thorough stock analysis.

Stock Selection Guide (SSG)



The **Stock Selection Guide** is the primary tool for analyzing, evaluating, and acquiring good stocks.

With the Investor's Toolkit, you may enter data about the company you intend to study, either manually or electronically.

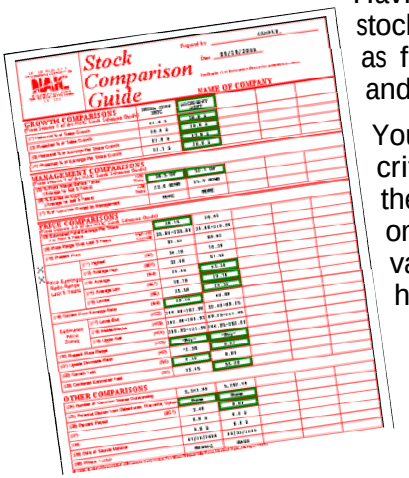
Once entered, this data is distributed through the **Stock Selection Guide** (and other ***Toolkit*** forms) and plotted on a graph representing up to ten years of history. The form provides you with the necessary visual evidence and calculations required, to assess the company's history and predict its future with some degree of confidence.

You can challenge the relevance of the data and omit that which is not useful in forecasting future trends.

The Stock Selection Guide also helps you evaluate management's ability to sustain the company's profitability.

With information that the program gives you, you can estimate with remarkable success the future price range into which the stock will probably fall, judge the measure of risk and reward that you are likely to encounter, and estimate the potential return on your prospective investment.

Stock Comparison Guide

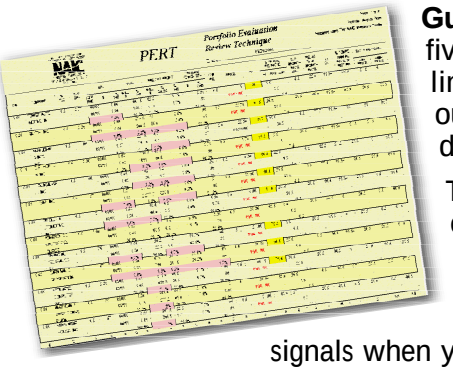


Having analyzed and evaluated a number of stocks with the **SSG**, you can select as many as five of them and compare their quality and potential for return.

You may select from a variety of optional criteria on the basis of which you compare the companies. And, you can selectively omit criteria that you think are not relevant as the **Stock Comparison Guide** helps you pick a winner.

NAIC's Tools for Portfolio Management

PERT (Portfolio Evaluation and Review Technique)

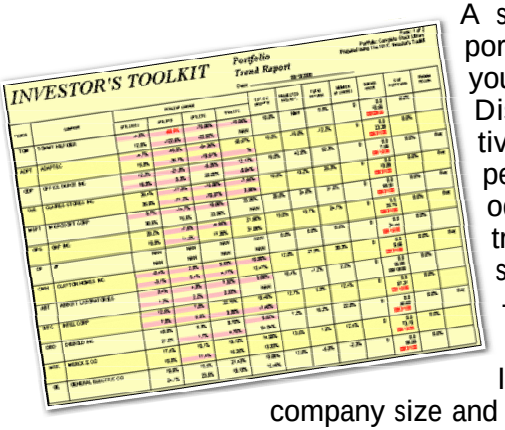


If diligent use of the **Stock Selection Guide** can help you pick four out of five winners, then the **PERT** is the first line of defense in keeping the one out of five that might be a loser from damaging your portfolio.

This tool permits you to view your companies' quarterly operations and the percent changes from the comparable periods in the previous year and receive early warning signals when you need to investigate sub-par performance. Using the **PERT** and the other portfolio Management tools, you may be able to double your money every five years–the goal of all NAIC investors.

Both the **PERT** and the **Trend Reports** permit ranking on all of the significant criteria so as to bring the good or bad performers to the top.

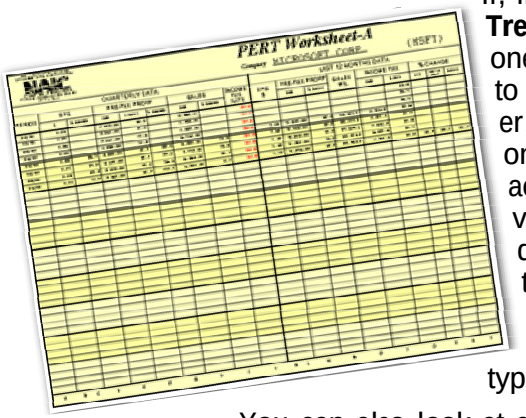
The Portfolio Trend Report



A slightly different approach to your portfolio's potential, this report affords you a look at the "trend of the trends." Displaying not one but two consecutive quarters of data, along with the percent change from the same periods in the previous year, you can see trends developing in time to do something about them.

This report also includes some valuable aids to analyzing your portfolio's diversification, both in terms of company size and industries.

PERT Worksheet-A


PERT Worksheet-A (MSFT)

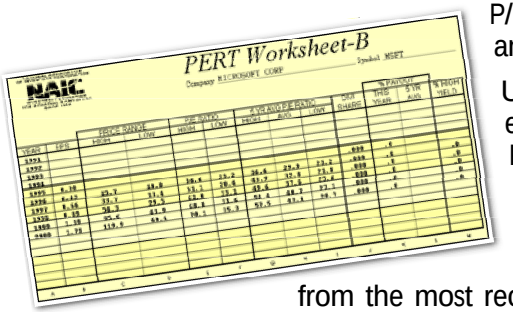
If, in examining the **PERT** or **Portfolio Trend Report**, you have discovered one or more companies that appear to have run into some "heavy weather," you can double-click anywhere on the line for the company and access the **PERT Worksheet-A** to view up to nine years of detailed data. This information, both quarterly and for the trailing twelve months, can help you determine whether the company is acting typically or is actually in trouble.

You can also look at a graphic depiction of the rates of change and compare them with zero growth or with your expected earnings or sales growth rates.

If some of your data is not available, the program will estimate it from other available data, if possible.

PERT Worksheet-B

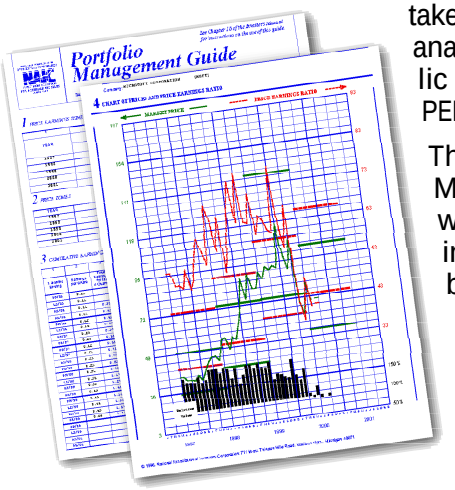
The PERT Worksheet-B records a 10-year history of prices, earnings per share, P/E ratios, average P/E ratios, dividends, dividend payout and % high yield.


PERT Worksheet-B

Using the PERT Worksheet-B enhances one's analysis of historical P/Es and other items influencing estimates of future performance.

In previous Toolkit versions, anomalous data could be removed only from the most recent five years. Recognizing that as much as ten years of data provides a more reliable history–especially in view of the distorted markets of recent times–the ability to eliminate outliers within the PERT B in all previous years has been added as a new feature which can be helpful in estimating future multiples.

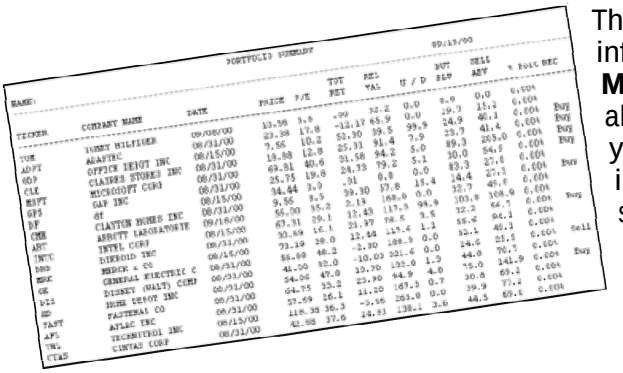
Portfolio Management Guide



The Portfolio Management Guide (PMG) takes you a step further and permits you to analyze the reaction of the investing public to the trends that were displayed in the PERT Worksheet-A.

The main purpose of the Portfolio Management Guide is to determine whether the price of the stock has put it in a possible "Buy" or "Sell" range based upon special criteria.

Portfolio Summary

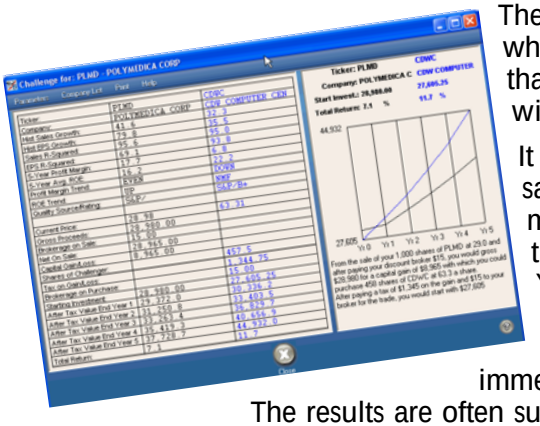


PORTFOLIO SUMMARY — 09/19/00

TICKER	COMPANY NAME	DATE	PRICE	P/E	TOT PCT	PEL VAL	U / D	BUY BUY	SELL ANY	% Port REC	
TUR	TURKY HILFIGER	09/08/00	13.56	9.6	.00	32.2	0.0	0.0	0.0	0.00%	
ADPT	ADAPTEC	08/31/00	23.38	17.8	-12.17	65.9	0.0	29.7	11.2	0.00%	Buy
ODP	OFFICE DEPOT INC	08/15/00	7.56	10.2	52.30	39.5	99.9	24.9	46.1	0.00%	Buy
CLE	CLAIRES STORES INC	08/31/00	19.88	12.9	25.33	91.4	7.9	29.7	41.4	0.00%	Buy
MSFT	MICROSOFT CORP	08/31/00	69.81	40.6	31.58	94.2	5.0	89.3	265.0	0.00%	Buy
GPS	GAP INC	08/15/00	25.75	19.8	24.73	79.2	0.0	30.0	54.5	0.00%	
DF	df	08/31/00	34.44	9.9	.91	0.8	15.4	83.3	27.8	0.00%	Buy
CHK	CLAYTON HOMES INC	08/15/00	9.56	8.5	39.30	57.8	15.4	14.4	27.3	0.00%	
AMT	ABBOTT LABORATORIE	09/18/00	56.00	35.2	2.19	168.0	0.0	32.7	49.8	0.00%	
INTC	INTEL CORP	08/15/00	67.31	29.1	12.43	117.9	94.9	103.8	108.9	0.00%	Buy
DHR	DIEBOLD INC	08/15/00	30.69	16.1	21.97	78.5	9.5	32.2	64.7	0.00%	
MRK	MERCK & CO	08/31/00	73.19	28.0	12.44	117.6	1.1	55.6	94.1	0.00%	
GE	GENERAL ELECTRIC C	08/31/00	55.88	48.2	-3.90	188.9	0.0	52.4	48.1	0.00%	Sell
GK	DISNEY (WALT) COMP	08/31/00	41.00	32.0	-10.03	321.6	0.0	44.9	76.7	0.00%	
DIS	HOME DEPOT INC	08/31/00	54.06	47.0	19.70	132.0	1.0	24.6	25.5	0.00%	Buy
HD	PASTERNAK CO	08/31/00	64.75	33.2	25.90	94.9	4.0	15.0	141.9	0.00%	
PAPT	ATLAC INC	08/15/00	37.69	26.1	11.50	167.1	0.7	30.8	69.2	0.00%	
AFL	TECHNITROL INC	08/31/00	118.38	36.3	-3.56	263.0	0.0	39.9	72.2	0.00%	
TNL	CINTAS CORP	08/15/00	42.88	37.6	14.93	138.1	3.6	44.5	69.6	0.00%	
CTAS											

This report consolidates the information in the **Portfolio Management Guide** and allows you to regularly view your holdings along with information that both classifies and justifies their condition as a "Buy," "Hold" or "Sell."

Challenger



The **Challenger** is a simple tool, used when you have found a company that you believe you should replace with another.

It analyzes the commission on the sale, the tax on any gain, the commission on the new purchase, and the difference in expected return. You can see both numerically and graphically just how long it will take you to make up for the immediate loss that you will sustain. The results are often surprising.

System Requirements

Minimum Required	Recommended
IBM Compatible PC Pentium Processor	Pentium Processor or later
Memory 32 MB RAM	32 MB RAM or more
Hard Disk Space 15 MB Free	15 MB Free
Microsoft® WindowsVersion 98	Version XP or Higher
Monitor SVGA 256 colors	1024 x 768 Resolution
Disk Drive CD-ROM Drive	CD-ROM Drive
Internet Browser MS Internet Explorer 6	MS Internet Explorer 6 or greater

Conventions

Conventions

Selecting

Buttons and Screen Names appear in bold type.

Clicking

Click: Tells you to click the left button on the mouse to select a command or function.

Double-click: Tells you to click your left button twice, rapidly, on the selection.

Right-click: Tells you to click using the right mouse button.

Buttons, Keys, Screens, Windows, and Sections of the Manual

Button names are enclosed in quotes and are in bold type–for example, click on the " **Ok**" button.

Keyboard keys are enclosed in brackets as well as being in bold type–for example, Press the **[Enter]** key.

Windows or screens are referred to using bold type–for example, Open the **Company** window and access the **Data** screen.

References to a section of this manual, the name of a form or a section of a particular form are written in bold type–for example, Review the **About Investing** section of the manual, or **Stock Selection Guide.**

Navigating

Navigate between entry boxes using the cursor, pressing the **[Tab]** key or pressing [Enter]. To move back, press **[Shift] + [Tab]** to move from right to left, bottom to top.

Registering Your Toolkit

After installing your new Investor's Toolkit, please take a moment to register your program.

Benefits of Registration

As a licensed Registered User of the Investor's Toolkit 5, you will receive the following benefits:

Technical Support: You may receive Free technical support from ICLUBcentral for ninety days following the purchase of the software.

Updates: Free software updates for Investor's Toolkit 5 will be made available and will, with your permission, be downloaded and installed automatically.

Message Boards: You may get answers or start a dialog by posting your questions about using Toolkit or investing on the "**Toolkit Talk**" community list service.

Register Online

You may register your copy of Investor's Toolkit 5 as you install the program. Simply follow the instructions on the screen to do so.

Licensed to Individual User (Not a Club)

This policy must be perfectly clear:

This software is licensed to you as sole licensee and you may share with others only the printed output of this program and the data that this program generates.

This software is not licensed to an investment club or any other entity. *Permitting anyone else to install this software on his or her computer is a violation of U.S. copyright laws and may jeopardize your license and your right to software support. Doing so may expose you to prosecution.*

Installing Investor's Toolkit 5

With Windows running, exit all programs and disable any anti-virus programs. If you are concerned about a virus on the installation compact disk, you should scan it first.

Please refer to the installation instructions that were enclosed with the program.

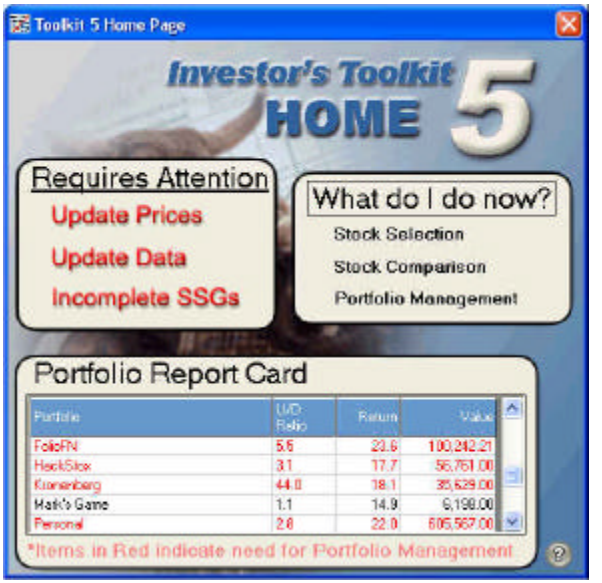
Starting the Investor's Toolkit 5

After running the **Setup** program, you are ready to start the Investor's Toolkit.



To start the Investor's Toolkit 5 - Click on the Toolkit shortcut icon (which was created on your desktop when you installed Toolkit **5**).

An "Investor's Toolkit 5" splash screen will appear briefly, after which your program will finish loading and be displayed on your screen.



The most prominent feature you will notice is the **Home Page** which will show you what tasks you have to per-

form, items in your portfolio or stock library that require attention, and a **Portfolio Report Card** which will give you a status report of your portfolios.



You will notice a new **Main Toolbar** that allows you to easily access all of the features and functions of the program and to your **Online Premium Service (OPS)** subscription.

Above the Main Toolbar, you will also see all of the traditional menus which you can use as well, if you wish to do so. And, you will see a small "**Library**" tab at the upper left edge of your screen, which you can click on to reveal your stocks and portfolios.

Setting Preferences

After you have installed Investor's Toolkit, the first task that you may want to do is to review your **Preferences** to see if there are any you wish to set. To view the **Preferences** screen, click on the **Preferences** button on the home page. Note the tabs on the left that direct you to the various Preference categories.

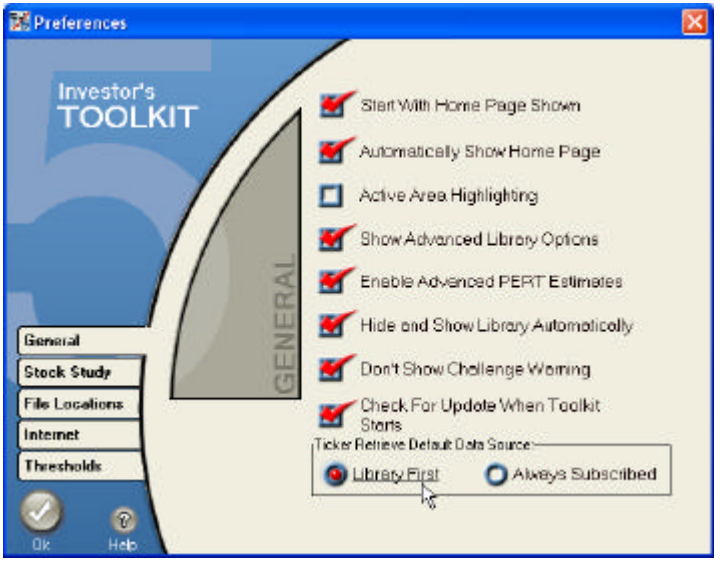
General

To set **General Preferences**, click on the appropriate box next to the selections to select or de-select each option.

Start with Home Page Shown: Enables and disables the ability to show the Home Page Screen which begins the tasks that you have to perform during your stock study.

Automatically Show Home Page: Provides for your Home Page to be displayed automatically when you launch the Toolkit, and disappear when you open companies to work on them.

Active Area Highlighting Enables or disables the yellow, green, or magenta boxes around areas where you ***may*** (yellow) or ***must*** (green) take some action or where you can access supplementary charts (magenta). This is useful to



help new users find the places where judgment may or must be applied to complete the study or gain additional insight from the data. You may turn this off when you no longer need assistance in finding the active areas on the forms.

Show Advanced Library Options Allows advanced users to create and use multiple ***Toolkit*** Stock Libraries. When checked, it will add a **Library** menu to the menu bar at the top of the screen, appearing only when all other windows are closed.

Enable Advanced PERT Estimate Turns on an option that allows you to enter your own earnings estimate rather than use the computer-generated estimate.

Hide and Show Library Automatically Provides for your **Stock Library** to be displayed automatically when you launch the Toolkit, and disappear when you open companies to work on them.

Don't Show Challenge Warning: Closes the warning window which appears whenever you open a new Challenge.

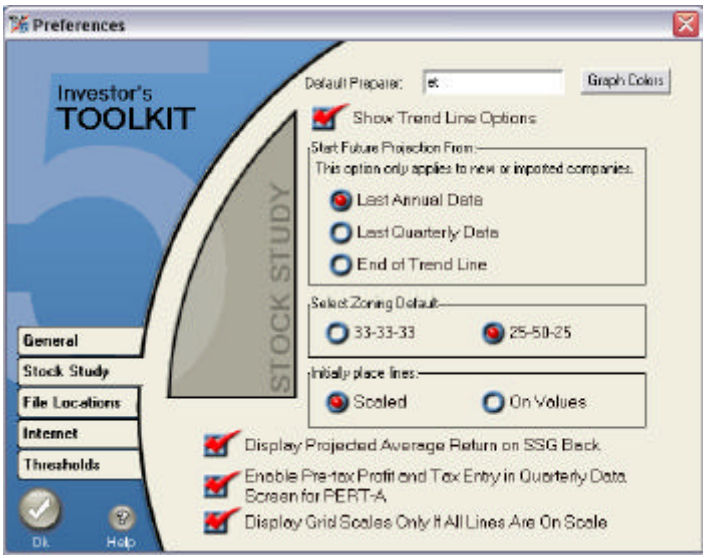
Check for Update whenever Toolkit Starts: Disabling this feature will force Toolkit not to go onto the Internet whenever the program launches to check for updates. You will have to manually go to Help > Check for updates to update your software.

Ticker Retrieve Default Data Source: Permits you to have Toolkit 5 first look in the stock library for company data when a company is requested in the **Main Toolbar** and, if not there, import the data from **Online Premium Service (OPS)**—or to import the data from **OPS** each time

Stock Study

To set options for the Stock Selection Guide, select the Stock Study tab, then click in the appropriate box to select or de-select each option.

Default Preparer Sets the default for the "Prepared by" entry in the Basic Data screen for all new companies. You are allowed ten characters to identify the preparer.



Show Trend Line Options (Advanced users): Enables or disables the appearance of the "Start Projections" button on the button bar in the Visual Analysis screen that per-

mits you to select the starting point for your 5-year projections of sales and earnings. They may start from:

- @ the last fiscal year;
- @ the last reported quarter; or
- @ the end of the 10-year trend line.

By selecting one of the choices in the Stock Study Preferences screen, you may set the default position of the projection starting points for any new stock study you do. NOTE: The Visual Analysis screen is accessed by clicking anywhere in the graph in Section 1 of the SSG or by clicking on the "Adjust Graph" text at the top of the company window.

Select Zoning Default Permits changing the "Buy - Hold - Sell" price zones in Section 4C of the SSG from 33%-33%-33% to 25%-50%-25% in order to reconcile the "Buy" range with a 3 to 1 Upside/Downside ratio and to provide for a more conservative "Sell" option. The 33-33-33 zone can indicate a "buy" when the Upside/Downside ratio is as low as 2 to 1.

Initially Place Lines:

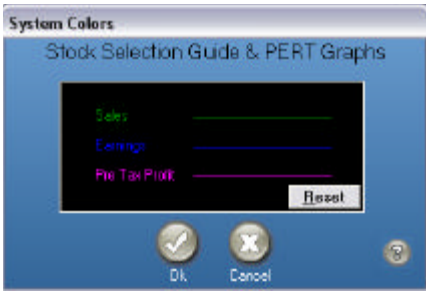
Scaled: Will scale the lines (multiply the data for each line by a percentage) so they may fit on a consistent number of grids and in a consistent and optimum order (sales, pre-tax profit, and EPS).

Values: Will place lines so their values match the numbers on the left of the graph. (Sometimes requires additional scales to be able to see lines.)

Display Projected Average Return on SSG Back Adds Projected Average Return (PAR) as a measurement of Total Return to Section 5.

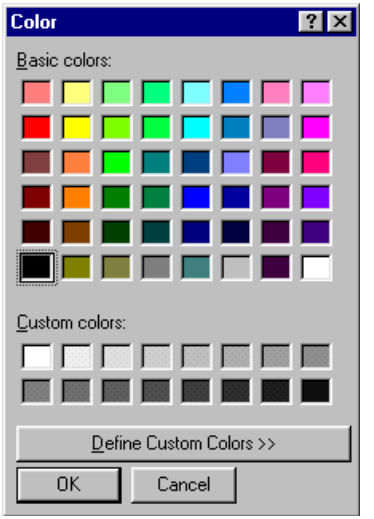
Enable Pre-Tax Profit and Tax Entry in Quarterly Data Screen in PERT-A: Adds Pre-Tax Profit and Taxes to the data entry fields in the Company Data Screen (at Quarterly Data tab).

"Graph Colors" button – allows you to select any color you wish for the plotted lines on the Visual Analysis graph. Click the "Graph Colors" button to display the following dialog:



Click on any of the three selections to display the color palette.

You may select a basic or a custom color, or, by clicking on the "**Define Custom Colors**" button, you may create your own. Clicking "OK" will replace the color, and clicking on "Save" after doing so will save the color for the future. (NOTE: The color selected will not show up immediately on the graph; however, it will take effect when you next open a company's screen and its Stock Selection Guide.)

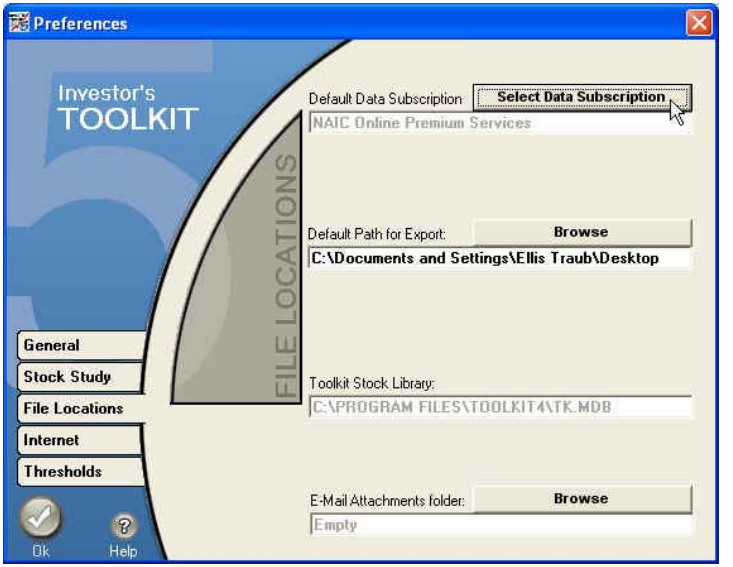


File Locations

Here is where you set up easy access to the electronic data to which you subscribe.

To set options for **File Locations**, select the **File Locations** tab, then click on the "**Select Data Subscription"** button to navigate to the particular locations.

To set up your Online Premium Services (OPS) subscription – Select NAIC Online Premium Services from the drop down list and then enter your e-mail address and password in the spaces provided. **NOTE:** The e-mail and



password are the ones that you used to set up your **OPS** account with NAIC when you purchased your subscription to **Online Premium Service**s.

Default Data Path For Subscribed DataFile Import: Click on "**Browse**" to select the drive and location where your Data Files are located.

When you find the appropriate directory, double-click on it to open it and reveal the sub-directories within it. That directory should be your selection. The program will automatically search the sub-directories (a-b, c-d, etc.) within that directory.

Default Path for Export: Click on **Browse** to select the path and destination for your exported files.

Click the "**Look In"** window's down arrow to select the drive.

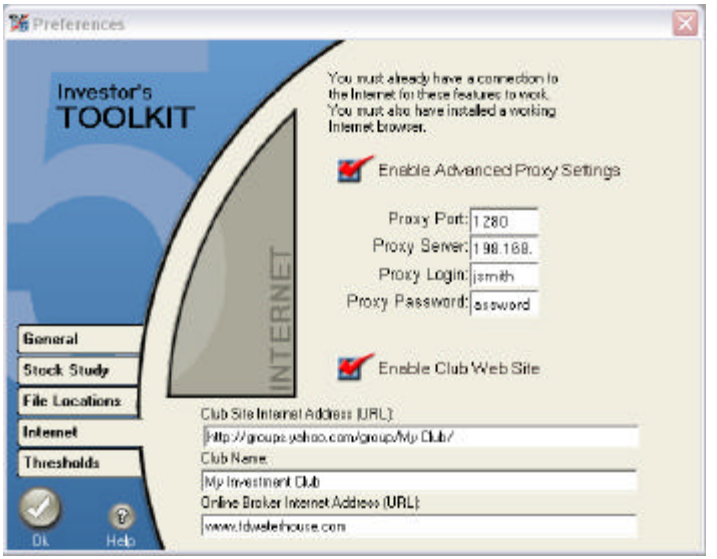
Select the directory in the window below and click "**OK.**"

Toolkit Stock Library: This data field is here for reference only. You would need only to set this path if you are using Advanced Library Options.

E-mail Attachments Folder If you receive data files as e-mail attachments, enter the location of your e-mail attachments folder (for example, C:\Program File\Eudora Mail\Attach). Click on "**Browse**" to select the path on your computer, and the "Locate E-mail Attachments" screen will open. After you click on "**OK**," navigate to the location of your e-mail attachments to set up the future default path, e.g., at C:\Program Files \Eudora Mail\Attach. Click "OK" to select the path.

Internet Access

Since the Internet is no longer only for experts, Version 5 of the Investor's Toolkit automatically enables all the features. You may add some additional conveniences in this dialog.



Enable Internet Proxy Settings If your computer accesses the Internet through a proxy server, you may enter the settings here to allow Toolkit 5 access to the Internet, Unless you have set up a proxy server for your system yourself, you need not be concerned about this. If you have, you will have the necessary information at your

disposal. Enter the **Port**, **Proxy Server name**, **Login ID** and **Password** and then click the "**OK**" button to complete the process.

Enable Club Web Site: Allows you to enter a Club Name and Internet Address (URL) on this screen, to be displayed along with the NAIC and Inve$tWare access buttons when you select the "**Internet**" button on the **Main Button Bar**. Clicking on your Club button will take you directly to the Club Web site.

Online Broker Internet Address (URL): Allows you to enter an Online Broker's Internet Address. An '**On-line Broker**" button will also appear on the **Internet Access** ("Special") screen to provide immediate access to your broker's site and execute trades from within the Toolkit.

Help in Toolkit

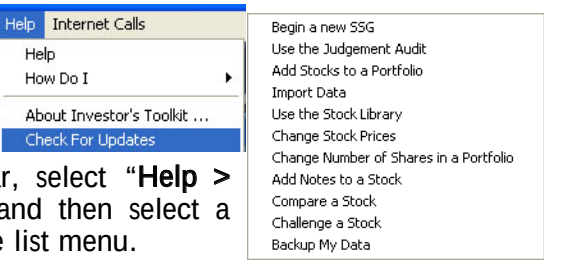
How to Find Answers to Your Questions

The Investor's Toolkit 5 includes a built-in help file where you can find answers to most all of your questions.

Context-sensitive help is available for each screen or dialog. box. Press the F1 key or click on the screen's '**Help**" button to access help for the specific screen that you are working on.

You can also access the general help file's Table of Contents by clicking on the "**Help**" button on the main Toolbar.

To see instructions on common procedures, on the Menu Bar, select "**Help > How Do I**" and then select a topic from the list menu.

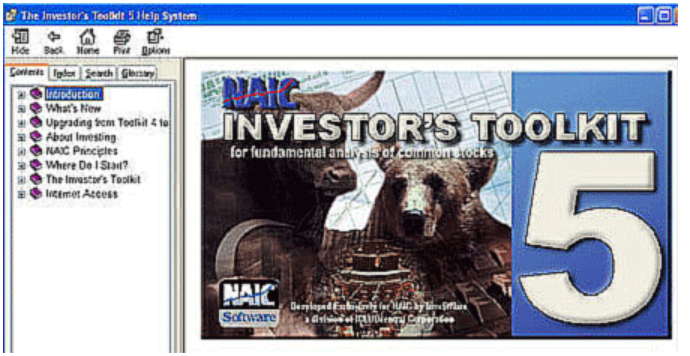


Using On-Screen Help

You can find information on Toolkit tools and commands by clicking the Contents, Index and/or Search tabs.

Using the Help Contents Screen

The **Contents** screen lets you quickly access such information as Investing, NAIC Principles, Using the Toolkit, Glossary and Menu commands. To select a help topic, click one of the help books and then select a help topic below it.



Returning to the previous topic

To return to the previous topic screen, click on the "Back" button at the top of the Help screen.

Using the Index

An index allows users to quickly get to the information they need and want. There are two ways users get to topics using the index:

Typing - Users can type a keyword or phrase and go directly to a topic or to a list of topics containing that keyword or phrase.

Browsing - Users can also browse through the index, then select a keyword or phrase. They either go directly to the topic or to a list of topics containing the selected keyword or phrase.

Searching for a Help Topic

To search for a Help topic based on a word or phrase, click the "**Search**" tab. The Search dialog box opens to permit you to type in a word or phrase to search for. Next click the "**List Topics**" button and select the topic you want to view and click "**Display**."

Click on the "**Back**," "**Next**," and "**Previous**" buttons to navigate through the screens and topics. Or click on "**Search**" to select and view another search result.

You can refer back to your Toolkit while leaving the "**Help**" file open. When you are finished using the online "**Help**" just close the screen by clicking on the windows  in the top right-hand corner.

Glossary tab

Displays an alphabetized list of terms related to information in the help system.

Updating your software

It has been ***Inve$tWare's*** practice to provide periodic updates to the Investor's Toolkit. Version 4 had eighteen such updates, each correcting problems that had been reported or adding enhancements requested by our users.

In Toolkit *5*, at each launch, the software automatically connects to the Internet and checks to see if you have the latest version of the software. If there is an update available, it will ask if you would like to update your software and download the update automatically. You may turn this feature off within **Preferences** on the **General** tab and deselect "**Check for Updates when Toolkit Starts."**

If you have the program open, you may check to see if an update is available by going to **Help > Check for Updates**.

You must have an active connection to the internet to use this feature and download times may vary.

Technical Support and Customer Service

A current support contract is the best way to ensure that you always have access to expert assistance with your software and that it is always up-to-date.

Terms of Support

When you purchase NAIC Investor's Toolkit, 5th Edition, Customer Support is available from ICLUBcentral's InvestWare Support Team for 90 days starting from the shipment date.

Try this First

The help available from within Toolkit answers many frequently-asked questions. To get immediate software help:

Select **Help > How do I...** and click on the option matching your question

If nothing matches your question, complete help is available under **Help > Help.**

Help from InvestWare

Customer support is available through our Web site. Fill out the brief Support Request Form at http://www.iclub.com/support/request.html. The Customer Support team will respond to you directly via email.

To reach our InvestWare Support team by phone, please call (954) 723-9910, between 9:30am and 5pm Eastern Time, Monday through Friday. Please note that the times and contact information governing Support Services may change, but our website will always have current Support contact information.

When requesting Support

Use the following list as a guide to help our experts quickly answer your questions:

Write down the precise wording of any error message dis-

played, including the names of any files mentioned in the message.

Be familiar with:

- the version number of Toolkit (**Help** > **About Investors Toolkit**)
- the version of Windows you are using (Right-click on **My Computer** and select **Properties**)
- the make, model and amount of memory (RAM) on your computer (Right-click on **My Computer** and select **Properties**)
- the make and model printer if you have a question or problem regarding the printing of reports
- Note your Toolkit serial number and date of purchase/installation.

Return Policy

For information on NAIC's return policy, please contact NAIC toll-free at 1-877-ASK-NAIC, ext 0, or visit the NAIC website at www.better-investing.org.

ABOUT INVESTING

"About Investing" is for the newcomer to NAIC. Starting with the few basic terms you need to know, it explains what long-term investing is and why it is successful. It then identifies the basic NAIC principles, and explains what good quality growth stocks are and how to find them.

Although the Investor's Toolkit 5 is a great tool that simplifies stock analysis and portfolio management, you still must learn about investing to understand and judge the output. The "What you do and why you do it" sections for each form give you form-specific information. Here we try to provide you with some background information on such topics as:

- Terms You Should Understand
- NAIC Principles
- What is a Good Quality Growth Company
- Benefits of Long-Term Investing

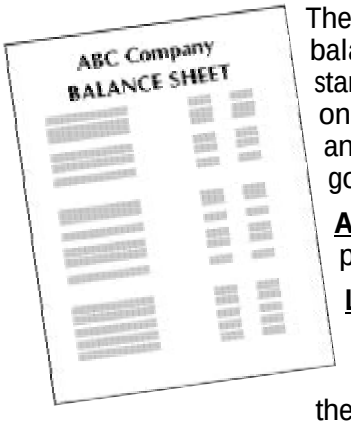
We also urge you to use NAIC's new *Stock Selection Handbook*, as a companion reference, since it is that source to which you should look for the most authoritative information about the concepts.

Terms you should understand

Before going too far, it is important to be familiar with the very few simple terms that are required to understand NAIC's fundamental, long-term investment philosophy.

Stock - The registered documentation of the company's ownership. Shares of stock are portions of that ownership. They are evidence of a shareholder's "piece of the action." Their significance is in the ownership of a company and not that they can be traded like baseball cards for some intrinsic value.

The **Balance Sheet** is a "snapshot" of a company's financial status at a given point in time. There are only three terms on the balance sheet that we need to understand to begin with. All of the items on the balance sheet fall into one or another of these three general categories:



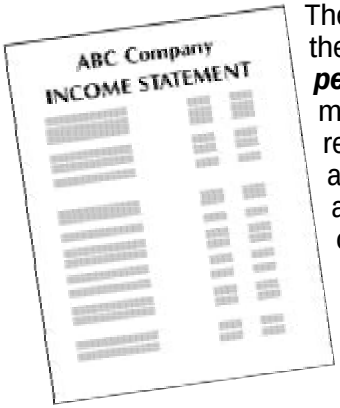
Assets - Everything that the company ***owns*** at that moment.

Liabilities - Everything the company ***owes*** at that moment.

Equity - The ***difference*** between the assets and the liabilities.

This is the **net worth** of the company at that moment.

Book value (per share) - The company's equity divided by the number of shares of stock outstanding. This personalizes ownership and tells you, the shareholder, how much of that company you own.



The **Income Statement** is a report of the ***operation*** of the company over a ***period of time*** The income statement contains ***three*** basic items that relate to each other much as do assets, liabilities, and equity. These are the items that produce the changes in the equity portion of the balance sheet:

Revenue (Sales) - All of the proceeds from the sale of the company's goods or services.

Expense - The costs the company incurred during that period.

Profit - The ***difference*** between the revenue and expense.

Revenue, expense, and profit are used to calculate two items which are particularly important to investors:

Earnings per Share (EPS) - is simply the profit divided by the number of shares in the hands of the shareholders.

The **Price/Earnings Ratio** (P/E or "Multiple") expresses the relationship between the price of a company's stock and its annual earnings and is calculated by simply dividing the current stock price by the company's annual earnings per share.

A simple way to grasp this is that, much like the price per pound of coffee or per gallon of gas is a "rate," so is the PE a "rate" one pays for a dollar's worth of a company's earnings per share.

These are all the terms you need to know to begin with. For additional terms, you may consult the glossary in the back of this manual, in the program's Help screens, or in the ***Stock Selection Handbook.***

Like the Sea

Hardly a traditional investment book lets you read more than a few chapters without making some reference to the fact that the stock market is like the sea. This is an excellent metaphor, but most books just don't carry it far enough.

The stock market is indeed like the ocean because, as a cork floating upon the surface, the price of a stock is affected by many compounded influences at once.



The broadest influence is, of course, the tide which ebbs and flows regularly and, in some places, rises as much as fifty feet or more above its low point.

Upon the tide are the broad, rolling waves caused by the various disturbances at the sea bottom. Then there are the large waves that are caused by the storms and major changes in the atmosphere–all the way down to the various ripples and patterns caused by the whim of the local breeze that blows this way and that over a few square yards of the surface.

The cork is buoyed by a composite of all of these–some rising, some falling at the same time.

If you were to try to predict where that cork would be in relation to sea level in the next moment, you'd have a time of it.

What a storm or even an underground earthquake will do to it at any given moment can't be predicted at all. If you add to that the effects of the winds and the little breezes, it's hopeless.

However, over the course of a day instead of a moment, you would be able to forecast, in general, where your cork would bob. This is because the tides are influenced by the position of the moon, gravity, coriolis force, and a variety of other things that are all scientifically predictable–so predictable, in fact, that almanacs are pub -

lished that forecast the tides, for years ahead, right to the minute.

The stock market is governed by much the same set of influences. And, just as the sea, it too is predictable over the long term but not the short term.

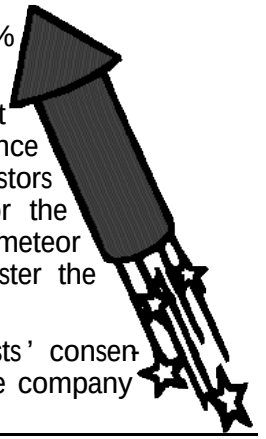
Over the life of a company, its P/E–the relationship between its earnings and its price–is virtually constant. It does, in fact, tend to decline slowly as the company's earnings ***growth*** declines, which happens with virtually all successful companies. For all practical purposes, however, that relationship is remarkably constant. For that reason, it is also remarkably predictable.

When a company's earnings continue to grow and grow, so will the stock's price. Conversely, when earnings flatten or go down, the price will follow.

The little things that make the Price/Earnings ratio fluctuate above and below that constant are not so predictable because they are all caused by investor perception and opinion–just like the winds that blow across the surface of the sea.

The broader moves are the undulations that are typically caused by the continuous rising and falling of analysts' expectations. When a company first emerges into its explosive growth period, the analysts expect it to continue to skyrocket.

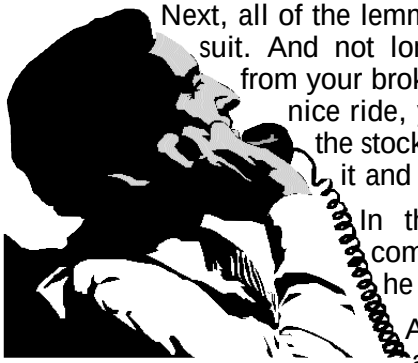
Earnings growth estimates in the 50% range are not uncommon.



As the company continues to meet these expectations, investor confidence booms along with it and more investors pay a higher and higher price for the stock. Of course the P/E rises like a meteor right along with the price. The faster the growth, the higher the P/E.

Then one fine day, when the analysts' consensus called for a growth of 45%, the company

turns in a "disappointing" growth rate of 38%. The analysts start wringing their hands because the company has not met ***their*** expectations, and some fund manager will sell.



Next, all of the lemmings on Wall Street will follow suit. And not long thereafter, you'll get a call from your broker telling you that you've had a nice ride, you've made a lot of money on the stock, and it's time to take your profit and get out.

In the meantime, he's made his commission on your purchase, and he's about to make it on your sale.

After a while, when the price and the P/E have plummeted and then sat there for a while, some analyst will wake up to the fact that a 34% earnings growth rate is really still pretty darn good. So, he'll jump in again. Soon the cycle is reversed. The market will start showing the company some respect again. And, you'll get a call from your broker.

Of course, as a good NAIC investor, you didn't sell the stock in the first place.

Because you were watching the fine earnings growth all along, you chose the opportunity to buy some more. In the meantime, your broker's clients who were not so savvy took their profits (paid the taxes on them, by the way), and wished that they had been in there all along. By the time their broker called them again, the price had already climbed past the point where it made good sense to jump in again.

These are the kinds of influences that cause the longer-term undulations in the P/E.

Shorter-term are the ripples and wavelets. Every little utterance of a government official or company officer, insider buying and selling (which may or may not mean anything), rumor, gossip, and anything else that can

influence the whims of those on the street will. Many will use these stories to make or break a market in the stock.



It's best to assume that any price movement that is not related to the company's earnings is transient. If the stories–not the numbers–cause the price to move, it won't last. What goes up will come down, and what goes down will come up. Only when the sales, pre-tax profits or earnings drive the change do you have to be concerned–and then, only if you expect the performance decay to be a major, long-term problem.

Remember also, a sizable segment of Wall Street doesn't make its money on the ocean. They make it on the "ocean motion." Buying or selling, it makes little difference to them what you do. They make their money either way. But it sure makes a difference to you!

The NAIC Principles

Invest a fixed amount regularly, for the long term

Small amounts, invested regularly, will provide all of the protection you need against the vagaries of the market. Known as "dollar cost averaging," this principle allows you to purchase more stock when the price is low and less when it's high. As a result, you will own more shares at a lower price, which will benefit you over the long term.

Reinvest all of your earnings

This principle provides for you to enjoy the "magic of compounding" which means that you earn money on the money you earn. Most of your gains should be "unrealized" (the appreciation in the market value of your portfolio without having to sell to "realize" the gains). However, if you re-invest your dividend income and realized gains, you would double your money in five years with a portfolio that returns just a little less than 15% a year. If you "take what you make," your portfolio would have to return 20% to do the same.

Invest only in good quality growth companies

"Long-term investing" implies that your fortunes are determined by the growth of the companies in which you invest, not simply by the price of the stock. Depending upon the size or maturity of the company, you should look for companies whose "monotonous excellence" produces consistent annual earnings growth of anywhere from 7% to as much as 20% compounded annually.

"Total Return" (the combination of both capital appreciation and dividend yield) is, certainly, the name of the game, but it's best to invest in companies whose growth, rather than dividend income, is going to provide the bulk of the return.

Diversify

While the first three are principles that are essential to grow your capital, this "defensive" principle is important as a means of minimizing risk. Putting all of your eggs in one basket has never been smart, and we look for diversification in both size (risk/return considerations) and industry.

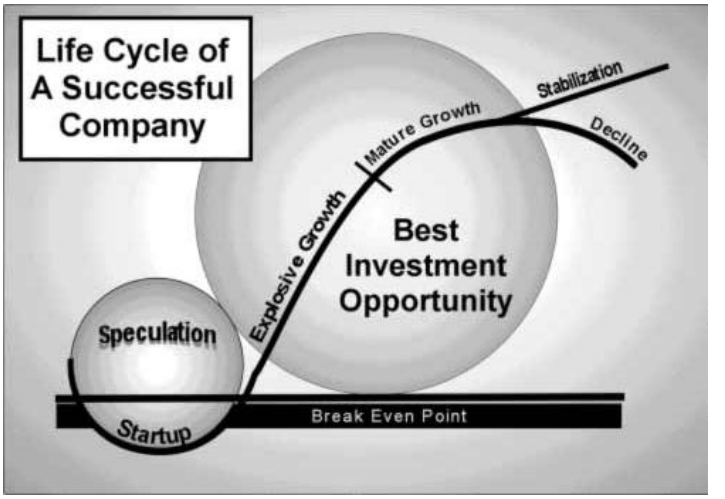
NAIC recommends that the average portfolio contain approximately 25% small companies, 25% large companies, and the rest in between–divided among a variety of industries.

What is a good quality growth company?

Of the four principles listed above, the third is the real "trick" as the others can be followed more or less mechanically.

To invest only in high quality growth companies, you will have to prospect for good candidates and then analyze and evaluate each.

Just what do we mean by growth?



As can be seen in the diagram above, a successful company will pass through several phases of growth:

- @ the startup phase when earnings are predictably below the break-even point
- @ a period of explosive growth when the percentage increase in sales and earnings can be spectacular
- @ the mature growth period when revenue becomes

so large that it is difficult to maintain a consistent increase in the percentage of growth

@ the period of stabilization, or decline, for companies that do not continue to rejuvenate their product mix or expand their target markets.



NAIC advocates investing only in companies having a track record as a public company for at least five years and for which the data is readily available.

We are therefore interested in investing in companies that are at least five years into their explosive growth periods but that have not gone past their primes. Obviously, the longer the company has had a successful track record–provided its management copes successfully with maturity–the more stable and risk-free it is apt to be.

Depending upon the size of the company, NAIC investors should expect growth rates that vary from a low of about 7% to a high of around 20%. Hence, if the company is an established one with sales over the $4 billion mark, a growth rate of as little as 7% might be acceptable. (The Total Return of such a company should have a substantial dividend yield component.)

At the other end of the spectrum, the newer company in its explosive growth period should show double-digit growth. While we know that growth rates above 20% cannot be sustained forever, we look for higher growth rates as compensation for the increased associated risk.

This chart provides a rough guideline for the kinds of

growth rates that NAIC suggests. Anything in the light area is acceptable for companies whose revenues (sales) match the scale on the left side. For example, if a company's sales for the current year are in the neighborhood of $300 million, we would look for a growth rate of better than 12%. For a company with $1 billion in sales, we would want at least 8%.

These are the standards of growth that we will seek for investment. Higher risk situations involving companies early in their life cycles are, in the view of NAIC, speculative and not of investment quality.

How Do You Find Such Companies?

There are lots of good ways to prospect for likely candidates to study. Here are just a few:

- @ Find out the names of the companies that produce the products and services that you use and think are excellent.
- @ Ask your broker for a suggestion or two.
- @ Join an investment club.
- @ Attend NAIC events.
- @ Use one of a number of screening programs to filter out from a large universe of companies only those that meet your criteria.
- @ Look in the newspaper for exciting companies.
- @ Subscribe to one or another of the many newsletters that are out there.

The point here is that you can get a good idea from almost anywhere. There are as many suggestions out there as there are companies, and one might be just as good as another. But, so long as you clearly understand that you should ***never, never, never*** buy a stock as a result of a "tip," you're going to do just fine.

Peter Lynch, one of the nation's most successful fund

managers, said that one of his greatest picks was "L'Eggs"–the hosiery sold in the supermarkets. His wife came home one day, extolling the virtues of the product and the concept and he decided to take a look at the company! Notice that we didn't say "bought the stock." We said that he decided to "take a look at" the company. He did buy it, but only after doing a thorough job of homework on it.

Most "tips" fall in the category of either "inside information" or new product potential.

In the case of the former, you must ask yourself, "If that information is so new, exciting, and/or secret, how come the person who told me about it knew about it?" (If it was your stockbroker, you may rest assured that the street has already discounted it.)

In the case of new product information–"ABC Company is about to introduce a revolutionary new widget"–you must ask yourself, "What percentage of current revenue could such a new product generate if that product or service is successful?" Usually the answer will be that sales of the new product will bring in only a tiny fraction of the current sales figures. If the company is so small that it would have that much effect on the company's bottom line, then it is probably still too small (new) a company to bother with or the introduction of the new product is too risky to gamble your capital on.

Write down any suggestions you receive, the names of firms that produce the products that you know are winners, or services you think are particularly important for the times. In short, the best criterion for finding a company that meets your needs is to find products or services that are successful.

Read the financial newspapers and newsletters and see what the analysts are saying about some of the "comers." Be sensitive to information about industries and specific companies in the regular newspapers and other media.

Common sense and a little observation are far better

providers of stock tips than the average broker whose company may have its own interests at heart when it "suggests" he push a stock!

The moral of the story is that you can find good candidates anywhere!

Once you have a company you are interested in–or a list of them–you can then go to work.

Obtaining Data

Once you have selected a candidate for study, you will then need to obtain the data required for analysis and evaluation using Toolkit 5.

Publicly held companies are required to report their financial results four times a year, and companies that are large enough to be of interest to you as an investor are also required to report those results to the Securities and Exchange Commission within a reasonable time after they close their books each quarter. You may either enter it manually from printed reports or from the Internet, or you may import it electronically from an increasing number of sources that are currently available.

This data comes in different forms and formats and is described in detail in the "**What you do and Why you do it**" section of this manual which follows.

Benefits of long-term investing

80% Successful Stock Selection Record

Because long-term trends in the performance of companies are reasonably predictable, it is possible to pick as many as four winners out of every five stocks that you choose.

Money can double every five years

It is also possible, with reasonable diligence, to replace the one out of five that may be a loser before it significantly damages your portfolio. Those who do can enjoy 15% (or even higher) compounded, annual growth in the value of their holdings–a rate that would double your money in five years.

Tax benefits

The best gains are unrealized gains–the increase in the value of your stock as it sits in your portfolio. You don't have to pay taxes on your gains until you sell. Short-term investors tend to sell their winners and wait for their losers to grow. (They eventually wind up with a portfolio full of losers.) That's why they don't make out as well as the average long-term investor who stays with the winners for the long haul.

Simple procedures

The NAIC investment methodology is not "rocket science." Anyone can learn it quickly and use it successfully for a lifetime.

Carefree portfolio maintenance

There is no need to anxiously watch your stock prices hourly, daily–or even weekly–as short-term investors and speculators do. If you wish to update your prices and watch your progress on a monthly basis, that's great. But you can do a fine job of managing your investments if you tend to them only every two or three months.

USING THE INVESTOR'S TOOLKIT: What you do and Why you do it

A Tour through the Toolkit

This section of the manual, "**What you do and why you do it**" will walk you through the basic concepts behind your NAIC investing tasks. This is not intended to replace NAIC's official guide, ***the Better Investing Stock Selection Handbook***. Rather, it will hopefully supplement this basic information and relate it to the specific steps you will go through as you perform these tasks on your computer.

This section is broken into two distinct areas: the ***acquisition*** phase, in which you select, study, and evaluate stocks for purchase; and the ***portfolio management*** phase, in which you perform the tasks required to optimize the performance of the portfolio of stocks you have purchased.

Starting with an initial, rudimentary analysis using the **Stock Check List**, we'll take you through a more detailed and complete stock study using the **Stock Selection Guide.** Then we'll discuss the rationale behind comparing stocks using the **Stock Comparison Guide**. This acquisition process is the keystone of NAIC investing, and the data developed in this pursuit is valuable for your portfolio management chores.

The second part of this section will be of special interest to you, since it's concerned with managing your portfolio of stocks after you acquire them. It builds on the information that you've assembled in the acquisition process and offers a different perspective of the same information in a fashion that is indispensable for your portfolio maintenance chores.

Over the years, NAIC has developed some truly remarkable forms that comprise the Portfolio Management

Tools, which we'll go through in detail in this part of the manual. These tools have served NAIC members well for more than a half-century and they implement the sound portfolio management concepts NAIC teaches.

In Toolkit 5, we have now harnessed the real power of the computer to implement those concepts in a process that parallels the purpose of those printed forms but does so without relying on your use of the forms themselves. Of course you may still do as you have in the past if you're more comfortable doing so. And we have retained the explanations of those forms and their use in this instruction manual.

However, you will see how the very same tasks you used the PERT Report for are now accomplished automatically and with less confusion with the new Portfolio Report Card, **Portfolio Overview**, and the **Portfolio Alerts** which tell you all you need to know about the performance of your portfolios as a whole and the companies in them.

This process separates your urgent, defensive tasks from the less urgent but important offensive tasks. It calls your attention to the companies needing attention, and then allows you to make the "sell" or "hold" decisions with ease, following a simple and logical, step-by-step procedure.

The new "**Smart Challenger**" simplifies the job of replacing an overvalued company with one with more promise, permitting you to see how all of the stocks in your stock library meet your needs.

This section parallels the last section in the manual, "**How you do it**"–the true software manual that tells you what buttons to push and menus to access to accomplish the things that we discuss in this section. Both are liberally cross-referenced and permit you to either execute the step-by-step process with the computer as you read about it, or refer to the concepts behind the steps as you perform them with aroused curiosity.

About Data

Overview

Until recently, the selection of a source of data required to analyze companies was somewhat confusing. Favored among NAIC investors for the past two decades was the Value Line Survey, a source for manual data entry which had the unique benefit of "normalizing" data–stripping from the reported data those items that were either infrequent or unusual–so that the remaining data more closely represented what one could expect from a company on a regular, continuing basis.

With the advent of the computer, a number of electronic sources of data emerged and became the most popular source of data. Sources such as *Market Guide/Multex* (now *Reuters*) and Standard & Poor's *Compustat* came into popular use by users of NAIC software because of the convenience and speed with which it could be imported into that software, generating an SSG ready for judgment in mere seconds.

In recent years, NAIC has offered its Online Premium Service (OPS), which provides S&P Compustat data as a benefit of membership at a price all could afford. Because it is the highest quality data, offers the most desirable configuration for analysts (diluted, normalized earnings from continuing operations, excluding extraordinary items), because it is so inexpensive, and because it imports so seamlessly into your Toolkit, we now assume that most who use the Investor's Toolkit will have access to that data. Even though manual data entry is still an option, we will no longer devote much attention to the manual data sources. Regardless of the source, however, it's important to understand the differences in the nature of the data you will use.

Data Types

Data comes in several "flavors," depending upon who provides it and what specifications are made by the data vendors who use or sell the information. All are correct, and, oddly enough, all are different.

Company Reported Data

This is data hot off the company's presses. It may or may not be filed with the SEC. It may or may not be audited. It is, nevertheless, what the company has said that it ***is*** (the balance sheet), and what it says it ***has done*** (the income statement).

Standardized Data

Standardized Data is company-reported data that has been analyzed by professionals who look at the details of income and expense and "map" these numbers into standard categories so that companies may be compared on similar terms. Fiscal year dates are adjusted to a regular standard. This data is usually taken from SEC filings and has usually been audited–at least the annual data. Bear in mind that there is a trade-off between the quality of company reported data and the timeliness of standardized data.

Normalized Data

Company reported data that has been analyzed and altered to reflect the deletion or addition of non-recurring income and expense is referred to as "normalized." Value Line data is "normalized" but not standardized.

Other Issues

The most significant difference between the various types of data is in the manner in which earnings are reported. Some data providers offer earnings "as reported." Others offer "earnings from continuing operations," which implies that any earnings (or losses) from operations that have been discontinued are expunged from the data.

All of these methods of reporting data are "correct" even though they are different. All are presented as prepared according to "generally accepted accounting procedures." The most important point is that you as an investor, using a particular data source, understand the "differences" and their impact on your judgment, and that you take precautions not to mix your sources.

NAIC's **OPS** data, of which we assume the great majority of Toolkit users will avail themselves, provides diluted, normalized earnings from continuing operation, less extraordinary and special items. This is the most desirable form of data for the analyst.

A table listing the various data differences can be seen on Inve$tWare's site at www.investware.com.

Data Sources

Electronic Data

For years, it was necessary for NAIC's computerized investors to laboriously enter the data by hand. While we have retained the provision for so doing–many still prefer **Value Line** data because it's what they are accustomed to, still more appreciate the immense benefits of having timely, accurate data available in a keystroke. It eliminates inaccuracies, tedium, and procrastination.

Currently, by subscription, NAIC makes available the **Online Premium Services** (**OPS**) that are produced by S&P Compustat, a leading provider of data to the professional investment community. The data provided includes diluted earnings from continuing operations less extraordinary and special items.

This data is provided on-line and Toolkit 5 provides as seamless a process for importing this data as possible. Once you have properly configured your program, the import of data requires no additional steps other than selecting the stock you wish to study or clicking on options for the Toolkit to update or import the information for one or more stocks.

Data Files

If you subscribe to the American Association of Individual Investors (AAII) ***Stock Investor PRO (SIP)*** CD (stock screening program), you will find an "SSG" directory included with SSG data files for all of their 9,000 plus companies.These CDs are sent out once each month and data import is a seamless process with these as well.

Manual Data Entry

Value Line

The ***Value Line Survey*** is NAIC's most popular source of information and the most comprehensive for your purposes. It is favored because it is a very concise representation, on a single page, of all the data necessary to complete the Stock Selection Guide.

The data is laid out so that it conveniently follows the flow of the program and, with a little practice, it will take you no more than five to ten minutes to input the data for a company.

Value Line may be too costly to subscribe to for the average investor, but it is available in most libraries.

For excellent instructions on where to find the required data on the Value Line page, consult NAIC's official publication, ***Stock Selection Handbook***.

S&P Reports

Standard and Poor's "tear sheets" have been made available to NAIC members through some brokers and may be downloaded by their clients from their Web sites. This data is available in most libraries as well.

NOTE: This data is different from the electronic data provided by S&P Compustat and used in NAIC's Online Premium Service .

It is not quite as concisely laid out (requiring both the front and back page) nor is the data quite as easy to locate; however, many NAIC members have used this source for many years and have become accustomed to it.

As with the *Value Line* Survey, the data that you will use for your SSG is highlighted in the figure on the bottom, and is not nearly so intimidating as is the form at first glance.

Company Annual Reports

At the end of every fiscal year, companies will publish an annual report that is intended to inform the stockholders about what has happened during the past year and what is expected in the future.

While many of these reports make interesting reading and are good sources of data, there is no standard to which all reports comply. Companies have a great deal of latitude in determining just how the data will be presented, how much of it needs to be presented, and what they say about the reasons for past and future performance.

Because the information is not presented in a standardized fashion from company to company, it is frequently difficult to find all of the required data.

In many cases, there will be insufficient data for you to do your stock study. Some companies, for example, provide only three years of history.

Much of the story is hidden in the footnotes to the financial statements, and it takes a financial "detective" to interpret all that is there.

All of these things make the annual reports the least desirable source of data; yet, you shouldn't overlook them if you are truly interested in a company.

Digging out the data you want is a good exercise and learning experience, and you might be surprised how much you can learn about a company just by following the numerical paths and reading between the lines.

Still, annual reports will most often merely be a source of additional or supplementary information. We recommend that beginning investors stick with the first two sources"—or the next two.

EDGAR - The SEC



SEC filings contain data that can be used for manual data entry. EDGAR, an acronym for the Electronic Data Gathering, Analysis, and Retrieval system, is a database of forms that are required by law to be filed by companies with the U.S. Securities and Exchange Commission (SEC). EDGAR can be found at the SEC's site at www.sec.gov/edaux/searches.htm. Another popular non-government site for this data is FreeEDGAR at www.freeedgar.com. (Although this information is accessed through your computer, it cannot be imported directly into ***Toolkit***. Thus, it is not included in the "**Electronic Data**" section.)

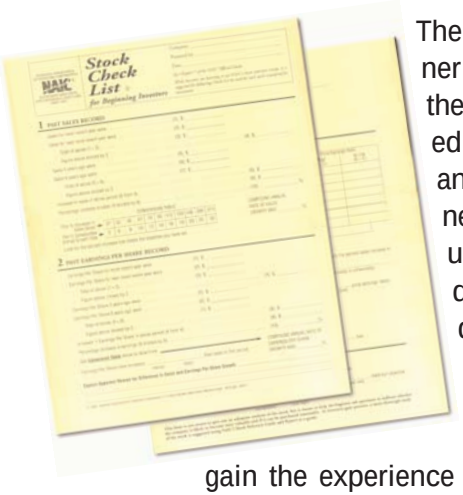
NOTE: While FreeEdgar began as a provider of free data, it is no longer free and is available for a modest fee.

Quarterly and Annual SEC fillings–10-Q's and 10-K's–are more useful than annual reports. These reports are required by the SEC from each public company. They contain all of the same basic information as annual reports, but they are not dressed up with pretty pictures and self-serving text. And, they are in a more or less standard format. Data is easier to find, and the risks and other negative issues are stated more forthrightly.

Evaluation and Acquisition

Stock Check List

Overview



The **Stock Check List** is NAIC's beginner's tool–or "training wheels"–for the novice investor. It is not intended to provide an in-depth stock analysis but merely to introduce new investors to the process of using and analyzing company data. The **Stock Selection Guide** is designed to be your main stock analysis tool. Using the **Check List** in conjunction with the **Stock Selection Guide** will help you gain the experience and confidence to "move up" to the **Stock Selection Guide**.

After completing a **Stock Check List**, you will know the recent history of sales and earnings per share and whether the stock's current price makes it a good buy.

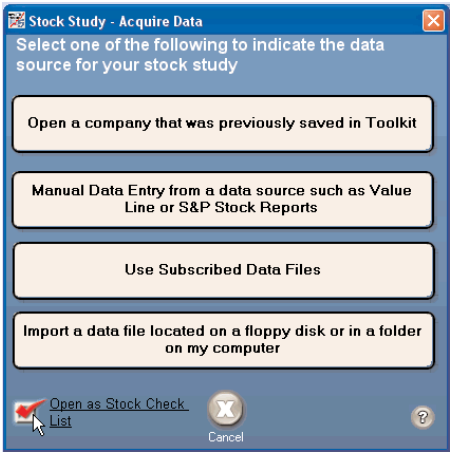
Getting Started

How to Open a New Stock Check List

To open a **Stock Check List**, click on the "**Stock Study**" button on the Main Toolbar. This will open the **"Stock Study – Acquire Data"** screen. Next Click the **Open as Stock Check List** check box at the bottom of the screen.

