



Classic Plus

User's Guide

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Developed by



ICLUBcentral

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An investor should be aware that there is no investment method that will work 100% of the time. There will be assumptions, ifs, and maybes in the analysis of stock choices. The techniques in this guide will help you improve investment choices. Look at the many indicators and suggestions as a whole. Because financial analysis is highly interrelated, there are no absolute answers.



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Introduction

1

Some words to encourage the novice.

Purpose of Classic Plus

The objective of this computer program is to help individuals learn how to invest in stocks. The heart of the investment methodology used in the program is to acquire well-managed, quality growth stocks and hold them for a long time. The investment ‘forms’ included within Classic Plus are:

1. The **Stock Check List**
2. The **Stock Selection Guide and Report**
3. The **Stock Comparison Guide**
4. The **Portfolio Management Guide**
5. The **Portfolio Evaluation Review Technique**

With the advent of computers and on-line information, today’s investor has valuable tools when doing stock studies. Data is readily available through electronic subscriptions or services and calculations are ‘entered’ into the ‘forms’ automatically.

Classic Plus guides and tutors you through these forms so that you can complete a company study consistently and thoroughly.

Your responsibility is to become familiar with the company in order to make judgments about its past and future performance. You are responsible for making the ultimate decision about the merit of a company as an investment for your portfolio of stocks.

Effective Learning

Classic Plus was designed for the beginning investor.

As a beginning investor you may be confronted with several areas of learning: learning about the Windows environment, learning about Classic Plus, learning about investing terms, learning where data is found and which data to use, learning about investing methods. Any or all these could be stumbling blocks to a quick start.

Learning the Windows Environment

For knowledge about the Microsoft Windows environment, such as learning to open and close programs, locate files, or re-size windows, we recommend the **Windows Help** that can be reviewed by opening the **Windows Explorer**. From the **Start** button on your Windows desktop, click **Programs | Accessories | Windows Explorer**, and then select **Help** from the **Menu** line at the top. Review the topics of interest to you. The **Getting Started** area may be best for beginners.

Learning Classic Plus

At the **Beginner** level, Classic Plus is built to be a tutorial. You are prompted for each step and the **Help** button on the **Prompt Window** explains why you are doing that step. Through repetition you will learn to effectively use the program.

Use the following steps to learn the basic operation of Classic Plus and the stock study process.

1. Review the **Tutorial** available from the Classic Plus **Main Page** or the **Help** menu item.
2. Choose a sample completed study from the Classic Plus database (McDonald's, Johnson & Johnson, or Microsoft). Review the completed study step-by-step, using the forms in this sequence: Stock Check List, Stock Selection Guide, and SSG Report.
3. Read and follow each prompt in the **Prompt Window** for areas marked with the large red rectangle.
4. Use the **Help** button for additional information about a particular step.
5. Call the **What's This?** and **More Help** (with the right mouse button) when pointing the cursor to an item needing further explanation.

6. For items circled in red, right-click with your mouse to call the **Stock Wiz** for his comments.

Doing an overview in this way will give you “the big picture” of the stock study process and how Classic Plus can help you.

Learning about Data

Datafiles provide the data needed for studying and relieve you from the burden of finding data and entering it from the keyboard. Datafiles are generally available by annual subscription. Contact BetterInvesting or ICLUBcentral for information about datafile subscriptions.

If you are using a paper source for financial data (annual report, Value Line, S&P sheets) the **Company Data** chapter of the Classic Plus User’s Guide or Classic Plus’s **Help** give you details of the data needed. The **Glossary** includes explanations of terms with which you may be unfamiliar.

If you are not using datafiles, help entering data is available in the files entitled “S&PDataKeysSSG.doc” and “VLDataKeysSSG.doc” located in the Classic Plus installation directory or on the original CD.

Learning Classic Plus’s Investing Methods

The step-by-step process of Classic Plus is intended to ensure that you do every step of a company study. In this way you will become familiar with all the details of doing a study.

When you start to work on your own study, remember to go one step at a time, starting with the Stock Check List. When you become very comfortable using that report, it will be time to move on to the Stock Selection Guide.

As a beginner, you will need to complete several studies to become familiar with the study process. Using datafiles gets you immediately started on the company study rather than the work of finding and keying in data.

The **Experienced** level of operation is available to you when you become proficient with the step-by-step study process.

Principles for Successful Investing

The investment record of successful investment clubs and individual members over time has proved the benefits of following these four principles:

1. Invest regularly, regardless of the market outlook.
2. Reinvest all earnings.
3. Invest in growth companies.
4. Diversify to reduce risk.

Invest Regularly Regardless of the Market Outlook

No one can consistently forecast the ups and downs of the market. By investing even small sums regularly, you may accumulate a significant “nest egg.” When prices are down, your regular contribution will purchase more shares than when the prices are high. This is called *dollar cost averaging*.

Another benefit of investing regularly is that investing becomes a habit. If you set the money aside as a regular deduction from your paycheck (paying yourself first), you will not even miss it. You will be amazed at how your portfolio of stocks will grow in value over the years. “From a small seed does a mighty tree grow.”

Low cost ways to invest regularly include:

1. Joining or starting an investment club.
2. Utilizing BetterInvesting’s Low Cost Plan.
3. Buying your first shares from a broker and then joining the company’s dividend reinvestment plan (called a DRIP plan) to make regular contributions.
4. Buying shares directly from companies which provide that service.

Reinvest All Earnings (Dividends and Capital Gains)

Reinvesting all earnings puts the power of compounding to work. Many companies pay dividends (thus distributing some of their profits) to shareholders. You may automatically reinvest your dividends directly into purchasing more shares of the company if it has a DRIP or direct purchase

plan, or by using the dividend reinvestment feature of your brokerage account (if available).

When you sell stock, reinvesting the profit (capital gains) as well as the original purchase cost (capital) back into another well-managed, quality growth company will give you the opportunity to gain from the magic of compounding.

Invest in Growth Companies

Well-managed growth companies create healthy profits year after year. This allows them to expand and become larger and more prosperous. Such companies also have good prospects for above-average future growth. Investors are willing to pay a premium price for consistent growth as it is hoped that earnings growth and P/E Ratio expansion will drive the stock price higher.

Diversify Your Portfolio to Reduce Risk

Over time you should develop a portfolio of companies of different sizes and in various industries. This will reduce risks caused by political and economic cycles.

Conclusion

Following these principles can be your basic path to successful life-long investing. Take the time to learn what is important in evaluating a company for investment. Develop your skill in using Classic Plus to identify well-managed, quality growth companies that are fairly valued. Doing these things will help you develop a portfolio of investments with the potential to achieve your future financial security.

For the Beginner

2

A few words for beginners about investing in stocks.

What Is Investing?

Very simply, investing is the process of using money (called capital) to make more money. Buying stocks is a powerful way to build one's wealth by participating in the growth and success of a company's business.

Why Invest?

Motivations for investing can be many:

1. Lack of job security may necessitate several jobs in your lifetime. This means that there may not be a company pension waiting at the end of your career.
2. Government pensions may not be as reliable as in the past. Therefore, you need to develop your own "safety net."
3. Planning and investing can provide the financial independence that allows you to make choices and to "follow your dreams".
4. Inflation can rob the true value from savings. Investing intelligently produces returns that grow faster than inflation.
5. Investing is fun! It can become a profitable hobby.

Investing and Risk

There is no foolproof investment (including keeping money under the mattress).

The 'Rule of 5' suggests that of 5 stocks purchased, 3 will do about as you expected, 1 will do worse, and 1 will do much better. Using Classic Plus's methods for choosing companies, the goal for your portfolio over the long term is to average 15% growth (compounded annually).

Long-term Investing

The heart of our analysis methodology is to invest in well-managed, quality growth stocks and hold them for a long time. This differs markedly from the atmosphere of today's stock market. Current media reporting creates the false impression that price fluctuations are very important and that frequent actions must be taken to manage a portfolio.

By following these methods for long-term investing, you will learn:

1. How to set investing objectives that can achieve your financial goals.
2. How to become informed and make judgments about a company, rather than just following a "hot tip."

Investing and Time

Time is on your side. Make sure you use it.

Starting on your investment path early and investing regularly are very important to your long-term results. Of time, amount invested, and rate of return, time is your biggest friend.

Enjoy the benefits of compounding.

Long-term investing is profitable because your investment grows or compounds. Your return is based on the earnings of your original capital plus the earnings made from your earnings. Additionally, with a stock you also may add to your investment the dividends paid by the company to shareholders.

Studies have shown that over the past 70 years, the largest U.S. corporations (in the S&P 500 index) have achieved an average annual return of 10 to 12% from share price appreciation plus dividends.

Compounding or growing at 15%, you will double your money in 5 years.

The following figure demonstrates the results of long-term investing and compounding. It shows an initial investment of \$5,000 with monthly \$50 contributions. The 'portfolio' is building at a growth rate of 15%. Stock turnover (buying and selling) is 10% of the portfolio value and expenses (taxes and commissions) are estimated at 27%. After 30 years, the portfolio is valued at over \$550,000!

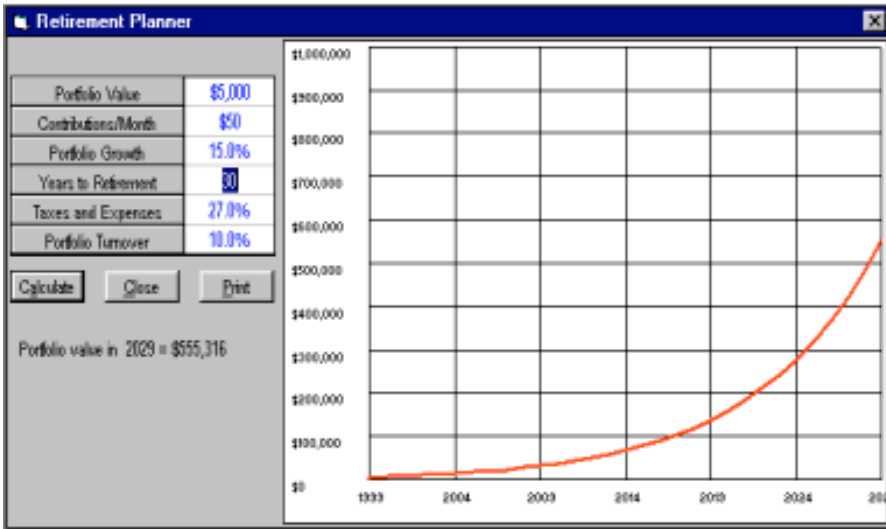


Figure from Stock Analyst's retirement planner feature.

Why Stocks?

Stocks provide a diverse type of investment, allowing you to participate in the growth of companies within a wide economic spectrum. The long-term growth history and potential for many companies are very impressive. Also, stocks are the best investment to counter the eroding effects of inflation.

What is a Stock?

Several terms are used interchangeably: share, stock, and equity. When you purchase a stock, a certificate of ownership represents your ownership portion of the company. You become a participant in the company's business. You have the opportunity to profit from the growth of a successful company or lose money if you do not withdraw from a floundering business.

What Are the Characteristics of a Good Company?

important

When looking for stocks to purchase, make this your key thought: Invest only in well-managed quality growth companies that are fairly valued.

The crucial words in the above statement are **well-managed**, **growth**, **quality**, and **value**. Let's review each of these important investment characteristics.

Growth

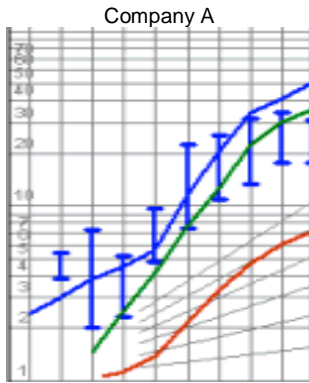
Sales and Earnings growth are keys to price appreciation. A growth company is one whose sales (or revenue) and earnings per share (EPS) are growing at a rate higher than that of the overall economy. *Growth of sales and earnings causes growth of dividends and stock price.* Over the long term, sales and earnings growth should produce comparable growth in dividends and price appreciation.

In a “bear” (i.e. down) market, the company may grow sales at the historic rate but the share price may stagnate or decline. In a “bull” (i.e. up) market, the price may increase more than the company's sales or earnings growth. This shows how investor “sentiment” moves the stock price.

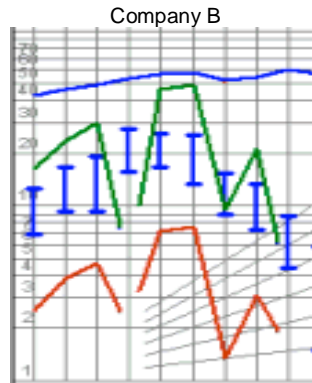
Classic Plus uses the Stock Selection Guide (SSG) to graph the growth record for sales, EPS, and price. In the graphs below, can you identify growth stocks?

Can You Identify Quality Growth Companies?

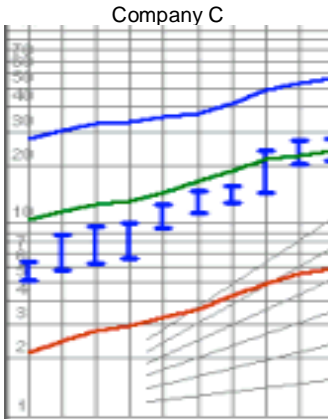
The following charts are mini-Stock Selection Guides for some companies in the restaurant industry. The top line is sales (revenue), the bottom EPS (earnings per share), the one in the middle is pre-tax income. The short thick bars represent the yearly price range for the stock.



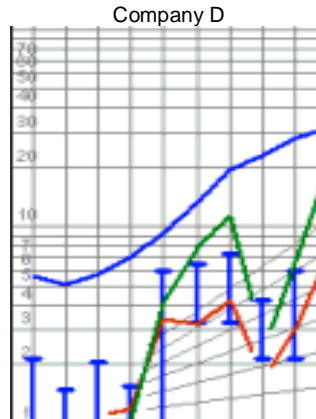
Sales +45.8%
 EPS +42.4%
 Price +32.0%



Sales +4.4%
 EPS -8.5%
 Price -3.7%



Sales +8.3%
 EPS +12.1%
 Price +18.2%



Sales +25.9%
 EPS +27%
 Price +23.7%

Figures from of Stock Analyst.

All companies show growth, with the exception of Company B. Quality management is shown in Company A and Company C by the consistent growth of their sales and EPS lines.

Occasionally value can be discerned by observing EPS growing faster than share price.

Lastly, safety can be assessed by the persistence of the growth of sales and EPS, the steadily rising prices and possibly the size of the company. Company C is overall the most consistent company.

Company D shows slowing sales growth. The dips in EPS show past difficulties. These irregularities make the stock study more difficult.

Quality

Consistency is the quality characteristic that gives confidence in the company. A quality, well-managed company will achieve consistent results year after year. Sales and earnings will grow steadily. Return on Shareholders' Equity and Pre-tax Profit on Sales will also be consistent and superior to peer companies. Such performance indicates that a company has a good management team – a very valuable asset.

It is very informative to compare the company with competitors in the same industry. Companies that are industry leaders are usually well-managed, quality companies with good potential for growth.

In the above figures can you identify quality companies?

Value

Selecting a company which is “fairly valued“ is very important to achieving your 15% portfolio growth rate over the 5 year period. If you expect to benefit from price appreciation over time, it is crucial that you buy the stock when the price is reasonable.

One way of describing value is using the Price/Earnings Ratio.

P/E Ratio expansion (buying at a relatively low Price/Earnings Ratio and seeing it rise) is one key to successful investing. The P/E Ratio (Price-Earnings) ratio tells how much investors are willing to pay for each dollar of earnings. As earnings increase, the price will typically increase. If a company's earnings fall, many investors will sell and cause the price to fall.

Historical high and low P/E Ratios show the range of value investors have given a company. Comparing the current P/E Ratio to historical P/E Ratios shows whether or not the stock is currently a good value.

To identify a good value, look for a current P/E Ratio below the historical average P/E Ratio. This will allow room for the P/E Ratio to expand to its historical average or higher. This P/E Ratio expansion, plus the effect of growing sales and earnings, will cause price appreciation.

In the above graphs, value can be identified when EPS is growing faster than price.

Risk

Many people think that the stock market is a very risky place to put their money. However, every type of investment carries some type of risk. In the stock market, risk is decreased when investing in well-managed, quality growth companies that are under- or fairly- valued. Such companies grow their sales and earnings more consistently than most and often this means that their price movements may be more predictable.

A company's debt load has a bearing on the safety of the investment. With a reasonable level of debt, a company can take advantage of opportunities. It will also be able to withstand difficult periods when the general economy is in recession.

Conclusion

Studies have shown that investors who have a well defined investment objective and who follow a consistent methodology for investing do better than those who have no particular guidelines or who jump from one method to another.

Following the investment philosophy outlined in this chapter will encourage you to adopt the strategy of "buy and hold." If you buy well-managed, quality growth companies at reasonable prices, you should be able to hold them for a very long time and reap the rewards of compounding.

Where to Get More Investing Help

Here are some suggestions that can ease your investing "learning curve."

1. Join or start an investment club. The key to a club is to have compatible individuals who agree on the methods to be used for studying, selecting stocks for purchase, and portfolio management.
2. The club provides a forum for focused stock study. Each member's investing knowledge grows through his/her contribution to the study process and the exchange of comments and opinions about companies. By making good investment choices, the value of the club's portfolio will grow.
3. Several books and manuals are available from BetterInvesting that explain beginning and advanced concepts for investing.

4. *The Investor Advisory Service* provides stock studies from professional investors, including explanations for applied judgment. This monthly service helps the investor check his or her study with the methods used by the experienced security analysts. More information about the service and how to subscribe is available at <http://www.iclub.com/ias/>.
5. Regional BetterInvesting chapters are volunteer organizations that help members. Your local chapter will have training workshops and presentations about investing. Refer to the listing of chapter activities in the back pages of the monthly *Better Investing* magazine.
6. Go to the Internet to search out investing information.

Getting Started

3

Installing and running Classic Plus, and the basics of getting started.

Installing and Running Classic Plus

Installation

Insert the Classic Plus CD in the drive. The start-up program will start automatically and display an installation screen. Follow the prompts to install the program.

For the latest information that could not be included in the manual, review the README.DOC file on the Classic Plus CD. When installing the program, you will see a prompt to access this file. Later it can be re-accessed through the Classic Plus install directory in Windows Explorer, i.e. /Program Files/Classic Plus/Readme.DOC.

Should you have any difficulties, review the section below regarding support, and contact ICLUBcentral for assistance.

Specifications

Classic Plus is a 32-bit program and runs with Microsoft Windows 98, 2000, NT, and XP operating systems.

As a minimum, your computer should have a Pentium 200 MHz processor, 32 Mb of memory, and 20-30 Mb of disk space (depending on your system). A color display with 800x600 resolution and a mouse are also required.

Classic Plus prints to all printers supported in the Windows environment.

Starting the Program

Click the Windows **Start** button, then **Programs | NAIC Software**. Click the Classic Plus icon and title to start the program. Alternatively, you may also have installed an icon on your Windows desktop. Double-click on the icon to start Classic Plus.

Registration Window

The basic Classic Plus program requires a specific serial number to be entered in the **Registration** window. The Classic Plus serial number is on the back cover of the software case.

Exiting the Program

The **File** menu includes an **Exit** item to exit the program. Alternatively, you can click on the exit control button (which looks like an X at the top right of the window).

You may be prompted to save data if you were working on a company or report and the results were not previously saved.

Uninstalling the Program

To remove the program from your system, go to the directory (or folder) where Classic Plus is installed. The default install directory is \Program Files\Classic Plus.

Click **Uninstall** and follow the prompts to remove the program files.

Database Backup

Power loss to your computer may cause the program's database file to be corrupted and no longer accessible. In most instances, the program will detect this when you restart your computer. It will initiate the database backup utility automatically while advising you of this action.

Because of such possibility (however small), it is recommended that you backup your CLASSIC.MDB file regularly. Back up of this file is possible from the **Options** menu item.

Getting Help in Using Classic Plus

Classic Plus contains several **Help** features. These include a **Tutorial**, the **Prompt Window**, the **Stock Wiz**, and context-sensitive **Help**. You may

review the details on how each helps in your company study, later in this chapter.

This Manual

This manual can be useful for learning the basics of investing in stocks as well as the particular methods used in the program. Refer to the extensive **Glossary** for definitions and interpretations of terms, references to where they are used in the program, and formulas for their calculation.

important Note that additional topics and information are available from the online **Help**. Point with the cursor to an item of interest and click the right mouse button to use **What's This?** For further related **Help**, click **More Help**.

Tutorial

Access the **Tutorial** from Classic Plus's starting window or from the **Help** menu item. The **Tutorial** gives an overview of the purpose and function of the program. The basic topics include:

1. **Beginner Operation.** How Classic Plus works. Important steps in using the program.
2. **What is Investing?** An explanation of investing and how Classic Plus **Helps** you make stock investment decisions.
3. **Analysis.** A brief introduction to studying a company and reviewing all Classic Plus reports.
4. **Data.** Information required to study a stock.
5. **Miscellaneous.** Other capabilities to make your use of Classic Plus more enjoyable.

The **Tutorial** should take approximately 20 minutes. The icons below the menu line in the **Tutorial** give you specific operation. Contents displays and accesses all topics in the **Tutorial**.



The Forward icon steps through each page of the **Tutorial**, while the Back icon allows you to backtrack on previously displayed pages.



Glossary

Also included with Classic Plus is an online **Glossary** of terms. Select the **Help** menu item and choose **Glossary** within Classic Plus to access the **Glossary**.

Or you may click the **Glossary** button at the top of this **Help** window to open the **Glossary** now.

Instructions for Beginners

Prompt Window

The **Prompt Window** is visible on the left side of the screen when the Beginner level is selected. It provides instructions for doing stock studies.



The **Prompt Window** has 3 basic steps: 1) entering data, 2) noting the data on the reports, and 3) making conclusions about the data.

Follow the **Prompt Window** suggestions when doing your stock study. This will ensure that you take all the important steps in the proper sequence.

These pre-set steps move only forward or backward. Click **Next** or **Back** (or use the **Page Up** / **Page Down** keys) for this sequence.

The **View** menu item gives you some flexibility to work independently of the pre-set sequence.

When you are familiar with the stock study sequence of steps, you may move to the **Experienced** level of operation. Set this within the **Options** | **User level** menu item. As an **Experienced** user, you may do your stock study without the prompts and operate in a flexible fashion throughout the program.

For further assistance click **Help** in the **Prompt Window**.

The Right Mouse Button

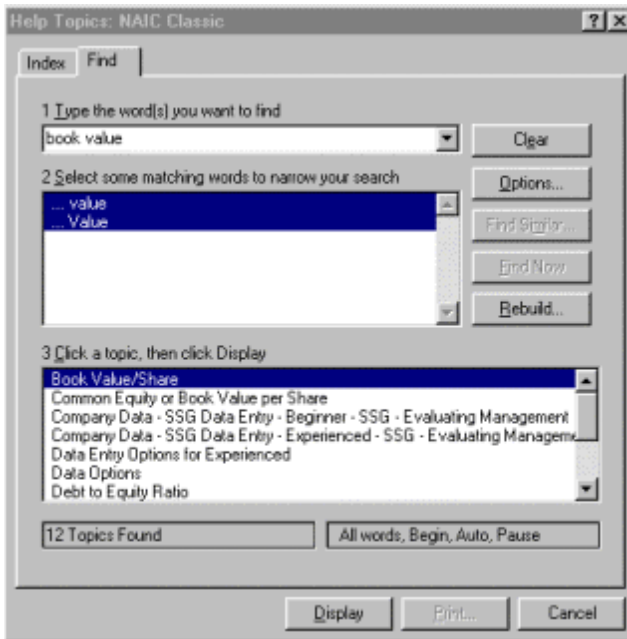
The right mouse button is used extensively within Classic Plus. Its purpose applies to several areas, depending upon the nature of the item clicked. Using the right mouse button you may:

1. Call up **Stock Wiz**.
2. Select **What's This?**
3. Set or reset specific values.
4. Select from a list of appropriate responses or enter a custom response.
5. Select or de-select a program option.

