

The logo for NAIC's Take \$tock 4 is set against a background of a US dollar bill. The text 'NAIC's' is in a black serif font. 'TAKE' is in a large, black, outlined serif font with a red underline. '\$tock' is in a red, cursive script font. The number '4' is in a black serif font inside a white circle with a black border.

## NAIC's TAKE \$tock 4

### Getting Started

Welcome to the world of simple, fun, and profitable investing! For more than a half-century, investors using methods like those applied in this program have enjoyed uncommon success investing in common stocks. You are about to join them. We believe you'll discover it's easier than you thought possible. We're sure you'll find what you have to know is not nearly as intimidating as you may have been led to believe. In fact, you can learn much of it while you use this program. We hope you'll find your experience as rewarding as others have found theirs.

### Overview

NAIC's Take \$tock 4 is a stock analysis software product so intuitive and easy to use it requires little instruction. We believe a simple road map identifying and describing the working parts of the program will suffice for both Beginner and Advanced modes.

The main purpose of an automobile is transportation. The basics of using a car are simple: start it, shift into drive, step on the gas, steer it, and stop it. To drive to the store, you need not know what goes on under the hood. Using Take \$tock 4 is even easier. Enter the symbol or the name of a company that interests you, click on **Retrieve**, and be greeted with a "First Impression"—an initial assessment of the company's quality and price.

If you're satisfied with that appraisal, you may continue on with the

“Judgment Wizard”—a series of five steps each of which graphically displays a key item of fundamental information about the company. To move through the steps, just select the appropriate answer to the multiple choice questions, based on what you see.

Once you have completed the required steps, Take \$tock will apply the estimates and forecasts you have provided and do a thorough evaluation of the company’s investment potential.

As with the automobile, there’s no need to know what goes on under the hood. But that doesn’t mean there isn’t a whole lot going on there.

The actual mechanisms used to analyze the quality of a company and determine a reasonable price for its stock are those used by some of the world’s most successful investors. As you can see when you choose to look under the hood (which you can), the analysis is based on easy-to-understand logic and on sound, fundamental, analytical principles.

The program implements a methodology based on that taught to successful amateur investors for more than 50 years by the National Association of Investors Corporation (NAIC) and described in detail in Inve\$tWare chairman Ellis Traub’s book, *Take Stock: A Roadmap to Profiting from Your First Walk Down Wall Street* (Dearborn, 2000). Using this approach, you can easily accomplish the only two tasks required to successfully pick stocks: one, determine if a company is of high enough quality to merit your long-term interest; two, if it is, then determine a reasonable price to pay for its stock.

## Let's Analyze a Company

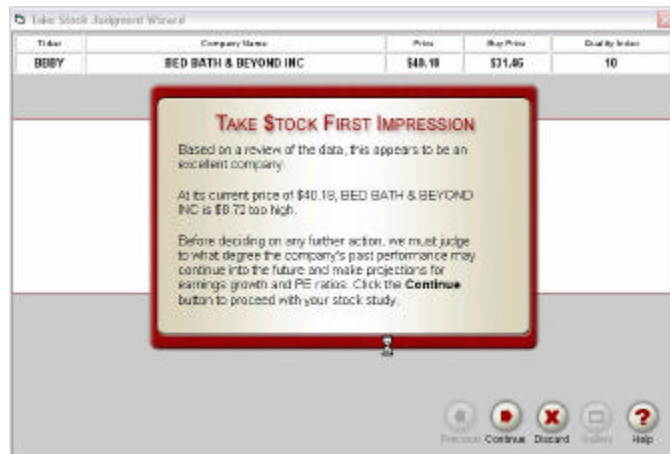
**Step 1.** Enter either the company's ticker symbol or its name in the space provided. (If you can't accurately remember the name or ticker, click on the **Find** button and enter the beginning of the name.)



Enter the name, "Bed Bath and Beyond" in the space labeled **Company Name** at the top of the Navigation area. Note that, as soon as you type in a few letters, it will complete the name for you. If you know the ticker symbol, you can enter it in the space above.

**Step 2.** Press **Retrieve** to produce the "First Impression."

Note that *BBBY's* current quality and price information appears in the Status Bar.



**Step 3.** If the “First Impression” is favorable, click the “Continue” button at the bottom of the screen to proceed to the next screen. If not, click on the “Discard” button to abandon this study and begin another.

*BBBY is judged to be Excellent. Click on “Continue.”*

**Step 4. Stability/Predictability of Growth**

Ticker	Company Name	Price	Buy Price	Quality Index
BBBY	BEY BATH & BEYOND INC	\$40.18	\$31.46	10

**Quality - Stability/Predictability**

The degree to which a company's **earnings growth** has been stable over the **long term** is our first indication of quality. If you can tell the difference between a straight line and a jagged or erratic line, you can begin to analyze the quality of this company.

The straighter the earnings line, the more predictable the company's growth. You will have far greater success forecasting the future growth for a company whose historical growth has been consistent.

If you are not sure which operation to choose, the "0 dollars" button will show you a few examples which may clear you in the right direction.

Select one of the following statements that best describes the quality of this company based on the consistency of growth shown in the graph.