If you want to input data into the **Check List** manually, then select **"Manual Data Entry from a data source such as Value Line or S&P Stock Reports."**

If you want to use a company's stock study that was previously saved in the **Library**, click on the top button, "**Open a company that was previously saved in *Toolkit*.**" The "**Select Company Record to Open**" screen will open, showing your **Stock Library** portfolio.



The **Stock Library** contains all of the companies you have saved in your ***Toolkit***, including all of the company stock holdings in your various Portfolios. You can select a portfolio in the "**Portfolio**" drop-down ▼ list, click on a company name to select it from the list of companies, and click "**Open**." (**TIP**: Double-click on the company to open it.) When the company screen comes up, it will open to the front page of the **Stock Check List**.

Note: ***Toolkit's*** "type ahead" feature allows you to quickly find a company in a long list. Just start typing in the company's name, or any word in the company's name, and ***Toolkit*** will sort and reduce the list, as you type, until you locate your company. Or, you may scroll down the list by clicking on the ▼. Clicking on the "**Company**," "**Ticker**" or "**Exchange**" header will sort companies by that criteria.

If you need more information about importing your data, see "**Electronic Data Entry**."

Navigating the Stock Check List

Tutorial

The **Stock Check List** uses a **Tutorial** to guide you through the process of completing the **Check List**. An information box, located in the upper right corner of the **Check List** screen, walks you through what information to enter and where. As you work through the **Tutorial**, the corresponding area of the form will be highlighted in red.

As you enter the data and answer the questions to complete the form, you will see the information entered on the form, and the **Tutorial** will explain the resulting calculations that appear. Click on the '**Additional Information**' button for more information.

Buttons

Navigate in the **Stock Check List** by clicking on the following buttons in the **Check List** Toolbar.

"**Back**" and '**Next**" buttons – click to move through the steps of the **Tutorial**.

"**Save**" button – click to save your stock study to the **Stock Library**.



"**Print**" button – click to print your **Stock Check List**.

"**Help**" button – click to open the **Help** file for questions you have about the **Check List**. A context-sensitive **Help** screen will open to further explain the step you are on, or you can also select the 'Search' tab, within the **Help** screen, to search by topic.

Window Size Adjustment

To adjust the size of the **Check List** window, place your cursor on the edge of the window. When the cursor changes to a double-arrow ⟷, click, hold your mouse button and drag it to the desired screen size. Note: All of the other forms have a "**Zoom**" button and dialog box to adjust the size of the screens.

Basic Data: Company Information

After you select the source of data, the Stock Check List will open in a "Basic Data" screen where you can begin entering data with the help of the Tutorial. Unlike other forms in the Toolkit, when you fill in a Stock Check List, you do not actually type on the form. Instead, input the data in spaces provided at the top of the Check List window. As you input the data, and hit [Enter], the data will appear on the form in the area highlighted in red.

(**NOTE**: For information on what data to use and where to find it, please refer to the ***Better Investing Stock Selection Handbook.)***

Basic Data Entry Fields



1) Company name: Enter the Company name.

2) Ticker: Enter the ticker symbol of the stock. The ticker can be found in the header section on each of the Value Line and Standard & Poor's reports.

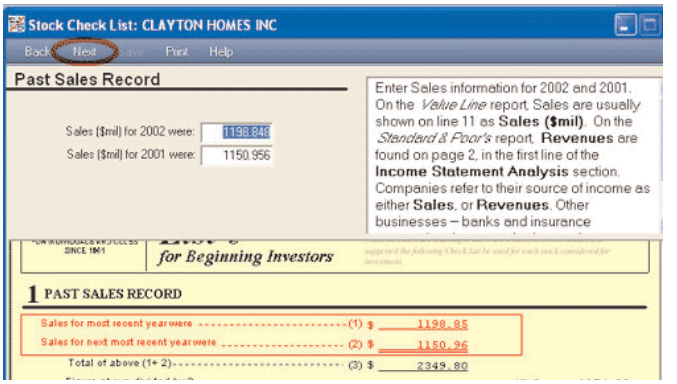
3) Most Current Year: Enter the most recent year for which you have complete Sales, Earnings Per Share, High and Low Price information. (The program will default to the current year minus one).

4) Prepared by: Enter your name.

Click the "Next" arrow to move to the next data entry screen.

Part 1: Past Sales Record

You will evaluate each potential company with this thought: "Good Company/Good Value." First, we try to determine if it is a good company and, second, if it is a good value at the current price. No matter how strong the company, if you pay too much for it, you'll never achieve the results you're looking for.

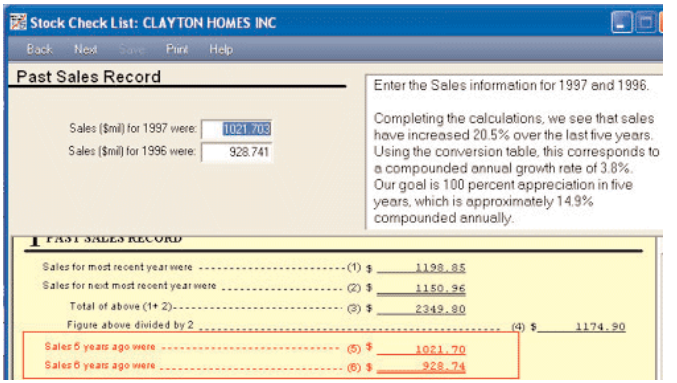


Look at historical sales to determine whether the company's growth is strong and at an acceptable rate. This is your first test. If sales haven't grown at an acceptable rate, then why go any further with this study?

1) Enter Sales ($ mils) for most recent year.
2) Enter Sales ($ mils) for next most recent year. Entries are in millions of dollars (i.e., $550,000,000 would be entered as 550).

Click the **"Next"** Arrow button.

3) Enter Sales ($ mils) 5 years ago.
4) Enter Sales ($ mils) 6 years ago.



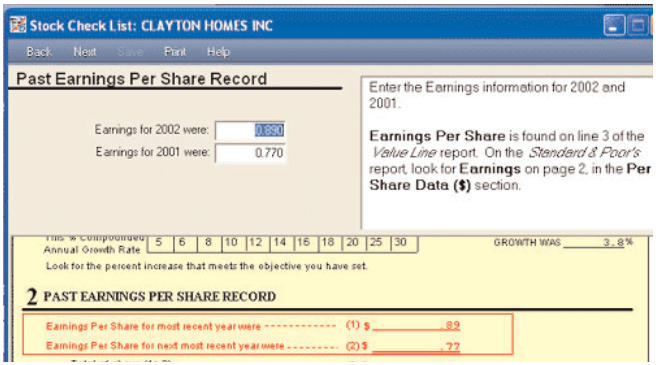
After you enter the data, the ***Toolkit*** fills out the rest of Part 1, performing all the calculations for you. The

Tutorial then explains the results and how to analyze them.

The data and calculations in **Part 1** are used to determine the "Compounded Annual Rate of Sales Growth," which appears in the lower right corner. To obtain this percentage, the ***Toolkit*** averages the sales figures for the most recent two years and then the sales figures for five and six years ago. (Averaging tends to dampen out the effects of any spikes that may appear in these years). The difference between the two figures is the total growth over a five-year period. The program then takes this number and uses the conversion table to determine the annual compounded growth rate. Although the ***Toolkit*** does this calculation for you, you can also check it using the table.

Part 2: Past Earnings Per Share Record

Look next at the historical earnings per share. You will average the earnings figures for the most recent two years and then the earnings figures for five and six years ago. The averaging tends to dampen out the effects of any spikes that may appear in these years.

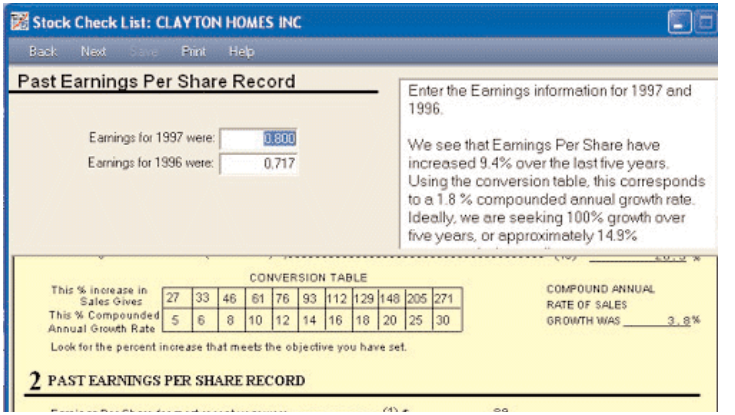


1) Enter **Earnings Per Share** for most recent year.
2) Enter **Earnings Per Share** for next most recent year.

Click the "Next" Arrow button.

3) Enter **Earnings Per Share** 5 years ago.

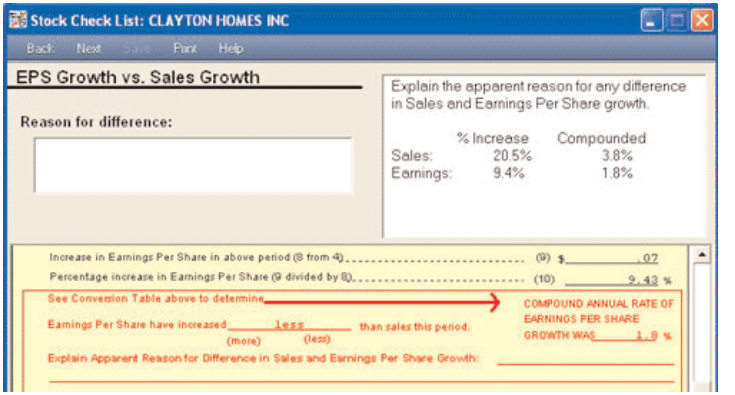
4) Enter **Earnings Per Share** 6 years ago.



After you finish inputting the data in these four fields, the ***Toolkit*** will perform all the required calculations, fill out the remaining sections of this Part 2, and explain the results to you.

Click the **"Next"** Arrow button.

"Explain Apparent Reason for Difference in Sales and Earnings Per Share Growth"

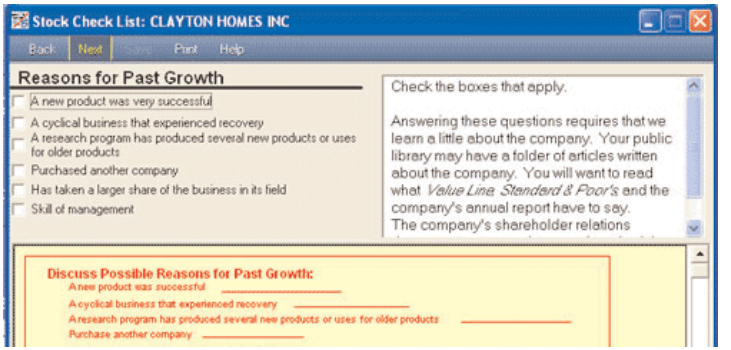


In this field, enter your thoughts about why there is a difference in the growth of sales and earnings per share. For ease of reference, the program will display both overall and compounded annual growth in the **Tutorial** box. As a starting point look for changes in sales and earnings per share. (Later, when you advance to do the **Stock Selection Guide**, you will also look at the company's profit margins, tax rates, and common shares outstanding.) Typically, sales and EPS grow at the same rate; therefore, a difference between the rates is a "warning" that further analysis may be needed. If your data source contains any information that may explain the difference, you can enter that information in this field.

If the earnings per share growth rate exceeds the sales growth rate, a caution message will appear. This is to remind you that earnings are derived from sales, and over the long run, earnings growth cannot exceed that of sales.

Click the **"Next"** Arrow button.

"**Discuss Possible Reasons for Past Growth**:"



It's not enough to just examine the company's current figures. As a prospective part owner of the company, it's important that you know a little about the company, such as what it produces and how, its market, and its competition.

It's also important to look at the company's management. Is management doing a good job? Are they keeping costs in line? Are they developing new products and markets? In other words, what is management doing to ensure that the company continues to grow?

Before answering these questions in this section of the **Check List**, you should do a little research on the company. Read the information boxes in ***Value Line, Standard and Poor's***, and company annual and quarterly reports, or go to your local library and read articles about the company.

The Internet also has numerous sites that can be excellent sources of background information, including ***Yahoo!***, ***Reuters***, and ***MoneyCentral.com***. Click on the **Internet** button (if you have Internet access) to research this company with one of the research sites listed under the "**Favorites**" tab.

Click the **"Next"** Arrow button.

"Will the Factors Which Produced Past Growth Continue to be Effective?"

The final question in this section requires your judgment evaluation based upon sales and earnings growth and what you've learned about the company's operations and management.

Do you believe this company will continue to grow at its current rate, a lesser rate or stop growing altogether?

This concludes the portion of the **Check List** used in determining the "Good Company" part of our task. The next few sections are used in determining "Good Value."

Part 3: Price Record of the Stock

Present Price and EPS

1) Enter the Present Price.

You can obtain present company stock price from your local newspaper, the Internet or any other source.

2) Enter the Present Earnings Per Share.



If you have access to ***Value Line,*** add up the most recent four quarters of non-bold-faced, non-italicized Earnings Per Share from the Earnings Per Share table on the middle, left side of the page.

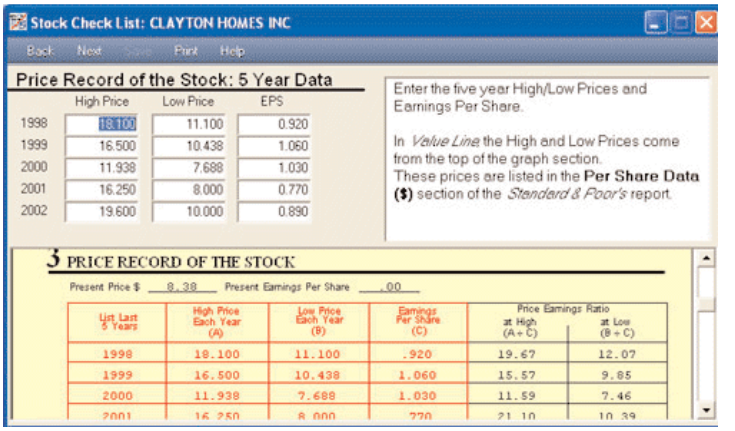
If more recent data is not available you can use the Earnings Per Share for the most recent year.

Click the "Next" arrow button.

Price Record of the Stock: 5-Year Data

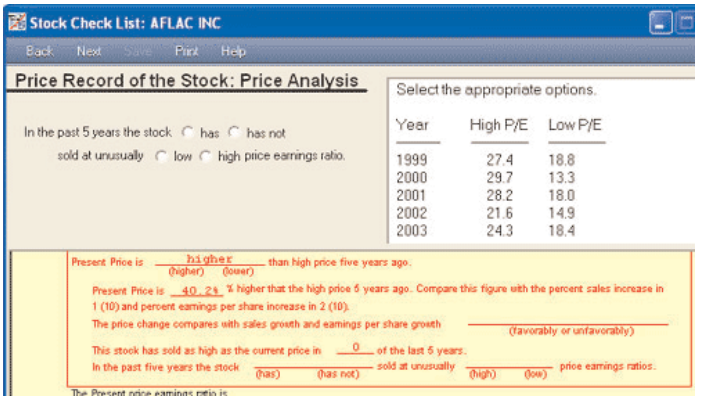
For the last five years, enter the figures for the:

1) Annual High Prices
2) Annual Low Prices
3) Annual Earnings Per Share



Price Record of the Stock: Price Analysis

Part 3 of the **Check List** examines the historical relationship between earnings and the price of the stock. Over the life of a company, its P/E is remarkably constant and, therefore, remarkably predictable. When a company's earnings continue to grow and grow, so will the stock's price. Conversely, when earnings flatten or go down, the price will follow.



Little things that make the Price/Earnings ratio fluctuate above and below that constant are not so predictable because they

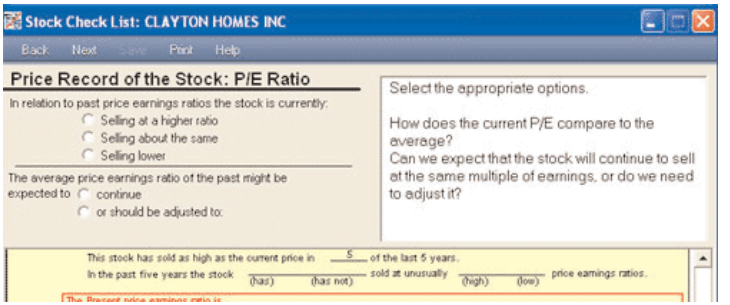
are all caused by investor perception and opinion, as well as the rise and fall of analysts' expectations.

Compare the change in price with the changes in Sales and Earnings and select the appropriate response.

NOTE: The program will display "NMF" (no meaningful figure) if you have omitted required data in any section.

Price Record of the Stock: P/E Ratio

Compare the current price with the "High Price Each Year" column, noting the number of times the current price exceeded a High Price entry.



Next, look at the High and Low Price Earnings Ratios and check the number of times the High Price Earnings Ratio exceeded 20. (NAIC considers the price high any time a stock sells for more than 20 times earnings.)

Finally, we compare the current P/E with the average.

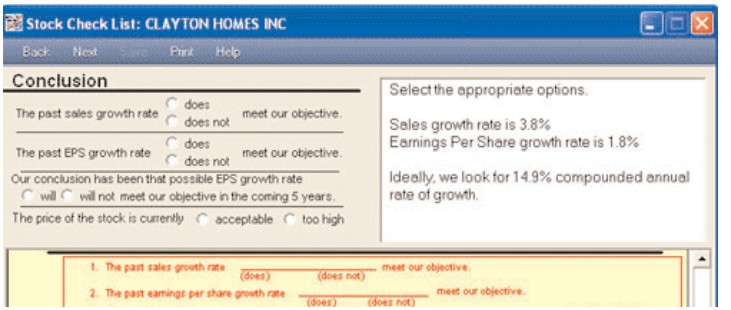
Can we expect the stock to continue to sell at the same multiple of earnings or do we need to adjust it?

Part 4: Conclusion

The Conclusion serves as review and affirmation of our evaluation of the company as a good company and whether it might be a good value at the current price.

Past Sales Growth (does, does not) Meet our Objective?

Our objective is to double our investment every five years. To do this, our investment must grow compounded annually at 14.9% per year. Does past Sales growth meet or exceed this objective?



Past Earnings Per Share Growth (does, does not) Meet our Objective?

Again, to double our investment every five years, our investment must grow at 14.9% per year compounded annually. Does past Earnings Per Share growth meet this objective?

Our Conclusion that EPS (will, will not) meet our objective in the next five years?

Now let's factor in what we've learned from our outside readings. Can the company sustain this growth rate in the foreseeable future? Has management demonstrated they can control costs, introduce new products, develop new markets, and compete with other companies in their industry?

Select whether the **current stock Price is acceptable or too high?**

And, finally, from our analysis of price earnings ratios in **Part 3**, is the stock selling for too high a price? If we divide the current price by the current earnings per share, does this value exceed 20 (P/E)?

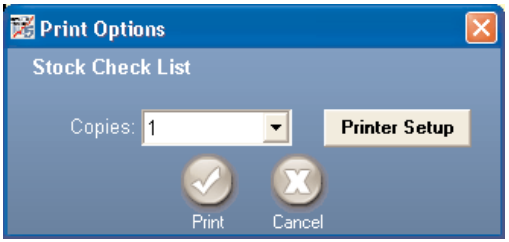
If the growth rates meet our objectives, management appears to be able to continue the growth and the price of the stock is currently acceptable, then we have a potential candidate to buy. It's now time to do a full-fledged **Stock Selection Guide** using the ***Investor's Toolkit.***

Saving the Stock Check List

To save this company **Stock Check List**, click on the **'Save'** button  to save to the ***Toolkit*** **'Stock Library.'**

Printing

To print the **Stock Check List**, click the **"Print"**  button.



NOTE: If the printout cuts off part of the form, adjust the printer margins by selecting **File |Adjust Printer Margins**.

Stock Selection Guide (SSG)

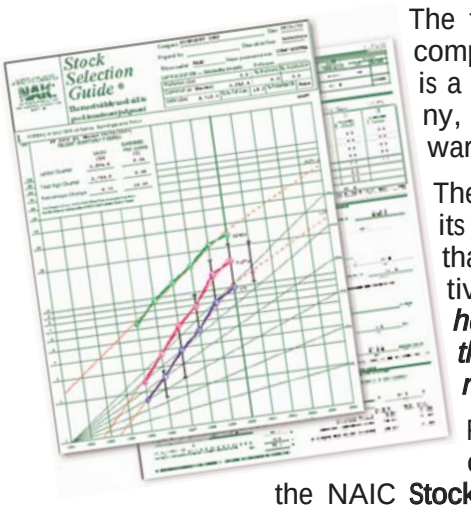
Probably the most interesting and exciting part of the investment process is the evaluation and acquisition of a good portfolio of fine companies.

Doing your "homework" diligently and conservatively is the key to success, and the two tools that NAIC provides to do so are the **Stock Selection Guide** and the **Stock Comparison Guide**. With them, you should be able to pick four winners out of every five stocks selected– assuming that you use these tools conscientiously and conservatively.

Of course, the first step is to prospect for good companies to study. Whatever your source, you should never purchase a stock until you have analyzed it using the **Stock Selection Guide**.

Stock Selection Guide - Purpose

The **Stock Selection Guide** is the keystone of the NAIC investment discipline. It has two purposes:



The first is to determine if the company under consideration is a strong and healthy company, of good enough quality to warrant investment interest.

The second is to determine if its stock is selling at a price that would make it an attractive investment. ***No matter how good the company, if the stock is overpriced, it's not a good investment.***

For a full, official statement of the purpose and use of the NAIC **Stock Selection Guide**, refer to the ***Better Investing Stock Selection Handbook.***

Overview

To satisfy the two purposes described above, the **Stock Selection Guide** is divided into five sections of which the first two deal with the quality issues and the last three with value.

NAIC teaches that two items are sufficient to judge the quality of a company. If they are satisfactory, any other quality measures will usually take care of themselves:

The first is the growth of sales and earnings. These criteria are plotted on a semi-log graph in **Section 1 – Visual Analysis**, where you can see if the growth is stable and strong enough to deserve your interest.

The second is, assuming that the growth is satisfactory, whether management has the capability of sustaining that growth.

Again, there are two questions that need to be answered to determine management's ability. These are dealt with in **Section 2 – Evaluating Management**.

Line 2A displays Pre-tax Profit margins and allows you to see if profit margins are stable, sufficient, and have not been trending down.

Line 2B displays Return on Equity which tells you whether management is able to earn a steady and substantial return on the investors' money.

If– ***and only if***–you determine from the above that the company is a good quality company, then the next issue is the price of its stock. Is it a good value? The objective is to determine if the value of your investment has the potential to double in five years.

Section 3 – Price-Earnings History deals with the historical relationship between earnings and the price of the stock. It calculates historical averages that are used to develop estimates of future price ranges. This section also deals with the company's performance in paying dividends. Remember, your increase in value comes from both appreciation and dividends.

While you assess the historical rates of growth for sales and earnings in Section 1, you also take the opportunity to make a rough estimate of future sales and earnings growth based upon what you learned about the company's history.

In **Section 4 – Evaluating Risk and Reward**, you are now ready to use your evaluation of history and estimates for the future to determine the value of the investment. You have determined from Section 3 what you believe to be the highest P/E and lowest P/Es that investors would be willing to pay for this company's stock. You have also made a conservative forecast of the highest and lowest earnings per share that this company might make, assuming the company operates normally.

Multiplying the highest P/E multiple by the highest forecast earnings and the lowest multiple by the lowest, the program calculates, respectively, the highest and lowest prices the stock might sell for in five years.

This price range, from the highest to the lowest, then permits you to determine:

- how the current price compares with that range
- how the risk you would take compares with the potential reward
- how the Current P/E multiple compares with the average

Finally, **Section 5 – Five Year Potential** looks at the dividend income. It also calculates the possible total return you might expect to receive on your investment.

With the information made available, you should be able to make a sound decision as to whether or not to buy the stock at its current price. You can also find out at what price the stock would become a reasonable buy if it isn't at the moment.

Entering Data

Now that you have an idea where to get company data, you need to learn how to input it into the ***Toolkit***. Data can be entered manually, or it can be imported electronically. This part of the manual will explain both in general terms. You will find detailed instructions for each step of the process in the "**How to"** section.

Manual Data Entry

Manual data entry is somewhat tedious to begin with. But, with a little experience, it will become relatively painless, taking just a few minutes per company.

As we discussed above, the most common sources for data for manual entry are ***Value Line*** and ***Standard and Poor's Report***, both of which are available at most libraries or can be purchased by subscription. You may also obtain data from Internet sources that, while it is not in a format to import electronically, may be printed out and serve as a satisfactory source for manual data entry.

Navigating Data Entry Fields

Click on any space into which you want to input data. Use the **[Tab]** or **[Enter]** keys to move from field to field about the screen. (To move "backwards" on the screen, hold the **[Shift]** key and then use **[Tab]** or **[Enter]**.)

In the **Basic Data** screen, the **[Enter]** and **[Tab]** keys move the cursor the same way. On the **Quarterly** and **Annual Data** screens, the **[Enter]** key moves the cursor vertically down the columns (or up, if you hold the **[Shift]** key), and the **[Tab]** key moves it horizontally to the right (or to the left, if you hold the **[Shift]** key).

The **[Enter]** key is used primarily for original entry in the **Quarterly** and **Annual Data** screens, since it is most convenient to enter all of the data down each column at once. The **[Tab]** key is used most often when updating **Quarterly** or **Annual Data** for an existing company, because the data is moved up to accommodate a new

row of data which is entered horizontally.

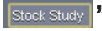
Drop-down lists open with a click on the menu arrow. (See the "Exchange," "Source," and "Month Fiscal Year Ends" fields.)

Enter the appropriate data into each field from ***Value Line, S&P,*** or whatever source you choose. (The green-shaded areas indicate the minimum data elements required by the program to complete a **Stock Selection Guide.)**

NOTE: Context-sensitive **Help** is always available by  clicking on the Help button on whatever screen you are viewing (or you may press the F1 key). Within the help screen that appears, in most cases you will be able to click on the appropriate picture of the screen itself for an explanation.

To help you locate the required data, sample ***Value Line*** and ***S&P reports*** are printed following the "Quarterly and Annual Data" section, highlighting their respective relevant data.

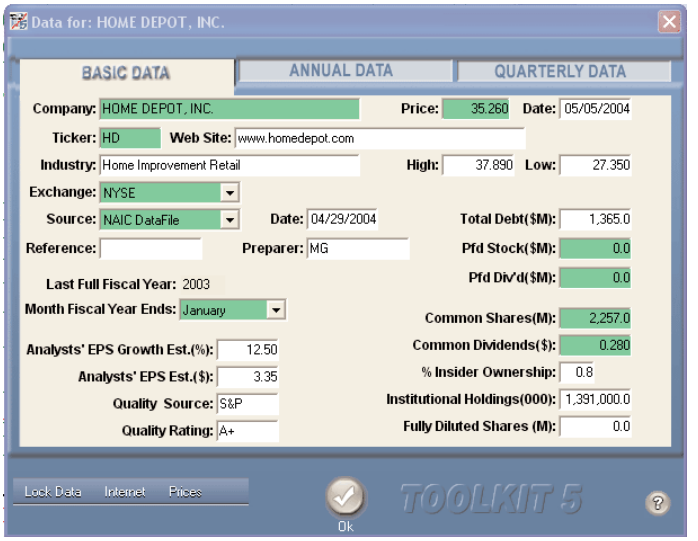
The New Company Data Entry Screen

To input your data, you will need to open a **New Company Data Entry** screen by either clicking on the 

"Stock Study" button on the **Main Toolbar**, or on the 

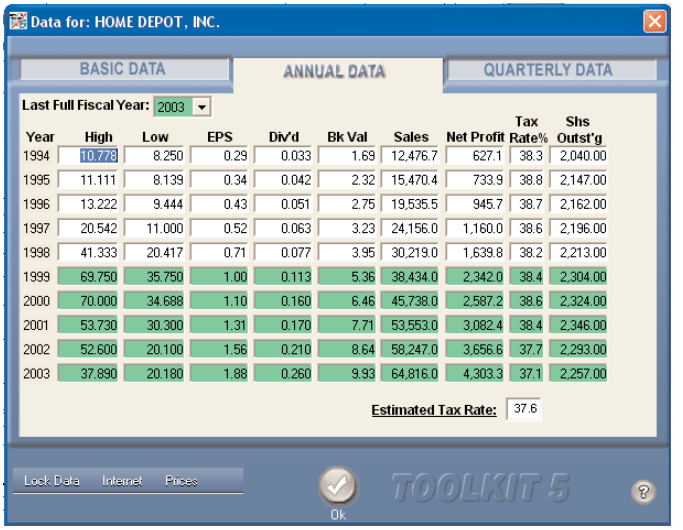
button in your **Stock Library**.

Basic Data Entry Screen



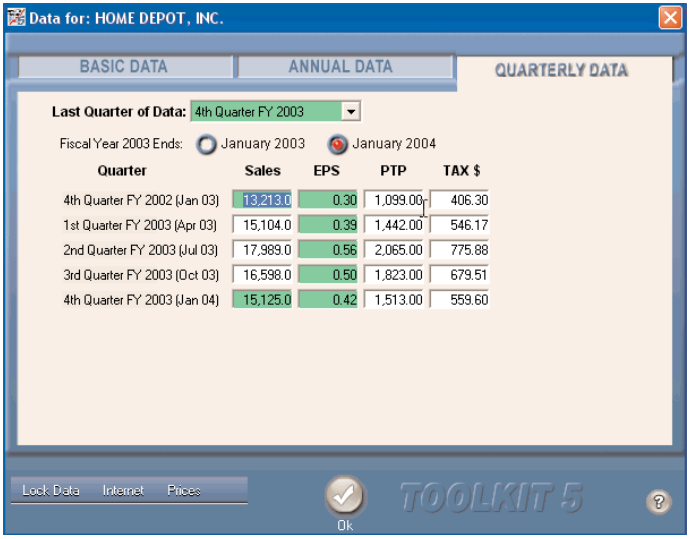
The **Basic Data** screen first opens so you can enter general and capitalization information, including the company's name, industry, capitalization, and other data that seldom change. The green-shaded areas indicate where you must enter data so that ***Toolkit*** can perform the necessary calculations to complete the stock study. To access **Quarterly** and **Annual Data** screens, click on their respective Tabs.

Annual Data Entry Screen



Annual Data entry captures the following data: high and low stock prices, earnings per share, dividends paid, book value, sales, net profit, tax rate (expressed as a percentage), and the average annual number of outstanding shares. You should enter as much data as you have available, with a minimum of five years being sufficient to complete a valid **SSG**.

Quarterly Data Entry Screen



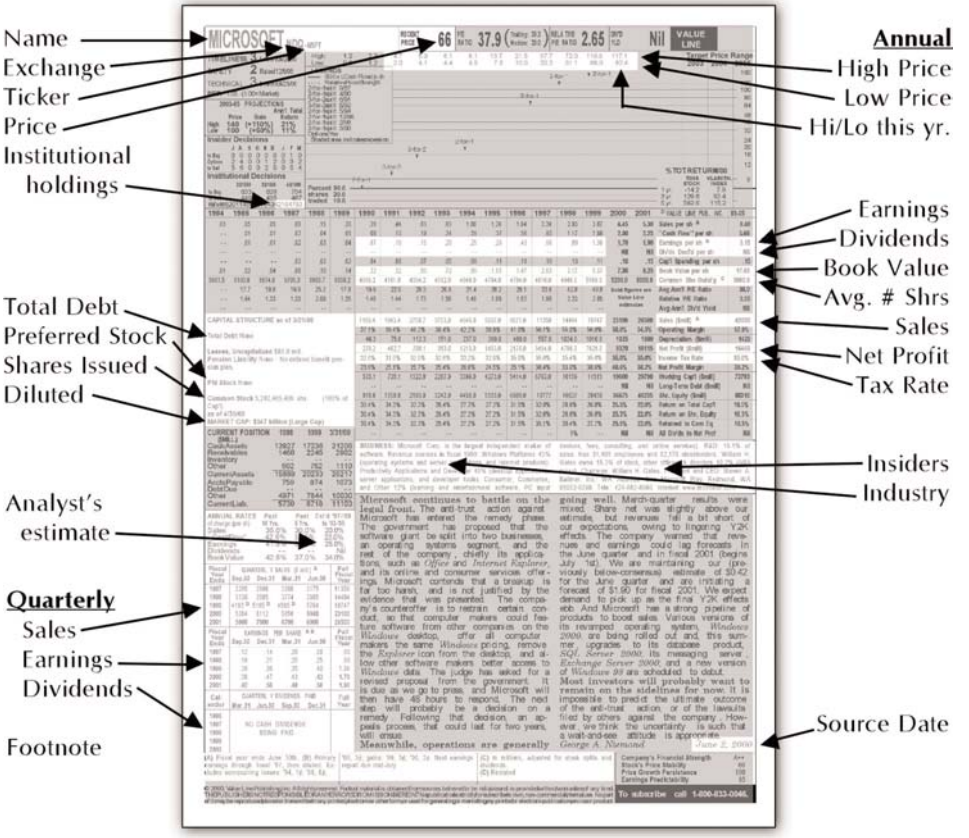
Quarterly Data accepts the reported Sales and Earnings per share (EPS) for five quarters. Pre-tax Profit (PTP) and Taxes may also be entered here (provided those additional fields have been enabled in your **Preferences**).

You will always use the most recently reported five quarters, so the last quarter showing at the bottom must be the most recent quarter for which you have data.

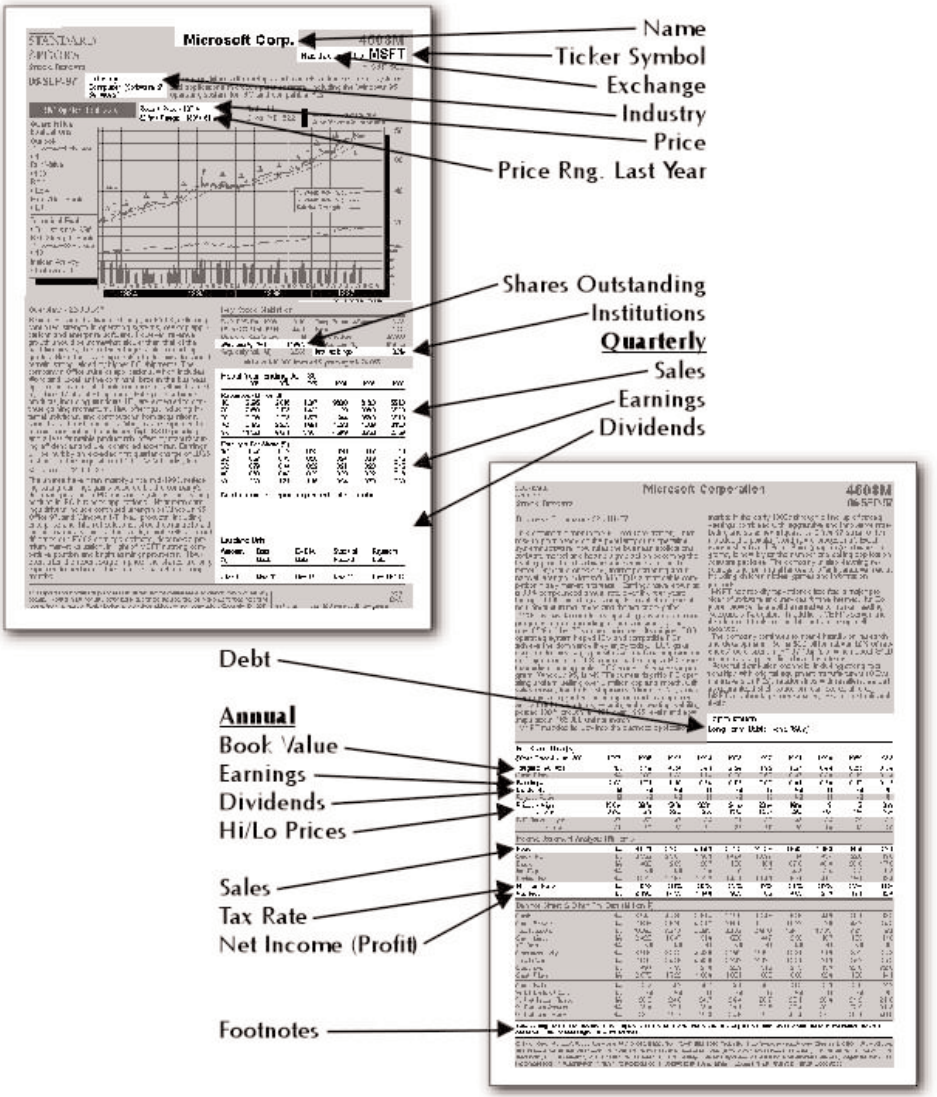
If the last quarter showing is not the most recent data quarter, click in the "Last Quarter of Data" space (or the menu arrow ▼ located there) and select the quarter you wish to add to the screen.

Shown on the next page are the ***Value Line*** and the ***Standard & Poor's*** pages, highlighting the data items that are used to manually complete the ***Investor's Toolkit*** **Stock Selection Guide.**

Value Line


Name
Exchange
Ticker
Price
Institutional holdings
Total Debt
Preferred Stock
Shares Issued
Diluted
Analyst's estimate
Quarterly
Sales
Earnings
Dividends
Footnote
Annual
High Price
Low Price
Hi/Lo this yr.
Earnings
Dividends
Book Value
Avg. # Shrs
Sales
Net Profit
Tax Rate
Insiders
Industry
Source Date

Standard & Poor's



Determining the proper fiscal year . . .

All companies keep annual books, most often divided into quarterly periods. These annual periods are called fiscal years.

Some vary their reporting periods so that they don't end on precisely the same day each year (e.g., companies with 13-week reporting periods). About 40 percent choose fiscal years that don't coincide with the calendar year; i.e., end on other than December 31st.

Because of these variations, determining a company's ending dates for their reporting periods can sometimes be confusing. For example, it is quite possible for one company to end its fiscal year 1999 in June of 1999 and another to end the same fiscal year (1999) in June of 2000!

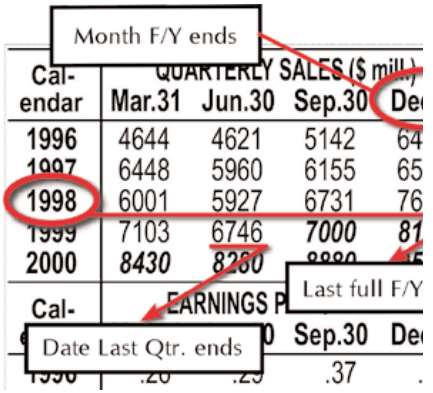
The most important issue is consistency. You will do just fine if you consistently use the same method to determine the fiscal year and quarter ending dates.

. . . from the Value Line Survey

Let's look at ***Value Line*** and see how we can determine the correct dates.

Probably the easiest way to do this is to look at the boxes in the lower left corner of the ***Value Line*** page for Quarterly Sales or Earnings per Share.

Here is an example from ***Value Line's*** report on Microsoft. Note that the Sales and Earnings sections have four columns that are headed with dates. The fourth column heading gives you the month that all fiscal years end for this company. In the example below, Microsoft ends its fiscal year in June.

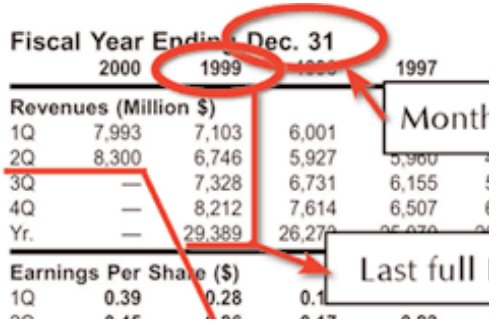


To find out the last fiscal year, you would locate the last row down that has no bold, italicized figures. In this case, it would be the third row of data from the top. This is the row that has four full quarters reported with no estimated data (which would be in italics and bold type). To the left of this row, you will find the fiscal year which, in this case, would be 1999.

Microsoft's fiscal year 1999 therefore ends in June of 1999. The first quarter of FY '00 ends in September of 2000, and so on.

To determine the date of the last reported quarter, you would look for the calendar month for the end of the last reported quarter, which, here, would be March of 2000.

. . . from the Standard & Poor's report



Following is an excerpt from the ***Standard & Poor's*** report on Microsoft. In this example, representing the same date as the ***Value Line*** example above, you will note that we again make use of the quarterly data to determine the date information that we require.

You will find the month that the fiscal year ends at the

top of the quarterly tabulation, labeled as such.

To find the most recent fiscal year, look at the bottom of the Revenues (Sales) tabulation and find the last (left-most) column that has a total for the year. The year label at the top of that column represents the last full fiscal year.

The quarter-ending date will require a little calculation. The first quarter of a new year will be three months after the last quarter of the previous fiscal year. The second will be six months later. The third, nine months following; and, of course, the fourth quarter will end as the fiscal year ends.

Looking at the example above, we note that the third quarter is the most recent quarter. Thus, the month that the last quarter ends will be March–nine months following the closing of the previous fiscal year in June of the previous calendar year. The quarter ending will be the third Quarter 2000 in this example.

Electronic Data

Using electronic data is as simple as typing in the ticker symbol or the name of the company and pressing a button to retrieve the data.

The Toolkit automatically opens the file, extracts the data, closes it, and records the data for your use.

If you have used the Preferences to tell the Toolkit where to find the electronic data files, the importing of data is seamless and speedy.

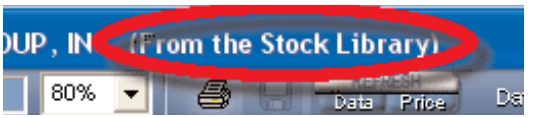
There are two kinds of electronic data. The first consists of data already saved in the Toolkit, i.e., stocks already in your Stock Library. The other is data in one of several data file formats, created expressly for use in the software. These include files with either ".SSG" or ".ITK" file extensions. (File extensions are the last three characters of a file name, separated from the primary name by a period: "ABT.SSG").

Toolkit 5 has made accessing data from your Online



Premium Service (OPS) subscription easy. Type in a ticker symbol or the name of the company you wish to study and then press the retrieve button to import from a selection of over 10,000 companies. Once you save the company it will be saved into your **Stock Library.**

There are a few ways to access companies within your stock library. If you are sure that the company resides in your stock library, simply follow the same steps you did in the previous section, type in the ticker symbol or name of the company that you wish to open. Toolkit will search your Stock library to see if you have previously saved this stock. If you have, Toolkit will open the company with the designation that it was opened from the stock library.

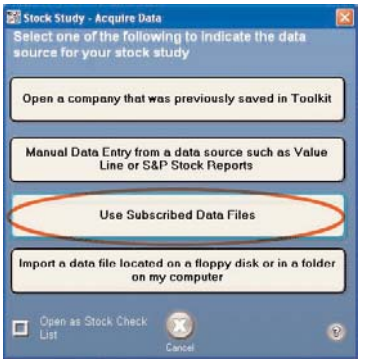


Another way to access a company located in your Stock Library is by clicking on the "Stock Study" button on the Main Toolbar, or from your Stock Library, always accessible by clicking on the LIBRARY button at the left edge of your screen.

As with the manual data entry, the Toolkit makes it easy to access all of these by clicking on the "Stock Study" button on the Main Toolbar. The **Use Subscribed Data** button pertains to importing electronic data:

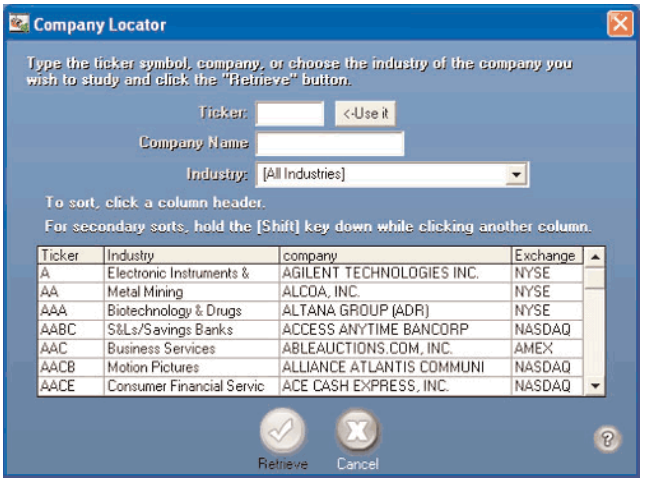
Use Subscribed Data

The **"Use Subscribed Data"** button is used to import **SSG** data files from a paid subscription such as **NAIC's *Online Premium Service (OPS)*** (available from NAIC) or ***AAII*** Stock Investor PRO **SSG** data files. ***Toolkit*** will automatically import the data from the data file location you specified in your **Preferences** >"**File Locations**" screen.



When you click on the **"Use Subscribed Data"** button the **"Company Locator"** screen will open.

Company Locator – If you know the ticker symbol for your company, type it in, click on the "Use It" button (or double-click on the company that will be highlighted)

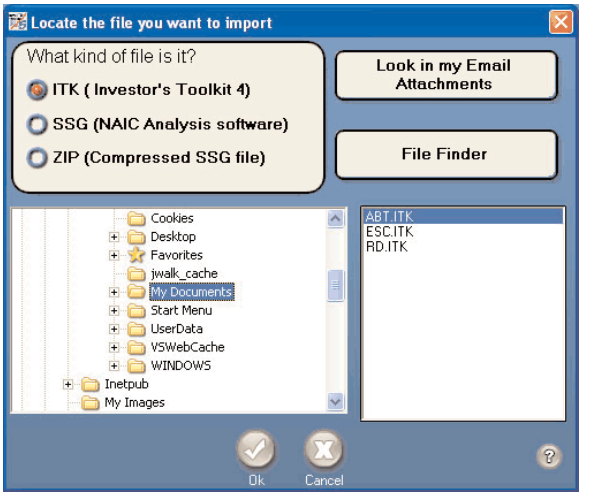


and the Toolkit will import the data to and open the Stock Selection Guide (or Stock Check List, if you are using that form). You may also type the company name or sort by industry to locate a company. The Toolkit has a "type ahead" feature, which automatically sorts the list of companies as you type. Just start typing in the company's

name, or any word in the company's name (or the first letters of the ticker in that space), and Toolkit will sort and reduce the list, as you type, until you locate your company. Once you locate your company, you can import the data to the Stock Selection Guide either by entering the Ticker symbol and clicking on "Use It" or by double-clicking on the highlighted company.

Toolkit also allows you to sort by the different column headings, such as ticker, company, or industry by placing your cursor on the heading (Ticker, Industry, Company, Exchange) and, when your cursor changes to ä, click to sort that field. Once sorted, you can scroll down the list to look for the company. (NOTE: The data files you subscribe to may not include all of the companies listed in the Company Locator database.) After selecting a company, click either "OK" or "Use It" to import the data and open the company's Stock Selection Guide.

Import a data file from a floppy disk or on your computer



Click on the **"Import a data file located on a floppy disk or in a folder on my computer"** button to import either an **ITK** or **SSG** data file for a company. This is normally used when you want to look at a company data file that some-

one either sent you as an e-mail attachment or gave you on a floppy disk.

This opens the "**Locate the file you want to import**" dialog box.

You can search for a specific file in a known location, e.g., your e-mail attachment folder or on a floppy disk; or, if you don't know where the file is located, click on the "**File Finder**" button to search your computer for the file.

NOTE: Most **SSG** files use the company's ticker symbol for the file name. Do not enter file type extension (**ITK**, **SSG**, **ZIP**) after the ticker symbol.

If the search does not locate the file, try selecting a different file type (**ITK**, **SSG**, or **ZIP**).

Tip

To find data files for all companies of the selected file type (ITK, SSG, or ZIP), just enter an asterisk (*) "wildcard" instead of the ticker symbol. The results of the "File Finder" search will appear in the pane below, along with the paths to their locations. Just click on the file to select it and click "Import" to open the Stock Selection Guide.

About "Judgment"

An indispensable ingredient in successful stock evaluation and selection is the application of "judgment." While not nearly so complicated as some would have you believe, this is nonetheless more of an art than a science. It's a personal skill that you will develop and fine tune as you gain experience.

However, don't be intimidated by your lack of experience if you're new at it. In fact, because you're apt to be more conservative than the investor who has been doing it for a while, you could very well have better results.

The best place to begin if you are just starting out is with the ***Better Investing Stock Selection Handbook.*** This will provide you with the basic considerations in the process of applying judgment.

You may gain further knowledge through the educational efforts of the various national, regional, and local volunteer groups of NAIC. And, of course, the best teacher will be your own investment experience.

The essence of judgment, in this context, is the application of the wisdom that you gain about industries, the natures and "personalities" of companies within certain industries–or just in and of themselves–and the significance of the factors that contributed to the history that you are studying. Such items as the extent to which acquisitions–rather than increases in sales–contributed to growth, the extent of past and potential competition, the changes in management, and so on, all contribute to your judgment.

Nor are these at all mysterious. They are all common sense issues that you will simply be more mindful of as you progress.

The approach described below is a very basic approach to help those of you who may be still learning NAIC investing to make the crucial judgment decisions. Each of these suggestions is directed toward the most conserva-

tive action to take on the basis of the numbers and the pictures that you see, alone. You may very well change these steps as you grow in experience and gain confidence.

The Three Levels of Judgment

There are three distinct levels of "judgment":

1) Discounting Irrelevant Data or "Cleaning up" data to be sure that only applicable data is used in assessing historical trends or performance.

2) Estimating future trends or performance based upon the historical assessment.

3) Estimating future price performance based upon those future trends.

Discounting Irrelevant Data

With respect to the relevancy of data, we know that history cannot be denied. What has happened has happened, and the only decision that you can make about an historical event is whether or not it is applicable in your study to influence your vision of the future.

Eliminating "outliers" is your way of discarding irrelevant data to make more useful what you find out about history to guide you with the next step.

Estimating Future Trends

Using your conservative historical trends as starting points, you seek to predict what the future trends in the company's performance might be.

Here again, you will want to be reasonably modest in your view of the future.

Analysts are paid to be accurate. You are rewarded for being right. The more modest your estimates, the more likely you are to be right!

Estimating Future Price Performance

By making careful and conservative estimates of the *company's* performance, you can then forecast, within limits, how the stock's price will perform–and therefore what kind of return you might expect your investment to give you.

We will go into detail in each case where judgment needs to be applied.

Generally, it pays to accept the conservative alternative in all cases when decisions must be made. Lower estimates in projected growth rates will result in less optimistic price predictions. Since NAIC focuses upon investing rather than speculating–and since there are many stocks available that can meet your requirements–it would seem foolish indeed to "fudge" the figures just to justify the purchase of a particular stock.

Opportunities for Judgment

In doing the Stock Selection Guide on the computer

You are *required* to:

- Estimate the future growth rates of sales
- Estimate the future growth rate of earnings
- Estimate the future high and low P/Es used in the calculation of potential high and low prices five years in the future, and
- Estimate (or select) the potential low price five years in the future.

You are ***permitted*** to:

- Eliminate outliers by selecting data that you want to be excluded from the calculations
- Estimate (or select) the highest earnings that you believe the company might achieve over the next five years
- Estimate the lowest earnings that you believe the company might produce

- Estimate the future percent payout (the percentage of earnings that is paid out to stockholders in dividends).

We will discuss these options in the order in which they come up as you go through the **Stock Selection Guide.**

Analyzing the company, step by step

What follows should provide you with all of the basic information necessary to complete the Stock Selection Guide. Experience will add to your judgment skills as will exposure to the experience of others. However, the information below should be sufficient to offer a novice a good foundation on which to build.

If you entered the data manually or imported data for a single company, upon completion of the data entry your company will open to the front page of the SSG.

If you would like to open a company from those located within your **Stock Library** click the **"Stock Study"**  button on the Main Toolbar. In the **"Stock Study - Acquire Data"** box click the **"Open a company that was previously saved in Toolkit"** button. You can now select from any of the companies that are displayed and press the **OK** button to open the company.

The company opens to the front page of the Stock Selection Guide. If you have selected to **Show Trend Line Options** within Preferences you will have colored highlights around some of the areas on the form. The **green** boxes indicate where **you *must* do something**, the **yellow** boxes indicate where **you *may***, and the **magenta** boxes point out areas where a "**closer look**"–such as a helpful graph–is available. As you move your cursor around the form, if you pause it for a moment, a little pop-up box will tell you where you are and what you are supposed to do.

You will find that the program has filled in all of the heading data. It has calculated the quarterly comparisons of sales and earnings. It has plotted all of the data points

and drawn the lines connecting them. The program has plotted both of the trend lines for both sales and earnings, and, at the bottom of the page, it has entered the historical growth rates of sales and earnings represented by those trend lines. It has also calculated pre-tax profits and plotted them for you.



You may identify the plots of sales, earnings, and pre-tax profits by the little circles containing "s," "e," and "p," respectively.

It has plotted the annual high and low prices and the high and low prices for the current year as well as the current price (a short horizontal red line in the current year's price bar).

You will also find all of the data that is not dependent upon your application of judgment filled in on the back of the form.

Adjusting the size of the form

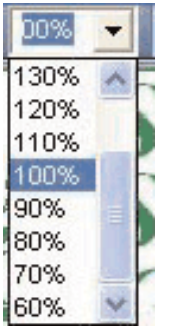
The first thing that you will wish to do, if this is your first **Stock Selection Guide**, is to adjust the size of the form on your screen to suit your needs. Since we have reproduced the forms exactly, you may or may not wish to be able to see the entire form at once. Changing the size to suit you represents a tradeoff between having the form small enough to see enough of it on the screen and having it large enough to read the information on the form.

Only you can decide how large or small you want to make each view. Whatever you decide and do, each individual view will remain at that setting until you decide to change it. You may have different sizes for the front and back of each form, for instance, and the program will "remember" how you set each for the next time.

To do this, choose the  icon on the Toolbar.

This takes you directly to the "**Select Zoom Percent**" dialog box. Here, you may either click on the Down Arrow to select a percentage or enter your own choice of

enlargement or reduction percentage.



The default value is 94%, which will usually fill your screen from side to side and make it necessary to scroll only vertically. This is the best size for reading the text and numbers on the form.

The Header

The first item is an "inspection" item. In the header information in the upper right hand corner of the page, in addition to the company name and other identifying items, you will find some data that may be of interest and bears some scrutiny.

It's a good idea to note how much ownership both **insiders** and **institutions** have in the company. While there are certainly exceptions, in general, insider ownership is "good," institutional ownership is "bad." Substantial insider ownership indicates that those who make the decisions are making them in their own interests as well as yours. Substantial institutional ownership (50% or more), on the other hand, puts the individual stockholder at a disadvantage because institutions are typically fickle and will desert the holding, driving the price down when you least expect it.

Company MICROSOFT CORP Date 08/15/00

Prepared by SAMPLE Data taken from NAIC Data

Where traded NASDAQ Major product/service Computers S

CAPITALIZATION — Outstanding Amounts Reference

Preferred ($M)	0.0		% Insiders	% Institution	
Common (M Shares)	5,242.0		0.0	0.0	
Debt ($M)	0.0	% to Tot.Cap.	0.0	% Potential Dil.	None

Expressed as a percentage, the debt-to-capital ratio is an indication of how much of the company's capital is in a form that makes the company vulnerable should times turn bad. In most cases, we hope to see something less than 33% here, since a company with two-thirds or more of its capitalization in common stock is in a great position to weather a slump. That's because it doesn't have to make large, regular payments of principal and interest to its common stockholders as it does to those who carry its debt.

The significance of this ratio will vary with the type of

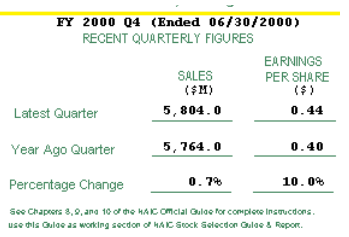
company. Companies that trade on debt are in a different set of circumstances. Financial institutions, insurance companies, and utilities aren't subject to the same rules of thumb as are manufacturers, retailers, or service providers.

The long and the short of it is that the debt-to-capital ratio should not be a disqualifier if the company has a strong track record of sales and earnings performance, since its management obviously knows how to make good use of its debt.

Recent Performance

The **Stock Selection Guide** is a "progressive" form, meaning that you never continue with the next step until you are satisfied with the preceding one.

The first place you might find that the company disqualifies itself from further consideration is in the quarterly performance section in the upper left hand corner of the graph.



FY 2000 Q4 (Ended 06/30/2000)
RECENT QUARTERLY FIGURES

	SALES ($M)	EARNINGS PER SHARE ($)
Latest Quarter	5,804.0	0.44
Year Ago Quarter	5,764.0	0.40
Percentage Change	0.7%	10.0%

See Chapters 8, 9, and 10 of the NAIC Official Guide for complete instructions.
Use this Guide as working section of NAIC Stock Selection Guide & Report.

Here the form compares the sales and earnings figures of the most recently completed quarter to the same quarter a year ago.

While one quarter does not in itself make a case for abandoning the study, a negative or severely disappointing quarter will certainly raise the question, "why?"

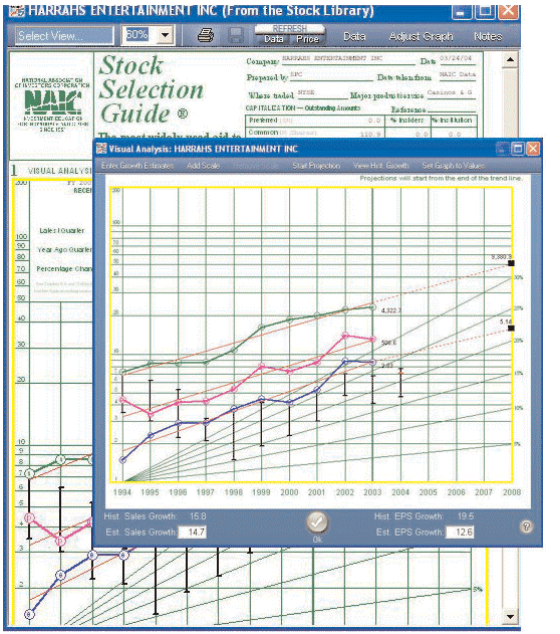
If the reason for the poor performance is transient and arguably non-recurring in nature, you would probably continue with your work. If, however, you find in the quarterly data entry screen that this is the second or third such quarter, and/or the reason could be characterized as a long-term problem, you would probably want to look for another company to study.

Section 1 - Visual Analysis

The Investor's Toolkit has sought to replicate exactly the familiar printed forms that NAIC offers. This has presented a technical drawback in that it is difficult for users to see the entire graph, in detail, when it appears on the screen.

This version of the Investor's Toolkit has overcome that problem by allowing you to magnify the image of the graph itself and providing you with all of the controls you need to adjust the graph.

To access this screen to adjust the graph, simply click anywhere within the graph area, or click the "Adjust Graph"  button. Your screen will display a graph on top of the one you just clicked on that will allow you to move the lines and eliminate outliers.



Navigation

At the top of the graph is a **Toolbar**, which allows further adjustments to the graph.



Est. Growth: Opens a screen where you can enter your judgment for the percentage Estimated Future Sales Growth and Estimated Future Earnings Growth. You may also access the **Preferred Procedure** to further fine-tune your estimates.

Add Scale: Adds horizontal scale lines (10 lines) to the semi-logarithmic graph to help you adjust the growth lines.

Remove Scale: Removes horizontal scale lines (10 lines) from the semi-logarithmic graph to help you adjust the growth lines.

Historical Growth: Opens a historical growth profile window displaying the historical growth rates in both a graph and a table, along with a description box.

Start Projection: Allows you to select where you want your five-year projection line to start from: Annual data from the last fiscal year; the Quarterly data from the most recent quarter; or the end of the Trend line. Since this is an "Advanced," feature it will be shown only if you made a selection within the section labeled "**Start Future Projection From:**" within **Preferences**.

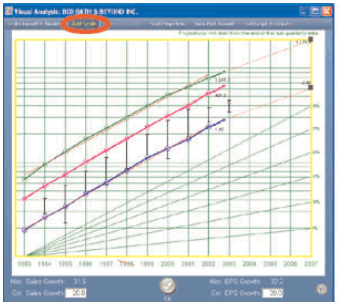
At the bottom of the Toolbar is an "**OK**" button to return to the full **SSG**, and a question mark for help.

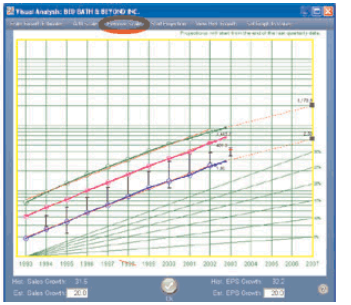
Along the bottom of the graph are your year labels and four data fields representing the historical sales growth, historical earnings growth, the estimated (future) sales growth, and the estimated (future) earnings growth.



Sufficient Scales to plot the data

First, look at the chart. Are all of the plotted lines visible in their entirety? Do any of them go off the chart at the bottom or top? With some rapidly growing companies, there are not enough decades (scales of ten) because the data started so low and have grown so rapidly.





You may add additional scales to accommodate the growth by clicking on the **Add Scale** button. Clicking on the **Remove Scale** button will remove the extra scales if you have more than you need.

Adjusting your Graph

Notice that the graph lines are color-coded:

- Green for sales
- Magenta for pre-tax profits
- Blue for earnings
- Black for the price bars

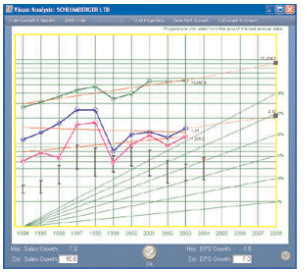
Position of the Lines

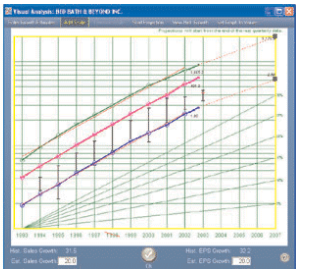
Now that the data fits on the graph, inspect the plotted data. Many folks like to have the Sales data at the top and the Earnings at the bottom.If the plotted line is not where you want it, you may easily change its location. Pass your cursor over the line you wish to move. When an up/down arrow () appears, it indicates that you are able to move the line. Click on it and drag it to the desired position.

There is no need to try to interpret the value from the scale on the side of the chart. Simply rest your cursor over the plotted point and read the actual data.

Stability

When your chart appears the way you want it, you are ready to go to work. It is at this point that you should take a good look at the graph. Your first interest is in its general appearance–specifically you are interested in two attributes of growth: stability and strength.





Do you see relatively straight lines, or do you have "saw teeth"–jagged ups and downs–that show a chaotic history? The ideal is a company that displays "monotonous excellence" as it has grown steadily and substantially, especially in its recent history (for at least the last five years).

In just a glance, can you not tell which of these companies is likely to be the better investment?

The one on the left, while a strong, blue chip company, is far less attractive than the company on the right. The instability and the "flatness" of the Sales and Earnings trends are giveaways.

If you can tell the difference between a straight and a crooked line, and one that slopes up rather than down, you can tell most of what you need to know about a company's quality.

While you won't always see companies like Microsoft, Abbott Labs (ABT) or Bed Bath and Beyond (BBBY) on your screens, the closer we can come to today's classic

ideals, the better off we are.

Your end results are based on a degree of predictability over the long term, and companies that display extreme variations in performance are certainly not predictable at all.

If the company has had one or two deficit years in the last five years, you should probably look for greener pastures.

Eliminating Outliers with the Toolkit

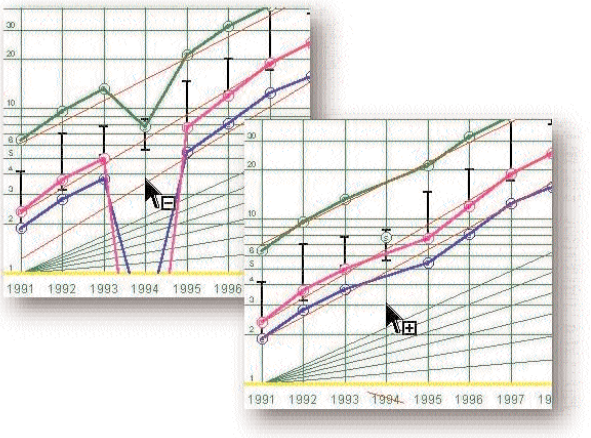
Throughout your analysis, you will study history to help you predict the future. While you can't alter what has actually happened in the past, you can decide if everything that has happened is applicable to the future, and, if not, eliminate that selected data from consideration.