If unclear about an item, use the right mouse button for guidance.

Help and What's This?

Point the cursor to a specific cell or spot on the computer screen and click the right mouse button to select **What's This?** from a menu of choices. **What's This?** provides a brief help message. Click on the **More Help** selection for detailed information from the Classic Plus **Help** system.

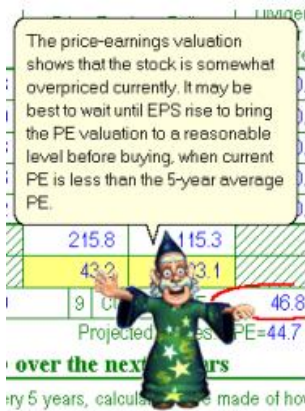


Use the online **Help** system search capability to find all entries dealing with your selected topic.

Type in your search word. Click **List Topics** to see the result of your search. Highlight a topic and click **Display** to see the explanation.

Stock Wiz

Stock Wiz is a powerful innovation in Classic Plus.



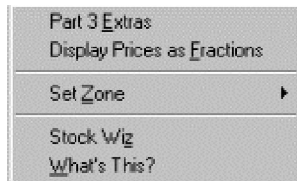
The **Stock Wiz** interprets data and provides insightful directions on how to proceed with your stock study.

It has been designed to guide your understanding and application of judgment. The **Stock Wiz** is designed especially for the Beginner.

Information needing attention is circled in red throughout the program. This guides the Beginner to areas in a stock study that require your attention, whether to set a particular value or accept the default calculated mathematical

values.

The **Stock Wiz** is 'awakened' by clicking on the circled item with the right mouse button and selecting **Stock Wiz**. For the Experienced user, the **Stock Wiz** becomes a checking tool useful for confirming his/her assessment of a stock.



The **Stock Wiz** can provide guidance for companies whose characteristics are well-defined and consistent. However, for companies with erratic performances, it alerts you to the challenges of such studies. In these instances the **Stock Wiz** may be limited in its suggestions.

Controlling Stock Wiz

Turn off the **Stock Wiz** balloon message by clicking on the **Stock Wiz** character. If you want to move **Stock Wiz**, drag and drop it to the new location. If you want to temporarily hide it, right-click on the character and click **Hide**.

The **Stock Wiz** sound effects can be turned off from the **Options | Preferences** menu item.

Help Key (F1)

Pressing the F1 function key triggers context-sensitive help for the item under the cursor. This key is located on the top row of the keyboard. This triggers the same information as the **What's This?** function.

You may find specific help topics using the Search feature of the **Help** system.



Getting Help from ICLUBcentral

Customer support is available on the ICLUBcentral web site at <http://www.iclub.com>. You may ask specific questions by e-mail and review the “Frequently Asked Questions” section of the web site as well. You will also get general information for using Classic Plus.

If you cannot solve your problem using online help, the most efficient way to contact an ICLUBcentral Technical Support Representative is to use our web help forms located at <http://www.iclub.com/support/>. Our experts will then easily be able to retrieve and reply to your question or problem quickly and efficiently.

Customer support is available for 90 days starting from the purchase date. For support after 90 days, a subscription to ICLUBcentral’s Investing Software Maintenance program is required. This program provides technical support, program updates, and other benefits. For more information, visit <http://www.iclub.com/isupport/>.

The Answer to Your Problem may be in One of These Sources

1. Select **Help** from the **Main Menu** and use the  and  buttons.
2. Check the **Table of Contents** and **Index** to see if the answer to your question is in this **Manual**.
3. Use the **Glossary** in **Help** or the **Manual** to look up definitions for any of the terms used in the software or manual that you do not understand.
4. Check the README text file that is located in the program directory. It may contain information that was not available when the **Manual** and **Help** files were prepared.

When requesting Technical Support

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

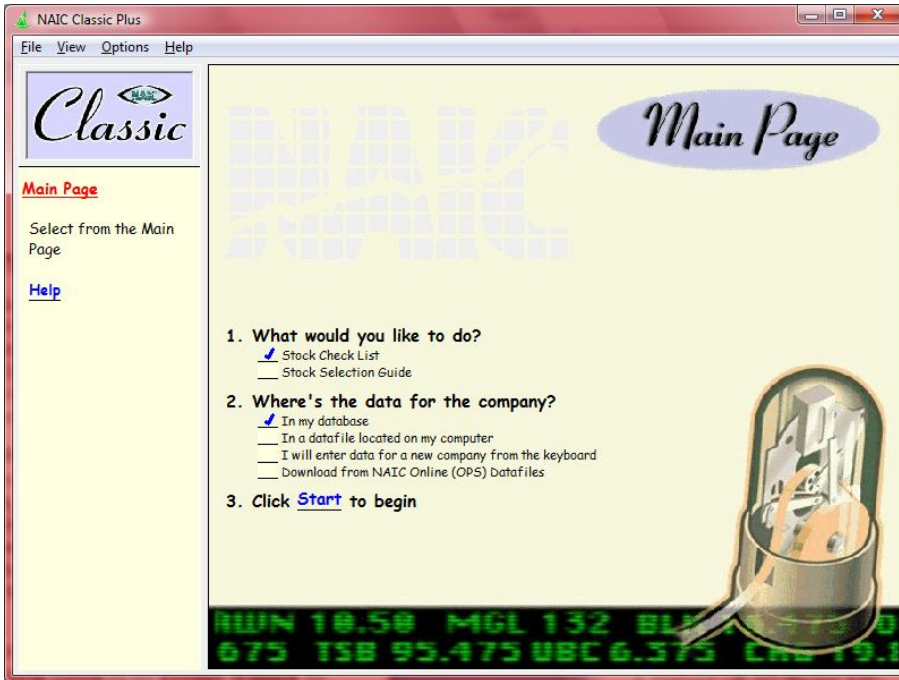
1. Write down the precise wording of any error message displayed when you had a problem, including the names of any files mentioned in the message.
2. Be familiar with:
 - a) the version number of Classic Plus (from **Help | About Classic Plus**, or the original CD).
 - b) the version of Windows you are using.
 - c) the make, model and amount of memory (RAM) on your computer.
 - d) The make and model printer if you have a question or problem regarding the printing of reports.
3. Note your Classic Plus serial number and date of purchase and installation.

Return Policy

For information on returning the program, please contact BetterInvesting toll-free at 1-877-ASK-NAIC, ext 0, or visit their web site at <http://www.betterinvesting.org>.

Beginner's Main Page

The opening Beginner Main Page is 'Home Base'.



There are three steps to starting an analysis of a company.

1. What would you like to do?

Choose the report you want to work with: **Stock Check List** or **Stock Selection Guide**.

The **Stock Check List** (SCL) is the report for the **Beginner**. It will help you review the recent history of growth for sales and earnings. You will also determine whether the stock is reasonably valued at the current price.

The more experienced **Beginner** will move on to using the **Stock Selection Guide** (SSG). The SSG helps you take a more detailed look at the company.

2. Where's the data for the company?

2. Where's the data for the company?

- In my database
- In a datafile located on my computer
- I will enter data for a new company from the keyboard
- Download from NAIC Online (OPS) Datafiles

Check the source for the data you will be using in your report from these four options:

In my database

Choose this option the first time you use Classic Plus and select one of the sample completed studies included with the program (labeled – Classic). The database will eventually contain stock studies that you have completed and saved.

In a datafile located on my computer

Choose this option if you would like to load a file from your computer, for instance if someone has e-mailed you a datafile or you have downloaded a datafile directly from a web site or subscription datafile service.

I will enter data for a new company from the keyboard

You can key in company data from published sources such as the company's annual report, a Value Line page, or a Standard and Poor's sheet. In Beginner mode, choosing this option will start the step-by-step process for entering data for a new company from the keyboard. (See the **User's Guide** for details regarding entering data for a new company study.)

Download from NAIC Online (OPS) Datafiles

Now known as the BetterInvesting S&P Stock Data Service, this option allows you to automatically load company data from the Internet. If you purchased an SDS datafile subscription, you will be able to load data from a wide selection of companies.

Once you have made your choices, click **Start** to begin your study. At the **Beginner** setting, Classic Plus will lead you through the steps in a specific sequence. The **Main Page** is disabled by selecting **Experienced** in the **Options** menu.

Once a company is loaded, the **Main Page** will give access to other parts of the program. All program functions are available from the drop-down items on the menu line at the top of the program window.

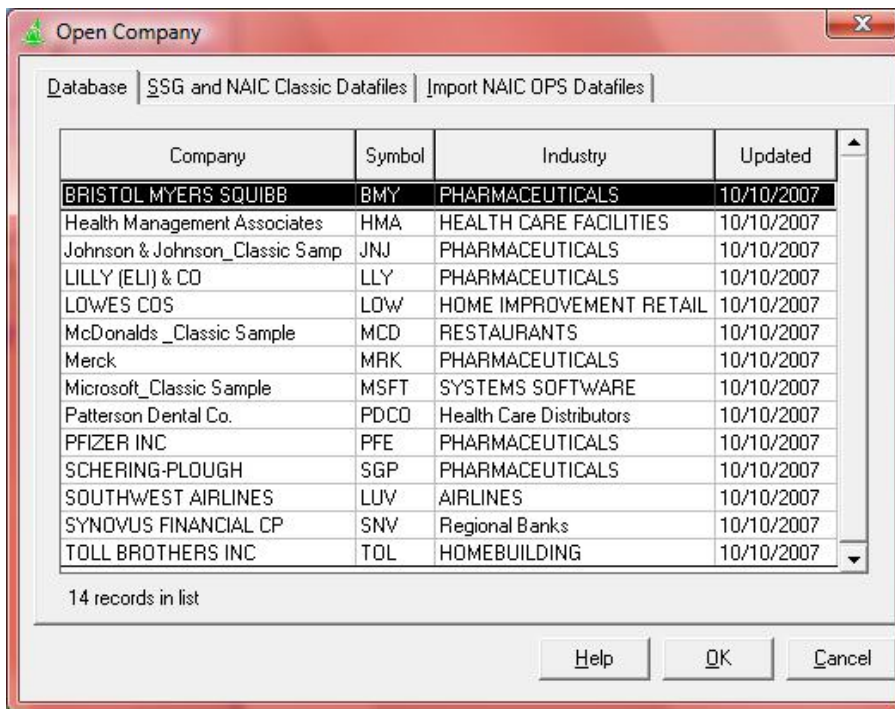
3. Click Start to begin.

Click the blue underlined link labeled “Start” to begin analyzing a stock.

Loading a Company

The quickest and easiest way to work on a company previously entered is to load it from the database. Go to the menu line. Click **File | Open | Stock Check List** or **Stock Selection Guide**. This shows you the list of companies in your database.

To load a company from SSG or SDF datafiles, use the **SSG and NAIC Datafiles** tab.



In its database, Classic Plus provides an initial list of sample companies.

The studies for McDonald's, Johnson and Johnson, and Microsoft have been completed as educational samples and are not meant as recommendations. These studies are identified with 'Classic Sample' added to their names. Select the company you wish to load and click **OK**.

At the **Experienced** level of Classic Plus, click the **Companies** tab in the **Prompt Window** and select the **Open Company** icon.

When to Use the Experienced Mode

As you work at the **Beginner** level you will become familiar with the program's operation, the data, and the flow of the work. Eventually you will probably anticipate the 'wisdom' of the **Stock Wiz**. When you feel ready to move from the step-by-step process to a more personalized way of working with the program, you can set the menu line item **Options | User level** to **Experienced**.

An **Experienced** user may still access all the **Help** features of the program.

Switching between **Beginner** and **Experienced** mode may force some recalculations of values, specifically those affected by 'Experienced mode only' options.

Program Icons and Menus

In the **Experienced** operating mode the **Prompt Window** shows four horizontal tabs (**Analysis**, **Companies**, **Comparison**, and **Internet**) for accessing icons for common operations in Classic Plus.

Analysis Icons



Data entry icon accesses the tabbed data entry window to enter company, yearly, quarterly, and other data for a company



Displays the Stock Check List.



Displays the Stock Selection Guide (SSG) Graph with data plots, trend and projection lines as may have been previously set.



Displays the Stock Selection Guide (SSG) Analysis window with data and judgments as may have been previously set.



Displays the Stock Selection Guide (SSG) Report.

Other Icons



Start a new study (from keyboard), open a company (from the database or SSG/SDF files), or save or delete.



To save, delete, open a new, or open a previously saved Stock Comparison Guide.



Internet access for BetterInvesting, ICLUBcentral, Companies, or Favorites.

At the Experienced level, the **Prompt Window** is replaced with icons. The icons added for PMG and PERT are contained in their own tabbed areas as indicated below.

PMG Icons



The **PMG Data** icon accesses the monthly price and quarterly EPS data that may have been keyed in or imported from datafiles. Click the yellow area on the report to enter/edit information in Part 1.

The **PMG Report** icon displays Parts 1 – 3 of the PMG.

The **PMG Graph** icon displays Part 4 of the PMG, the PMG graph.

PERT Icons



The **PERT Data** icon accesses quarterly sales, EPS, pre-tax income and net income/tax rate figures data that may have been keyed in or imported from datafiles.

The **PERT Data** icon displays the PERT A report.

The **PERT B** icon displays the PERT B report.

The **PERT Graph** icon displays the PERT A Graphics.

PERT Report Icons



The **New Report** icon creates a new **PERT Report**.

The **Open Report** icon allows you to open a **PERT Report** from previously saved reports.

The **Save Changes** icon allows you to save the current PERT Report for future reference.

The **Delete Report** icon allows you to delete a report that was previously saved.

Icons Within Windows

The following cursor icons indicate specific functions.



Click the cell repeatedly to include or exclude a value in the calculation.



Click the area or cell to enter judgment.



Click to make a selection.



Click to select an optional item.



The grabber is used in the SSG Graph window. Click and drag the markers to place the red line to measure and project past or future growth.

Menus

File

The selections in the File menu item include:

Item	Description
New	Select to enter data for a new company starting with the Stock Check List or Stock Selection Guide. For multiple company reports you may choose to create a new Stock Comparison Guide (SCG) or create a new PERT Report.
Open	For previously saved reports. Select to review a company using the Stock Check List or Stock Selection Guide. For multiple company reports you may open a previously saved Stock Comparison Guide (SCG) or PERT Report.
Save	Save data for stock study or SCG.
Save As	Save data under a different name or save (export) it in a particular file format (SSG or SDF) or to a different disk.
Close	Close the company record.
Print	Print report shown on screen.
Print Report Selections	Select and print various reports.
Print Setup	Set up printer.
Delete	Delete a company record from the database.
Update	Add new data to a company record through the keyboard or from a datafile or a price file.
Recent Studies	List of last 5 companies/comparisons viewed.
Exit	Exit from the program.

View

The selections in the **View** menu item include:

Item	Description
Main Page	This is 'Home Base' for the Beginner.
Review/ Enter Data or Data Entry	Depends on Beginner or Experienced Level selection. Displays the data pertinent to the displayed report.
Stock Check List	The beginning form for a stock study
SSG Graph	Shows the Stock Selection Guide Part 1, Visual Analysis (SSG Graph)
Preferred Procedure	At the Experienced Level, this opens the window to calculate projected EPS from a projection of sales.
SSG Analysis	This form evaluates management, Price/Earnings Ratios, and gauges opportunity for total return.
SSG Report	This final set of questions helps you determine whether the company studied meets your goals as an investment.
PMG	Portfolio Management Guide, either the report (front side) or graph (back side of the paper form).
PERT	Portfolio Evaluation Review Technique reports. Select from PERT A, PERT B, and PERT Graphics.
Stock Comparison Guide	A comparison report for up to 5 companies. Also, see File New and File Open menu items for the Stock Comparison Guide.
PERT Report	Opens a new report for up to 50 companies. Also, see File New and File Open menu items for the PERT Report.
Company / Favorite Web Sites	Access to company specific and favorite web sites.

Options

The selections in the **Options** menu item include:

Item	Description
User Level	Beginner or Experienced
Preferences	Display and data options
Reset Judgment	Resets (or removes) your judgment to show values displayed when data was first entered. You select the report(s) to be reset.
Issue Share Split	For the loaded company
Backup Database	Copies the database file CLASSIC.MDB to another directory or another disk

Help

The selections in the **Help** menu item include:

Item	Description
Contents	Table of Contents and Index Help
Tutorial	Overview of Classic Plus
Search for Help on ...	Opens Help to allow you to search on a specific topic
Glossary	Opens Help to access Glossary of terms
Tip of the Day	A selection of Helpful tips for using the program.
Classic Plus Support Web Site	Internet site for information about using Classic Plus
Registration	Registration window
About Classic Plus	Serial number. Support information. System information.

Calculations and Data Entry

The computer's internal calculation capabilities are extensive. The results are formatted and displayed for easy interpretation, which may be a cause of concern to the user.

An example would be a calculation for a Price/Earnings Ratio (P/E Ratio). The computer may calculate a number to be 12.3456. For clarity it is displayed and printed as 12.3. The loss in accuracy due to this truncation or rounding factor does not alter significantly the resulting analysis.

The most obvious example of the rounding/truncation error is in the calculation of certain values such as the Estimated High and Low Prices.

A P/E Ratio is shown as 12.6 and the Estimated EPS as \$3.33. In actuality, the values (stored internally to the computer) are fractionally different. The answer displayed (\$42.09) is based on the actual figures stored in the computer. This is different than the expected answer of \$41.958, if using the displayed numbers. Again, the rounding of numbers does not significantly alter the resulting analysis.

Entering Numbers

Entering 0 (zero) as data On a very few occasions you may need to enter a 0 (zero) for actual reported data. Since zero is interpreted as no data by Classic Plus, to ensure proper interpretation enter a very small number, i.e. 0.001.

Large numbers Large numbers, i.e. sales, could also present a problem. In these instances use the units selection option in the Company Data entry window to choose Billions.

Negative numbers Negative numbers are entered with a - (minus sign), e.g. -12.34.

Simplifying entering data The user can simplify data keyed into Classic Plus. Enter only the most significant digits (i.e. 123,456,000 is entered as 123.4 or 123.5 millions). The loss of accuracy due to rounding or truncation will not appreciably affect the results.

Graph and Scaling

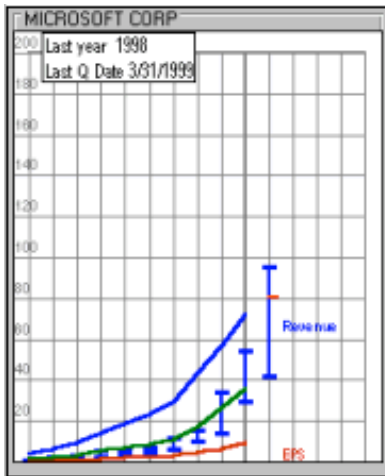
The SSG visual analysis section plots data on a ratio chart or semi-log graph. Regardless how data is plotted, the most important reasons for graphing data are to measure growth (shown by the slope or slant of the line) and to note the smoothness of the line.

To display the value for a data point on the SSG Graph, touch the point with the mouse cursor.

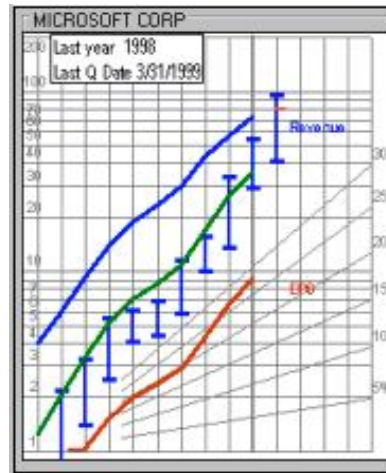
Ratio Chart

The SSG graph plots data on a ratio chart or semi-log graph. The obvious difference (from a linear chart) is the irregular spacing of the horizontal lines. The effect is to spread out smaller values so that they are more readable. In the illustration below, note how EPS is crowded at the bottom of the linear chart.

More importantly, ratio charts simplify measuring annual compounded growth. Data for a steadily growing company will plot in a straight line rather than the curved line in the linear chart. Note below how revenue (sales) in the linear chart is curving upwards.



Linear Chart



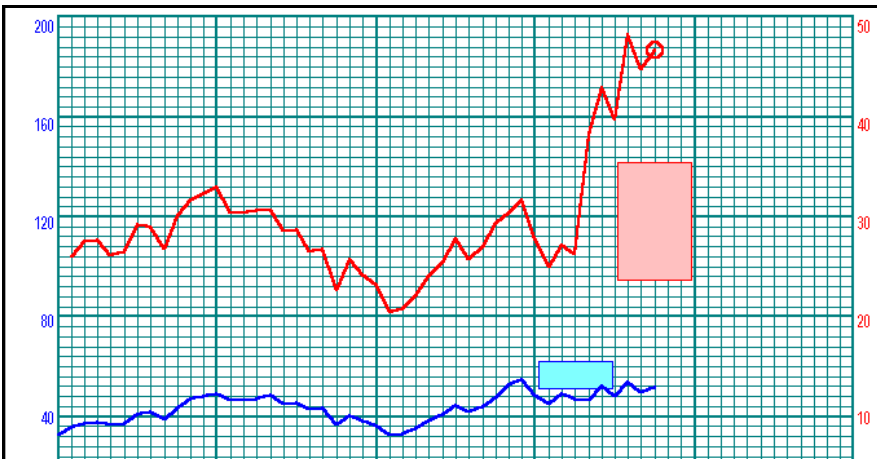
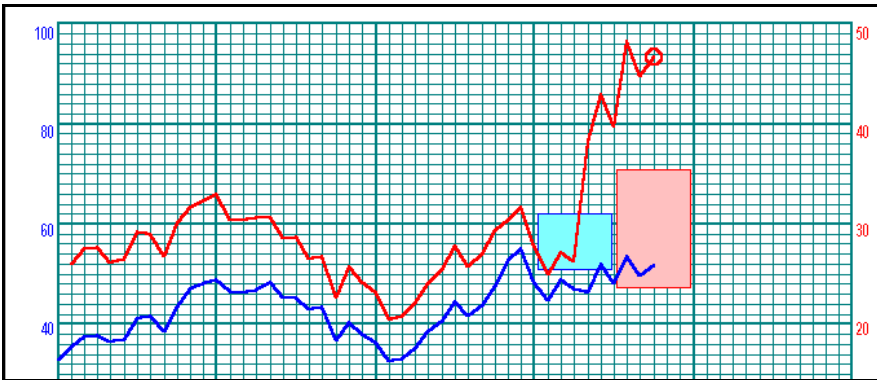
Log or Ratio Chart

The graphs in PMG and PERT may also be scaled to view information more clearly.

Scaling allows wide-ranging data to be properly displayed in the graph area. To confirm a specific value, hold the cursor over a data point and a pop-up window will show its value.



Changing scales has the effect of moving data up or down on the graph. You may choose to do this to view specific information in greater detail or to separate data in the case of multiple data plots. To change scales right-click on the data point to bring up a menu. On the menu, left-click 'move up' or 'move down' to change the scale.



PMG Graphs showing the affect of changing the price scale (the top line, in red).

Scales

experienced

Scaling allows small and large numbers to be plotted in the same graph. These charts use the same scale factors: revenue (sales) and pre-tax profit (top and middle lines) x 200, EPS (bottom line) x 0.1, and price bars x 1.0.

The numbers on the left edge of each chart are references for calculating a value on the chart (for example, the last revenue point is at approximately 70). Multiplying the scale factor 200 by the point value 70 gives 14,000. Since revenue data is represented in millions, this number is actually 14,000,000,000 or 14 billion. The last value for EPS is approximately 0.90, and the 52 week high, low and current prices (far-right price bar) are 96, 41 and 71.

The scale factor is shown on the SSG Graph in the Recent Quarterly Figures box. This box is accessed with a right-click of the mouse button

Moving Plotted Data



You may want to move plotted data up or down on the graph for a number of reasons:

To prevent overlapping of data for easier viewing

To display data to fit the graph area

To allow you to draw trend and projection lines more easily

To change the position of data on the SSG Graph, click the right mouse button and select **Move Up** or **Move Down**.