**Very Predictable** – very straight earnings line which is likely to be predictable into the future.

**Somewhat predictable** – earnings line has some variability but still maintains a high degree of predictability.

**Unpredictable** – earnings growth is inconsistent and thus difficult to predict with any degree of certainty.

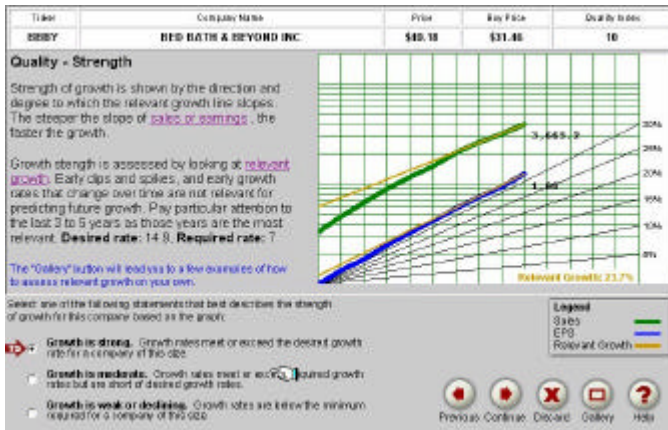
**Legend**  
 Earnings: Green line  
 10Yr Trend: Purple line

Buttons: Press at, Continue, Discard, Gallery, Help

Look at the graph to determine if this company is enjoying steady growth, indicated by a reasonably straight line, or if the line is moderately crooked or extremely erratic. Decide which of the answers below the graph most closely matches your observation. Click on the radio button to select your answer. You may want to look at the “Gallery” which gives you some insight into the range of choices. Note: Take \$stock suggest the answer it believes to be correct.

*BBBY is very predictable. Click on the radio button marked with the “T\$” to accept Take \$stock’s suggestion. Click “Continue” to proceed to the next screen.*

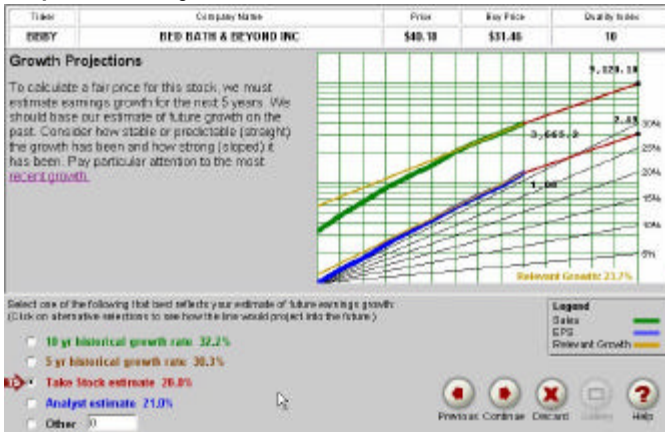
## Step 5. Strength of Growth



Look at the graph to determine how strong the growth is. The heavy colored lines represent the actual data. The gold lines represent “relevant growth”—the slope of the line that describes the data after irrelevant historical data has been eliminated. (You may click on the “Concepts” or “Help” button for more details about relevant growth.) You may also find the gallery helpful in analyzing the kinds of data that is relevant and irrelevant. Again, according to your observation, select an answer to the questions below.

*BBBY enjoys strong growth. Earnings growth around 15% is desirable. Select the T\$ recommendation and continue.*

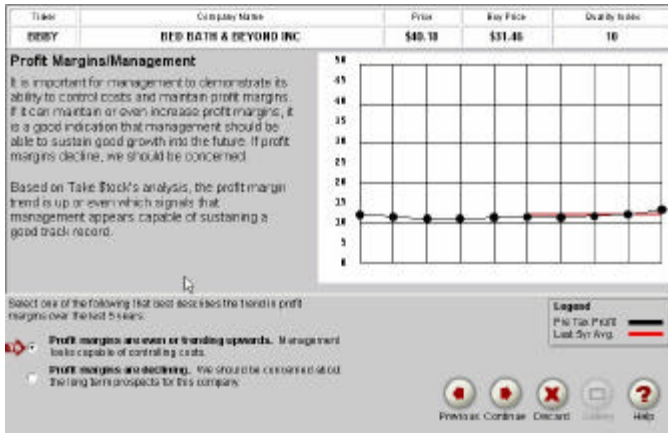
## Step 6. Estimating Future Growth



The purpose of analyzing relevant history is to provide you with a starting point or maximum to enable you to make a reasonable but conservative estimate of future growth. If growth has been stable in the past, you can estimate future growth to be close to, although below, relevant historical growth. The more erratic historical growth has been, the more you should reduce your estimate. Never estimate future growth at a higher rate than historical relevant growth. Because history has shown that it is not sustainable for very long, it is wise to limit your estimate to no more than 20%.

*BBBY has had a very stable history. It would therefore be reasonable to estimate future growth at a rate that is near its historical performance. However, in this case, the limit of 20% would apply. Click on the Take \$tock recommendation and continue.*

## Step 7. Assessing Efficiency



This is a graph depicting annual profit margins. The Profit Margins is the number of cents the company keeps out of every dollar of sales or revenue—the profit, after expenses have been paid. Declining profit margins are likely to be a sign that the company's management is inefficient—is not minding the store as effectively as it should. You can easily assess the trend by seeing how the annual values compare to the five-year average indicated by the straight line. If the most recent year is above or on that line, margins are not declining. Select the answer that most closely represents what you see.