When the ***Investor's Toolkit*** plots the annual Sales and Earnings points and draws the lines to connect them, short of actually changing the data, you can't do much to change the way the lines are plotted.

However, the trend lines (the straight, red lines) are drawn to "fit" that data, which means that they are placed with mathematical precision in a unique position that is the closest to all of the data points plotted. (**NOTE**: For the math major, the calculation is a least squares, exponential regression analysis of those points.)

There is little opportunity to change the way the trend lines are drawn because the computer eliminates the guesswork. There are, however, some changes you can make that will affect how that data is used.

As you look at the graph, you may find some years where the data is noticeably out of step with the other years. Should one or more of those years reflect irrelevant or unacceptable data–some non-recurring event or "outlier"–you may want to eliminate that data from consideration when the trend line is drawn.



With a simple mouse-click, you can remove such a point or points from the data and let the trend line be drawn closest to those remaining. This is your first chance to apply judgment as you look at the front of the **Stock Selection Guide** and do your visual analysis.

You will notice that, as you move your cursor in the vicinity of the line representing that year, or around the point that you want to get rid of, it changes shape. The minus sign (-) indicates that something can be taken away; the plus (+) indicates that something may be added (back). (See the illustration.) If, at this point, you click your mouse, the data for that year will be removed from the calculation of the trend line, and the year at the base of the graph will immediately be crossed out with a red line to indicate that the data for that year has been eliminated.

As you do this, you will see also that the "Historical Growth Rates" of both Sales and Earnings change to reflect the change in the trends as they are recalculated and the trend lines are redrawn. The lines connecting the plotted data bypass the points for the years that have been eliminated; however, the points, themselves, remain visible because it is useful to see the actual data and understand why the "outlier" was eliminated.

When your cursor passes over a point for which the data has already been eliminated, the character in the box on the cursor changes to a plus (+) sign. This indicates that you may add back the data to "un-eliminate" it in the same fashion as you eliminated it.

You will also notice, when you rest your cursor on a data point, that an information Pop-up box appears with the annual figure for that point, for either Sales, Pre-Tax Profit, EPS, and Price (High and Low).

Non-recurring events

In some cases, you will find one or two years when the sales–or, more likely, earnings–will show a severe dip. They may have broken through the bottom of the graph.

You might choose to eliminate some of the early years of an emerging company when it operated at a deficit because, once it began to make money, it had a consistent record of healthy earnings growth. (Trend lines drawn with data that commences from too low a point in the early years produce much too steep a growth rate.)

Suppose a company had, in one year, written off a huge expense that had long been accumulating, unreported. It is probably a non-recurring item. That event will not be repeated in the normal course of business–at least not for a very long time (we would hope). We would probably want to ignore that event in using the historical data to predict the future. This information can distort the assessment of the historical growth trends in Section 1 of the **SSG**, or it can impact our trends in profit margins or return on equity in **Section 2**.

If the event occurred during the last five years, it can grossly distort our high and low P/E's in Section 3 which will, in most cases, create an overly optimistic picture of the potential high or low price when we get to Section 4. When we discuss these sections below, we'll look at the opportunities for eliminating the appropriate outliers to overcome these problems.

For now, eliminating the early bad years will help to give

more weight to the recent performance, and you will notice that the historical growth rates at the bottom of the page will decrease to a more conservative figure.

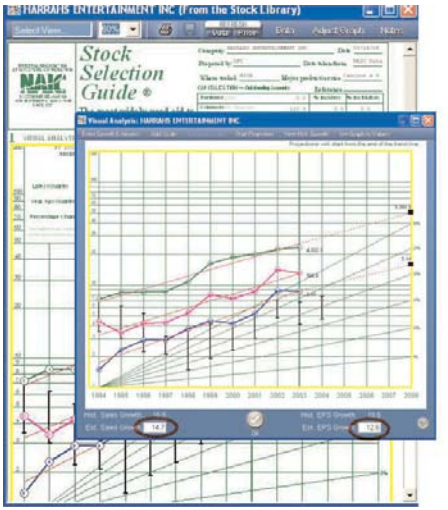
Eliminating Data for Information

Maybe you want to examine the growth rate between specific years. For example, if the company is a cyclical company, you may want to find out the historical growth rate between "peaks." You could then eliminate the "outliers" represented by the years between the "peaks"—just long enough to determine the growth rate—and then restore the data. It's very simple with the Investor's Toolkit.

Another circumstance is the case of a company whose growth has been meteoric, but has been slowing over the course of the past ten years—perhaps from an average annual earnings growth of 45% down to a more modest 30%.

Its plotted data looks like a bow (see the graph below on the left). And the ten-year trend line that describes the average growth looks like a string on that bow.

You are going to use the information that you gain to make a reasonable estimate of growth for the next five years. It's obvious, just from inspecting the plotted data and the trend line, that the ten-year average growth they describe is considerably higher than you can reasonably expect it to be in the future. Since you can see that the growth has continuously eased off each year, you would probably want to eliminate all but the most recent two or three, just to find out what the most recent growth has been. That new historical growth figure would then be the maximum you would use as a starting point for your estimate of future growth.

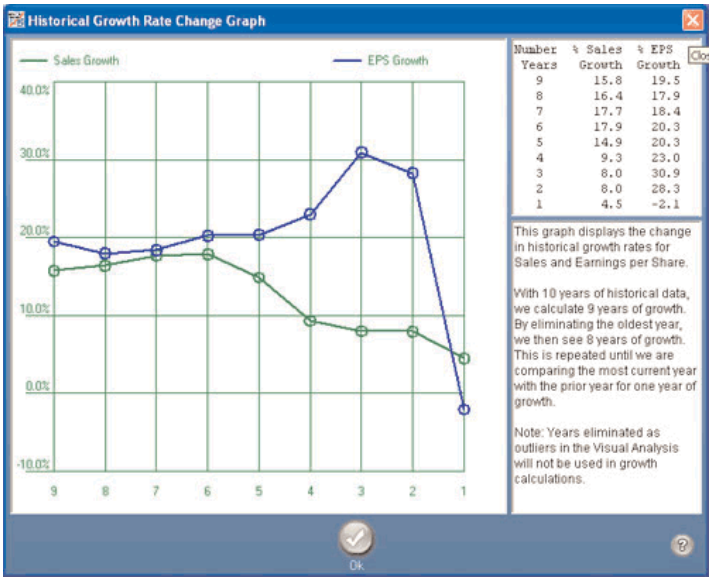


The main point here is that you learn from history to estimate the future. And, you use only the data that is relevant.

As a conservative rule of thumb, when you eliminate outliers in this section, you should be suspicious of any deletion that ***increases*** the historical growth rate. A corollary is to strive (within reason) to better "fit" the trend line to the data by eliminating the outliers that ***decrease*** the historical growth rate.

Historical Growth Rate Change Graph

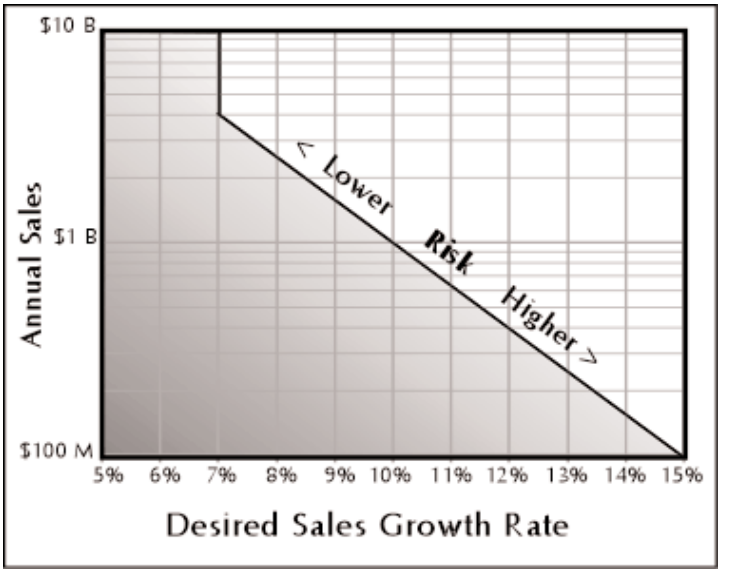
The **Historical Growth Rate Change Graph** is important because it displays the change in historical growth rates for Sales and Earnings per Share (EPS). To open it, click on the "**Historical Growth**" button.



This graph will clearly show you if there has been a change in the growth rate of either Sales or EPS; it provides a visual representation of the table in the top-right corner. Often, the lines on the **Visual Analysis** graph will appear fairly straight, which can mask changes in Sales or EPS growth. But just a quick look at the **Historical Growth** graph will show you the real story, and maybe make you take a closer look at this company.

Growth

Next we want to look at the historical sales and earnings growth appearing in the spaces at the bottom of the graph. These numbers reflect the compounded annual growth rate for the plotted data. In analyzing the estimates of future growth, you want to be certain a company is growing at a rate that is sufficient for its size. You can use the following chart as a rough guide for the growth you should require for the size of the company. Remember that the smaller the company, the greater the risk and, therefore, the higher the growth needed to offset it.

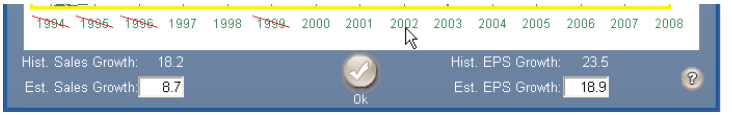


Suffice it to say, if the historical growth rates at the bottom of the page are sufficient to warrant your continued interest, you will continue with your stock study.

Estimate Sales and Earnings Growth

You have now taken a good look at the lines and trend lines. If necessary, you modified your historical growth rates of sales and earnings by eliminating the irrelevant data. Assuming that your company has passed the test of sufficient and stable growth, your next task is to estimate the future growth and to enter those estimates in the appropriate spaces at the bottom of the page. This will be your first step in preparing for the value assessment of the company's stock.

You will notice, if you have opted to enable "**Active Area Highlighting**" in Preferences, the spaces at the bottom of the form where you are to input your growth rate estimates are surrounded by green boxes, indicating that these spaces require you to enter something.



When you click on either space (or green box) or the **Est. Growth** button, you will activate a dialog box that invites you to enter your estimate for future Sales and Earnings (EPS) growth.



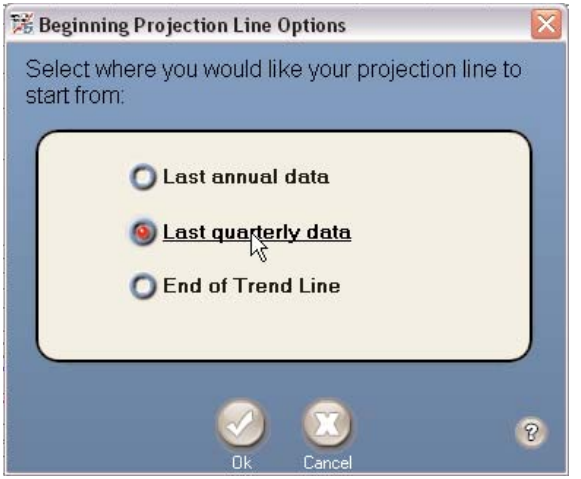
Advanced option

Before you estimate your growth rates, you can make another decision that affects the issue of projecting growth. This is the option to project your growth from one of three different points:

1) the most recent fiscal year annual data point
2) the most recent quarterly data, or
3) the end of the trend line.

ADVANCED

To do so, you will first need to make a selection within the section labeled "Start Future Projection From:" within Preferences which permits you to select the starting point you would prefer the program to default to. The Toolkit then provides radio buttons in the Visual Analysis screen to change it from the default setting to one you may think more appropriate for that particular stock study.



The first option, projecting from the most recent annual data, is the default setting, since most people figure on projecting out for the next five fiscal years. Analysts' estimates are most often based upon those figures.

The second option considers that the quarterly data is already reported and projections should make use of the most up-to-date data.

The third assumes that the trend line is the "norm" and the actual data points are "deviations from the norm." The rationale here is that a projection from the end of the trend line will likely be closer to the norm in the future and deviation would be minimized.

On occasions when you've determined that the most recent year's poor performance should be eliminated as a non-recurring event–and you had better have a good reason for this–you will need to select either the trend line terminus or the most recent quarter to start your projection. Otherwise, you may not even have a place to start from.

Sales - Estimated Future Growth Rate



When considering the growth of sales, keep in mind that as a company continues to grow it becomes more and more difficult to maintain the same growth rate. It is far simpler for a company that has sold $100 million in one year to sell an additional $15 million the following year than it is for a company that has sold $2 billion to sell an additional $300 million to achieve 15% growth. As a company becomes successful and large, it is natural for its growth to taper off.

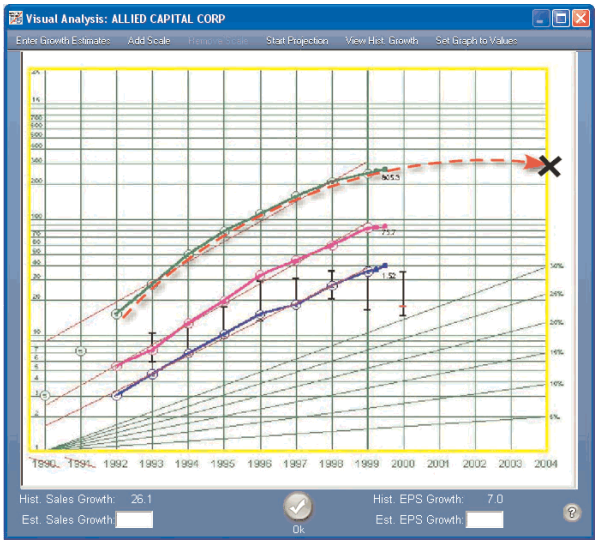
There are, after all, only so many ways a company can increase revenues: it may increase sales of its established product lines or services using the existing facilities or resources; it may increase the variety of products or services it sells; it may increase the facilities or resources through which it sells its products or services; or it may raise prices. Successful companies–the ones that we wish to study and invest in–are those that do any and all of these aggressively.

Conversely, there are a great many things that can reduce a company's revenue growth: increased competition, failure to support adequate research and development, insufficient cash or credit to make acquisitions or to expand, or simply a complacent management.

Determine whether there is any reason to believe that sales will grow at a rate lower than its historical growth rate. If you believe that increased competition or some other factor may tend to slow the growth rate of sales, by all means, err on the conservative side and decrease your estimate for future sales growth. If not, then you may feel justified in continuing it at close to the same rate.

Don't expect companies to grow at the same rate in the future as they have in the past. In most cases, you should deduct a percent or two from the historical growth, assuming no other factors call for further reduction.

A further consideration is the fact that the less stable and steady the historical growth has been, the less predictable it will be. You may want to deduct yet another percent or two from your estimates if the growth has been at all erratic.



If, as depicted above, the growth describes a "trajectory" or bow, as many companies do in their early years when their uncommon growth starts to slow down, you might mentally draw a curve for the next five years that follows the curve for the first five or ten. See where that curve would cross the right margin, and don't let your future growth projection cross that margin any higher than that.

Many of these considerations also affect your estimate of earnings growth.

Earnings - Estimated Future Growth Rate

There are many, many more factors that can impact the growth rate of earnings: flattening revenue growth, to begin with; the cost of materials and processes that are required to produce the product or service; fixed costs such as administrative payroll, the cost of operating the company jet, the interest paid on debt, the cost of main-

taining the office buildings or plant, taxes, insurance; a change in the number of shares among which the company's profit is distributed. All of these factors, and many more, determine what a share of stock earns.

Management's skill in handling all of these variables is a major factor in determining how much earnings growth a company will be able to sustain.

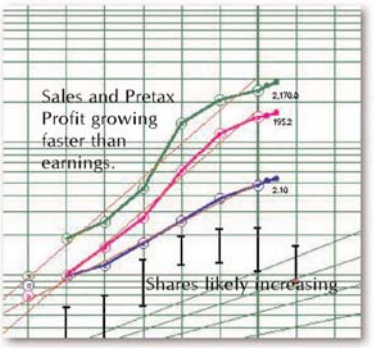
Because the ***Investor's Toolkit*** has plotted the pre-tax profit for you, it's easy to see graphically some of the most important factors that might influence your decision.

Is the pre-tax profit line growing at a faster clip than sales? If so, the trend in profit margins is rising and that's a good sign. The converse is not so good.

If the relationship between the pre-tax profit line and the earnings line is diverging or converging, you know that the company's shares outstanding or its tax rate is influencing its bottom line.

For example if, as above, sales are growing faster than earnings, it's helpful to see that the pre-tax profit line more-or-less parallels the sales line. This suggests that the profit margins are stable and that the cause is probably an increase in shares outstanding. This pattern is likely to occur as a company issues shares to acquire other companies.

Or, perhaps the tax rate has punished management by allowing less to go to the bottom line than would otherwise show up there. Of course, the information about tax rates and shares outstanding is easily found in the **Annual Data** section of the company's **Data** screen.



NAIC recommends that, save for rare exceptions, you should estimate earnings to grow no faster than sales. This is because the factors that

would permit this kind of performance can't keep up very long. Obviously, earnings can't keep growing at a faster rate than sales without implying that profits can exceed revenues!

Some industries seem to have invented "perpetual motion." The drug companies, for a long time, seemed to have found a formula by which the write off of research and development expense, and the ability to constantly raise the prices of proprietary products, appeared to grant them dispensation to continually produce earnings growth in excess of sales growth.

To be sure, this is the exception not the rule, and conservative investors, in such cases, might choose to limit the amount by which they let their estimate of earnings growth exceed that of sales to some consistent percentage of the difference (50%, for example). Thus, if sales for the past ten years had been growing at 10%, and earnings at 15%, they might then cap earnings growth at 12.5% for the next 5 years—if they were going to insist on forecasting earnings to grow faster than sales at all.

If you have imported your data electronically, an "Analysts' EPS Growth Rate Estimate" may be displayed in the dialog box. This represents the average annual growth rate expected for earnings over the next five years by analysts following the stock. In general, analysts tend to be optimistic. You might do well, at least in the beginning, to keep your estimates below those of the professionals.

In any event, when you have decided on a growth rate for sales and earnings, enter your estimate for sales and EPS growth in the dialog box provided.

Your estimates will appear in the proper spaces at the bottom of the form, and dotted lines will appear on the graph, depicting projected sales and earnings growth for the next five years along with the actual figures for those projections.

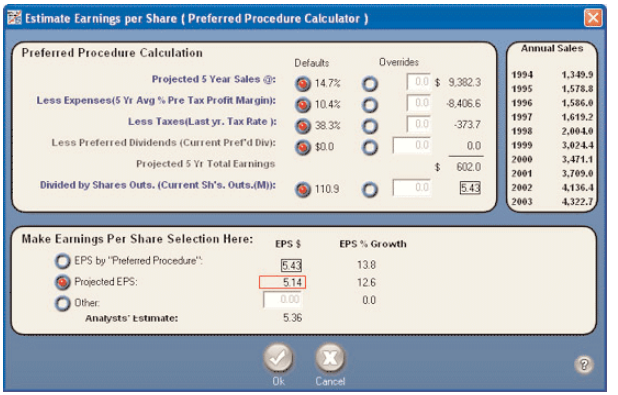
Preferred Procedure

Below the space for the entry of your growth estimates is a bar marked **"Preferred Procedure."** Briefly, the Preferred Procedure develops earnings per share by looking at sales rather than historical earnings growth, because sales growth, over time, tends to be more consistent and stable.

Advanced Option



If you are a novice, we suggest that you skip the Preferred Procedure until you become comfortable with the process without it. NAIC investors have been doing a wonderful job for years without ever using it, so there's no reason to think you can't do so to start.



Here's the rationale behind the Preferred Procedure. It's all well and good to estimate your earnings growth for the next five years and, with that, project your earnings five years into the future. However, revenues typically show more stability and are more apt to follow projections than are earnings. After all, earnings are derived from revenues– only after deducting costs, taxes and preferred dividends, which can vary.

The Preferred Procedure starts with your estimated sales growth and your projection of actual sales five years in the future. From this figure, the average expenses are

deducted; next, the taxes, then the dividends paid to preferred stockholders (if any). Finally, the result is divided by the number of shares outstanding to calculate your earnings per share.

This is the way companies do business. And, it therefore is the strength of this method. Its weakness is that while sales are the most predictable of statistics, all of the others are not. As a result, there are many more variables to be wrong about than if you were to simply forecast earnings growth.



The best use of the Preferred Procedure is as a corroborative tool— a "second opinion" as to what future earnings might be.

Since we need to be as "accurate" as possible when forecasting future earnings, it's useful to have this second opinion and the opportunity it gives you to consider additional judgments.

The dialog box you encounter when you click on the "Preferred Procedure" bar may seem complicated, but it's really not.

The top portion of the dialog simply lists the various components of the process that we mentioned above. The figures to the right of the radio buttons represent the numbers either entered or estimated— or those that were calculated from those numbers.

The results are displayed to the right of the entry boxes. Selecting one of the boxes will alter the figures on the basis of which the results were calculated.

When you do enter a check in the check box, a table will appear on the right that gives you all of the historical data available about the specific item so that you may make an intelligent decision as to what changes, if any, you may wish to make. For example, the second item is the profit margin, which is used to calculate expenses. The figure that the program has used is the average profit margin over the past five years. To determine the company's expenses, the program has calculated the profit by multi-

plying the profit margin by the sales figure. Since the expense is everything that isn't profit, the profit is subtracted from sales to provide the figure for expenses. Looking at the historical data, you may be convinced that increasing profit margins might prevail and you might expect that, in the next five years, the profit margin will be greater than the historical five-year average. Entering your higher estimate of the profit margin in the space provided will raise the value of the "Earnings by Preferred Procedure" calculation, accordingly. After you are satisfied with the components of the preferred procedure, you should compare the result with the projection of earnings already calculated to see if your own projection is reasonable or to consider changing your future earnings estimate.

If you are using electronic data files, you may find a figure labeled "Analysts' Estimate" at the bottom of the dialog box. This figure is calculated using the "Analysts' EPS Growth Rate Estimate" to compound their estimate of the current fiscal year's earnings for four more years. If you are not using electronic data files, the figure there will be that which you entered on the data screen.

Again, before yielding to the temptation to simply plug in that figure, bear in mind that the professionals are judged by their accuracy. This means that they have an incentive to neither understate nor overstate the figure.

However, you have an incentive to err on the conservative side. The more conservative you are, the more likely you are to be right! And the only track record you need think about is your portfolio's performance!

In any event, you may accept the "Projected EPS" from your growth estimate, select the "EPS by Preferred Procedure," or select "Other" and enter an earnings figure of your own choosing.

You may prefer using the Value Line's estimate of earnings, which is found in the right hand column of the Value Line page. (NOTE: This figure is actually an estimate of average earnings for the fourth-, fifth- and sixth-

year out and may be a little "aggressive.") To do so, click on "Other" and enter your earnings estimate in the "Other" space. As it does when you select "EPS by Preferred Procedure," any time you select any other figure than the "Projected EPS":



1) *a new estimated future earnings per share growth rate will be calculated on the basis of earnings growing to achieve the new figure*

2) *a new line will be drawn representing that growth rate*

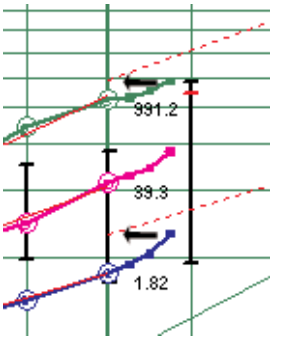
3) *the new E/S figure will appear on the right hand margin of the graph.*

In this fashion, you will be able to "interactively" estimate a growth rate by working backward from an educated estimate of future earnings.

You will have yet another opportunity to revisit the Preferred Procedure as you "fine tune" your forecast of the potential high price on the back of the form.

At this point, you will have completed the front side of the Stock Selection Guide with your estimates of growth. If the company's historical sales and earnings appear to be strong and steady, and look to remain so in the future, you next need to evaluate the company's management and their ability to sustain this growth.

NOTE: When starting your projections from the latest Quarter, Toolkit 5 now moves the starting point and the entire projected line to the left, parallel to the plot for the most recent quarter to avoid extending the projection out into the right margin.This permits the entire five year growth to remain on the chart.



Section 2 - Evaluating Management

The next point of analysis is **Section 2 - Evaluating Management**. This is not a computer issue, but it is certainly a critical investment issue.

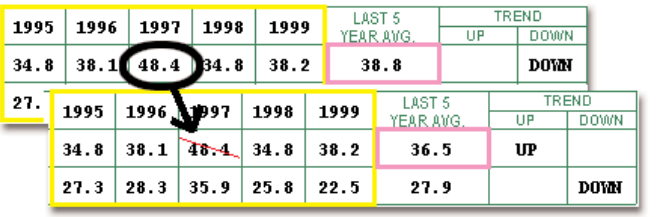
It is at this point that you must decide whether the company is a "good" one or not. You have presumably decided that the company's track record of growth and earnings has been sufficiently stable and strong to warrant your consideration or you would have already abandoned the study.

This is the place where you assess the management team's capability to sustain that growth. ***This is one of the most important judgments you will make.*** Why? Because, if you're wrong, you may be "seduced" into thinking that the stock is a great value when, in reality, the stock is selling at a low price for a very good reason.

We cannot stress this point enough: **The worse a company performs, the better a value it will *appear* to be.**

Before you look at the averages and the trends, look at the data, especially for the most recent five years. How do the profit margins (% Pre-tax Profit on Sales) look to you? Are they fairly stable over the whole ten years? How about the last five? Are they substantial when compared to the company's industry average? (Industry averages may be found in the ***Value Line Survey*** or in other on-line sources.)

Eliminating Outliers



Here you will want to look for data that is obviously out of step with the other data. If the anomalous data is in a year that you have already considered to be irrelevant

and the event non-recurring, you may simply eliminate that data from the calculation of the 5-year average and the trend by clicking on it. A mark will appear in that data box to indicate that it has been deleted from the calculation. When you have decided that all of the data is relevant, look at the averages and the trends.

Suffice it to say that serious downtrends, especially in % Pre-tax Profit on Sales, would, for most NAIC investors, probably disqualify the stock from further consideration.

Pre-tax Profit Margin Graph

To see a graph of the % Pre-tax Profit on Sales (the Profit Margin), click in its "Trend" Up or Down box (the magenta box if "Active Area Highlighting" was selected in **Preferences**).



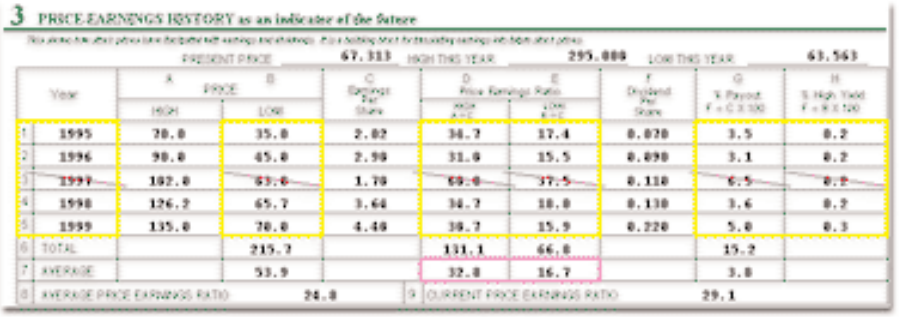
Often this graph will help you see a Profit Margin trend that you would not notice by just looking at the numbers.

"**If you're in doubt, bail out!**"–especially if you're new at this. The chance to be led astray is too great if you go on with a company that is not up to par–and there are plenty more good ones out there.

Section 3 - Price-Earnings History

The next task is to analyze the historical relationship between the company's earnings and the stock's price–its Price-Earnings History.

Once again, an inspection of the data may reveal anomalies (or "outliers")–data that stands out as being a departure from the norm.



3 PRICE-EARNINGS HISTORY as an Indicator of the Future

PRESENT PRICE 67.313 HIGH THIS YEAR 295.000 LOW THIS YEAR 63.563

	Year	A PRICE HIGH	B PRICE LOW	C Earnings Per Share	D Price Earnings Ratio HIGH P/E	E Price Earnings Ratio LOW P/E	F Dividend Per Share	G % Payout F = C X 100	H % High Yield F = B X 100
1	1995	70.0	35.0	2.02	34.7	17.4	0.070	3.5	0.2
2	1996	90.0	45.0	2.90	31.0	15.5	0.090	3.1	0.2
3	1997	102.0	53.0	1.70	60.0	31.5	0.110	6.5	0.2
4	1998	126.2	65.7	3.66	34.7	18.0	0.130	3.6	0.2
5	1999	135.0	70.0	4.40	30.7	15.9	0.220	5.0	0.3
6	TOTAL		215.7		131.1	66.0		15.2	
7	AVERAGE		53.9		32.8	16.7		3.8	
8	AVERAGE PRICE EARNINGS RATIO		24.8	9	CURRENT PRICE EARNINGS RATIO			29.1	

If one or more of the years produced figures that were abnormally low or high, you can click on the offending year and eliminate all of that year's data from the calculations. Or, you may select individual items of information and exclude those by simply clicking on them. (This is true only of the Year, the Low Price, the High and Low P/E, the Percent Payout, and the High Yield columns. These fields are surrounded in yellow highlights, if you enabled Active Area Highlights in Preferences.) The averages at the feet of the columns containing the excluded data will be affected by doing so.

Most important are the columns containing the Average High and Low P/E's. Look carefully for extraordinary numbers. Most often, the high P/E will be radically inflated by a year with abnormally low earnings per share. This inflated figure, if not eliminated, can skew the average high P/E so much that, if the figure is accepted as calculated, it will make your future high price sky high! You'll think that you're really going to make a killing, when you're seeing only the effect of a bad year.

Of course, in the next section, you will have to select reasonable numbers for the average high and low P/E's; but, it will make it a good deal easier to be sensible if you have exercised diligence in excluding the irrelevant data here.

High and Low Price-Earnings Ratio Graph



To help you spot any extraordinary numbers and their relation to the **Average High and Low P/E Ratio**, you should look at their graph. To open, click anywhere in boxes 7D and 7E, which will be surrounded by a magenta box (if "Active Area Highlighting" activated in Preferences). Note also that the cursor changes to a magnifying glass in this area, signifying that you can take a closer look at the numbers by opening up a graph.

With the graph you can see what each year's High P/E is relative to the Average High P/E, and what each year's Low P/E is relative to the Average Low P/E. The red line is the average for the High and Low P/E for the last five years.

Remember that the price/earnings ratio (P/E) is a numeri-

cal relationship that compares the stock price to the company's earnings per share. Because both the stock price and earnings increase as the company grows, in the case of a good growth company, the P/E should remain relatively constant since it is a ratio. Example: $10 Price ÷ $1Earnings = 10 P/E, and $100 Price ÷ $10 Earnings = 10 P/E. Therefore, as a company grows, its High and Low P/E should remain more or less the same.

A company's P/E is a reflection of investors' confidence and expectation that the company will be profitable in the future. This expectation drives up the stock price as a surplus of buyers purchase a limited number of stock shares. As the stock price goes up, but the current earnings remain the same, the result is a high P/E.

Example: $ 10 Old Price ÷ $1Earnings = 10 P/E;
$100 New Price ÷ $1Earnings = 100 P/E.

As a reference point, the average P/E for companies on the Dow is 15. This contrasts sharply with the P/Es of 100, 200, and even 300, for many of the Internet companies during the bubble of the late 1990s. At that time Alan Greenspan, chairman of the Federal Reserve, expressed concern about the "Irrational Exuberance" of investors and his concern was borne out by the performance of those companies when the inevitable bust came not long after.

The Price-Earnings Ratio is sometimes called a "PE Multiple," or just a "Multiple," since the stock price is a multiple of the earnings. Perhaps the easiest way to think of it is as the rate one pays for a dollar's worth of earnings, much like the price per pound of coffee or gallon of gas.

Section 4 - Evaluating Risk and Reward

This section offers four opportunities to apply judgment:

- You ***must*** estimate the 5-Year Average High and Low P/E's to be used in the calculation of the potential high and low prices.
- You ***may*** refine your estimated high earnings by substituting what you derived from the **Preferred Procedure** (or your own estimate) for the estimate that came from your earlier projection of earnings growth. This will have an effect on the projected high price that represents the top of your "Sell" range.
- You ***may*** revise your estimate of future low earnings.
- You ***must*** forecast the future low price of the stock.

Forecast the High Price

The potential high price is the product of the selected average high P/E and the estimated future high earnings.

Estimating Average High and Low P/E

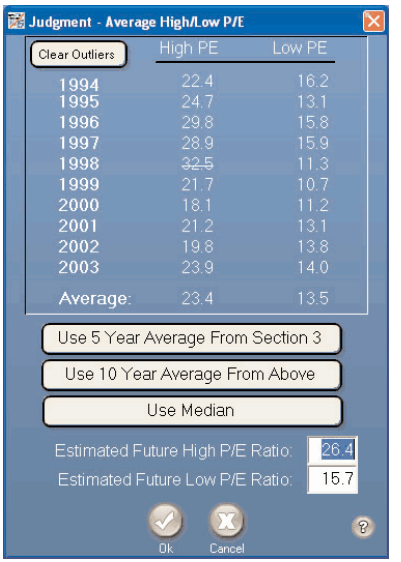
Having eliminated any outliers from the Average High and Average Low P/E's in Section 3 above, you are in a good position to estimate those figures for the future.

To modify the figures, simply click on either the space containing the Average High P/E in line 4A, or the one containing the Average Low P/E in line 4B (surrounded by a green highlight if enabled in **Preferences**), and the dialog box on the next page will appear.

You now have the opportunity to insert your own best estimate as to what average high or average low multiple (P/E) should be used in calculating your potential high and low prices for your price ranges.

The default values that you find in the dialog box are

taken from the foot of columns D and E in Section 3 above and assume that you are satisfied with the average of the historical P/E's.



Often, this assumption is a good one since you are looking at a five-year period, a period long enough to capture both the top and bottom of the average business cycle.

New to Toolkit 5 is the option to view ten years of Hi and Low P/E ratios and eliminate outliers by clicking on the values. You may also use the **5 year average** from Section 3, Use **10 year average** or the **Median.**

NOTE: Using the 10 year Average without eliminating outliers would not provide a generally meaningful result because of the anomalous data from the early years of the company you are studying.

However, there are other factors that might influence your judgment in this case.

Look at the trend in Average High P/E's. Is the trend up, down, or both? If the trend isn't "both," then the cycle is probably longer than average and you will want to try to figure where the company is in its cycle. Now might be a good time to look again at the Section 3 High and Low Price-Earnings Ratio Graph

If the company has a good track record, and there are no negatives to indicate that the downtrend is a long-term or permanent trend, then you might content with the historical averages.

If you want to be more conservative–or if the trend is going to be more long-term than you first thought–you

will want to lower your estimates for the future. There are some, in fact, who won't often estimate the future average high P/E any higher than the average P/E.

You may remove additional outliers from Section 3 in order to average the lower ones and omit the highest.

After recording the results, you should restore the outliers that you eliminated so that the calculations involving historical data (Relative Value and Projected Relative Value) won't be distorted as you look at them later.

See the "**How to**" section for details on using this feature.

Amending the Estimated High and Low Earnings per Share

The last task you performed on the front of the **Stock Selection Guide** was to forecast the future high earnings per share. You did this by estimating future earnings growth. You may have availed yourself of the opportunity at that time to use the **Preferred Procedure** dialog to calculate your future earnings estimates. The result, in either case, will be found in Section 4A, in the middle of the page.

Advanced Option

As you go through the process of forecasting the potential high price in Section 4A, you may wish to revisit the Preferred Procedure and fine-tune that estimate. One determining factor will likely be the profit margins (%Pretax Profit on Sales) from Section 2 above, which you should have noted. You may again want to look at the Pre-tax Profit Margin Graph.



Look carefully at the trend in the profit margin. If there is a substantial trend up (or down), you may wish to modify your estimate of future earnings based upon a more optimistic (or pessimistic) assessment of the cost factor as it affects the bottom line in the Preferred Procedure. (Of course, if it was a significant down trend, you would probably be looking at a different stock by now.)

Click on the appropriate space at the center of line 4A on

the back of the Stock Selection Guide. (If you have enabled "Active Area Highlighting" in Preferences, it will be highlighted in yellow). The program will display the Preferred Procedure dialog box for your use.

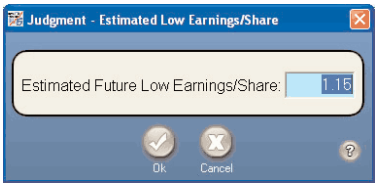
For general information on **Preferred Procedure**, see the Advanced Option on page 115.

To calculate the low price, the program multiplies the estimated average low P/E by the estimated low earnings per share (EPS). We have already discussed the low P/E estimate; however, we haven't mentioned low EPS.

Low EPS defaults to the value of the annual earnings for the most recently concluded fiscal year. The rationale for this is that, assuming that the company is a good growth company, it will earn no less five years out than it did last year. Therefore, this is a very conservative assessment of future low earnings.



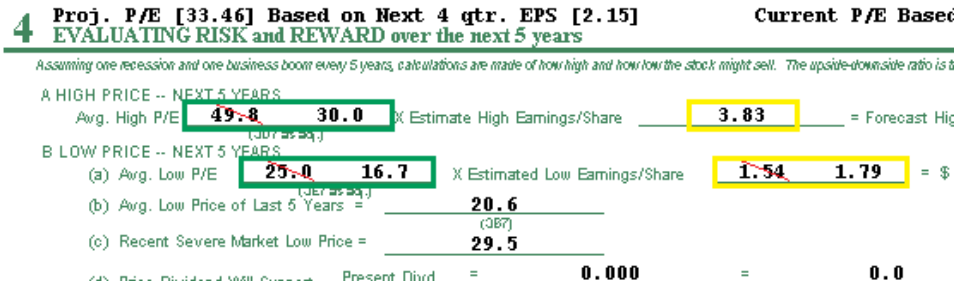
You may, however, have a different idea about the potential. For example, many investors prefer to use the sum of the most recent four quarters, as the low EPS figure, since it represents factual data (and it is conveniently displayed just beneath Section 3 on the right side of the form). Others will wish to be either more or less conservative.The space for Estimated Low Earnings in Section 4B will be highlighted in yellow, should that option be selected in the **Preferences**. To alter the estimate, simply click on the yellow box and enter your preferred figure.



Select the Potential Low Price

Just as on the printed **Stock Selection Guide**, you are offered a range of potential low prices from which you

must select or estimate a potential low price to set the bottom of your "Buy" range.



If you have enabled the highlighting in the **Preferences**, the space will be highlighted in green indicating that it is a "must do." Again, when your cursor passes over the box in which you are required to insert your low price estimate, it will enlarge and darken. Click on that space.



You will be presented with a dialog box that offers you the opportunity to either select one of the computed prices or to insert your own estimate.

While there are many factors that will contribute to your decision, it may be helpful to consider these general guidelines:

Forecast Low Price: Used most of the time and a good choice for a growth company that does not pay a significant dividend.

Average Low Price for Last 5 Years: Used for a cyclical company (e.g. an auto maker).

Recent Severe Market Low Price: Perhaps used for turnaround situations or for companies for whom disaster is a normal state of affairs–volatile and unpredictable companies.

Price Dividend Will Support: Used for larger companies whose dividends contribute significantly to the stock's total return. This represents a price at which yield is high enough for the stock to commence competing with other income instruments for investors' dollars.

Other: Used for your own thoughtful estimate.

This is the last "must do" item. Since the remaining three parts of **Section 4** are used to decide whether or not to make a stock purchase, we'll discuss them in "**To Buy or Not To Buy**" starting on page 131.

If you have had to stop in the middle of your stock study and resume later–or if you have found that some of the items you thought should be filled out are not–you may click on the "**Judgment**" button on the Company Toolbar to find out what judgment items remain to be completed.

Section 5 - 5-Year Potential

This section calculates your current and potential dividend yield and the potential return on your investment.

Advanced Option

Percent Payout

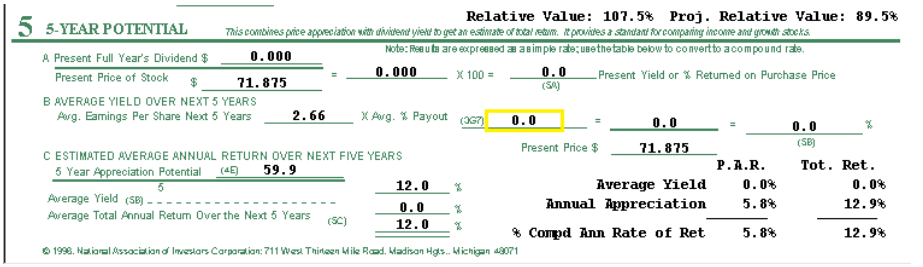


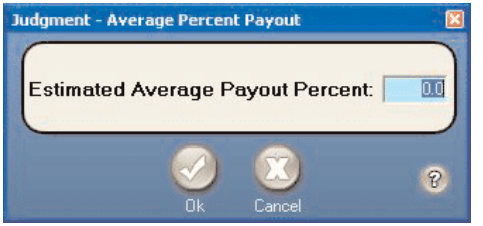
The last opportunity you have to apply judgment is in Section 5, line B. Here, in order to calculate average yield over the next five years, you must estimate what the average dividend will be. To do so, the program will multiply the average earnings (the earnings for three years from now) by the average percent payout (the percent of earnings that is paid out in dividends).

Normally, the figure is simply taken from the calculation of the average in Section 3, column G. However, you may wish to estimate the percent payout as a different figure. Perhaps the company has announced a new dividend policy, or maybe you're satisfied that the company is a mature company and will be paying substantially more of its earnings in dividends in the future.

Whatever the case, you have the ability to change that figure in Section 5B.

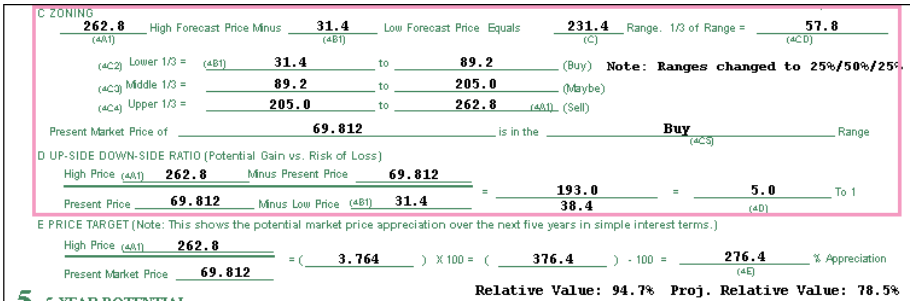
As in the other "may do" areas, this one will be highlighted in yellow if you have opted to enable highlighting.





Your work is finished. It's that simple! The remainder of the form will be filled out completely, and you are now ready to examine or print the completed Stock Selection Guide and assess your result.

To Buy or Not to Buy


C ZONING
262.8 (4A1) High Forecast Price Minus 31.4 (4B1) Low Forecast Price Equals 231.4 (C) Range. 1/3 of Range = 57.8 (4CD)
(4C2) Lower 1/3 = (4B1) 31.4 to 89.2 (Buy) Note: Ranges changed to 25%/50%/25%
(4C3) Middle 1/3 = 89.2 to 205.0 (Maybe)
(4C4) Upper 1/3 = 205.0 to 262.8 (4A1) (Sell)
Present Market Price of 69.812 is in the Buy (4C5) Range
D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) 262.8 Minus Present Price 69.812 = 193.0 = 5.0 To 1
Present Price 69.812 Minus Low Price (4B1) 31.4 = 38.4 (4D)
E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)
High Price (4A1) 262.8 = (3.764) X 100 = (376.4) - 100 = 276.4 (4E) % Appreciation
Present Market Price 69.812
Relative Value: 94.7% Proj. Relative Value: 78.5%

Now that you have completed all of the necessary tasks, it's time to use what you have done to help you make a decision about the stock you have studied.

There are four things to evaluate, all progressive as well. In other words, if the first doesn't make the grade, you don't need to bother with the next:

- Price Range
- Upside/Downside Ratio
- Relative Value
- Total Return

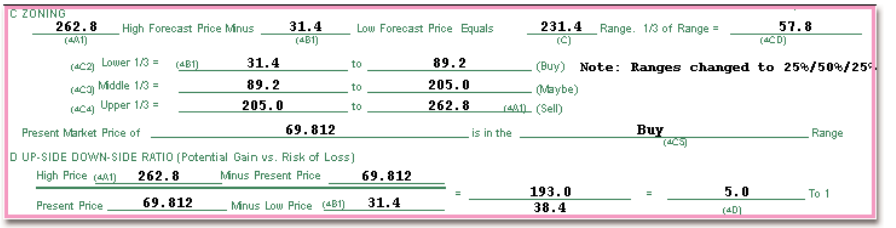
Price Range

When you complete the work on the **SSG**, the remainder of **Section 4** is calculated. The first thing to look at is the zoning.

The **Stock Selection Guide** divides the range between the potential low price and the potential high price into thirds, representing the "Buy," "Maybe," and "Sell" ranges.

If the current price fell into the lowest third, you would consider it in the "Buy" range and continue with your evaluation. If this is the case, you will find "Buy" in the field on line 4C5.

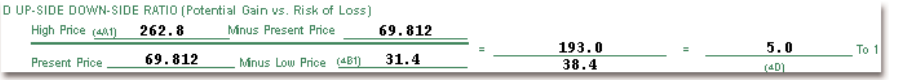
"Maybe" (or "Hold") is in the middle third, and of course, "Sell" is in the top third.


C ZONING
262.8 (4A1) High Forecast Price Minus 31.4 (4B1) Low Forecast Price Equals 231.4 (C) Range. 1/3 of Range = 57.8 (4C D)
(4C2) Lower 1/3 = (4B1) 31.4 to 89.2 (Buy) Note: Ranges changed to 25%/50%/25%
(4C3) Middle 1/3 = 89.2 to 205.0 (Maybe)
(4C4) Upper 1/3 = 205.0 to 262.8 (4A1) (Sell)
Present Market Price of 69.812 is in the Buy (4C5) Range
D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) 262.8 Minus Present Price 69.812 = 193.0 = 5.0 To 1
Present Price 69.812 Minus Low Price (4B1) 31.4 38.4 (4D)

In the next section, you will see there is a compelling argument to change the ranges from thirds (33%-33%-33%) to 25%-50%-25%.

Upside/Downside Ratio

The next and most important item to consider is the Upside/Downside ratio (U/D). This is the important measure of risk versus reward.


D UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)
High Price (4A1) 262.8 Minus Present Price 69.812 = 193.0 = 5.0 To 1
Present Price 69.812 Minus Low Price (4B1) 31.4 38.4 (4D)

The U/D is calculated by dividing the "distance" from the current price to the potential high price and dividing it by the "distance" from the current price to the potential low price. (The term "distance" might be clearer by looking at the graphic on the next page.)

The meaning is simple: How much risk I must take (how much I lose if the price goes down to the low) versus how much reward I might get (if the price goes from its current price all the way up to its potential high).

NAIC considers it a good value if you stand to gain three times as much as you might lose: a 3 to 1 Upside/Downside ratio.



There is a potentially confusing paradox here. A stock can be in the "Buy" range with an U/D ratio as low as 2 to 1. In fact, a stock whose current price is the same as the top of the "Buy" range has a 2 to 1 Upside/Downside ratio. This is because, under these circumstances, you have one third to lose and two-thirds to gain (as the "Buy," "Hold" and "Sell" ranges are calculated).

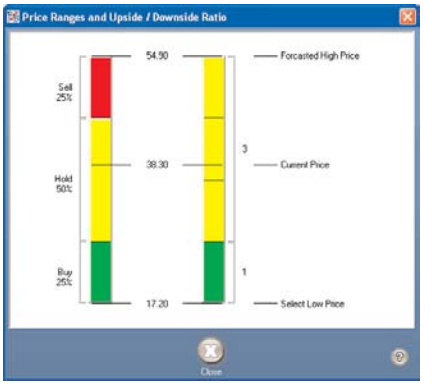
It is therefore the preference of some investors to look at the "Buy" range as the lowest quarter of the low to high range. That way, a stock cannot be in the "Buy" range without having at least 75% to gain and 25% to lose (3 to 1).

While the default setting is 33%-33%-33%, you may reset the ranges to the 25%-50%-25% range by clicking the appropriate selection within the **Select Zoning Default** section within your **Preferences.** This setting is global, meaning that these divisions will then prevail anywhere in the ***Investor's Toolkit*** that these ranges are reported or considered.

NOTE: When the current price is above the ***top*** of the "Sell" range, the U/D ratio is shown as "0.0 -" since negative figures are not meaningful; when the current price is below the ***bottom*** of the "Buy" range, it will appear as "99.9 +."

Graph of Price Ranges and Upside/Downside Ratio

Toolkit contains a graph to help you better visualize the Buy, Maybe, and Sell price range zones in relation to the Up-side/Downside Ratio. To open the graph, click in the magenta box (if you enabled "Active Area Highlighting" in **Preferences**) around Section 4C & D–the cursor also changes to a magnifying glass in this area, indicating an opportunity to take a closer look.



The bar graph on the left is the Price Range you selected in **Preferences**, either 33%-33%-33% (default) or 25%-50%-25% (for a true 3-to-1 Upside/Downside Ratio). The bar graph on the right shows the **Upside/Downside Ratio**, with the potential Upside of 3 and a Downside of 1. The Current Price is indicated in the middle, showing its relative position to the High and Low Prices and the Price Range and U/D ratio.

The NAIC ***Investor's Toolkit*** provides you with two additional items that are useful in evaluating this investment. These are "Relative Value" and "Total Return."

Relative Value

One of your tasks was to study the history of High and Low P/E's, eliminate irrelevant data, and determine your historical average High and Low P/E's. From that exercise, you derived an Average P/E over the past five years.

Consider this Average P/E as a sort of "signature P/E"-a "normal" relationship between earnings and the stock price.

As we've discussed before, stock prices are driven, over the long-term, by earnings. In the shorter term, prices may fluctuate up and down for a variety of other reasons, all transient and all depending upon the whim of the investing public.

Perceptions drive short-term stock price movement, and it can be fairly said that what goes up, ***will*** go down–and vice versa: what goes down, will go up. It's almost a sure thing, in fact, that any deviation in P/E that is not caused by earnings is only temporary.

If this is true, then you can expect, whatever the P/E of a stock at the moment, it will tend to seek its "normal" or "signature" level.

The closest you can come to estimating that traditional relationship is the five-year Average P/E, and you will strive to purchase stocks whose Current P/E is not much above the average–better yet, is somewhat below it.



You will use a measure called "**Relative Value**" (RV) to assess this condition; it means the relationship between the Current P/E and the Average P/E. It is calculated by dividing the Current P/E by the Average P/E and is usually expressed as a percentage.

A stock with a Relative Value of more than around 110% ***may*** be overvalued.

On the other hand, if the RV is only 90% or 85%, it's an

indication that something might be amiss. The lower it is, the more likely the possibility that someone knows something that you don't, and you had better get some questions answered before you begin thinking that it is so far undervalued that it's a great bargain! Is there something going on that will adversely affect earnings over the long term?

You will want to find out just why no one will pay more for the stock. If the company's earnings are continuing to grow, and there are no reports of impending catastrophe, you might be in a position to act the contrarian and buy some while it's really low. But, this doesn't happen often. Save for the times the entire stock market is down, the price is not likely to be severely depressed without some valid reason.

Projected Relative Value

"**Projected Relative Value**" is another measure of the same issue. Many investors believe that the current P/E should be calculated by using the earnings for the next twelve months instead of the trailing twelve. Their logic is that we buy stocks for their future performance and in the expectation of those future earnings.

The program therefore offers this alternative. Projected relative value is calculated using the estimated earnings for the next twelve months, which the ***Toolkit*** forecasts by growing last year's earnings at your estimated growth rate.

The projected relative value is always a lower number than relative value (since the P/E using a higher earnings figure will be lower). We also don't want to buy a stock with a projected relative value above 100% and are suspicious if it's below 80%.

Relative value and projected relative value must be used with care. A variety of circumstances can change the "normal" P/E of the company, and these must be taken into account when you assess them. Interest rates and their partner, inflation, can make the entire climate quite

different for a fairly long period of time. Competition, trends in the industry, etc.—all can conspire to change the P/E point of reference. Perhaps not over the long term, but for a long enough time to make some difference.

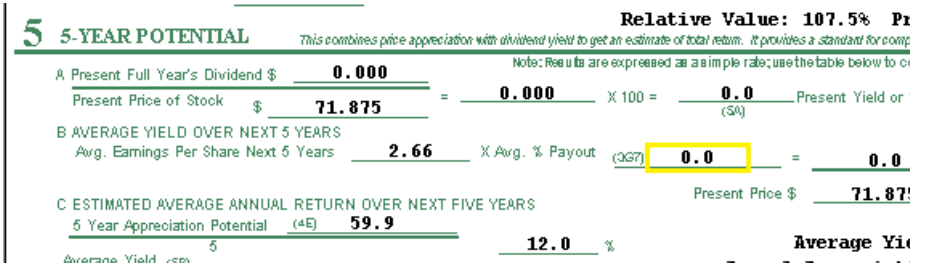
The factors that you need to keep your eye on are those that can affect the company's earnings.

Investors who rely on using Relative Value as a primary measure do so at considerable risk if they fail to look at the actual P/E's that make up the measure. A favorable appearing Relative Value or projected relative value figure can be made up of an unrealistic current P/E being divided by an equally unrealistic average P/E.

Total Return

The final and key determinant is the potential return on your investment. The term, "total return" means the annual return from both the investment's price appreciation and the dividend yield.

You are looking for a return ***on your portfolio*** of at least 15%, compounded annual return, in order to double your money every five years. This does not mean that every stock has to produce a 15% return; it means that the average of your portfolio must do so. You will find most of the larger, more mature companies will give you a lower return on your investment because their growth rates have slowed. You can balance these lower risk investments with stocks having a return in excess of 20%.


5 5-YEAR POTENTIAL *This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comp*

Relative Value: 107.5% Pr

Note: Results are expressed as a simple rate; use the table below to c

A Present Full Year's Dividend $ 0.000

Present Price of Stock $ 71.875 = 0.000 X 100 = 0.0 (5A) Present Yield or

B AVERAGE YIELD OVER NEXT 5 YEARS

Avg. Earnings Per Share Next 5 Years 2.66 X Avg. % Payout (3G7) 0.0 = 0.0

Present Price $ 71.87

C ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS

5 Year Appreciation Potential (4E) 59.9

5 12.0 %

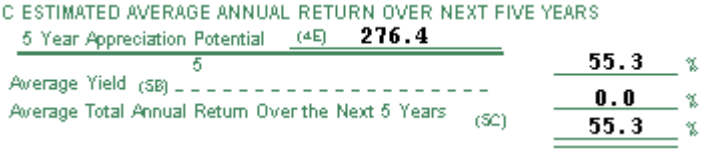
Average Yi

Average Yield (5B)

Here you have three measures to look at:

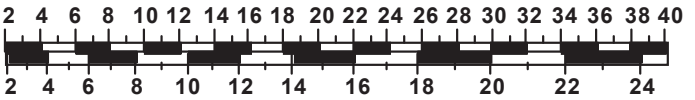
- Average annual return
- Total Return
- Projected Average Return (PAR) (Available if selected in the **Preferences.)**

Average annual return



This is the figure to be found as the result of the calculation in Section 5C on the form. It is a simple calculation that takes the gross percent appreciation of your investment over the five years and divides that figure by five. To this result is added the estimated average yield.

Don't be misled by the result. A figure of 20% is required to double your money since this simple interest calculation is based upon your original investment and does not take into consideration the fact that your investment grows each year and earns money on that growth. NAIC's printed form provides the chart shown here to assist those who do the **SSG** by hand in converting from a linear result to the compounded, annualized result.

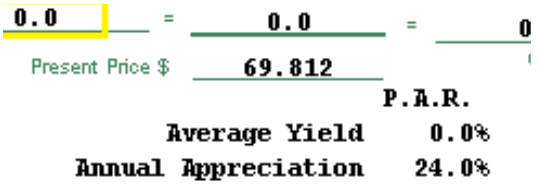


Enter the chart with the linear result at the top, and read the compounded result at the bottom.

Total Return

Total Return, as it is used here, is the compounded, annualized figure that requires just under 15% to double your money. This number is the result of your purchasing the stock at today's price, selling it in five years at your

projected ***high*** price, and adding to it the dividends that you expect to receive-the combination of compounded appreciation and dividend yield.



Projected Average Return (PAR)

PAR (available if enabled in **Preferences**) is the compounded, annualized figure that also requires 15% to double your money. PAR is the return on your investment when you purchase the stock at today's price and sell it in five years at an ***average*** price. That price is calculated by multiplying the high EPS by the ***Average P/E*** rather than the Average High P/E. This is a more modest figure and, certainly, a more realistic expectation.

If you are satisfied with the return you expect to make on your investment, based upon all of your conservative assumptions, then you would probably decide to purchase the stock.

If you have NAIC's printed version of the **Stock Selection Guide and Report**, this would be a good time to refer to the ten questions following the **SSG** form.

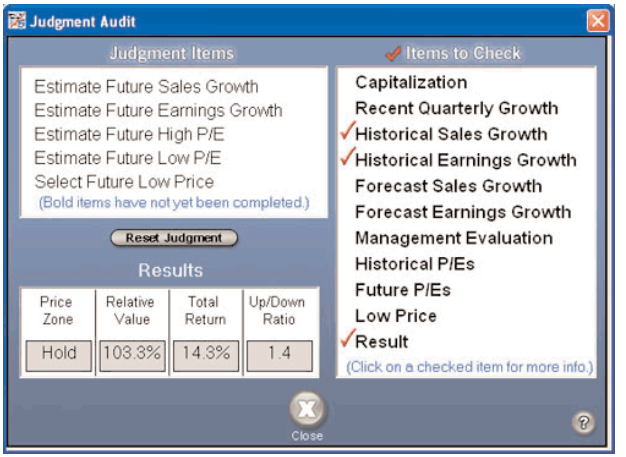
Most of the answers can be derived from the work you have just completed. If you are just beginning, it will be of great help in gaining a better understanding of the thoughts behind the decision to buy or not to buy.

The Judgment Audit

Overview

The ***Investor's Toolkit*** is not only a tool to implement NAIC methodology; it is also intended to be a useful instructional tool that can assist you in learning to making prudent decisions as they are required during your stock study. The **Judgment Audit** combines several functions within the scope of a single button on the Company Toolbar.

Clicking on the "**Judgment**" button [redacted] opens the **Judgment Audit** dialog box.



The **Judgment Audit** offers three functions:

- Scan the Judgment Items to see what you have yet to complete;
- Reset the judgment items (clear all and start again); and
- View the Items to check to see where your decisions or the actual data raises questions.

Judgment Items

In the course of your study, in addition to such options as eliminating outliers (irrelevant historical data) or substituting values for default values, there are five estimates

or forecasts you are required to make:

- Estimate Future Sales Growth
- Estimate Future Earnings Growth
- Estimate Future High P/E
- Estimate Future Low P/E
- Select a Low Price

If you have failed to enter any of these items, the Toolkit cannot complete your study. Should you find that the **Stock Selection Guide** is complete only through the beginning of **Section 4 – Evaluating Risk and Reward**, you may find out what items remain to be estimated to finish the study. Those that remain will be displayed in "**Judgment Items**" in bold type. The items that are completed appear in plain type.

Reset Judgment

The "**Reset Judgment**" button below the "Judgment Items" list enables you to reset all judgment items you have entered. If you are dissatisfied with some of your decisions, or, if you have accessed a file that contains someone else's judgment and want to begin again using your own–say you imported one from NAIC's Datafiles library, for example–you may do so by clicking on the "**Reset Judgment**" button. **NOTE**: All judgment items will be reset, including any outlier elimination that may have been performed.

Items to Check

This valuable aid keeps an eye on both the basic data and the results of your judgment, monitoring the critical items to see that they are within reason or that they follow NAIC's conventions. Should any of the items listed be outside of the desired values, they will be denoted with a red check mark. Clicking on the checked item will open a dialog box, informing you why the item is checked.

NOTE: The purpose of this feature is not to qualify or disqualify the stock study on the basis of these issues. It is merely a device intended to invite your attention to items that may be questionable.

These include:

Capitalization: Invites you to evaluate the capitalization of the company as it is displayed in the header on the front of the SSG (for example, if more than one third of the company's capitalization comes from debt).

Recent Quarterly Growth: Calls your attention to quarterly sales and earnings growth if it is lower than desirable or has declined.

Historical Sales Growth: Suggests when you might consider eliminating irrelevant historical sales data from the graph, asks you to assess if growth has been steady enough to be reasonably predictable, and/or calls your attention to what might be serious growth deficiencies you should examine.

Historical Earnings Growth: Same as **Historical Sales Growth**.

Forecast Sales Growth: Cautions you when your estimates of future growth might be too optimistic.

Forecast Earnings Growth: Same as **Forecast Sales Growth**.

Management Evaluation: Calls your attention to possible inefficiency in management.

Historical P/Es: Suggests when you might want to consider eliminating some historical High or Low P/Es as outliers.

Future P/Es: Cautions you when your estimates of future P/Es may be too optimistic.

Low Price: Raises a caution flag if the current price appears to be too low compared with its price history.

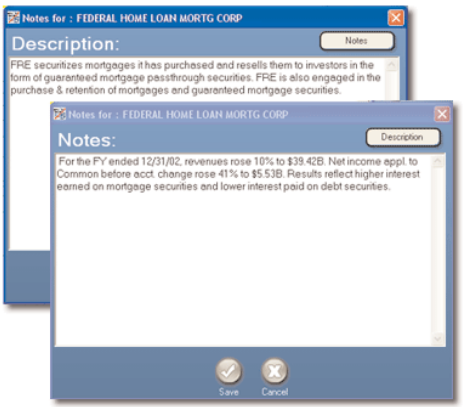
Result: Suggests conclusions you might draw from the "Results" compiled and displayed in the **Judgment Audit** dialog box when all required judgment items have been completed.

Notes and Comments

A "notepad" is available to make notes or comments about each stock you study. You may want to record your reasons for making certain judgment decisions, the name and phone number of the company's Investor Relations person to answer your questions, items you want to bring to the attention of your club colleagues, etc.

To access your notepad, click on the word "**Notes**" on the Toolbar at the top of the company screen.

"***Notes***" will appear bold and italicized when there are notes available.



Company descriptions can now be added to the note section by clicking the Description button. Within this section you can create a snapshot of the company describing industry information and other relevant information.

NOTE: When you export in the **.ssg** file format, the Notes may be exported with the file if you select the new "zip" option. Exporting as an **ITK** file will keep ***Toolkit*** formatting, including Notes. When you back up your data, however, these notes are preserved in the backed-up database file.

Assigning Stocks to a Portfolio - Stock Library

The ***Toolkit*** **Stock Library** is the collection of all the companies in which you are interested. Some of the companies will have data only; some will have been analyzed and evaluated; and some will make it into your portfolios as you purchase them, either actually or hypothetically.

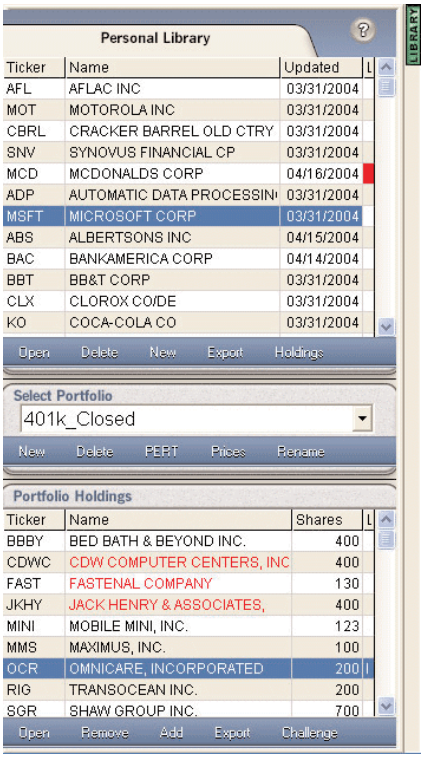
The mechanism you will use to assign stocks to your portfolio is the **Stock Library**. The **Library** window in the ***Investor's Toolkit 5*** is an easy interface for accessing all of the companies in your **Stock Library** and creating and managing your **Portfolios**. In the **Library**, you may

- Create a new portfolio
- Assign a stock or stocks to a portfolio
- Change the numbers of shares of a stock in a portfolio
- Delete a stock from a portfolio
- Delete a portfolio

For detailed instructions on portfolio management and use of the **Stock Library**, see the "**How to**" section.