Note that Trend and Projection lines will move with the plotted data. Should the end points of these lines move outside of the graph area, you will not be able to grab the markers. You can move the markers in the graph area by right-clicking the mouse button and re-setting them.

Reset Scales

Scales may be reset to their computer-calculated value from the **Options | Reset Judgment** menu item.

Company Data

Finding companies to study and what data to use is the first challenge of stock study. Using electronic data sources eases the burden of data compilation and entry.

4

Finding Companies to Study

Finding investing ideas may be a challenge. Here are some suggestions for finding companies to study.

1. Consider companies whose products or services you use and admire.
2. Check out business and financial publications: The Wall Street Journal, Barron's, Forbes, Business Week, Fortune, etc.
3. For the cost of a subscription, advisory services provide opinions about companies that they believe offer worthwhile growth potential for their clients. The *Investor Advisory Service* provides monthly recommendations that may also be useful.
4. Your friends and business contacts may provide ideas about opportunities within your city or state.
5. Your broker can offer many suggestions as a starting point for your stock studies.
6. The Internet is another source of ideas. However, beware hype and do your homework.
7. A screening program such as Stock Prospector can be used to filter companies out of a large database, according to particular criteria that you have set.
8. Investment newsletters.

9. Visit ICLUBcentral's web site for a list of stock ideas for study at <http://www.iclub.com>.

Where to Find Data

Data is available from several sources. Eventually you will settle on a preferred source that meets your objective for timeliness, accuracy, convenience, and cost.

Data from most commercial sources is generally quite accurate. However, various sources may generate data in different ways, resulting in different numbers for the same data, particularly earnings per share. Differences are mostly due to the accounting methods used by the company gathering the data. This can confuse beginning investors.

To ensure the proper basis for analysis, be sure to use the same data source for all data within each stock study. With increasing knowledge, you will be able to discern the subtleties in data sources and settle for the one that accounts for data in the manner that you like.

Terms

Terminology in financial and investing fields can be complex and technical. The beginner may find learning this new language a challenge. Fortunately, the number of terms used within Classic Plus is manageable and through use and repetition the terms become more and more familiar.

Here are a few terms and their common variations. Review the **Glossary** for explanations.

sales, revenues, total revenue

income before taxes, pre-tax income, pre-tax profit

income after taxes, net income, net profit, earnings

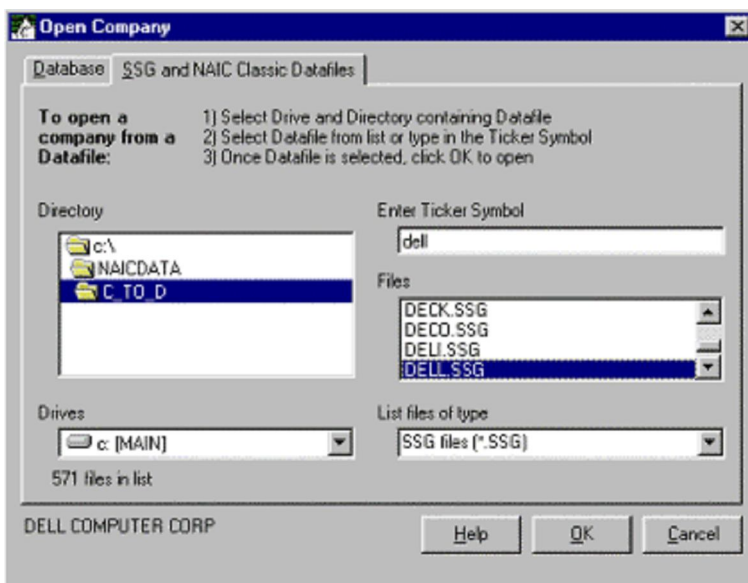
stock, share

earnings per share, EPS

price earnings ratio, P/E Ratio, P/E

Importing Datafiles

Using datafiles allows you to spend time evaluating stocks instead of typing in data. Companies may be imported into Classic Plus in the SSG or SDF format.



To import or open a company from a datafile, go to the menu line: **File | Open | Stock Check List** or **Stock Selection Guide**. Click the window tab called SSG and Classic Plus Datafiles. Select the drive and directory where the file is located. Type in the ticker symbol or highlight the file from the list. The name of the company will appear at the bottom left corner. Click **OK** to open the file.

To import SDF (Classic Plus Datafiles), select the SDF format in the **List Files of Type** box. SDF files will be those you exchange with other Classic Plus users. Locate the directory where the SDF files reside and import them in the same way as the SSG files.

BetterInvesting S&P Stock Data Service

BetterInvesting offers a subscription to a database of 7,000 companies, allowing quick import of historical data into Classic Plus, instead of typing in the data. Classic Plus may utilize this database to help you search for suitable companies to study. To use SDS, your computer should be connected to the internet, and you will need to have a subscription. For

more information on BetterInvesting and SDS data via the internet go to <http://www.betterinvesting.org>.

Importing using SDS

You may open SSG files directly from the BetterInvesting website. By right-clicking on the words “**SSG Data**” a menu will pop up. Select “**Open**.” The **Open File** dialog will open. Select “**Open**” again. This will load the data directly into Classic Plus.

Alternately you may save the SSG files into a central location on your computer and import from that directory. Using the **File | Open | Stock Selection Guide** and select the SSG and Classic Plus Datafiles tab on the Open Window. Locate the directory where you saved the SSG files from the BetterInvesting website.

File Association

When Classic Plus is first installed it sets up file association links. This means that you can double-click on an SDF, SSG, CSV, or PRC file and it will open into Classic Plus. If Classic Plus is not running, it will start automatically and load the desired file.

This file association also opens SSG and SDF files from the Internet.

You can set or reset file association from the **Options | Preferences | File Associations** menu.

SSG File

SSG formatted files are standard for ICLUBcentral software programs. You will see such a file with the extension SSG after the ticker symbol. (Example: MCD.SSG) These files contain yearly, quarterly, and company information for a complete company study. Use this format to exchange company data with individuals who use Investor’s Toolkit.

SDF File

SDF formatted files are specific to Classic Plus and contain all the information needed for this software program. To exchange company information with others who have Classic Plus or Stock Analyst, use the SDF extension. (Example: MCD.SDF)

PRC and CSV files

These files are normally retrieved from the Internet. They provide information for updating prices in the Classic Plus database. The extension for these files will be either PRC or CSV.

Internet

Most data from the Internet currently needs to be accumulated and entered manually in the Classic Plus program. Sources for company information include:

The US government's Securities and Exchange Commission's EDGAR site contains a database of listed companies. Here you may access a company's required public filings. (See the Internet Access section of this chapter for more details.)

Quarterly reports are called 10Q. Annual reports are called 10K. These reports contain useful financial information plus descriptions of the company's business. They are more detailed than the reports issued by the company to shareholders.

An 8K Report is required by the SEC within 15 days of an event which could affect the value of the company's securities.

A 13D Report is required by the SEC from an investor who acquires 5% or more of a company's stock. This alerts the company and its shareholders that someone may be trying to gain control of outstanding shares.

A company's Internet web site may be directly accessed from Classic Plus. (See the Internet Access section of this chapter for more details.) Most companies include a financial information section from which you may retrieve annual and quarterly report data. News releases will announce significant events such as an acquisition or sales of a division or the introduction of a new product. Companies may answer your questions by e-mail or telephone. Alternately, they will send you information by mail.

Your brokerage firm may offer information on its web site.

Publications

Data from the following sources needs to be collected and keyed into Classic Plus.

Each company publishes annual and quarterly reports. These will be sent to you at no charge upon request. The annual report is a glossy document

that explains the financial results of the past year, highlights changes, presents information about the company's products, and may give an outlook for the next year.

Company reports are sometimes structured as SEC (Securities Exchange Commission) 10K and 10Q reports. Financial data may seem intimidating at first because of the accounting terminology, but over time you will become familiar with certain key concepts.

Subscription services such as The Value Line Investment Survey and Standard and Poor's sheets may be purchased or viewed at your library or broker. They provide the historical information needed for stock analysis. (There are sample pages for view later in this chapter.) They also provide company address information so that you may contact a company directly and ask for an investor information package.

The Value Line Investment Survey (containing over 3400 U.S. companies) seems commonly used as it is found in many libraries. Each company's data is found on a single page, with an analyst's summary advisory. There is usually also a summary for each industry.

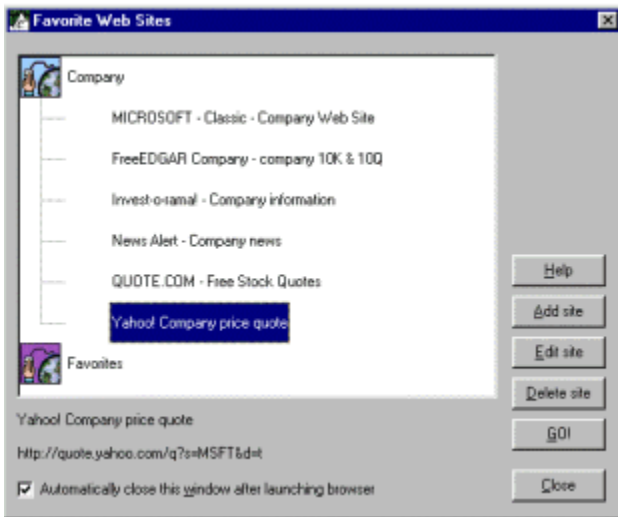
Quantity of Data

important If you cannot find sufficient information about a company, move on to another one. It is not wise to make decisions based on incomplete information.

Financial data for a company may vary, depending on its source. The differences are due to security analysts' interpretation. This is why it is important not to mix data sources when doing a company study.

Internet Access

Classic Plus accesses the Internet through the **View | Company | Favorite Web Sites** menu item. In the **Experienced** mode you may also connect through the **Internet Tab** in the **Prompt Window**.



In either case you can choose from existing sites or add new ones. Click the **Add Site** button to type in a new site name and its Internet address.

To add the address of a company site, go to the Company icon (or group) and highlight the generic title (Company Web Site). Click the Edit Site button to type in the company name and Internet address.

Company information is available from a number of sites. Highlight the site of interest and click the **GO!** button to start your Internet browser program and automatically access the site.

Be careful if editing pre-defined company web sites. They should not be changed, as fields that represent symbols require specific formatting. A company's ticker symbol is indicated by <symbol>.

For multiple stock price quotes from Yahoo! Classic Plus generates a ticker list from companies in your database.

Classic Plus includes two groups: **Company** and **Favorites**. Of special note is the ICLUBcentral site for product support and additional information

The Yahoo! site is set to retrieve prices individually or for all companies in your database.

Using the Experienced level preference you may also enter the company web site details in the Company Other data entry window.

Updating

Once a study is completed you will need to keep it current as new information becomes available. There are 3 different times that you should consider updating a study.

1. Monthly, with price information. (Do this for your club meeting or to reassess your holdings.)
2. Quarterly (every 3 months), when new quarterly information is released by the company
3. Yearly, when new annual figures are released by the company.

Updating can be done fairly quickly if you do it regularly. After each update you should review the study and assess whether the results meet your expectations.

Make sure you are consistent with the source of information you use for updating. Updating from various sources (annual reports, Value Line, S&P, etc) can make your study inaccurate.

Price Updating

Price updating can be done either through the keyboard or partially automated through the Internet.

From the Internet

Price updating is available through the Internet from various sites and is accessed from the Favorite Sites window in Classic Plus. This process is unique for each individual site.

Once downloaded, locate the file with the **Load Price File** button. Lastly, click **Start Update** to complete the process.

Update	Company	Symbol	Exchange	Date	Price	52 Week High Price	52 Week Low Price	Alert
<input checked="" type="checkbox"/>	ABBOTT LABORATORIE	ABT	NYSE	30-Jun-99	45.375	49.000	39.500	
<input checked="" type="checkbox"/>	AFLAC INC	AFL	NYSE	30-Jun-99	47.875	54.438	25.125	
<input checked="" type="checkbox"/>	AMERICAN POWER COR	APCC	NASDAQ	30-Jun-99	20.125	25.563	13.500	
<input checked="" type="checkbox"/>	CISCO SYSTEMS INC	CSCO	NASDAQ	30-Jun-99	64.438	64.438	27.292	New 52 week high c
<input checked="" type="checkbox"/>	COCA-COLA CO	KO	NYSE	30-Jun-99	62.000	80.500	57.625	
<input checked="" type="checkbox"/>	DELL COMPUTER CORP	DELL	NASDAQ	30-Jun-99	37.000	50.000	25.000	
<input checked="" type="checkbox"/>	JOHNSON & JOHNSON	JNJ	NYSE	30-Jun-99	98.000	98.000	69.000	New 52 week high c
<input checked="" type="checkbox"/>	MCDONALDS CORP	MCD	NYSE	30-Jun-99	41.125	45.313	28.188	
<input checked="" type="checkbox"/>	MICROSOFT CORP	MSFT	NASDAQ	30-Jun-99	90.188	90.188	47.969	New 52 week high c
<input checked="" type="checkbox"/>	NAUTICA ENTERPRISE	NAUT	NASDAQ	30-Jun-99	16.875	25.781	11.313	
<input checked="" type="checkbox"/>	ORACLE CORP	ORCL	NASDAQ	30-Jun-99	37.125	37.250	13.292	
<input checked="" type="checkbox"/>	RPM INC OHIO	RPM	NYSE	30-Jun-99	14.188	16.613	13.063	

Setup allows you to specify the format for the CSV price file. Please be aware that Internet sources may change the availability of data and their format.

From the Keyboard

The information in the **Update Company Prices** window can be edited from the keyboard. Enter the new prices for the companies. Click the **Start Update** button. A report of new high or low prices will be shown in the **Alert** column.

To simplify entering prices, you may sort information by clicking on a column title. Clicking a second time will reverse the sort order. Sorting by exchange will make it more efficient to update prices from a newspaper.

You may size columns to fit the information. Drag the edge of the column header to the desired size.

Quarterly and Yearly – from Datafiles

Whenever new Datafiles become available, new company information is likely available. Use the Update window to select companies to update.

You may sort the company information in ascending or descending order by clicking on the column title.

Warning

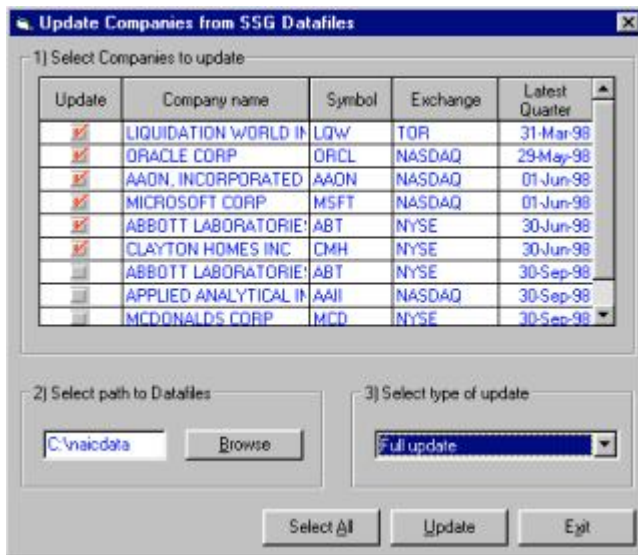
If you choose to update from the Datafiles, make sure that you do not update from other sources. Mixing sources of data can create inconsistencies and make your study inaccurate.

Also, if you update in this manner, you may wish to select Full Update. This ensures that all data is updated to reflect any restatements, stock splits, etc. This ensures keeping some consistency in your company data.

Updating does not alter judgment settings as you may have set in each report.

Updating from the S&P Stock Data Service

You will need to download the individual SSG files for all your companies tracked in Classic Plus. Save these SSG files in the same folder for easy updating. Use the File | Update | From SSG Datafiles option in Classic Plus and set the path to datafiles to match the location where you downloaded and saved the SSG files.



Updating from the Keyboard

Manual updating of company data is done in the **Data Entry** window for the company. Open the **Data Entry** window from the **View | Review | Enter data** menu.

Yearly Updating

For a yearly update, the **Add new year** button adds new data at the end of the last fiscal year. Click this button to clear a row for the new data. Data

for the previous tenth year is removed from the database when the data is saved.

After yearly updating, redo your study to assess the newly reported information. Redraw your trend and projection lines on the SSG Graph, etc., as if doing a new study.

Quarterly Updating

To add a new quarter of data, click the **Add new quarter** button in the Quarterly Data tab. It makes space for new data. After adding new quarterly information, review the study to see how the latest results meet the growth and value objectives you set in your original study.

At the experienced level, you may wish to add new information to the **Notes** section of the **Data Entry** window.

Share Splits

Occasionally directors of a company may order a stock split to make shares more affordable for investors. For a company you have saved in your database, you will need to account for this split.

Go to the menu line item **Option | Issue Share Split**. Enter the number of old and new shares, depending on the announced split. Examples:

- 2 for 1 split: enter 1 old share, 2 new shares
- 3 for 2 split: enter 2 old shares, 3 new shares
- 10% stock dividend: enter 100 old shares, 110 new shares

The value of your holding before and after the split is the same. (For more details, see **Share Split** in the **Glossary**.)

Generally, a share split is a neutral event for the company. There may be a brief increase in price after the stock split is announced but this is neutralized soon after.

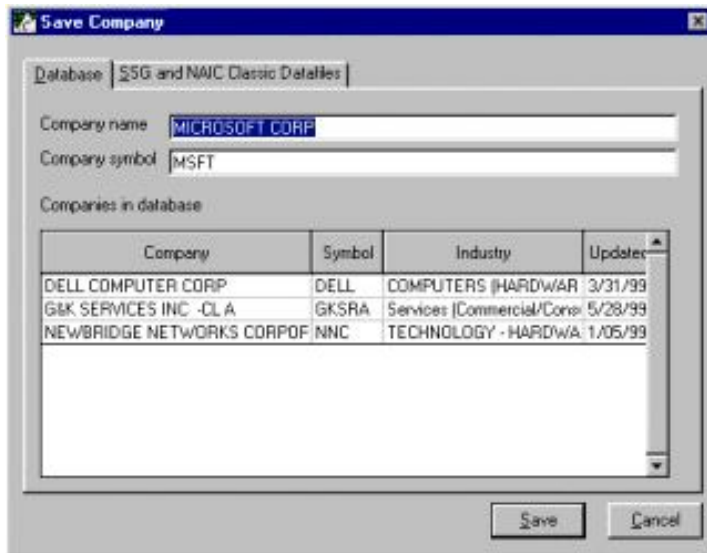
Saving Data

Normally a company study or comparison is saved in the Classic Plus database. See the section on Sharing Data for saving to a diskette or to another directory on your computer.

You may save both company data and comparison data. If data was derived from the Classic Plus database, then the **Save** command will save the data back to the same record. If the data is new, a new record will be entered in the database.

important

Both a company name and a company symbol are needed before you can save a company. Saving a Comparison Guide requires both a name and a description.



The **Save As** function stores the company or comparison in a new record. Create a new record to save a variation of a study or comparison. Make sure to rename the new company record so that it is meaningful to you.

Reasons to save multiple records are:

1. Saving original studies (see below)
2. Saving studies using optimistic and pessimistic judgments
3. Saving an updated company study
4. Saving a comparison with updated information

Original Studies

Save a copy of your original stock study. For clarity, add an identifier to the company name (such as “Org.” for original, as in “Microsoft –Org”).

As well, to ensure that the price and data are not changed through automatic updating, alter the company symbol to include “-O,” i.e. “MFST-O.” Lastly, select **Save As** to save the company in the database.

Use the study to “learn from your experience” when later reviewing judgment decisions made about the company.

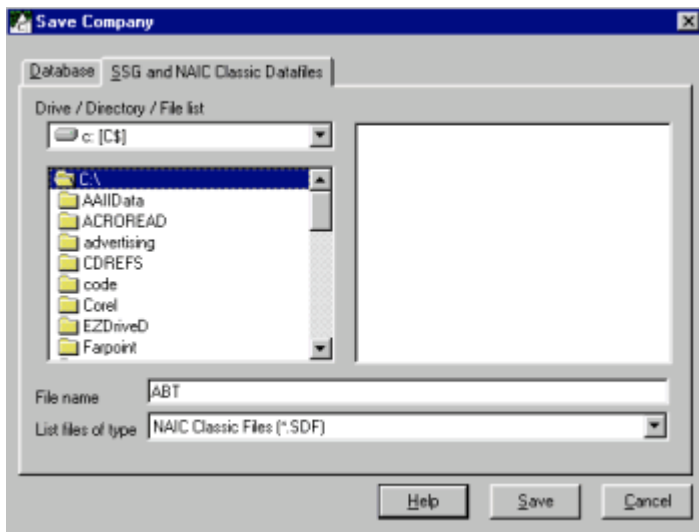
Multiple Studies of the Same Company

Often members of a club will study the same company. Have each member add initials to his/her study’s company name, i.e. “Microsoft CM.” You may complete a **Comparison Guide** of these studies by importing the files (in SDF format) into Classic Plus. (See below for details on sharing.) You can then compare the members’ stock studies. The Comparison Guide can be saved for future reference.

This technique could also be used to compare two studies for the same company, such as to save both an optimistic study and a pessimistic one.

Sharing Data

Users may want to share data with others, especially if all are members of a club. To facilitate sharing, Classic Plus includes data exporting functions through the **File | Save As** menu item.



Click the tab **SSG** and **Classic Plus Datafiles**. Choose the drive where you wish to place the company file. It may be the **a:/** drive for a diskette or the **c:/** drive for your computer's hard drive.

For **File name**, the ticker symbol of the company currently open will show. (You must have a company open to do a **Save As**.) For **List files of type**, select **SDF** or **SSG** format.

The left pane shows the drive and the directories available on your computer. If you wish to set up a particular directory to store files for sharing, you may do so within your computer's **Windows Explorer** program.

The right pane will show the files you previously saved for the location highlighted on the left.

Save As SDF Format

The **SDF** (**Classic Plus**) format is recommended for exchange between **Classic Plus** users. This format incorporates all data and judgment so that the receiver can reconstruct the original study.

Use this format also for archival purposes, to save data for companies that you are not currently following but want to retain for future reference.

Save As SSG Format

The **SSG** format is suitable for exchange with users of **ICLUBcentral** software programs other than **Classic Plus**. This format does not support all the data used in **Classic Plus** but is sufficient to allow others to do analysis without re-entering data.

Exporting and re-importing data in this format will not re-establish all data as used in **Classic Plus**. **Classic Plus** uses data not included in the **SSG** format and vice versa.

Data Sheets

Standard and Poor's Data - Page1

STANDARD & POOR'S
STOCK REPORTS

27-FEB-99 Industry: Restaurants

McDonald's Corp.

1.1

Summary: MCD is the largest fast-food restaurant company in the U.S. and the world. Some 49% of its over 24,000 restaurants are outside the U.S.

NYSE Symbol **MCD**
In S&P 500

S&P Opinion Hold (●●●)

Quantitative Evaluations

Outlook
(1 Lowest—5 Highest)

• 2+

Fair Value

• 85%

Risk

• Low

Earn./Div. Rank

• A+

Technical Eval.