*BBBY has had had a good record of steady, slightly increasing margins. Select the Take \$tock recommendation and continue.*

## Step 8. Forecasting the Future High PE



The final judgment you will make is to estimate the highest multiple of earnings investors are likely to pay for the stock in the next five years. This represents the dollar value investors place on each dollar's worth of those earnings. The graph displayed here depicts the highest multiple paid for the stock for each of the past ten years. It is helpful to view the average of both the past five and ten years to help you make this judgment. It is important to be reasonably conservative when making this estimate because too high a value will result in an overly optimistic analysis and lead you to believe that the stock is worth more than it is. In this case, a value greater than 30 has proven not to be sustainable for more than a short time and shouldn't be exceeded. Select the value that you feel comfortable with in view of relevant history.

*In the illustration above, investors have consistently paid a high PE for BBBY. In this case, the limit of 30 would apply. Click the T\$ recommendation and then the "Finish" button.*

*The following screen will appear:*

## Step 9. Evaluating the Result



Read the results of the analysis at the top of the screen. For further understanding, read the comments next to the Quality Index and note the Buy Price if one is listed. If the company should not meet the quality requirements, the Buy Price will not be calculated.

*The information for BBY that appears in your Status Bar reflects the latest data and price and may differ from the information displayed above. Click on the Summary button in the toolbar at the top to see a detailed analysis.*

## Step 10. Decide whether or not to buy the stock.

That's all there is to it! The odds are that four out of every five stocks you decide to buy using this approach will do well. One of the four will do even better than you had expected.

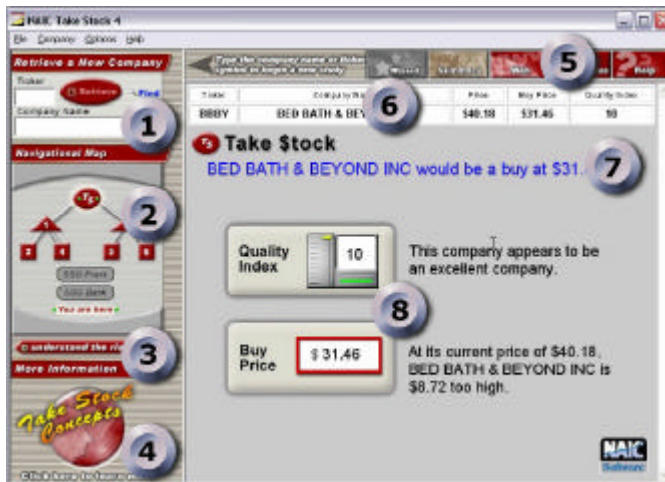
*Note: Don't sell a stock based on its price. Sell for only two reasons: if you need or want the money; if the stock's quality has declined below your standards for fundamental reasons that are likely to be long-term or permanent in nature.*

Let's look at the program in greater detail. Take \$tock 4 may be used in two modes, **Beginner** and **Advanced**.

## Beginner Mode

For the beginning investor, the process is easy. All you need to do is decide on a company, enter the company or ticker symbol in the space provided, and answer five simple questions. The program does the rest. It retrieves the data and analyzes the company for you. As your curiosity leads you, "drill down" to learn more about the process, but it's unnecessary to do so. However, as you use NAIC's Take \$tock 4 you'll find that you want to learn more and more so you can, at some point, take advantage of the Advanced options and knowledgeably override the conservative decisions the program makes for you in the Beginner mode. For now, we recommend that you rely on Take \$tock's judgment; it will keep you out of trouble at least 80 percent of the time.


Below is a brief description of the main features of the Beginner mode.



## Navigation Area

### 1 Company Query

The area on the left side of the screen is the navigation area. In the space labeled **Retrieve a New Company** at the top of the navigation area, you'll find a field where you can enter the ticker symbol for the company you want to analyze. If you don't know the symbol, you can enter the name of the company in the space below it. Press the **Retrieve** button.

If you have entered the name correctly, it will complete your entry after just a few letters. The ticker symbol and name of the company will appear in the Status Bar .

If you're unsuccessful, click on **Find** and enter what you believe to be the name or ticker symbol in the space provided. A list of companies will be created. Select the company you want, and it will appear in the Status Bar . Here you can also search by industry from the pull-down menu of listed industries.

### 2 Navigation Map

The Navigational Map indicates where you are in the program. When you begin, you will be in the first Take \$tock 4 screen (T\$). If you drill down into the program to obtain additional information, your location will be marked with green dots, and the screen number representing your position will be highlighted. You'll notice the navigation map is "live." By clicking on any point, you can use the navigation map to actually navigate directly to that screen.

### 3 Understand the risks...

Click this button to view your responsibilities and the limits of Inve\$tWare's liabilities when you use NAIC's Take \$tock 4 to help you make investment decisions.

## 4 Concepts

Click the **Concepts** button for more information about the analysis step you're looking at. The **Concepts** button is context sensitive and clicking on it leads you to additional background material about the items displayed on the current screen.

## 5 Toolbar

The toolbar at the top of the analysis area has five buttons for the beginning investor to use.

### Wizard

Click the Wizard button to return to the Judgment Wizard after you have completed the steps contained in it and it is no longer on your screen. You may go back and review or edit your selections at any time.

### Summary

Ticker	Company Name	Price	Buy Price	Quality Index
BEDB	BED BATH & BEYOND INC	\$40.18	\$31.46	10

### Summary

BED BATH & BEYOND INC would be a buy at \$31.46

### Reasons to Buy

- Sales growth is very predictable.
- Earnings growth is very predictable.
- Sales have grown historically at 23.7%.
- Earnings have grown historically at 29.6%.
- Recent sales growth has been 20.3%.
- Recent earnings growth has been 29.1%.
- Profit margins are trending up or are steady.
- Return on Equity is strong.
- Investors are paying about what they have historically.