Click on the green "**Library**" button to open your **Stock Library**. The tab is always present, and the Library always accessible no matter what study you may be performing. Clicking on the green "**Library**" button will reopen and expand the **Library** view. If "**Hide and Show Library Automatically**" is selected in **Preferences**, then the **Library** window will automatically open when no stock study screen is open. When you open a company, the **Library** window closes, but you may reopen it by clicking on the green "**Library**" button.

The **Library** window is divided into three vertical panes: **Stock Library**, **Portfolios**, and Portfolio



The **Personal Library** (Stock Library) consists of all of the companies you have saved in your ***Toolkit***. The **Portfolios** pane allows you to create **Portfolios** into which you may add companies from that **Stock Library**. Finally, the **Portfolio Holdings** pane displays the contents of the individual Portfolios.

To create a new Portfolio, click on the "**New**" button in the **Portfolios** pane. This opens an "**Add New Portfolio**" window in which you may enter a name for the new portfolio which will appear in the window with the list of portfolios.

To add stocks to your new portfolio, right-click on any of the companies displayed in the **Stock Library** and select "**Add to selected portfolio.**" Enter the "**Number of Shares**" in the space provided.

Tip

To facilitate finding a company, you can sort either the Stock Library or the Portfolio by column heading. Click on the column heading to sort in ascending order or shift-click to sort in descending order.

You may wish to create a "Watch List" portfolio by entering "0" in the number of shares.

Updating Your Stock Studies

Updating Your Data

Once you have acquired the data for a company for the first time, it will be necessary for you to keep the data current on a regular basis. The ***Investor's Toolkit*** makes it very simple for you to do.

There are two type of updating that should be accomplished on a regular basis. They require a minimum of effort:

- Price Update
- Company Data update

Since this section deals with acquisition, we will discuss only the means for updating a single company. This is something you will want to do each time you do an SSG or review one that you have done.

Toolkit 5 has automated much of the task of keeping track of when data and prices need to be updated and performing the actual updates. These issues deal primarily with portfolio management tasks. Therefore a detailed discussion of updating prices and data for multiple companies will be found in the Portfolio Management section beginning on page 170.

Price Update

While you are doing a stock study or whenever you revisit a stock to update your analysis, you will, of course, wish to update the price. For purposes of this discussion, it is assumed that you will be connected to the Internet and will update your prices electronically. This section will deal with the most convenient and frequently used means doing so. Consult the **How to..** section on Page 310 and following for the many other ways this can be accomplished.

Updating an Individual Company Price

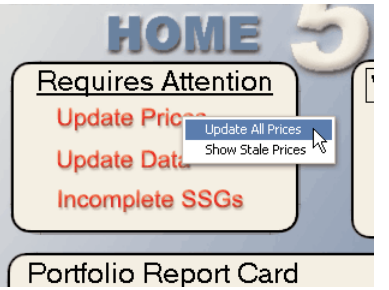
Toolkit 5 completely automates this task for the investor. With the Company window open, click on the "**Price**" button on the Company Toolbar for an instant price update for that company.



You will also find a "Prices" button for that purpose within the Basic, Annual, and Quarterly dialog box.

Updating Multiple Prices

With a single mouse-click, you may update all the prices in the stock library, a selected portfolio, or just those whose prices are more than a week old (or however old you wish to declare them "stale").



The most convenient method for updating either all stocks in the stock library or just the stale ones is by right-clicking on the "Update Prices" button under "Requires Attention" on the Home Page and selecting either option from the displayed menu.

The "Update Prices" button will be red any time there are any stocks whose prices are stale. Set the desired threshold in **Preferences > Thresholds**.

Data Update

Assuming you are connected to the Internet and have a valid **Online Premium Services (OPS)** subscription the data for an individual stock may be most easily updated from the Company window using the "**Refresh Data**" button. Clicking on the "Data" portion of the button as in this illustration will momentarily close the window and update the data with all of the new information. The data and price may be updated simultaneously by clicking on the top, "**Refresh**" portion of the button.



NOTE: You may have reason to want to retain the data in your database and have only the new data added to the file. You may do this using **File > Update Companies**. See "**Changes only**" in the **How to…** section on page 264.

Split Alerts

Occasionally, a stock split or stock dividend will have occurred in the period prior to your update. The data files from which you are importing the new data include fields that contain the split factor and the effective date of the split.

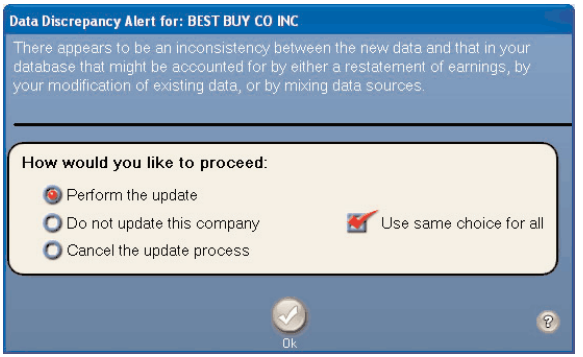
If there has been a split, the Toolkit will analyze the existing data and determine if that data has been adjusted to accommodate the split. If it has not, you will be given the opportunity to accomplish that adjustment with a mouse-click. If you prefer not to do so for some reason, you may decline and the data will not be updated.

If there has been a split and your data appears to have already been adjusted, you will be notified of the split as well and simply informed that your data appears to have been appropriately adjusted.

Inconsistencies Between New and Old Data

Some investors alter the historical data to account for non-recurring events or other items that they feel should be adjusted to more accurately depict the company's historical performance. Some sources of data restate data

when some operations have been discontinued. For these and other reasons, you may wish to use one or the other of the import options that are available in the ***Toolkit***.



If the ***Toolkit*** detects inconsistencies between the historical data and the same historical data in the file that is being imported, depending upon the circumstance and the option you have selected, you will be advised of the circumstances and given the opportunity to change your import option to one that may be more appropriate. For example, if the ***Toolkit*** senses a discrepancy and you have elected to use the "Full Update" option, you will be told that there is a discrepancy and given the opportunity to change to "Changes Only."

If, for example, you had modified the historical data as described above, you would probably want to preserve those changes by updating only the latest data and not overwriting the data you had amended.

Stock Comparison Guide (SCG)

Purpose

Once you have evaluated a stock the next logical step is to find out whether that stock is better than others that you may be considering.

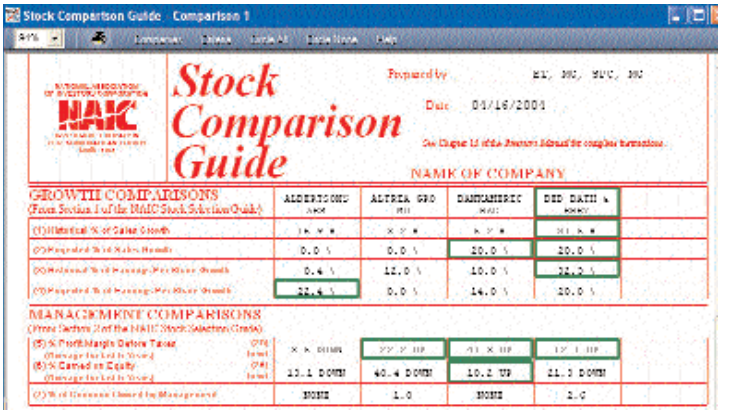
Many investors who have been led to study a particular stock–even to "fall in love" with it–have found others in the same industry that are even more appealing and show greater opportunities for return.

Therefore, it's a good idea, especially if you have the convenience of using electronic data, to quickly run through two or three additional **Stock Selection Guides** for companies in the same industry. You might just be in for a pleasant surprise.

One important function of the **Stock Comparison Guide** is to identify Growth Industries. Often, investors will complete a **SSG**, see that the company's stock is in the "buy" range, and rush out and purchase stock. Before doing that, it is important to compare that company to others in that industry. If the company is in a growth industry, typically ALL of the companies in that industry will appear to be attractive candidates and good investments. However, in a growth industry, you should invest only in the "best of the breed"– the company that has the best profit margins, the best management. Because there might someday be a "shake out" in the industry with only the best companies remaining standing, you will want to own the best of the best. The **Comparison Guide** will help you do that.

Overview

The **Stock Comparison Guide** is the tool that you will use to compare up to five stocks–preferably, but not necessarily, in the same industry–to see which company would be the most desirable to own on the basis of a number of important criteria.



These criteria are grouped into four basic categories:

- **Growth Comparisons**: Comparing both the historical and the forecast growth rates of revenues and earnings.
- **Management Comparisons**: Looking at profit margins as a measure of management's ability to control costs, return on equity as a measure of its ability to make money on invested capital, and insider ownership as an indication of management's incentive to produce.
- **Price Comparisons**: Comparing such items as the historical and Current P/E multiples, price ranges, Upside/Downside ratios, yield and forecast appreciation as indications of value.
- **Other Comparisons**: Providing a potpourri of informational and comparative data as well as room for your choice of comparative items.

The **Stock Comparison Guide** lists these twenty-eight to thirty different criteria for each stock, most of the information coming directly from the SSG.

The Comparison Guide analyzes each row, determining which stock was the best in each category that can be judged competitively, and circles each winning entry.

It then counts up the marks for each company to determine the winner.

A close look at the form, however, reveals that some of the items are not competitive. For example, the exchange on which the stock is traded or the various price ranges listed cannot be considered better for one than another.

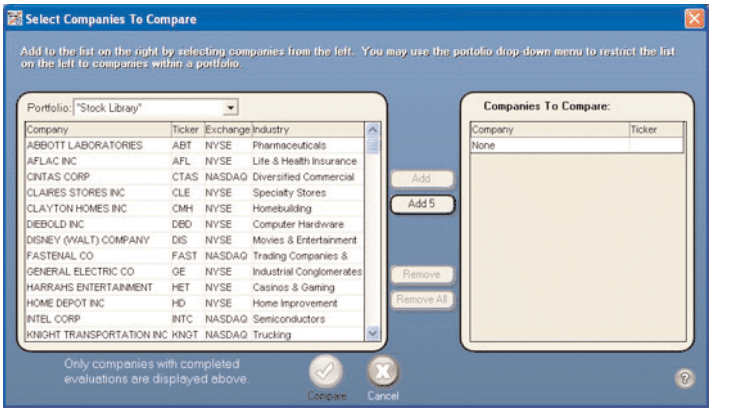
Also, other items may be considered of varying importance. As a case in point, the several measures of the historical P/E ratios, while saying something about investor confidence in a stock, cannot be given the same weight as the growth of earnings or revenues.

Toolkit 5 has added a new and valuable feature that will enable you to attach whatever weight you feel is appropriate to each of the criteria. In this fashion, the "winner" takes into account the importance of each item as it "grades" your selections.

It is important to note that, as in the stock selection process, judgment is also important in performing the comparison. Although a convenient place to start, the Stock Comparison Guide must be used with care. You must resist the temptation to allow it to draw conclusions for you too mechanically. Only you will know which of the many factors is most important to you.

Starting the SCG & Selecting the Companies

1) Click on the "Comparison" button  on the Main Tool Bar.



2) In the "Select Companies to Compare" screen, use the Portfolio drop-down menu to select a portfolio containing the companies you want to compare or select "Stock Library."

3) Choose companies to compare by clicking on the company to highlight it and then clicking on the "Select" button (or double-clicking on the company name) to move the company to the right to the "Companies Selected" listing.

Note: Only companies whose SSGs have been completed with all judgments can be displayed in the "Select Companies to Compare" dialog box and can be viewed in the Comparison Guide.

To remove companies from the "Companies Selected" column, click on the company to select it and click on the "Remove" button. Or to remove all, click on the "Clear Selected List" button.

4) Click the "OK" button to open the Stock Comparison Guide.

Assuming that you have already done **SSGs** on several other companies in the same industry, you should then use those companies for comparison.

Always the same industry?

You might ask, "Why do we worry about selecting stocks in the same industry when all we're really interested in is what company would be the best investment?"

Actually, there are only two reasons that count:

- We don't want to compare "apples with oranges," and
- We want to consider diversification.

Apples to Apples: Companies in the same industry should have similar statistics so the comparisons will be more meaningful. The fact is that the only major difference to be seen is likely to be the average profit margin, and to some extent the return on equity figures, on lines 5 and 6, respectively, in the **Comparison Guide**. Obviously, you wouldn't make much sense out of comparing a food retailer with a handsome profit margin of 4% with a software company that's running with a sub-standard 25%.

The program therefore ignores the numbers and circles the spaces with an "Up" or "Even" trend. So, at least mechanically, it ignores the disparity. You will, however, want to take note of the actual figures when you're comparing companies in the same industry. If profit margins and return on equity for two or more companies are circled because of their trends, it's certainly smart to look for the higher percentages.

Diversification: Many folks, having given some thought to diversification issues, decide that they would like to have a particular industry represented in their portfolio. Under those circumstances, it does make sense to search for other companies in that industry to see which would be the better addition.

Some investment clubs, when looking for a new stock to buy, restrict themselves to companies in a single industry.

When all is said and done, if you're comparing companies and the only issue is which company represents the greatest potential, then, by all means, use the **Stock Comparison Guide** regardless of the industry.

Using the Comparison Guide

It makes sense for all of the stocks under consideration to be displayed side-by-side to assist the user in comparing the more important issues. After selecting two or more companies, click on the "**View Stock Comparison**" button to look at the **Stock Comparison Guide**.

Accessing a company SSG

You may access the **Stock Selection Guide** for any company displayed by right-clicking on the company name at the top of the **Comparison Guide** column. Also, if you left click on the company name, a "quick-view" **Stock Analysis Graph** will open so that you may quickly reexamine the sales, profits, and earnings trend lines.

To switch back to the **Comparison Guide** just close the **SSG**.

Applying Judgment

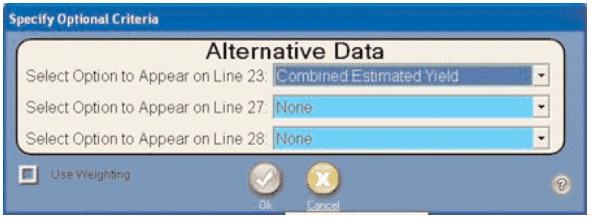
As with the **Stock Selection Guide**, there are opportunities for applying your own judgment to the comparison process. It's not a good idea to allow the computer to substitute for your own good thinking. Each of us has a different idea about what's important and what isn't, and it's up to us to apply this judgment to our work.

Accordingly, the ***Investor's Toolkit*** offers you two such opportunities.

Customizing your Criteria Options

In order to make the process as flexible as possible without altering the traditional NAIC form in any way, we have automated some of the things that you may already have been doing with a pencil.

Clicking on the **Criteria** button, on the **SCG** Toolbar, opens a "**Specify Optional Criteria**" window. Here, you can easily add or change data in lines 23, 27, or 28.



Line 23 - Combined Estimated Yield

Line 23 calls for the "**Combined Estimated Yield**." This is actually another name for "Average Total Annual Return" from Section 5C of the **Stock Selection Guide**. It represents the linear or simple total average annual return. In other words, it does not include compounding.

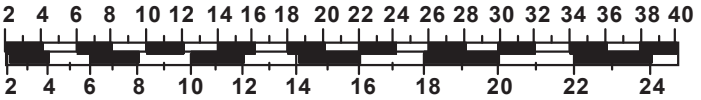
For a company whose stock price had doubled in 5 years (appreciation is 100%), the result would be 20% plus the dividend yield.

"**Total Return**" as it is used here, on the other hand, is the ***compounded*** annual growth rate plus the expected dividend yield. The Total Return calculation assumed that you sell the stock, five years out, at the high P/E.

For the same company, **Total Return** would be just under 15% in compounded annual growth plus the dividend yield. (The "magic of compounding" can be clearly seen here since less than three fourths of the simple interest rate is required to double your investment–thanks to the interest paid on the interest.)

Tip

This conversion chart is now used on NAIC's printed Stock Selection Guide form to permit investors to convert the result in line 5C to the compounded Total Return figure.



Entering with the Average Annual Return on the top, you can read the Total Return on the bottom scale. (The Investor's Toolkit replaces this nomograph with the actual results of the calculations.)

NOTE: Why wasn't Total Return incorporated into the original form? Years ago, compounded growth was impossible or a least impractical to figure without using a computer or expensive business calculator. This precluded our use of Total Return until recently and called for the use of its simpler alternative.

Projected Average Return: Total Return assumed that the stock sold at its High P/E. Projected average return instead uses the average P/E (selling the stock at its average price instead of its less likely high price). Assuming you can sell your stock at the same fair multiple of earnings as that at which you bought it, this is a more conservative estimate of your hypothetical return that doesn't rely upon your having to sell your stock at a high P/E.

Lines 27 & 28 - Using the blank lines

You may select any two of the options listed below or elect to leave the line(s) blank. This allows some flexibility and additional judgment to enter the process as you decide which criteria are most important to you.

Debt/Capital: Less than 33% Total Debt (25% Long Term debt) is desirable in most cases. (Financial institutions whose "inventory" is borrowed money are, of course, excluded.) This is particularly important during bad times when creditors' demands upon the company's cash can impair its ability to survive.

Earnings Stability (R-Squared): An indicator of how well the data conforms to the trend line that appears on the front of the **SSG** (The line calculated by the "least

squares" equation to be the one line that lies closest to all of the plotted points.) It compares how closely the plotted points are to the trend line and ranges in value from 0 to 1. The closer the number is to 1 the better; 1 representing perfect correlation, 0 representing no correlation.

Relative Value: Ratio of Current P/E to Average P/E. Less than 110% is desirable. (Less than 90% could mean that the market may know something that you don't know–beware.)

Total Sales: A measure of company size for considerations of diversification. $400 million or less is considered a small company; $4 billion or more, a large company.

Projected Relative Value: Ratio of projected P/E to Average P/E. Less than 100% is desirable. (Less than 80% could mean that the market may know something that you don't know–beware.)

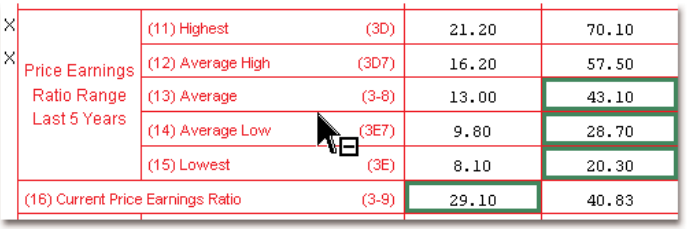
P/E: Projected Growth Rate (PEG): Recognizes the relationship between the rapidity of growth and the investor's confidence in the company's continued growth. Calculated by dividing the P/E by the one year projected growth rate. Less than 110% is desirable (and rare). More useful as a comparative rather than an absolute figure.

Weighting Criteria

One way to exercise judgment in the comparison process is to vary the amount of weight given the different criteria. This is a valuable new feature in Toolkit 5.



You will notice under **Price Comparisons**, for example that there are five different categories of P/E: ***Highest, Average High, Average, Average Low,*** and ***Lowest***. The fact that higher multiples are evidence of higher investor confidence in the company certainly makes this criterion a mark in its favor to be circled.



It could be argued that high multiples are unfavorable rather than favorable since stocks with a higher multiple are more vulnerable in a down market than those with the lower P/E's. (This is true of the current P/E, to be sure, and we acknowledge that by normally circling the lower value.)

The importance of these figures is somewhat diminished, also, because these represent the actual multiples, whereas we may have modified the average high or low, or average P/E, when we applied judgment in doing our **Stock Selection Guide**.

Of far greater significance in the comparison are the four indicators of growth: Historical and Projected Sales Growth, and Historical and Projected Earnings Growth.

Yet, were you give all of the P/E's equal weight, the five of them could outweigh the four growth criteria and unduly judge a stock with a lower growth rate a better choice than one with the higher multiples.

In the lower left corner of the dialog you used to select alternative criteria, you will find a ckeckbox labeled "**Use Weighting**." Checking that box will display a drop-down dialog that permits you to grade each of the criteria on a scale of 1 to 5. To accord your desired weight to each of the criteria, select a value with 5 being the greatest weight. A zero is the equivalent of eliminating that item from being given any weight in the judgment at all. When you have completed your choices, click "**OK.**" The weight given to each item will appear adjacent to it on the Stock Comparison Guide.

As a quick method of eliminating items you deem of little value to you may simply click on the item itself and it will no longer be circled. In this case, the line will be marked with an "X" in the margin to the left of the criterion label to indicate that it has been removed.

The options you select remain as default options until you change them–for future sessions as well as for the current one.

"Circle All" / "Circle None"

Many users like to start with all of the circles eliminated, activating them as they examine the relevant criteria. Click the "**Circle None**" button to eliminate all the circles at once. Each may be re-activated by clicking in the label for the individual item. All may be restored by clicking the "**Circle All**" button.

And the winner is...



The winner is marked by a circle around the name field at the head of its respective column.

We urge you to review each criterion to see that you are satisfied with the judgment that has been made. If you see that one of the "losers" appears to rival the winner in terms of the number of circles in it, make sure that you are satisfied that the circles are all significant and see what happens when you eliminate any item in question. Also, see what happens to the result if you were to use some of the customized criteria in lines 27 and 28.

Remember, the computer is not making an intellectual decision here. It merely circles all the "winning" entries and counts them up. The computer thinks the winner is the one with the most circles. You, on the other hand, know that some of the factors are more important than others, and only you can make that decision.

If, in the final analysis, you are left with two companies that are very close, you can probably draw two conclusions:

1) Your subjective judgment (Which one do you like better?) might be the next appropriate criterion to decide the issue; and
2) They are so close that it won't much matter which you select!

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Portfolio Management

Overview

The **Stock Selection Guide** and the **Stock Comparison Guide** are the only tools you will probably need for stock selection. With them, you should be able to pick four winners out of every five stocks selected-assuming that you use these tools conscientiously and conservatively. However, selecting the right stocks isn't all there is to successful investing. The job is only half done.

It's now time to look at the "Sell" side-or at least to consider what happens after you own your stocks. This is where many investors begin to lose interest and fall by the wayside in their discipline. This is also the place where their track record can easily suffer.

Portfolio Management is the art of continually improving the quality of your portfolio to maximize your return. You do this by:

- Watching the performance of the company rather than the stock.
- Selling a stock only when the company shows significant signs that it will not produce the sales and/or earnings growth that you expected when you bought it, and
- Replacing the stock you've sold or intend to sell with one of equal or better quality having a better potential for return.

It is not

- Selling stocks that perform well, while keeping those that don't, in the hopes that they will. (Why sell your winners in hopes your losers will turn into winners? You'll wind up with a portfolio full of losers!)
- Letting the price influence your selling decisions.

Portfolio tracking, performance measurement, or record keeping are often misconstrued as portfolio management. They are, in fact, merely ways of measuring how well you have managed your portfolio.

~~When~~ Why to sell

There is really no "time" to sell; however, there are certainly reasons to do so. Most investors, less successful than you will be, believe that you should watch for the price to rise high enough-whatever that means-and then sell it to take your profit. Successful NAIC investors know that "profit-taking is often profit-losing."

NAIC "Rules" for Selling a Stock

The first rule for selling is . . . don't! . . . unless:

1) the company has had an adverse management change.
2) profit margins are declining or the financial structure is deteriorating.
3) direct or indirect competition stands to affect the company's long-term prosperity.
4) a company's success is too dependent upon a single product whose cycle is running out.
5) the company is in a cyclical industry and the cycle is about to start down.
6) you must, in order to maintain adequate diversification.
7) an issue of equal or greater quality offers more gain prospects on the upside and less risk on the downside.
8) the stock is way overpriced (at least 150% of the five-year Average P/E) and the company's earnings are growing at 12% or less. Even then, you might consider holding-or selling only some of it.

Note that, of the eight reasons for selling listed above, only the eighth suggests that you might sell to take a profit-and then only if: a) the price is way above average; and b) the company is growing relatively slowly.

The first five of the rules call for chucking losers. The sixth suggests "weeding and feeding" in order not to be grossly overweighted in any particular industry or market sector. The seventh and eighth call for replacing a stock with a low potential only when you can find one as good or better with a greater possible return. All of these rules come straight out of NAIC's "Official Guide."

NAIC has provided us with a complete arsenal of tools for evaluating the performance of the companies in your portfolio and helping you manage it effectively. These include: **PERT Report** (Portfolio Evaluation and Review Technique), **Portfolio Trend Report**, **PERT Worksheet-A**, **PERT Worksheet-B,** the **Portfolio Management Guide**, and the **Challenger**. First completed laboriously by hand, NAIC software has replicated these forms in earlier software and has automated much of the process of using those forms to accomplish your portfolio management tasks.

Your Investor's Toolkit 5 has taken this a giant step forward. With Version 5, the Toolkit now integrates those printed forms as a byproduct of a portfolio management ***process*** rather than having the forms drive that process. This process allows you to perform all the steps involved in both your defensive strategy, which deals with protecting your portfolio from harm and preventing loss, and your offensive strategy, which deals with enhancing the return on your portfolio.

In earlier versions of the Toolkit, Portfolio management began with the PERT (Portfolio Evaluation Review Technique) Report and continued progressively through the various forms, leaving it to the user to translate what appears to be a very complex form into an action plan. Because the PERT Report will always be a significant tool in the portfolio management practice, and because investment clubs will want to study this report for their club meetings, etc., Toolkit will continue to produce that form and the others as output. However, the important functions of those forms have been abstracted and are now a part of the process.

The Portfolio Management Process

The portfolio management process consists of two distinct strategies, ***Defense*** and ***Offense.***

Defense

No matter how diligently and conservatively you may have done your homework in selecting and following the stocks in your portfolio, conventional wisdom and history tell us that one out of every five stock you select will do poorly. The good news is that the other four will make money for you-one usually surpassing your expectations. Known in NAIC lore as the "**Rule of Five**," this statistical wisdom should give you some comfort when you're tempted to be too critical of yourself as those companies invariably fall by the wayside.

Such failures occur most often for reasons well beyond anyone's ability to predict them. Such unforeseen events range from the collapse of the ***Enron***s and ***Worldcom***s of the world, companies whose unscrupulous corporate governance surfaced and brought them down, to the likes of Bruno's, a flourishing food chain that fell when its entire corporate staff perished in an airplane accident. Usually, the conditions that cause the decline of companies you expected to be winners are so unpredictable they take company managements, analysts, and other financial professional by surprise as well. You certainly can't blame yourself for failing to foresee something that people whose every waking hour is devoted to running or following those companies couldn't predict and compensate for!

As the word implies, defense is the process of protecting your portfolio from the damage that can be inflicted on your portfolio's performance by that one out of five companies whose actual, fundamental performance fails to live up to the expectations you had when you purchased the stock. It is not at all related to the price of your stock. Declining prices are sometimes, but certainly not always, a result of declining fundamentals.

Once you have selected the portfolio that require your attention and updated the company data and prices:

1) **Compare**. Determine the percent of change between the current values of Sales, Pre-tax Profits, and Earnings per share and the values for the same period the previous year, selecting for further analysis those companies whose growth has not met the expectations you had when you bought the stock.

2) **Analyze**. Examine additional history to further refine your selection of companies that may be candidates for sale, determining if there has been a marked trend.

3) **Decide**. For those companies that remain of concern, use the resources available on the Internet to determine why performance has declined, selling as soon as possible those whose prospects for returning to the strong and steady growth that attracted you are remote.

Offense

Offense is the strategy of proactively improving the performance of your portfolio by replacing the fine companies whose stock prices have been bid up by investors to the point where they no longer can produce a desirable return. Of course, this discipline relates strictly to the price.

Once you've determined that the stocks in your portfolio are all companies with sound quality attributes:

1) **Check Risk and Reward**. Select those companies whose Relative Value, Upside/Downside Ratio, and Total Return indicate that they are overpriced and offer insufficient return, and at too great a risk.

2) **Reevaluate**. Review your Stock Selection Guide for each of those stocks, being sure your estimates of earnings growth and forecast high PEs are reasonable in view of current performance.

3) **Challenge**. Replace those companies whose return and risk remain unsatisfactory with other companies of equal or better quality and better potential returns

Implementing the Process with Toolkit 5

Because protection is crucial, defensive strategy is by far the most urgent and should be implemented conscientiously and regularly. However, because the data on which defensive strategy is based changes only four times a year for each stock, it will require your attention only when new financial results are reported each quarter.

Scheduling Defense

Approximately 60% of U.S. companies match their fiscal years with the calendar year. Retailers typically delay the end of their fiscal years for a month or two in order to capture the holiday activity at the end of the year. The majority of the remaining companies end their fiscal years at mid-year, with the rest scattered throughout the other months.

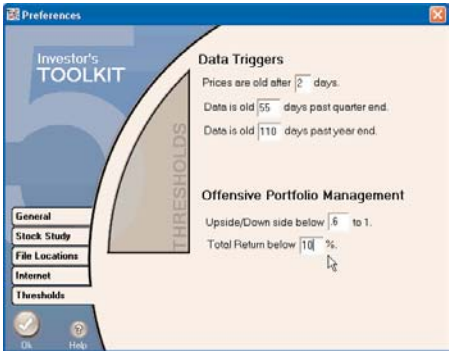
The Securities and Exchange Commission (SEC) gives companies ninety days after the end of the fiscal year to report their results and forty-five days to report after the close of the intervening quarters.

From this, it can be seen that the majority of your defensive workload will come right around tax season when most companies who close their books on December 31st will have until the end of March to report. By the time the data reaches the data providers and you have access to it–perhaps another two weeks–you're in the middle of April.

For this reason, you should set aside some time just after you have filed your income tax to do your defensive management. For those companies, you will expect to look at the first quarter's results in early June, the second quarter in early September, and the third quarter in early December–forty-five days to report, plus two weeks for the data providers to prepare the data for you.

Data Triggers

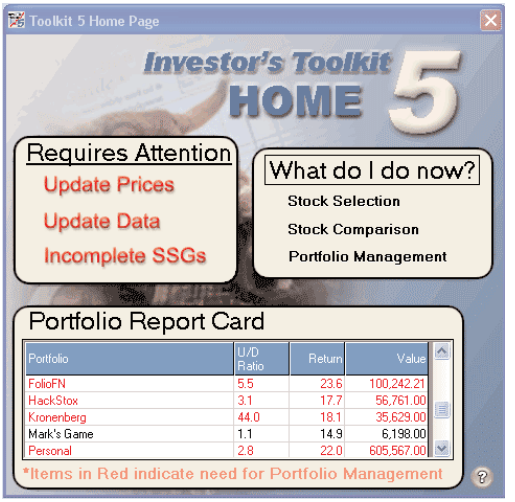
A new feature that Version 5 of the Investor's Toolkit provides is an automatic reminder that lets you know when the data for any company is due. You may set the number of days following the end of the fiscal year and quarters by accessing the **Preferences** and clicking on its **Thresholds** tab to enter your choices under **Data Triggers**:



Set your data triggers for at least 60 days beyond the end of the quarter and 105 days beyond the year end to allow ten days after reporting for processing. Entering triggers larger than that may prevent your being alerted to update your data prematurely; but, if you're intent on checking your portfolio as soon as possible after the data is reported, don't extend that period much beyond the recommendations. Here, you may decide when price data becomes stale and be notified of that as well.

Toolkit 5 keeps track of the dates when the quarters and fiscal years end; and, when that date has passed, will notify you in the "**Requires Attention**" section on your **Home Page** that there are companies whose data is due to be reported:

Home Page

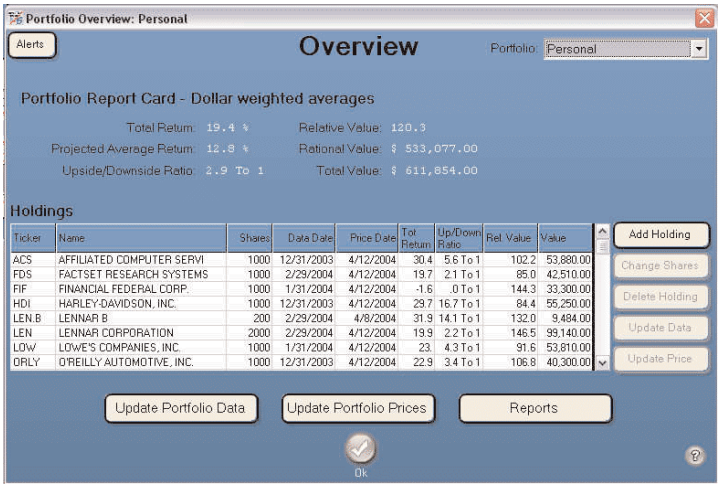


Clicking on "**Update Data**" in the "**Requires Attention**" box will display those companies whose data should be available and you may elect to update any company individually or all of them at once.

Although defense has nothing to do with the price of the stock, you might as well click on "**Update Prices**" while you're at it. This will update all of the prices in your system in a couple of seconds.

Now, you're ready to go to work on your portfolio(s). The "**Portfolio Report Card**" on your **Home Page** is probably the most convenient place to start. Any portfolio containing a company or companies requiring your attention–either as a candidate for defensive or offensive action–will be listed in red. Here you can see the aggregate return and risk for that portfolio as well as its total value. Double-click on that portfolio to display its **Overview** window.

Overview Window



The **Overview** window is a comprehensive look at your selected portfolio as a whole. At the heart of the portfolio management process, it permits you to see how recent the data and prices are, to update the data and/or prices for either for a single stock or for the entire portfolio, to add or delete holdings, and to view the related reports and worksheets. You may use the pull-down menu at the upper right to change to another portfolio without having to return to the **Home Page** or docked **Stock Library**.

The dollar-weighted averages provide you with the portfolio's important aggregated and dollar-averaged criteria (based on dollars invested rather than number of shares):

Total Return. Total Return for each stock in your portfolio is the annualized, compounded return you might expect on that investment, based on purchasing it at the current price, selling it after five years at its forecast high price, and receiving any dividends expected to be paid in the intervening years. It is expressed as a percentage. The portfolio's average Total Return is the dollar-weighted average of all of the stocks in your portfolio. Since your goal is to produce or exceed an average portfolio return of 14.9%, this is a valuable measure of whether or not

your portfolio is in a position to give you that desired hypothetical return. When you make any changes in the composition of your portfolio, the result will show up here, giving you guidance as to how those changes might affect its performance. (See the Glossary, page 361 for the calculation.)

Projected Average Return. This is a value calculated in the same way as Total Return but the calculation uses the forecast Average PE rather than the forecast High PE to determine the price at which the stock would be hypothetically sold. While PE expansion is an important part of investment return, it is useful to determine what kind of return you might expect should there be little or no increase in the price investors would pay for a dollar's worth of your companies' earnings. (See page 361 in the Glossary.)

Upside/Downside Ratio. This is NAIC's standard measure of risk versus reward. Applied to the portfolio as a whole, it can provide you with a check on the portfolio's vulnerability. You will strive for a continuing ratio of reward to risk of three to one and, should that value decline substantially, you will want to ferret out those stocks whose Upside/Downside Ratio erodes the portfolio's average. (See Page 362 in the Glossary.)

Relative Value (RV). The dollar-weighted average Relative Value of the portfolio tells you how the aggregate prices of all your stocks–expressed as a multiple of their earnings–compare with the prices investors have historically paid for those shares. The assumption is that, barring any specific reasons to the contrary, the Price Earnings ratios of all stocks will tend to gravitate toward their average value or "signature PE." (See Glossary page 358.)

A RV of more than 110% for your portfolio indicates that some shares in your portfolio are probably overpriced at the moment, compared with what they have been historically.

A low RV, below 85% or lower, indicates shares in your

portfolio are selling at a lower PE than they have historically. You might wish to investigate whether one or more holdings is selling for an especially low multiple indicating that there may be some problem with the company that bears further research.

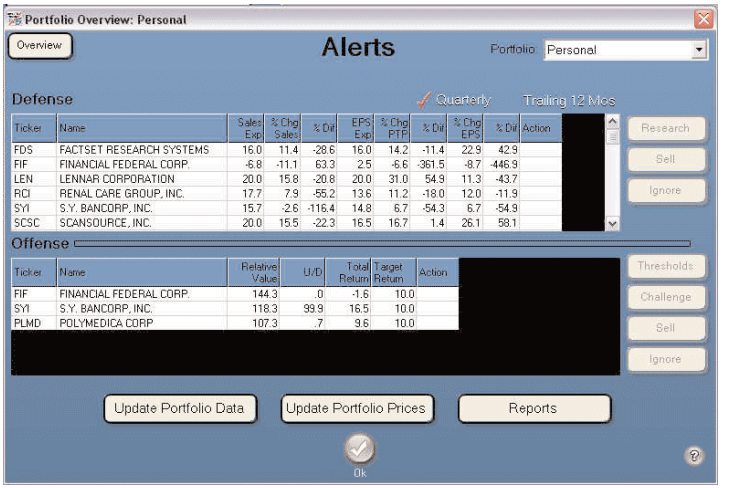
Rational Value. This is a new concept with Toolkit 5 and is the "flip side" of RV. If Relative Value tells you how the current PE of your holdings compares with the average PE of those holdings, Rational Value goes one step further and tells you what your holdings would be worth if investors were paying the average PE for them. The aggregate Rational Value shows you what your portfolio would be worth if your shares were selling for their "normal" price based on the earnings of the underlying companies. This is especially useful to you when the market is either extremely overpriced or undervalued. It can tell you the real value of your portfolio were it not to be influenced by the vagaries of the marketplace, keeping your feet on the ground during a "bubble" and your head high in a "bust."

In the "Holdings" grid beneath, you can see the contribution each company makes to the portfolio you're working on. Here you may analyze each company's data and price for timeliness, view or alter the number of shares, and look at the risk, reward, and relative value of each holding. You can also update the data and prices for one or all of the stocks in the portfolio.

NOTE: Companies whose SSGs have not yet been completed are displayed in **red** in the **Overview** window. You may double-click on that company to finish adding judgment to the SSG and permit it to be included in your defense and offense analyses.

The Alerts Window

The first step in either defense or offense is accomplished by clicking on the "**Alerts**" button at the top left corner of your **Overview** window.



This will display for you all of the stocks in the portfolio requiring either defensive or offensive attention.

You may toggle between the **Overview** and **Alert** windows using that button, now labeled **Overview**. Again, you may also select another portfolio at any time from the pull-down menu in the top right corner of this screen.

Note that the **Alert** window is divided into two grids, "**Defense**" and "**Offense**." Defense is the most critical and should be handled on a regularly scheduled basis. The schedule for your offense task is not so critical, but should be addressed only when you're satisfied that all of the stocks in your portfolio would survive your defensive scrutiny and remain in your portfolio.

In most cases, a company that is a prospect for sale for defensive considerations (i.e., whose fundamental performance has declined) will show a decline in price because its performance will induce investors to sell. This reduction in price will tend to elevate the hypothetical

return and reduce apparent risk. For this reason, it is unlikely that companies that are marginal will appear on both of the **Alert** grids at the same time.

Occasionally, however, a favored company whose fundamental performance has foundered will enjoy a slow reaction from investors. In such a case, investors will continue to pay too high a price for the stock in view of its apparent future earnings capability. Should this reduction in forecast earnings result in a reduction in the future high price–and the hypothetical return be reduced accordingly–it is possible for the stock to show up both in both the Defense and Offense grid. In such cases, you should be aware of this dichotomy when you perform your defensive review and sell the stock if you can't justify holding it on the basis of future return. If you should decide to hold the stock because you believe management will turn around a short-term problem, you should make certain that your SSG reflects the return you would expect from the turn-around and does not stay in your portfolio despite its unacceptable forecast return.

Defense: Compare, Analyze, Decide

Toolkit 5 provides you with a simple mechanism to easily implement the three basic steps for your defensive strategy.

Compare

Toolkit 5 saves you all the trouble of scrutinizing the **PERT Report** to find the problem companies. In the **Alerts** screen, it abstracts from your portfolio and displays only those companies that should claim your attention. Thus the "**Compare**" step is completed automatically just by clicking on the **Alerts** button.

Analyze

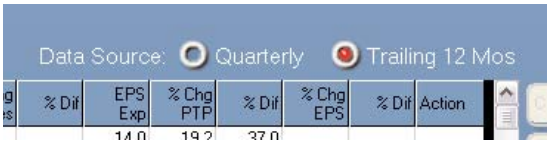
In the Defense grid you will find listed all the stocks in the portfolio whose recent growth falls below your original expectation when you purchased the stock. Your goal here is to identify the companies that appear to be seriously and/or steadily declining from the growth rate you

used as your estimate. Needless to say, it would not be a sound decision to simply sell all those whose faltering performance has landed them on the **Alert** page. While all displayed will have slipped below your threshold of expectation, some have not performed badly enough to bother with further action and you will want to give them another quarter or two to see what happens. Those remaining will require further steps.

Your estimates for sales and earnings growth determine your expectations, and those expectations are displayed in the "**Sales Exp**." And "**EPS Exp**." columns for each stock. **NOTE**: Because you had no opportunity to forecast a growth rate for Pre-tax Profit, your selected EPS growth rate serves as its proxy.

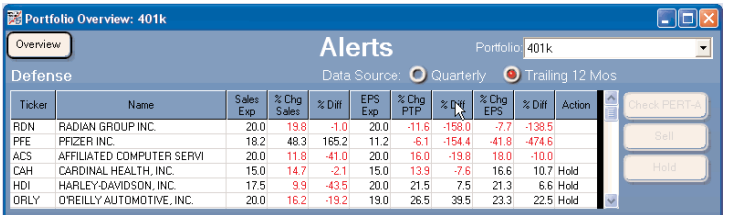
Actual performance is displayed in the "**%Change Sales**," "**%Change PTP**," and "**%Change EPS**" columns. Compare these values with your expectations. These columns represent the annual growth of the displayed companies over the last twelve months.

Note that you may click on the text, "**Quarterly**" or "**Trailing 12 Mos,**" just above the grid. Clicking on "**Quarterly**" displays the percent change between the most recent quarter and the same quarter the year before. "**Trailing 12 Mos.**" Displays the percent change between the sum of the most recent four quarters and the same period for the previous year.



It's best to select "**Trailing 12 Mos**" above the grid for your initial analysis. Doing so will tend to dampen the effect of changes in individual quarters. When performance is bad enough to cause a serious decline in the trailing twelve month performance, it will warrant looking further to see if the cause was a single quarter bad enough to have dragged the entire year down, or a series of quarters

that have trended down and have finally taken their toll. Each of these conditions would warrant a different approach to researching the problem when or if it's necessary.



Ticker	Name	Sales Exp	% Chg Sales	% Diff	EPS Exp	% Chg PTP	% Diff	% Chg EPS	% Diff	Action
RDN	RADIAN GROUP INC.	20.0	19.8	-1.0	20.0	-11.6	-158.0	-7.7	-138.5	
PFE	PFIZER INC.	18.2	48.3	165.2	11.2	-6.1	-154.4	-41.8	-474.6	
ACS	AFFILIATED COMPUTER SERVI	20.0	11.8	-41.0	20.0	16.0	-19.8	18.0	-10.0	
CAH	CARDINAL HEALTH, INC.	15.0	14.7	-2.1	15.0	13.9	-7.6	16.6	10.7	Hold
HDI	HARLEY-DAVIDSON, INC.	17.5	9.9	-43.5	20.0	21.5	7.5	21.3	6.6	Hold
ORLY	O'REILLY AUTOMOTIVE, INC.	20.0	16.2	-19.2	19.0	26.5	39.5	23.3	22.5	Hold

The columns adjacent to the "**%Change**" columns headed "**%Dif**" display the magnitude of the difference between expected and actual performance, expressed as a percentage of your expected growth rate. This column enables you to see clearly which companies require your attention most urgently.

Ranking

Any column can be ranked in ascending or descending order by clicking or shift-clicking, respectively, on the column header. This enables you to bring the worst or best performers to the top of the list and deal with them in order of severity. For both defense and offense, it's best to sort the "**%Dif.**" column in ascending order to highlight and bring the worst cases to the top of your list.

You may want to try ranking on the "**%Change**" column to see the difference in the way the companies are ranked (if any) and why it's better to sort on the "**%Dif.**" field.

You will want to look at each of the three parameters in this order: Sales, Pre-tax Profit and EPS for the purpose of selecting those that you feel warrant further action.

With only a few companies displayed there, it's a simple matter to "eyeball" those whose performance warrants further research and go on to the next step. However, if the list is long enough to require scrolling to see all of the questionable stocks, you will want to apply a simple, systematic process to this second step.

1) Click on "**Trailing 12 Mos**" above the grid to display the performance for the 12-month figures.

2) Next, rank them in order of **%Dif**. for sales.

3) Scroll down the list until you reach the point where the difference between expectation and actual performance is acceptable.

4) Select each of the stocks below that point and click on the "**Hold**" button to mark them for retention.

5) Repeat the process for Pre-tax Profit, ranking the stocks on "**%Dif**." You will probably find one or more whose Pre-tax Profit performance is unacceptable even though sales growth was. Click the "**Hold**" button for any such stocks to remove the "Hold" action and return them to "further investigation" status.

6) Do the same for EPS.

When you have completed this step–time permitting (or your own conservative nature demanding it)–you may wish to add any companies to your list to investigate whose most recent quarter was poor, notwithstanding the fact that the trailing twelve month performance was not disappointing enough to have caused you concern. While single, quarterly changes are often not significant enough, in themselves, to warrant taking immediate action, they can be significant alert signals to detect the possible onset of longer-term trends.

Click again on each of the "**%Dif.**" columns to rank them by their severity and then toggle between the "**Quarterly**" and "**Trailing 12 Mos.**" buttons to bring the poor quarterly performance to the top. Should you see especially large negative values for the "**%Dif.,**" and a "Hold" in the action column, click again on the "**Hold**" button to include the stock in your investigation list.

As you perform this task, look for companies for which you may have deliberately set your growth expectations

below what you considered desirable because PE expansion was sufficient to present you with an attractive return. (P/E expansion is simply an increase in the price people are willing to pay for a dollar's worth of earnings and, as positive fundamental performance influences investors, that price can increase, especially if it's low to begin with.)

Challenge any such stocks during this process. PE expansion can offer the required return in the absence of adequate earnings growth only when the price is well below a reasonable price. You will want to investigate to find out why the price is as low as it is before you can be comfortable about keeping this stock in your portfolio. If the new data doesn't give you reason to be as optimistic as you were when you first accepted the less-than-desirable growth, you should probably get rid of it. At the very least, you should confirm your quality assessment.

When you have systematically combed through your Defense list in this fashion, all companies that require a decision will show a blank in the "Action" column and you are ready to complete the last phase of the Defense process.

Decide

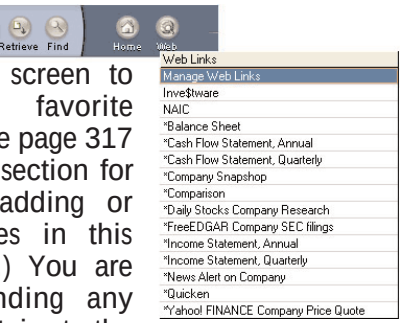
Now that you've assembled the companies you want to investigate, it's time to research each of them to decide whether the problems call for dumping it or giving management a further chance to correct the problem.

This is a structured process as well:

1) Rank on the "**%Dif**." for Sales
2) Select each company at a time that has a blank action line and click on the "Check PERT-A" button to the right of the grid (or double-click on the grid line). This will bring up the PERT-A Report. It tabulates as much quarterly information as you have in your database, up to nine years.
3) Examine the quarterly and trailing twelve months'

data, looking for trends. You may do this using the tabulation displayed on the **PERT-A** form, or you may find it more meaningful to select "**PERT-A Graph**" from the pull-down menu on the upper left of the window and see the same information displayed graphically. See page 185 below for a more detailed discussion of this form and its graph. If the company shows a trend that indicates a long-term decline that has remained below your expectation for more than a couple of quarters without starting back, return to the **Alert** screen and click on the "**Sell**" button. If the trend is short, is a matter of a single quarter, appears to be on its way to coming back, or gives you cause for optimism, go to the next step.

4) Click on the Web button at the top of your screen to explore your favorite research sites. (See page 317 in the **How to...** section for instructions on adding or deleting addresses in this pull-down menu.) You are interested in finding any comment that pertains to the poor performance that attracted your attention. If you find that explanations given by the company, analysts, or journalists in news reports are credible and optimistic, you may decide to Hold the stock for another quarter to see if your optimism is warranted. Return to the Alert screen and click "Hold." If you find no encouragement and remain in doubt, return to the Alert screen and click "Sell."



5) Repeat this process, sorting on the "**PERT-A**." for Pre-tax Profit and finally for EPS.

6) When you have filled all of the blanks in the

"Action" column, click on "Reports" and print out your Defense Report to give you guidance when you contact your brokerage to follow through on your "Sell" decisions. The basis for making such a decision is the nature of the problem that has caused the disappointing performance. The question that must be answered is whether the problem is a transient one that is within management's capacity to handle, whether it's a longer-term issue that management is likely to be helpless to resolve, or whether the problemm is likely to last long enough that your money would be better utilized elsewhere.

To sell or not to sell

Toolkit 5 gives you all the tools you might require to learn what you need to learn and make the final decision for the current quarter. The mechanical steps are simple, but the judgments that result from them are somewhat more subjective and a bit less intuitive. You do not want to sell capriciously stocks you worked so hard to select. So long as it makes sense to do so, you will want to give them the chance to correct problems that arise in the course of business.

However, your own common sense is good enough to tell you whether the problems besetting the company are serious. If, after looking at what the company, analysts covering the company, and the news reports and releases have to say about the problems, you are still uncertain, the best advice is, "***When in doubt, throw it out!***"

Look at Sales first for two reasons. First, a downturn in revenue will ultimately result in a downturn in profits and ultimately in earnings. If you can catch a trend before it reaches the bottom line, you may be able to sell the company before other investors have reacted to the decline in earnings that will follow and save yourself some money.

Secondly, like a huge ship under way, it takes a strong force and a lot of time to change direction. Sales are generally the most stable statistics, and the market for a prod-

uct or service doesn't drastically change overnight unless there's a significant reason. The impact of the introduction of a competitive product or service–one that makes the product suddenly obsolete–is the kind of thing that can cause a dip in sales with long-term implications.

Marketing gaffes, large-scale catastrophes, a demoralized sales force–all can impact sales and need to be analyzed to determine how well management may handle them.

There are some things peculiar to various industries, of course. Companies whose businesses depend upon the weather or other unpredictable conditions are an example. Gas or oil sales can be off because of a mild winter, for instance.

Next in importance is the percent change of Pre-tax Profit, which would be the first indicator of a future downtrend in earnings.

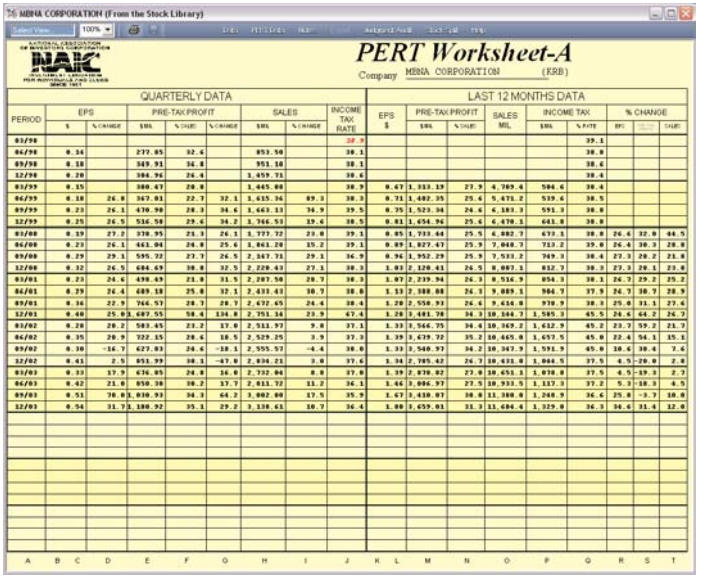
More than a quarter period of decline in profits will nearly always result in a downtrend in both earnings and in the stock price. It may well be a harbinger of things to come in terms of the ability of the company's management to sustain its previous rosy rate of earnings growth.

The 12-months trailing earnings, and then the quarterly earnings, are last in priority because it's likely that the investing public will have already reacted to that decline. By the time the problems have hit the bottom line, it's probably already too late to do anything but cut your losses and get out.

The PERT-A Worksheet

When you first did your **Stock Selection Guide**, you looked critically at the Pre-tax Profit as a percent of Sales (profit margins) in Section 2A. You did so to see if the company's management was managing its costs in a fashion that would enable its growth in sales to be paralleled or exceeded by its earnings growth.

Now that you own stock in this company, your interest in the same factors should be even keener since your money is now in the care of that management team.



PERT Worksheet-A

Company MBNA CORPORATION (KRB)

PERIOD	QUARTERLY DATA									LAST 12 MONTHS DATA									
	EPS		PRE-TAX PROFIT			SALES		INCOME TAX RATE		EPS	PRE-TAX PROFIT		SALES	INCOME TAX		% CHANGE		
	$	% CHANGE	$MIL	% CHANGE	% CHANGE	$MIL	% CHANGE			$	$MIL	% CHANGE	$MIL	$MIL	% RATE	EPS		SALES
03/98								39.3							39.1			
06/98	0.34		277.05	32.6		853.50		38.1							38.8			
09/98	0.38		349.91	36.8		951.18		38.1							38.6			
12/98	0.20		384.96	26.4		1,459.71		38.6							38.4			
03/99	0.15		388.47	29.8		1,445.88		38.9		0.67	1,333.19	27.9	4,709.4	584.6	38.4			
06/99	0.18	26.8	367.01	22.7	32.1	1,615.36	89.3	38.3		0.71	1,402.35	25.4	5,471.2	539.6	38.5			
09/99	0.23	26.1	470.98	28.3	34.6	1,663.13	74.9	39.5		0.75	1,523.34	24.6	6,183.3	591.3	38.8			
12/99	0.25	26.5	516.58	29.6	34.2	1,746.53	19.6	38.5		0.81	1,654.96	25.6	6,670.1	641.8	38.8			
03/00	0.19	27.2	378.95	21.3	26.1	1,777.72	23.0	39.1		0.85	1,733.44	25.5	6,882.7	670.1	38.8	26.4	32.8	46.5
06/00	0.23	26.1	461.04	24.8	25.6	1,861.28	15.2	39.1		0.89	1,827.47	25.9	7,040.7	713.2	39.0	26.4	30.3	28.8
09/00	0.29	29.1	595.72	27.7	26.5	2,147.71	29.1	36.9		0.96	1,952.29	25.9	7,533.2	749.3	38.4	27.3	28.2	21.8
12/00	0.32	26.5	684.69	30.8	32.5	2,220.43	27.1	38.3		1.03	2,120.41	26.5	8,087.1	812.7	38.3	27.3	28.1	23.8
03/01	0.23	24.6	490.69	21.8	31.5	2,287.58	28.7	38.3		1.07	2,239.94	26.3	8,516.9	854.3	38.1	26.7	29.2	25.2
06/01	0.29	26.4	589.18	25.8	32.1	2,433.43	38.7	38.0		1.13	2,388.88	26.1	9,089.1	904.7	37.9	26.7	30.7	28.9
09/01	0.36	22.9	766.57	28.7	28.7	2,672.65	24.4	38.4		1.20	2,558.93	26.4	9,636.8	970.9	38.3	25.8	31.1	27.4
12/01	0.40	25.0	1,687.55	58.4	134.8	2,751.34	23.9	67.4		1.29	3,481.78	34.3	10,344.7	1,585.3	45.5	24.6	64.2	26.7
03/02	0.28	28.2	583.45	23.2	17.8	2,511.97	9.8	37.1		1.33	3,566.75	34.4	10,369.2	1,612.9	45.2	23.7	59.2	21.7
06/02	0.35	28.9	722.15	28.6	18.5	2,529.25	3.9	37.3		1.39	3,679.72	35.2	10,465.8	1,657.5	45.0	22.4	54.1	15.1
09/02	0.38	-16.7	627.83	24.6	-18.1	2,555.57	-4.4	38.0		1.33	3,548.97	34.2	10,347.9	1,591.9	45.0	18.6	39.4	7.4
12/02	0.41	2.5	851.99	38.1	-47.0	2,834.21	3.0	37.6		1.34	2,785.42	26.7	10,431.8	1,044.5	37.5	4.5	-20.0	2.8
03/03	0.33	17.9	676.85	24.8	16.8	2,732.84	8.8	37.8		1.39	2,870.82	27.0	10,651.1	1,078.8	37.5	4.5	-19.3	2.7
06/03	0.42	21.8	850.38	30.2	17.7	2,811.72	11.2	36.1		1.46	3,006.97	27.5	10,933.5	1,117.3	37.2	5.3	-18.3	4.5
09/03	0.51	70.0	1,030.93	34.3	64.2	3,002.88	17.5	35.9		1.67	3,410.07	30.8	11,388.8	1,248.9	36.6	25.8	-3.7	10.0
12/03	0.56	31.7	1,180.92	35.1	29.2	3,138.61	10.7	36.4		1.80	3,659.01	31.3	11,684.4	1,329.8	36.3	34.6	31.4	12.0

The **PERT Worksheet-A** allows you to see subtle, insidious downtrends that may not have alarmed you on a quarter-to-quarter basis, but that, over time, might have aggregated into a substantial decay in performance.

The PERT Worksheet-A data can give you a great deal of insight into the past behavior of the company if you have accumulated sufficient data.

For example, looking at the trends in Sales, Pre-tax Profit, and Earnings, you should be able to see how much of the growth in Earnings might have been caused by reduced taxes as opposed to increased sales. You should be able to track the company's performance during periods when times were bad to see how successfully the management team led the company through the "thin" as well as the "thick."

Perhaps you will be able to see instances of similar performance in the past that can tell you how well the company has managed them.

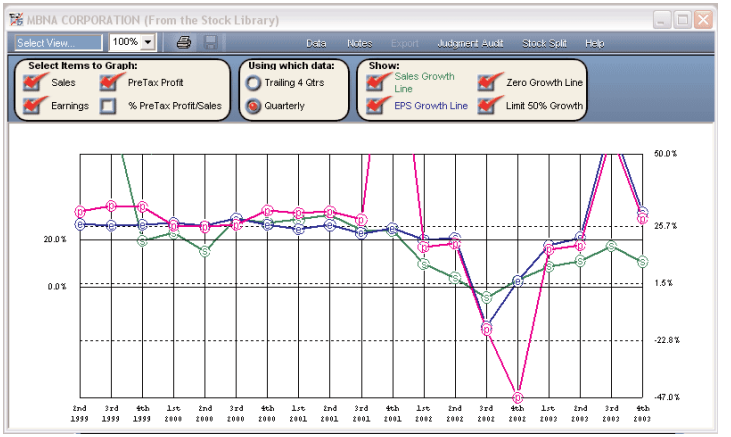
A word of caution is in order. Needless to say, the further back in history you go, the less relevant is the informa-

tion–recognizing that a myriad of changes in the management team, the market, or the product line might have occurred in the intervening years. It may well have been, for instance, that a change in management was responsible for a previous turnaround, and an entirely different set of factors are taking a toll on this occasion.

Looking at the right side of the form will give you more significant data, because the sharp edges are smoothed by comparing the total of four quarters, instead of a single quarter, with the same period in the previous year.

PERT-A Graph

Click on the pull-down menu to the left of the screen and select **PERT-A** Graph.



Probably the most informative part of the PERT Worksheet-A is the graphic display of the percent changes and profit margins. Click on the "**PERT-A** Graph" button at the top of the PERT Worksheet-A to display it. The **PERT-A** Graph will open with the Sales and Earnings Growth and the Estimated Earnings Growth Rate already displayed.

The **PERT-A** Graph can display the percent change of any or all of Sales, Earnings, Pre-tax Profit, or % Pre-tax Profit on Sales (profit margins) on either a quarter to quarter or

for the (annual) sum of the quarterly trailing 12 month period. The % Pre-Tax Profit/Sales displays the profit margins for each period. Selection of Sales, Earnings or Zero Growth Lines permits you to compare actual performance with your expectations. Limit 50% Growth restricts the display to 50% above or below zero in order to make the graph more meaningful when wide variations occur.

You may overlay a zero growth line or, better still, your expected earnings and/or sales growth lines. This provides you with a graphic depiction of the percent changes relative to the growth you had anticipated, and you can clearly see if, when, and how severely the actual performance fell below your expectations.

Percent Changes. This chart has been the source of considerable confusion for those who compare it with charts showing the raw data. Remember, the points on this graph represent percentages and are either the percent change for a single quarter compared with its counterpart the previous year, or for the sum of four quarters, compared with a similar period the year before. You are analyzing the trends in those percentages and not in the data itself.

Percent Change = ((Current/Previous) - 1) x 100

Print a Defense Report

On completion of the defensive process, you may print out a "Defense Report" to chronicle the reasons for your decisions and to serve as a reminder should you need to sell any of your holdings. You may access this as well as any of the other NAIC forms by clicking the "**Reports**" button on the **Alerts** screen.

For a more detailed description of the **Defense Report,** see **NAIC Forms**, page 202 below.

Offense: Check Risk & Reward, Re-evaluate, Challenge

> ***Note: Offensive strategy should not be implemented unless all of the stocks in the portfolio have been subjected to and survived defensive scrutiny. As with the Stock Selection Guide, decisions based on price are of no value unless the Quality criteria are met. Companies whose fundamentals are sub-par will usually sell at lower prices and exhibit risk and return values that appear seductively favorable. For this reason, they will rarely appear as candidates for offense.***

The offensive strategy may be applied at any time the spirit moves you. It's not nearly so urgent as is the need for defensive strategy because the companies in question not only are good companies that are presumed to be performing at or close to your expectation, they are those that the investing public is or has been rewarding by paying a higher and higher price for their stock.

The consequence of leaving such companies in your portfolio is not all that dire because they are fine companies and you aren't likely to lose money on them. The point is, however, you're not likely to make money on them either!

You should be especially alert for the need for this strategy when the stock market is acknowledged to be in overvalued territory. This is when that "rising tide that lifts all boats" is most likely to produce companies whose stock prices are so overvalued as to give you an excellent opportunity to capture the excessive gains and put the money into as good companies whose stock prices have yet to be pushed into overvalued territory. ***If you follow this strategy diligently, you'll never be caught in a bursting "bubble," and your portfolio will be able to deliver its maximum performance.***

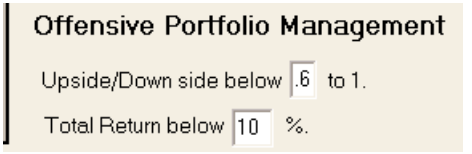
Check Risk and Reward

As with Defensive strategy, the portal to the offensive portfolio management process is the **Overview** window. This is best accessed by double-clicking on the desired portfolio displayed on the **Home Page**. Any portfolio requiring either offensive or defensive attention will be shown in red in the **Portfolio Report Card**.

While you can readily analyze the "**Total Return**" and "**Upside/Downside Ratio"** columns and see if any of your companies are approaching an overvalued state, again, the easiest way to segregate those that exceed your thresholds for risk and reward is to click on the **Alerts** button at the top, left of the screen. As it did with defense, this automatically takes care of the first step, "Check Risk and Reward," when you do so. All of the companies whose return is below and/or whose risk is above your thresholds will be abstracted from your portfolio and displayed in the **Offense** grid.

Thresholds. It's your choice as to how sensitive these thresholds should be. If you wish to have every company highlighted whenever the new price drives it below your desired 15% return or 1:1 U/D ratio, you need do nothing.