• Bullish since 10/98

Rel. Strength Rank
(1 Lowest—99 Highest)

• 87

Insider Activity

• Neutral

Recent Price • 85
52 Wk Range • 87-50

Yield • 0.5%
12-Mo. P/E • 38.6

Earnings vs. Previous Year
▲ Up ▼ Down □ No Change

10 Week Mov. Avg
30 Week Mov. Avg
Relative Strength

Options: CBOE

Key Stock Statistics

S&P EPS Est 1999	2.90	Tang. Bk. Value/Share	13.28
P/E on S&P Est 1999	34	Shareholders	1.01
Dividend Rate/Share	0.09	Market cap (B)	\$ 57.5
Shs. outstg. (M)	676.6	Inst. Holdings	62%
Avg. Daily Vol. (M)	2.028		

Overview - 10-FEB-99

In 1999 and beyond, we expect further double-digit earnings growth from the international operations of this well managed company, excluding currency fluctuations. In foreign markets, additional benefits from economies of scale are likely as MCD's presence continues to grow. Earnings from outside the U.S. have recently accounted for over 60% of operating profit. In the U.S., however, the company has faced stiff competition in a highly saturated market. As a result, the company has reexamined its domestic operations, changed management, and is focusing on increasing productivity and lowering the overall cost structure. MCD is overhauling its food preparation procedures to provide fresher, hotter food and to lower its labor costs; MCD took a \$350 million pretax charge (\$0.33 a share) in the second quarter of 1998. We expect at least a moderate profit increase in domestic operating earnings in 1999. Long term, we see MCD facing the challenge of an aging U.S. population increasingly shifting to casual dining restaurants that offer more amenities and a fuller menu.

Valuation - 10-FEB-99

The shares have continued their upward momentum, boosted by a solid fourth quarter report. U.S. operating income rose 11% and international operating income rose 16%. We expect operating earnings overall to grow in the 14% range in 1999 and beyond, which is already reflected in the share price. We also anticipate that the continuation of a large share repurchase program of \$3.5 billion, of which \$1.2 billion has been purchased, will lend support to the stock. The shares remain an attractive holding, offering both growth and defensive characteristics. The company has announced a 2-for-1 stock split to be completed in March.

Fiscal Year Ending Dec. 31

	1998	1997	1996	1995	1994	1993
Revenues (Million \$)						
1Q	2,805	2,618	2,426	2,161	1,795	1,654
2Q	3,181	2,833	2,665	2,468	2,029	1,878
3Q	3,215	3,006	2,774	2,580	2,225	2,044
4Q	3,221	2,953	2,822	2,586	2,270	1,932
Yr.	12,421	11,409	10,685	9,795	8,321	7,406
Earnings Per Share (\$)						
1Q	0.52	0.48	0.41	0.39	0.33	0.28
2Q	0.59	0.61	0.58	0.52	0.44	0.39
3Q	0.69	0.63	0.61	0.56	0.48	0.42
4Q	0.58	0.58	0.57	0.51	0.43	0.36
Yr.	2.20	2.29	2.21	1.93	1.63	1.42

Next earnings report expected: mid April

Dividend Data (Dividends have been paid since 1976)

Amount (\$)	Date Decl.	Ex-Div. Date	Stock of Record	Payment Date
0.090	Jul 08	Aug 27	Aug 31	Sep 11 '98
0.090	Oct 28	Nov 25	Nov 30	Dec 11 '98
2-for-1	Jan 26	Mar 06	Feb 12	Mar 05 '99
0.049	Jan 26	Mar 11	Mar 15	Mar 31 '99

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Standard and Poor's Data – Page2

STANDARD & POOR'S STOCK REPORTS		McDonald's Corporation										27-FEB-99
Business Summary - 10-FEB-99												
<p>One of the most widely known brand names in the world, McDonald's boasts thirty-five million customers every day. The company operates and licenses more than 23,000 restaurants in over 100 countries. At December 31, 1997, there were 12,480 restaurants in the U.S. and 10,752 elsewhere.</p> <p>Contributions by geographic area in 1997: U.S. (51% of revenues); Europe (23%); Asia/Pacific (17%); Latin America (4%); and other (5%). International business contributed 51% of operating income in 1997.</p> <p>Restaurants offer a substantially uniform menu, including hamburgers, french fries, chicken, fish, specialty sandwiches, beverages and desserts. Most units also serve breakfast.</p> <p>The company's long-term strategy is to identify and evaluate profitable growth opportunities. The company believes that its greatest expansion opportunities are outside the U.S. While in the U.S. there are 22,000 people per McDonald's, in the rest of the world there is only one McDonald's for every 605,000 people. At the end of 1997, 85% of systemwide restaurants were in the following 11 markets - Australia, Brazil, Canada, England, France, Germany, Hong Kong, Japan, the Netherlands, Taiwan and the U.S. Some 64% of restaurant additions in 1997 were in these markets and a similar percent is expected in 1998. New and emerging markets, such as Central Europe, the Philippines, China and Africa/Middle East, should represent a growing percentage of restaurants. Rapid expansion is expected to continue in Latin America.</p> <p>The company owns or leases a substantial amount of the real estate used by franchisees in their operations. Fees from franchisees to McDonald's typically include rents and service fees, often totaling at least 11.5% of sales.</p> <p>Average annual sales at U.S. restaurants in operation at least 13 months declined slightly to \$1,425,000 in 1997. Average sales are affected by comparable sales, the size of new restaurants and the expansion rate. New restaurants have historically taken about four years to reach long-term volume. Average annual sales at international restaurants in operation at least 13 months fell \$327,000 to \$1,830,000. Nearly half of this was due to foreign currency translation, and 30% to more satellite restaurants, which typically have lower sales volumes than traditional restaurants. Average sales have also trended lower with more units opened in lower-density areas.</p> <p>U.S. company unit margins were flat with 1996 at 16.5% of sales. Margins in the international division declined in 1997, to 19.1% of sales, from 19.8% in 1996. Increased food and paper costs as well as occupancy and other operating costs as a percentage of sales outweighed a decrease in payroll costs.</p>												
Per Share Data (\$)												
Year Ended Dec. 31)	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989		
Tangible Bk. Val.	NA	11.71	10.97	9.97	8.60	7.32	6.63	6.22	5.29	4.17		
Cash Flow	NA	3.42	3.28	3.04	2.57	2.15	1.98	1.81	1.72	1.50		
Earnings	2.20	2.29	2.21	1.97	1.68	1.46	1.30	1.18	1.10	0.97		
Dividends	0.35	0.32	0.29	0.26	0.23	0.21	0.20	0.18	0.17	0.15		
Payout Ratio	16%	14%	13%	13%	14%	15%	15%	15%	15%	15%		
Prices - High	79 1/2	54%	54%	48	31%	29%	25%	20	19 1/2	17 1/2		
- Low	44 1/2	42%	41	28 1/2	25 1/2	22 1/2	19 1/2	13 1/2	12 1/2	11 1/2		
P/E Ratio - High	36	24	25	24	19	20	19	17	18	16		
- Low	20	18	19	15	15	16	15	11	11	12		
Income Statement Analysis (Million \$)												
Revs.	NA	11,409	10,687	9,795	8,321	7,408	7,133	6,695	6,640	6,065		
Oper. Inc.	NA	3,488	3,331	3,204	2,801	2,415	2,290	2,022	1,944	1,772		
Depr.	NA	794	743	709	629	493	493	457	444	390		
Int. Exp.	NA	363	365	363	326	336	393	418	417	332		
Pretax Inc.	NA	2,408	2,251	2,169	1,887	1,676	1,448	1,299	1,246	1,157		
Eff. Tax Rate	NA	32%	30%	34%	35%	35%	34%	34%	36%	37%		
Net Inc.	NA	1,643	1,573	1,427	1,224	1,083	959	860	802	727		
Balance Sheet & Other Fin. Data (Million \$)												
Cash	NA	341	330	335	180	186	437	220	143	137		
Curr. Assets	NA	1,142	1,103	956	741	663	865	646	549	495		
Total Assets	NA	18,242	17,386	15,415	13,592	12,035	11,681	11,349	10,668	9,175		
Curr. Liab.	NA	2,985	2,135	2,055	2,451	1,102	1,545	1,288	1,199	1,017		
LT Debt	NA	4,834	4,803	4,668	2,935	3,489	3,176	4,267	4,429	3,901		
Common Eqty.	NA	8,851	8,360	7,503	6,446	6,350	5,984	4,537	3,984	3,349		
Total Cap.	NA	15,178	15,251	12,784	10,930	10,744	9,911	9,837	9,306	8,064		
Cap. Exp.	NA	2,111	2,375	2,064	1,539	1,354	1,171	1,129	1,613	1,556		
Cash Flow	NA	2,412	2,268	2,136	1,806	1,528	1,437	1,297	1,232	1,113		
Curr. Ratio	NA	0.4	0.5	0.5	0.3	0.6	0.6	0.5	0.5	0.5		
% LT Debt of Cap.	NA	31.8	31.5	33.3	26.9	32.5	32.0	43.4	47.6	48.4		
% Net Inc. of Revs.	NA	14.4	14.8	14.6	14.7	14.6	13.4	12.8	12.1	12.0		
% Ret. on Assets	NA	9.2	9.6	9.9	9.6	9.3	8.3	7.8	8.1	8.5		
% Ret. on Equity	NA	18.8	19.5	20.5	19.3	17.0	17.4	19.7	21.6	21.8		
Data as org. rep'd. bef. results of disc. ops./spec. items. Per share data adj. for stk. divs. Bold denotes diluted EPS (FASB 128)-prior periods restated. E-Examined NA-Not Available NM-Not Meaningful NR-Not Ranked												
Office—McDonald's Plaza, Oak Brook, IL 60521 Tel—(630) 623-3000 Chrmn & CEO—M. R. Quntan SVP & Treas—C. D. Pearl Investor Contact (Broker Inquiries)—Barbara Von Horst (630-623-5137) Investor Contact (Shareholder Services)—Lynn Irwin Camp (630-623-0432) Dir.—H. Adams, Jr., R. M. Beavers, Jr., J. R. Cantalupo, G. C. Gray, J. M. Greenberg, E. Hernandez, Jr., D. R. Keough, D. G. Lubin, A. J. McKenna, M. R. Quntan, E. H. Renna, T. Savage, P. D. Schrage, B. F. Smith, R. W. Stone, R. N. Thurston, F. L. Turner, B. B. Veeder, Jr. Transfer Agent & Registrar—First Chicago Trust Co., Jersey City, NJ Incorporated—in Delaware in 1965. Empl.—212,000 S&P Analyst: Karen J. Sack, CFA												

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Value Line Data

MCDONALD'S CORP. NYSE:YUMC

RECENT PRICE **62** PE RATIO **24.2** (Full yr. 1998) **1.66** **1.00** **0.6%**

VALUE LINE
 Target Price Range 2001 2002 2003

TIME LINES 1 Basic Size 1000

SAFETY 1 New York

TECHNICAL 2 Basic Size

PERF. 30 100-Month

FINANCIAL PROJECTIONS

Price Gain Sept Total

High 75 140.0% 0%

Low 60 1-0%

Dividend Declination

1992 1993 1994 1995 1996 1997

1998 1999 2000 2001 2002 2003

1992 1993 1994 1995 1996 1997

1998 1999 2000 2001 2002 2003

1992 1993 1994 1995 1996 1997

1998 1999 2000 2001 2002 2003

COMPARISON

Company	1998	1999	2000	2001	2002	2003
McDonald's	62	55	60	65	70	75
Wendy's	45	40	45	50	55	60
Burger King	35	30	35	40	45	50
Jack-in-the-Box	25	20	25	30	35	40
Sonic Drive-Ins	15	10	15	20	25	30
Arby's	10	8	10	12	15	18
Tim Hortons	5	4	5	6	7	8
Domino's	3	2	3	4	5	6
Papa John's	2	1	2	3	4	5
Oldemark	1	0.5	1	1.5	2	2.5

QUARTERLY REVENUES in U.S. million

Year	Mar	Jun	Sep	Dec	Full Year
1995	2161	2447	2536	2492	9636
1996	2471	2755	2774	2707	10607
1997	2816	3066	3095	2957	11935
1998	3095	3361	3475	3414	13345
1999	3369	3635	3675	3535	14204

QUARTERLY EARNINGS in U.S. million

Year	Mar	Jun	Sep	Dec	Full Year
1995	48	55	55	57	215
1996	52	60	62	56	230
1997	58	64	64	66	252
1998	62	66	70	62	260
1999	68	71	74	71	284

QUARTERLY DIVIDENDS in U.S. million

Year	Mar	Jun	Sep	Dec	Full Year
1994	0.64	0.6	0.6	0.6	2.4
1995	0.6	0.6	0.6	0.6	2.4
1996	0.6	0.6	0.6	0.6	2.4
1997	0.6	0.6	0.6	0.6	2.4
1998	0.6	0.6	0.6	0.6	2.4
1999	0.6	0.6	0.6	0.6	2.4

FINANCIAL RATIOS

Ratio	1998	1999	2000	2001	2002	2003
Current Ratio	1.25	1.25	1.25	1.25	1.25	1.25
Debt to Equity	0.5	0.5	0.5	0.5	0.5	0.5
Return on Equity	15%	15%	15%	15%	15%	15%
Dividend Yield	1%	1%	1%	1%	1%	1%

ANNUAL RATES

Rate	1998	1999	2000	2001	2002	2003
Operating Margin	15.2%	15.2%	15.2%	15.2%	15.2%	15.2%
Net Profit Margin	10.2%	10.2%	10.2%	10.2%	10.2%	10.2%
Return on Assets	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%

MARKETING

McDonald's is a global fast-food chain with over 30,000 restaurants in more than 120 countries. The company is a leader in the fast-food industry, known for its consistent quality and service. The company's success is attributed to its standardized operations, efficient supply chain, and strong brand identity. The company's focus on customer service and product innovation has helped it maintain its market leadership. The company's financial performance is strong, with consistent revenue growth and profitability. The company's stock price has been volatile, but it remains a popular choice among investors. The company's future prospects are bright, with continued expansion planned for 1999, 2000, and beyond. The company's commitment to quality and service is a key factor in its success. The company's marketing strategy is focused on building a strong brand identity and increasing customer loyalty. The company's marketing efforts have been successful in driving sales growth and increasing market share. The company's marketing strategy is a key factor in its success. The company's marketing efforts have been successful in driving sales growth and increasing market share.

52 • Company Data

Classic Plus

Entering/Editing Data from the Keyboard – Beginner

If you do not have a Datafiles subscription, you will need to gather data from the company or another reference report such as Value Line or S&P.

Note that some reports will not contain all the data you need or that you may need to calculate figures separately from the Classic Plus.

Generally the beginner will want to review data for each step. This shows how the data is used in the program. Once a study is completed, the Beginner may choose to skip viewing the data window by removing the check mark from 'Show this window next time'. You may redisplay the data window from the **View | Review | Enter Data** menu item.

Stock Check List - Stock Data

Company Data | Yearly Sales

Enter/review yearly sales to assess growth.
Click OK when done.

Last Year of Data: 1998

Sales for 1998 (Mil)	\$	12477.840
Sales for 1997 (Mil)		11883.460
Sales for 1994 (Mil)		9156.009
Sales for 1993 (Mil)		8407.843

Sales units are in: Millions

Add new year

Show this window next time

Help OK Cancel

Stock Check List – Data Entry

Beginners should learn to do stock studies by first using the **Stock Check List**. This provides a simple way of judging a company's sales and earnings per share growth and whether the stock is reasonably priced. Note that data entered in previous windows will be displayed in subsequent windows where appropriate.

The Stock Check List requires entry of all the numeric data as prompted. Missing information will jeopardize the report's usefulness.

Be sure to take advantage of all the **Help** available in Classic Plus. Right-click on a data cell to select **What's This?** and **More Help** for details about the data entry.

Examine the Value Line and Standard and Poor's data sheets for data referenced in the charts that follow.

Stock Check List

The Beginner will be prompted to enter data as it is needed. The information below is a summary of the data needed for the Stock Check List.

VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Typical Annual Report	VL	S&P
Company Name			1	1.1
Ticker Symbol		Sometimes on inside back page of annual report under Corporate and Stockholder Information.	1	1.1
Exchange Traded	The exchange where this stock trades	As above - on back page.	1	1.1
Industry	Labels for industry may vary, according to the source.	Inside front cover of annual report under Description of the Company or Company Profile.		1.1
Date of Study	This should be changed whenever you add data or alter your judgment.			
Last Fiscal Year	The company's fiscal year may differ from calendar year.	Cover of the annual report.	3	2.1
Yearly Sales (or revenues)	The amount collected for all goods or services sold by the company. May also be called revenues.	Financial Statement, Consolidated Statement of Earnings page.	4	2.1
Currency & Share Units	Note whether share data is reported in thousands, millions, or billions.	Depends on the size of sales. Choose the units that will show 3-5 significant digits, i.e. \$795.6		

Item	Explanation	Typical Annual Report	VL	S&P
Yearly Earnings Per Share	Use diluted EPS reported.	Same page as Sales.	4	2.1
High and Low Prices for the year	Use fiscal year price ranges whenever possible.	Either in 10 year Summary of Operations or in Summary of Quarterly Data near back of annual report. Note that Value Line and S&P report calendar year price ranges.	2	2.1
Current Price	Stock price	Latest newspaper or from Internet.		
Last 4 Quarters EPS	Add the most recent 4 quarters of EPS data.	From annual report, plus more recent quarterly reports, or from Internet.	7	1.3

SSG Data Entry – Beginner

When Classic Plus is set to Beginner mode, the user is to enter data as prompted. The information below is a summary of the data needed for the Stock Selection Guide.

Try to supply data for all entry fields. The more historic information available, the better Classic Plus can help you form a sound investment decision.

Be sure to take advantage of all the **Help** available in Classic Plus. Click on a data cell to select **What's This?** and **More Help** for details about the data entry.

SSG - Company Data

Click on the underlined items for specific information. VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Typical Annual Report	VL	S&P
Company Name			1	1.1
Ticker Symbol		Sometimes on inside	1	1.1

Item	Explanation	Typical Annual Report	VL	S&P
		back page of annual report under Corporate and Stockholder Information.		
Exchange Traded	The exchange where this stock trades	As above - on back page.	1	1.1
Industry	Classifications for industry may vary, according to the source.	Inside front cover of annual report under Description of the Company or Company Profile.		1.1
Date of Study	This should be changed whenever you add data or alter your judgment.			
Source of Data	e.g. Value Line, annual report, S&P Datafiles, etc.		VL	S&P
Units	Select thousands, millions, or billions	Depends on the size of sales. Choose the units that will show 3-5 significant digits, i.e. \$795.6		
Common Shares Outstanding	Basic number of shares issued and outstanding	Annual Report Balance Sheet/Shareholders' Equity. Also where EPS are stated.	5	1.2
Diluted Common Shares	Since 1997 companies have been required to report diluted EPS, as well as basic.	Normally shows where EPS are stated. Check footnotes for which figures may be diluted		
Preferred Shares Outstanding	Many companies do not have preferred shares.	Annual Report Balance Sheet/ Shareholders' Equity	5	
Total Debt	Long term debt plus debt due within one year.	Company Report, Balance Sheet, by totaling long-term plus short-term debt.	5	2.3
Total Capital	Defined as long-	Company Report,		2.3

Item	Explanation	Typical Annual Report	VL	S&P
	term debt plus shareholders' equity.	Balance Sheet. In VL add long-term debt plus shareholders' equity.		
% Insider Holdings	% of shares held by executives and directors of company	May be reported in company's Proxy Statement. Check Internet. VL may show in Business section.	Business	1.2
Institutional Holdings	Enter in thousands of shares held by mutual funds, pensions, & other groups.	Check Internet. In Value Line check the Institutional section.		

SSG - Yearly Data

VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Last Fiscal Year	The company's fiscal year may differ from calendar year.	Cover of the annual report.	3	1.3
Date of Last Fiscal Year	Month/day/year	Company Report, Balance Sheet Statement date. See More Help for further details.	6, 7	1.3
Yearly Sales (or revenues)	The amount collected for all goods or services sold by the company. May also be called revenues.	Financial Statement, Consolidated Statement of Earnings.	4	2.2
*Yearly Earnings per Share	EPS reported as a yearly figure.	Same page as Sales.	4	2.1
*If a choice of basic or diluted EPS is available, use diluted EPS.				

SSG – Prices, Dividends

VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Last Fiscal Year	The company's fiscal year may differ from calendar year.	Cover of the annual report.	3	1.3
High and Low Prices for the year	Use fiscal year price ranges, whenever possible. Note that Value Line reports <u>calendar</u> year price ranges.	Either in 10-year Summary of Operations or in Summary of Quarterly Data near back of annual report.	2	2.1
Current Price	Stock price	Latest newspaper or from Internet.		
52 Week High and Low Price	The highest and lowest prices reached in the past 52 weeks.	Latest newspaper or from Internet.		
Yearly Dividends	Dividends paid each year to shareholders of common stock. Some companies do not pay dividends.	The newspaper will report the latest yearly dividend. For the dividend history, check the annual report 10 year Summary.	4	2.1

SSG - Quarterly Data

VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Date of Last Quarter Note that this sets the yellow cell marker for latest quarter.	Format is month, year.	Company Quarterly Report, Income Statement date. See More Help in Classic Plus for more details for Value Line.	6, 7	
Date of Last Fiscal Year	Month/day/year	Company Report, Income Statement date. See More Help for further details.	6, 7	1.3
Quarterly Sales (or revenues)	This updates sales since the last fiscal year. Use one source consistently for all data.	Company Quarterly Report or check Internet.	6	1.3

Item	Explanation	Source of Data	VL	S&P
Quarterly Earnings per Share	This updates EPS since the last fiscal year. Use one source consistently for all data.	Company Quarterly Report or check Internet.	7	1.3

SSG - Evaluating Management

VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Pre-tax Income or Net Income before Taxes are paid	Profit before taxes are deducted. Used to calculate pre-tax profit margins.	Company annual report, same page as Sales (Income Statement) (An alternate selection is Tax Rate. See next line.)		
*Tax Rate	Percentage paid for taxes.	Company Annual Report Notes to Financial Statements under Income Taxes.	4	2.2
Net Income	May be called Net Profit.	Company Annual Report, same page as Sales.	4	2.2
*Common Equity (Alternate setting is Book Value per share. See next cell.)	Worth of company represented by shares held by common shareholders.	Company Annual Report, Balance Sheet, Shareholders' Equity. Common equity is shareholders' equity less preferred stock.	8	2.3
*Book Value per Share (Alternate setting is Common Equity)	Asset worth per share of the company as represented on its Balance Sheet.	Company may give this number on a summary page of data in Annual Report. Check Internet.	4	2.1

*Data entry options are set from the **View | Review | Enter menu item, Data | Options** tab

Data Options

Set your data source in the Company Data window. This sets the data choices used in Part 2 of the Stock Selection Guide. The data choices used are:

1. pre-tax income or tax rate in Part 2A, and
2. book value or common equity in Part 2B

Selecting Value Line or Standard and Poor's for a data source sets data for tax rate and book value. For other data sources choices, you will be able to select the data type in the window when entering the data.

SSG Data Entry – Experienced

In time, the Beginner may be comfortable enough to work in the Experienced mode of Classic Plus. In the **Options** menu select Experienced. The tabbed window shows the data needed at the Experienced level.

SSG - Company Data (Extras for Experienced)

Click on the underlined items for specific information. VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Current Price Date	Use format: month, day, year (e.g. 10/23/98)	Newspaper or Internet		
ACE EPS Projection	Analysts' Consensus Estimate for EPS for current fiscal year	This ACE figure comes from the S&P Datafiles subscription service. You may type in another analyst's estimate if you wish.	7	1.2
Dividends	Enter regular dividends paid to share owners over the last 12 months.			

SSG - Evaluating Management

Click on the underlined items for specific information. VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Pre-tax Income or Net Income before Taxes.	Profit before taxes are deducted. Used to calculate pre-tax profit margins.	Company annual report, same page as Sales (Income Statement) An alternate selection for Value Line data, is Tax Rate. See next line.		2.2
Tax Rate (optional setting)	Percentage charged for taxes.	Company Annual Report Notes to Financial Statements under Income Taxes.	4	2.2
Net Profit	Also called Net Income.	Company Annual Report, same page as Sales.	4	2.2
Common Equity (Alternate setting is Book Value per share. See next cell.)	Worth of company represented by shares held by common shareholders. (Total shareholders' equity less preferred stock equals common equity.)	Company Annual Report, Balance Sheet, Shareholders' Equity. (Total shareholders' equity less preferred stock equals common equity.)	8 ¹	2.3

¹ Value Line provides Shareholder's Equity which is different than common equity in that it includes preferred equity. To keep it simple, the beginner may choose to use shareholder's equity when using Value Line. Alternatively, select and enter book value per share.