### Items to Check

- The Current Price of \$40.18 is about \$8.72 too high.
- At 40.1%, the Risk Index shows the risk to be too great.

Close Print Help

NAAC Software

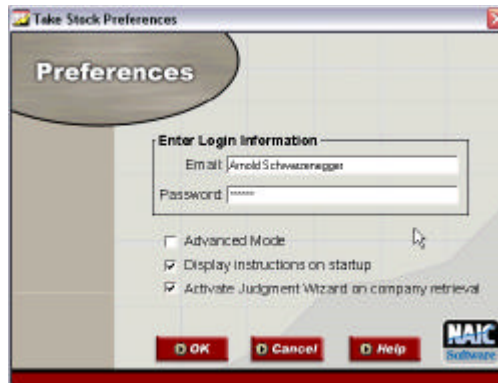
Click the Summary button to view the pros and cons of buying the stock. The summary is divided into Reasons to Buy and Items to Check. Issues that would disqualify a company from consideration are displayed in red. This summary may be printed.

## Web

Click the Web button to display a pull-down menu of Web addresses. You'll be able to access all of the Market Guide information to supplement your data. You'll find addresses for sites that provide additional information about the specific company—its description, competitors, supplemental financial data, Home page—as well as Web sites of general interest such as InveStWare, NAIC, and Yahoo. This Web button is your key to research on the Internet. You should be able to find the answers to any questions not provided within the program.

## Preferences

Click Preferences to go to the Preference screen.



Here you will enter your e-mail address and NAIC password to permit you to make use of NAIC's Online Premium Service (OPS) data.

When you are ready to progress to Advanced mode, you may do so by checking the appropriate box. If you use the Advanced mode (described on page 16 below), you can take advantage of additional options. The Advanced mode is recommended for experienced investors who fully understand the methodology and feel confident enough to change some of the Take \$tock 4 default values.

You may disable or enable the instruction screen that appears at startup.

Finally, you may disable (or enable) the Judgment Wizard if you are comfortable accepting Take \$tock's default values for the judgment items and wish to go directly to the analysis screen when entering a company name or ticker symbol.

## Help

Click Help for assistance dealing with the mechanics of running Take \$tock. Wherever you are; you may also use the F-1 key to access it. (Use the context-sensitive "Concepts" described above to learn more about the investment methodology.)

## 6 Status Bar

The Status Bar gives you an ongoing summary of key information. It displays the ticker symbol, company name, current price, buy price, quality indicator, and mood indicator. (See descriptions below.)

## Analysis Screen(s)

### 7 Conclusion

The analysis area (beneath the status bar) displays the various stages and components of the stock analysis. On the primary screen (shown above), you will find a statement that summarizes the conclusions drawn from the analysis.

## **8** Indices

Beneath this statement you will find two large buttons. The Quality button contains a numerical Quality Index that grades the quality of the company on a scale of 1 to 10. If the Quality issues are satisfactory, the Buy Price button displays the highest price at which you can purchase the stock and obtain the desired return with reasonable risk. These indicators give you an instant, visual assessment of the status of the stock. Both buttons are color-coded: Green is desirable; Yellow is acceptable; and Red is unacceptable.

### **Drilling Down**

The information provided by NAIC's Take \$tock 4 is all you need to make the same decisions as those made by millions of successful investors over the past half-century. However, you may wish to satisfy your curiosity and look deeper into the reasons for the program's rejecting (or accepting) your choice. To do so, click on the large buttons displayed on the screen. These will lead you to another screen where you can explore the reasons and learn why they are important.

*Click on the Quality Index button. On the next screen check the information about BBBY's growth and efficiency. Note how the Navigation map indicates your location in the program.*

You may continue to explore the Quality issues deeper into the program, finally coming to the Stock Selection Guide.

NAIC's Take \$tock 4 is programmed to make judgments about each of the items that contribute to its recommendations. Those judgments are conservative enough for you to be confident you will make few mistakes when selecting a stock to buy. However, the time may come when you want to be more aggressive. By learning why the judgments were made, you can acquire the confidence to intelligently override the program's conservative default values to find more stocks that meet your standards. For obvious reasons, we recom-



Doing so will make several changes in how you use NAIC's Take \$tock.

First, new buttons will appear on the Toolbar, and several changes and additions will appear in the Navigation area.

Second, you will be able to save the results of your stock study and create a watch list or portfolio of stocks to track. You may work with these companies off-line if you wish, going on-line only to update data and prices. Using the Maintenance screen, you can manage your list by ranking, updating, deleting, and evaluating the companies.

Finally, using the five Judgment screens, you will be able to override the default judgment values Take \$tock 4 conservatively provides.

Let's look at the advanced features in detail.