With prices as volatile as they are, however, you may wish to pursue your offensive strategy only at the point when your companies' potential return declines and/or their risk increases to a more critical level, so as not to be bothered with reminders unless there is a substantial opportunity to benefit from a company's replacement.



If so, you may reduce your thresholds to a more modest level in the "**Preferences**" dialog, under the "**Thresholds**" tab. This will limit the occasions when you'll be advised

that there's an opportunity to upgrade your portfolio's potential return.



In the Alerts screen, you also have the opportunity to set the threshold to a different value for individual companies if you wish. Just select the company and click on the **Threshold** button and you will be able to do so.

It's unlikely, unless the market is experiencing another "bubble," for more than a few stocks to be in the overvalued range. However, if there are enough to produce a scroll bar on the right side of the grid, you may wish to rank the companies by clicking on "**Total Return**" to bring the stock with the lowest return to the top of the list and work in that order.

Reevaluate

Starting with the company having the lowest potential return and/or Upside Downside ratio, double-click on the line for the first company to bring up its **Stock Selection Guide**.

Your goal in reevaluating this company is to bring your expectations more into line with the company's actual performance than with the conservative and modest forecasts you made when you were considering purchasing the company. It's certainly conservative to understate estimated future performance when you contemplate buying a stock; but, once you own it, you can afford to be a bit more aggressive in your forecasts to avoid selling a stock prematurely. You certainly don't want to incur the cost of replacing a company when its current performance can make you money. Of course, it goes without saying that you don't want to overstate current or expected performace either.

Is this company growing at a faster rate than you estimated it would? If so, you might want to raise your estimate of future earnings growth some. It's probably not a good idea to raise it more than half-way between the estimate and its current performance. This will provide you with a bit of a cushion should growth start to decline.

Next, turn the SSG over ([Ctl+F]) and look at your forecast for the future High PE in Section 4A. How does it compare with your actual high PEs in Column 3D? You may have capped it at 30 because you know a higher multiple is not sustainable; but investors may be paying as much as 40 times earnings or more. Again, you can raise your forecast reasonably and modestly staying below the half-way point or, perhaps, limiting yourself to an additional five points.

When you have finished with whatever reasonable alterations you are comfortable with, save the SSG and return to your **Alert** window. Continue the process until you have reevaluated each of the companies displayed. Some or all may have disappeared, in which case the revised return and risk now meet your threshold requirements. If any companies remain in the Offense grid, go on to the next step.

Challenge

One of the most difficult tasks has been to select a worthy replacement for an overvalued company. You are admonished to pick a company to replace the overvalued one with one that is of equal or better quality and that has a better potential return. This means its growth and efficiency characteristics must be as good or better.

In the past, you had to maintain a watch list of stocks that might be suitable and select one or another from that list to compare with the challenged stock.

This process has now been made delightfully simple with the "**Smart Challenger**."

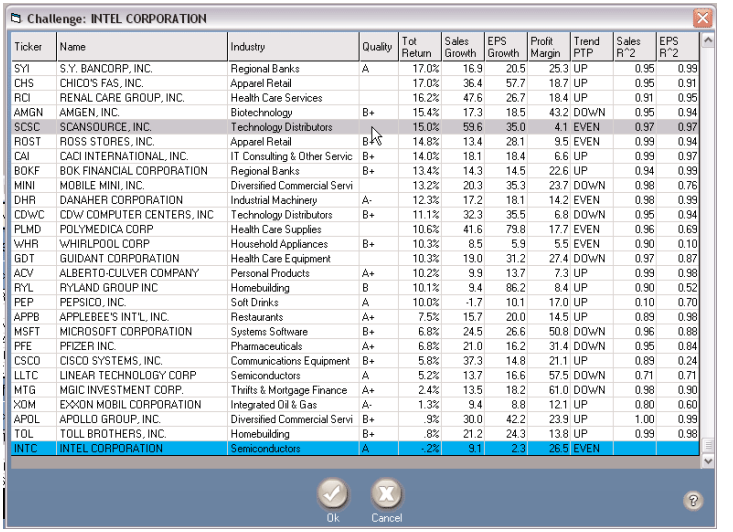
Smart Challenger



To activate the **Smart Challenger**, in your Offense grid simply select the stock you wish to replace and click the "**Challenge**" button. (You can also invoke the Smart Challenger by selecting a stock in the Portfolio section of the Stock Library and clicking on the **Challenge** button at the bottom.)

In the dialog that appears, enter the price you paid for the stock when you purchased it. (You may have to answer some other questions if you didn't do so when you created the portfolio initially.)

You will now find the challenged stock listed and highlighted with all of the other stocks in your stock library. Those stocks are ranked in order of return so that all that appear above the challenged stock will have greater return while those below will offer less.

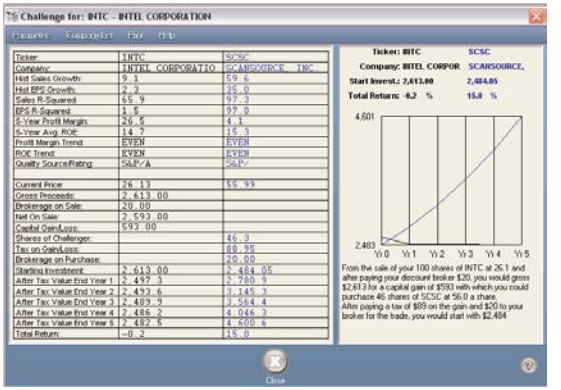


Ticker	Name	Industry	Quality	Tot Return	Sales Growth	EPS Growth	Profit Margin	Trend PTP	Sales R^2	EPS R^2
SYI	S.Y. BANCORP, INC.	Regional Banks	A	17.0%	16.9	20.5	25.3	UP	0.95	0.99
CHS	CHICO'S FAS, INC.	Apparel Retail		17.0%	36.4	57.7	18.7	UP	0.95	0.91
RCI	RENAL CARE GROUP, INC.	Health Care Services		16.2%	47.6	26.7	18.4	UP	0.91	0.95
AMGN	AMGEN, INC.	Biotechnology	B+	15.4%	17.3	18.5	43.2	DOWN	0.95	0.94
SCSC	SCANSOURCE, INC.	Technology Distributors		15.0%	59.6	35.0	4.1	EVEN	0.97	0.97
ROST	ROSS STORES, INC.	Apparel Retail	B+	14.8%	13.4	28.1	9.5	EVEN	0.99	0.94
CAI	CACI INTERNATIONAL, INC.	IT Consulting & Other Servic	B+	14.0%	18.1	18.4	6.6	UP	0.99	0.97
BOKF	BOK FINANCIAL CORPORATION	Regional Banks	B+	13.4%	14.3	14.5	22.6	UP	0.94	0.99
MINI	MOBILE MINI, INC.	Diversified Commercial Servi		13.2%	20.3	35.3	23.7	DOWN	0.98	0.76
DHR	DANAHER CORPORATION	Industrial Machinery	A-	12.3%	17.2	18.1	14.2	EVEN	0.98	0.99
CDWC	CDW COMPUTER CENTERS, INC	Technology Distributors	B+	11.1%	32.3	35.5	6.8	DOWN	0.95	0.94
PLMD	POLYMEDICA CORP	Health Care Supplies		10.6%	41.6	79.8	17.7	EVEN	0.96	0.69
WHR	WHIRLPOOL CORP	Household Appliances	B+	10.3%	8.5	5.9	5.5	EVEN	0.90	0.10
GDT	GUIDANT CORPORATION	Health Care Equipment		10.3%	19.0	31.2	27.4	DOWN	0.97	0.87
ACV	ALBERTO-CULVER COMPANY	Personal Products	A+	10.2%	9.9	13.7	7.3	UP	0.99	0.98
RYL	RYLAND GROUP INC	Homebuilding	B	10.1%	9.4	86.2	8.4	UP	0.90	0.52
PEP	PEPSICO, INC.	Soft Drinks	A	10.0%	-1.7	10.1	17.0	UP	0.10	0.70
APPB	APPLEBEE'S INT'L, INC.	Restaurants	A+	7.5%	15.7	20.0	14.5	UP	0.89	0.98
MSFT	MICROSOFT CORPORATION	Systems Software	B+	6.8%	24.5	26.6	50.8	DOWN	0.96	0.88
PFE	PFIZER INC.	Pharmaceuticals	A+	6.8%	21.0	16.2	31.4	DOWN	0.95	0.84
CSCO	CISCO SYSTEMS, INC.	Communications Equipment	B+	5.8%	37.3	14.8	21.1	UP	0.89	0.24
LLTC	LINEAR TECHNOLOGY CORP	Semiconductors	A	5.2%	13.7	16.6	57.5	DOWN	0.71	0.71
MTG	MGIC INVESTMENT CORP.	Thrifts & Mortgage Finance	A+	2.4%	13.5	18.2	61.0	DOWN	0.98	0.90
XOM	EXXON MOBIL CORPORATION	Integrated Oil & Gas	A-	1.3%	9.4	8.8	12.1	UP	0.80	0.60
APOL	APOLLO GROUP, INC.	Diversified Commercial Servi	B+	.9%	30.0	42.2	23.9	UP	1.00	0.99
TOL	TOLL BROTHERS, INC.	Homebuilding	B+	.8%	21.2	24.3	13.8	UP	0.99	0.98
INTC	INTEL CORPORATION	Semiconductors	A	-.2%	9.1	2.3	26.5	EVEN		

To select an appropriate challenger, begin at the top of

the list. Each company is displayed with its industry, quality rating, total return, sales and earnings growth, profit margin, and PTP Trend (actually the trend in Pre-tax Profit Margins). If diversification by industry is important to you when you replace a stock, you can look down the list until you find a company in the same industry as that which you're challenging. Then check out the growth and other quality statistics to make sure it's of as good quality. If not, keep coming down the list until you satisfy that requirement.

When you come to a company that looks promising and displays both superior, or at least similar, quality criteria and has a better hypothetical return (which it will, so long as it is above the challenged stock in the list), you may double-click on that company to reveal the individual **Challenger**.



Here is where you can see the detail of your proposed replacement transaction. Check out the Quality criteria at the top of the page. Then note how long it will take for the replacement to outdistance the return on the stock you are challenging. If the lines cross sometime within the first couple of years, the chances are it would be a sensible replacement.

Print an Offense Report

On completion of the offensive process, you may print

out a "Offense Report" to chronicle the reasons for your decisions and to serve as a reminder should you need to replace any of your holdings. You may access this as well as any of the other NAIC forms by clicking the "**Reports**" button on the **Alerts** screen.

For a more detailed description of the **Offense Report,** see **NAIC Forms**, page 203 below.

The NAIC Portfolio Management Forms

Toolkit 5 provides all of the NAIC forms of the earlier versions and more. These forms may be printed as a by-product of the process described above. Below, you will find descriptions of the forms and of the portfolio management process using those forms. The most authoritative source of information related to these forms will be found in the NAIC official manuals, the ***Stock Selection Handbook*** and the ***Portfolio Management Handbook.***

Some will still prefer to continue to go directly to those forms to do their work as they have in the past. We would not wish to take anything away from those that do. Whether you are one of those, or are one who prefers to take advantage of the new processes in Toolkit 5, you may still find something of interest in the following.

Portfolio Forms

To open any of the portfolio forms (**PERT Report**, **Trend Report**, **Portfolio Summary**, **Defense Report**, or **Offense Report**), click on the **Reports** button on either the **Overview** or the **Alerts** windows.





They may also be selected from the pull-down menu at the top, left corner of any of the other portfolio management forms.

PERT Report

The **PERT Report**, NAIC's acronym for "**Portfolio Evaluation Review Technique**," has been the basic portfolio management tool–your first line of defense against loss. With it, on a quarterly basis, you can do as many professional security analysts do and monitor the actual ***operation*** of the companies you have chosen–not simply the movement of the price of their stock.

To be successful, the investor must watch the trends in all of his company selections to spot the early warning signals that such problems may be imminent or already exist. This is the main objective of the NAIC **PERT Report**.

Defense

The **PERT** report is the first defensive weapon in your portfolio management arsenal.

It is essentially a **Stock Selection Guide** summary for each of the stocks in your portfolio. And, like the SSG, it deals with both the quality issues and the value issues. It is upon the quality issues that the defensive value of the **PERT Report** relies. And it is the defensive function that carries with it the greatest urgency since defense entails protection from harm and against loss.



Columns F through O (5th throught 8th) represent the heart of the **PERT Report**. They reveal, respectively, the percentage difference in quarterly earnings per share, quarterly pre-tax profits, quarterly sales, and the trailing 12-months' earnings per share over the same figures for a year ago.

Offense

Where defense is required to prevent loss, offense is the part of the game that wins it. So it is with the offensive side of portfolio management.

Offensive portfolio management deals with the value side of the SSG--the right side of the **PERT Report**. Remember, when we discussed the Stock Selection Guide, we made the point that "***the worse a company performs, the better a value it will appear to be.***"

So it is with the **PERT Report**. Again, don't be seduced by what you see on the right side of the form if the left side, which deals with the quality issues, has revealed less than desirable performance.

The key columns to look at here are the columns labeled "**Upside/Downside Ratio**" and the "**% Compounded Annual Return**." These will tell you if an otherwise good quality company continues to show the potential you looked for when you bought the stock and if the risk you must take to realize it is realistic.

You have presumably taken the trouble to set up portfolios and to assign your stocks to them. If not, see the "**Managing the Stock Library**" section on page 295 for detailed instructions on setting up your portfolios.

The **PERT** alerts you when the numbers fall outside of the normal range:

The **EPS, Sales, Pre-Tax Profit**, and **Trailing 12 months EPS** will be **pink** if their growth rates are ***less than*** the estimated growth rates EPS.

US/DS (Upside/Downside ratio) will be **pink** if the ratio is less than 3 to 1.

The **RV** (Relative Value) will be **yellow** if the RV is less than 80 percent or higher than 150%.

% Compounded Annual Rate of Return (Total Return) will be **yellow** if it falls below 10%.

The date when the stock price was last updated will be in **red** if it is more than seven days old.

View the "Big Picture"

Each company should be viewed in the context of the entire portfolio, for slight downturns in quarterly performance are far less significant when most of the companies have had a similar story, as might happen in a recession. Companies that stand out among the rest should be noted–whether their performance is more or less favorable than the others.

It follows, then, that the **PERT Report** is also useful as a tool to assess the economic climate as well as to look for individual companies whose performance is noteworthy.

Be a contrarian

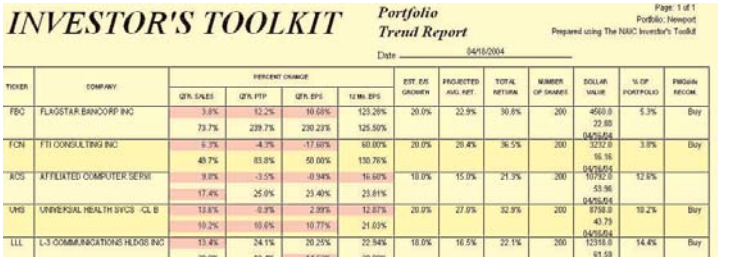
A third and no less important function of this tool is the converse of its primary job. That is to confirm your contrarian judgment when the market is giving one of your companies a bad time. When all of the **PERT** indicators tell you that the company continues to be strong, to perform as you expected, but the price is going down, you can smile smugly and buy some more.

Portfolio Trend Report

Purpose

Strictly speaking, like the **Defense** and **Offense Report**s, the **Portfolio Trend Report** is not one of the "NAIC Forms." It has been developed only in recent years to serve a particular purpose not contemplated before the arrival of the computer on the NAIC investment scene.

Because the value of the **PERT Report** lies in analyzing trends, it stands to reason that it would be most valuable to view two successive **PERT Reports** at the same time. The **Portfolio Trend Report** permits you to view the "trend of the trends."



INVESTOR'S TOOLKIT *Portfolio Trend Report*

Page: 1 of 1
Portfolio: Newport
Prepared using The NAIC Investor's Toolkit

Date 04/16/2004

TICKER	COMPANY	PERCENT CHANGE				EST. EPS GROWTH	PROJECTED AVG. RET.	TOTAL RETURN	NUMBER OF SHARES	DOLLAR VALUE	% OF PORTFOLIO	PNGuide RECOM.
		QTR. SALES	QTR. PTP	QTR. EPS	12 Mo. EPS							
FBC	FLAGSTAR BANCORP INC	3.8%	62.2%	10.68%	125.29%	20.0%	22.9%	30.8%	200	4560.0	5.3%	Buy
		73.7%	239.7%	230.23%	125.50%					22.80		
										04/16/04		
FCN	FTI CONSULTING INC	6.3%	-4.3%	-17.68%	60.00%	20.0%	28.4%	36.5%	200	3232.0	3.8%	Buy
		49.7%	83.8%	50.00%	130.76%					16.16		
										04/16/04		
ACS	AFFILIATED COMPUTER SERVI	9.8%	-3.5%	-8.94%	16.68%	18.0%	15.0%	21.3%	200	10792.0	12.6%	
		17.4%	25.0%	23.40%	25.61%					53.96		
										04/16/04		
UHS	UNIVERSAL HEALTH SVCS -CL B	13.6%	0.3%	2.00%	12.87%	20.0%	27.0%	32.9%	200	8758.0	10.2%	Buy
		10.2%	10.6%	10.77%	21.03%					43.79		
										04/16/04		
LLL	L-3 COMMUNICATIONS HLDGS INC	13.4%	24.1%	20.25%	22.54%	18.0%	16.5%	22.1%	200	12316.0	14.4%	Buy
										61.58		

Where the **PERT Report** lists the actual quarterly and annual data to permit easy calculation by those who do it manually, this is unnecessary in the computerized version (although all of the data is displayed on the PERT

Report). However, the results may be somewhat cluttered and difficult to see.

The **Portfolio Trend Report** eliminates the actual data from the listing and clearly displays ***only the percent changes*** between the current quarter and the same period a year ago. This information is on the top line for each company.

On the second line is the same information ***for the previous quarter,*** comparing it with ***its*** counterpart the year before. This allows you to spot quarterly and/or annual performance that has not met your ***expectations for two consecutive quarters***–a great deal more significant than the results of a single quarter.

The **Portfolio Trend Report** may be sorted on most of its columns, as may the **PERT Report**.

The **Portfolio Trend Report** is a ***call to action!*** Where one bad quarter noted in the **PERT Report** might raise the warning flag, two in a row demand that you find out the cause.

Two negative or significantly sub-standard quarters should compel you to research the problem to find out whether the cause of this poor performance is something transient, or long-term. Use the convenient capabilities of the Toolkit to do your research using the Internet (see page 180 above).

Additional Data

Along with the view of the changes, you will see some other information on the **Portfolio Trend Report** that, while not quite so important as the basic data, is nevertheless useful:

Projected Average Return (PAR): Total return if the stock is purchased at today's price, is sold in 5 years at the ***Average P/E***, and it pays the estimated average dividend yield.

Total Return: Total return if the stock is purchased at today's price, is sold in 5 years at the Average High P/E,

and it pays the estimated average dividend yield.

PMG Recommendation: This report will display the **Portfolio Management Guide** "recommendations" in the last column.

Diversification

One of the four basics of NAIC investing–and the purely "defensive" one–is that the portfolio should be adequately diversified both in terms of industries and in terms of size of companies. The Investor's Toolkit 5 provides a helpful tool for analyzing that aspect of your portfolio

The **Portfolio Trend Report** displays the number of shares of each stock held in the portfolio, the dollar value of each holding, and the dollar-weighted percentage of the total portfolio represented by each.

NUMBER OF SHARES	DOLLAR VALUE	% OF PORTFOLIO
200	4560.0 22.80 04/16/04	5.3%
200	3232.0	3.8%

Where in the past, many have tried to appraise their portfolios' diversification by looking at the stock list and counting only how many stocks are in a particular category, you may now measure true diversification. By that we mean the percentage of your portfolio's total ***dollar value*** that is devoted to each holding.

By Industry. To take a good look at your diversification by industry, "Sort Down" your report on the "% of Portfolio" column and see which positions occupy the largest percentage of your portfolio.

There are a number of industry sector breakdowns that may be used to group the host of industries represented in the stock market. Many brokerages and data providers use broad category breakdowns that you could adopt. Or, you may come up with yet another that pleases you.

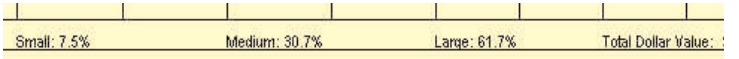
Generally, the most effective groupings are those that segregate the industries by groups that are not similarly

affected by the business cycle, or the ups and downs of the economy. Suffice it to say that you should select a sector breakdown that makes sense to you.

Theoretically, you should have a roughly equal percentage of your investment in each of the industry sectors. If you are heavily overloaded in any single industry or sector–no matter how well it appears to be behaving at the moment–you are probably vulnerable.

It may pay you to explore more aggressively the possibility of selling a portion of a holding whose great success has already caused it to represent a very lopsided portion of your portfolio. In any event, by ranking your percentage of portfolio column from largest to smallest, you can get a much clearer picture of your diversification situation and act accordingly.

By size. NAIC recommends that you strive for roughly 50% of your portfolio to be in medium sized companies with the rest split between larger and smaller. The **Portfolio Trend Report** provides you with a simple tool to monitor this diversification.



At the bottom of each page of the report, to the left of your portfolio dollar total, you will find a breakdown of the percentage of your dollars that are invested in "Small," "Medium," and "Large" companies. You will also find a figure that represents the total value of your portfolio. While there are many accepted ways to determine size (e.g. market capitalization, revenues, net profit, etc.), the ***ITookit 5*** uses a very simple method that is about as good as any rule of thumb.

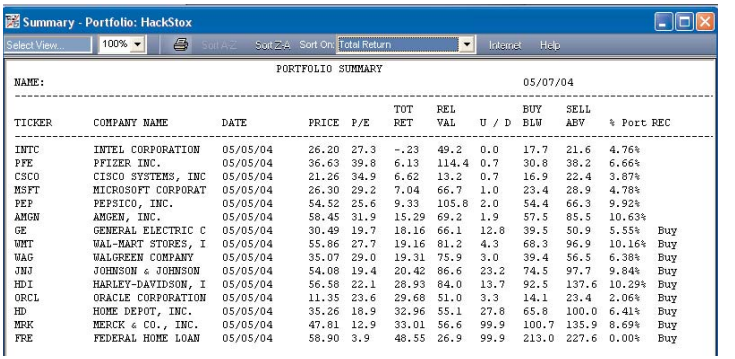
Any company whose ***quarterly*** sales figure (found in the **PERT Report**) has three figures to the left of the decimal point is considered a "Medium" size company, ranging from approximately $400 million to $4 billion. Those with fewer are considered "Small" companies, those with more than three are considered "Large." While it is admittedly a rough set of guidelines, as a practical mat-

ter, one of the benefits of using this measure of company size is that it is very easy to see, by glancing at the "Sales" column of the **PERT Report,** which companies fall into which categories.

Portfolio Summary Report

The NAIC philosophy is to "buy and hold"–and the occasions when you would be likely to sell due to a high price are rare. For that reason, the **Portfolio Management Guide**'s greatest value will most often be found in its ability to flag opportunities when you might consider adding to an existing position.

The **Portfolio Summary Report** is based upon the information that the Portfolio Management Guide provides. While not nearly so significant as a "defensive weapon" or portfolio management tool, it is nevertheless an important and useful feature of the Investor's Toolkit.


Summary - Portfolio: HackStox

Select View... 100% Sort A-Z Sort Z-A Sort On: Total Return Internet Help

PORTFOLIO SUMMARY

NAME: 05/07/04

TICKER	COMPANY NAME	DATE	PRICE	P/E	TOT RET	REL VAL	U / D	BUY BLW	SELL ABV	% Port	REC
INTC	INTEL CORPORATION	05/05/04	26.20	27.3	-.23	49.2	0.0	17.7	21.6	4.76%	
PFE	PFIZER INC.	05/05/04	36.63	39.8	6.13	114.4	0.7	30.8	38.2	6.66%	
CSCO	CISCO SYSTEMS, INC	05/05/04	21.26	34.9	6.62	13.2	0.7	16.9	22.4	3.87%	
MSFT	MICROSOFT CORPORAT	05/05/04	26.30	29.2	7.04	66.7	1.0	23.4	28.9	4.78%	
PEP	PEPSICO, INC.	05/05/04	54.52	25.6	9.33	105.8	2.0	54.4	66.3	9.92%	
AMGN	AMGEN, INC.	05/05/04	58.45	31.9	15.29	69.2	1.9	57.5	85.5	10.63%	
GE	GENERAL ELECTRIC C	05/05/04	30.49	19.7	18.16	66.1	12.8	39.5	50.9	5.55%	Buy
WMT	WAL-MART STORES, I	05/05/04	55.86	27.7	19.16	81.2	4.3	68.3	96.9	10.16%	Buy
WAG	WALGREEN COMPANY	05/05/04	35.07	29.0	19.31	75.9	3.0	39.4	56.5	6.38%	Buy
JNJ	JOHNSON & JOHNSON	05/05/04	54.08	19.4	20.42	86.6	23.2	74.5	97.7	9.84%	Buy
HDI	HARLEY-DAVIDSON, I	05/05/04	56.58	22.1	28.93	84.0	13.7	92.5	137.6	10.29%	Buy
ORCL	ORACLE CORPORATION	05/05/04	11.35	23.6	29.68	51.0	3.3	14.1	23.4	2.06%	Buy
HD	HOME DEPOT, INC.	05/05/04	35.26	18.9	32.96	55.1	27.8	65.8	100.0	6.41%	Buy
MRK	MERCK & CO., INC.	05/05/04	47.81	12.9	33.01	56.6	99.9	100.7	135.9	8.69%	Buy
FRE	FEDERAL HOME LOAN	05/05/04	58.90	3.9	48.55	26.9	99.9	213.0	227.6	0.00%	Buy

Essentially, the Portfolio Summary Report is a list of the companies in your portfolio(s)–or your **Stock Library**–and Portfolio Management Guide's current assignment to their respective "Buy," "Hold," or "Sell" zones. Going down the "Rec" (Recommendation) column, the "Sells" and "Buys" are marked. The "Holds" are not.

The data provided is very useful. And it can serve as a veritable "shopping list" of stocks in which you are interested that meets the qualifications for purchase or possi-

ble sale.

In addition to the name and ticker symbol, the report offers the following information, which is important to consider:

Date: The date the stock was priced

Price: At your last price update

P/E: The Current P/E

Relative Value (Rel Val): How the Current P/E compares to the Average P/E

Upside/Downside (U/D): The risk to reward assessment

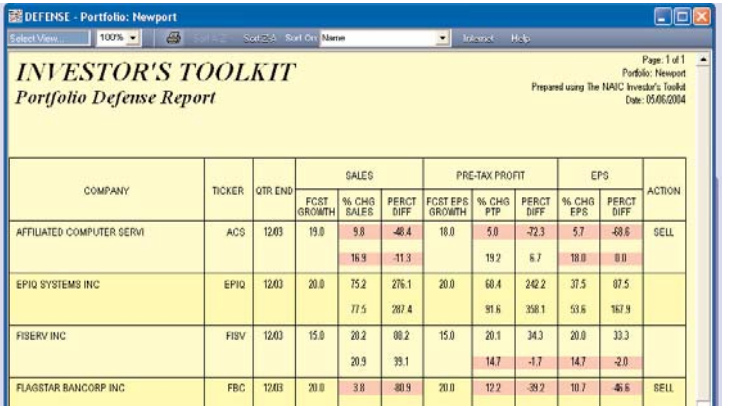
Buy Below (Buy Blw): The top of the "Buy" range

Sell Above (Sell Abv): The bottom of the "Sell" range

Recommendation (Rec): An assessment of whether the price and P/E qualify the stock for possible addition to your portfolio or an overvalued condition that might suggest selling. (See the discussion of these criteria in the **Portfolio Management Guide** section on page 208.) A "Buy" recommendation is flagged (*) when the Upside/Downside ratio is less than 3 to 1. (This source of confusion can be eliminated by selecting 25-50-25 in the **Preferences > Stock Selection Guide** tab.)

The **Portfolio Summary** is an especially popular and useful report for an investment club. Extremely versatile, it can be edited, saved as a file, opened in a spreadsheet to flow into the columns for further "massaging" of the data, or into a word processor to be "dressed up" for distribution.

Defense Report


DEFENSE - Portfolio: Newport

INVESTOR'S TOOLKIT
Portfolio Defense Report

Page: 1 of 1
Portfolio: Newport
Prepared using The NAIC Investor's Toolkit
Date: 05/06/2004

COMPANY	TICKER	QTR. END	SALES			PRE-TAX PROFIT			EPS		ACTION
			FCST GROWTH	% CHG SALES	PERCT DIFF	FCST EPS GROWTH	% CHG PTP	PERCT DIFF	% CHG EPS	PERCT DIFF	
AFFILIATED COMPUTER SERVI	ACS	12/03	19.0	9.8	-48.4	18.0	5.0	-72.3	5.7	-68.6	SELL
				16.9	-11.3		19.2	6.7	18.0	0.0	
EPIQ SYSTEMS INC	EPIQ	12/03	20.0	75.2	276.1	20.0	68.4	242.2	37.5	87.5	
				77.5	287.4		91.6	358.1	53.6	167.9	
FISERV INC	FISV	12/03	15.0	20.2	80.2	15.0	20.1	34.3	20.0	33.3	
				20.9	39.1		14.7	-1.7	14.7	-2.0	
FLAGSTAR BANCORP INC	FBC	12/03	20.0	3.8	-80.9	20.0	12.2	-39.2	10.7	-46.6	SELL

New in Toolkit 5, the **Defense Report** is provided as both a reminder of the reasons for defensive "sell" decisions and the "hold" and "sell" status of your portfolio to help when you contact your broker to execute the trades required to implement your defensive strategy.

The form displays all of the stocks in your portfolio, highlighting those that failed to meet or exceed your threshold when comparing the fundamental performance with your expectations.

For each company, you will find the quarterly data on the upper line and the data for the trailing twelve months on the line beneath.

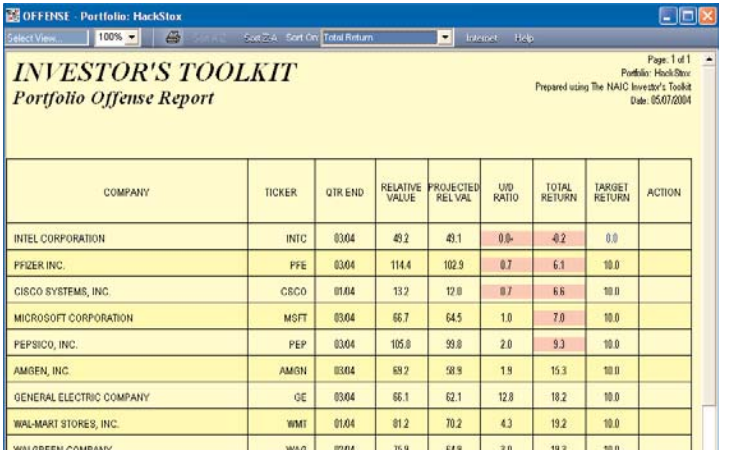
Displayed with the name, company ticker symbol, and quarter ending date, are the same items displayed on the Defense grid in the **Alerts** window:

- forecast sales growth
- actual percent change between sales this year and last
- the percent by which actual sales growth differs from expected growth.
- forecast earnings growth

- actual percent change between between pre-tax profit this year and last
- the percent by which actual pre-tax profit growth differs from expected earnings growth
- actual percent change between earnings this year and last
- the percent by which actual earnings growth differs from expected growth
- Action: "sell" or "hold"

If the "Action" is blank, it means the stock did not fall below the defensive threshold and is a "hold" by default. "Hold" or "Sell" represents a conscious decision to do either.

Offense Report


OFFENSE - Portfolio: HackStox

Page: 1 of 1
Portfolio: HackStox
Prepared using The NAIC Investor's Toolkit
Date: 05/07/2004

INVESTOR'S TOOLKIT
Portfolio Offense Report

COMPANY	TICKER	QTR END	RELATIVE VALUE	PROJECTED REL VAL	U/D RATIO	TOTAL RETURN	TARGET RETURN	ACTION
INTEL CORPORATION	INTC	03/04	49.2	49.1	0.0+	40.2	0.0	
PFIZER INC.	PFE	03/04	114.4	102.9	0.7	6.1	10.0	
CISCO SYSTEMS, INC.	CSCO	01/04	13.2	12.0	0.7	6.6	10.0	
MICROSOFT CORPORATION	MSFT	03/04	66.7	64.5	1.0	7.0	10.0	
PEPSICO, INC.	PEP	03/04	105.0	99.0	2.0	9.3	10.0	
AMGEN, INC.	AMGN	03/04	69.2	58.9	1.9	15.3	10.0	
GENERAL ELECTRIC COMPANY	GE	03/04	66.1	62.1	12.0	18.2	10.0	
WAL-MART STORES, INC.	WMT	01/04	81.2	70.2	4.3	19.2	10.0	

Also new in Toolkit 5 is the Offense Report which is, like the Defense Report, an abstract of the Value parameters on which you base your judgment that a stock is overvalued.

With the company name, company ticker symbol, and quarer end date, there are columns for Relative Value, Projected Relative Value, Upside/Downside Ratio, Total

Return, the Target Return, and the Action to be taken, if any.

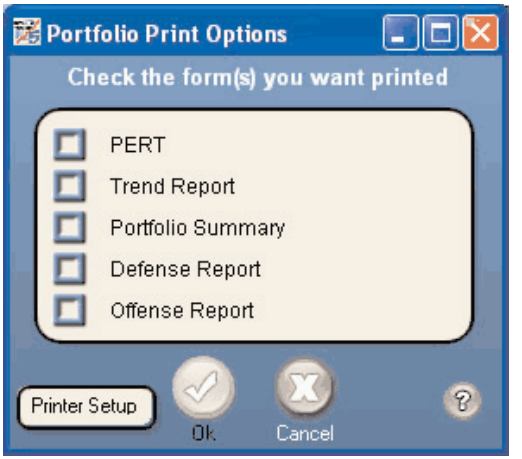
Again, it lists all of the companies in your selected portfolio and highlights those whose reward is less than, and/or the risk more than, the thresholds you have set for those measurements. Thresholds that are company-specific will be shown in blue.

As in the case of the Defense Report, Assuming you have followed the process as described above, "Hold" or "Sell" represents a conscious decision to take that action. Companies not marked in the "Action" column were either not eligible for replacement as overvalued or simply not acted upon when they should have been.

This report is useful as a reminder of the reasons for any "sell" decision you might make and as a "to do" list when you contact your brokerage.

Printing your portfolio reports

With any report or form displayed, simply double-click on the printer icon (or select **File > Print**) to bring up the printing dialog:



Select the form or forms you wish to print and click "**Ok**."

Company Forms



All company forms may be accessed by selecting them from the pull-down menuat the top of any other company form (SSG, PMG, PERT-A, or PERT-B) or by double-clicking on the company's line on the **PERT Report, Trend Report, Defense,** or **Offense Report**.

PERT Worksheet-A

Because the PERT Worksheet-A and its companion graph are included as an integral part of the portfolio management process, it has already been discussed on page 183. Its utility in discerning longer term trends, especially when viewed graphically, makes the job of identifying potential long-term problems easier.

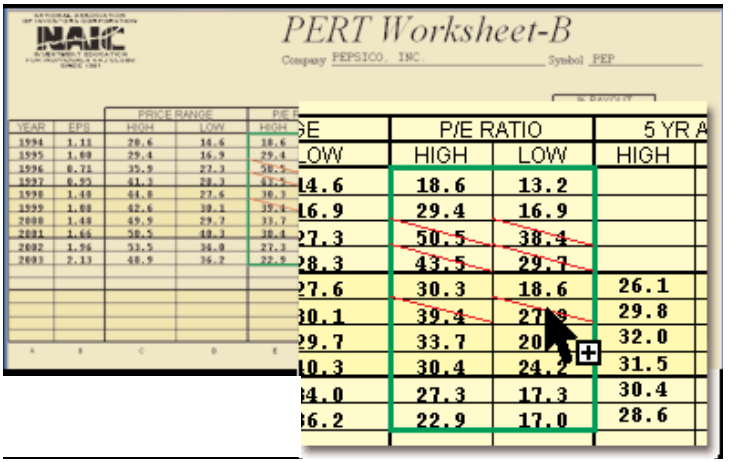
PERT Worksheet-B

PERT Worksheet-B records the past fundamental data in exactly the same way as Section 3 of the NAIC **Stock Selection Guide**, only it provides a ten-year history of EPS, Price Ranges, P/E Ratios, Dividends per Share, % Payout and % High Yield.

This is a valuable form because it is the only form on which ten years of Price Earnings Ratios may be viewed. The bubble and bust around the end of the twentieth century illustrated dramatically that business cycles don't necessarily hold to five years, give or take a year or two.

The SSG provides only five years of recent history on which to base a determination of what a "normal" or "signature" PE should be; and, given the aberrations during the market upheaval, it's obvious that you can get a better "feel" for the average price of a dollar's worth of earnings by looking at a ten-year span.

Toolkit 5 now permits you to eliminate the outliers reaching back ten years to see the relevant averages of the remaining data. You may do so by clicking in the



appropriate boxes. No entries are required on this screen. The Toolkit automatically transfers data from Company Data screens and completes all necessary computations. When there is insufficient data to compute a 5-yr average, Toolkit averages the years available.

PERT Worksheet-B is useful in looking for significant changes in:

EPS: The amount of net income (after taxes) attributable to each share of common stock outstanding. A low or declining figure could signal problems with inefficient management, too many fixed obligations, or heavy investment in research and development. Negative earnings indicate a company is losing money; shareholder equity is being used to keep the company operational. Declining earnings per share can signal a decline in profitability or an increase in the number of shares outstanding.

P/E Ratios: The relationship between earnings and the price that people are willing to pay for every one dollar of earnings that a company has. They are a measure of investor confidence (or overconfidence) in a company. Past P/Es may provide clues as to what can be expected in future P/Es. Also referred to as the multiple, it is the price divided by the common stock earnings per share.

Typically, the higher the price-earnings ratio, the riskier,

more volatile the investment. Older, safer, more mature companies have lower price-earnings ratios than do young, faster-growing, riskier companies, since investors are willing to pay a higher premium for faster growth rates.

5 Year Average P/E Ratios: The rolling five years' average of High/Low P/E Ratios. When there is insufficient data to compute a 5-year average, Toolkit averages the years available. Elimination of outliers will affect these values.

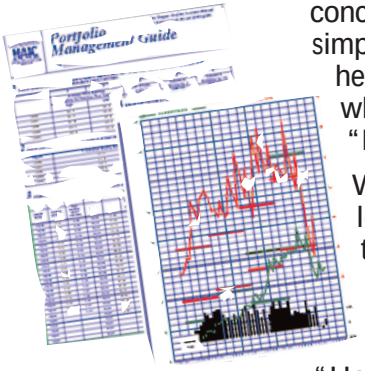
Dividends/Share: The per share distribution made, out of retained earnings, to stockholders in the form of cash or stock.

% Dividend Payout: A measurement of the percent of earnings per share returned to investors as dividends. Increased payouts may signal a transition from true growth (earnings retained for future growth), to a more mature phase (an increasing portion of earnings distributed to stockholders) due to less need for expansion or working capital. The **5 Year Average % Payout** is the rolling 5 years' average of % Payouts.

% High Yield: (Not used if there are no dividends) Reflects the dividend per share divided by the low price for the year. Significant changes in yield should direct your attention to any trend in the low price or dividends per share.

High/Low Price Range: (Annual) Look for volatility, not only year-to-year, but high-to-low as well. Stocks with wide swings between high and low prices are less predictable and may be of greater risk.

Portfolio Management Guide



When the **Portfolio Management Guide (PMG)** was conceived, it was intended to serve a single, simple purpose. It was to tell an investor, after he or she had posted a new stock price, whether that stock might be considered a "Buy," a "Sell," or simply a "Hold."

With the advent of the computer, it is no longer necessary to examine the graph on the back of the form to see whether the stock, with the latest price update, meets the **Portfolio Management Guide**'s criteria to be considered a possible "Buy," "Hold" or "Sell." The calculations are done automatically, as soon as the price is entered, and the results are accessible in several places in Toolkit.

A secondary purpose was the graphical display of the historical trends in the stock's price and P/E movement. NAIC makes it clear that investors should not consider the movement of prices and/or P/E's when making a decision to buy or sell. Nevertheless, the fact is that, on rare occasions, a stock may be so overvalued that it might make sense to sell some of the position.

Once again, the computer has added value to what was once a secondary purpose, and the ability to study the graph of P/E and price movement ***in conjunction with the*** **PERT Worksheet-A** has made this tool much more useful.

Specifically, the **Portfolio Management Guide**'s criteria for considering ***selling*** are three in number:

- The price is in the SSG's "Sell" range,
- The P/E is at least 150% of the 5-Yr Average P/E (a relative value of 150%), and
- The company's earnings are growing at or below 12%.

The two criteria for considering ***buying*** more are:

- The price is in the **SSG**'s "Buy" range, and
- The P/E is at or below the 5-Yr Average P/E (relative value of 100% or less).

Otherwise, barring some adverse change in the fortunes of the company, it is probably prudent to continue to hold the stock.

Note that there is no mention of Upside/Downside Ratio in the "Buy" criteria. Yet we know that one of the most important issues in considering a "Buy" is the risk versus reward.

If you have allowed the price ranges to remain as the default value of thirds, this form can signal a "Buy" with the Upside/Downside Ratio as low as 2 to 1. By changing the ranges in **Preferences** to 25%-50%-25% (see page 26), you will have assured yourself that any stock that shows in the "Buy" range does indeed have an Upside/Downside Ratio of 3 to 1 or better.

The computer not only takes all of the drudgery out of performing the calculations and plotting the data on the form, it provides new ways for the results to be displayed.

Whenever a price is updated–whether manually or electronically–Toolkit 5 does all of the calculations necessary to determine if a stock fits in either the "Buy," "Hold," or "Sell" category according to the PMG.

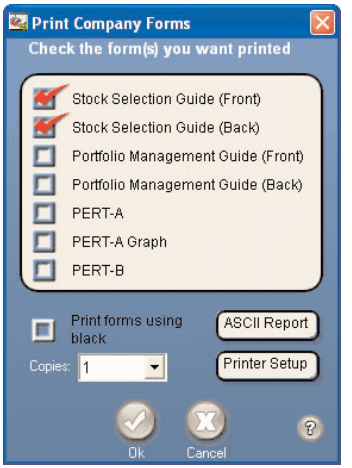
The moment the price is updated, the **Portfolio Management Guide** recommendation, based upon the criteria above, is posted in three places:

- Price Update Screen (where you update the prices manually or electronically),
- Portfolio Trend Report, and
- Portfolio Summary Report ("Summary" in the PERT - Portfolio screen).

Printing your company forms

With any company form displayed, simply double-click

on the printer icon (or select **File > Print**) to bring up the printing dialog:



Select the form or forms you wish to print and click "**Ok**."

USING THE INVESTOR'S TOOLKIT: How you do it

Working with the Software

The following sections deal exclusively with how to use the Investor's Toolkit and contain little information concerning the "what's" and "why's." As you make use of the following information, should you find that you are interested in more detail about making the decisions that these steps implement, you will find references to the sections in the "**What and Why**" portion of the manual where you may find further information.

These "**How to**" steps are recommended for the first time user, but others will wish to use this section as a reference.

Those upgrading from Investor's Toolkit Version ***4.x*** may wish to review the "**What's New**" listing of new features and functions. (See "There's Lots New in Version ," located within the **Introduction**).

A Review of Conventions

Conventions

Selecting

Buttons and Screen Names appear in bold type.

Clicking

Click: Tells you to click the left button on the mouse to select a command or function.

Double-click: Tells you to click your left button twice, rapidly, on the selection.

Right-click: Tells you to click using the right mouse button.

Buttons, Keys, Screens, Windows, and Sections of the Manual

Button names are enclosed in quotes and are in bold type–for example, click on the " **Ok**" button.

Keyboard keys are enclosed in brackets as well as being in bold type–for example, Press the **[Enter]** key.

Windows or screens are referred to using bold type– for example, Open the **Company** window and access the **Data** screen.

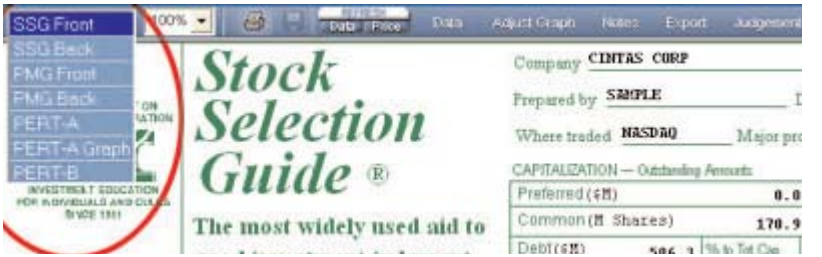
References to a section of this manual, the name of a form or a section of a particular form are written in bold type–for example, Review the **About Investing** section of the manual, or **Stock Selection Guide.**

Navigating

Navigate between entry boxes using the cursor, pressing the **[Tab]** key or pressing **[Enter]**. To move back, press **[Shift] + [Tab]** to move from right to left, bottom to top.

Basic Navigation

The Stock Selection Guide is the primary view of a company and is found on a company screen. In the company screen, you may also look at the company's **Data**.



To access the other forms/views

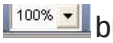
Select the form from the drop down list.

NOTE: When viewing a form, move your cursor over the form navigation drop down list to select that form's alternative view (e.g., "**SSG Back**").

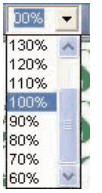
1) "**SSG / SSG Front**" - **Stock Selection Guide** front page.

2) "**SSG Back**"- back page of **Stock Selection Guide**.

To change the size of your display

1) Click on the 

button on the **Company Toolbar**.



Either enter a desired percentage or select a preset percentage from the drop-down menu and then click on "OK." \

To access context-sensitive help

Click on the  or the F1 key.

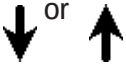
In many areas of the program cursor help is available. To display it, rest your cursor over the area in question for about two seconds. A small information box will appear. Moving the cursor will remove it.

Cursors

In addition to your normal cursor, the following cursor formats are used in the Investor's Toolkit:


The cursor enlarges to indicate that a click will do something. It usually takes you on to some other view or magnification of view for data entry.


or indicates that clicking will remove or restore something.


indicates that you may sort in ascending or descending order respectively.


indicates that you can take a closer look at an item. (Clicking on the item opens a graph, for example).

Keyboard Shortcuts

In addition to using the cursor and/or mouse, certain screens may be accessed by pressing a combination of keys.

Open Company	[Ctrl + O]
Flip the page	[Ctrl + F]
Company Data	[Ctrl + D]
Stock Selection Guide (front)	[Ctrl + F1]
Save	[Ctrl + S]
Print	[Ctrl + P]

Data

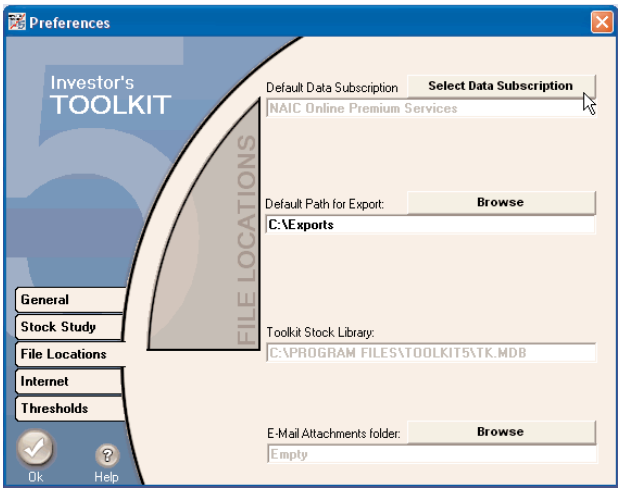
With the introduction of **Online Premium Services (OPS)**, NAIC has taken a bold step to make computerized stock study easy. Its precursor, the **NAIC Datafiles** and similar products, represented a giant leap forward from the tedium, inaccuracy, and effort of manual data entry. But the ability to access up-to-date, quality data from the Internet with the click of a button, and at a price that all could afford, has brought out the best in the software.

Setting Up OPS Data for use

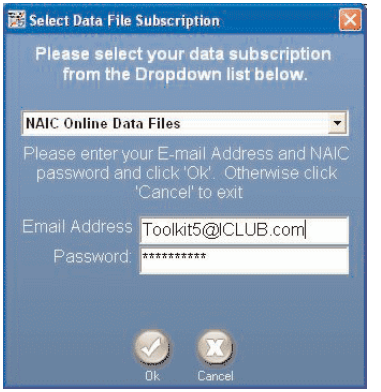
Properly set up in Toolkit 5, a simple mouse-click will import or update the data without your even being aware that you are accessing the Internet.

1) Subscribe to the **OPS** service throught NAIC at www.better-investing.org, being sure to note your e-mail address and password.

2) In *Toolkit 5*, select **Preferences > File Locations.**



3) Click on the "**Select Data Subscription**"



4) Select "NAIC Online Premium Services"

5) Enter your e-mail address and password–the same ones used for NAIC membership and to subscribe to the service.

6) Click "**OK**" twice.

Using OPS Data

See the **Stock Check** List (page 60), or Stock Selection Guide (page 86) below for instructions on using OPS data for your stock studies.

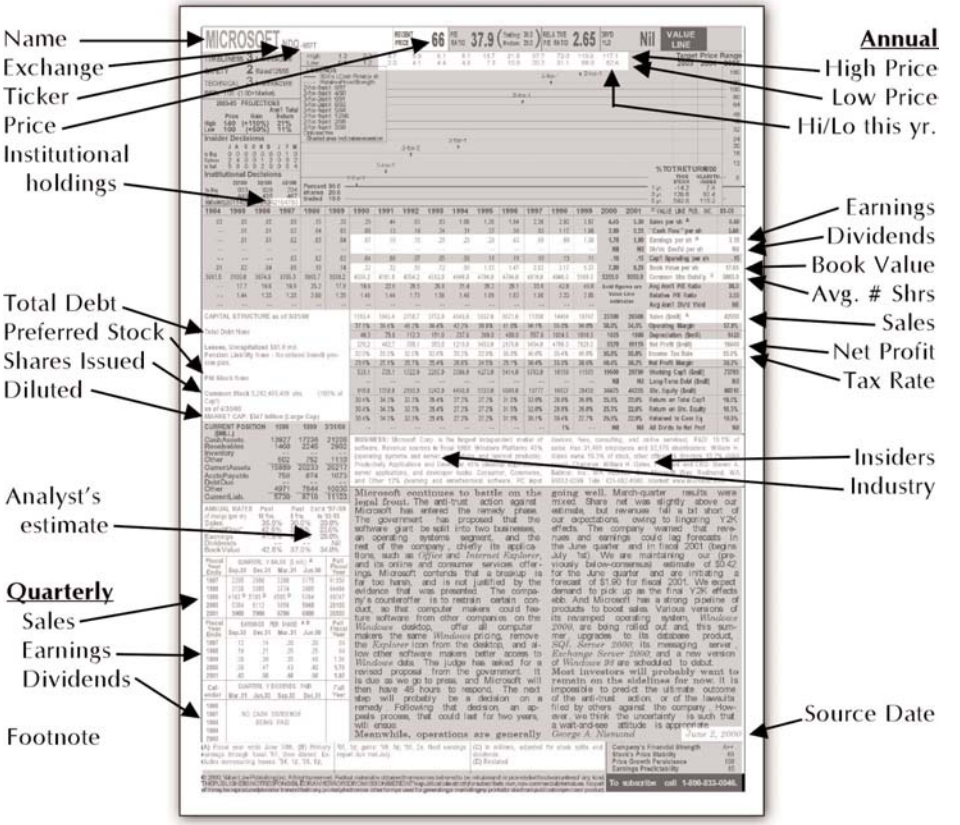
Manual Data Entry

With Version 5 of the Toolkit, we recommend that you subscribe to and use **NAIC's Online Premium Service (OPS)**. Many advanced features of the new Toolkit assume its use. However, what follows is for those who wish to enter their data manually from some source such as *Value Line* or *Standard & Poor's* tear sheets.

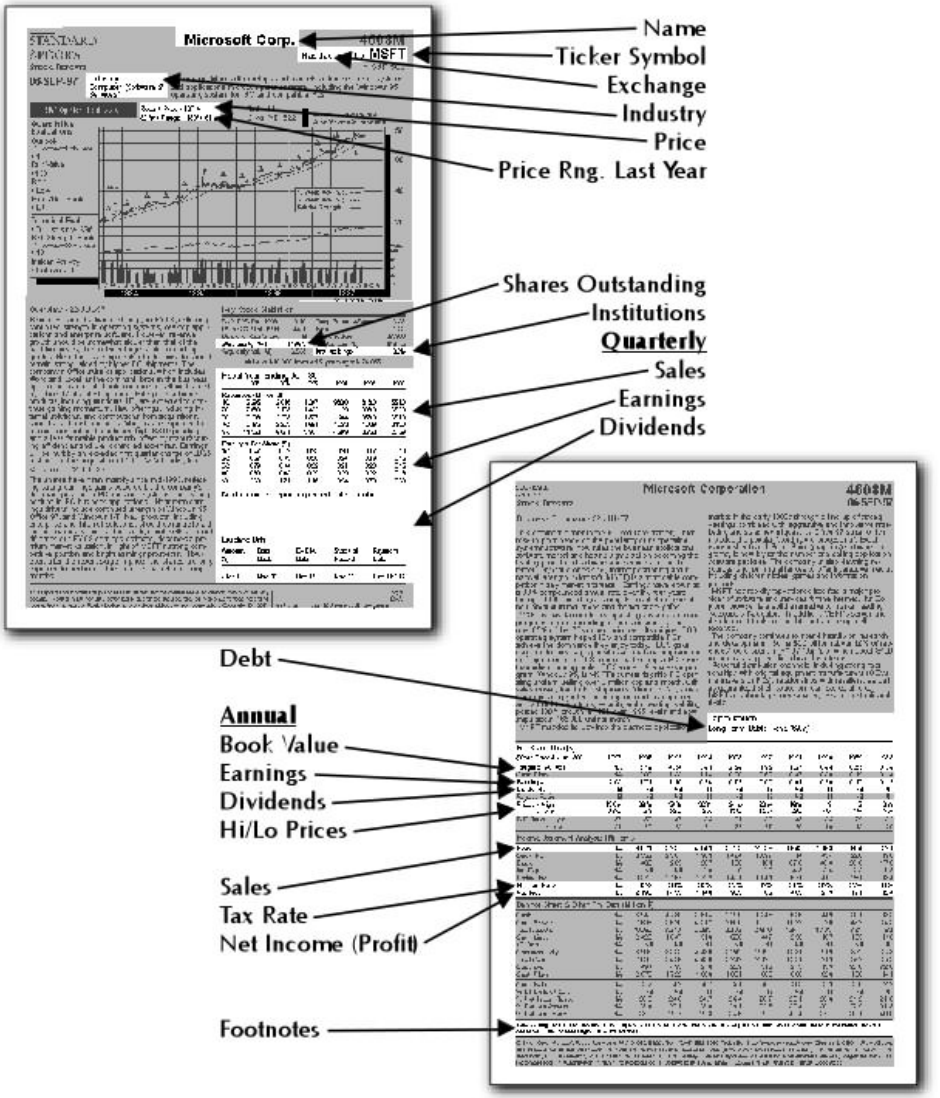
Details for data entry are provided under "**Stock Check List**" or "**Stock Selection Guide**" below, however the information to be gathered for both is essentially the same.

Shown below are the *Value Line* and the *Standard & Poor's* pages showing the data items used to manually complete the **SCL** or **SSG**. (See the "**What and Why**" section a discussion of the differences in data and data sources.)

Value Line Legend

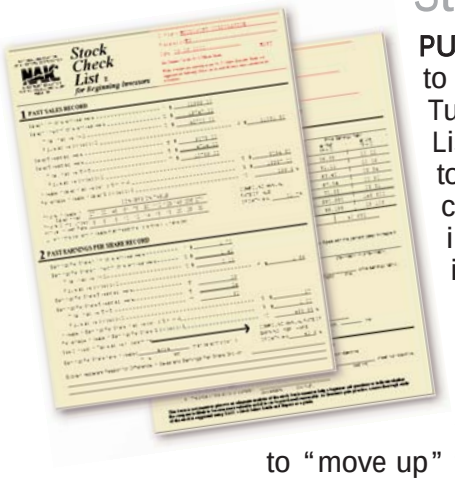


Standard & Poor's Legend



Evaluation and Acquisition

Stock Check List



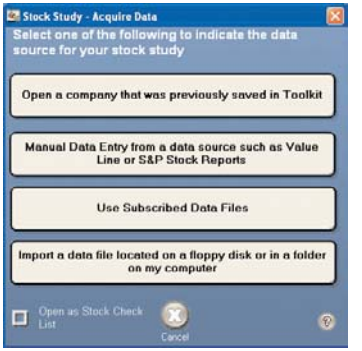
PURPOSE: To teach beginning investors how to perform a very basic stock analysis. A Tutorial guides you through the Stock Check List, step-by-step, to look at recent sales history and EPS and to decide if the stock is currently a good buy. The Check List is intended to merely introduce new investors to the process of using and analyzing company data. The Stock Selection Guide (SSG) is designed to be your main stock analysis tool. Using the Check List in conjunction with the SSG will help you gain the experience and confidence to "move up" to the Stock Selection Guide.

Step 1: Acquire Data and Open Check List

To open a **Stock Check List**, click on the "**Stock Study button**" button on the **Main Toolbar**.

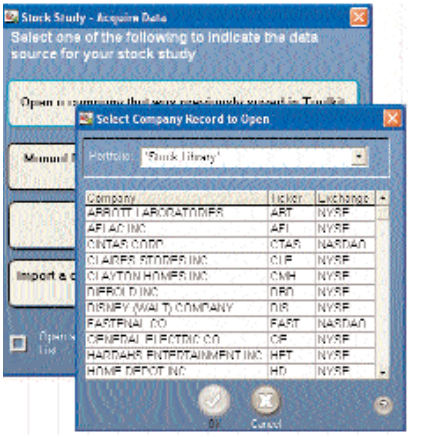


This will open the "**Stock Study – Acquire Data**" screen. Next Click the **Open as Stock Check List** check box at the bottom of the screen.



If you want to use a company's stock study that was previously saved in the **Library**, click on the top but-

ton, "**Open a company that was previously saved in *Toolkit*.**" The "**Select Company Record to Open**" screen will open, showing your **Stock Library** portfolio.



You may also import data electronically by using Subscribed Data files, importing data from a floppy disk or an e-mail attachment, or searching the Internet.

See "**Electronic Data Entry**", for instructions on how to import data.

Navigation

Navigate through the Stock Check List by using the Toolbar.



"**Back**" and "**Next**" buttons – Click to move through the steps of the Tutorial.

"**Save**" button – Click to save your stock study to the **Stock Library**.

"**Print**" button – Click to print your *Stock Check List*. A "**Print Options**" dialog box will open, where you can enter the number of copies and customize your printer setup.

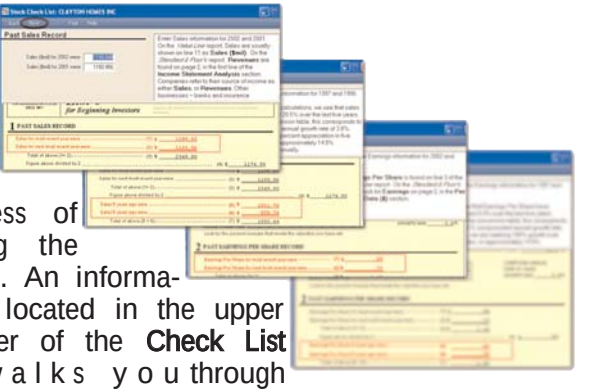
"**Help**" button – Click to open the Help file for questions you have about the Check List. A context-sensitive Help screen will open to further explain the step you are on, or you can also select the "Search" tab, within the Help screen, to search by topic.

Window Size Adjustment

To adjust the size of the **Check List** window, place your cursor on the edge of the window. When the cursor changes to a double-arrow ( ), click and hold your mouse button and drag it to the desired screen size.

Step 2: Follow the Tutorial

Tutorial



The **Stock Check List** uses a **Tutorial** to walk you through the process of completing the Check List. An information box, located in the upper right corner of the **Check List** screen, walks you through what information to enter and where. As you work through the Tutorial, the corresponding area of the form will be highlighted in red.

You will be asked for the data As you enter the data and answer the questions to complete the form, you will see the information entered on the form, and the Tutorial will explain the resulting calculations that appear.

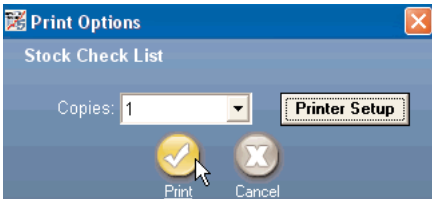
Step 3: Save and Print your Check List

Saving

To save this company's Stock Check List, click on the "**Save**" button to save to the Toolkit **Stock Library**.

Printing

Click the "Print" button on the **Stock Check List** Toolbar. This opens the "**Print Options**" screen.



Enter the number of "**Copies**" you want to print.

Stock Selection Guide (SSG)

Acquiring / Entering Data

The first step in completing a **Stock Selection Guide (SSG)** is to obtain the required historical company data. For a full explanation about the types and sources of data, see "**What and why...**," page 54.

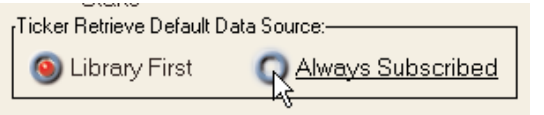
Using OPS Data

Once set up, assuming you have a "live" connection to the Internet, the easiest way to access the data for a company is to enter either the ticker symbol or name of the company in the appropriate field at the left end of the main toolbar.



If you do not have the company already in your database, Toolkit 5 will import the data instantly, presenting you with an open **Stock Selection Guide** awaiting your judgment. If you do, Toolkit will use that data to open your SSG.

NOTE: You have the option in **Preferences > General**, at the bottom of the screen, to bypass the search of the database and go directly to OPS data on each request.



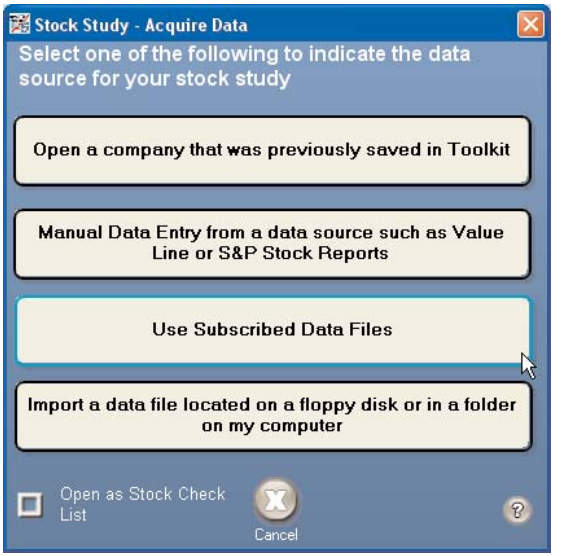
Another way to access the OPS data is to click on the "**Stock Study**" button on the **Main Toolbar**.



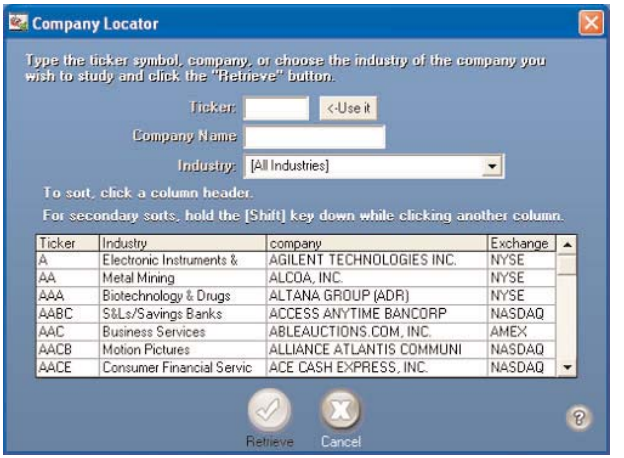
To begin a new SSG click the "**Stock Study**" button on the **Main Toolbar**. This opens the "**Stock Study – Acquire Data**" screen, which offers five sources for your data.