Item	Explanation	Source of Data	VL	S&P
Book Value per Share (Alternate setting is Common Equity – optional setting)	Asset worth of the company as represented on its Balance Sheet.	Company may give this number on a summary page of data in Annual Report. Check Internet.	4	2.1

SSG - Quarterly Data (Extras for Experienced)

Click on the underlined items for specific information. VL means Value Line and S&P means Standard and Poor's reports.

Item	Explanation	Source of Data	VL	S&P
Pre-tax Income	Profit before taxes are deducted. Used to calculate pre-tax profit margins.	Company Quarterly Report. May be approximated: Net Income divided by (1 - tax rate expressed as a decimal). Check Internet for 10Q SEC Report.		
Net Profit	May be called Net Income.	Company Quarterly Report, same page as Sales.		

In the quarterly data entry grid, white cells are the most recent fiscal year. Highlighted cells mark the previous fiscal year. Yellow cells mark the most recently reported quarter. To move the yellow highlighted quarter, alter the **Date of Last Quarter** cell.

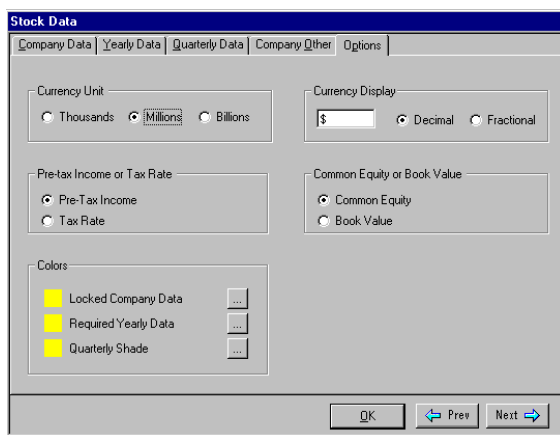
SSG - Company Other (Extras for Experienced)

This window includes cells for address details for the company. In the Notes section you may record information about the company or judgment comments that you may want to recall in the future.

Data Entry Options for Experienced

Options for the operation of the program are included in the Options section of this manual (chapter 10).

In the Data Entry window labeled Options, the following items may be selected to suit the data that you have available.



Entering Numbers

Currency Unit

Set the units according to the size of company that you are studying. For large companies, with \$10 Billion in sales or more, you may choose to select Billions as the unit. For small companies, choosing the Thousands unit will show you the greatest number of digits. Changing this selection will convert previously entered data to the new units selection.

Currency Display

You may set to display stock prices as a decimal or fractional figure. Note that selecting fractions will round the figure to the nearest 1/8 (one eighth) fraction.

Pre-tax Income or Tax Rate

This setting depends upon your source of information. If using numbers from annual reports, you will use pre-tax income. If using Value Line or

Standard and Poor's, you will use tax rate. Changing this setting will convert previously entered data to the alternate data selection.

Note that Classic Plus uses pre-tax income data for its calculations. If tax rate is entered it is converted to pre-tax income before calculations are made. The relationship is as follows:

$$\text{Pre-tax Inc} = \text{Net Inc} / (1 - \text{tax rate, expressed as a decimal})$$

Common Equity or Book Value per Share

This selection depends upon your source of information. If using numbers from annual reports, you will likely use common equity. If using Value Line or Standard and Poor's, you may use book value per share.

Note that Classic Plus uses book value per share data for its calculations. If common equity is entered it is converted to book value per share before calculations are made. The relationship is as follows:

$$\text{Book Value per Share} = \text{Common Equity} / \text{Common Shares}$$

Display Price as Decimal or Fractional

You may set this according to your source of information or your preference.

Note that fractional prices are rounded to the nearest 1/8 (one eighth).

Colors

You may choose the color setting for highlighting certain data by clicking on the boxes.

PMG Data

The data entry for the Portfolio Management Guide (PMG) is minimal. Basically, quarterly EPS and monthly prices are all you need. From this basic data calculations are made and reported and graphed in the PMG.

Other data for Parts 1 and 2 is derived from a completed SSG.

Part 1 and 2

Each time you apply judgment to Part 3 and modify P/E Ratios in Part 4 of the SSG, the average high and low PE figures are transferred to Part 1 of

the PMG. These P/E Ratios are automatically recorded in columns 2 and 3. The data from the current SSG study sets the targets in the PMG for the current's year assessment of value as measured by the PE ratio.

Classic Plus also allows you to enter and edit historical PE ratios in Part 1. Generally, this should not be done as historical valuations in Part 1 are derived from the SSG by applying judgment.

The remaining columns in Part 1 are calculated from the historical average P/E Ratios. Columns 4 and 6 are then used as guidelines to assess current PE as calculated in Part 3 of the PMG.

Part 2 information is also derived from the SSG, Part 4 once high and low prices are set. These price zones (buy below and sell above) are guidelines to assess the current price as entered in Part 3 of the PMG.

Part 3

Two pieces of data are required for Part 3: monthly prices and quarterly EPS.

Keep in mind that the objective of PMG is to monitor the on-going value of the company. Having extensive historical data is not as important as assessing current information. The information entered is used to calculate on-going P/E Ratios so that current value can be assessed.

Quarterly EPS

If you have completed the SSG, you will likely have some quarterly EPS data. These will show in the PMG Data Entry window. Adding/editing information here will also change it for the SSG.

PMG Data Entry

Quarterly EPS data | Monthly prices

Enter quarterly earnings per share information in the cells below

Quarter Ending	EPS
Q2 FY 2002 (Jun 2002)	<input type="text"/>
Q1 FY 2002 (Mar 2002)	<input type="text"/>
Q4 FY 2001 (Dec 2001)	<input type="text"/>
Q3 FY 2001 (Sep 2001)	<input type="text"/>
Q2 FY 2001 (Jun 2001)	0.34
Q1 FY 2001 (Mar 2001)	-0.14
Q4 FY 2000 (Dec 2000)	0.49
Q3 FY 2000 (Sep 2000)	0.42
Q2 FY 2000 (Jun 2000)	0.44

Date of Last Quarter

Date of Last FY Dec/31/2000

Do not show again

Estimated EPS (Experienced)

This data may have already been entered for the SSG. If not, you may either enter it in the PMG Quarterly Data window after the current quarter (designated by the yellow line).

PMG Data Entry

Quarterly EPS data | Monthly prices

Enter quarterly earnings per share information in the cells below

Quarter Ending	EPS
Q2 FY 2002 (Jun 2002)	0.55
Q1 FY 2002 (Mar 2002)	0.56
Q4 FY 2001 (Dec 2001)	0.51
Q3 FY 2001 (Sep 2001)	0.45
Q2 FY 2001 (Jun 2001)	0.34
Q1 FY 2001 (Mar 2001)	-0.14
Q4 FY 2000 (Dec 2000)	0.49
Q3 FY 2000 (Sep 2000)	0.42
Q2 FY 2000 (Jun 2000)	0.44

Date of Last Quarter: Jun/29/2001
Date of Last FY: Dec/31/2000

Do not show again

Buttons: Help, OK, Cancel

Annotation: A bracket groups the last four quarters (Q1 FY 2001, Q4 FY 2000, Q3 FY 2000, Q2 FY 2000) with a box labeled "Estimated EPS".

Estimated quarterly EPS is used in the SSG and PERT Report to calculate lead P/E Ratios. For more information on lead P/E Ratios see that section in Classic Plus.

If only yearly estimated EPS is available, you should review and consider seasonal variations when recording estimated quarterly EPS. Seasonal variations vary from company to company and industry to industry. Assess the extent of this variation from previously reported quarterly EPS and use this to allocate estimated figures.

The following example demonstrates the process of allocating proportional amounts to a company whose business contributes 70% in the first quarter and 10% for each of the remaining 3 quarters.

Current year estimated EPS \$1.00				Next year's estimated EPS \$1.50			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
\$0.70	\$0.10	\$0.10	\$0.10	\$1.05	\$0.15	\$0.15	\$0.15

Monthly Prices

Enter monthly prices in the PMG Data Entry window. These represent share prices at some time during the month. You may choose a time convenient for you: at the end of the month or before a club meeting. There is ample flexibility as to when you enter this data, but do try to be regular in managing your stocks.

PMG Data Entry

Quarterly EPS data
Monthly prices

Enter monthly price information in the cells below

	1996	1997	1998	1999	2000	2001
January		27.250	35.406	46.438	32.563	44.860
February		28.125	37.406	46.313	33.000	48.990
March		28.063	37.656	46.813	35.188	47.190
April		30.500	36.563	48.375	38.438	46.380
May		31.500	37.094	45.188	40.688	51.980
June		33.375	41.000	45.375	44.563	48.000
July		32.718	41.625	42.938	41.625	53.590
August		29.968	38.500	43.375	43.750	49.700
September		31.968	43.438	36.688	47.563	51.850
October	25.375	30.656	47.000	40.375	52.813	
November	27.813	32.563	48.000	38.000	55.063	
December	25.375	32.750	49.000	36.313	48.438	

Do not show again

Important

For easier identification, monthly prices in the Data Entry window are grouped by the calendar year. Within the PMG, data is plotted based on the company's fiscal year.

Both keyboard and Internet updating of prices will automatically update the monthly price in the PMG.

PE Calculations

Once quarterly EPS and monthly prices are entered, the PE columns of Part 3 are calculated. P/E Ratios are calculated from the cumulative 4 quarters of EPS in column 3 and the monthly prices. P/E Ratios are not calculated if the cell in column 3 is a negative value.

1	2	3	4	5	6	7
3 Months Ending	Earnings per Share	Total Earnings for last 4 Quarters	Date	Price	P/E Ratio at Time of Meeting	Date
03/00	0.45	1.60	Apr 30	38.44		
06/00	0.44	1.62	Jul 31	41.63		
09/00	0.42	1.74	Oct 31	52.81	30.4	Nov 30
12/00	0.49	1.80	Jan 31	44.86	24.9	Feb 28
03/01	-0.14	1.21	Apr 30	46.38	38.3	May 31
06/01	0.34	1.11	Jul 31	53.59	48.3	Aug 31
09/01			Oct 31			Nov 30

Add 4 quarters
EPS = \$1.21

$\$46.38 / \$1.21 = 38.3$

Part 4 - PMG Graph

Information plotted on the PMG Graph is derived from data previously entered. The only action needed may be the adjustment of scales for the items plotted: Price, PE, and RV (Relative Value). Click a data line with the right mouse button to move it up or down for better viewing.

Where to Find PMG Data

Datafiles provide all the information needed to complete the reports in Classic Plus and Classic Plus PMG and PERT. Their quick and simple loading allows you to immediately concentrate on the company study rather than the mechanics of gathering and entering data. For more datafile

information contact BetterInvesting or ICLUBcentral Inc. at their web sites.

You may also enter data from the keyboard. Some of this information is available from the Value Line and S&P company reports.

Quarterly EPS

The company quarterly reports are the best source for this information. You should subscribe to the company's information by having your name added to their shareholder list to receive annual and quarterly reports. Many companies provide this service through the Internet. Visit the company's web site to subscribe to this information.

Historic quarterly EPS information (going back 3 or more years) appears to be less readily available. You may choose to use a source like Value Line or S&P reports. However, as previously stated, it is not overly important if you don't have this information, as long as you maintain the on-going progress of the company.

The screenshot shows a dialog box titled "PMG Data Entry" with two tabs: "Quarterly EPS data" (selected) and "Monthly prices". The main area contains a table for entering quarterly earnings per share information. The table has two columns: "Quarter Ending" and "EPS". The current data is as follows:

Quarter Ending	EPS
Q2 FY 2002 (Jun 2002)	
Q1 FY 2002 (Mar 2002)	
Q4 FY 2001 (Dec 2001)	
Q3 FY 2001 (Sep 2001)	
Q2 FY 2001 (Jun 2001)	0.34
Q1 FY 2001 (Mar 2001)	-0.14
Q4 FY 2000 (Dec 2000)	0.49
Q3 FY 2000 (Sep 2000)	0.42
Q2 FY 2000 (Jun 2000)	0.44

Below the table, there are two date fields: "Date of Last Quarter" set to "Jun/29/2001" and "Date of Last FY" set to "Dec/31/2000". There is an "Add new quarter" button. At the bottom, there is a checkbox labeled "Do not show again" which is checked, and three buttons: "Help", "OK", and "Cancel".

Estimated EPS

Estimated EPS are available from the Internet. This information typically is for the next 1 or 2 quarters. Yahoo Financial is a site that provides this information for up to 4 quarters. Value Line provides estimated quarterly EPS in their company reports.

Earnings Per Share			Earnings History				Target Price (12 Month)		
Last Quarter	(Sep01)	0.44	Dec01 Mar01 Jun01 Sep01				High Target	\$64.00	
Surprise		0.09%					Mean Target	\$60.43	
Consensus Estimates			Estimate	0.48	0.47	0.45	0.44	Median Target	\$60.00
This Quarter	(Dec 01)	0.52	Actual	0.48	0.47	0.45	0.44	Low Target	\$55.00
This Year	(Dec 01)	1.88	Difference	0.00	0.00	0.00	0.00		
Next Year		2.25	% Surprise	0.0%	0.0%	0.0%	0.0%	No. of Brokers	7
Next Earnings (Est.)		16-Jan-02							
Consensus Estimates									
			This Qtr. (Dec 01)	Next Qtr. (Mar 02)	This Year (Dec 01)	Next Year (Dec 02)			
Earnings Estimates									
Avg Estimate			0.52		0.55	1.88	2.25		
# of Analysts			20		11	22	22		
Low Estimate			0.52		0.53	1.88	2.22		
High Estimate			0.53		0.58	1.89	2.26		
Year Ago EPS			0.48		0.47	1.78	1.88		

The above figure shows the Estimated EPS from the Yahoo! research site.

Monthly Prices

Historical monthly prices are a little more difficult to attain. The Value Line and S&P reports have price graphs that contain this information. Extracting monthly prices from such graphs is tedious.

Again, the Yahoo Financial site can provide monthly prices. Yahoo at <http://chart.yahoo.com/d> allows you to select a stock and the dates for prices. Make sure that you use the adjusted for stock splits column. Note that a web site's content is controlled by the owners of the site and is subject to change.

Historical Quotes

More Info: [Quote](#) | [Chart](#) | [News](#) | [Profile](#) | [Research](#)

<p>Month Day Year</p> <p>Start: <input type="text" value="Sep"/> <input type="text" value="08"/> <input type="text" value="00"/></p> <p>End: <input type="text" value="Dec"/> <input type="text" value="10"/> <input type="text" value="01"/></p>	<p><input type="radio"/> Daily</p> <p><input type="radio"/> Weekly</p> <p><input checked="" type="radio"/> Monthly</p> <p><input type="radio"/> Dividends</p>
<p>Ticker Symbol: <input type="text" value="abt"/> <input type="button" value="Get Data"/></p>	

Date	Open	High	Low	Close	Volume	Adj. Close*
Nov 01	52.78	55	51.24	55	3,029,800	55
Oct 01	51.75	54.90	50.40	52.98	3,652,400	52.98
Oct 01	\$0.21 Cash Dividend					
Sep 01	50.20	51.96	46.35	51.85	4,275,500	51.6432
Aug 01	53.35	53.60	49.39	49.70	2,486,100	49.5018
Jul 01	49.05	53.82	46.60	53.50	3,487,900	53.3763

PERT Data

PERT A

PERT A report requires quarterly data for EPS, pre-tax profit (also called pre-tax income), sales and net income or tax rate. As with other data, all the necessary data is available in the datafiles. Information on costs and availability of data files are available from BetterInvesting or ICLUBcentral Inc.

PERT Data Entry

Quarterly Data

Enter/review quarterly data. Click OK when done.

Quarter Ending	Sales (Mil.)	EPS	Pre-Tax Income (Mil.)	Net Income (Mil.)
Q2 FY 2002 (Jun 2002)		0.55		
Q1 FY 2002 (Mar 2002)		0.56		
Q4 FY 2001 (Dec 2001)		0.51		
Q3 FY 2001 (Sep 2001)		0.45		
Q2 FY 2001 (Jun 2001)	4099.117	0.34	662.915	529.048
Q1 FY 2001 (Mar 2001)	3559.880	-0.14	-388.684	-223.613
Q4 FY 2000 (Dec 2000)	3704.690	0.49	1032.053	753.399
Q3 FY 2000 (Sep 2000)	3317.895	0.42	896.465	654.419
Q2 FY 2000 (Jun 2000)	3370.153	0.44	938.633	685.202

Date of Last Quarter Jun/29/2001
Date of Last FY Dec/31/2000

Do not show again

Help OK Cancel

Add new Quarter

The selection for the type of data to enter (i.e. tax-rate or pre-tax income, etc) is set within the Companies Data Entry window, Options tab.

Quarterly EPS

Having entered data for the PMG, you should see the quarterly EPS data in the Data Entry window. Review the PMG Data Entry section for information on quarterly EPS data.

Quarterly Pre-tax Profit

The best source for this information (other than the datafile) appears to be company reports. The benefit of using datafiles for this information will be quickly evident.

Quarterly Sales

As with quarterly EPS, the best source for quarterly sales figures are the quarterly and annual reports from the company. Subscribe to the

company's shareholder list to receive annual and quarterly reports. Many companies provide this service through the Internet. Visit the company's web site to subscribe to this information.

Historic quarterly sales information (going back 3 or more years) appears to be less readily available. You may choose to use a source like Value Line or S&P reports. However, as previously stated, it is not overly important if you don't have extensive quarterly information, as long as you maintain the on-going progress of the company.

Quarterly Net Income or Tax Rate

Normally tax rate is not reported on a quarter by quarter basis. Net income most often is included in the company's reports. Neither Value Line nor S&P include this information in their company reports. This data is included in the BetterInvesting datafiles.

The data entry Options section for the SSG allows you to choose (and switch) between net income and tax rate. Tax rate can be calculated from net income and pre-tax profit with the formula:

$$(1 - \text{net income/pre-tax profit}) \times 100.$$

Classic Plus uses this formula to convert between the related items.

At the Experienced Level you may switch between the two items (net income and tax rate) using the **Data Entry | Options** tab. At the Beginner Level this selection is set automatically when you choose the data source.

Caution It is not recommended that you approximate tax rates by using a previous year's results. As the purpose for PERT is to monitor on-going company results, the fabricated figures using past results lead to potentially misleading conclusions. If you are not using datafiles, take the time to find the correct information from the company's web site or quarterly reports.

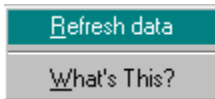
PERT B

PERT B uses the historical yearly data to calculate P/E Ratios, payout, and dividend yields. This data should already be available as it is also used for completing the Stock Selection Guide.

PERT Report

PERT Report is an accumulation of information generated from other reports. It does not need any additional data. Should you note blank information, review that company's SSG, PMG, and PERT reports to ensure that they were completed. Once you have confirmed that all data is entered and judgment added (where necessary), save the company record to the Classic Plus database and refresh the PERT Report.

PERT Report Refresh



The PERT Report Refresh function is available by clicking with the right button on the PERT Report and selecting from the pop-up menu. This function retrieves the latest data for companies in the PERT Report. Use this function after you have altered a company's data or judgment and saved the results.

Internet Sites

Here is a sample list of sites that provide financial information. Be aware that sites change contents without notice. Several of these sites are included in the Favorite Sites list of the Classic Plus Internet list. You may also add your own favorites to the Classic Plus sites list.

<http://finance.yahoo.com>

<http://investor.reuters.com>

<http://moneycentral.msn.com>

<http://finance.google.com>

Stock Check List

5

Use the Stock Check List to determine if a company has shown sufficient growth and value to warrant a detailed study.

Introduction

The Stock Check List is designed to help you complete a basic stock analysis. After completing the form, you will know the recent history of sales and earnings per share, and whether the stock's current price makes it a good buy.

There are several narrative sections in the Stock Check List that help you to focus on particular characteristics of the company. Good investment decisions are always based on your understanding the company. The Stock Check List starts you on your way to gaining that knowledge.

Investors just starting to use these methods may use only the Stock Check List for their stock studies. With more experience, they will eventually learn the Stock Selection Guide (SSG) study process.

Objectives

The objectives for the Stock Check List are:

1. To measure the growth rate for sales over a five year period.
2. To measure the growth rate for earnings per share over 5 years.
3. To measure the growth rate for share price over 5 years.
4. To determine whether the stock is a good value by comparing the current Price/Earnings(P/E Ratio) ratio to the historical P/E Ratios.

5. To determine whether the stock has enough potential to make it worthwhile to do a study using the Stock Selection Guide.

Operation

Beginner

In the Beginner mode, Classic Plus leads you through the steps of the Stock Check List so that you complete your analysis in a structured manner.

Refer to the “Company Data“ chapter for data choices when starting a company study.

Loading Data

To access the Stock Check List (SCL) from the Main Page, click Stock Check List. If you choose to enter the data yourself, the SCL data windows will be clear of data. The **Prompt Window** will help you fill in the data and make judgments about the growth of the company’s sales, earnings per share, and price. You will be helped to determine whether the stock is a good value.

If you have loaded a company from the database or Datafiles, data will be displayed in the data windows. Data is displayed to show the Beginner how it is used in the evaluation. It also provides an opportunity to edit the data if necessary.

Help

Context-sensitive **Help** is available at all times. Point and then click with the right mouse button. Select **What’s This?** or **More Help** for an explanation of the data. If data is circled in red, right-click to call the **Stock Wiz** for interpretation. Additional information is available from the on-line **Help** accessible from the menu line or the function key F1.

Evaluation Process

In Parts 1, 2, and 3, review the data as entered. At the bottom of Part 2 you are required to enter reasons for any difference in growth of sales and earnings. You may add, alter, or delete sections. Click the term appropriate for each statement in Reasons for Past Growth.

In the yellow areas of Part 3 you may exclude specific data from the averages calculations. Information that seems unusual (due to a poor year's earnings per share results) should be excluded. The +- cursor indicator (that appears as you move the cursor over the cell) shows that you may make this judgment.

3 PRICE RECORD OF THE STOCK					
Present Price \$ <u>37.94</u> . Present Earnings Per Share \$ <u>0.83</u> .					
List Last 5 Years	High Price Each Year (A)	Low Price Each Year (B)	Earnings Per Share (C)	Price Earnings Ratio	
				at High (A - C)	at Low (B - C)
1993	11.19	3.94	0.28	39.4	13.9
1994	13.78	7.78	0.44	31.0	17.5
1995	21.67	11.85	0.60	36.1	19.8
1996	34.00	17.56	0.81	41.8	21.6
1997	42.13	20.94	0.83	50.8	25.2
Totals	122.75	62.07		148.3	98.0
Averages	24.55	12.41		37.1	19.6
Average of High and Low Price Earnings Averages for the past five years.				20.3	

Before striking out data by clicking on the cell, it is good to understand why the company produced such numbers.

In Part 3 you also fill in some blanks. As you move the cursor over a blank cell, a **J** or + / - appears. Left-click the mouse to enter a word or symbol. Alternatively, right-click to select from a list or define your own value or expression.

Part 4 makes concluding statements about the preceding analysis. All 4 statements need to be positive for a favorable conclusion. If favorable, you may decide to continue your analysis using the Stock Selection Guide in order to study other and more detailed characteristics of the company.

Experienced Level

Load a company. You will see the data entered in the Stock Check List. Review the data and growth for sales, earnings per share, and price. Fill in the judgments required.

Retrieving a completed study from the database will show all the information and/or judgments as previously set.

Stock Check List Assessment

Beginning investors should do a basic assessment of a company's growth performance and current value to determine if further study is appropriate.

Growth

First, measure the change in sales and EPS (earnings per share) over a five-year period. It is anticipated that quality growth companies will grow their sales and EPS steadily, year-over-year. A doubling over 5 years for each item is equivalent to 15% compounded annually.