## 9 Maintenance

Use the Maintenance screen to work with the list of analyzed

Selected	Ticker	Company	Study Date	Quality	Move	Buy Price
<input type="checkbox"/>	AFL	AFLAC INC	02/25/2013	3.2	187	N/A
<input type="checkbox"/>	ACF	AMERICREDIT CORP	02/25/2013	2.6	37	N/A
<input type="checkbox"/>	AMGN	AMGEN INC	02/25/2013	3.2	184	N/A
<input type="checkbox"/>	APOL	APOLLO GROUP INC -CL A	02/25/2013	10	140	25.09
<input type="checkbox"/>	BBBY	BED BATH & BEYOND INC	02/25/2013	10	122	30.75
<input type="checkbox"/>	HRB	BLOCK H & R INC	02/25/2013	5.8	84	49.50
<input type="checkbox"/>	BOXP	BOXFERRUGAL CORP	02/25/2013	2.8	123	N/A
<input type="checkbox"/>	CSL	CSL & ASSOCIATES PPTY IN	02/25/2013	1.1	132	N/A
<input type="checkbox"/>	CTX	CENITEK CORP	02/25/2013	8.8	89	72.07
<input type="checkbox"/>	CAFE	CHEESECAKE FACTORY INC	02/25/2013	8.5	131	30.18
<input type="checkbox"/>	CHS	CHS CO	02/25/2013	8.9	171	17.75
<input type="checkbox"/>	CBH	COMMERCE BANCORP INC/AL	02/25/2013	9.0	180	30.04
<input type="checkbox"/>	CPRT	COPART INC	02/25/2013	3.2	58	N/A
<input type="checkbox"/>	DHI	D R HORTON INC	02/25/2013	8.5	80	25.09
<input type="checkbox"/>	DV	DEVR INC	02/25/2013	1.1	135	N/A
<input type="checkbox"/>	EDMC	EDUCATION MANAGEMENT CO	02/25/2013	8.4	130	38.83
<input type="checkbox"/>	FDS	FACTSET RESEARCH SYSTEM	02/25/2013	3.2	126	N/A
<input type="checkbox"/>	FDO	FAMILY DOLLAR STORES	02/25/2013	5.8	143	22.04
<input type="checkbox"/>	FNB	FARMING MACHINE	02/25/2013	1.1	73	N/A
<input type="checkbox"/>	FRE	FEDERAL HOME LOAN MORTG	02/25/2013	5.8	46	77.00

stocks you have saved. It's best to save only those that have been judged to be of good quality and for which you are awaiting a suitable price or those you already own.

In the Maintenance screen you can open a company, update the data for one or more stocks, delete one or more stocks, sort the columns by clicking on their labels, and access the Help screen.

Select  
All/None

By clicking on this label at the top of the check-box column, you can toggle back and forth between selecting all or none of the stocks. You can also select or deselect individual companies to work with them.

Update

This button updates the data for the selected companies, retrieving the latest financial data and the current (15-minute delay) price from the Inve\$tWare Web site. The analysis is recalculated. Check the new quality, mood, and buy price in the three columns to the right.

Delete

Deletes the selected company or companies from your database.

Open

Opens a single, selected company. (Will not work on multiple selections.)

Help

Accesses the on-screen help. (Help can also be accessed anywhere in the program with the F1 key.)

Web

Your gateway to on-line research. See description above.

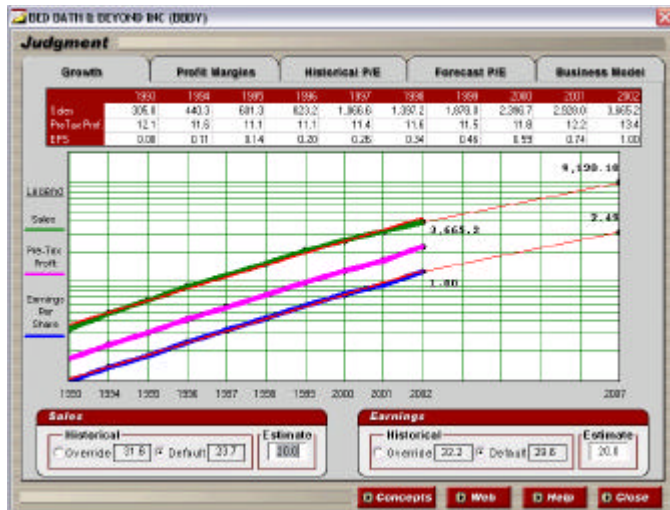
Close

Closes the Maintenance screen.

## 10 Judgment

The default values used by Take \$tock 4 are intended to be conservative enough to keep you out of trouble most of the time. The Advanced mode gives you the ability to change those judgments if you believe you have good reason to do so. Caution: The more aggressive your judgments, the more risk you invite. Do not make changes simply to make a company appear more suitable. You can amend judgments in the following five areas:

### Growth



Estimates of future growth are the heart of this methodology and should be based on relevant history. It's often desirable to eliminate any unusual data from the past ten years.

### Eliminate Outliers

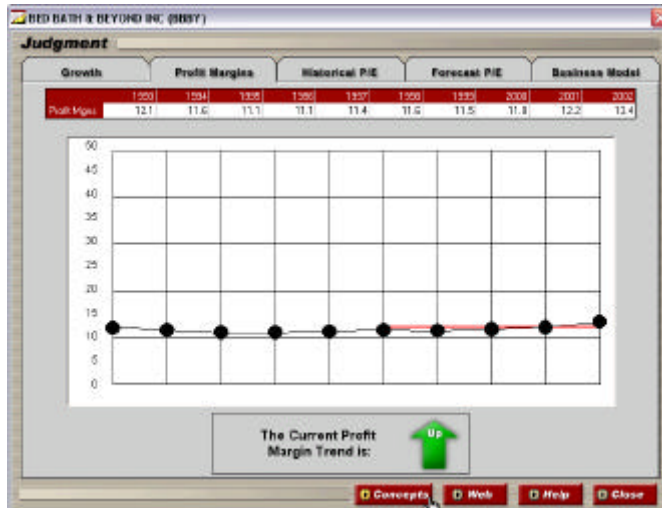
The assessments of relevant historical sales and earnings growth have already been made by Take \$tock. Note the data in the table above the graph. The data displayed

there have been plotted on the first ten years of the chart. Click on the year above the data to remove that year's data from the calculation of historical growth. It's best to avoid eliminating data that would cause an increase in the growth rate. Click either "Override" radio button at the bottom of the screen to override the default values for historical growth.