Subscribed Data

The "**Use Subscribed Data**" button is used to import data from a SSG data file, such as from a paid subscription for NAIC's Online Premium Services (available from NAIC), or AAII Stock Investor PRO SSG data files). Toolkit will automatically import the data from the data file location you specified in your **Preferences > File Locations** screen. (If you did not set this preference, see "**Setting Up OPS Data**" on page 215 above.).



1) Click on the "**Use Subscribed Data**" button to open the "**Company Locator**" screen.



2) **Company Locator** – Using the "type ahead" feature, begin typing in the "Ticker" symbol or the company name. As you type, Toolkit will sort and reduce the list, until you locate your company. You can also sort by the different column headings, such as ticker, company, or industry. To sort by the column heading, just place your cursor on the heading (Ticker, Industry, Company, Exchange) and, when your cursor changes to a small down arrow (⬇), click to sort. Then you can scroll down the list to look for the company.

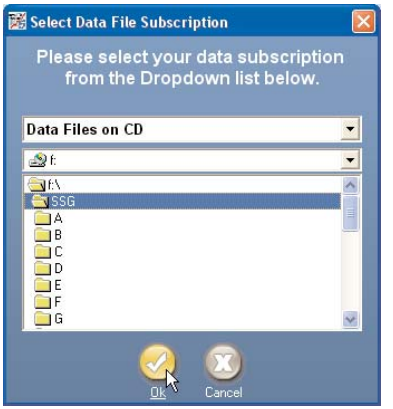
After selecting a company, click either the "**OK**" or "**Use It**" button to import the data and open the company's **Stock Selection Guide**.

NOTE: If you haven't set up you **Online Premium Services** subscription or you have entered an incorrect e-mail address and/or password, you will be greeted with this message which will allow you the opportunity to correctly enter the required information to access your OPS account.



Set up your Online Premium Services (OPS) subscription by entering your e-mail and password in the fields and then click the OK button.

If you are using datafiles such as those provided with **AAII's** *Stock Investor PRO* and have selected "Datafiles on a CD" in your **Preferences** screen but failed to select the proper location in Preferences, the first time you click the "**Use Subscribed Data Files**" button you will be given the opportunity to tell Toolkit where they are located. Navigate to your data file location to set up the future default path and click "**OK**."

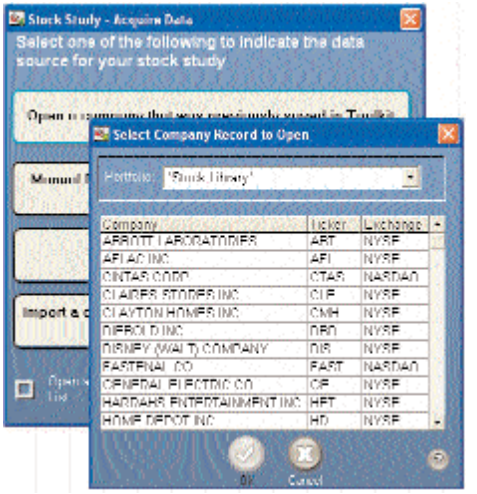


Open Saved Stock Study

1) Click on "**Open a company that was previously saved in Toolkit.**"

2) Accept the default "**Stock Library**" or select a different portfolio in the "**Portfolio**" drop-down list.

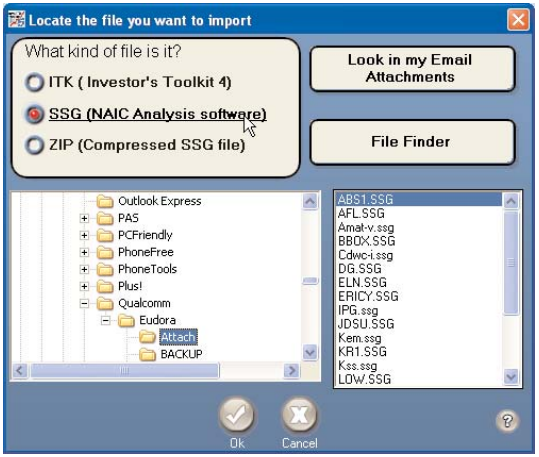
3) Click on a company name and click "**OK**" (or double- click on your selected company) to open it.



NOTE: You may quickly find the company in a long list with the "type ahead" feature. As you type in the company name (or any word in the company name), Toolkit will sort and reduce the list until you identify your company. Or, you may scroll down the list by clicking on the scroll bar.

Import data from a floppy disk or folder

1) Click on the "Import a data file located on a floppy disk or in a folder on my computer" button to import either an ITK or SSG data file for a company. This is normally used when you want to look at a company data file that someone either sent you as an e-mail attachment, or gave you on a floppy disk. This opens the "**Locate the file you want to import" dialog box**.



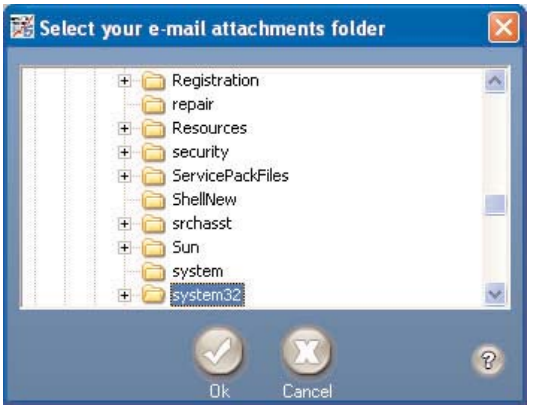
2) Select the type of file (ITK [Investor's Toolkit 4 or 5], SSG, or ZIP [contains both an SSG file and TXT file of your "Notes"]).

3) If you know where on your system the file is located, navigate to that location, e.g., an ITK file on your Desktop. The type of file you select will appear in the right pane if that type of file is at the location you navigated to.

   If the file was e-mailed to you as an attachment, click on the "Look in My E-mail Attachments" button to locate the selected type of file you received as an e-mail attachment. Toolkit will automatically go to your e-mail's attachment folder at the location you specified in your Preferences screen, e.g., an SSG file in your Eudora Mail / Attach folder, or AOL \ Downloads folder. The type of file you selected will appear on the right if that type of file is in your e-mail attachment folder.

4) Click on the file to select it and click "OK" to open it.

NOTE: If you did not set this up in your Preferences screen, then the first time you click the "**Look in My E-mail Attachments**" button, the following '**Select your E-mail Attachments**" screen will appear. Navigate to your data file location to set up the future default path.



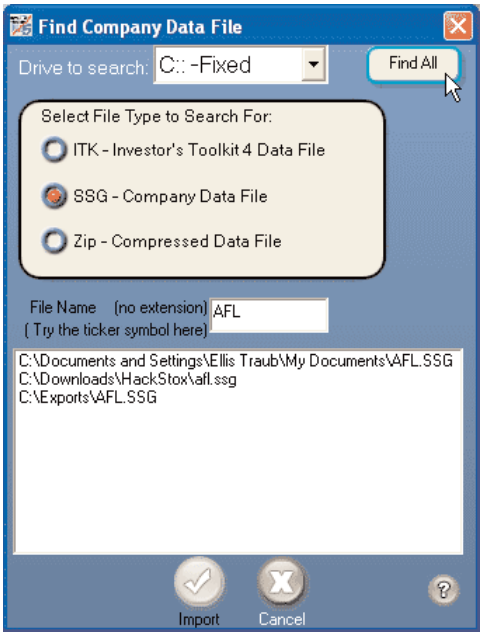
5) You may click on the "**File Finder**" button to search your computer for the selected type of stock analysis file (**ITK, SSG, ZIP**). This will open the "**Find Company Data File**" dialog box where you can click to select one of the options under "**Select File Type to Search For**" (ITK, SSG, or ZIP).

6) If the file is not located on your "C:\" drive, then click on the "**Drive to Search**" drop-down arrow ▼ to select another drive on your computer, e.g., your "D:\second hard drive."

7) Enter the company's ticker symbol in the "File Name" box and click '**Find All**" to run the search.

NOTE: Most **SSG** files use the company's Ticker symbol for the file name. Do not enter file type extension (**ITK, SSG, ZIP**) after the Ticker symbol.) If the search does not locate the file, try selecting a different file type (ITK, SSG, or ZIP). **TIP**: To find data files for all companies of the selected file type (**ITK, SSG, or ZIP**), just enter an asterisk (*) "wildcard" instead of the Ticker

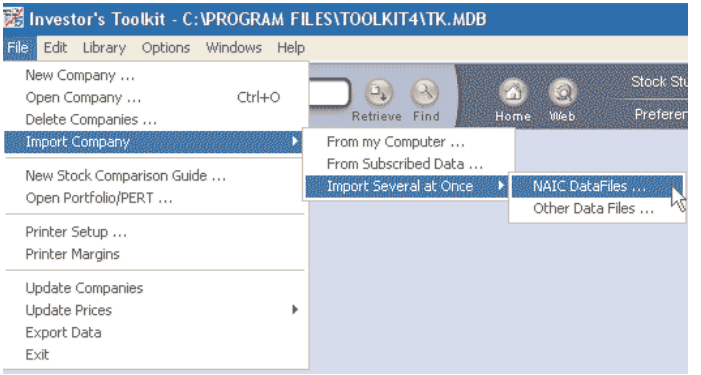
symbol. The result of the "**File Finder**" search will appear in the pane below with the path to their location. Just click on the file to select it and click "**Import**" to open the Stock Selection Guide. (For information on using the **SSG**, see the **SSG – Analyzing the Company** section o page 234.)

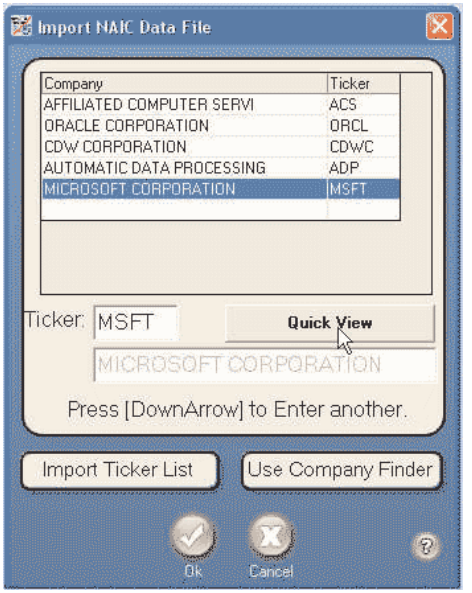


Importing more than a single company

If you want to import an entire portfolio or list of companies rather than to import one at a time, you may do so. This is a new feature in Toolkit 5.

Select File > Import Company > Several at Once > NAIC Data Files. > NAIC Data Files.





The easiest way is to enter the ticker symbols one at a time. When you enter a ticker symbol, Toolkit will instantly look for the company whose ticker symbol most closely matches what you have typed. As you add letters, it will continue to look for a match and may well have found your company before you have entered the entire symbol.

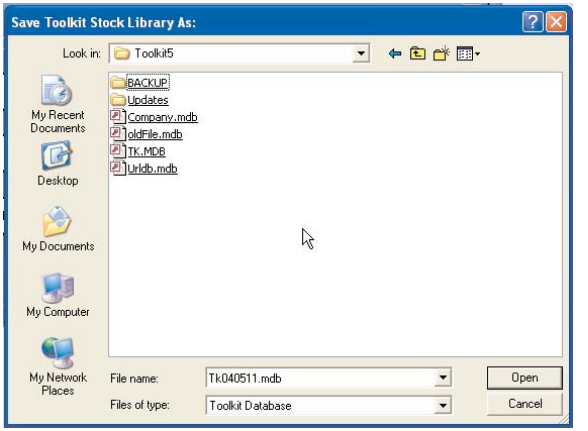
If you are unsure of a company name or ticker symbol, you may click on the "**Company Finder**" button to retrieve the ticker symbol of the company you're looking for. When you have found the company you're looking for, clicking "**Use it**" or the '**Retrieve**" button will enter the company in the list you are creating.

Use the down-arrow to record the company in the list and move on to the next. To erase a company, delete the ticker symbol.

When you have finished entering your list, click 'OK" to import them all. No SSG will open in this case. All of the companies' data is saved directly in the database.

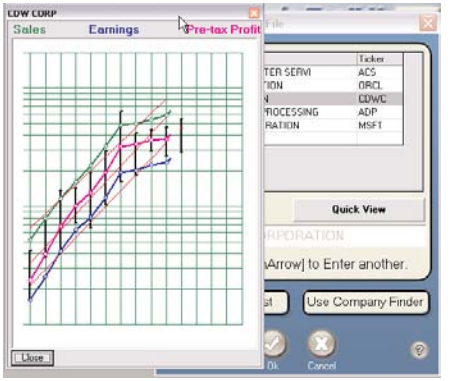
Stock List. You may have created a list of ticker symbols using other software. Some screening products produce such a list in text file format (.txt). Or, you may have created it yourself in some other fashion.

You may import this list by clicking on the "**Import Ticker List.**"



Navigate to the text file containing the list, select it, and click "**Open.**" All companies will be displayed in the dialog as though you had entered them individually.

If you care to, before hitting the "**Ok**" button to import your list, you may look at a small image of the Visual Analysis graph of your companies. Select a company and click on the "**QuickView**" button to do so.



Manual Data Entry

If you wish to enter the data manually from Value Line or some other source, click on the "**Manual Data Entry from a data source such as Value Line or S&P Stock Reports**."

Navigating Data Entry Fields:

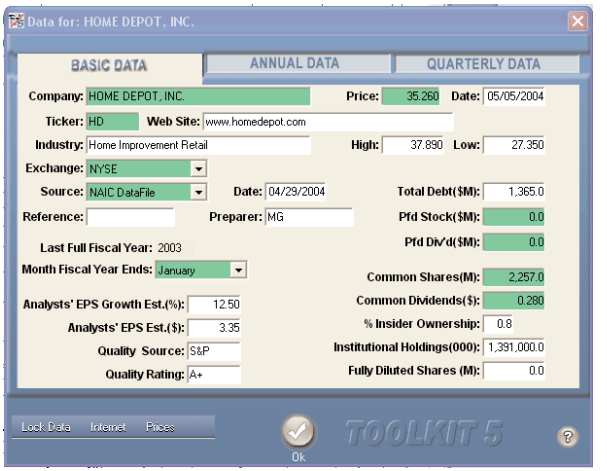
1) Click on the space into which you want to input data.

2) Drop-down menus open with a click on the menu arrow.

[Tab] key	Left to right
[Enter]	Down
[Shift+Tab]	Right to left
[Shift+Enter]	Up
[F1] key (or click on)	Help

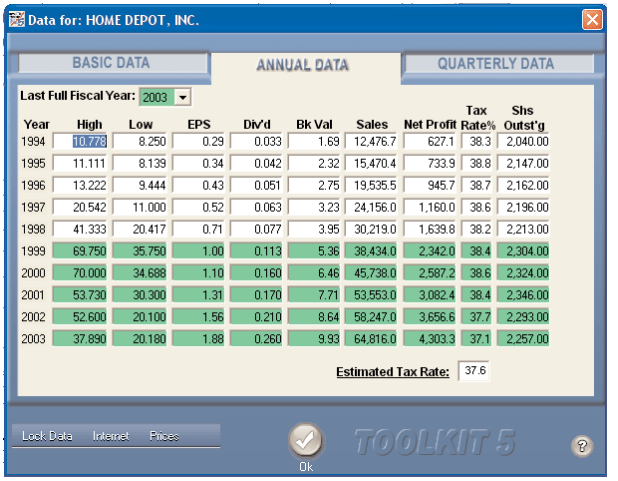
Basic Data Entry Screen

Click on "**Manual Data Entry from a data source such as Value Line or S&P Reports**" to access the Basic data entry screen for input.



Enter the basic data from *Value Line* or *S&P Stock Report.*

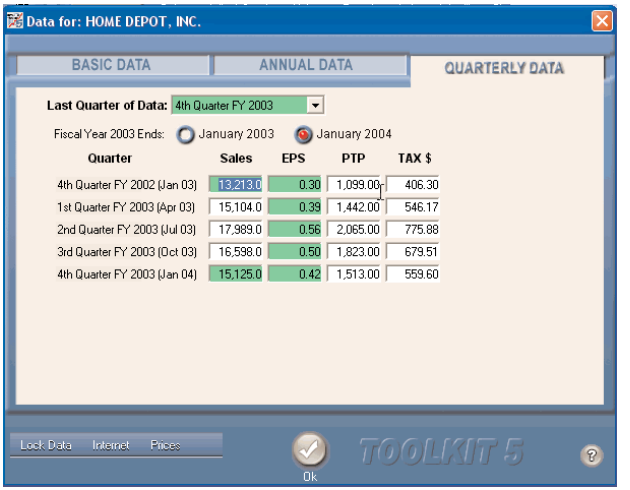
Annual Data Entry Screen



Click on the "**Annual Data**" tab to access the Annual data entry screen and continue to enter the data from your data source.

Quarterly Data Entry Screen

Click on the "Quarterly Data" tab to complete the data entry.



SSG – Analyzing the Company

Getting Started

If you entered the data manually or imported a single data file, your company will open to the front page of the SSG.

If you imported the data electronically for more than one company:

1) Click "**Stock Study**" on the Toolbar.

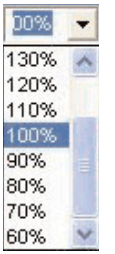
2) In the "**Stock Study – Acquire Data**" box click the "**Open a company that was previously saved in Toolkit**."

3) Select a company from those shown in the dialogue box.

Adjusting the size of the form

1) Click on the  button on the Toolbar.

2) Click on the drop-down menu to select a percentage or enter your own choice of enlargement or reduction percentage.



The default value is 94%, which will usually fill your screen from side to side and make it necessary to scroll only vertically. This is the best size for reading the text and numbers on the form.

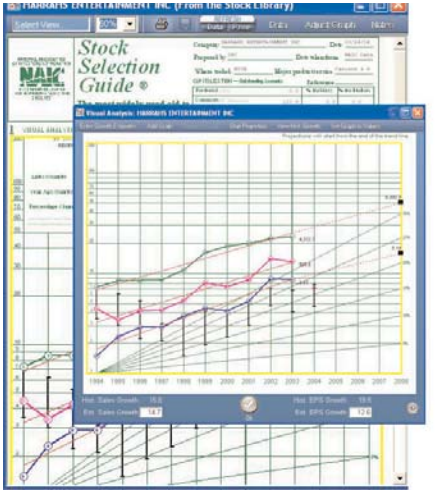
Section 1 – Visual Analysis

Customizing the Chart

The Section 1 graph may be customized by using the Visual Analysis screen. To access the Visual Analysis screen, click the "Adj. Graph" button on the Toolbar or click anywhere within the graph area.

The graph area will "zoom" to allow you to see the full

screen with the graphic depiction of up to ten years of your company's historical data and five years for your sales and earnings projections.



You may move the window by clicking in the title bar and dragging it wherever you wish. You may also size the window by clicking and dragging any corner or edge of the window. You have a great deal of flexibility with this window. Once having set it, it will always take the same shape and position until you change it once again.

Cursor Pop-up box: A pop-up information box, containing the actual value for each point, appears when you rest your cursor over a data point.

Arranging Lines: To arrange the growth lines on the graph click, and hold the mouse button to drag the line up or down. The **lines** are color coded to match the colors of the growth lines:

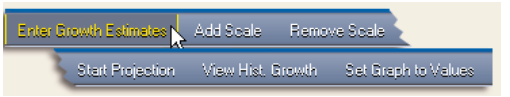
S = Sales (Green line)

P = Pre-Tax Profit (Magenta line)

E = EPS [Earnings per Share] (Blue line)

B = Price Bars (Black lines)

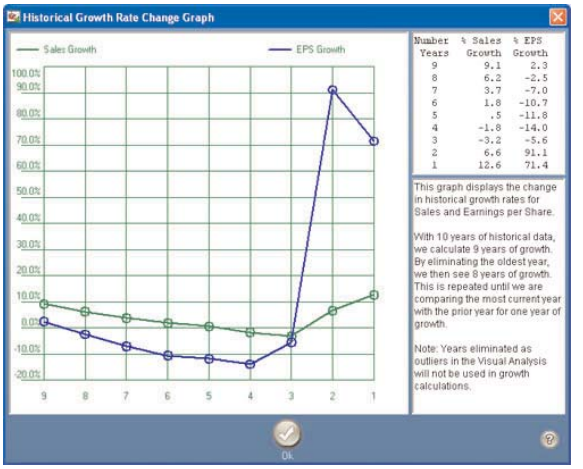
At the top of the "**Visual Analysis**" screen are buttons for:



- **Enter Growth Estimates**: Opens a dialog box where you can enter your estimates of future sales and earnings growth and access the Preferred Procedure to further corroborate your estimates.
- **Add Scale**: Adds one horizontal scale to the semi-log graph to help you adjust the growth lines. You may add additional scales to handle the growth by clicking on the "Add Scale" button.
- **Remove Scale**: Removes horizontal scale lines from the semi-logarithmic graph to help you adjust the growth lines.
- **Start Projection**: To select where you want your five-year projection line to start from: **Annual data** starts from the last, full fiscal year. **Quarterly data** from the most recent quarter. **End of the Trend line** starts from the point where the trend line intersects the last full year line. (An "Advanced" feature, this is shown only if you have enabled it in your **Preferences**.)
- **Historical Growth**: Opens a historical growth profile, displaying the historical growth rates window in both a graph and a table, along with a description box (see top of next page).

NOTE: This is an important graph since a large percentage change in the annual growth rate will often not be noticed on the Visual Analysis graph.

Each point plotted here represents a growth *rate* calculated as though a trend line were drawn through all of the years in the period depicted. As an example, at the 5-year point, it would represent growth for the five years between a point six years ago and the most recent year. Those growth rates are tabulated to the right of the chart.

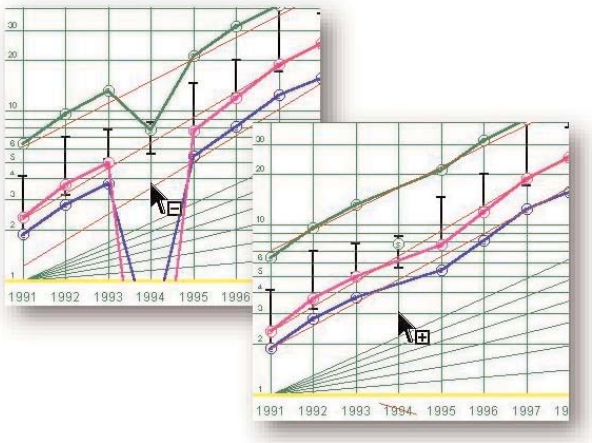


- **Set Graph to Values**: Moves all lines so that data points match scale on the left of graph. The scale, if not already displayed, will appear.

Eliminate Outliers

Analyze the chart to Eliminate Irrelevant Data

1) To eliminate a year as an outlier, click anywhere along the line representing the year's data that you wish to exclude.



2) Observe that a red strike out line appears, running through the year removed as an outlier, and that the cursor changes to indicate that something may be "put back."



3) The SSG will continue to display the original data on the data lines, but the historic growth rates willcompute new values, eliminating the data from the "outlier" year. At any time, clicking on or around the point or its vertical line where the arrow appears will activate the original data and replace the Historical Sales Growth and Historical Earnings per Share Growth Rates with the original computations.

Estimate Future Sales and Earnings Growth



To enter your estimate of future Earnings and Sales Growth, click on the box next to "Est. Sales Growth" or "Est. EPS Growth" at the bottom of the page to bring up the Estimate Sales and Earnings Growth screen. The area will be ringed in green if "**Active Area Highlighting**" has been checked in **Preferences**.



1) Enter the percentage figure for Estimated Future Sales Growth.

2) Enter the percentage figure for Estimated Future Earnings per Share Growth.

Refer to the "**What and Why**" section, (page 111), for guidance in making this judgment.

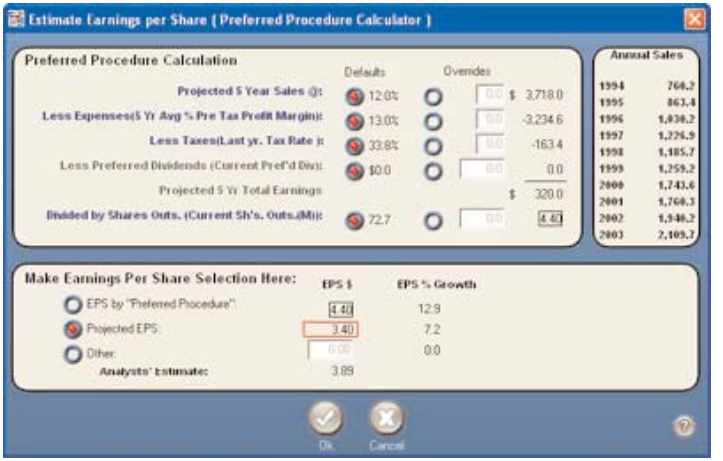
Advanced Option

You may examine the "Preferred Procedure" at this time and review an alternative calculation of earnings per share. To do so:

1) *Click on the "**Preferred Procedure**" button to accept and compare your estimates with the calculations provided by the program.*



To construct an earnings per share figure based upon the normal manner in which a company does business, this dialog begins with your estimate of future sales, calculated from your estimate of future growth. You may change each of the items that affect that figure as it runs the gauntlet from the top to the bottom line.



To do so:

1) Click in the checkbox adjacent to the item you wish to amend.

The ten-year history of the selected data will appear in the display to the right so you can assess the reasonableness of your proposed changes.

2) *Enter the new figure in the field provided. (Enter Sales, Expenses and Taxes as percentages, dollars for Dividends, and numerals for Shares.)*



3) *When you have made all of your changes, view the differences for EPS % Growth in the selection area at the bottom of the window.*

4) *Select one of the three options available:*

- *EPS by "Preferred Procedure"*
- *Projected EPS*
- *Other*

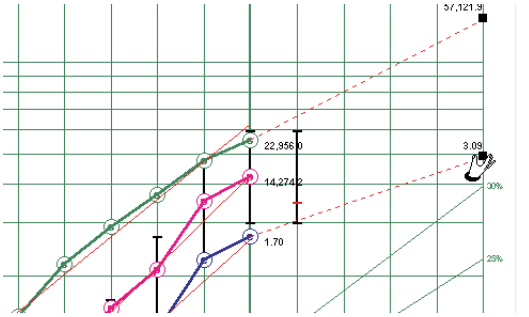
5) *If you have selected "**Other**," enter a figure of your choosing in the space provided.*

The Analyst's Estimate is offered for your information; however such estimates are generally optimistic. For that reason, it is not offered as a selection option.

See the "What and Why" section, page 115*, for a detailed discussion of the Preferred Procedure and the judgment items relating to it.*

When you have finished with the Preferred Procedure, click "OK" or "Cancel" to accept your choices or reject them. You will have another opportunity to access the Preferred Procedure on the back of the SSG, under Section 3, should you wish to take advantage of it.

You may also change your earnings and sales growth projections by clicking on and dragging the box at the end of the 5-year projection line. As your cursor approaches the "hot spot," it will change form to look like this: . You can "grasp" the little box with the "hand" and move it up or down to raise or lower the projections to suit you visually.



As you move the projection line up or down, note the change in the growth rate in its respective box at the bottom of the screen.

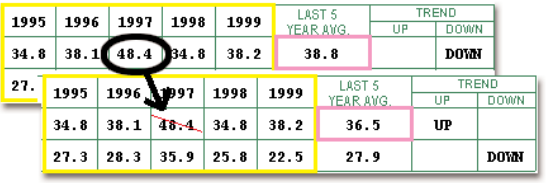
Section 2 – Evaluating Management

Eliminating Outliers

1) Go to the back of the SSG by clicking on the "**SSG Back**" button (**[Ctl+F]**).

2) Place the cursor over Section 2, **Evaluating Management**, and notice how it changes when moved into the most recent five years of data for % Pre-Tax Profit on Sales (Profit Margin) and % Earned on Equity. The area will be ringed in yellow if "Active Area Highlighting" has been checked in Preferences

If data appears to be of a non-recurring nature and to be out of line with the rest of the data, you may wish to eliminate it. (See the "**What and Why**" section, page 119, for a discussion of outlier elimination.) If so:



3) Click on individual data boxes in the last five years of data to eliminate that data from the calculations of the Last 5 Year Avg. and Trend columns. Eliminated data will appear with a red diagonal line across it.

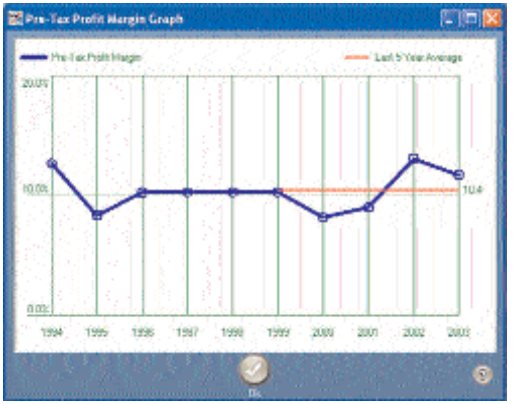
If both Trends are **UP** or **EVEN** and the figures are consistent with the industry averages (if you have access to them), proceed to **Section 3, PRICE-EARNINGS HISTORY.**

Pre-tax Profit Margin Graph

To see a graph of the % Pre-tax Profit on Sales (Profit Margin), click in its "Trend" Up or Down box (the magenta box if "Active Area Highlighting" was selected in Preferences).

Often this graph will help you see the Profit Margin trend that you would not really notice by just looking at the numbers

.



Section 3 – Price-Earnings History

Accept or amend High and Low P/E's.

1) Display the back of the SSG.

2) Place the cursor over **Section 3, PRICE-EARNINGS HISTORY** and notice how it changes when moved over some of the data columns (the area will be ringed in yellow if "Active Area Highlighting" has been checked in **Preference**s.)



3) Look for instances of a particularly low **EPS** figure to see if it has disproportionately raised the high or low Price Earning Ratio figures for that year.

4) Observe the High and Low **Prices** in Columns A and B for trends from year to year. Look carefully at Columns D and E for any significant trends that might affect the **Average High P/E** and **Average Low P/E**.

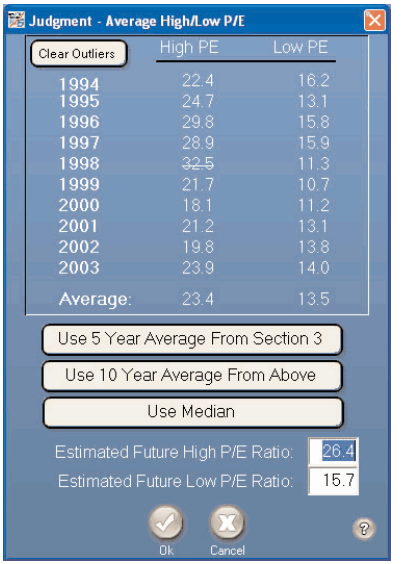
5) Determine whether to eliminate outliers by analyzing whether the data displayed varies significantly from the rest of the data in the column or row. Click on each of the Years (far left column) or header labels, or a specific data field to eliminate data. A red diagonal line will cross through any data eliminated as an "outlier."

NOTE: You may wish to look at the PERT-B Report at this point to analyze a full ten years of PE data.

Section 4 – Evaluating Risk and Reward

Unless you have done a *Stock Selection Guide* for this company before, you will find the spaces for Average High P/E (4A) and Average Low P/E (4B) blank. This is to avoid the temptation to allow default values to substitute for your judgment.

6) Click on either the **Avg. High P/E** or the **Avg. Low P/E** boxes. (The area will be ringed in green, indicating that these fields must be filled, if "Active Area Highlighting" has been checked in Preferences). This will bring up the following dialog box.



Any outliers selected in Section 3, or in PERT Worksheet-B, will be crossed out in this dialog and the averages displayed will be the average of the remaining data. You may elect to use those high and low averages or to override those values and substitute your own. Or you may eliminate more data to be more conservative.

There are three buttons at the bottom of the dialog to assist you in analyzing the historical PEs:

Use 5 Year Average from Section 3: Selecting this button will use the 5 year average from section 3.

Use 10 Year Average From Above: Selecting this button will use the 10 year average from the High and Low P/E section above, excluding any outliers if any are selected.

Use Median: Selecting this button will use the median or middle value. (If there were 9 data points, you would eliminate the 4 highest and 4 lowest and use the middle value. With 10 data points you would average the 2 center points.) Or you may want to average the lowest half or majority of the data by selecting the median and restoring all values below the median.

When your choice differs from the default values in 37D&E, red cross-outs in 4A and 4B will call attention to those differences.

High and Low Price-Earnings Ratio Graph



To help you spot any extraordinary numbers and their relation to the Average High and Low P/E Ratio, look at their graph.

To open, click in the magenta box (if "**Active Area Highlighting**" was enabled in **Preferences**) around Section

3D7&3E7. The cursor also changes to here, indicating a closer look is available.

The graph allows you to see ten years of P/E history and to compare the high and low P/Es with their five-year averages (depicted in red).

Select high earnings pre share ("Preferred Procedure")

Click on the **Estimated High Earnings** field (surrounded by a yellow box, if enabled in the **Preferences)** for a second opportunity to access and use the **Preferred Procedures** to fine-tune your high earnings estimate.

Select low earnings per share

In Sectoin 4-B, assuming the company operates normally, the program places the Earnings Per Share for the most recent year (Section 3, Column C, Line 5 - also noted as 3C5) as the Estimated **Low Earnings Per Share** over the next five years.

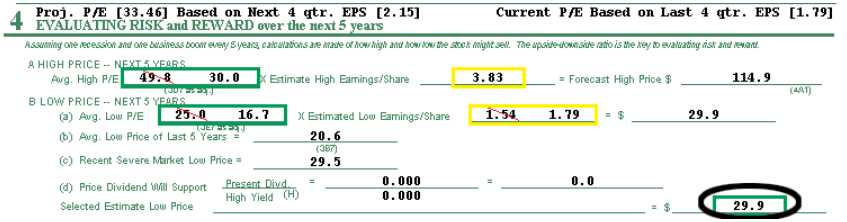


You can modify this data field by clicking in the appropriate area in 4-B (ringed in yellow if "Active Area Highlighting" has been checked in **Preferences**) and entering the data; click on "**OK**" to accept.

Should you need additional guidance, review the section on amending the **Estimated High and Low Earnings per Share** on page 126 in the "**What and Why**" section.

Select low price

On the back of the SSG form, Section 4:



1) Click on the area in **Section 4-B, LOW PRICE - NEXT 5 YEARS** located to the far right of the fifth line, **Selected Estimated Low Price** (ringed in green if "**Active Area Highlighting**" is enabled in Preferences).

The Potential Low Stock Price Selection window offers five options:



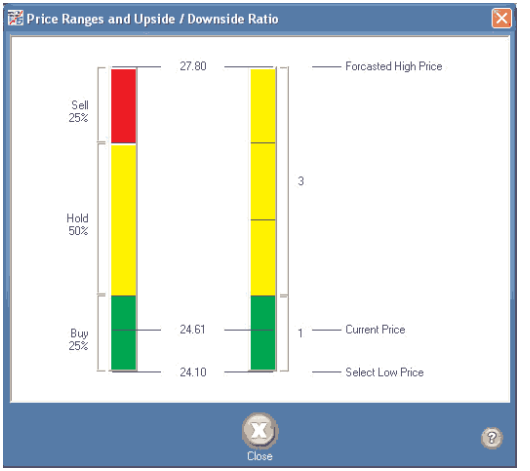
For guidance about these selections, see "**Estimate the Potential Low Price**" in the '**What and Why…**" section.

2) Click on your selection of "**Forecast Low Price**" or click on "**Other**" to enter your own estimate.

3) Click on "**OK**" to accept your choice, '**Cancel**" to reject it.

Graph – Price Ranges and Upside/Downside Ratio

Toolkit contains a graph to help you better visualize the "Buy," "Hold" (Maybe), and "Sell" price zones in relation to the Up-side/Downside Ratio. Click in the magenta box (if you enabled "Active Area Highlighting" in Preferences) around Section 4C & D. The cursor also changes into the "closer look" magnifying glass.



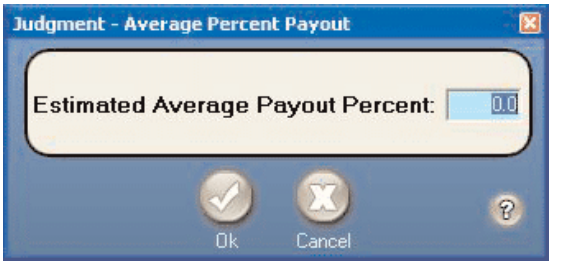
The bar graph on the left is the Price Range you selected in Preferences, either 33%-33%-33% (default) or 25%-50%-25% (for a true 3-to-1 Upside/Downside Ratio). The bar graph on the right shows the Upside/Downside Ratio, with the potential Upside of 3 and a Downside of 1. The Current Price is indicated in the middle showing its relative position to the High and Low Prices and the Price Range and U/D ratio.

Section 5 – 5-Year Potential

Select Percent Payout

PURPOSE: To calculate your current and potential dividend yield and its contribution to the potential return on your investment.

Under Section **5-B AVERAGE YIELD OVER NEXT 5 YEARS**, the Avg. % Payout is obtained from Section 3(G)-Line 7.



To change this figure, click on the field (ringed in yellow if "Active Area Highlighting" has been checked in Preferences) to bring up the **Judgment–Average Percent Payout** screen and insert your estimate. Click "**OK**."

For additional guidance about using this selection, review the section on Percent Payout in the "**What and Why**" section.

The Judgment Audit

By clicking on the "Judgment" button on the Company Toolbar, you can

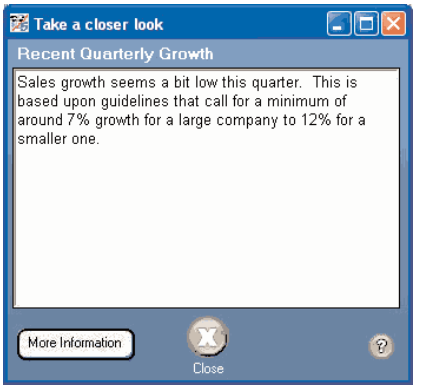
- see what judgment items remain to be completed for your study;
- reset all judgment items to start your evaluation over; and
- highlight any judgment items that appear to depart from conventional, normal, or reasonable values.

Using the Judgment Audit

1) To open the "**Judgment Audit**" screen, click on the "Judgment" button  on the Company Toolbar.

2) Click the "Judgment Reset" button below the "Items Remaining" box on the Judgment Audit dialog box to reset all judgment items you have entered.

3) Click on any checked item under the "Items to Check" on the right. This will open the "Take a Closer Look" information box.



4) Click on the "**More Information**" button for more in-depth information.

5) Click the "**Close**" button to close the screen.

Listed below are the types of issues to which the Toolkit may call your attention.

Capitalization: Invites you to evaluate the capitalization of the company as it is displayed in the header on the front of the SSG (for example, if more than one third of the company's capitalization comes from debt).

Recent Quarterly Growth: Calls your attention to quarterly sales and earnings growth if it is lower than desirable or has declined.

Historical Sales Growth: Suggest when you might consider eliminating irrelevant historical sales data from the graph, asks you to assess if growth has been steady enough to be reasonably predictable, and/or calls your attention to what might be serious growth deficiencies you should examine.

Historical Earnings Growth: Same as Historical Sales Growth.

Forecast Sales Growth: Cautions you when your estimates of future growth might be too optimistic.

Forecast Earnings Growth Same as Forecast Sales Growth. Management Evaluation – calls your attention to possible management inefficiency.

Historical P/Es: Suggest when you might want to consider eliminating some historical High or Low P/Es as outliers.

Future P/Es: Cautions you when your estimates of future P/Es may be too optimistic.

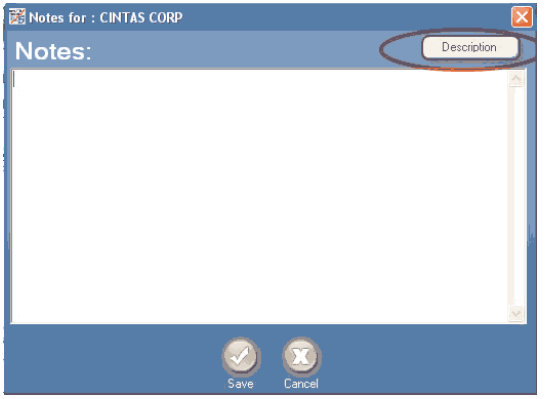
Low Price: Raises a caution flag if the current price appears to be too low compared with its price history.

Result: Suggest conclusions you might draw from the compiled "Results" displayed in the Judgment Audit dialog box when all required judgment items have been completed.

Notes and Comments

To access your Notepad, click on "Notes"(Notes) on the Toolbar at the top of the company screen.

The text within the icon will appear normal if there are no notes and will appear bold and in italics (*Notes*) if there are.



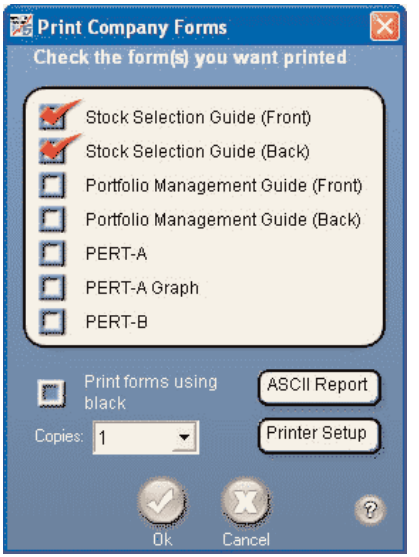
Toolkit 5 provides separate notepad sections for a description of the company and for other information. You can select, copy, and paste a business description from any of a number of Web sites into the **Description** area. And, you can enter your notes about recent fundamental changes, competition, the IR person's phone number, or a variety of other things in the **Notes** section.

CAUTION: When you export (and import) in the .ssg file format, the Notes will not be exported (or imported) with the file. Export either as an .ITK file or as a zipped SSG file to keep Toolkit formatting, including Notes (see Exporting files). When you back up your data, however, these notes are preserved in the backedup database file.

How to Print the Stock Selection Guide (SSG)

After completing your stock study you can print your **Stock Selection Guide**. NOTE: The company's **SSG** must be open in order to print it.

1) Click the "Print" button ( ) on the form's Toolbar. This will open the "**Print Company Forms**" dialog.



2) Select if you wish to print the front and/or back of the **SSG**.

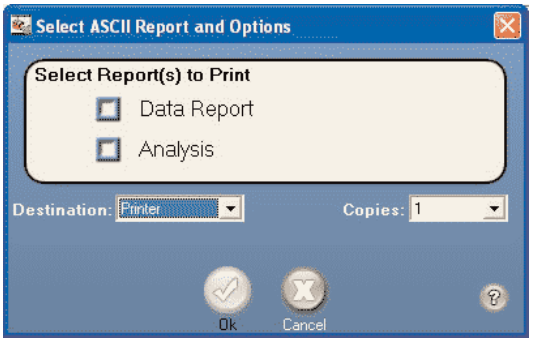
3) Enter the number of "**Copies**" to print.

4) Check if you want to "**print form in black**," not color, if you are using a color printer. (This option will remain checked until unchecked.)

5) Click the "**OK**" button.

ASCII Report

If you want a text printout of your company analysis information, just click on the "**ASCII Report**" button in the "**Print Company Forms**" screen where you select what report you wish to print.



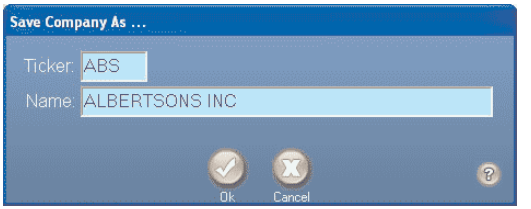
This report includes the contents of your notepad.

How to Save a Company Stock Study

To save a company stock study after completing or making changes to it:

1) Click on the "Save"  icon or 

button on the Toolbar. You will notice that the "**Save**" button will appear "grayed out" when you open a company saved in your Stock Library, but have not made any changes to the company.



Save a Duplicate of a Company Stock Study

You may wish to have more than one version of a company stock study. For example, you may wish to have separate versions for your club and yourself; or you may wish to save a version as it was when you decided to buy the company. To save a duplicate "copy" or version of a company stock study:

1) Select **File > Save Company As ...** .

2) In the "**Save Company As**" screen, enter a number after the company's "Name", e.g. Microsoft 2.

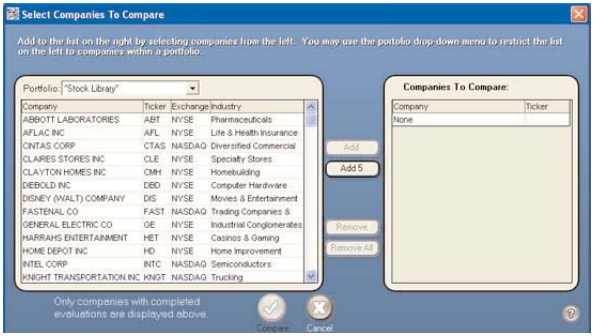
NOTE: When updating the company data from subscribed data files, or from a price file, any such duplicate "copy" will be ignored, and all copies will be updated (unless you select to exclude one or more them from updating during the updating process.)

Stock Comparison Guide

Step 1. Select Stocks to Compare

1) Click on the "Comparison" 

button on the Main Toolbar.



2) In the "Select Companies to Compare" screen, select, from the Portfolio drop-down menu ▼, a portfolio with the companies you want to compare, or select "Stock Library."

3) Choose companies to compare by clicking on the company to highlight it, then click on the "Select" button to move the company to the right to the "Companies Selected" listing. (You may also select companies by double-clicking on the company name.)

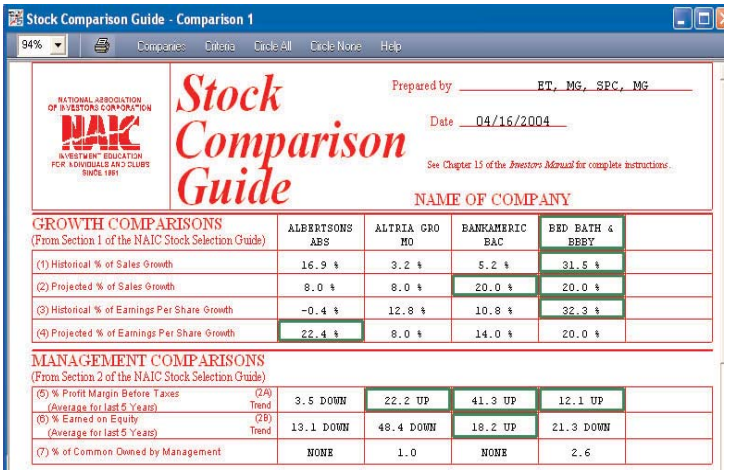
NOTE: Only companies for which SSGs are completed will be displayed in the "**Select Companies to Compare**" dialog box.

4) To remove companies from the "Companies Selected" column, click on the company to select it and click on the "Remove" button. Or to remove all, click on the "Clear Selected List" button.

5) Click the "**OK**" button to open the **Comparison Guide**.

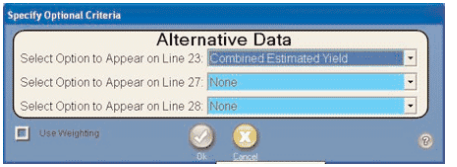
Step 2. Using the Stock Comparison Guide

The Stock Comparison Guide will import and list the data for each company selected. The "winners" for each line item will be circled and the overall "company winner" will be circled.



Step 3: Modify, Weight, and Eliminate Criteria

1) Click on the "**Criteria**" button to open the "**Select Optional Criteria**" screen.



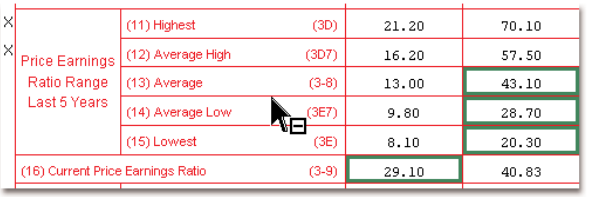
2) Click on the drop-down menu arrow in the applicable field to choose additional items to appear on Lines 23, 27 & 28.

3) If you wish to weight the scoring of criteria, click the "**Add Weighting**" checkbox.



4) Score each criterion on a scale of 1 to 5, giving a 5 to the items you believe to be the most important and a zero to those you wish to ignore. Click "Ok." The weight given to each item will appear in the margin next to the item.

NOTE: You may choose to eliminate or allow items in grading by simply clicking on the item. The cursor will change from a "+" to a "-" when it passes over criteria you can eliminate.



X	Price Earnings Ratio Range Last 5 Years	(11) Highest (3D)	21.20	70.10
X		(12) Average High (3D7)	16.20	57.50
		(13) Average (3-8)	13.00	43.10
		(14) Average Low (3E7)	9.80	28.70
		(15) Lowest (3E)	8.10	20.30
	(16) Current Price Earnings Ratio (3-9)		29.10	40.83

Click on the label to eliminate the criterion. (An "X" will be placed next to the item in the margin.) If that item had been weighted, the "X" will replace the weighted value. When the item is restored, it will be restored with its weighted value. The cursor will change to a where eliminated criteria can be restored. NOTE: Your eliminated criteria and the assigned weights will both be saved until modified.

The Comparison Toolbar



- To add additional companies or change those selected to appear in your Stock Comparison Guide, click on the "Companies" button to return to the "Select Companies to Compare" screen, where you may add companies to, or remove them from, the "Companies Selected" column.
- Click on the "Circle All" button to circle all criteria. Or, click on "Circle None" to remove all circled criteria.
- To see a quick view Stock Analysis Graph of the company, click on the company name. To close the Graph, click on the "Close" button.
- To open a company's Stock Selection Guide

directly from the **Comparison**, right-click on a company's name.

- To return to the **Stock Comparison Guide**, select Windows from the **Menu Bar** and from the drop-down list select the **SCG**.
- To adjust the size of the **SCG** to fit your screen, click on the "Zoom" button. Select a percentage amount from the drop-down menu, or type in your own number.
- For context-sensitive Help, click on the help button on the Comparison screen Toolbar.

How to Print the Stock Comparison Guide

To print the **Stock Comparison Guide**, click the "**Print**" button on the **SCG** Toolbar. The Toolkit will print the **Stock Comparison Guide** on your default printer.

Portfolio Management

Toolkit 5 introduces a new dimension to NAIC portfolio manamement. It has abstracted the concepts behind the printed forms that NAIC has provided for this task for more than a half century and has created a process that implements those concepts, producing the traditional forms as a by-product of that process. For those purists who are accustomed to, and who prefer to use those forms, automated as they have been in the previous version, you may still do so. We have preserved the information about them and continue to include it here, after we deal with the "How to.." of the process. For a detailed discussion of Toolkit's portfolio management process, see page 165 and following in the "**What we do...**" section of this manual.

The Home Page



The **Home Page** is where your portfolio management tasks begin. You may initiate your portfolio management tasks by clicking on the "**Portfolio Management**" text under "What do I do now?"but more often, you will merely wait to be reminded that it's time for them.

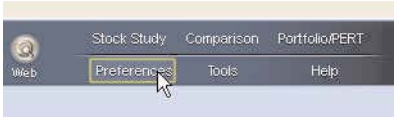
Scheduling

Portfolio management is divided into two distinct disciplines, Defense and Offense.

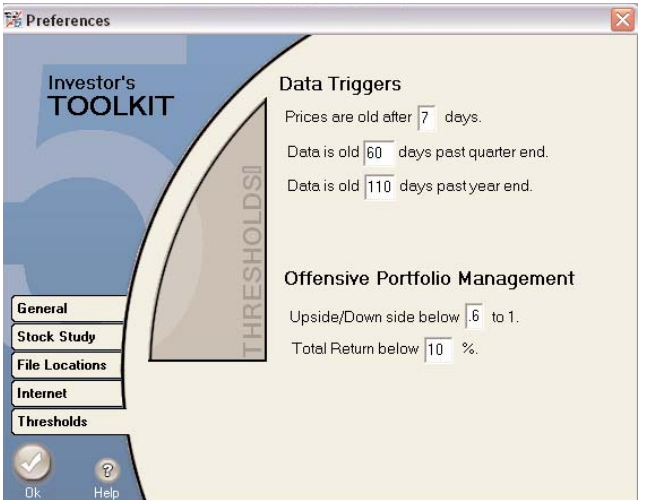
Defense. Protection from harm, prevention of loss. Done when new quarterly or annual data shows a company is no longer maintaining the growth characteristics you expected when you bought the stock. You will set reminders in **Preferences** so you can be advised when each company is due to report new data.

Offense. Enhancement of your portfolio's performance by replacing good companies whose price has become too high to offer you sufficient return at minimal risk. You will set thresholds in **Preferences** to signal when the reward and/or risk becomes sufficiently high and low respectively to warrant your attention.

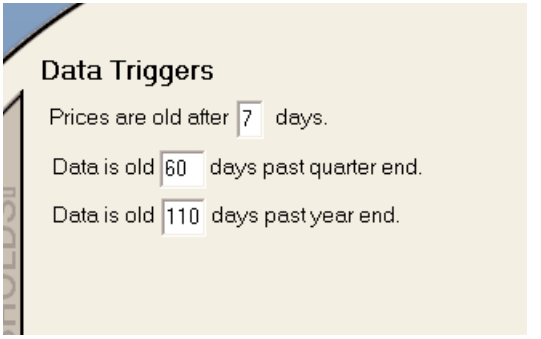
To set these preferences, click on "**Preferences**" on your main toolbar.



Select the "**Thresholds**" tab.



Data Triggers



Set the "**Prices are old after…**" to the number of days after which you wish to be reminded to update your prices. The default value is 7.

Set the "**Data is old…quarter end**."to the number of days after the end of the quarter you wish to be reminded. Companies have 45 days before they're required to report their quarterly results so you will want to give enough time for that information to have been reported, obtained and processed by your data provider, and made available for use. The default is 45 days but you may wish to add an extra ten days or two weeks before you attempt to acquire it. A nominal value would be 60.

Set the "**Data is old…year end**" to the number of days after the end of the **fiscal year** you wish to be reminded. Companies have 90 days before they're required to report their annual results. The default is 90 days but you may wish to add an extra ten days or two weeks before you attempt to acquire it. A nominal value would be 115.

Reminders

On your **Home Page**, you will find two sections that will assist you in your portfolio management tasks. The first is the section labeled "**Requires Attention**" This area is dormant when all is quiet and your portfolios are all in synch with your expectations, there is no new data, and prices are up to date. However, when any of those

is out of synch, it will appear in red text in that section. Here, your attention is called to all three areas:



Update Prices

When in **red**, this reminder tells you that one or more of the comanies in your stock library has not had its price updated for a period beyond the threshold you set. Click on "**Update Prices**" to pull in the new prices for all of the stocks in your stock library. You may scan the list to see if all prices are satisfactory and to get a quick look at those companies whose new price puts it in your "**Buy**" zone.

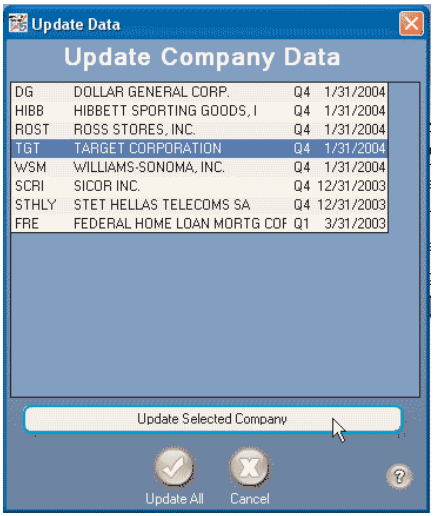
If you wish to see only those companies whose prices are stale, right-click on "**Update Prices**" to see one of the following options:

- Update all prices. Same as left-clicking above.
- Show stale prices. Displays the company and date the last time the price was updated.

  Double-clicking on a company in this list will open the respective **SSG** from which you may update its price individually.

Update Data

When in red, this reminder tells you that one or more of the companies in your stock library should have new data available. Clicking on "Update Data" displays a list of only those companies whose data is older than the thresholds you set. You have the option of updating any company you select or updating the entire list.



For your portfolio management tasks, it is most efficient to click on "**Update All**," to update just those companies whose data is due. The update will replace all data for which data is available in the datafile. (To add only new data and leave the existing data intact, see "**Changes Only**" in the section below on **Updating Data**.

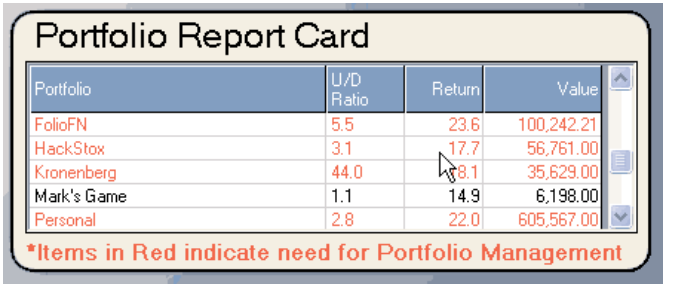
NOTE: You may updtate the entire stock library, a single portfolio, or a single stock if you wish. And you have the option of replacing all available data or adding only the new data. For a complete discussion of thes options, see page 303 and following.

Incomplete SSGs

This reminder notifies you that there are some companies in your database for which you have the data but have not completed the evaluations requred for them to be considered in any of the portfolio management processes. You may click on "**Incomplete SSG**s" to display a list of those companies that require judgment.

Double-clicking on any company in the list will open its SSG for you to complete its stock study.

The Portfolio Report Card

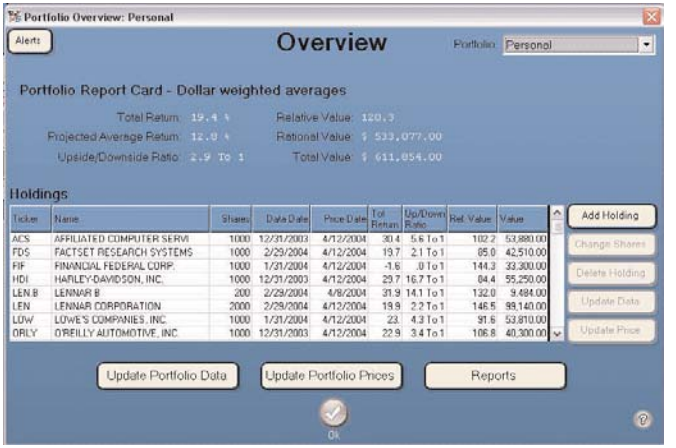


Toolkit 5 keeps you informed about the aggregate market value of your portfolios and the status of their risk and return.

At a glance you can see the the results of price and data updat`es, and, depending upon whether the portfolio is displayed in black or red, see which, if any, of your portfolios requires your attention having one or more stocks that has slipped past your threshold for defensive or offensive action.

Click on any portfolio to display its Portfolio Overview.

Portfolio Overview



The **Overview** is the control center for detailed information about your portfolio and the stocks within it.

It is also an effective portfolio maintenance center in which you may add or remove holdings, change the number of shares, update the data and price for each individual stock or for the portfolio as a whole. You may even invoke the "**Smart Challenger**" (see page 190) for any stock in your portfolio to see how it fares against any others in your **Stock Library**. To do any of these tasks, elect an individual stock and click the appropriate button to the right of the grid.

The top of the screen offers you more detail about the specific portfolio's performance. See page 171 in the "**What we do...**" for the definitions and significance of each item.

Company names in red indicate that the company requires you to complete your stock study to qualify it for consideration in some of the other portfolio management activities. Obviously a stock can't be used to challenge, compare, make a contribution to the hypothetical performance of a portfolio, or be considered intelligently as a part of a watch list if you haven't completed the judgments that determine its quality parameters and its potential return and risk.

The Data Date in red indicates that the company is **overdue for reporting** its financial results for the quarter or year and that you might want to update the data or prices. If you hadn't already updated the data and prices when reminded on the **Home Page**, click on the "**Update Portfolio Data**" button beneath the grid to update just that portfolio's data.

A Price Date in red indicates that the price is stale according to your threshold. You may update that portfolio's prices by clicking on the "**Update Portfolio Prices**" button beneath the grid.

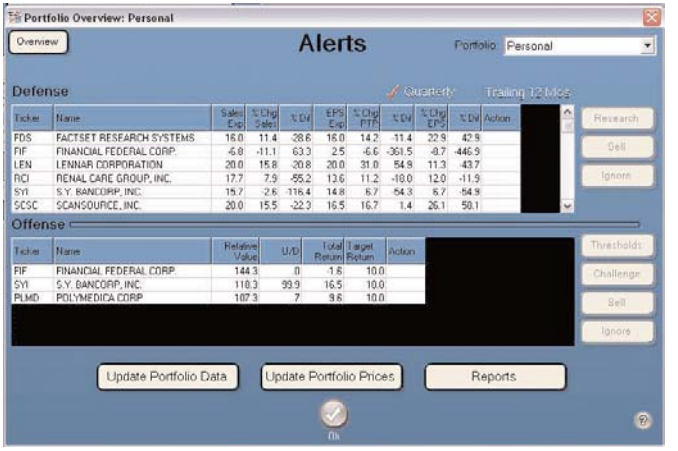


You may change portfolios using the pull-down menu in the upper right corner of the **Overview**.

You may dismiss the **Overview** by clicking "**OK**" at the bottom of the screen.

It is from the **Overview** that you will implement your Offensive and Defensive strategies when desired or required. To do so, click on the "**Alerts**" button at the top left corner of the **Overview** screen.

Alerts



The **Alerts** screen has taken the drudgery out of the **PERT Report**. It has selected from your portfolio all the companies that have crossed your thresholds for Defense and Offense. It presents you with all of the information necessary to make your initial "hold" or "look further" decisions. And it gives you access to all of the tools necessary for making your final decisions.

As with the **Overview**, you may toggle back and forth between the **Overview** and the **Alerts** screens using the button in the upper left corner; and you can select another portfolio using the pull-down menu in the upper right.

Common to this screen also are the buttons allowing you to update your portfolio's data and prices and access the printed reports.

Defense: Compare, Analyze, Decide

Indication: "Update Data" on Home Page is red.

Action:

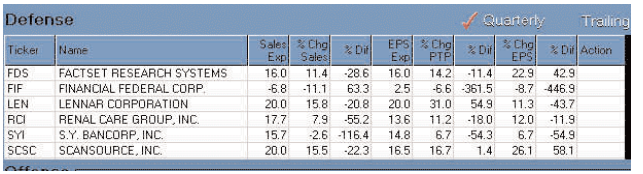
1) Click on "**Update Data**" to see which companies are due to have new data.
2) Click on "**Update All**."
3) Click on **Update Prices** (not necessary for **Defense**; but might affect **Offense** thresholds).
4) Double-click on the portfolio displayed in **red** that requires attention.
5) All companies displayed in Overview should be displayed in black. All dates should be black. If any company is **red**, double-click it to complete the SSG, then return to **Overview**.

Compare

6) Click on the "**Alerts**" button at the top left corner of the Overview screen.

Analyze

7) Select Trailing 12 Mos for "**Data Source**" above the grid.


Defense — Quarterly — Trailing

Ticker	Name	Sales Exp	% Chg Sales	% Dif	EPS Exp	% Chg PTP	% Dif	% Chg EPS	% Dif	Action
FDS	FACTSET RESEARCH SYSTEMS	16.0	11.4	-28.6	16.0	14.2	-11.4	22.9	42.9	
FIF	FINANCIAL FEDERAL CORP.	-6.8	-11.1	63.3	2.5	-6.6	-361.5	-8.7	-446.9	
LEN	LENNAR CORPORATION	20.0	15.8	-20.8	20.0	31.0	54.9	11.3	-43.7	
RCI	RENAL CARE GROUP, INC.	17.7	7.9	-55.2	13.6	11.2	-18.0	12.0	-11.9	
SYI	S.Y. BANCORP, INC.	15.7	-2.6	-116.4	14.8	6.7	-54.3	6.7	-54.9	
SCSC	SCANSOURCE, INC.	20.0	15.5	-22.3	16.5	16.7	1.4	26.1	58.1	

*Only the data that has crossed your threshold will be highlighted in **red**.*

8) Locate the first "**% Dif**" column to the right of "**Sales Exp**." and click on the column header to sort it with the lowest values at the top. (Click a second time if it sorts the other way.)
9) Scan down the "**%Chg.Sales**" column until you come to a value that is acceptable.