Sales growth rates will vary according to company size. Large companies (with sales over \$5 Billion per year) generally grow more slowly. However, large companies are generally safer and more stable than smaller companies and they often pay dividends.

The following are suggested minimum sales growth requirements related to company size.

Company Size	Sales	Sales Growth
Small	Under \$500 Million	Greater than 12%
Medium	\$500 Million to \$5 Billion	7% to 12%
Large	Greater than \$5 Billion	5% to 7%

1 PAST SALES RECORD		
Sales for most recent year were	(1) \$	23,657.00 M
Sales for next most recent year were	(2) \$	22,629.00 M
Total of above (1+2)	(3) \$	46,286.00 M
Figure above divided by 2	(4) \$	23,143.00 M
Sales 5 years ago were	(5) \$	15,734.00 M
Sales 6 years ago were	(6) \$	14,138.00 M
Total of above (5+6)	(7) \$	29,872.00 M
Figure above divided by 2	(8) \$	14,936.00 M
Increase in sales in above period (8 from 4)	(9) \$	8,207.00 M
Percentage increase in sales (9 divided by 8)	(10)	54.95 %
COMPOUND ANNUAL RATE OF SALES GROWTH WAS		9.15 %
Look for the percent increase that meets the objective you set.		

It is important that sales and EPS grow at approximately the same rate. Substantially different growth rates may be unrealistic and also add complexity to the study. EPS may grow faster for a while because management is doing a good job of keeping expenses reasonable and is improving efficiency and productivity. However, because earnings come from sales, they cannot indefinitely grow faster. (More information regarding this subject is found in the SSG section of this manual.)

COMPOUND ANNUAL RATE OF EARNINGS PER SHARE GROWTH WAS 10.10 %

Earnings Per Share have increased MORE than sales in this period.
 (more) (less)

Explain Apparent Reason for Difference in Sales and Earnings Per Share Growth: Sales growth of 9.1% is similar to EPS growth of 10.1%. Company has grown earnings at a comparable rate to sales

Discuss Possible Reasons for Past Growth:

A new product was very successful .

A cyclical business that experienced recovery .

A research program has produced several new products or uses for older products .

Purchase another company .

Has taken larger share of business in its field .

Skill of management .

Will Factors Which Produced Past Growth Continue Effective for the next five years yes, yes, but less effective, no.

Answering the questions about growth at the end of Section 2 requires doing some research on the company. The company's investor relations department will send you information on request. Your library may have a directory of articles about the company. You may also research the company on the Internet. It may be useful to see what analysts from Value Line or Standard and Poor's have to say about the business. However, make your own final judgment. It is part of the "learn by doing" process.

Value

Value in the Stock Check List is measured by relating the current Price/Earnings Ratio to the historical average Price/Earnings Ratio.

Review the share price growth rate over the last 5 years compared to the growth rates for sales and EPS. If share price is growing faster than sales and EPS, it suggests an over-priced situation. In Part 3 the simple (rather than compounded) growth rate is used for comparison.

Buying at the right price is a key to investment success. Look for a current P/E Ratio lower than the average P/E Ratio, or in the lower range of its historical P/E Ratios. (This will allow room for the P/E Ratio to expand to a former average or high P/E Ratio.)

Averages	57.10	39.66	26.8	18.3
Average of High and Low Price Earnings Averages for the past five years.				22.7
Present Price is <u>HIGHER</u> than high price five years ago. (higher) (lower)				
Present Price is <u>248.9</u> % higher than the high price 5 years ago. Compare this figure with the percent sales increase in 1 (10) and percent earnings per share increase in 2 (10).				
The price change compares with sales growth and earnings per share growth <u>UNFAVORABLY</u> . (favorably) (unfavorably)				
This stock has sold as high as the current price in <u>0</u> of the last 5 years.				
In the past five years the stock <u>HAS</u> sold at unusually <u>HIGH</u> price earnings ratios. (has) (has not) (high) (low)				
The Present Price Earnings ratio is <u>41.5</u> .				
In relation to past price earnings ratios the stock is currently				
<input checked="" type="checkbox"/> selling at a higher ratio				
<input type="checkbox"/> selling about the same				
<input type="checkbox"/> selling lower				
The average price earnings ratios of the past might be expected to continue <u> </u> , or should be adjusted to <u>25.0</u> high, <u>15.0</u> low.				

Historic Price Valuation on the Stock Selection Guide & Report

Conclusion

Part 4 helps you decide whether the sales and earnings per share growth meet your objectives and whether the present stock price meets the fair value requirements. If all 4 statements are positive, then the conclusion is favorable. Refer to Classic Plus's **Help** for further details.

When you are comfortable using the Stock Check List, move on to learning the Stock Selection Guide. It provides a more detailed assessment of a company.

A favorable conclusion from the Stock Check List is a 'green light' to go ahead and examine the stock further by doing a Stock Selection Guide.

A negative conclusion suggests that the company is unlikely to pass the more stringent evaluation of the Stock Selection Guide. It would be a better use of time to look for another company to study.

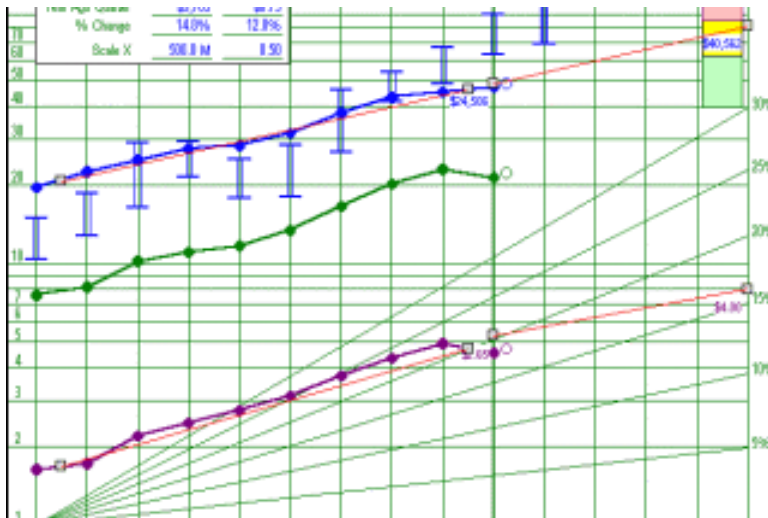
Stock Selection Guide Graph

6

The SSG Graph records and measures historical growth for sales and earnings. The chart shows the consistency of that growth. The estimate of future growth comes from your understanding of the company's future potential.

Introduction

The Stock Selection Guide **Graph** is used to measure how well the company's management has been able to grow sales (or revenues) and earnings over the past 5 to 10 years.



Past growth is an indication of how the company may perform in the future. Future sales and earnings growth drives the growth of the stock price, producing the appreciation from your original stock purchase price.

The SSG Graph can reveal significant information. Its purpose is to display all the important information in one simple report.

SSG Graph Items

Blue line	Sales or revenues (same color as the labels at bottom)
Magenta line	Earnings per share (same color as the labels at bottom)
Green Line	Pre-tax income (experienced level)
Blue Bars	Yearly high and low prices
Circles	Quarterly results (if any)
Price Zone Bar	Buy, Hold, Sell zones as calculated in Part 4 (experienced level)
Data Labels	Start and end values for projected lines
L, M, or User Set	Least squares, Mid-point, or user set projection
Scale X	In Recent Quarterly Figures box, the scale factor for the data indicated.

SSG Graph Objectives

Objectives

Your objectives for the Stock Selection Guide Graph (SSG) are:

1. To assess the consistency of historical growth for sales and earnings per share (by observing the smoothness or jaggedness of the lines)
2. To measure historical growth of sales and earnings (by drawing trend lines for each)
3. To project sales and earnings growth 5 years into the future (by researching the company to determine if past conditions are likely to continue).

It is very important to be informed about the company's past growth, strengths, and weaknesses. You should also research the company's current and future plans. Such knowledge helps you to make more reasonable judgments about the company's potential for growth.

Operation

Beginner

With the Beginner mode selected, Classic Plus prompts you through the steps of your analysis.

Refer to the Company Data section of this manual regarding data choices for a company study.

To display the SSG Graph from the Main Page, check SSG Graph. If you choose to enter the data yourself, the graph will be without data. The **Prompt Window** will guide you to enter data and make judgments about the growth and consistency of the company's sales and earnings.

If a study has been completed, the graph will show both trend and projection lines. The beginner may choose to bypass the step-by-step data viewing and entry process. Disable the data entry window and then work directly with the graph.

If you have loaded a company from Datafiles, the data will be already entered and you can immediately begin your evaluation.

Context-sensitive **Help** is available at all times. Point and then click with the right mouse button. Select **What's This?** and **More Help** for an explanation of the data. **Stock Wiz** can be called to interpret data circled in red. Additional information is available from the on-line **Help** accessible from the menu line or the F1 function key on the keyboard.

Experienced

To enter data from the keyboard, click the Data Entry icon in the **Prompt Window**. Enter the company data in the tabbed windows.

An imported Datafile will show the company data plotted on the graph but there will be no trend or projection lines drawn.

Retrieving a completed study from the database will show all the information and/or judgments as previously set.

Right-click on the Graph to show the selection of items for graphing. These include Sales, EPS, Prices, Pre-tax Income, Recent Quarterly Figures, Computer Projections (mid-point or least squares), and Price Zone Indicator. Left-click to make your choices.

Assessing Consistent Growth - Step 1

The Stock Selection Guide Graph gives good visual information about a company's growth. Smoothly rising lines show that management is growing the sales and earnings steadily. It is relatively easy to draw the trends and projections for such data, because consistent growth tends to be followed by more consistent growth.

When the sales and earnings lines show peaks and dips, it suggests that management has had a difficult time growing the company consistently. It can be difficult for even an experienced investor to decide how to draw the trend lines. The inconsistencies must be investigated and then decisions made about whether they are likely to reoccur.

Measuring Historical Trends – Step 2

Your next goal in the SSG Graph is to measure the growth (slope) of the sales and earnings per share (EPS) lines. The computer will draw the trend lines according to a formula. You may adjust the trend lines according to your judgment. See the section below called “User-Drawn Trend Lines” for more information.

Trend and Projection Lines

The red trend and projections lines placed on the plotted data to measure and project growth should be looked at as the electronic equivalent of a ruler. Your objective is to move, drag and drop, the ends of the ‘ruler’ to conform to the information you want to measure. This gives you the flexibility equivalent to the paper and pencil method used with the traditional SSG form.

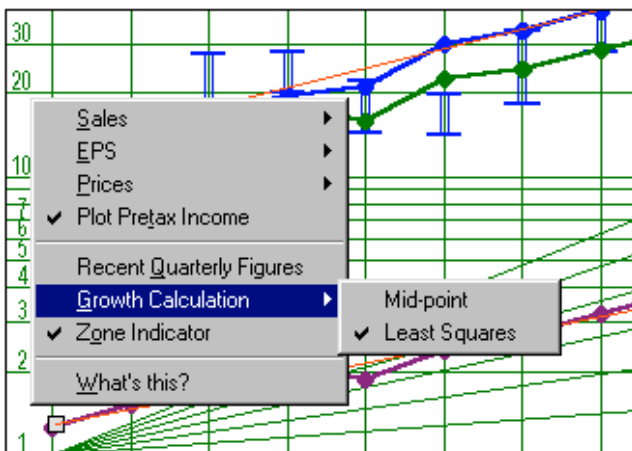
Computer-Drawn Trend Lines

In Beginner mode, the trend line (when first displayed) shows the least squares calculation for historical growth.

experienced In Experienced mode, you may choose between least squares or mid-point for the default growth measurement. At the bottom of the SSG Graph note the growth rate for the calculated method or the user-drawn trend.

Least Squares Method

This is the Classic Plus default setting for growth. Check the Formulas section below for more information.



Mid-Point Method

A second mathematical choice is the mid-point calculation. This is a simpler formula (see the Formulas section) that can easily be tested and confirmed by the user. Mid-point calculation is available in the Experienced operation mode.

User-Drawn Trend Lines

The computer places the trend line near the historical data. Consider the red trend line as your electronic ruler, showing the slope of the data growth. Click and drag and drop each of the end markers to place the line over the data you want to measure.

There are times when you will want to focus on specific data. You may wish to measure the growth of the last few years because it better represents the company's current situation than an earlier period. You may wish to measure the full 10-year period and compare it to the last 5-year period.

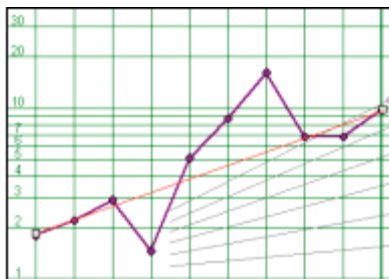
Understanding past growth gives insight for when you are later estimating future growth rates.

Which Method to Use?

There are various ways to draw the trend line. You may wish to test each of the following methods.

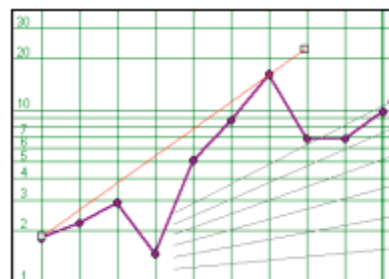
Inspection Method

Your eye and brain can spot a trend. This method will yield somewhat similar results to the least squares default setting for growth. In the example on the left, the trend line is drawn to primarily assess growth in the latest 3 years.



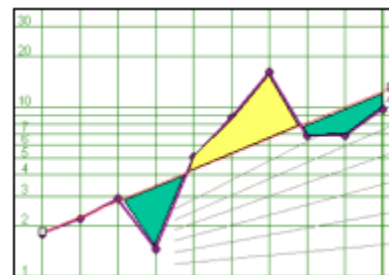
Peak Method

This method draws a trend line through the highest peaks of the plotted data. Experience shows that this method works well for cyclical companies (i.e. companies such as autos or oil and gas) whose profits ebb and flow over several years, rather than moving on a steady upward growth pattern.



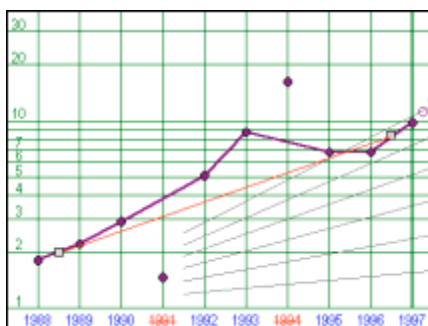
Area Method

This method places the trend line so that data plotted falls on either side of the line to form equal areas on the top and the bottom of the trend line.



Generally you will find that the methods will yield similar percentage results unless you have widely ranging data as in the above example. Eventually you will adopt a style that is right for you and alter it to suit the circumstances of the company.

Excluding Years



Classic Plus allows you to exclude years of data that don't fit the trend. Excluding or including a year can be done by left-clicking on the year label at the bottom of the graph. This automatically resets the historical trend line to the computer calculation.

The example shows a dip and a peak excluded from the least squares calculation.

Projecting Future Growth – Step 3

Once the historical trend lines are drawn, your task switches to projecting the future. The process is similar for both sales and EPS.

There is one critical part to projecting future growth. You must know enough about the company to predict whether it will increase, decrease, or maintain its past growth into the future.

See “Interpretation“ later in this chapter.

Factors Contributing to Growth

Consider various influences on the company before projecting future growth. Key reasons for past success may or may not be still applicable.

1. Constant flow of new products
2. Application of old products to new and different problems
3. Expanding markets
4. Competition
5. Geographical expansion
6. Mergers or acquisitions
7. Retention of earnings to finance future growth

Guidelines for Projecting Growth Rates

Here are some guidelines for projecting future sales and EPS growth.

1. The computer-calculated projections (least squares or mid-point) can be useful when companies are very regular in their growth. However, for companies with irregular pasts or losses in any given year, these mathematical projections can be totally irrelevant.
2. Projected EPS growth should be equal to or less than sales growth. The only exception would be if the company is in a turnaround situation where profitability is expected to improve.
3. It is difficult for most companies to maintain growth at more than 15% for long periods. Very few can sustain 20%. Keep these limits in mind when doing your projections.
4. Confirm that the latest quarterly sales and EPS percentages are equal to historical growth trends and are keeping up with your growth projections. (Right-click on the graph to show the Recent Quarterly Figures box.)
5. Make sure that you project for 5 years by starting your projection from the data point for the latest quarter. (See “Projecting a Full 5 Years“ later in this chapter for details.)
6. Test your EPS projection by using the Preferred Procedure. Sales tend to be more consistent than EPS and thus are easier to project. The Preferred Procedure uses projected sales to calculate projected EPS based on past profitability, taxes, etc. See the Preferred Procedure section for more details.

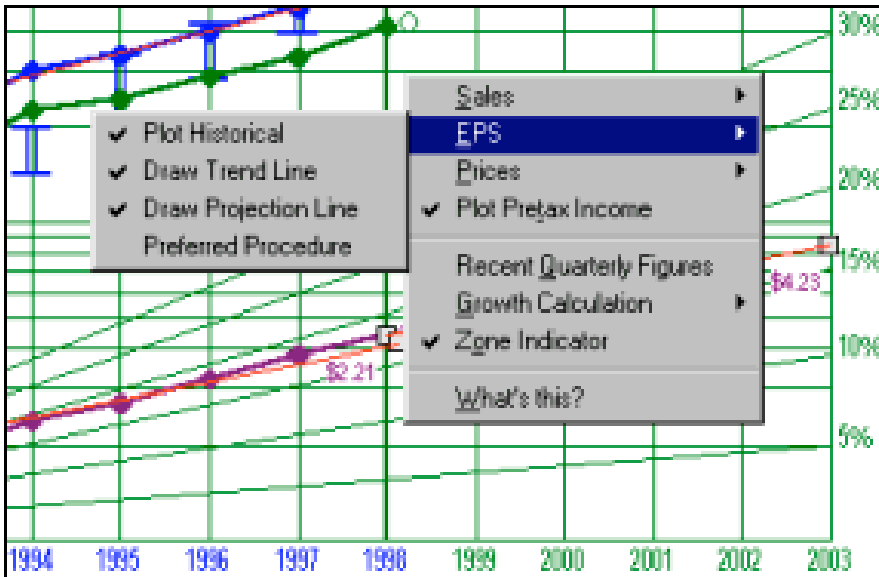
experienced

experienced

Setting Future Growth Rates

The Beginner can follow the **Prompt Window** instructions to set future growth rates.

Another method is to click the graph with the right mouse button and select Draw Projection Line. Then drag the projection line end markers to show your future growth rate at the bottom of the graph.



To set a specific growth rate figure, right-click on the yellow Estimated Future label at the bottom of the graph. Call up the Enter Judgment window to enter your projected growth rate.

Resetting Trend and Projection Lines

To reset judgment in the SSG graph use the **Options** menu item and select Reset Judgment. This will re-set values as when data was first entered.

Recent Quarterly Figures

At the Beginner level, the Recent Quarterly Figures box is displayed in the upper left section of the SSG after quarterly data is entered. At the Experienced level you may display the information by clicking with the right mouse and selecting Recent Quarterly Figures.

RECENT QUARTERLY FIGURES		
Mar 1999	Sales	EPS
Latest Quarter	\$6,638	\$0.84
Year Ago Quarter	\$5,783	\$0.75
% Change	14.8%	12.0%
Scale X	500.0 M	0.20

You may display or hide this box to better view data plotted behind it. The Recent Quarterly Figures will always be included in the printed report. The last quarter date is set in the quarterly data entry window.

Review the information in this area and confirm that it is consistent with historical and projected growths. Variations from your expectations should be

investigated. The Scale X line shows the scale factor used for the sales and EPS plotted data.

Pre-tax Income

experienced

Plotting pre-tax income helps to visualize and understand the relationship between sales and earnings. For the ideal company, these lines would be parallel. Often they are not and indicate potential areas for further investigation.

When pre-tax income grows at a faster rate than sales, it shows management's ability to control expenses. It could also be due to price increases of the company's products or services. The first is desirable while the second is probably short-lived.

If earnings grow faster than pre-tax income, then taxes may have been lowered or the number of shares may have been reduced.

Knowing and understanding these relationships may help with your stock study. Assess how these factors may affect the company before you do your projection of earnings.

Preferred Procedure – (projecting EPS from Sales)

experienced

This projection method uses projected sales as a starting point for calculating future EPS. This is a preferred procedure because sales can usually be projected with greater confidence than earnings.

To access this window, click the SSG Graph with the right mouse button. From the EPS item, select Preferred Procedure.

Use this method to confirm that your initial EPS growth projection seems reasonable. In this window the items on the left are used to calculate projected EPS. Projected sales growth must be set to your expected future sales growth rate.

Operation

Adjust Values	
Start Sales (Millions - \$)	12421.400 R
Sales Growth (%)	8.6 R
Pre-tax Profit on Sales (%)	21.1 R
Tax Rate (%)	33.5 R
Preferred Dividends Paid (Millions - \$)	0.000 R
Number of Shares (Millions)	1356.200 R
Start EPS (\$)	1.14 R

EPS Results	
Resultant EPS Growth (%)	11.2
Resultant EPS (\$)	1.94

Yearly Values	
Tax Rate (%)	
Fiscal Year 1998	32.8
Fiscal Year 1997	31.8
Fiscal Year 1996	30.4
Fiscal Year 1995	34.2
Fiscal Year 1994	35.1
Fiscal Year 1993	35.4
Fiscal Year 1992	33.8
Fiscal Year 1991	33.8
Fiscal Year 1990	35.6
Fiscal Year 1989	37.2

As you select an item from the left, the right grid shows up to 10 years of historical data. Review the historical data and anticipate the future trend for each as a basis for setting your value.

The default value for this calculation is either the average for the item or a value derived from previous settings. The R button resets the item value to the default value.

For Tax Rate and Pre-tax Income on Sales cells, the historical data for the last 5 years is displayed with a yellow background. Click on a yellow cell to exclude or include the value from the average calculation.

You may change a value to test the effect of:

Item	Description
Start Sales (or revenue)	Starting sales figure for sales projection, select from last year or the last cumulated 4 quarters.
Sales Growth	Percentage increase you anticipate
Pre-tax Inc on Sales	Profitability or pre-tax profit margin

Tax Rate	Tax rate percentage
Pref Dividend Paid	Amount paid to preferred shareholders. Entered in the Company Data window.
Number of Shares	Common shares outstanding
Start EPS	Starting value for EPS projection, select from last year or the last cumulated 4 quarters.

Press the ENTER key or click the Calculate button to show the resulting future EPS amount and EPS growth percentage. Click OK to alter the projection lines in the SSG graph.

Interpretation

How Much Growth?

A company's sales growth is the key ingredient for successful investing. Sales growth supports all the company activities that produce earnings growth, and price appreciation flows from sales and earnings growth over time.

A company's past record of sales growth can be a good hint to its potential for future sales growth. If your goal is to earn a compounded return of 15% per year for your portfolio of stocks, you must ensure that there is sufficient potential sales growth in your portfolio of companies.

Sales Growth by Company Size

Generally, larger companies grow more slowly than smaller companies. Check the latest yearly sales figure to determine whether a company is small, medium, or large in size. Then make sure that your projected sales growth seems appropriate for the size of the company.

Company Size	Annual Sales	Sales Growth
Small	Under \$500 Million	Greater than 12%
Medium	\$500 Million to \$5 Billion	7% to 12%
Large	Greater than \$5 Billion	5% to 7%

Is It Quality Growth?

The Stock Selection Guide Graph also reveals the quality of growth. This is defined as the consistency of growth from year to year. A company with straight (or nearly straight) data lines moving in an upward fashion shows the quality characteristic.

It is easier to project future sales and earnings for companies that have shown steady growth over 5 to 10 years. Their track records suggest that management has the ability to grow the same way in the future.

It is more difficult to predict the future growth of companies with jagged data lines on the SSG Graph. Such irregular growth may be due to management's difficulty in controlling its business.