## Estimate Future Growth

If you wish to override the default growth rates forecasted by Take \$tock, you can do so by entering your own estimates of future growth.

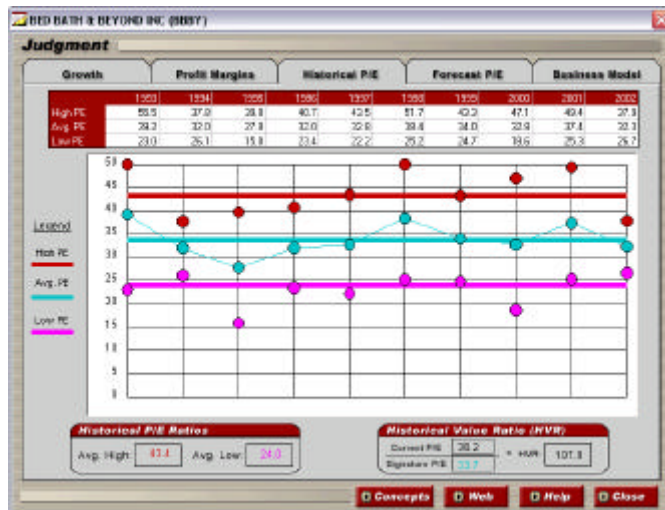
## Profit Margins



Although a decline in profit margins most often is an indication that management is not properly "minding the store" and is letting costs get away from them, there are times when it is not. At times, such sound management decisions as reducing prices to "buy" market share and meet or beat competition, taking on higher volume, lower margin product

lines, and other such actions will result in a decline. An experienced investor will research these conditions when applicable and, may elect to disregard this factor by clicking in the “Ignore The Current Trend” check-box. This will change the red “Down” arrow to yellow and permit calculation of a buy price is all else is favorable.

## Historical PEs

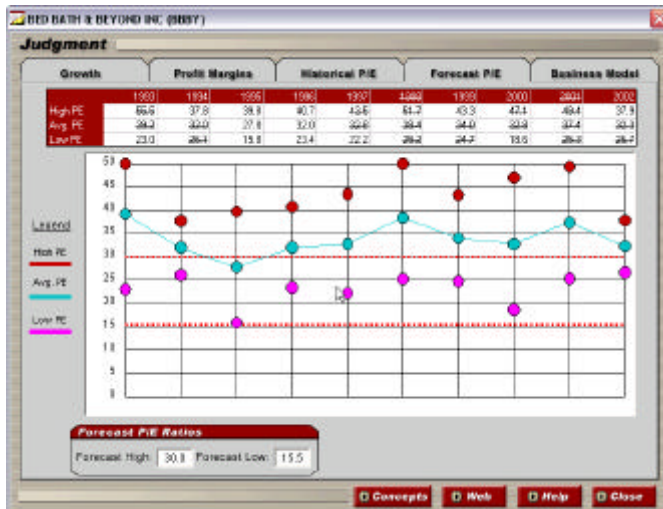


The Historical Value Ratio (HVR) is similar to NAIC’s Relative Value and drives the warning flag that appears below the Buy Price button on the analysis screen. The HVR is simply a comparison of the stock’s current price-earnings ratio (PE) with its 10-year median PE where NAIC’s Relative Value is a comparison of the current PE with the five-year average. The result of the comparison determines whether investors are paying more or less for a dollar’s worth of earnings than they have paid for the stock historically. Take \$stock refers to this value as the “Mood.” If investors are paying a higher price than they have historically, the mood is “hot.” When below, the mood is “Cold.” A flag will appear on the analysis screen to indicate either case.

## Eliminate Outliers

To calculate a significant average, eliminate any unusual, irrelevant historical data by clicking on either the data itself or the year above it (to eliminate all the data for that year). Use the graph to identify the data that are out of line. It's not wise to eliminate data if removing them would increase the average. (Should you elect to eliminate any data as irrelevant, the result will convert from a comparison with the median to a comparison with the average of the remaining data.)

## Forecast PE's

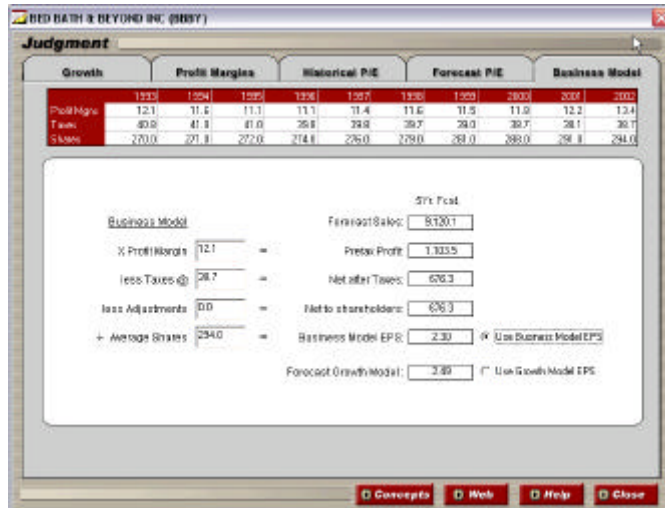


Take \$tock 4 forecasts future PE's by averaging the lowest half or majority of all available years of data, automatically eliminating the highest half or minority of those data. Thirty is the limit in any case.