*Those whose values in the "***%Chg.Sales***" column are in black should be acceptable–as may be some that are just a little short of your expectations (which you can see in the column to the left)*.

10) Beginning with the first company with acceptable values, select each company and click on the "Hold" button to the left of the grid to place a "Hold" in the "Action" column. Do that for all below it.
11) Repeat 7, 8, and 9 with the "Pre-tax Profit" and "EPS" columns.

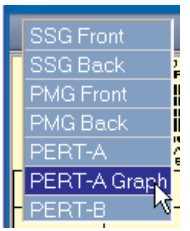
If a company marked "Hold" *is unacceptable on the basis of either* "Pre-tax Profit" or "EPS," *click on the* "Hold" *button a second time to reverse the* "Hold" *action*.

12) Click on the "**Action**" column header to bring those companies to the top that require further action.

Decide

13) Click on the "**Check PERT-A**" button to the right of the grid. Once there, you may wish to go directly to the **PERT-A Graph**.

The rest of the individual company forms (**SSG, SCG, PMG, and PERT-B**) are all available from a pull-down menu at the upper left corner of your **PERT-A** or the other company forms.



You also have all of NAIC's portfolio forms to work with (**PERT, Trend, Summary, Defense**, and **Offense**) by clicking on the "Reports" button beneath the Offense grid in the **Alerts** screen. A similar pull-down menu for portfolio forms is at the upper left corner of all portfolio forms.



Assuming you have an active connection to the Internet running, you may access it at any time by clicking on the

"Web" button on the main toolbar. If you have a company selected, you may select any Internet destination you may wish to visit for your research. Those that are company-specific will appear as will those generic sites you may have selected. You have full control over the sites that populate that menu (see page 316 and following).



Using the tools just described, you can carry out all of the research required to find out if a problem is likely to be only transient or a serious and long-term situation management is unlikely to be able to fix.

See page 179 in the "**What and Why…**" section for a more detailed discussion of what you should look for in this phase of the process.

When you have completed your research and are ready to make your decision:

14) Close whatever form or browser you have been working with to return to the Alerts screen.
15) Record your decision by clicking either on either the "Hold" or "Sell" buttons to the right of the grid.
16) Click on the "**Reports**" button to print out your **Defense Report**.

Using your **Defense Report** as a worksheet, you may now call your brokerage to sell any stock you may have decided to sell.

Offense: Check Risk & Reward, Reevaluate, Challenge

Indication: After updating prices, portfolio(s) in the Portfolio Report Card change to red

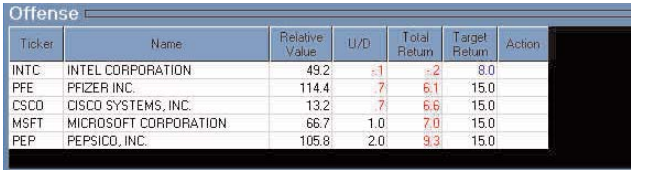
Action:

1) Double-click on the portfolio displayed in red that requires attention.
2) All companies displayed in **Overview** should be displayed in black. All dates should be black. If any company is red, double-click it to complete the SSG, then return to **Overview.**

Check Risk & Reward

3) Click on the "**Alerts**" button at the top left corner of the **Overview** screen.

Re-evaluate



4) Click on the label at the top of the **Total Return** column to sort from low to high. Click twice if necessary. Those values in the U/D and Total Return columns that have crossed your preset thresholds will appear in red.
5) Double-click the first company to bring up its **SSG**.
6) Look at the recent performance and reestimate EPS growth to reflect more closely actual performance. (See page 190 in "**What and Why…**" for guidanceon this procedure.
7) Re-estimate the high P/E to reflect more closely actual performance.
8) Save the reevaluated SSG and close it to return to the **Alerts** screen.

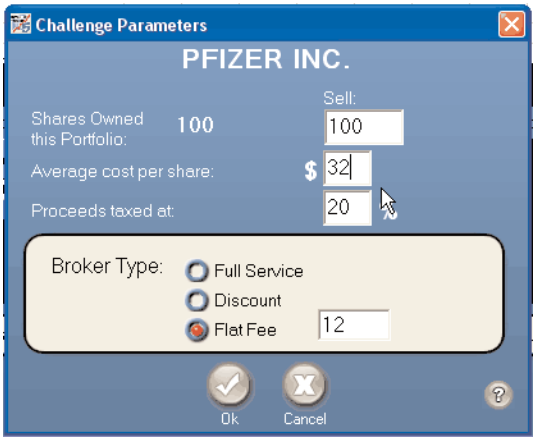
9) If the company remains in the Offense grid, decide if you should replace or hold it.

10) If you decide to continue to hold it, click on the "**Hold**" button and repeat the process with the next company.

Challenge

1) Should you decide to replace the stock, click on the "**Sell**" button.

2) Click on the "**Challenge**" button.

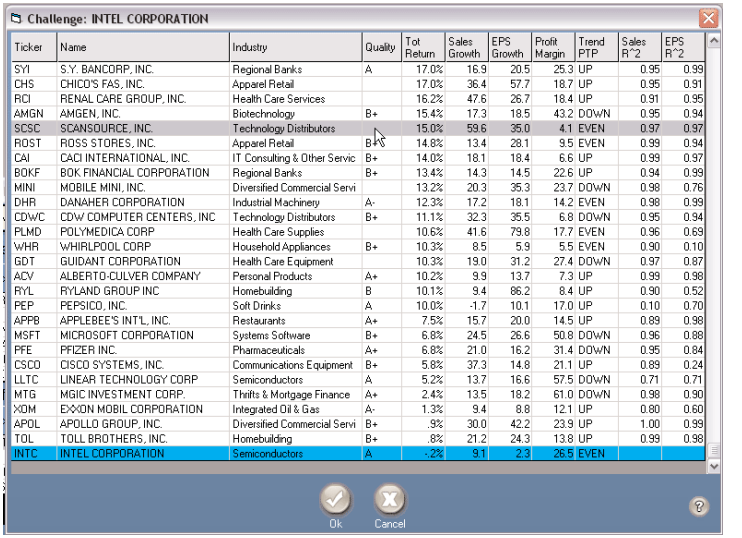


3) Enter the required data in the "**Challenge Parameters**" dialog box and click on the "**OK**" button to bring up the '**Smart Challenger**."

The company you wish to replace will be highlighted in turquoise and displayed with all of the other stocks in your **Stock Library**. The stocks will be ranked in order of Total Return so that each stock appearing above the one you wish to replace will have a greater potential return.

Your first concern is that your replacement be of equal or better quality. In addition to the Total Return, columns showing the Quality Rating, Sales and EPS growth, Profit Margins and their trends, and Sales and EPS stability (R-squared) are displayed. You must compare those quality

measures with those of the stock you want to replace in order to be certain that the Total Return is not the result of poor fundamental performance and the attendant lower price.



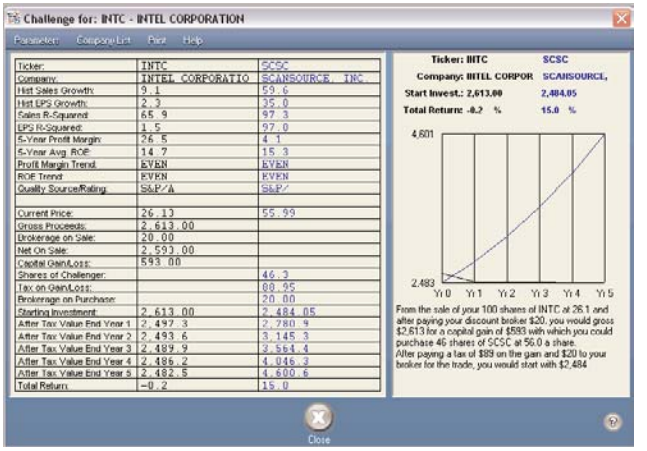
Ticker	Name	Industry	Quality	Tot Return	Sales Growth	EPS Growth	Profit Margin	Trend PTP	Sales R^2	EPS R^2
SYI	S.Y. BANCORP, INC.	Regional Banks	A	17.0%	16.9	20.5	25.3	UP	0.95	0.99
CHS	CHICO'S FAS, INC.	Apparel Retail		17.0%	36.4	57.7	18.7	UP	0.95	0.91
RCI	RENAL CARE GROUP, INC.	Health Care Services		16.2%	47.6	26.7	18.4	UP	0.91	0.95
AMGN	AMGEN, INC.	Biotechnology	B+	15.4%	17.3	18.5	43.2	DOWN	0.95	0.94
SCSC	SCANSOURCE, INC.	Technology Distributors		15.0%	59.6	35.0	4.1	EVEN	0.97	0.97
ROST	ROSS STORES, INC.	Apparel Retail	B+	14.8%	13.4	28.1	9.5	EVEN	0.99	0.94
CAI	CACI INTERNATIONAL, INC.	IT Consulting & Other Servic	B+	14.0%	18.1	18.4	6.6	UP	0.99	0.97
BOKF	BOK FINANCIAL CORPORATION	Regional Banks	B+	13.4%	14.3	14.5	22.6	UP	0.94	0.99
MINI	MOBILE MINI, INC.	Diversified Commercial Servi		13.2%	20.3	35.3	23.7	DOWN	0.98	0.76
DHR	DANAHER CORPORATION	Industrial Machinery	A-	12.3%	17.2	18.1	14.2	EVEN	0.98	0.99
CDWC	CDW COMPUTER CENTERS, INC	Technology Distributors	B+	11.1%	32.3	35.5	6.8	DOWN	0.95	0.94
PLMD	POLYMEDICA CORP	Health Care Supplies		10.6%	41.6	79.8	17.7	EVEN	0.96	0.69
WHR	WHIRLPOOL CORP	Household Appliances	B+	10.3%	8.5	5.9	5.5	EVEN	0.90	0.10
GDT	GUIDANT CORPORATION	Health Care Equipment		10.3%	19.0	31.2	27.4	DOWN	0.97	0.87
ACV	ALBERTO-CULVER COMPANY	Personal Products	A+	10.2%	9.9	13.7	7.3	UP	0.99	0.98
RYL	RYLAND GROUP INC	Homebuilding	B	10.1%	9.4	86.2	8.4	UP	0.90	0.52
PEP	PEPSICO, INC.	Soft Drinks	A	10.0%	-1.7	10.1	17.0	UP	0.10	0.70
APPB	APPLEBEE'S INT'L, INC.	Restaurants	A+	7.5%	15.7	20.0	14.5	UP	0.89	0.98
MSFT	MICROSOFT CORPORATION	Systems Software	B+	6.8%	24.5	26.6	50.8	DOWN	0.96	0.88
PFE	PFIZER INC.	Pharmaceuticals	A+	6.8%	21.0	16.2	31.4	DOWN	0.95	0.84
CSCO	CISCO SYSTEMS, INC.	Communications Equipment	B+	5.8%	37.3	14.8	21.1	UP	0.89	0.24
LLTC	LINEAR TECHNOLOGY CORP	Semiconductors	A	5.2%	13.7	16.6	57.5	DOWN	0.71	0.71
MTG	MGIC INVESTMENT CORP.	Thrifts & Mortgage Finance	A+	2.4%	13.5	18.2	61.0	DOWN	0.98	0.90
XOM	EXXON MOBIL CORPORATION	Integrated Oil & Gas	A-	1.3%	9.4	8.8	12.1	UP	0.80	0.60
APOL	APOLLO GROUP, INC.	Diversified Commercial Servi	B+	.9%	30.0	42.2	23.9	UP	1.00	0.99
TOL	TOLL BROTHERS, INC.	Homebuilding	B+	.8%	21.2	24.3	13.8	UP	0.99	0.98
INTC	INTEL CORPORATION	Semiconductors	A	-.2%	9.1	2.3	26.5	EVEN		

A column showing the companies' industries is displayed to assist you if diversification by industry is important to you in seeking a replacement.

4) Beginning at the top of the list, work your way down until you find a company that appears to be a good candidate for replacing the one you have decided to sell. (See page 191 in "What we do…" for a discussion of this process.

5) When you find a promising candidate, select it and click "Ok" to display the detailed **Challenger**.

At the top of the left side of the Challenger are the quality parameters, side by side for comparison. Beneath those are displayed the financial details of the proposed transaction. On the right is a graphic comparison of the growth of your investment should you hold the stock you are considering challenging or decide to replace it.



6) If you are dissatisfied with your selection, click on "**Company List**" on the bar at the top of the Challenger to return to the **Smart Challenger** and find another.

7) When you do find a satisfactory replacement, click "Print" on the bar at the top of the **Challenger** to print it out and document your decision.

8) Click "**Ok**" to return to the Alerts screen and complete the list as above.

9) When you have finished your Offense tasks, click on the "**Reports**" button beneath the grid on the **Alerts** screen.

With your **Offense Report** and your Challenge results, you are prepared to call your brokerage and implement the results of your work.

Portfolio Management: The NAIC Forms

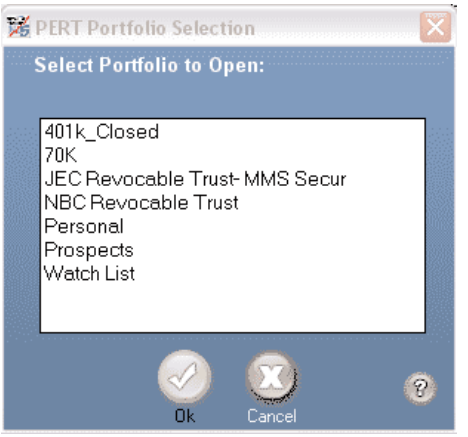
For those who prefer to continue to use the original forms for their portfolio management chores, we have included this section. Any detailed discussion about the interpretation of the forms will be found in the "What and Why…" section of this manual. This section is intended to help you only with the mechanics of launching the forms and making use of whatever automation of those forms we have incorporated.

PERT Report (Portfolio Evaluation Review Technique)

PURPOSE: To monitor the performance of the companies in your portfolio or Stock Library to determine whether they are living up to your expectations. For a full description of the **PERT**, see "**What and why…**" section.

1) Click on the "**Portfolio/PERT**" button on the Main Toolbar.

2) In the **"PERT Portfolio Selection**" screen, click on the portfolio you wish to open, and click "**Ok**." You may display a PERT for any of your portfolios or for your entire Stock Library.



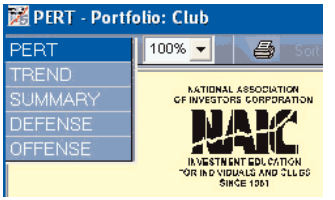
3) Adjust the size of the **PERT** by clicking on  the button and selecting a percentage number.

NOTE: The resized PERT will reopen to this same new size the next time it is opened. Window size depends on the size of your monitor and your screen resolution settings.)

Navigating

Use the scroll bars to move the **PERT** form by clicking on the arrows on the side, and the arrows on the bottom.

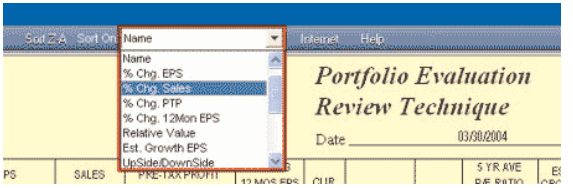
- "**Next**" and "**Previous**" buttons at the bottom of the **PERT** are to go to the Next or Previous Page.
- "**Select View**" – Opens a drop-down menu listing the other forms to select and view. Click on the drop-down menu and select the desired view.



The form then changes in the window below to the view selected. The "**Views**" in the **PERT** are to change to the **PERT, TREND, SUMMARY, DEFENSE**, and **OFFENSE**.

Sorting PERT Data

You may sort many of the columns in your Portfolio data in the **PERT** by using "**Sort On:**" on the **PERT** Toolbar.



1) On the **PERT** Toolbar, click on the "**Sort On**:" drop-down menu arrow.
2) Select from the list. You may sort on: **Name**, **Ticker, % Chg. EPS, % Chg. Sales, % Chg. PTP,**

% Chg 12-month EPS, Relative Value, Upside-Downside, Rate of Return, Projected Average Return, Total Return, % of Portfolio, and **% PE / Growth (PEG)**.

3) Click on either the descending "**A-Z**" or the ascending "**Z-A**" button.

⬇A-Z – to sort in descending order, highest to lowest, the column selected in the "Sort On:" window.

⬆Z-A - to sort in ascending order, lowest to highest, the column selected in the "**Sort On:**" window.

NOTE: You can also move your cursor over the heading of the column on which you wish to rank the report. The cursor will change to an ⬆ up-arrow. To sort in an ascending (Z-A - lowest to highest, or worst to best) simply click on that column heading. To sort in the opposite direction, hold down the [Shift] key and click to change to a ⬇ down-arrow and sort in a descending order (A-Z – highest to lowest, best to worst).

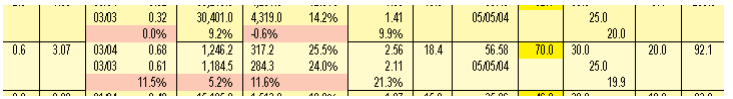
4) Click on the Internet to open your browser to the Yahoo Web site. with it already populated with the stocks in your portfolo and all of the latest news listed by company.

Highlighting Alerts on PERT Form

The PERT (Portfolio Evaluation and Review Technique) form also has "area number highlighting" to alert you when the numbers fall outside of the normal range.

Pink Background Caution Alerts

- The **EPS, Sales, Pre-Tax Profit**, and **Trailing 12 months EPS** will be **Pink** if their **Growth Rates** are less than the Estimated Growth Rates EPS.



		03/03	0.32	30,401.0	4,319.0	14.2%	1.41		05/05/04		25.0			
			0.0%	9.2%	-0.6%		9.9%				20.0			
0.6	3.07	03/04	0.68	1,246.2	317.2	25.5%	2.56	18.4	56.58	70.0	30.0	20.0	92.1	
		03/03	0.61	1,184.5	284.3	24.0%	2.11		05/05/04		25.0			
			11.5%	5.2%	11.6%		21.3%				19.9			

Yellow Background Caution Alerts

- The **RV** (Relative Value) will be **yellow** if the RV is less than 80 percent or higher than 150%.
- **US/DS** (Upside/Downside Ratio) will be **yellow** if the ratio is less than 3 to 1.
- % Compounded Annual Rate of Return (a.k.a. Total Return) will be **yellow** if the percent is less than 10%.

Red Price Dates

- The Date when the stock Price was last updated will be in **red** if it is older than seven (7) days.

How to Open PERT-A from PERT

If you use Toolkit 5's portfolio management process, you will usuall open **PERT-A** from the **Alerts** window. If not, the most intuitive means of opening it is directly from the PERT, to further your research.

Within the **PERT** form you may open the **PERT-A** form for any company by double-clicking on the company's row of data. An information pop-up appears when you rest your cursor to let you know this feature is available.

See page 182 in "What and Why..." for more details about using **PERT-A**

PERT Portfolio Trend Report

PURPOSE: To analyze the trend of the operations of the companies in the portfolio over two consecutive quarters relative to earnings, sales, and pre-tax profit in order to view the "trend of the trends." For further information, see "**What and why**" at page 196.

Using the Portfolio Trend Report:

1) Click on the "**PERT**" button 

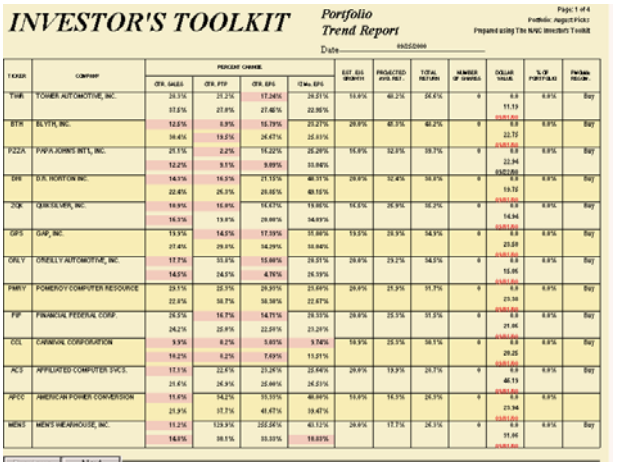
on the Main Toolbar.



2) In the "**PERT Portfolio Selection**" screen, click on the portfolio you wish to open, and click "OK." You may display a PERT for any of your portfolios or for your entire Stock Library.

3) Click on "**Select Views**" drop-down menu arrow and click on "**TREND**" to highlight and select. This will open the "**Trend Report**."

4) Adjust the size of the **Trend Report** by clicking on the  button and selecting a percentage number.



NOTE: The resized **Trend Report** will reopen to this same new size the next time it is opened. Window size depends on the size of your monitor and your screen resolution settings.)

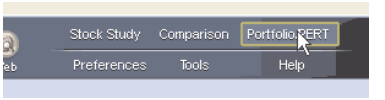
5) Your stocks will appear ranked in whatever order they were in before you opened the **TREND Report**. You may sort them in the same fashion as the **PERT**. See "**Sorting PERT Data**" on page 276 for more information.

6) Use the scroll bars to move the **TREND Report** form by clicking on the ⬆ or ⬇ arrows on the side, and the ⬅ or ➡ arrows on the bottom.

Portfolio Summary Report

PURPOSE: To summarize, in report form, the stocks in a portfolio along with the **Portfolio Management Guide's "Buy," "Hold**," or '**Sell**" "recommendations."

Using the PERT Portfolio Summary:

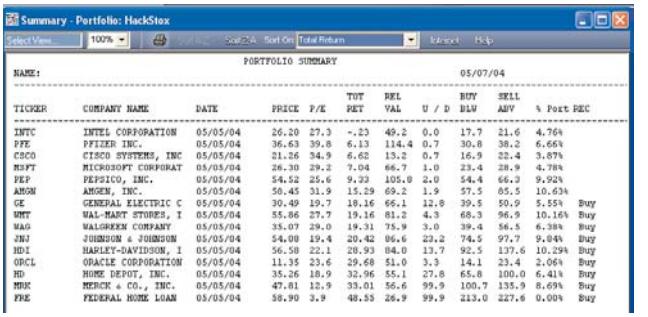


1) Click on the "**Portfolio/PERT**" button on the Main Toolbar.

2) In the "**PERT Portfolio Selection**" screen, click on the portfolio you wish to open, and click "**OK**." You may display a **PERT** for any of your portfolios or for your entire Stock Library.

3) Open the **PERT Portfolio Summary Report** from the drop-down menu.





TICKER	COMPANY NAME	DATE	PRICE	P/E	TOT RET	REL VAL	U / D	BUY BLW	SELL ABV	% Port	REC
INTC	INTEL CORPORATION	05/05/04	26.20	27.3	-.23	49.2	0.0	17.7	21.6	4.76%	
PFE	PFIZER INC.	05/05/04	36.63	39.8	6.13	114.4	0.7	30.8	38.2	6.66%	
CSCO	CISCO SYSTEMS, INC	05/05/04	21.26	34.9	6.62	13.2	0.7	16.9	22.4	3.87%	
MSFT	MICROSOFT CORPORAT	05/05/04	26.30	29.2	7.04	66.7	1.0	23.4	28.9	4.78%	
PEP	PEPSICO, INC.	05/05/04	54.52	25.6	9.33	105.0	2.0	54.4	66.3	9.92%	
AMGN	AMGEN, INC.	05/05/04	58.45	31.9	15.29	69.2	1.9	57.5	85.5	10.63%	
GE	GENERAL ELECTRIC C	05/05/04	30.49	19.7	18.16	66.1	12.8	39.5	50.9	5.55%	Buy
WMT	WAL-MART STORES, I	05/05/04	55.86	27.7	19.16	81.2	4.3	68.3	96.9	10.16%	Buy
WAG	WALGREEN COMPANY	05/05/04	35.07	29.0	19.31	75.9	3.0	39.4	56.5	6.38%	Buy
JNJ	JOHNSON & JOHNSON	05/05/04	54.08	19.4	20.42	86.6	23.2	74.5	97.7	9.84%	Buy
HDI	HARLEY-DAVIDSON, I	05/05/04	56.58	22.1	28.93	84.0	13.7	92.5	137.6	10.29%	Buy
ORCL	ORACLE CORPORATION	05/05/04	11.35	23.6	29.68	51.0	3.3	14.1	23.4	2.06%	Buy
HD	HOME DEPOT, INC.	05/05/04	35.26	18.9	32.96	55.1	27.8	65.8	100.0	6.41%	Buy
MRK	MERCK & CO., INC.	05/05/04	47.81	13.9	35.01	56.6	99.9	100.7	135.9	8.69%	Buy
FRE	FEDERAL HOME LOAN	05/05/04	58.90	3.9	48.55	26.9	99.9	213.0	227.6	0.00%	Buy

Your stocks will appear, ranked in whatever order they were ranked previously. You may sort them in the same fashion as the **PERT**. See "**Sorting PERT Data**" for more information.

4) Adjust the size of the **PERT Portfolio Summary Report** by clicking on the "**Zoom**" button and selecting a percentage number. (NOTE: The resized **PERT Portfolio Summary Report** will reopen to this same new size the next time it is opened.)

5) Use the scroll bars to move the PERT Portfolio Summary Report form by clicking on the ?or? arrows on the side, and the ⬆ or ⬇ arrows on the bottom.

PERT Worksheet-A

Using PERT Worksheet-A

There are three ways to open a PERT Worksheet-A:

1) If you are in a **SSG** (or **PMG, PERT-A Graph,** or **PERT-B**), you may open a **PERT Worksheet-A** by moving your cursor over the company navigation drop-down menu and then clicking on "**PERT-A**" on the Company Toolbar.

2) If you are in **PERT**, move your cursor anywhere on the line for the company you wish to analyze, and the cursor will change to . Double-click to open **PERT Worksheet-A**.

Entering Data in PERT-A

The **PERT Worksheet-A** also provides access to the Quarterly Data entry screen for entering quarterly earnings, sales, pre-tax profit, and income taxes, as well as access to the company "**Data Entry**" screens.

1) Open the data entry screen by clicking anywhere on the quarterly data portion of the **PERT Worksheet-A** (the left side).

The PERT-A Graph

1) To open a **PERT Worksheet-A Graph**, click on the "**PERT-A GRAPH**" button on the Company Toolbar in **SSG, PERT Worksheet-A, PERT Worksheet-B, or PMG**.



2) Select the different items to graph, by choosing among the options in the "**Select Items to Graph, "Using Which Data**," and '**Show**" checkboxes.

PERT Worksheet-B

Using PERT-B

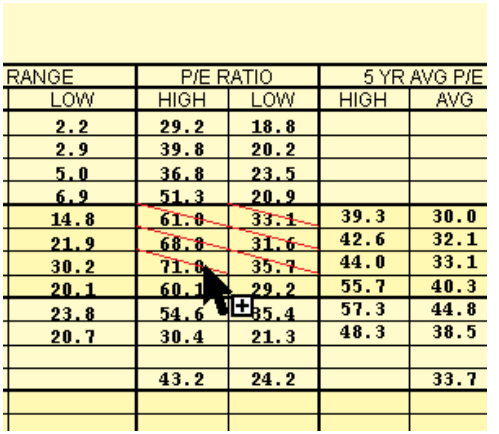
You may open a PERT Worksheet-B (or PMG, **PERT-A** Graph, or SSG),by moving your cursor over the company navigation drop and then clicking on "PERT-B" on the Company Toolbar.

No data entry are required on this screen. The Toolkit automatically transfers data from company data screens and completes all necessary computations. When there is insufficient data to compute a 5-year average, Toolkit averages the years available. "NMF" (no meaningful figure) appears whenever there is a division by zero. You should review the corresponding entries on the company's annual data screen if this occurs.

New in Toolkit 5 is the ability to eliminate outliers for the full ten years or High and Low PE information.

1) Click on any of the high or low PE fields to cross out the data and average that remaining

.



RANGE	P/E RATIO		5 YR AVG P/E	
LOW	HIGH	LOW	HIGH	AVG
2.2	29.2	18.8		
2.9	39.8	20.2		
5.0	36.8	23.5		
6.9	51.3	20.9		
14.8	61.8	33.1	39.3	30.0
21.9	68.8	31.6	42.6	32.1
30.2	71.8	35.7	44.0	33.1
20.1	60.1	29.2	55.7	40.3
23.8	54.6	35.4	57.3	44.8
20.7	30.4	21.3	48.3	38.5
	43.2	24.2		33.7

2) The strikeouts will show up as defaults in the "**Judgment: High/Low P/E**" dialog in Section 4 of your SSG if you are forecasting your PEs for the first time.

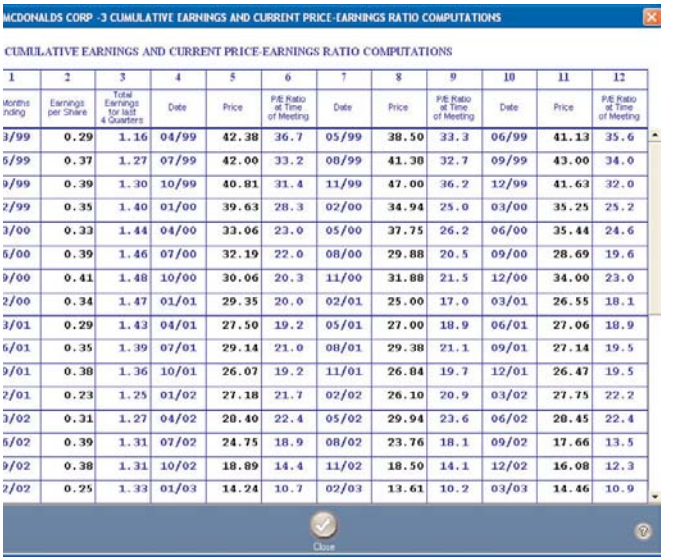
Portfolio Management Guide

Using the Portfolio Management Guide

You may open a **PMG** (or **PERT-B**, **PERT-A Graph**, or **SSG**), by moving your cursor over the "**Select view**:" drop-down menu and selecting "**PERT-B**." To view the back of the form, click on the "**PMG Back**" button, and to return to the front, click "**PMG Front**."

How to Enter Data in PMG

The **Portfolio Management Guide** also provides data entry access for the "**Section 3: Cumulative Earnings and Current Price-Earnings Computations**," as well as access to the Company "**Data Entry**" screens.



MCDONALDS CORP -3 CUMULATIVE EARNINGS AND CURRENT PRICE-EARNINGS RATIO COMPUTATIONS

CUMULATIVE EARNINGS AND CURRENT PRICE-EARNINGS RATIO COMPUTATIONS

1	2	3	4	5	6	7	8	9	10	11	12
Months nding	Earnings per Share	Total Earnings for last 4 Quarters	Date	Price	P/E Ratio at Time of Meeting	Date	Price	P/E Ratio at Time of Meeting	Date	Price	P/E Ratio at Time of Meeting
3/99	0.29	1.16	04/99	42.38	36.7	05/99	38.50	33.3	06/99	41.13	35.6
6/99	0.37	1.27	07/99	42.00	33.2	08/99	41.38	32.7	09/99	43.00	34.0
9/99	0.39	1.30	10/99	40.81	31.4	11/99	47.00	36.2	12/99	41.63	32.0
2/99	0.35	1.40	01/00	39.63	28.3	02/00	34.94	25.0	03/00	35.25	25.2
3/00	0.33	1.44	04/00	33.06	23.0	05/00	37.75	26.2	06/00	35.44	24.6
6/00	0.39	1.46	07/00	32.19	22.0	08/00	29.88	20.5	09/00	28.69	19.6
9/00	0.41	1.48	10/00	30.06	20.3	11/00	31.88	21.5	12/00	34.00	23.0
2/00	0.34	1.47	01/01	29.35	20.0	02/01	25.00	17.0	03/01	26.55	18.1
3/01	0.29	1.43	04/01	27.50	19.2	05/01	27.00	18.9	06/01	27.06	18.9
6/01	0.35	1.39	07/01	29.14	21.0	08/01	29.38	21.1	09/01	27.14	19.5
9/01	0.38	1.36	10/01	26.07	19.2	11/01	26.84	19.7	12/01	26.47	19.5
2/01	0.23	1.25	01/02	27.18	21.7	02/02	26.10	20.9	03/02	27.75	22.2
3/02	0.31	1.27	04/02	28.40	22.4	05/02	29.94	23.6	06/02	28.45	22.4
6/02	0.39	1.31	07/02	24.75	18.9	08/02	23.76	18.1	09/02	17.66	13.5
9/02	0.38	1.31	10/02	18.89	14.4	11/02	18.50	14.1	12/02	16.08	12.3
2/02	0.25	1.33	01/03	14.24	10.7	02/03	13.61	10.2	03/03	14.46	10.9

Close

1) To open the **PMG** Data entry screen for Section 3, either click on the "PMG Data" button located on PMG Toolbar, or double-click anywhere on the PMG Section 3, within the green highlighted area (if "Active Area Highlighting" is enabled in Preferences).

2) Click in the space next to the quarter and enter the quarterly earnings data. (**NOTE**: After four consecutive quarters of data have been entered, "Total Earnings for last 4 quarters" will be calculated automatically.)

3) Enter the Price of the stock when you had your investment club meeting. The PE at Time of Meeting will be calculated automatically.

4) After updating the data or when you want to return to the "**PMG**," click the "**Close**" button at the bottom of the page (or the close "**X**" in the top-right corner).

Challenger

Using the Challenger

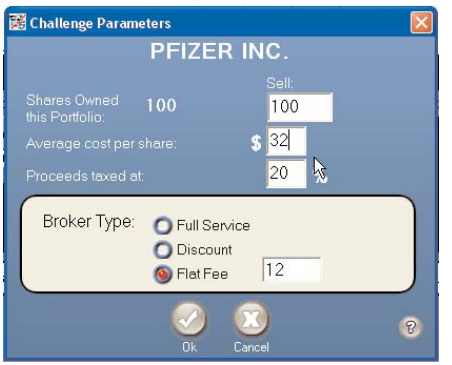
1) Open your Stock Library by clicking the tab.

2) Select the company that you wish to challenge

3) Click on the "Challenge" button from within the



4) Within the "Challenge Parameters" screen enter:



- "**Number of Shares to Sell**" (This will already be filled out if you have done so when you created the portfolio.)
- "**Average Price Per Share**": If you purchased the stock at different times at different prices, enter the average price per share; otherwise, enter the purchase price. You may also pro-rate commissions if they are significant.
- "**Tax Rate**": Your income tax rate, used to calculate and deduct the taxes you will have to pay on this sale. The program defaults to 15%, or whatever you chose to have it default to when you created the portfolio–assuming capital gains treatment.

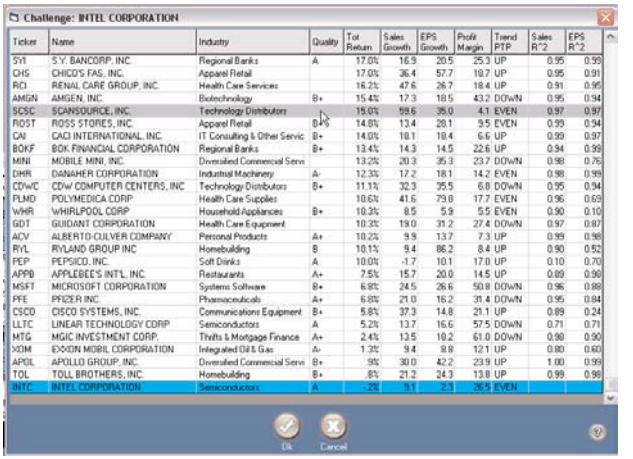
5) Under "**Brokerage Fees**" select either '**Full Service Broker**," **"Discount Broker**," or '**Flat Fee**"' broker. If you will be charged a "**Flat Fee**," enter the fee ($) for both the Sale and Purchase. Toolkit's default brokerage fees are based on an industry chart of average commissions.

6) Click "**Ok**" button to view the '**Smart Challenger**," a list of suitable **Challengers** from which you can select a candidate. (See page 189 and following in the "**What and Why...**" section for information about this tool.

7) Before you are presented with challenger companies you will be presented with a warning screen that informs you that you should not replace a company with one whose fundamentals do not meet your expectations. **NOTE**: You may disable this warning.

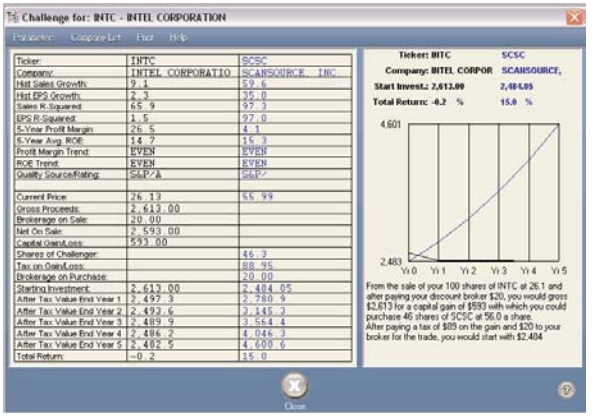
8) Click **OK** to close the warning alert box, if open.

9) The Challenged company will be displayed and highlighted in **turquoise**, ranked by Total Return with all of the other prospective Challengers.



10) Select the Challenger company

11) Click "**Ok**" to review the Challenge Results.



12) To enter new parameters, click "**Parameters**" at the top of the "**Challenge Results**" screen.

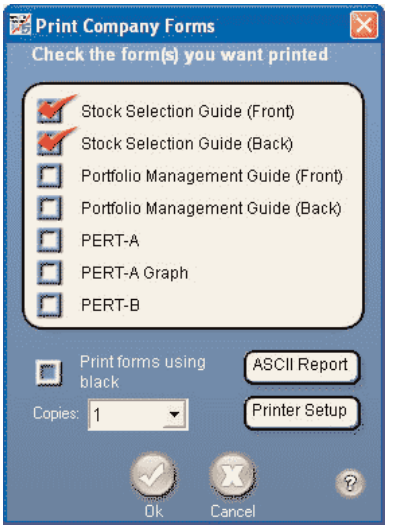
13) To select another company click "**Company List**" at the top of the screen. This re-opens the "**Smart Challenger**" for another candidate.

14) When you finish making changes, click on "OK" to return to the **Home Page**.

Printing

The following describes the procedure for printing the various company and portfolio management forms in the Investor's Toolkit 5. The printing procedure may vary slightly depending on the form you wish to print. How to Print Company forms The procedure is the same to print any of the following forms: Stock **Selection Guide, Portfolio Management Guide (PMG), PERT-A, PERT-A Graphs**, and PERT-B.

1) Click the "**Print**" button on the Toolbar for any form. This will open the "**Print Company Forms**" screen.



2) Select the forms you wish to print.

3) Enter the number of "Copies" to print.

4) Check if you want to "print form in black" if you are using a color printer and wish to save your colored inks.

ASCII Report

If you want a **text printout** of your company analysis information or the underlying data, click on the "**ASCII Report**" button in the "**Print Company Forms**" screen.

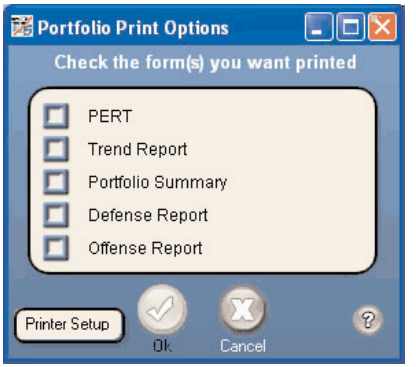
How to Print Stock Comparison Guide (SCG)

1) Click the "Print" button on the SCG Toolbar. The print command will print the "**Stock Comparison Guide**" on your default printer.

How to Print Portfolio Management Forms

To print the **PERT**, **Portfolio Trend Report, Portfolio Summary, Defense**, or **Offense Report**:

1) Click the "**Print**" button on the Toolbar for any Portfolio form. This opens the "**Portfolio Print Options**" screen.



2) Select which form(s) you want to print.

3) Enter the number of "Copies" you want to print and click "**Ok**.".

How to Print the Challenger

To print the **Challenge** form click the "**Print**" button on the "**Challenge**" Toolbar.



The print command will print the "**Challenge**" on your default printer.

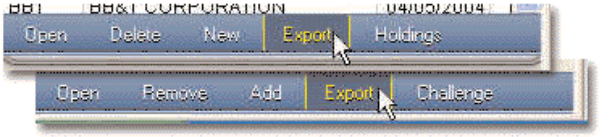
Sharing Stock Studies

Many people like to share their stock studies with friends and members of their investment club. Doing this is an easy process, requiring you only to export the stock study and then either send it as an e-mail attachment or put it on a floppy disk.

Export Data from Stock Library

When you wish to share your stock studies with others using NAIC stock analysis software, you can easily export your company studies from the **Stock Library** window.

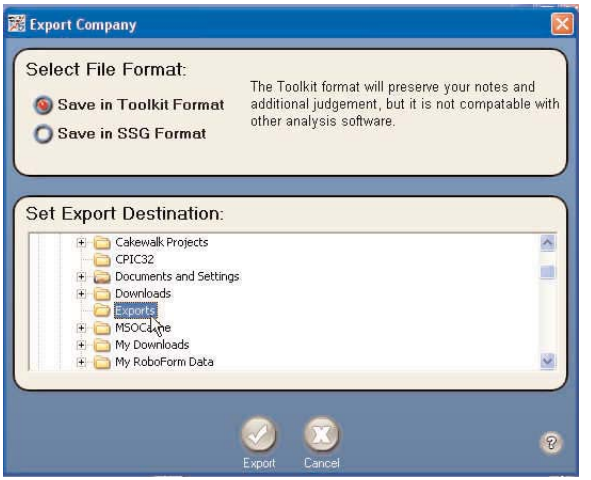
The "**Export**" function is available from the bar at the bottom of either the **Personal Library** or **Portfolio Holdings.**



1) Click on a company to select it and click the "**Export**" button.

2) In the "**Export Company**" dialog box, select the file format option you wish (**ITK** or **SSG**).

NOTE: You may export your notes using ITK, or, should you select SSG, you may also elect for your SSG files to be zipped. See **Export File Formats** below for more information.



3) Select the Export destination and click "Export."

NOTE: If you selected an Export destination in your Preferences, the file will be exported directly there. If not, you will have the opportunity to do so here.

New Computer Users tend to find the desktop the most convenient place to export their .ssg files. Your desktop is the location where your icons reside when you first start up your computer.

Sending SSG via E-maill

1) **Open** your e-mail program.

2) **Address** your message and fill in the subject as you would normally do.

3) Follow the prescribed procedure for sending attachments, navigating to the directory to which you exported your SSG file. (Consult your e-mail software company if you have questions about that procedure.)

5) **Double-click** the **Stock Selection Guide** file(s) that you exported.

6. Press **SEND** to transmit the message and file.

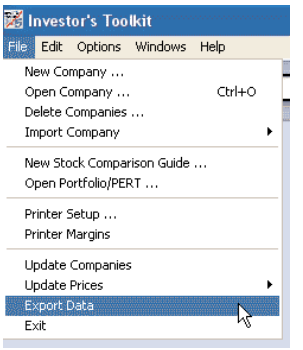
Export File Formats

Files may be exported in three different formats.

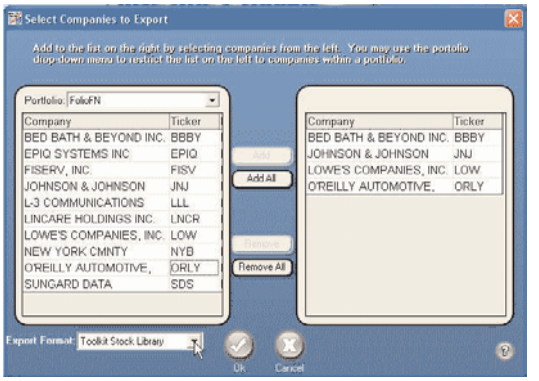
- **Save in Toolkit Format**: The "**Toolkit format**" **ITK** file will preserve your Notes and additional judgment, including the location of the lines in the **Visual Analysis**. It is not compatible with other analysis software. This file can only be opened in Toolkit 4 and Toolkit 5.
- **Save in SSG Format**: The "**SSG format**" **SSG** file can be used by all NAIC analysis software. This format does not include your Toolkit "**Notes**" and other Toolkit 4 and Toolkit 5-specific items.
- **ZIP**: The ZIP file will save both the SSG file format along with your Toolkit "Notes" as a text (TXT) file in a compressed ZIP file. The "Notes" file can then be opened and read as a text file when sent to someone who is not using Toolkit 4 or Toolkit 5. The ZIpped file (SSG file format plus a text "Notes" file) will import into Toolkit 4 and Toolkit 5, just like the ITK "**Toolkit File Format**".

Advanced Data Export

To export multiple SSG's, a ticker list, a Stock Library, and/or a CSV file to make data or stock studies that you have completed available to others or prepare them for on-line uploading, do the following.



1) On the Menu Bar, select **File > Export Data**.
2) From the pull-down menu at the top of this screen, select the portfolio from which you'd like to export your companies or select "**Stock Library**."



3) To select companies to export, highlight the name of the company and then click the "**Add One**" button to move the company to the Companies Selected list or double-click on the company name. You may select companies individually or "**Add All**".

4) To select your export format click on the pulldown menu beneath the left grid labeled "**Export Format**" – choose "**Investor's Toolkit Format**" "**NAIC SSG Files**," "**CSV Price File**," "**ASCII Ticker List**," or "**Toolkit Stock Library**."

- "**CSV Price Files**" contains only ticker symbol, latest price and dates for use in updating prices.
- "**ASCII Ticker List**" is a file containing only the ticker symbols for use when using one of the online services, perhaps, for price updating.
- "**Toolkit Stock Library**": Exports selected stocks to a newly created Toolkit Library database. This option is only available if "**Show Advanced Library Options**" has been checked. This may be done by clicking the "**Preferences**" button on the main Toolbar, clicking the General tab, and then clicking the box labeled "**Show Advanced Library Options**".

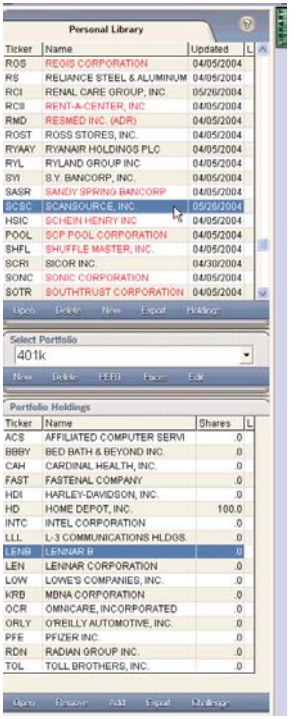
NOTE: Toolkit's default database will not change to this new exported library database.

5) Click "**Ok**" to export your files.

6) If you haven't already provided in the Preferences for a destination folder for your exported files, you will be asked to do so at this point.

Managing the Stock Library

The **Personal Library** window in the Investor's Toolkit 5 is an easy interface for accessing all of the companies in your **Stock Library** and managing your **Portfolios**.



The Personal Library window has three vertical panes:

- Stock Library
- Portfolios
- Portfolio Holdings

The Stock Library consists of all of the companies you have saved in your Toolkit. The **Portfolios** pane allows you to create Portfolios into which you add companies from your **Stock Library**. Finally, the Portfolio Holdings pane displays the contents of the individual Portfolios.

Click on the green  button to open your Stock Library. The tab is always present, and the Library always accessible no matter what study you may be performing. Clicking on the green "**Library**" button will reopen and expand the **Library** view. If "**Hide and Show Library Automatically**" is selected in **Preferences**, then the **Library** window will automatically open when no stock study screen is open. When you open a company, the **Library** window closes, but you may reopen it by clicking on the green "**Library**" button.

Navigating with Library Toolbars

There is a toolbar beneath each of the three panes.

- The bar beneath the Stock Library has the following buttons: "**Open**," "**Delete**," "**New**," "**Export**," and "**Holdings**."

- The bar beneath the **Portfolios** has "**New**," "**Delete**," '**PERT**," '**Prices**," and '**Edit**" buttons.
- "**Portfolio Holdings**" has '**Open**," '**Remove**," "**Add**," '**Export**," and '**Challenge**" buttons.

Stock Library

The **Stock Library** consists of all the companies for which you have data saved in your Toolkit 5 database, whether or not the stock studies have been completed on them.



There are several different ways to open a new or saved company, which are briefly reviewed here. For a more in-depth explanation, refer to the sections on how to "**Open Saved Stock Study**"; **"Importing Data – New Stock Study**", and '**Manual Data Entry – New Stock Study**".

Open

Click on any comnpany in the **Stock Library** to select it, then click the "**Open**" button. This will open a **Stock Selection Guide** for the selected company. (You may also open a **Stock Selection Guide** by right-clicking on the desired company and selecting "**Open**" from the displayed menu.)

Delete

Click on any company in the **Stock Library** to select it, then click on the "**Delete**" button. This will delete the selected company's data from the Toolkit 5 database, removing it from the **Stock Library** listing and, of course, from any and all **Portfolios** to which it may have been assigned. (You may also delete a company by right-clicking on the company and selecting "**Delete**" from the displayed menu.)

New

Click to create a new stock study (**Stock Selection Guide**). The "**Acquire Data – New Study**" screen will open with the following button options from which to select. (NOTE: New performs the same function as the "**Stock Study**" button on the main toolbar.) See page 222 and following for more information about this function.

Export

Click on any company in the **Stock Library** you wish to export, then click the "**Export**" button to export a company file to a location you specify or have specified. (You may also export a company by right-clicking on the company and selecting "**Export**" from the displayed menu.)

For more information, refer to the "**Export Data**" section.

Holdings

Click on any company in the **Stock Library**, then Click on "**Holdings**" to view all the portofios that stock is assigned to and the number of shares in each.

Portfolios

The **Portfolios** pane has the following buttons located directly below its pane:



New

Click the "**New**" button to open the "**Add New Portfolio**" dialog.



1) Enter the name of the new portfolio.

2) Enter or accept the typical tax rate that would apply on your gains. (The current capital gains rate of 15% is the default value).

3) Select the customary commission paid to the brokerage holding this portfolio account. on your transactions.

4) Click "**Ok**" to add the new portfolio to the pull-down meny listing the portfolio selectoins. (See "**Portfolio Holdings**" below to add companies to a Portfolio.)

Delete

Select the portfolio you wish to delete from the Portflio pull-down menu, then click the "**Delete**" button to remove it from the list. If that portfolio is currently open in the pane below, it will be replaced with another.

PERT

Select a portfolio, then click on the "**PERT**" button to open the **Overview** window for that portfolio. See page 173 for a full description of the **Overview**.

Prices

Assuming you are actively connected to the Internet,

clicking on "**Prices**" will generate an immediate update to all the prices in the selected portfolio. If the prices displayed in the **Update Prices** dialog are satisfactory, click "**Ok**" to update the prices in your database.

Edit

Click this button to change the name, tax information, and/or brokerage fees for the selected portfolio.

Portfolio Holdings

The **Portfolio Holdings** pane of the **Stock Library** allows you to manage the stocks in selected **Portfolio**. Selecting the desired portfolio from the pull-down menu in the **Portfolios** pane will display it in the **Portfolio Holdings** pane below.

Adding companies

The most convenient way to add a company to a selected portfolio is to right-click the company in the **Stock Library** and select "**Add to selected portfolio**" from the displayed menu.

See "**Add**," below for another way to do it.

The **Portfolio Holdings** pane has the following buttons located directly below its pane:



Open

Click on any any company in the **Portfolio Holdings** pane, then click the "Open" button to open a **Stock Selection Guide** for the highlighted company.

(**TIP**: Double-clicking the company name is a shortcut to changing the number of shares of that company in the selected portfolio. It opens a window to "**Change Shares for …**" where you can enter the new number of shares.)

Remove

Click on a company in the **Portfolio Holdings** list to select it, then click to on "**Remove**" to remove a company from the selected **Portfolio**. (You may also remove a company from the portfolio by right-clicking on the desired company and selecting "**Remove**" from the displayed menu.)

NOTE: This will remove the selected company from the selected portfolio only. It will not remove it from the Toolkit 5 database, the **Stock Library** listing, or any other **Portfolio**. A dialog box opens to confirm that you wish to remove the stock. You can

Add

Clicking on the "Add" button opens a "**Select Company to Add to Portfolio**" screen, which lists all of the companies in the *Toolkit* **Stock Library**.

You can sort the list by column heading by placing your cursor on the heading (Company, Ticker, Exchange) and when the cursor changes to a small down arrow ↴ click to sort.

To locate a company in the list, either scroll down to locate it, or you may quickly type the first few letters of its name. You will be taken directly to the company.

Click on a company to select it and then enter the "**Number of Shares**" you you wish to put in the selected portfolio.

If this company is a first-time purchase, it and the number of shares entered will be placed into the portfolio immediately. If the company is already in the portfolio, a dialog box will open asking to confirm the additional shares.

A "**Watch List**" portfolio can be created by entering "0" number of shares.)

Export

Click on a company to select itk then click on "Export" to export a company to a folder you specify. (You may also export a company from the portfolio by right-clicking on the desired company and selecting "Export" from the displayed menu.)

For more information, refer to the "How to Export Data" on page 290 above.

Change Share Holdings

To amend the number of shares of a company in the selected portfolio, double-click the company listed in the Portfolio Holding to open a "Change Shares for..." window, where you can enter the new number of shares. (You may also change the number of shares by right-clicking on the desired company and selecting "Change the number of shares" from the displayed menu.)

Challenge

Right-click on any company and select "Challenge" from the displayed menu to immediately invoke the "Smart Challenger." You will first need to complete the "Challenge Parameters" dialog, see page 189 for details about the Challenge process.

Updating Your Stock Studies

Data

Electronic

For electronic updating, it is assumed you have an active connection to the Internet.

Schedule Updates

Companies report financial results four times per year. Toolkit 5 allows you to schedule reminders for each company to tell you when data is due to be reported. To schedule these reminders:

1) Click on **Preferences** on the main toolbar and select the **Thresholds** tab.

2) Under **Data Triggers**:

- Set the number of days before **prices** are stale to the number of days after which you want to be reminded to update prices. Anywhere between 1 and 7 is nominal.
- Set the **Quarterly** reminder date to a reasonable value. Companies have 45 days to report after quarterly books close. It takes about 10 days to 2 weeks to publish results.
- Set the **Annual** reminder date to a reasonable value. Companies have 90 days to report after annual books close. It takes about 10 days to 2 weeks to publish results.

3) Click "**Ok**"

Perform Updates

All electronic updates except those invoked from the **File > Update Companies**, are "**Full Updates**" meaning that all data that is carried into the process by the downloaded data replaces whatever data is stored in the database. Under the **File > Update Companies**, you have the option of making a "**Changes Only**" update which leaves existing data alone and merely adds any new data to the file. Full updates are preferred because any data that has been restated will be replaced by the restated data. **Changes Only** updates are useful only in cases where you have an interest in preserving existing data; e.g., if you have made an effort to amend or alter historical data for some reason and you don't want to destroy those amendments.

Update only companies with new data

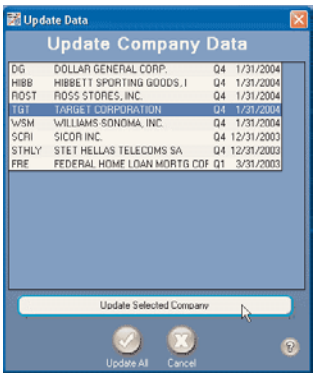
1) Click on the "**Update Data**" button in the '**Requires Attention**" box on the **Home Page** when that button is **red**.

2) Click on "**Update All**."

Update an Individual Company

From **Home Page**

1) Click on "**Update Data**"



2) In the "**Update Companies**" dialog, select a company and click on the "**Update Selected Company**" button.

From a **Company** window (**SSG, PMG, PERT-A**)

1) Click on the cluster 

at the top of the form. Clicking on "**Data**" will update the data for that company. Clicking on "**Refresh**" will update both data and price.

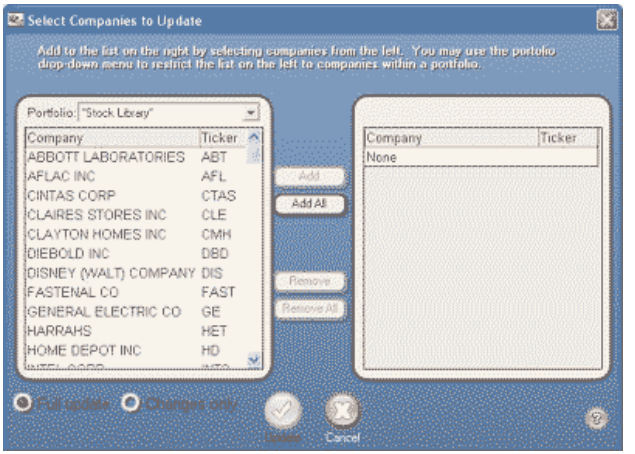
From the **Overview** screen

1) Select a company.

2) Click the "**Updata Data**" button to the right of the grid.

From the **File menu**

1) Select **File > Update Companies**



2) Select the company you wish to update and click the "**Add**" button or double-click on the company to move it into the **Update** space.

3) Select either "**Full Update**" or "**Changes Only**."

4) Click "**Ok**."

Update a Portfolio

From the **Home Page**

1) Double-click the portfolio you wish to update in the **Portfolio Report Card**.

2) From the **Overview** screen that appears, click on the "**Updata PortfolioData**" button.

From the **File menu**

1) Select **File > Update Companies**

2) Select the portfolio you wish to update from the pull-down menu above the left-hand grid and click the "**Add all**" button to move all the stocks in the portfolio into the **Update** space.

3) Select either "**Full Update**" or '**Changes Only**."

4) Click "**Ok**."

From the **Overview** or **Alerts** screen

1) Click on the "**Update Portfolio Data**" button beneath the grid.

Update the entire Stock Library

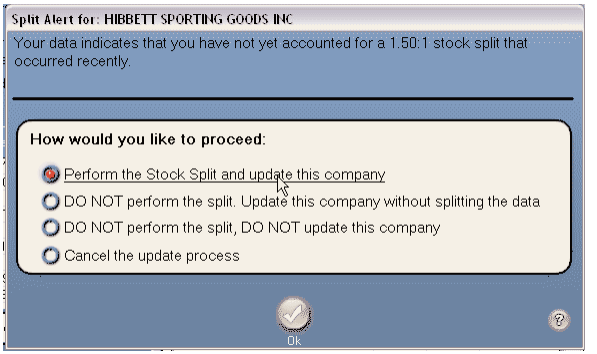
From the **File Menu**

1) **Select File > Update Companies**

2) Same as portfolio only select "**Stock Library**" as portfolio to be updated.

Splits and Stock Dividends

Occasionally, a stock split or stock dividend will have occurred in the period prior to your update.

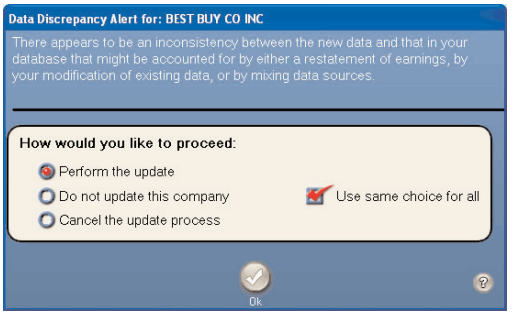


If there has been a split, the Toolkit will analyze the existing data and determine if that data has been adjusted to accommodate the split. If it has not, you will be given the opportunity to accomplish that adjustment with a mouse-click. If you prefer not to do so for some reason, you may decline and the data will not be updated.

If there has been a split and your data appears to have already been adjusted, you will be notified of the split as well and simply informed that your data appears to have been appropriately adjusted.

Inconsistencies Between New and Old Data

Some investors alter the historical data to account for non-recurring events or other items that they feel should be adjusted to more accurately depict the company's historical performance. Some sources of data restate data when some operations have been discontinued. For these and other reasons, you may wish to use one or the other of the import options that are available in the Toolkit 5.



If the Toolkit detects inconsistencies between the historical data and the same historical data in the file that is being imported, depending upon the circumstance and the option you have selected, you will be advised of the circumstances and given the opportunity to change your import option to one more appropriate. For example, if the Toolkit senses a discrepancy and you have elected to use the "**Full Update**" option, you will be told that there is a discrepancy and given the opportunity to change to "**Changes Only**."

Update Manually

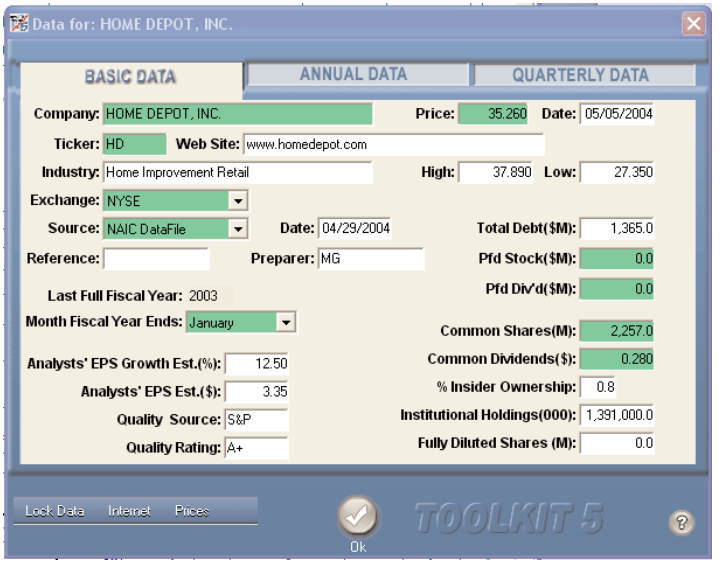
To update your stock study with the current data, using data sources such as Value Line or Standard & Poor's Reports.

1) Open the company you want to update. Refer to the "**Open Saved Stock Study**" section on page 226 if you require additional information.

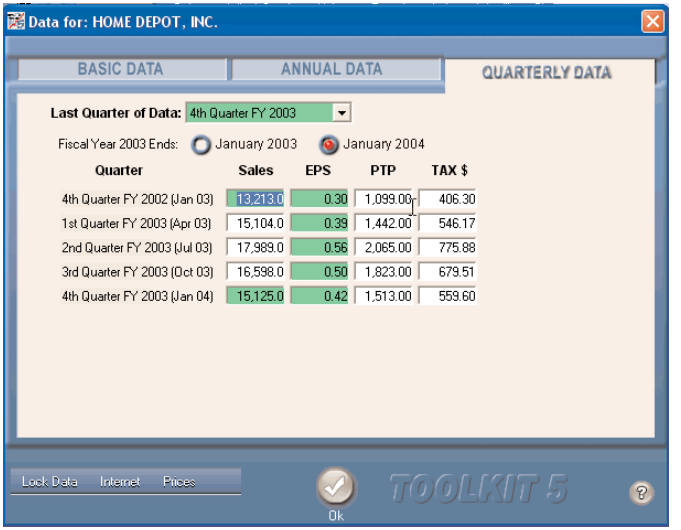
2) Click on the "**Data**" button on the Company Toolbar.

3) This opens the "**Basic Data**" screen where you can [**Tab**] through each of the data fields and enter your updated data.

4) If the company's data entry fields are locked, click on the "Lock Data" button to unlock them so you can update the data.



5) When you are finished updating the "**Basic Data**," click on the "**Quarterly Data**" tab.