Such irregularity may also represent the past growth for a company in a cyclical business. A cyclical business is one in which sales may ebb and flow according to the economic cycle. For example, oil or auto companies do not grow at a consistently even rate but rather are somewhat affected by outside influences beyond their control.

Review the sample companies in the “**Getting Started**” section for examples of quality and growth.

Other Notes

Updating

SSG Graph projections, once set, may remain unaltered until a new year of data is available or until some other indication prompts a review. In this way, you can compare new quarterly sales and earnings results with your projections for growth to see if the company is meeting your expectations.

As each new year of company data becomes available, update your information. (See Chapter 4 for details.) At that time reapply your judgment in the SSG Graph. Redraw the trend lines and project the growth based on your new information about the company.

Non-recurring Items

experienced When a company's latest year's results include an unusual circumstance (called a non-recurring item), you can alter the starting point for your projection line in order to compensate for the event. This usually happens with EPS. Click and drag the left side of the red projection line to the starting value you wish to use.

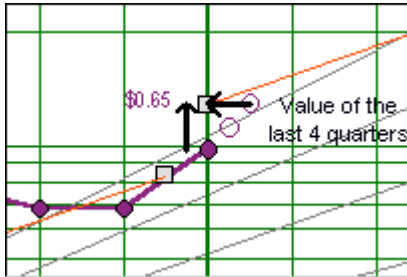
Projecting a Full 5 Years

experienced If you do your first study of a company after the 1st, 2nd, or 3rd quarter figures have been announced, your normal projection line could be for less than 5 years ahead. This

results in an understated projected EPS figure.

To show a full 5-year projection, you must make the starting point equivalent to the value of the latest cumulative 4 quarters of earnings.

To see the value of the last data point (note the example below), hold the cursor over the last quarterly circle on the graph. Then click and drag the left end of the red projection line upward to the same value as this circle point. Starting from this value means that you are projecting for a 5 full years.



This figure shows the EPS starting point for the projection line set to \$0.65 (the latest cumulative 4 quarters of earnings).

To enter an exact EPS starting figure, use the Preferred Procedure window. Type in the EPS starting figure (or click the R for reset and select the cumulative figure) and click Calculate and OK. Then adjust the slope of your projection line.

Formulas used in the SSG Graph

Growth Calculations

Computer growth calculations are based on two selectable formulas, mid-point averaging and least squares.

Mid-Point Growth

This is the 'simpler' formula. If the 10 years of data are 1996 to 2005, data for 1996 to 2000 is averaged and the value is placed in the middle of this time period (1998). The values for 2001 to 2005 are also averaged and the value is placed in the middle of the time period (2003). The slope of the (imaginary) line drawn between these two points is the calculated growth for the period 1996 to 2005.

For an odd number of years, Classic Plus splits the data so that the middle year is counted in both averaged sums.

Note that the mid-point method does not re-calculate for excluded data.

Least Squares Growth

This formula most closely approximates the inspection method for measuring growth. This calculation uses the logarithm of the values. It is beyond the scope of this documentation to describe the statistical method used .

Earnings Projection for the SSG Graph

The 5-Year EPS projection is based on the following formula:

$$\text{5-Year EPS} = \text{Current EPS} \times (1 + \text{EPS Growth})^5$$

where EPS Growth is expressed as a decimal fraction.

No EPS projection is made if the Current EPS is zero or negative. A projection for EPS must be drawn manually for this situation. The current EPS value, unless changed, is the last reported yearly EPS.

Preferred Procedure – (Revenue Based EPS)

$$\text{Proj. EPS} = \frac{\text{Proj. Sales} \times \text{PreTaxInc on Sales} \times (1 - \text{TaxRate}) - \text{Prfd. Div.}}{\text{Outstanding Shares}}$$

Graph Scaling



The program automatically scales data so that normally, sales values are on top, pre-tax income is in the middle (shown in **Experienced** mode), and EPS is at the bottom of the graph. Scaling allows data to be displayed in optimal positions.

You may adjust scaling for all plotted data. Use the right mouse button and click **Move Up** or **Move Down**. The scale factor is shown in the **Recent Quarterly Figures** box. To see the value for a data point, touch the data point with the cursor.

The scale factors used are multiples of 1, 2, 5, e.g. 0.1, 0.2, 0.5, 1.0, 2.0, 5.0, 10, 20, 50, 100, etc.

Stock Selection Guide - Analysis

The Analysis section of the SSG looks at management skill and price valuation. It also assesses the potential rewards (and risks) of investing in the company at the current stock price.



Introduction

The Analysis section (or the back side) shows Parts 2 to 5 of the Stock Selection Guide. Each deals with a unique aspect of the stock study and should be completed. In the Analysis you will:

1. Evaluate the quality of management (Part 2)
2. Review historical Price/Earnings Ratios (P/E Ratios) to a greater extent than in the Stock Check List (Part 3)
3. Evaluate future reward and risk (Part 4), and
4. Measure the potential return of your investment (Part 5)

Data for analysis comes from the Yearly Data window. Review the Formulas section at the end of this chapter for details on calculations for Parts 2 to 5 of the SSG.

Use **Stock Wiz** for interpretation of data items circled in red.

The Beginner should continue to follow the step-by-step instructions in the **Prompt Window**. The Experienced user will have a variety of alternatives referenced throughout this section.

Part 2 - Evaluating Management

Company results are directly related to management's abilities. Part 2 reviews two aspects of management's historical performance: profitability

(also called %pre-tax profit on sales or pre-tax profit margin) and return on equity (also called %ROE). Good results in these areas can give the investor confidence that management has the ability to perform well in the future.

Objectives

In Part 2 - Evaluating Management your objectives are:

1. To determine whether year-to-year results are consistent or trending upward.
2. To determine whether annual results are superior and compare well to the best companies in their industry.

Operation

Your task is to observe the data and come to some conclusions about company performance.

There are occasions when an unusual occurrence may skew the data for a particular year. The cursor will change as you move over the yellow cells. This indicates that you can exclude values from the calculation of the average.

Set the **Trend** for each of the management areas by clicking the right mouse button and selecting User judgment. The choices are: **Up**, **Down**, **Even** and **Varying**.

Reset Judgment sets the trend to the computer-calculated value.

2 EVALUATING MANAGEMENT		JOHNSON & JOHNSON Classic										Sep. 24, 1999	
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	LAST 5 YEAR AVG	TREND	
A % Pre-tax Profit on Sales	15.5	14.4	16.4	16.0	16.5	17.0	17.6	18.7	20.2	18.0	18.3%	VARYING	
B % Earned on Equity	26.1	23.3	26.0	31.4	32.1	28.2	26.6	26.6	26.7	22.5	26.1%	DOWN	

In the Johnson & Johnson example you may interpret the 10-year trend as Even and alter the computer trend for % Pre-tax Profit on Sales. Whichever choice is made, the high numbers identify that Johnson & Johnson has quality management.

Determining Consistency and Trends – Step 1

Examine the year-to-year results, watching for variations in the figures. Make sure the trend for the past 5 years is fairly consistent or trending up. If trending downwards or variable, it shows that management has had some

problems. For these situations, you will need to investigate the reasons for the poor or variable results. This makes the study potentially challenging. A beginner would be wise to consider studying a different company.

Numbers within a variation of + or – 5% from the 5-year average are considered consistent (i.e. if the average is 20% then the variation would be from 19% to 21%). In the Trend cell at the end of each data line favorable consistency is shown by an ‘Even’ or ‘Up’ trend.

Industry Comparison – Step 2

Confirm that the company has high profitability and high return on equity numbers in relation to other companies in its industry. Use the Favorite Sites section of Classic Plus for Internet access to this type of information.

Value Line provides an industry summary page useful for comparison to the industry average. If you use the Datafiles and have the Stock Prospector program you can screen for and report on industry averages.

High and consistent (or increasing) numbers for profitability and % return on equity indicate management is doing a good job of controlling costs and using shareholders’ investment to produce a profit.

Interpretation

Profitability

% Pre-tax Profit on Sales (also called Pre-tax Profit Margin) measures how well management converts sales dollars into profits, after paying all the expenses of making and selling the products or services. Look for profitability of 12% to 15% or better. High margins help a company cope more successfully with competitive pressures and allow pursuit of more business opportunities.

Profitability numbers depend upon the type of business the company is running. The grocery business typically has low profit margins. That is why you should compare profitability figures among companies in the same business or industry or compare to an industry average. A company with high numbers within the industry is likely a leader in its field. Investing in leaders is usually a good practice.

Return on Equity (ROE)

% ROE measures the amount of money (the return) made by the company in relation to the amount invested (the equity). Equity includes money

shareholders have invested by buying shares, plus profits reinvested by the company over time. Higher %ROE numbers usually indicate superior management. However, balance sheet leverage (debt) and buyback of stock can skew these numbers.

Numbers of 10% to 12% or higher are good results for % ROE. These figures will also vary according to industry, although not as much as for profitability.

Summary of Part 2 - Evaluating Management

High and consistent numbers in Part 2 of the Stock Selection Guide tend to identify quality companies that are industry leaders. Industry leaders usually have advantages over their competitors, making them less vulnerable to economical and political risk.

Even and up trends are positive indicators and are also signs of well-managed companies.

Part 3 - Price-Earnings History

Part 3 of the Stock Selection Guide helps you to determine if a company is reasonably valued at the current stock price. The measurement of the stock's value is the Price/Earnings Ratio. Current P/E Ratio is calculated as:

$$\frac{\text{current stock price}}{\text{sum of latest 4 quarters EPS}} = \text{Current P/E Ratio}$$

Think of the Price/Earnings Ratio as the price investors are willing to pay for \$1 of a company's earnings. In the example below, investors are willing to pay \$20 for each \$1.00 of earnings.

$$\frac{\$24.00}{\$1.20} = 20 \text{ (P/E Ratio)}$$

Historical P/E Ratios could vary due to:

1. Changes in the company's business.
2. Competition.
3. Political and economical trends.
4. Investors' confidence (thus we have "bull" and "bear" markets).

The first two items are important because they affect the future growth of the company. The last two items also affect the stock price but are not necessarily due to the successful growth of the company. Such situations may tend to skew the company's historical and current P/E Ratio valuations.

In Part 3 the company's current P/E Ratio is compared to its historical average P/E Ratio. If the current P/E Ratio is lower than the average P/E Ratio, then the stock is considered reasonably valued.

Data used for Part 3 calculations is recorded in the Yearly Data window.

Objectives

1. Examine the various columns of data, looking for numbers that seem unusual from the norm.
2. Look for a trend in the numbers. High and low prices, EPS, and dividends if any (A, B, C, F) should be increasing. High and low P/E Ratios, and payout ratios (D, E, G, H) should be fairly constant.
3. Compare the current P/E Ratio to the historical P/E Ratios to discover whether it is currently at the upper, lower, or middle of its historical range. This shows whether the stock is a good value currently.

Operation

Part 3 operation mainly involves examining data.

Data in any of the yellow cells may be excluded from the average calculation. (For details see the next section, "Looking for Unusual Figures.")

You may also decide to use an average figure more representative of historical norms. Click on the cell with the right mouse button, select User Judgment, and enter the value from the keyboard.

Looking for Unusual Figures – Step 1

Look at the columns of data for numbers that seem abnormally high or low. A number may properly be excluded if:

1. A value varies by more than 50% from the average, and

- You are satisfied that whatever happened to cause the problem has been corrected by the company and is not likely to re-occur.

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

Current Price: \$98.00 52 Wk High: \$98.00 52 Wk Low: \$69.00 Dividend: \$1.12

Year	A PRICE B		C Earnings Per Share	D E Price Earnings Ratio		F Dividend Per Share	G % Payout F=C X 100	H % Hi. Yield F=B X 100
	HIGH	LOW		HIGH (A÷C)	LOW (B÷C)			
1 1994	\$28.25	\$18.00	\$1.56	18.1	11.5	\$0.56	36.2%	3.1%
2 1995	\$46.19	\$26.81	\$1.86	24.8	14.4	\$0.64	34.4%	2.4%
3 1996	\$54.00	\$41.56	\$2.17	24.9	19.2	\$0.74	33.9%	1.8%
4 1997	\$67.31	\$48.63	\$2.47	27.3	19.7	\$0.85	34.4%	1.7%
5 1998	\$89.75	\$63.38	\$2.27	39.5	27.9	\$0.97	42.7%	1.5%
6 TOTAL		\$198.38		95.1	64.8		138.9%	
7 AVG.		\$39.68		23.8	16.2		34.7%	
8 AVERAGE PE			20.0	9 CURRENT PE	37.0	EPS=\$2.65		

Projected Values: PE=36.2 EPS=\$2.71 EPS Gr=8.6%

High, wide ranging, or rising P/E Ratios can pose a judgment problem for beginners.

Note the Projected Values line that can be optionally set at the Experienced level.

Looking for Trends – Step 2

You should expect prices and EPS to increase over time. These are the same items plotted on the SSG Graph.

More importantly, you should note if the P/E Ratio columns D and E show any trends up, down, or if P/E Ratios keep within a range. P/E Ratios that vary substantially present challenges for analysis. They will likely reflect the variable conditions that you may have observed on the Graph.

P/E Ratios that are greater than 50% of the average make assessment more difficult and involve greater risk. Numbers that vary much more than this should be flags indicating volatility and/or questionable management. Circumstances for these numbers should be investigated.

The P/E Ratios for Johnson & Johnson have been rising. This has been due to investor confidence in the future of the company and also the economy in general. This is good but will tend to show the company as overvalued.

For companies paying dividends, look for steadily rising figures. Also, look at the dividend payout to make sure that it is not excessive. 60% or higher is excessive.

Determining Value – Step 3

Most companies evolve slowly. Over a period of 5 years or more the high P/E Ratio to low P/E Ratio spread for a company remains fairly constant. Differences in P/E Ratio are most likely due to investor perception rather than any meaningful change in the company (i.e. unusual EPS results). Therefore, the historical average P/E Ratio becomes the basis of comparison for value. The average high and average low P/E Ratios are characteristic of the company's valuation range.

Interpretation

Share price is affected by company performance as well as economic factors and investor sentiment. The last two items tend to move Price/Earnings Ratios up and down within a normal characteristic P/E Ratio range for the company. Looking at historical P/E Ratios helps to formulate this characteristic range.

The long-term investor should be prepared for long periods of pessimism in the market. In pessimistic periods, P/E Ratios tend to decline, even as a company continues to grow.

The 1965 - 1983 years were such a period of low P/E Ratios. As a company announced a year of 15-20% growth, the market would drop the P/E Ratio 2 to 5 points. This was a discouraging period, but a time for the accumulation of tremendous values.

The 1990s were just the opposite. P/E ratios in the 50-60 range were not uncommon. Eventually, though, the bull market ended with a resounding thud and P/E Ratios were substantially reduced.

P/E Ratio

The average P/E Ratio in cell 8 of Part 3 represents the historical valuation for the stock. Compare this with the current P/E Ratio in cell 9. A current P/E Ratio which is less than the historical average is deemed to be 'undervalued' and 'on sale.'

Earlier you learned that price goes up when earnings grow.

Share price also can increase due to the effects of P/E Ratio.

When you buy a stock with a current P/E Ratio below the average P/E Ratio, you have the opportunity to benefit from P/E Ratio expansion. If the company continues to increase sales and earnings and attracts investors' attention, then the P/E Ratio is likely to move upward, bringing the stock price higher.

Leading P/E Ratio

experienced The experienced investor may make a second value assessment based on a leading P/E Ratio calculation. A leading P/E Ratio is used because the market normally prices a stock in anticipation of its future earnings performance.

For a leading P/E Ratio, the EPS is usually estimated 4 quarters ahead. Look at the Projected Values line at the bottom of Part 3 for this information.

To display the Projected Values line, right-click on Part 3 and select **Part 3 Extras**. Alternatively, select **Part 3 Extras** from the **Options | Preferences | SSG Analysis** menu item.

3 EPS Choices for Projected Values Calculation

Your choice of EPS estimate depends on what data you have available and how confident you are of the data. Right-click on the EPS value within the Projected Values line. Select your EPS choice from the **Projected P/E Ratio Calculations** item.

- Last 4 quarters EPS uses estimated data you entered in the Quarterly Data window beyond the latest quarter (above the yellow line).
- ACE Forecasted EPS uses the Analysts' Consensus Estimate (ACE) figure entered in the Company Data window (or automatically from a Datafile) for the current year's expected EPS.
- EPS Growth uses your EPS projection from the SSG Graph. (1 year forward)

For choices 2 and 3 above, you may set the number of estimated quarters to calculate a leading P/E Ratio. Right-click on the EPS value within the Projected Values line. Select the number of quarters from the P/E Ratio Lead Period item.



For most companies a possible lead period would be between 2 and 4 quarters. Generally the faster the company grows the longer the lead period. This makes the estimate less certain and increases risk.

Trends

Be wary of an unusually low current P/E Ratio. Note where the current price sits in relation to the 52 week high and low prices (top line of Part 3).

A current price substantially lower than the 52 week high should be looked at suspiciously. It may suggest that the company can be bought at a bargain. However, it could also suggest potential problems. Review the management performance in Part 2 and the latest quarterly results to learn more about the company.

You may want to refer to VL or S&P reports for their analysts' comments.

Payout Ratio

Note the consistency of growth for dividends and expect it to match EPS growth. If it does not, you will see this reflected in the payout results. (Dividends are paid from earnings. If earnings go down, the percentage of earnings paid out as dividends will rise.)

A growth company should use earnings to finance future growth. A payout much above 15%-20% would likely affect the company's growth.

Warning Be concerned about the dividend if the payout ratio is greater than 60%. A high payout could make the investment vulnerable to a dividend cut. If the company experiences a bad year with lower earnings, it may be unable to support its dividend and may decide to lower the dividend paid. The investor will lose in two ways: from the dividend cut and from the lower share price which will result.

Be aware that some industries, i.e. utilities, regularly pay a high dividend due to the basic structure of their businesses.

Part 4 - Evaluating Risk and Reward

Figures developed in Parts 1 and 3 of the Stock Selection Guide are used in Part 4 to set buy, hold, and sell zones. The risk of buying the stock at the current price should be reasonable in comparison to the possible reward.

Objectives

1. Develop a high price that the company may reach within the next five years.
2. Choose an estimate for the lowest price to which the company may fall during the next five years.
3. Note where the current price sits within the price zones and note the upside-downside ratio.
4. From the current price, note the potential price appreciation over the next 5 years.

Operation

Review the figures being used to calculate the high and low prices.

Yellow cells can be altered. Do this if the calculated numbers don't reflect your expectations for the company's future. Click on an item to alter a value or right-click and choose **Judgment** from the menu items.

Developing a Potential High Price – Step 1

Part 4A develops the highest price possible within the next 5 years. This is the product of the average high P/E Ratio and the estimated high EPS (from the SSG Graph).

Determine if the average high P/E Ratio is reasonable by comparing it to the expected EPS growth rate. An average high P/E Ratio more than 1.5 times the expected EPS growth rate could be considered excessive in most instances.

Confirm that you still agree with your estimated high EPS. This future 5-year EPS was developed in the SSG Graph as you made judgments about the future sales and earnings for the company and drew your EPS projection line.

Finally, look at the 5-year ranges for both high and low prices. See whether prices have increased. Look at the current price and where it fits within its latest 52week period. Then consider the growth necessary for the current price to reach the forecast high price. (e.g. Will it need to double or triple?)

4 EVALUATING RISK and REWARD over the next 5 years			
Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.			
A HIGH PRICE - NEXT 5 YEARS			
Avg. High PE	23.2	X Est. High EPS	\$4.00 = Forecast Hi Pr \$95.06
B LOW PRICE - NEXT 5 YEARS			
(a) Avg Low PE	16.2	X Est. Low EPS	\$2.65 = \$42.93
(b) Avg Low Price of Last 5 Years =			\$39.68
(c) Recent Severe Market Low Price =			\$18.00
(d) Price Dividend WMI Support =			\$35.68
		Estimated Lo Pr	\$65.00

If you are not comfortable with your forecast high price after these considerations, click on the yellow cell to alter the value. Applying judgment is a very important element of doing stock study. It is usually better to use a conservative high price and have a pleasant surprise, than to be aggressive and have a negative one.

Estimating the Low Price – Step 2

Choosing a low price is very important for developing the zoning price ranges and for calculating your risk when buying at the current stock price. The low price should be the lowest price to which the company could drop, in the worst case scenario. Obviously, it must be lower than the current price.

The low price makes the most impact on the size of the upside-downside ratio.

In Part 4B several possible low prices are available.

Review Part 4Ba to decide whether you would like to revise figures for any of the yellow cells. The low EPS defaults to the EPS for the last fiscal year in cell 5C. This assumes that this growth company will not earn less during the next 5 years than it did last year.

experienced

Cell 9 displays EPS based on the last 4 quarters (if you have selected to show Part 3 Extras by clicking the menu line: **Options | Preferences | SSG Analysis**). Using this EPS for the calculation of a low price is slightly more aggressive than using the last fiscal year EPS from Cell 5C.

Other choices for forecast low price available from the pop-up window are:

1. 4Bb: Average low price of last 5 Years. This may be used for cyclical companies, such as auto manufacturers.
2. 4Bc: Recent severe market low. This may be used when the overall market has dropped in the last 2 years.
3. 4Bd: Price dividend will support. This is used for larger companies paying a dividend that contributes significantly to the total return in Part 5C of the SSG. This price is low enough to produce a high dividend yield that competes with other income investment vehicles for investors' money.
4. Estimated low price. You may also type in your own exact figure for this low.

Unreasonable upside-downside ratios (10 or more) most often result from unreasonable low price estimates. Make sure that the lowest price to which the stock may fall is not too close to the current price.

Zoning and the Upside-Downside Ratio - Step 3

What is the goal?

Part 4C of the Stock Selection Guide subdivides the range between your estimated high and low prices. These are labeled buy, hold, and sell zones.

The upside-downside ratio compares the potential upward price movement from the current price (your gain or reward) to the potential downward price movement (your loss or risk). Look for a minimum three-to-one ratio, so that the potential gain is 3 times greater than the risk.

The default setting for zoning divides the range into equal segments by thirds (33/33/33). When the current stock price is at the top of the buy zone, it will have an upside-downside ratio of 2 to 1. In this price position you have one third to lose and two thirds to gain.

The current price should be low within the buy zone for a 3 to 1 U/D ratio. See the When to Sell section of this manual regarding what to do when the price is in the sell zone.

experienced Experienced users may choose from two zoning selections: 33/33/33 or 25/50/25. (This is done from the menu item **Options** | **Preferences** | **General**. See the Formulas section at the end of this chapter.)

The 25/50/25 zoning provides a narrower buy zone and an upside-downside ratio of 3 or better if the current price is anywhere within the buy zone. A negative point, however, is that it creates a higher sell zone, delaying the point at which you should update and re-assess your analysis of the company.

Warning If you should get strange results for the upside-downside ratio, check where your current price lies. If your current price is lower than your lowest price or is higher than your highest price, then the resulting U/D ratio will not be meaningful. The upside-downside ratio will show as N/A (not applicable).

Noting Potential Price Appreciation - Step 4

Part 4E shows the potential for price growth from the current price, using a simple growth calculation. Such growth may be possible if the company can grow sales, earnings, and price as projected in the Stock Selection Guide.

A minimum goal of 100% (or the equivalent of 15% annual compounding) price appreciation over 5 years should be reached. This is growth from the current price to the high price forecasted in Part 4A.

Growing sales and earnings at 15% should result in doubling your share price within 5 years. If you can buy the stock when the current P/E Ratio is at or below the average P/E Ratio, there is a possibility that your return will be even better.

Summary for SSG Part 4 - Risk and Reward

It is important to buy a stock at a good price for the best price appreciation opportunity and to minimize the chance of loss. You may find it difficult to find high-quality growth companies with favorable upside-downside ratios. Be patient. If you really like a company, keep it in your database and follow its sales and earnings progress. You will likely find a point in time when the price declines for a while and you can buy at your desired price level.