## Revise Forecast PE's

Select the high or low Forecast PE field and replace the default value with your estimate. Caution: To forecast higher PE's than those estimated by Take \$tock 4 is to invite increased risk.

## Business Model



The Business Model (referred to by NAIC as the “Preferred Procedure”) offers an alternative method for forecasting the earnings used to calculate a future price—a sort of second opinion. Instead of basing future earnings strictly on forecasted earnings growth, you can start with your estimate of future sales and adjust the items that affect those revenues before they reach the bottom line—profit margin, tax rate, adjustments, average number of shares outstanding.

### Profit Margin

Guided by the data above the graph, you can enter a different profit margin for the five-year average than the one currently used to calculate the expenses (the inverse of profits).

### Taxes

Consult the Tax line above the graph. You can change the tax rate if you have good reason to do so.

## **Adjustments**

Data for adjustments—especially preferred dividends—can be obtained from the Market Guide Web site accessed using the Web button. Go to the Income Statement and look for the Adjustments section in the bottom half of the Income Statement screen.

## **Average Shares**

Consult the share data in the table above the chart for the average number of shares outstanding. Use the data to help you decide if additional shares will be issued (sold). It's best not to reduce the number of shares without good reason.

The resulting calculations will give you another estimate of future earnings, which you can elect to use. To be conservative, we suggest you use the lower of the two figures.

## **11 Companies at a Glance**

The companies you have saved in your database are displayed, with colored symbols for their Quality, Mood, and Buy price, at the lower left side of your screen.

Click the company to open it. The company information will appear in the Status Bar and the initial screen will be displayed showing the Quality Index, Current Price, and Buy Price.

## **12 Advanced Toolbar**

In Advanced mode, three additional buttons are added to the Toolbar.

### **Update Company**

Updates the data and price for the company you are studying.

## **Reset Judgment**

Resets all judgment items to the default values suggested by Take \$tock.

## **Save**

Saves the company you have studied to your database. It will appear in the Companies at a Glance listing and in the Maintenance screen.

You are ready to use the Advanced mode for investment decisions when you are confident you understand the concepts well enough to venture beyond the judgments made automatically by Take \$tock.

## Investing Our Way

To successfully invest in common stocks, you need to know just two things. Is the company of high enough quality to merit your interest as a long-term investment? Is the stock selling at a reasonable price? Technamental analysis—a graphical study of the company's fundamentals to make it easier to see the fundamentals stressed as important by NAIC—is the safest, surest, and simplest way to answer both questions.

## The Pedigree

The straightforward methods for determining the answers to the two questions above have been taught by NAIC volunteers for more than fifty years. Recently, the approach has been discussed in detail, with few modifications, in *Take Stock: A Roadmap to Profiting from Your First Walk down Wall Street* by Inve\$tWare's chairman, Ellis Traub (Dearborn Trade, 2000). The Take \$tock 4 software conservatively applies these principles and makes the same decisions you would make if you applied them after learning how to do so.

Before computers, investors had to spend time learning before they could begin investing. Many found the learning process discouraging and gave up. Others simply didn't want to do the necessary work the methodology entailed.

Now, using a computer and NAIC's Take \$tock 4, you can invest first, and learn as you go along. The education provided by Take \$tock 4 gives you the knowledge, expertise, and confidence to override the program's decisions and substitute your own, more aggressive judgments to widen the field of companies to consider. It also prepares you to better understand the education provided by the chapters and national organization at their educational events.

Let's look briefly at the rationale behind those principles.

## The Simple Concepts

By purchasing shares of stock, you become an actual part owner of the company, not just the purchaser of a piece of paper you may be able to sell at a price higher than when you bought it.

The distinction is that you'll rely on an increase in the actual value of what you own to afford you the opportunity to sell it at a higher price. Therefore, you will want to own shares of quality companies that are able to increase their earnings year after year. A well-run company should be able to double its earnings every five years (a 15 percent average growth rate). Finding a quality company is the first step.

If, *and only if*, the company you're interested in meets your quality standards are you interested in the second step—determining a reasonable price for the stock.

For a good company to be a successful investment, its stock must be reasonably priced. As the company's earnings double every five years, its stock price can also be expected to double.

Finding high quality companies at a reasonable price is what Take \$tock 4 will help you do. This is how:

**Quality.** Only two questions need to be answered to determine if a company is a high quality, well-run company. Are its sales and earnings growing predictably and at a rate that could double your investment in five years; and can management sustain that rate?

NAIC's Take \$tock 4 answers these questions for you. First, it analyzes the company's sales and earnings predictability and growth rates. Second, it analyzes profit margin and return-on-equity trends to evaluate management. The software identifies any area in which the company fails to meet the required and desired standards. If it does not meet those standards for quality, no price could be a bargain.

**Price.** On the other hand, no matter how good the company's quality, if its stock is overpriced, it is still a poor investment. NAIC's Take \$tock 4 evaluates the price by determining, among other things,

whether the potential return is sufficient, and whether the risk at that price is reasonable.

From historical data, the program makes conservative estimates of future earnings and PE ratios. Using these estimates, or estimates you have made having implemented the Judgment Wizard, the software determines a reasonable estimate for the highest and lowest prices the stock might be expected to reach within the next five years. Based on the current price of the stock, the program forecasts the potential gain and loss and evaluates the potential risk and reward involved in owning the stock.