6) In the "**Quarterly Data**" screen, click on the "**Last Quarter of Data**" drop-down menu arrow and select the next Quarter. This will shift the

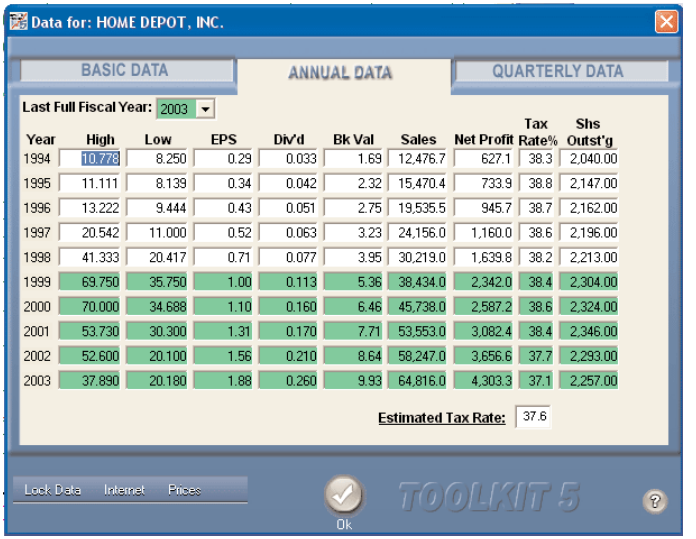
data up with new blank fields to enter your new quarterly data.

7) When you are finished updating your data, click "**OK**." To save your new updated data, click the "Save" button on the Company Toolbar.

If you decide to not update your data at this time, you can close the "**Data For**" screen by clicking the in the top right corner.

If you entered updated data for the "**4th Quarter**" of the Fiscal Year and also have the updated Annual Data, then:

8) Click on the "**Annual Data**" tab. In the "**Annual Data**" screen, select the next year from the "**Last Full Fiscal Year**" drop-down menu. This will shift the data up with new blank fields for you to enter the new annual data.



NOTE: If you only have the 4th Quarter data, but do not yet have the Annual Data, then of course you will only update the Quarterly Data and not update the Annual Data until this information is available.

Prices

Electronic

It is assumed that have an active connection to the Internet.

All Stocks

From the **Home Page**

1) Click on "**Update Prices**" in the '**Requires Attention**" list. (Or right-click on "**Update Prices**" and select "**Update All**" from the displayed menu.)



2) Click "**Update**" button at bottom of displayed "**Import Prices**" screen after reviewing prices and stock status ("Buy" or "Sell").

NOTE: To determine which stock prices are not upto-date, right-click on "**Update Prices**" when it is red, and select "**Show Stale Prices**."

Portfolio

From the **Stock Library**:



1) Click on "**Prices**" in the toolbar beneath the **Portfolio** pane.

2) Click "**Update**" button at bottom of displayed "**Import Prices**" screen after reviewing prices and stock status ("Buy" or "Sell").

From the **Overview** or **Alerts** windows:

1) Click the "**Update Portfolio Prices**" button beneath the grid.

Individual Stocks

From any company window (**SSG, PMG, PERT-A, PERT-A Graph, PERT-B**):

1) Click on "**Price**" in the '**Refresh**" cluster at the top of the page. Click on "**Refresh**" to update both price and data.

From the **Overview**:

1) Click on any company in the grid to select it.

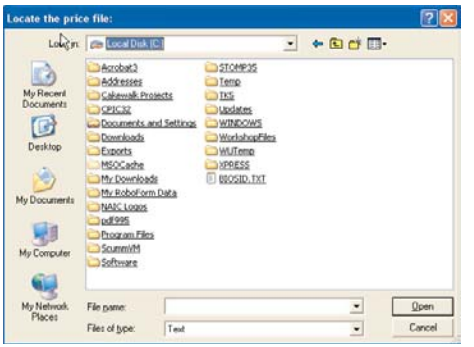
2) Click on the "**Update price**" button to the right of the grid.

Using a **Price File**

You may use a price file from *Yahoo*, *Quicken,* or some other source to update your stock prices. (Consult the software product or source for information about how to export prices from their products.)

1) Select **File > Update Prices > Import Price File**.

2) Locate the price file in the displayed dialog box.



3) Select the proper format (Text, CSV, or All Files) from the pull-down menu at the bottom of the dialog box in order to filter out only the appropriate types of file and make it easier to find.

4) Click "**OK**" to import the prices.

5) Check the resulting screen to to see that the prices have been imported satisfactorily, and the status of each stock ("Buy" or "Sell").



6) Click "Update" to complete the price update.

Manually

Individual Company

From any company form (SSG, PMG, PERT-A, PERT-B):

1) Click on the "Data" button in the company toolbar.



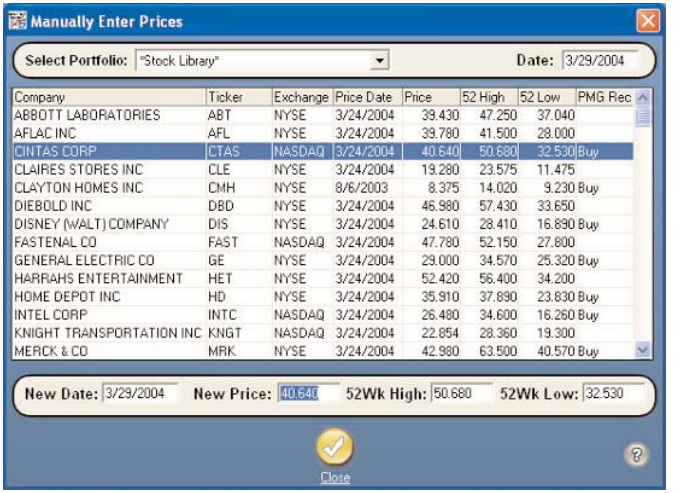
2) Enter the new price in the Price field in the upper right of the Basic Data page.

Multiple Companies

You may update the prices for multiple companies manually

1) Select **FIle > Update Prices > Manually Enter Prices**

2) Enter the new price for each stock in the "**New Price**" field below the grid.



3) To alter the date for any one price, enter the date in the "**New Date**" field to the left of the price. Otherwise all prices will be entered with the default date shown in the upper right corner of the screen.

4) Press **{Enter}** to move to the next company, the **down-arrow** to move down the list, select any company to update with your mouse.

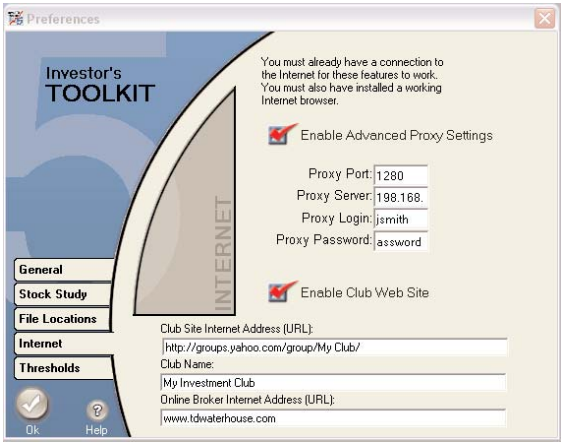
5) When you have finished, click "**Ok**" to quit updating.

Internet Access

Activation

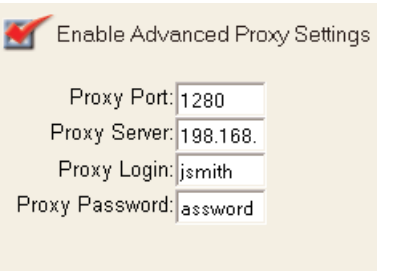
Web access requires that you have an Internet Web browser installed on your computer (e.g., Microsoft's Explorer®), Netscape® and subscribe to an Internet Service Provider (ISP) through which you can access the Internet.

1) Click on "**Preferences**" in the main toolbar and select the "**Internet**" tab.



Proxy Server

2) Click on the "Enable Advanced Proxy Settings" checkbox.



3) Enter the **Port, Proxy Server Name, Login ID** and Password and then click the "**OK**" button to complete the process.

How to Set Up Web Destinations

Your Club Web site

1) Click on "**Preferences**" in the main toolbar and select the "**Internet**" tab.

2) Click on the "**Enable Club Web site**" button.

3) Enter the URL for your club.

Your online brokerage

1) Click on "**Preferences**" in the main toolbar and select the "**Internet**" tab.



2) Enter the URL for your online broker

How to Open "Internet Access" screen

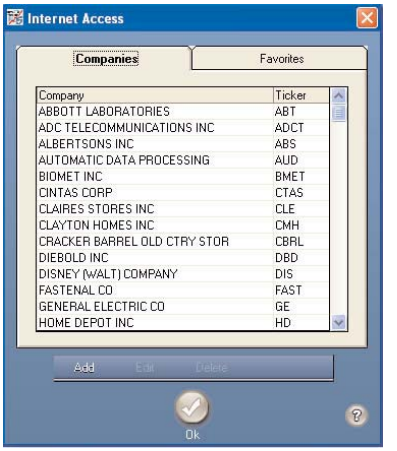
Access to the Internet is greatly simplified in Toolkit 5. **All access** to sites is through the "**Web**" button ( )on the main toolbar.

To open the "**Internet Access**" screen, click on the '**Web**" button on the Main Toolbar." Clicking on any of the selections from the drop down list will activate your browser, if you are already connected to the Internet, or, if your browser is so configured, it will dial up your provider and log you onto the selected Web site.



Accessing Company Web sites

1) Click the "**Web**" button on the Main Toolbar and then click the **Manage Web Links** selection from the drop down list to display the **Internet Access** dialog.



2) Click on a company to highlight it.
3) "**Open,**" "**Edit**," or "**Delete**" the company by clicking on the respective button.

To Add a Company Address

1) Click "**Add**" to add a company and its Web site to your list.



2) Enter the **Name**, **Ticker**, and **URL** if you know it. If not, continue with the steps that follow.

TIP: To add a company's URL from any open company form, click the "**Web**" button, select "**Open Company URL**" from the pull-down menu, then click "**Yes**" when asked if you wish to add it. It will automatically open the above

dialog with the company name and ticker symbol already entered.

3) Open the company's home page your browser:

4) Highlight the address as shown on the browser's address field.

5) Press **[Ctrl+C]** (simultaneously press **Ctrl** and **C**) to copy the address to the Window's clipboard.

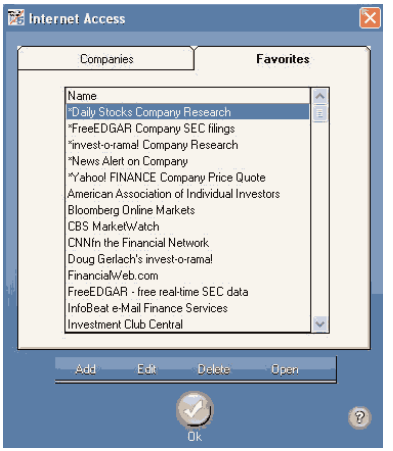
6) Use the Taskbar to switch to the *Investor's Toolkit.*

7) Click in the URL window and press **[Ctrl+V]** (simultaneously press Ctrl and V) to paste the contents of the clipboard into the field.

The URL will automatically appear in the URL section of the company's **Basic Data** screen. .

Accessing Favorites

1) Click the **Web** button on the Main Toolbar and then click the **Manage Web Links** selection from the drop down list.



2) Click on the "**Favorites**" tab.

3) Highlight a Web site and click the "**Open**" button (or double-click on the site) to activate your browser.

NOTE: Sites listed with an asterisk (*) are company-specific sites and cannot be accessed from this list. With any company form open, they will appear on the drop-down list when the "**Web**" button is clicked. See below for a discussion of company-specific sites.

How to Add a Favorite Web site

1) Click "**Add**" to add a Web site to your list of Favorites.
2) Select a name and type the name into the name field.
3) Within the URL field type into the web site address. (e.g., www.investware.com)

How to Edit a Favorite Address

1) Select the company that you wish to edit.
2) Click the "**Edit**" button.
3) change the web site address (URL) and/or company name within the screen that appears.
4) Click the "**Ok**" button when you are finished.

Company-Specific sites

How to Access "Company-Specific" Web Sites

NOTE: A company-specific site refers to a Web page on a destination site that requires you to first access the site and then– usually by entering a ticker symbol– navigate to the page on that site that is of interest to you. Toolkit 5 permits you to go directly to that page on that site from the company you are studying.



You can access a company-specific site *only from a company form* (**SSG, PMG, PERT-A, PERT-A Graph**, or **PERT-B**).

1) With a company form open, click on the Web button on the main toolbar.

2) Select the desired company-specific site from the pulldown menu that appears.

Advanced Option

To Add a Company-Specific Site to the Favorites List:



Addition, deletion, or editing of the company-specific Web sites listed on the pull-down menu associated with the "Web" button when company forms are displayed follows the same process as other "Favorites" addresses but requires some additional steps.

1) *In the* ***Favorites*** *page, follow the same steps as above to add a conventional address, accessing the desired site in the normal fashion.*

2) *Enter the ticker symbol for any company in order to access the company-specific screen on that site.*

3) *Enter a name for the site in the "****Add Address****" dialog box, but* **put an asterisk in front of the name***.*

4) *Select and copy the address for that site (as described above for a normal address) and paste it into the address field.*

5) *Locate the ticker symbol imbedded in the address and replace it with a dollar sign followed by an asterisk (* **$*** *). This is the "wild card" that the Toolkit uses to replace with the company's ticker symbol when you access that Web site.*

To Edit or Delete a drop-down menu address, select that address, from the "Favorites" screen, and click on the appropriate button. Note that Toolkit will not delete an address until you verify that you intended that action.

For Advanced Users

Multiple Stock Libraries

Advanced users can use this feature to maintain several Stock Libraries (databases). A Toolkit library is an individual database file consisting of:

- companies and their data
- judgment
- notes
- portfolio assignments

A Library should *not* be confused with a *Portfolio.*

A **Stock Library** may have as many portfolios as the user wishes. These might include your personal holdings, your spouse's, your investment club, a hypothetical "watchlist" portfolio, etc.

Each of these portfolios may have one or many stocks in common with any other portfolios. When the data or price is updated for that stock, the update will appear in each portfolio sharing that stock.

The **Library Manager** feature permits the use of more than **one Stock Library** with its attendant portfolios, where you may wish to separate stock studies entirely for one or another purpose. For example, you may wish to set up a library for your investment club alone, with a portfolio of those companies that the club owns, a portfolio which consists of the club's "watch list," and another which consists of stocks that have been sold.

You may name Libraries so they are easily identified, e.g., club.mdb. An "**.mdb**" extension will automatically be added.

You may store Libraries in any location on your hard drive. The location and name of the library currently in use may be found by clicking on the **Preferences** button on the Main Toolbar and then on the **File Locations** tab.

NOTE: The program's **Update Company** and **Update Price** functions will affect only the library currently in use. For each library, the **Stock Library** represents all of the companies contained within that particular database.

Activation and Use

This option is for advanced users with a need for multiple Toolkit Databases.

The *Investor's Toolkit*is shipped with the **tk.mdb** library active. It contains some sample companies that you can practice with. Or, you can add new libraries for your use as described below.

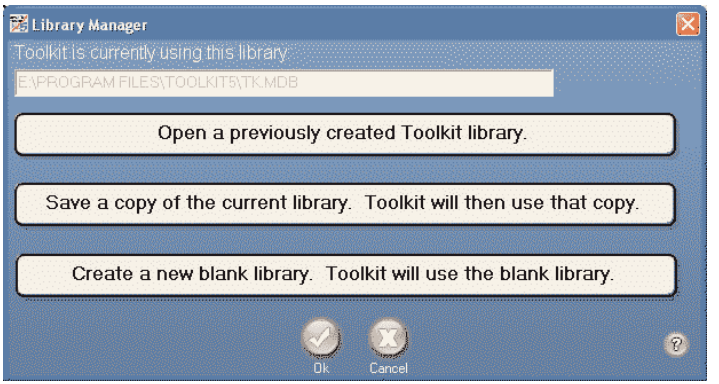
Activate the Library Manager

1) Click on the **Preferences** button on the Main Toolbar.

2) Selecting the General tab.

3) Click on "**Show Advanced Library Options**."

4) Select **Library > Library Manager** to make use of the functions described below.



Update Company *and* **Update Price** *functions only affect the active database.*

Open or Change to an Existing Library

1) Click on the button labeled, "Open a previously created Toolkit library."

2) Navigate to the location where the desired library may be found, select it, and click "**OK**."

To save the current library with a new name

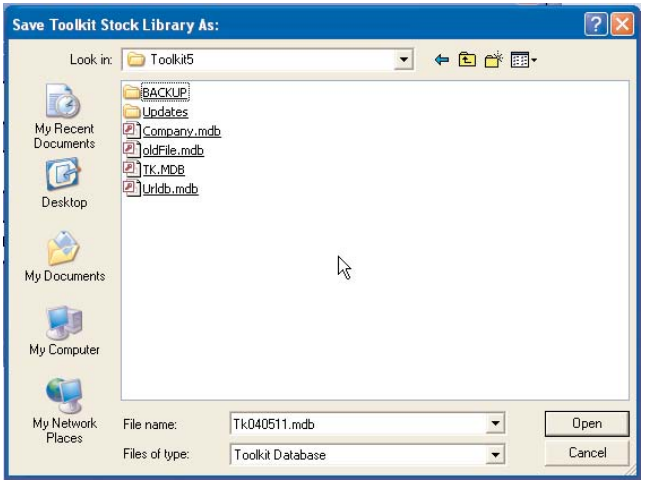
1) Click on the button labeled "**Save a copy of the current library. Toolkit will then use that copy**."

2) Accept or change the name of the library. (The "**.mdb**" extension will be added automatically.)

NOTE: The library you have been using will be stored where it is and you will not be using a new copy of that database.

Create New Library

1) Click on the button labeled "Create a new blank library. Toolkit will use the blank library."



2) Accept or change the location. *Be sure to remember this location*.

3) Accept or change the file name. (The ".mdb" file extension will be added automatically.)

Export a Library

See "**Advanced Data Export**" on page 292 above to share your stock library or stock within it with others.

Advanced PERT Estimated EPS

PURPOSE: On the PERT form, any *Toolkit*-calculated "**Est. EPS**" replaced by the user with an estimate from another source will appear crossed out, with the user's estimate appearing below. This value will be used in all calculations requiring estimated EPS. Changing "Est. EPS" only affects the **PERT** form.

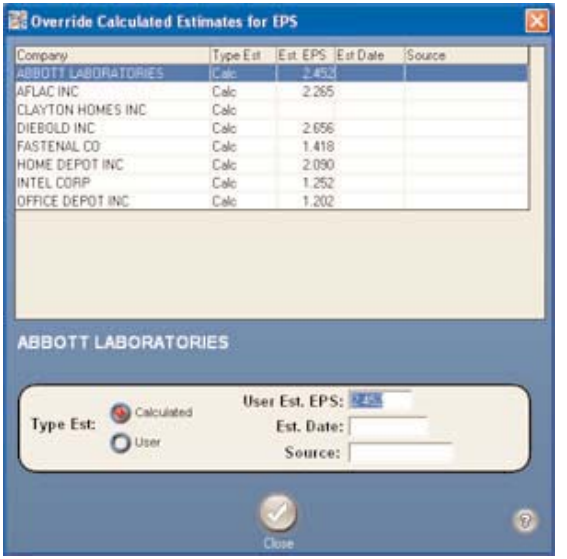
How to Change Estimated EPS in PERT

In order to be able to access and use this feature, it must be enabled in **Preferences > General (Enable Advanced PERT Estimates)**.

1) Click on the **Portfolio/PERT** button on the Main Toolbar.

2) Select a Portfolio and then click **OK** to display the **Overview**. Click the **Reports** button to open the **PERT** form.

3) Select **Options > Enter Estimated EPS**.



The "**Override Calculated Estimates for EPS**" screen will appear with a list of companies in the portfolio.

4) Highlight the company who's one-year "**Est. EPS**" you want to change.

5) At "**Type Est.**" select "**User**" to place your estimate in the PERT. Select "**Calculated**" to restore the "**Est. EPS**" calculated by the *Toolkit*.

6) Enter the new one-year estimated EPS from your other source in the space provided. Although not required, you should also enter the date and source of your estimated EPS for future reference.

7) Click **Close**.

How to Restore Toolkit EPS Calculations

To restore Toolkit's "**Est. EPS**" calculations:

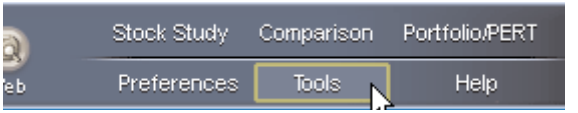
1) For individual companies, return to steps 3 through 7 above. Ensure that "Calc" appears in the "Type Est." column for each company changed. On the **PERT** form, no cross out will appear in the "**Est. EPS**" column for any companies using the Toolkit's calculation of estimated EPS.

2) For all companies, click **Preferences > General** tab and uncheck the "**Enable Advanced PERT EPS Estimates**" check box.

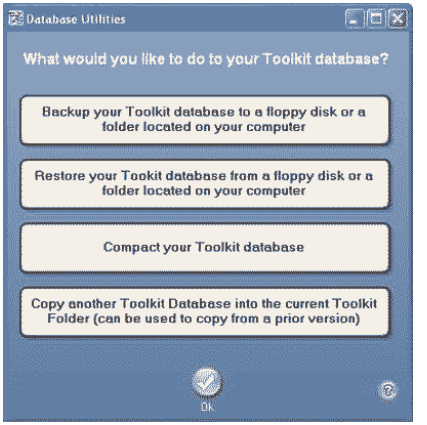
DB Utilities

How to Back up your Stock Library (Database)

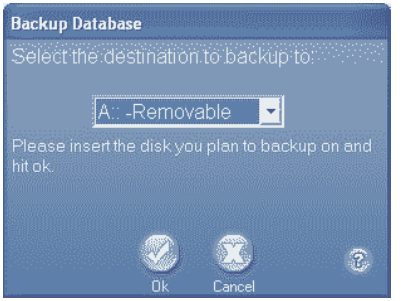
1) Close any companies that you have. open.



2) Click on the "**Tools**" button on the Main Toolbar.



3) In the "**Database Utilities**" screen, click on the "**Backup your Toolkit Database**" button.



4) Using the drop-down menu, select where you want to back up you **Stock Library**, i.e., on a floppy disk on the A:\ drive (recommended) or someplace on your C:\ drive. Make sure you have a

floppy disk in A:\ drive and click "OK."

When your **Stock Library** database has been backed up, an information screen will inform you that the "database was successfully backed up."

5) Remove the disk(s) and store in a safe place.

How to restore your backed-up Database

1) Close any companies that you have open.

2) Click on the "**Tools**" button on the Main Toolbar.

3) In the "**Database Utilities**" screen, click on the "Restore a Database" button.

4) In the "**Restore Database**" screen, using the drop-down menu, select the location from where you want to restore your Stock Library, and click "**OK**."

NOTE: You cannot have more than one library with the same name in your Toolkit 5 folder. If the file you are restoring has the same name as one in your Toolkit 5 folder, you will be warned that it will be overwritten if you proceed. Cancel the restore procedure and copy that file into a safe place before beginning the process again if you want to save that file.

The database of Internet Web site URLs in your *Toolkit's* "Internet Access" was also backed up when you backed up your **Stock Library**. You will receive an information box asking if you want to restore and overwrite your current Internet URL database.

Compacting your Stock Library Database

As the size of your Stock Library increases, you should compact it periodically in order to help increase the speed of opening companies. To compact a Stock Library:

1) Close any companies that you have open.

2) Click on the "**Tools**" button on the Main Toolbar

3) Click on the "**Compact Database**" button.

4) The database will quickly be compacted and you will see a "database compaced successfully" information box.

Intentionally left blank

Appendices

Industry Mapping

The broad economic sector into which a company's business is classified. The table below is an example of sector groups, based on Standard Industrial Classification (SIC) codes established by the US Office of Management and Budget.

01 Basic Materials

05 Consumer Non-cyclical

09 Services

02 Capital Goods

06 Energy

10 Technology

03 Conglomerates

07 Financial

11 Transportation

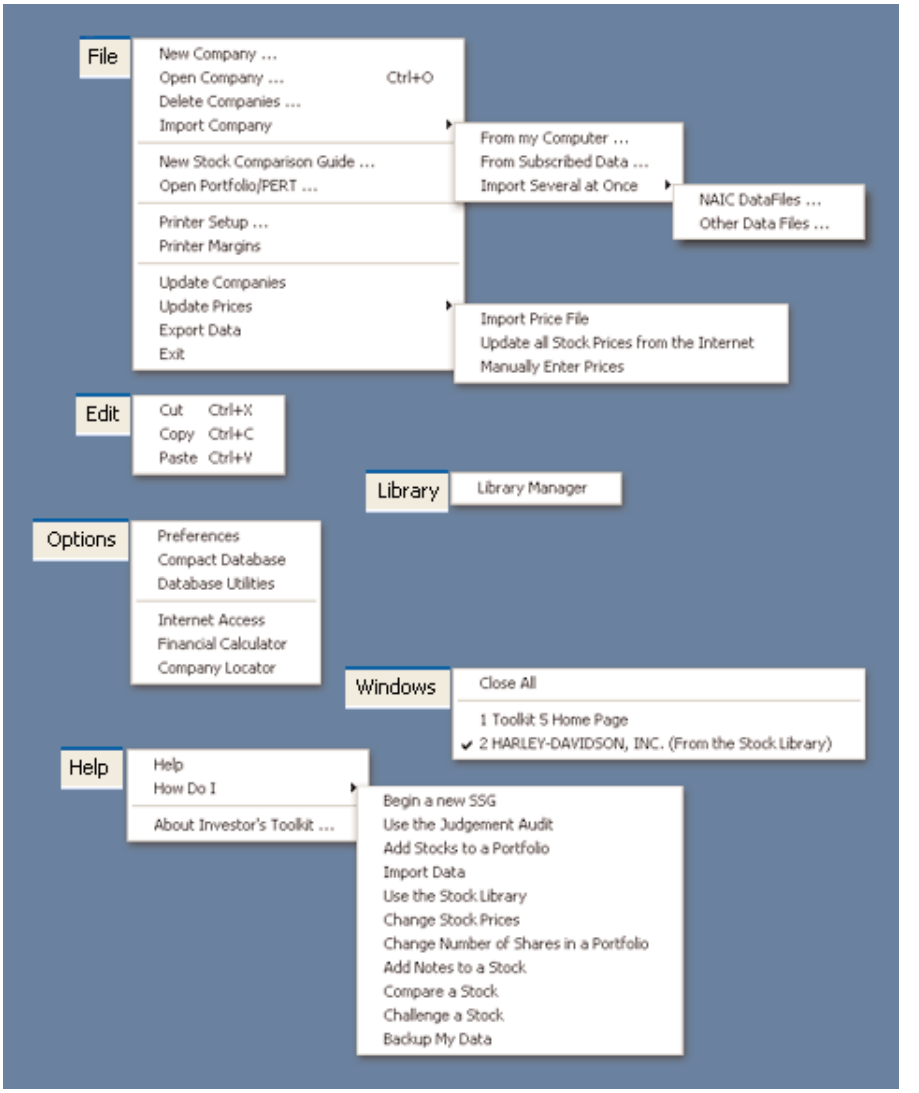
04 Consumer Cyclical

08 Health Care

12 Utilities

Menus and Commands

All of the applicable menus that were used in Version 4 of the ***Investor's Toolkit*** and ***Toolkit PRO*** are available in Version 5 for those accustomed to their use.



Glossary

-%-

% Chg. Qtr E/S

Percent change in quarterly earnings per share between the most recent quarter and the same quarter last year.

% Chg. Qtr Sales

Percent change in quarterly sales between the most recent quarter and the same quarter last year.

-A-

Analysts' E/S Growth Estimate(s)

An estimate of earnings per share growth based upon the mean value of the estimates of all the analysts following the stock. Automatically entered when importing NAIC ***DataFiles***; may also be entered manually from ***Value Line***.

American Depository Receipt (ADR)

A receipt that shows evidence that shares of a foreign corporation are held on deposit or under control of a U.S. banking institution. The bank then acts as the transfer agent and collects dividends on behalf of the owner.

Annual Report

The formal financial statements and report on operations issued by a corporation to its shareholders after its fiscal year end.

Assets

Items of value that a company owns or has owed to it. Comprised of current assets, fixed assets, other assets and intangibles.

At the Market

An order to purchase or sell shares immediately at the current market price. This market order differs from specifying a price at which an investor would sell or buy.

Average % Payout

The average percent of earnings paid out in dividends over the past five fiscal years, unless specified otherwise.

Much may be learned about a company by examining the trends in % payout. For example, a true growth company, early in its life cycle will rarely distribute any dividends, preferring to invest its retained earnings in its own growth. Typically, as a company matures, an increasing portion of its earnings is distributed to reward the stockholders for their faith and to preserve the value of the stock.

Average Down

The practice of buying additional shares of a security owned when the price declines, thus reducing the average cost per share.

Average High P/E

The average high P/E over the past five fiscal years, unless specified otherwise.

Average Low P/E

The average low P/E over the past five fiscal years, unless specified otherwise.

Average Low Price

The average of the low stock prices for the past five years. This would be a useful and valid approach in estimating

the future low price for a cyclical company (e.g., automakers).

Average Profit Margin

Average profit margin over the past five fiscal years, unless specified otherwise.

Average P/E

The Average P/E over the past five fiscal years, unless specified otherwise.

Average Projected Yield

The estimated average yield over the next 5 years.

Average Up

The practice of buying additional shares of a security owned when the price increases. The average cost per share will be higher than the original purchase.

Average Yield

The average yield over the past five fiscal years, unless specified otherwise.

-B-

Balance Sheet

The tabulation of the historic cost of everything a company owns and owes. Total assets (a corporation's possessions) equals total liabilities (a company's obligations) plus shareholder's equity (historic-cost-based value of the shareholder's investment in the corporation).

Balance sheet information for previous and current fiscal years can be found in the Current Position box in the middle, left side of the ***Value Line*** page.

Bank Stock Revenue

When entering from ***Value Line***:

Interest Income	***VL*** line 10
plus Non-Interest Income	***VL*** line 12
minus Loan Loss Provisions	***VL*** line 11
equals Revenue entry	

When manually entering data for bank stocks, most sources including ***Value Line*** do not provide quarterly revenue information. Since this data is not used in any other program calculations, it is acceptable to enter the quarterly loan values as a measure of quarterly activity.

Bear Market

A declining securities market in which the prices of most securities are dropping.

BITS

A monthly publication produced for NAIC Computer Group Users.

Blue Chip

A common stock of a nationally-known company that has a long record of profit growth and dividend payment, as well as a reputation for quality management, products and services.

Bond

A certificate issued by an institution borrowing money. The institution is the borrower and the purchaser is the lender. The issuer pays interest on the bond at specified dates and eventually agrees to pay back the principal amount when the bond matures or expires.

Book Value Per Share

This is the asset value behind each share and based on the balance sheet. It is the total tangible assets, less lia-

bilities and preferred stock, divided by the number of shares outstanding. It is not the same as the market price or market value. There is a misconception that book value represents the amount of money the corporation would realize if it were liquidated. Full value of property is not always realized on such a sale, but on the other hand, some assets are carried on the books at a figure below their actual value.

An increasing book value is generally a good sign in that the company is accumulating assets faster than it is accumulating debt. A declining ratio can result from a company losing money from operations, writing down certain assets, issuing shares or being heavily engaged in research and development.

Enter this information in the Annual Data screen.

Broker

The broker is a middleman (agent) acting on behalf of a buyer or seller and collecting a commission for his service. Once known as a customer's man, the term broker generally refers to a registered representative in the securities business.

Bull Market

A rising securities market where the prices of most securities are going up.

Buy Below

A stock price below this figure would be in the "Buy" range. NAIC discipline strongly supports being conservative when making "Buy" decisions. The price of a stock should be well in the "Buy" range to warrant buying it.

-C-

Capital Gain (Loss)

The profit or loss from the sale of a capital asset.

Capital Stock

Ownership shares of a company, consisting of all common and preferred stock.

Capitalization (Capital Structure)

Also called Capital Structure. An accounting term used to describe the total value of various securities issued by a corporation (bonds, preferred stock and common stock).

Cash

Bills, coins and demand type bank deposits, such as checking account balances.

Cash Flow

The company's net income (after taxes) plus the amounts charged off for depreciation, depletion, amortization or other special charges.

Challenger

The Challenger provides you an opportunity to evaluate individual stocks within a portfolio for possible replacement by any other stock you have evaluated.

Churning

The practice of excessive buying and selling by a broker of a customer's account. The implication is that the broker is only concerned with the commissions from such trades and not the welfare of the customer.

Combined Estimated Yield

This is actually a simplified substitute for "Total Return" and represents the total 5-year appreciation as a percent, divided by 5 (years). It is similar to the calculation of simple interest as opposed to compound interest.

Commission

The fee charged by a broker for handling a purchase or sale of a security.

Common Dividends

Enter your estimate of the dividends to be paid in the current year. As a last resort, multiply last quarter's dividend times 4.

Common Stock

A unit of ownership in a company. Stock with no preferential claims on income and assets. Owners of common stock receive dividends after preferred stock and their interest in the assets is junior to all other types of stock in the event of liquidation.

Consolidated Financial Statements

A presentation of the financial position of a parent company and its subsidiaries as one entity in a financial statement.

Continuing Operations

A term used in an income statement to label income of a recurring nature, rather than that caused by sales of assets or discontinued operations.

Current % Payout

Current percent of earnings paid out as dividends.

Current P/E

Current ratio of stock price to earnings (P/E).

Current Price

Stock price at time of study.

(If there is no other information available, use the recent price listed in your data source.)

Current Yield

Current annual dividend divided by current price of stock.

Cyclical Stock

A stock that is in an industry particularly sensitive to swings in economic conditions.

-D-

Debt/Capital Ratio

The debt to capital ratio is a recent and welcome addition to the SSG. This is an indication of how much of the company's capital is in a form that makes the company vulnerable should times turn bad. A company with two thirds or more of its capitalization in common stock is in a great position to weather a slump because it doesn't have to make substantial, regular payments of principal and interest to their common stockholders.

Depreciation

The decrease in value of fixed assets due to ordinary wear and tear, action of the elements, or obsolescence.

Dilution

Reducing the percentage of ownership of the common stockholder by issuing additional common stock for less than current market price. May be caused by the issuance of convertible debentures, stock options, etc. that are yet to be exercised. The significance of dilution is potential

for increasing the number of shares among which the company's earnings may have to be distributed. This dilution would reduce the earnings per share.

Discount Broker

Discount brokerage firms that offer no advice, but will execute orders to buy and sell securities at commission rates sharply lower than those charged by traditional full-service brokers.

Diversification

The practice of buying different stocks in different industries. It is generally thought to be a way of spreading risk. (See also Total Sales).

Dividends

The distribution made, out of retained earnings, to stockholders in the form of cash or stock as declared by the company's board of directors.

Enter the dividends for each year on the Annual Data screen. (Enter zero's if no dividends were paid.)

Dollar Cost Averaging

Investing equal amounts of money in a specific security at regular intervals over a period of time, thereby averaging the cost paid per unit.

Dow Jones Averages

Market average indicators selected by Dow Jones in three areas: 30 industrial stocks, 15 public utility stocks and 20 transportation stocks. The composite index is of all 65 stocks. A list of the representative stocks used currently appears in each Monday edition of ***The Wall Street Journal***. See also ***Standard & Poor's Index*** of 500 Stocks.

Downside Return

The total return, usually negative, when a stock's current price goes to its potential low.

-E-

E/S Growth

Compounded annual rate at which earnings per share grows.

Earnings Per Share

The amount of net income (after taxes) attributable to each share of common stock outstanding.

A low figure indicates that the company is not making very much money and could signal problems with inefficient management, too many fixed obligations, or heavy investment in research and development.

Negative earnings indicate a company is losing money, shareholder equity is being used to keep the company operational.

Declining earnings per share can signal a decline in profitability or an increase in the number of shares outstanding.

Enter the earnings per share for each year on the Annual Data screen.

Equity

The difference between the assets and liabilities of a corporation. Also called shareholder's equity and net worth.

Exchange

Market where stock is traded, e.g., New York Stock Exchange (NYSE), Over the Counter (OTC), NASDAQ Stock Market (NASDAQ).

-F-

Financial Strength

An assessment based upon solid balance sheets with a reasonable amount of debt compared with equity and capitalization.

Fiscal Year

A company's basic accounting period, one year in length, which may or may not coincide with the calendar year.

This is one of the greatest sources of confusion for the beginning investor because fiscal years don't always correspond to calendar years. Moreover, one company might end its 1996 fiscal year on 6/30/97, while another might end its 1997 fiscal year on the same date!

To determine this information:

In *Value Line*:

On the left side of the page, in the **Quarterly EPS, Revenues** or **Dividends** boxes, locate the last complete year of non-italicized figures.

In *S & P Report*

Under "Income Data" on the second page, the first column is labeled. "Year ended …."

Forecast High (Future High Price)

The value estimated as the highest price at which the stock will sell five years into the future, assuming the

company operates normally. Frequently calculated by multiplying the Average High P/E times estimated future high earnings.

Forecast Low (Future Low Price)

The value estimated as the lowest price at which the stock will sell five years into the future, assuming the company operates normally. Calculated by multiplying the Average Low P/E times estimated future low earnings.

Form 10-K

The annual report required by the Securities and Exchange Commission (SEC) in the U.S. for every company with 500 or more shareholders or $1 million or more in gross assets. This form becomes public information when filed with the SEC.

Form 10-Q

The quarterly report of companies with listed securities, required to be filed with the SEC. It is less comprehensive than the 10-K annual report and does not require that figures be audited. It may cover a specific quarter or it may be cumulative. It should include comparative figures for the same period of the previous year.

Fractional Share

If a company's board of directors declares a stock dividend and the shareholder's holdings do not result in a full share being distributed, that portion is known as a fractional share. It is also a portion of a share of stock which, in dividend reinvestment plans (DRIP), is credited to the shareholder's account.

Full-Service Broker

Provides a wide-range of services to clients, including advice on which stocks, bonds, commodities, and mutual funds to buy or sell. May also offer an Asset Management Account, advice on financial planning, tax shelters, and income-limited partnerships. A full-service

broker's commissions will be higher than those of a discount broker.

Fully Diluted Earnings per Share

A measure of the company's overall performance as it relates to common shareholders and potential common shareholders. Earnings per share calculated on the assumption that all convertible securities are converted into common shares and all options, warrants and rights are exercised.

Fundamental Analysis

Looks to the economic indicators of performance for a company: its earnings, sales, assets, liabilities, cash flow, rate of return on equity, and the broad movement of economic activity often referred to as the business cycle. Fundamental analysis focuses on the basic economic factors underlying price movements.

Future Earnings

Earnings per share estimated five years into the future.

Future Estimated Margin

An extrapolation five years into the future of estimated profit margin.

Forecast Low (Future Low Price)

The value estimated as the lowest price at which the stock will sell five years into the future, assuming the company operates normally. Frequently calculated by multiplying the Average Low P/E times estimated future low earnings.

Future Sales

Estimated revenues five years in the future, assuming an estimated growth rate.

Future Yield

Estimated average annual yield over the next five years.

-G-

Growth Stock

The common stock of a company with excellent prospects for above-average future growth.

-H-

High P/E

The highest P/E at which the stock sold during the year.

High Yield

The highest yield over the previous five years.

Historical E/S Growth

Historical compounded annual growth rate of earnings.

Historical PTP Growth

Historical compounded annual growth rate of % pre-tax profit.

Historical Sales Growth

Historical compounded annual growth rate of sales.

-I-

Income Statement

Also known as the earnings report, it reflects revenues and expenses over a period of time, generally a quarter or year.

Industry

Industry category of company. Description of what a company does. See Industry Sector Mapping for a comprehensive breakdown of industries and sectors.

Initial Public Offering

The initial sale of any authorized, but un-issued security.

Insiders

Officers, directors or principal shareowners of a company and their families. People who have access to non-public news of the corporation. See Insider Ownership.

Insider Ownership

Management, directors, or employees having their own money invested in the company. A high percentage of insider ownership is usually a good sign demonstrating that those who "know" have confidence in their investment.

Institutional Ownership

Mutual funds, insurance companies, large trust and money management firms, and other entities that purchase large blocks of stock for their portfolios or inventories. Such stockholders tend to trade in and out of stocks when they feel that they can improve their portfolio's short-term performance. This "fickleness" can make a stock more volatile than we would want it to be.

Inventory

Comprised of raw materials (the cost of materials to be used to produce products), work in progress (the cost of partially completed products including raw materials, factory labor, and manufacturing overhead), and finished goods (the cost of products ready for sale).

Investment Objective

Investment objective is the desired total return on your investment based upon selling the stock five years in the future at the Average P/E.

Investor

A person who seeks to minimize risk in the purchase of securities, rather than accepting calculated risks in order to make better-than-average profits as the speculator hopes to do.

Investor Sentiment

Investors' expectations of how a market will perform. When higher prices are expected, it is a bull market. For lower prices it is bear market.

Inve$tWare, Inc.

Developers and producers of the NAIC ***Investor's Toolkit***. The Official software of NAIC.

Technical support is available to registered users between 9:00 AM and 5:00 PM Eastern time.

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Web site: **www.investware.com**

E-mail: help@investware.com

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-J-

Judgment

Probably the most important element in the ***Toolkit*** process is the matter of applying judgment. Judgment falls into three categories: "cleaning up" data to be certain that only relevant data is used in assessing historical trends or performance; estimating future trends based upon the historical assessment; and, estimating future performance based upon those future trends.

-L-

Last Severe Market Low

The lowest price during the course of the last two years. Usually considered for cyclical or turn-around companies. One of the choices to Estimate Future Low Price.

Leverage

Financial leverage refers to the amount of non-equity capital the company is using in its capital structure. Successful use of debt enhances earnings for the owners of the business, because returns earned on these funds over and above the interest paid belong to the owners and thus increase owner's equity. High leverage improves earnings in good economic times at the cost of increased vulnerability to an economic downturn. Measures of leverage include debt/equity and debt/capital ratios.

One should compare companies within the same indus-

try in evaluating management's use of leverage.

Liabilities

A claim against the assets of a company. What the company owes.

Limit Order

An order where a customer sets a maximum price at which he is willing to buy or a minimum at which he is willing to sell a security. NAIC does not recommend the use of limit orders to hedge losses since, all to often, the investor will be sold out of a holding when the dip is only transient.

Liquidity

The ability of a company to convert assets into cash or equivalents without significant loss.

Listed Stock

A stock traded on an exchange.

Long Term Debt

Other debt which will fall due beyond one year.

Low P/E

The lowest P/E for the year.

Low Price Estimate

The investor is asked to estimate the stock's future low price. Five options are provided depending upon the type of company and its market history.

-M-

Management Evaluation

Two areas of performance serve as an indication of the

caliber of the company's management team:

- the consistency and trend of the company's profits (% Pre-tax Profit on Sales) and
- the consistency and trend of the return which the company makes on the capital invested in it (Return on Equity).

Market Cap

The value of the total number of shares times the current price.

Marketable Securities

Short term instruments such as Treasury bills.

-N-

NAIC

National Association of Investors Corporation founded and served by volunteers whose sincerity, diligent service and devotion to sound investment principles have produced the tremendous growth and success of the investment club movement and made it an outstanding force for investment education.

NASDAQ

The National Association of Securities Dealers Automated Quotations is an electronics data terminal, which gives subscribers instant quotations for OTC stocks, identifies the market-makers, and provides other information. Owned and operated by NASD (National Association of Securities Dealers).

Net Income

The income for a company after deducting all expenses (including taxes and dividends). Also called Net Earnings

or Net Profit.

New York Stock Exchange (NYSE)

The oldest and largest securities exchange in the United States. Over 1,600 companies are listed on the exchange.

-O-

Odd Lot

An amount of stock which is less than the normal trading unit, usually an amount under 100 shares.

Operating Income

The income for a company after deducting all expenses, except taxes, from normal operations.

Outliers

A data point that appears to lie outside the normal trend. Generally caused by data of a non-recurring or extraordinary nature.

Over-the-Counter (OTC)

A securities market in which transactions occur through a network of telephones and computers instead of through physical floor exchange.

-P-

P/E Analysis

P/E Analysis is an examination of the historical relationship between a company's earnings and its stock price. It enables the investor to estimate future high and low P/E's and, combined with an estimate of future earnings to esti-

mate the future high and low price of a stock.

P/E:E/S Historical Growth

Ratio of the price/earnings ratio to earnings per share historical growth, e.g. a P/E of 20 and historical E/S growth rate of 20% would equal 100%. Takes into account the relationship of growth rate and P/E. The higher the growth rate, the higher the multiple that investors are willing to pay.

P/E:E/S Projected Growth

Ratio of the price/earnings ratio to earnings per share projected growth, e.g. a P/E of 20 and projected E/S growth rate of 20% would equal 100%. Less than 110% is desirable.

Paid-in Capital

The amount of money the company received from the sale of shares of common stock to the public in addition to the par value, also called capital surplus.

PAR

See Projected Average Return

Par Value

Historically, par value represented the minimum price at which shares could be sold by a corporation. Par value has little or no meaning in terms of the actual share value.

Payback in Years

The number of years it would take for the company's accumulated earnings to equal the price of the stock, assuming that they grow at the forecast rate.

Payout Ratio

The percentage of earnings distributed to common stockholders through cash dividends. Also called Dividend Payout Ratio. It represents the percentage difference

between the money the board of directors is able to distribute to common stockholders and what is actually distributed.

A frequently recurring low payout ratio can be a sign that the company has other uses for its investable funds than to pay them to shareholders. An increasing ratio can be a sign that the company is maturing, growth rate is slowing and there is less need for expansion or working capital.

Portfolio

The complete investment holdings of an individual or institution.

Portfolio Evaluation and Review Technique (PERT)

A printed form produced by NAIC to assist the investor in managing his/her portfolio.

Portfolio Management Guide

An NAIC form that examines the price and P/E of a company and sets criteria when these would suggest either buying or selling a position.

Potential Dilution

Where there are dilutive convertible debentures or options outstanding, there is a potential for the existing shares to be diluted to some degree in value. Should those warrants, bonds, or other convertible instruments be converted to common stock, the company's net profit would have to be divided among a greater number of shares, thus decreasing the amount of earnings accruing to each share (and shareholder). Dilution "waters down" the value of the shares held by existing shareholders.

Potential High

Projected earnings multiplied by the Average High P/E shows what the stock would sell for if the company were to realize the forecast earnings and the stock were to sell

for its high multiple (P/E).

Potential Low

The selected estimated low price five years in the future.

Potential Total Return

Compounded annual return of an investment if the stock were purchased at the current price, earned the estimated average yield, and sold for the potential high (5 year Average High P/E times projected earnings). Also called Projected Total Return.

Potential Yield

Calculated by first multiplying the average of the earnings forecast for the next five years by the average % payout in order to obtain the average dividend. That figure is then divided by the current price of the stock.

Pre-Tax Profit on Sales (Profit Margin)

Percentage of revenues remaining after all costs except taxes have been deducted.

The higher the profit margin, the more efficiently the firm is operating. A declining value can signal aging property, plant and equipment; declining sales volume; declining overall efficiency; or inappropriate management policy-making.

Preferred Dividend

Dividend payments made to preferred stockholders. Preferred dividends have a specified rate and must be paid before common dividends can be paid.

This information is available in ***Value Line***, but not in the ***S & P***. If you are unable to find the data, you may estimate it at 8% of the preferred stock value. While this is not accurate of course, it will usually produce a sufficiently conservative result when used in the Preferred Procedure.

Preferred Procedure

The Preferred Procedure develops earnings per share by looking at sales (historically sales growth tends to be more consistent and stable than historical earnings growth). Using the 5-year projection for sales, we subtract expenses, taxes and preferred dividends. The result is then divided by the shares outstanding to come up with earnings per share. You have the opportunity to change any of the calculations in the Preferred Procedure by checking the adjacent box and making your own entry. When a box is checked, a ten-year history of that parameter will appear in the panel on the right. Enter sales, expenses, and taxes as percentages; dividends as $'s; and shares as millions.

Preferred Stock

A security that represents a share of preferred ownership in a corporation, having preferential claims to income or assets over those claims held by common stock.

Price/Earnings Ratio (P/E)

Also referred to as the multiple or P/E ratio. It is the common stock price divided by the earnings per share. AS with a pound of coffee or a gallon of gas, it represents the price investors are willing to pay for one dollar's worth of that company's earnings per share.

Typically, the higher the price-earnings ratio, the riskier, more volatile the investment. Older, safer, more mature companies have lower price-earnings ratios than do young, faster-growing, riskier companies since investors are willing to pay a higher premium for faster growth rates.

Price Appreciation to Potential High

The compounded annual growth rate required for the current price of the stock to reach the potential high price five years in the future.

Price Dividend Will Support

The price at which the stock would sell were its yield to become a factor. Used for larger companies whose dividends contribute significantly to the stock's total return. This is a useful in the case of a relatively high-yield (or low-growth) stock (e.g., a large company that has a lower growth rate than you customarily accept–but that makes up for it in total return by paying good dividends). Not used if yield is extremely low or there is no payout.

This figure is derived by dividing the latest full year's dividend by the highest "High Yield" during the last five years.

Price Range This Year

The year's high and low prices from the newspaper or your data source. If such information is unavailable, you may use the price range for the current year from ***Value Line***.

Projected Average High

The 5 year forecast earnings multiplied by the Average P/E.

Projected Average Return (PAR)

The total return over the next five years we would receive on an investment if we were to buy the stock at the current price; earn the forecast yield; and were to sell the stock at the Average P/E. We look for a PAR of 15% or better. For calculation, see **Total Return.**

Projected Dividend Growth

The projected compounded rate of dividend growth based upon historical rate of growth.

Projected E/S Growth

Your estimate of the compounded annual growth rate of earnings.

Projected P/E

Calculation of the P/E ratio using the estimated earnings for the next 12 months instead of the most recent 12 months.

Projected Relative Value

The relationship between the Projected P/E and the Average P/E. Less than 100% is desirable.

Projected Sales Growth

Your estimate of the compounded annual growth of revenue.

Potential Total Return

Compounded annual return of an investment if the stock were purchased at the current price, earned the estimated average yield, and sold for the potential high (5 year Average High P/E times projected earnings). Also called Projected Total Return.

-Q-

Quarterly E/S

Earnings per share for the most recent quarter.

Quarterly E/S Growth

Growth (or decline) in earnings per share for the most recent quarter compared with the same quarter a year ago, expressed as a percentage. Used to highlight recent changes in the company's position that may be indicative of longer-term problems.

Note: Lower than expected quarterly results may also cause the market to temporarily lose faith in a company, creating a buying opportunity for long-term investors.

Quarterly PTP

Pre-tax profits for the most recent quarter.

Quarterly PTP Growth

Growth (or decline) in pre-tax profit for the most recent quarter compared with the same quarter a year ago, expressed as a percentage.

Quarterly Sales

Revenues for listed by quarter.

Enter the quarterly sales/revenue figures for the last five quarters in the Quarterly Data screen. Do not enter any annual figures in this tabulation. This data is used for the comparison of the most recent quarter's sales with the same quarter's sales for the previous year. It also gives us the most up-to-date information for use in other parts of the program.

Quarterly Sales Growth

Growth (or decline) in revenues for the most recent quarter as compared with the same quarter the year before, expressed as a percentage. Used to highlight recent changes in the company's position that may be indicative of longer-term problems.

Note: Lower than expected quarterly results may also cause the market to temporarily lose faith in a company, creating a buying opportunity for long term investors.

-R-

R^2 (R-Squared)

An indicator of how well the data conforms to the trend line that has been calculated by the "least squares" equation to be the one line that lies closest to all of the plotted points. Based upon the Coefficient of Determination

equation, this function compares the trend line and actual values to see how closely the plotted points fall with respect to the trend line and ranges in value from 0 to 1. If it is 1, there is a perfect correlation between the trend line and the data–all of the points fall precisely on the line. At the other extreme, if the number is 0, there is no correlation and the trend line will not be meaningful.

Rational Price

The hypothetical price of a share of stock were it to be selling for its "signature multiple" or historical average PE. At its rational price, it would have a Relative Value of 100%.

Rational Value

The value of a holding or portfolio based on the Rational Price of the stock or stocks–the product of the Rational Price and the number of shares.

Relative Value

Ratio of Current P/E to Average P/E. The desired range is 90% to 110%. Average P/E is affected by user selections in the P/E Analysis section. Current P/E is affected by the current stock price. Calculated by dividing the Current P/E by the Average P/E.

Return on Equity

A measure of management's efficiency derived by dividing net income by shareholder's equity. (earnings divided by book value). It measures the company's ability to earn profits on shareholder equity.

Generally, the higher the return on equity ratio, the more efficiently the company is operating and the better the return available to shareholders. The return on equity is a function of making good use of assets and careful use of debt. Debt will increase the return on equity, but too much debt may hurt the company if the company cannot meet its interest payments and thereby defaults.

Revenue or Sales

Total income from all sources for the period. For our purposes, "sales" is synonymous with "revenue."

Note: For bank stocks see Bank Stock Revenues for additional information.

Round Lot

An amount of stock which is the normal trading unit, usually 100 shares.

Rule of Five

An investment theory for intelligent portfolio management. The rule holdsthat of every five stocks owned over a five-year period, one will encounter difficulty unforeseen by the investor, three will perform more or less according to expectations, and one will far exceed the standard set for it.

-S-

Security

An investment instrument such as a stock, bond, option or warrant.

Sell Above

A stock price above this threshold would be a candidate for replacement consideration.

Shareholder's Equity

The difference between the corporation's total assets and total liabilities. Comprised of preferred stock, common stock, paid-in capital (capital surplus), retained earnings (earned surplus) and Treasury stock.

Source

Source of data information, e.g., ***Reuters, Compustat, Standard & Poor's*** (***S&P***), ***Value Line*** (VL), etc.

Source Date

Value Line (or other source) date.

Enter in MM/DD/YY format.

Split

Dividing the outstanding shares of a company into a larger number of shares, entitling the shareowners to receive a specified number of shares for those already held. The overall percentage of ownership remains the same. For example, a two for one split would entitle the stockholder to double the number of shares he or she holds at half the price per share.

Standard & Poor's Index of 500 Stocks

A value-weighted index for measuring overall market performance. An alternative to the price-weighted approach of the Dow Jones Industrial Averages.

Stock

Instrument(s) that represents a share of ownership in a corporation.

Stock Certificate

The actual piece of paper representing ownership in a corporation. The certificate is usually printed on high quality paper and possibly with a watermark to discourage forgery.

Stock Comparison Guide

An NAIC form used to assist the investor in finding the best features of from two to five stocks (usually in the same or a similar industry).

Stock Library

The complete list of stocks in your watch list or individual portfolio(s). (A Stock Selection Guide does not have to have been prepared for a stock to appear in the library.)

Stock Selection Guide

An NAIC form using readily available data to assist you in determining whether a company is worthy of consideration as an investment and whether the price of its stock makes it a good value.

-T-

Ticker (Symbol)

The unique symbol used by brokers to represent a security. Consisting of from one to six letters, it is assigned by the exchange on which the security trades, or by NASDAQ for securities that do not trade on exchanges.

In the ***Basic Data*** screen, this is used to create the name of the data file.

Total Debt

All obligations of the company, including current, fixed and miscellaneous liabilities.

Total Return

The combination of the compounded annual growth rate of the stock's price and its estimated average yield. See also PAR (Projected Average Return). Calculated using the formula, $((FV/PV-1)^{1/n}) \times 100$, where FV = your forecast high price, PV = Present Price, n = number of years. To this result is added the expected dividend yield.

Total Sales

A measure of company size for considerations of diversification. $400 million or less is considered a small company; $4 billion or more, a large company.

Treasury Stock

The firm's stock that it repurchases from shareholders. Shown on the balance sheet as a reduction of shareholder equity.

-U-

Upside/Downside Ratio

A measure of risk. The ratio of the gain, should the stock price rise to its potential high, to the loss, should the stock price decline to its potential low. An upside/downside ratio of at least 3:1 is desirable.

-V-

Visual Analysis

The first step in the Stock Selection Guide, providing a graphical history and quantitative analysis of up to 10 years of sales, pre-tax profits, earnings, and price ranges. This step permits the user to determine whether or not the company's track record warrants further interest.

-W-

Working Capital

An accounting term meaning the net assets available to

carry on operations. The difference between current assets and current liabilities.

-XYZ-

Yield

The percentage of cash returned on an investor's money. The annual dividend divided by the current price. Most growth companies, early in their life cycles, have little or no yield, preferring to reinvest their earnings in their own growth. As a company matures, it will share more and more of its earnings with its stockholders.

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INDEX

NOTE: Pages listed in bold type are in the "How to..." section

A

About Investing (for beginners) 35-43
About this Manual 9
Active Area Highlighting. See Preferences, setting
Advanced Library Options. See Preferences, setting
Advanced Options
  Percent Payout 129
  Preferred Procedure 115
  Preferred Procedure, revisited 126
  Start Future Projection 109
Advanced PERT Estimate. See Preferences, setting
Advanced PERT Estimated EPS **323**
Alerts Window 174, **267**. See **Alerts Window**
Analysts' Estimate 92, 110, 114, 117, 331
Analyzing the Company, Step by Step 94-143
Assets 36
Audit, Judgment. See Judgment Audit
  Annual Reports 57-58

B

Balance Sheet 36
Bank Stock Revenue 333
Benefits of Long Term Investing 49
Better Investing
  BITS. See BITS, Better Investing
BITS, Better Investing 334
Book Value 36
Book value (per share) 36
Broker 40

C

Caution Alerts, PERT 195
Challenger 190, **286**
  Detailed 191, **288**
  Smart 190, **287**
Chart. See Graph
Check List, Stock 59
  Getting Started 59
  Navigating 61
  Overview 59
  Part 1: Past Sales Record 63
  Part 2: Past Earnings Per Share Record 65
  Part 3: Price Record 69
  Part 4: Conclusion 72
  Printing 73
  Saving 73
Checking your Work. See Judgment Audit
Colors, graph. See Preferences, setting
Combined Estimated Yield 156, 337
Companies
  Growth
    Prospecting for 46-48
    Setting up new
      Stock Check List 59
      Stock Selection Guide 77-86
Company Reported Data 54
Company, Life Cycle of a Successful 44
Comparing Companies. See Stock Comparison Guide

Compounding, Magic of 42
CompuServe 58
Contrarian, Be a 196
Conventions 20, 212
Copyright 364
Cursor
  Movement 77
Customizing. See also Preferences, setting
  Chart ***100***
    Colors 27
    Line Positions ***101***
    Scales (decades) ***99***, ***100***
    SSG Chart (Visual Analysis) 99-106
  Criteria Options (SCG) 155-158
  Form Size (Zoom) 95-96
Cyclical companies 105, 129

D

Data **223**
  About 53-58
  Company reported. See Company Reported Data
  Entry 77-90
    Electronic 86
    Manual 77
  Importing ***55***
    from NAIC DataFiles 56
  Manual Data Entry **232**
  Normlaized 54
  Obtaining 48
  Other issues 54
  Sources
    S&P Reports 56
    Value Line 56
  SSG – Analyzing the Company **234**
  Standardized 54
  Subscribed **223**
  Triggers
Data Triggers **262**
Database Utilities **325**
Defense 175. See **Alerts Window**
  Analyze 175, **268**
  Compare 175, **268**
  Decide 179, **269**
Defense Report 185, 202
Diversification 198

E

Earnings per Share (EPS 37
Equity 36
Expense 37
Exporting Stock Studies **290**

G

Getting the most out Toolkit 5 **288**
Graph 75, 94, 97-107, 114, 118, 120, 122, 125, 126, 134, 142, 155, **214**, **231**, **234**, **235**, **236**, **237**, **242**, **245**, **246**, **248**, **251**, **258**, **269**, **282**, **283**, **284**, **311**, **319**

H

Home Page 22, **260**

I

ICLUBcentral Inc. ii
Income Statement 37
Internet Access **314**
  Accessing Company Web sites **316**
  Company-Specific sites **318**
  Favorites **317**
INTRODUCTION 1

investware ii

J

Judgment **249**
About 91
Audit 140-142, **249**
Estimating Growth 108

K

Keyboard Shortcuts **214**

L

Liabilities 36
Library. See Stock Library. See **Stock Library**
license agreement 364

M

Manual, About this 9-10
Menus and Commands 330
Multiple Stock Libraries **320**

N

NAIC 1, 193
Portfolio Management Forms 193
Defense 194
Offense 194
PERT Report 193
PERT-A 205
Portfolio Summary Report 200
Portfolio Trend Report 196
Principles 42-43
Navigation **213**
Notes 143

O

Offense 186, **271**
Challenge 189, **272**
Check Risk & Reward **271**
Check Risk and Reward 187
Reevaluate 188
Re-evaluate **271**
Offense Report 191, 203
OPS Data **215**
Setting Up **215**
Using **216**, **222**
Outliers, Eliminating 102, **237**, **241**
Overview
Window 171
Overview Window **265**

P

Personal Library. See Stock Library. See **Stock Library**
PERT Worksheet-B 205
PERT-A 182
Graph 184
Worksheet 182
Portfolio 144, **265**
Alerts. See **Alerts Window**
Assigning Stocks to 144
Overview. See **Overview Window**
Portfolio Management **260**. See
Process 166-167
Scheduling **261**
The NAIC Forms **275**
PERT Report (Portfolio Evaluation Review Technique) **275**
PERT-A Graph **282**
PERT-A Worksheet **282**
PERT-B Worksheet **283**

Portfolio Management Guide **284**
Portfolio Summary Report **280**
Trend Report **278**
Portfolio Management Guide (PMG) 208
Portfolio Report Card **265**
Preferences, setting 23-30
Active Area Highlighting 23
Advanced Forms, enable 24
Advanced Library Options 24
Advanced PERT Estimate 24
Colors, graph 27
Stock Library, Hide and Show Automatically 24
Preferred Procedure 115, **239**
Price/Earnings Ratio 37
Discussion of 38-41
Printing **288**
Projected Average Return 172
Projections, starting 109
Proxy Server **314**

R

R2 (R-Squared) 357
Rational Price, Rational Value 358
Rational Value 173
Relative Value 135
Projected 136
Relative Value (RV) 172
Reminders **262**
Incomplete SSG **264**
Update Data **263**
Update Prices **263**
Return 138
Projected Average 139
Total 138
Revenue (Sales) 37

S

Selling a Stock. See
Rules for. See
Sharing Stock Studies. See **Exporting Stock Studies**
Stock Check List **219**
Step 1: Acquire Data and Open Check List **219**
Step 2: Follow the Tutorial **221**
Step 3: Save and Print your Check List **221**
Stock Comparison Guide 150-161, **255**
Applying Judgment. See Stock Comparison Guide
Choosing. See Stock Comparison Guide
Customizing your Criteria. See Stock Comparison Guide
Weighting. See Stock Comparison Guide
Selecting the Companies. See Stock Comparison Guide
Step 1. Select Stocks to Compare **255**
Step 2. Using the Stock Comparison Guide **256**
Step 3: Modify, Weight, and Eliminate Criteria **257**
Stock Library 144
Stock Selection Guide (SSG) 74-149, **222**
Analyzing the company 94
Buy or Not to Buy 131-139
Entering Data 77
Eelectronically 86
Manually 77
Notes **252**
Overview 75
Printing **253**
Section 1 - Visual Analysis 98
Section 1 – Visual Analysis **234**
Section 2 - Evaluating Management 119

Section 2 – Evaluating Management **241**
Section 3 - Price-Earnings History 121
Section 3 – Price-Earnings History **243**
Section 4 - Evaluating Risk and Reward 124
Section 4 – Evaluating Risk and Reward **244**
Section 5 - 5-Year Potential 129
Section 5 – 5-Year Potential **249**
Stock, Definition 36

T

Table of Contents iv
Terms you should understand
The next and most important item to consider is the Upside/Downside ratio (U/D). This is the important measure of risk versus reward. The U/D is calculated by dividing the "distance" from the current price to the potential high price and dividing it 132-133
Toolbar 94
Total Return 137

U

Updating. See Stock Library. See **Stock Library**
Data. See Stock Library. See **Stock Library**
Electronic **302**
Manually **307**
Prices. See Stock Library
Stock Studies. See Stock Library. See **Stock Library**
Upside/Downside Ratio 172

V

Value Line **217**
Visual Analysis 75, 98, 103, 107, 109

W

warranty 365