Take \$tock 4 also analyzes the historical multiples investors have been willing to pay for the stock and suggests things to watch for if the stock is currently out of favor or if it is selling at an inflated price.

In plain English, NAIC's Take \$tock 4 applies conservative guidelines for making the buy/don't buy decisions, and teaches the investor in simple terms exactly why those decisions are made.

Drilling down reveals additional details about each of the quality and price criteria components. Using this information, the new investor can learn enough and develop sufficient confidence to take advantage of options the program offers the advanced user to override the program's default judgments and employ more flexible standards when evaluating stocks.

## **Portfolio Management: An Important Word**

The first and most important step to becoming a successful investor is to select and purchase quality companies at a reasonable price. The second and final task is to monitor your portfolio. Because you have purchased stock in high quality companies and plan to hold it for the long term, following your portfolio requires little time and effort. Unless you need the money, there are only two reasons for selling any stock.

### **Defensive Strategy**

First, sell if the quality of the company declines—if its earnings or sales growth declines significantly below your expectations—due to a serious problem beyond management’s control or something that will affect the company for the long term. Use the Web sites listed in Take \$tock 4 to research the reasons for the quality slip. If it turns out to be a short-term problem that any management faces from time to time, hold the stock, and give management a reasonable chance to correct the problem. If it is a long-term serious problem, sell before the stock damages you portfolio’s performance.

You can easily monitor your portfolio for such situations by using the Maintenance screen in Advanced mode.

- 1) Click on the label at the top of the Quality column to sort the companies by Quality Index. Click until they are ranked from best quality to worst (greens at the top).
- 2) Click on the “Select All” button.
- 3) Click on the “Update” button and watch as the program progressively updates the data for each company.
- 4) Those that have slipped will turn red or yellow.
- 5) Open each company that displays a lower-than-desired Quality Index to check the details. Use the Web button to research the reasons for the company’s poor performance.
- 6) Replace with good quality companies those you believe will not return to satisfactory operation in a reasonable time

## **Offensive Strategy**

Second, sell if you can do better with another stock of as good or better quality. Look for overvalued stocks in your portfolio.

- 1) In Advanced mode, sort the Companies at a Glance to bring the “Hot” companies to the top in the Mood column.
- 2) Starting at the top, click on each that is in your portfolio (they should presumably display as green in the Quality column if they have survived your defensive review).
- 3) Click on Screen 5 and 6 in the Navigational Map to check the return you can expect from those stocks, and risk you will be subject to respectively.
- 4) When you encounter one whose return is insufficient or risk is excessive, click on the Judgment screen to access the Growth screen where you should update your estimate of earnings growth to a value closer to its actual growth. Update the Forecast high PE in the same fashion.
- 5) Recheck return and risk to see if the overvalued state remains.
- 6) Replace those that are still overvalued with companies of equal or better quality and a better potential return.

Using Take \$tock 4 to select your stocks and holding them for the long term (unless their operating record disappoints you or they're overvalued) should produce four winners out of every five, and double your money every five years.

## **Additional Resources**

If you're interested in additional education beyond the simple basics NAIC's Take \$tock 4 offers, we recommend the following:

### ***Take Stock***

Read *Take Stock: A Roadmap to Profiting from Your First Walk Down Wall Street* by Ellis Traub. This easy-to-understand book describes in detail the concepts and methods that Take \$tock 4 uses. This step-by-step methodology is applied in both the *Technamental Stock Study Worksheet* and in the *Stock Selection Guide*®. *Take Stock* is available in your local bookstore or on Amazon.com at:

<http://www.amazon.com/exec/obidos/ASIN/0793141494>.

### **NAIC**

Join NAIC, a nonprofit, educational organization. Its thousands of volunteers are happy to offer others, at low or no cost, the benefits of the investment education they have received. The organization offers a variety of services to amateur investors who invest successfully using this methodology.

### ***Local Chapters and Clubs***

Across the nation more than 115 active NAIC chapters are ready to help investors learn this approach. The chapters support both individual investors and investment clubs. Check the Better Investing Web site (<http://www.better-investing.org>) for the chapter in your local area (found on the right side of the Home page). Or call NAIC headquarters, toll free, at (877) 275-6242. When you join NAIC, you will be notified of educational events taking place in your area. Regional educational events are also listed each month in the back of the Better Investing magazine.

### ***Networking On-Line***

Participate in one of NAIC's most valuable educational resources—the on-line “I-Club,” or the CompuServe NAIC Forum. There you will

find thousands of others just like you, asking and answering questions. This is an excellent way to network and continue your learning experiences. Point to <http://www.better-investing.org> and join I-Club or <http://forums.compuserve.com/vforums/default.asp?SRV=NAIC> to sign up for the forum. Both are free of charge.

### **Technical Support**

Questions about the investment methodology that are not answered in this document or in the “Concepts” screens can best be answered by taking advantage of the additional resources listed above. Take \$tock is intended to be intuitive and user-friendly; but, if you have problems with the program itself, you may avail yourself of the resources listed below.

#### ***Internet***

Check Inve\$tWare’s Web site at <http://www.investware.com> for frequently asked questions about Take \$tock 4. If you have a question or problem, probably others have had it, too. If the problem is universal, we’ll post it.

#### ***E-Mail***

Send a message to [takestock@investware.com](mailto:takestock@investware.com). You should receive an answer within an hour; but in no case later than the same time on the next business day.

#### ***Telephone***

Call Inve\$tWare support at (954) 723-9910