Part 5 - Five Year Potential

It is unlikely that every company you purchase will be able to sustain 15% growth. Large companies, while often quality, stable investments, grow more slowly than small companies and are less likely to grow at 15%. These large companies should be balanced in your portfolio with faster

growing mid-sized and smaller companies, so that overall your portfolio will grow at the 15% rate.

Objective

Part 5 measures the company's potential return should you buy at the current price and the company performs the way you expect. A potential annual total return of 15% (compounded) over the next five years should be the minimum expectation.

Operation

Data for this section is derived from Parts 3 and 4 of the Stock Selection Guide. Formulas are described in the **Formulas** section at the end of this chapter.

Interpretation

The Estimated Potential Total Return depends upon your application of judgment. You became informed about the company's past successes and future potential. You then made judgments leading to the potential total return on the investment.

1. You estimated the future sales and earnings growth rate.
2. You estimated the EPS 5 years in the future.
3. You estimated a potentially highest price within 5 years.
4. You estimated a potentially lowest price.

As a result of your judgments, the potential total return on investment includes two parts:

1. The potential price appreciation (as calculated in Part 4E).
2. The average annual yield from the dividend payment.

Your total return figure should be considered in the context of the company's growth. Consider the projected growth rate for sales or earnings as a benchmark. Total return generally should be in line with the company's growth.

The company's expected growth rate *may be lower* than the total return if you buy the stock at a discounted price. If you buy when the current P/E Ratio is below the average P/E Ratio, you may benefit from P/E Ratio expansion. This means that if the company grows its earnings as you expect, the P/E Ratio is likely to increase to its average or its average high

P/E Ratio. In this way you benefit from both EPS growth and P/E Ratio expansion.

Formulas used in the SSG Analysis

Part 2 – Evaluating Management

Computer calculated trends are based on the latest 2 years of data as compared to the 5-year average. Data variations greater than 5% will trigger the trend setting: up, down, even, or varying.

Part 3 - Price/Earnings History

Simple Average

This is the normal calculation method. Divide the sum of the appropriate column by the number of entries in that column. Missing or negative data is not included in the calculation.

Part 4 - Evaluating Risk and Reward

Part 4C) Zoning Options

There are two selections for zoning. One choice is 25-50-25, which is recommended. The other is the traditional zoning, 33-33-33, which has fallen out of use with the advent of computer software. This establishes 3 ranges between the projected Low Price and projected High Price.

For 33-33-33 zoning: $\text{Zone Range} = (\text{High Price} - \text{Low Price})/3$

For 25-50-25 zoning: $\text{Zone Range} = (\text{High Price} - \text{Low Price})/4$

Buy Below Price = Low Price + Zone Range

Sell Above Price = High Price - Zone Range

Upside-Downside Ratio = $\frac{\text{High Price} - \text{Current Price}}{\text{Current Price} - \text{Low Price}}$

Part 4E Price Target

The calculation for simple price appreciation potential is:

Potential High Price - Current Price = Difference

Difference / Current Price = Result as a decimal x 100 = %Simple Growth

Part 5 5-Year Potential

A) Compounded Price Appreciation = $(\text{High Price} / \text{Current Price})^{1/5} - 1$

B) Compounded Annual Dividend Yield = $\frac{\text{EPS} \times \text{Average Payout}}{\text{Current Price}}$

where EPS = Estimated High EPS

$(1 + \text{EPS Growth})^{2.5}$

C) Potential Total Annual Return = Price Appreciation + Average Annual Yield

Stock Selection Guide Report



The Stock Selection Guide Report is an additional tool to help you refine your judgment about a company's future potential.

Stock Selection Guide Report

The final set of eight questions in the SSG Report is designed to help you decide whether or not the company studied is an investment that will meet your goals. Your decision should be based on the analysis and judgment you applied during your SSG study.

The text of the Stock Selection Guide Report provides the guidelines for interpretation. Completing each part of the Report will give a greater understanding of a company's investment potential.

Objectives

Your objectives for the Stock Selection Guide Report are:

- To review the trends shown for sales, earnings, and price growth in the SSG Graph.
- To conclude whether or not management is amongst the best.
- To review the historical price ranges and the price zoning for the stock.
- To conclude whether the stock's current price is attractive and provides opportunity for gain through price appreciation.

- To give thought to other more general considerations that could affect the company (industry potential, state of the business cycle, etc.).

Operation

The **Prompt Window** provides information for each step of the Report. Additional **Help** is available by a right-click of the mouse.

The top portion of the Report should be completed last, as it is a summary of the eight questions.

GOALS IN SELECTING A STOCK			
<p>You want to look ahead five years by judging Management capability and evaluating the Price you should pay for a stock. You should also look at Other Considerations and reach a Conclusion. Your findings are registered in the table at the right and your Conclusions below.</p> <p>Novice and professional investors to varying degrees may act hastily on new products, tips, technical clues and short term factors rather than being methodical in their decisions. Thirty years of experience with this type of report tends to show that there is a RULE OF FIVE, which is this: If five companies are analyzed for their five year future, one may have unforeseeable trouble, three may be on target, and one may have unpredictable good fortune.</p> <p>CONCLUSION: This quality company would be an excellent addition to the portfolio. However at the current price, the stock is considered too highly valued. It would be best to wait for a more reasonable price</p>	<p>(1) Our goal is to find a company with able MANAGEMENT; and (2) to buy a stock at a good PRICE.</p>		
	Good	Average	Poor
Judging Management			
Driving Force	✓		
Earned on Sales	✓✓		
Earned on Equity	✓		
Evaluating Price			
High in 5 Years			✓
Low in 5 Years			✓✓
Upside-Downside Ratio		✓	✓
Yield Current		✓	
Total Return			✓
Other Considerations			
Industry Potentials	✓		
State of Business Cycle	✓		
Stock Price Trends		✓	
Quality of Stock	✓		
Capitalization and Finance	✓✓		

Each blank is filled in directly on the Report. There are two ways to do this. Click on the blank space repeatedly to insert the appropriate choice. Or, you may click with the right mouse button and select from a list of choices. If none of the choices is appropriate, you may enter your own term or value. (Do a right-click and select Define.)

The answers to each section should come to you naturally, having studied the company and completed the SSG. If you have difficulty, you either should do more research or abandon the study and look for a company that you find easier to understand. Eventually you will have the experience to tackle more complex studies.

Summary

It is important to record your thoughts and assumptions for a study. Answering the questions in the Stock Selection Guide Report focuses your

attention on key issues and helps you to come to a greater understanding of the company. It also helps you to decide whether the company merits purchase for your portfolio of stocks.

The Stock Selection Guide gives you the ‘test scores’. The Report requires you to fill out the ‘report card’ and to assign a ‘grade’ to the company.

When you buy a company, it is useful to keep the original SSG and Report as a record and a reference. In the future, you can review your assumptions and reasons for your judgment about the company.

When to Sell

Success in stock investing is based on making careful buy decisions. However, there comes a point in time when a sell decision should be considered.

Just as you need an organized approach for buying a stock, you need an organized approach for selling. The same techniques and tools may be used in both cases.

Signs of Change

Learn to recognize the signs pointing to the need to pay closer attention to a company you hold in your portfolio.

1. Declining growth rates for sales and/or earnings and/or declining profit margins. These almost always lead to declining P/E Ratios and lower market prices.
2. Gradually declining growth rates for sales and earnings may be the result of a company transforming from a high growth to a maturing company. Watch the research and development spending rate and the company’s introduction of new products and services. If these are decreasing, they can affect the company’s future growth rate negatively.
3. If a company pays a higher percentage of earnings in the form of dividends, this leaves less to reinvest in the business of growing the company. (Check Part 3 of the SSG – payout ratio.)
4. If the company has new management, you may want to pay particular attention to what changes are made over the next 6 months to 2 years.

Reasons for Selling

These reasons are really the opposite of the reasons for buying. In both cases, the Classic Plus techniques and tools are used and judgment is applied.

1. Growth is not satisfactory. It is very difficult to achieve bottom line (earnings) growth without top line (sales) growth. Use the SSG Graph to judge this growth.
2. Pre-tax Profit margins are eroding. Use Part 2A to check the profitability consistency or growth.
3. The management's competence is under question. Examine Part 2A and B to note the consistency or growth.
4. The investment climate for the company or the industry is deteriorating and no improvement is seen on the horizon.
5. The stock is grossly overpriced. Use the SSG to check the P/E Ratio, using a 12-month leading P/E Ratio, against the 5-year high average P/E Ratio. In most instances, if the current P/E Ratio is greater than one and a half times the average high P/E Ratio and the upside-downside ratio is less than 1, it is time to consider selling.
6. (To calculate a 12-month leading P/E Ratio, the current price is divided by the sum of 4 quarters of estimated EPS, rather than actual EPS. This forward-looking EPS is used because it balances the EPS with the forward-looking price that the market tends to give a stock.)
7. The stock price is declining for no apparent reason. Institutional investors may know something you don't know. If price is declining substantially compared to the company's industry group or to the market in general, you need to investigate the cause.
8. The dividend payout ratio in Part 3 is too high (above 60%, except for special situations like utilities) and/or the percent earned on equity in Part 2B is too low. (Look for negative changes.)
9. The company's financial condition is deteriorating. Watch the amount of debt taken on and whether the company can meet payments if the economy slows.

10. To balance your portfolio. Avoid over-weighting by company size, industry, or company. If you have a stellar stock that has done particularly well and still has good prospects for the future, this means that new investments should be made in other industries, size of company, etc.

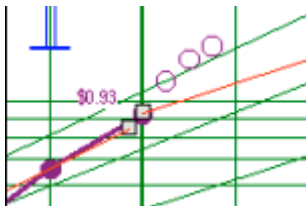
PMG and PERT

The PMG and PERT forms monitor ongoing performance of the company and are meant as advanced supplements to the study methods available with Classic Plus. Once you have mastered the principles of Classic Plus, you may want to investigate these additional forms.

PMG and PERT Information

The basic information for PMG and PERT is derived from the SSG study in Classic Plus or when new price and quarterly data is entered to update the company.

1. Quarterly sales and earnings per share since the last year end show as circles on the SSG Graph. Check the Recent Quarterly Figures box (top left corner of the SSG) for the percentage growth figure.
2. In Part 3 of the SSG, current P/E Ratio is altered when a new price or new quarterly EPS are reported. This affects the valuation for the company when you compare the current P/E Ratio to the average P/E Ratio.
3. In assessing a company or as you update quarterly and price information, you should compare company results to your expectations.



In this example you can see that the quarterly results have been better than expected (in relation to the projection line). When results fall below your projection line, investigate the reasons and assess the long-term consequences for the company.

Thus the essence of PMG and PERT is covered in the SSG Graph and Part 3 of the Analysis as you update each quarter.

At the time that you have mastered Classic Plus you will be better prepared to tackle other areas such as PMG, PERT, Balance Sheet, and more

Stock Comparison Guide

9

This form helps you to compare several companies in order to find the best.

Introduction

When looking for companies to buy, it is important to compare several in order to find the best. Comparisons are most meaningful when they are made among companies in the same industry. The Stock Comparison Guide helps you quickly and easily review important differences. All of the data is based on your Stock Selection Guide study and therefore is only as good as your analysis.

Companies are compared under four main criteria: growth, management, price, and other. The Stock Comparison Guide arranges data into tables for easy comparison of their relative performance.

Objectives

The objectives for the Stock Comparison Guide are:

- To select up to 5 companies in order to find the best for purchase.
- To review the computer-calculated selections for best company for each criteria item.
- To agree or disagree with the computer selections by applying judgment based on knowledge of the company.
- To conclude which company is the best for purchase.

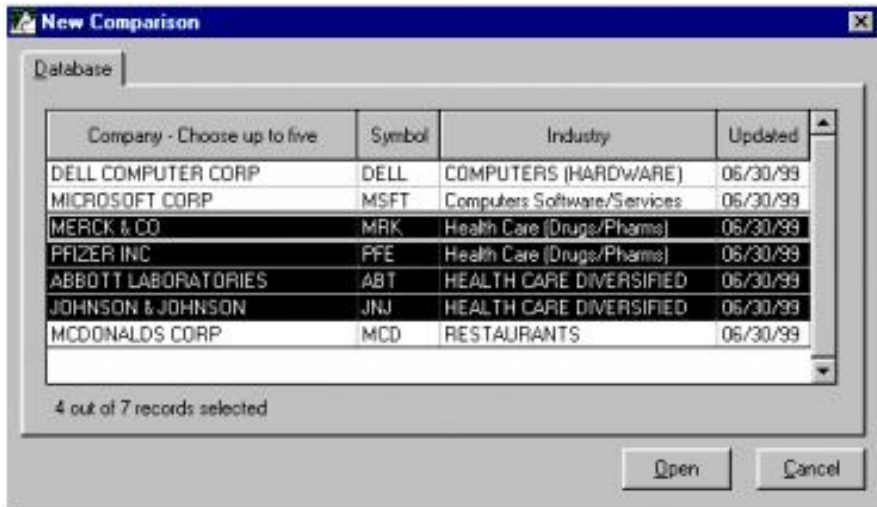
Operation

Comparing Companies

The Stock Comparison Guide is produced from the contents of your database. Companies for which data has been imported need to be viewed (analyzed) and the data saved to your database, before doing comparisons. This ensures that values are calculated and displayed. Blank cells in the SCG usually indicate that projections and judgment have not been added.

Sort by Industry and Select Companies

Select companies for a new Comparison Guide from those that you have studied. Sort the companies by industry by clicking the Industry header. Then select up to 5 companies to compare. Clicking Open will display the Stock Comparison Guide.



Saving SCG

Completed Comparison Guides can be saved for future viewing. All data and any judgment applied to the comparison is saved. This means that retrieving a saved SCG will display the contents of the original company studies.

If any company in the SCG has been updated, you may choose to update the SCG by using the right mouse button and selecting Refresh Data. Refreshing will access each company in the SCG and update the information and highlighted cells to correspond to the new data.

Assessing the SCG

As with other studies, you must make judgments in the Comparison Guide.

The computer analyzes each row of data and highlights the cell containing the best result. The number of highlighted cells is totaled for each company and displayed at the top of each column near the company name.

Examine the computer's highlighted cells. Alter the highlighting by clicking on one or more cells. For example, if two companies have similar growths, i.e. 17.3% and 17.8%, you may wish to highlight both as you may consider them equal. Add or remove the highlighting by clicking on the cell.

Use the scroll bar to display all the data.

After you have applied judgment to the Stock Comparison Guide, note the revised score for the number of highlighted cells per company, displayed across the top row.

GROWTH COMPARISONS (From Section 1 of the NAIC SSG)	ABBOTT LABORATOR	JOHNSON &	PFIZER INC	SCHERING- PLOUGH	
	4	5	5	7	
(1) Historical % of Sales Growth	10.4	10.6	10.2	20.2	
(2) Projected % of Sales Growth	10.7	10.6	11.3	14.0	
(3) Historical % of EPS Growth	13.6	13.9	16.2	17.9	
(4) Projected % of EPS Growth	10.6	8.6	16.2	14.7	
MANAGEMENT COMPARISONS (From Section 2 of the NAIC SSG)					
(5) % Profit Margin Before Taxes (Average for last 5 years)	(2A) Trend	24.6	18.3	22.8	27.8
(6) % Earned on Equity (Average for last 5 years)	(2B) Trend	39.5	26.1	27.2	55.5

Interpretation

What to Look For

Your choice from the Stock Comparison Guide should be the company that meets your particular investing objective. For example, are you looking for a quickly growing company? Are you willing to take a little more risk because you have a long time horizon? Or, would you like a growth company that is a little less risky, with a steady growth pattern at a slightly

slower pace of growth? Over time, your overall investment objective should be to achieve a diverse but balanced portfolio of companies.

Growth Comparisons

Here you are comparing both the historical and the projected growth rates for sales and earnings. Higher growth is normally better, unless you are looking for a larger, more stable company to balance your portfolio.

Historical growth may indicate the potential for future growth. As sales growth supports earnings growth, note if the two are similar and be aware of realistic projections for earnings growth. EPS cannot grow faster than sales for very long.

Management Comparisons

Here you measure the quality of management, which is crucial to the success of the company. The numbers given are 5-year averages.

Percent Profit Margin before Taxes reflects how successfully the management has developed and/or sold product, controlled costs, positioned the company in its industry, etc. in order to generate a profit before taxes. A higher number is superior.

These margins will vary among industries. In the food business, margins may be 4 to 5%. In the drug industry, margins may be 30% or higher. A small percentage difference in margin may be a big advantage within a particular industry.

Percent Earned on Equity (ROE) shows how well management is using the money invested by shareholders to build the business and produce a profit. Again, the characteristic ROE level will vary among industries. A higher number is better.

Percent of Common Stock Owned by Management measures the stake executives and board members (known as insiders) have in common shares as a percent of the total shares. It is suggested that by owning such shares, these people have an extra incentive to make the company profitable. Holdings may range from about 1% (at a very large company) to 60% or more (at a family business) for example.

Price Comparisons

The items in this section mainly relate to assessment of value. The data was developed in the SSG Analysis. Not all line items need be highlighted in the SCG. Some merely provide historical context for current values for price and price-earnings (P/E Ratio) ratios.

Estimated Total EPS 5 Years is projected on the SSG graph. If the earnings for each of those 5 years were added together, they would total the number given in the first line of this section.

The ideal goal is to purchase a company when its share price is no higher than its 5-year total earnings number. This price is often very difficult to find, especially for companies with high P/E Ratio. Try to purchase at a price as close as possible to this ideal.

Price Range over Last 5 Years (High/Low): Note how large the price range is. Has the stock doubled in value over 5 years? If so, it may be able to do this again. Or, has the price gone up so rapidly that the current P/E Ratio is already discounting future growth?

It is useful to note where the present price stands in relation to history in order to assess its current valuation. Is the price currently somewhat low? What has caused this? Is the company having a problem or is there an opportunity here for a turnaround from a depressed price?

Price Earnings Ratio Range over Last 5 Years: In this section the figures are informational, providing a reference for the companies' valuations.

P/E Ratios change as stock prices and earnings change. Note wide differences between the highest and lowest P/E Ratios. They may signal volatile earnings and or large price changes.

Look for value - therefore, low P/E Ratios. This means that a company has room for its current P/E Ratio to expand to a former high P/E Ratio, thus providing appreciation of its value. However, be aware of unreasonably low P/E Ratios as they may signal forthcoming problems.

High quality companies may carry P/E Ratios in a higher than normal range for the industry. This is because investors are willing to pay a higher valuation for the consistency of the company's earnings. Normally stocks selling at high P/E Ratios are volatile and may fall rapidly in price if their earnings fail to meet expectations by investors/speculators.

The **Estimated Price Zones/Present Price Range** is developed through your judgment in the SSG Analysis. Here it is preferable to see the present price within the Buy zone.

The **Upside/Downside Ratio** is your potential reward/risk ratio. Ideally look for a ratio of 3 to 1 or more. Beware extreme numbers (10 and up, for

example) as they indicate questionable judgments about low pricing have been made in your SSG Analyses.

Current Yield: If the company pays a dividend, yield is the percentage dividend paid compared to the current price. The highest number is best. Some fast-growing companies do not pay a dividend.

However, growth companies don't normally have high dividend yields. This is not a negative as the retained earnings can be used to help grow the company. Therefore a high or low yield is best, depending on your investing objectives - income or growth.

Combined Estimated Yield (called Average Annual Total Return in SSG): This combines the potential dividend yield with price growth over 5 years for a projected compounded return on investment. 15% or better is a goal, but larger companies are less likely to achieve this. For your total portfolio of stocks, by combining companies of various sizes growing at various rates, a goal of average 15% return is reasonable.

Other Comparisons

This section contains characteristics related to growth, quality, value, and safety. Most of these cells need not be highlighted as judgment items. They are informational.

Number of Common Shares Outstanding: Larger companies will have a larger float of shares available trading on the stock exchange. This makes it easy to buy or sell a company and results in the stock price being less volatile. Larger companies are considered less risky.

Potential Dilution from Debentures, Warrants, Options: These are types of securities that give holders the opportunity to buy common shares for a specific price during a specific time period. When they are redeemed or converted, they create more shares outstanding. This dilutes the value of the shareholders' equity and reduces the earnings per share because the earnings are divided among a greater number of shares.

If you use diluted EPS in your study then the concern for potential dilution is minimized.

Percent Payout is the percentage of the company's earnings per share paid out in dividends to shareholders. Fast growing companies often do not pay dividends or pay a small amount. In this line, your choice of Best depends upon whether you want growth or dividend income in your company of choice. A high payout percentage may indicate that management has no ideas about how to grow the company using reinvested earnings.

Date of Source Material is a reference only. This ensures that you are using the most current Stock Selection Guide possible for each company.

Where Traded indicates the stock exchange for each company. Each exchange sets its own requirements for membership. The New York Stock Exchange has the most stringent requirements. Thus, this line item may be a slight indicator of risk. However, if you are choosing companies scoring highly on the SSG, Where Traded should not be important.

Optional Comparisons

Optional Comparisons

Lines 27 and 28 are optional items from comparison. You can choose from a preset list of comparison items or you can set you own. The preset items are:

Debt to Capital: This item is also shown in the Capitalization box of the Stock Selection Guide.

Growth for the last quarter for EPS and sales: These two items are displayed in the Recent Quarterly Figures box of the Stock Selection Guide.

% Institutional Holdings: This item is also shown in the Capitalization box of the Stock Selection Guide.

P/E Ratio to Projected EPS growth: This ratio compares the current P/E Ratio to your projection of earnings. A value below 1.0 would suggest good value.

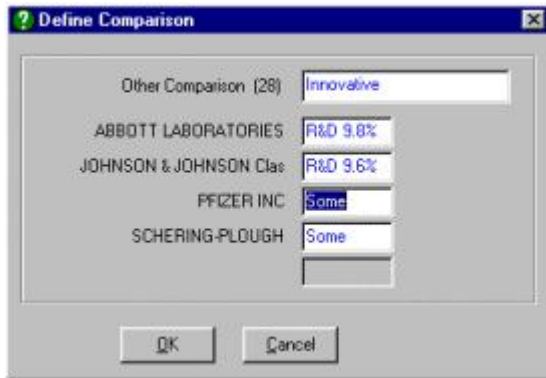
User Comparison Item

You may define your own comparison item for lines 27 and 28. Use the right mouse button on these two lines and select define.

The screenshot shows a table titled "OTHER COMPARISONS" with the following data:

Item	Value 1	Value 2
(24) Number of Com...	ending	1519.3 M 1345.8
(25) Potential Dilution Warrants, Option		
(26) Percent Payout		
(27) Debt to Capital		
(28) PE to (Projected) EPS Growth	115.0	156.7

A context menu is open over the "Debt to Capital" row, showing options: "Reset Selection", "Refresh Data", "Select from List" (highlighted), "Clear Selection", "Define", and "What's This?". The "Select from List" dropdown is open, showing a list of items: "Debt to Capital" (checked), "% Held by Institutions", "PE to (Projected) EPS Growth", and "Last Q Growth for EPS and Sales".



Complete the **Title** for the item to compare and add the comparison information for each company. The additional information will be saved with the Comparison Guide.

Comparison Guide Formulas

The Stock Comparison Guide reports values as calculated in the Stock Selection Guide analyses and adds other calculated ratios.

The 5-year future total earnings (**Est Tot EPS 5 Yrs**) calculates the sum (for 5 years) of the EPS for the SSG Graph EPS projection line you have drawn.

P/E Ratio to EPS Growth is a ratio giving a value figure for the stock. It compares the current P/E Ratio to the rate of projected EPS growth. A ratio of 1 indicates a fairly-valued stock. A value of 0.5 would be a very positive indicator whereas a value of 1.5 would indicate an overpriced situation, if everything is “usual” (which it seldom is).

Price/Revenues ratio is based on the following formula:

$$\text{Price/Revenues} = \frac{\text{Current Price} \times \text{Number of Shares}}{\text{Last Full Year's Revenues}}$$

The **sales dollar figure** provides a more consistent measurement than market capitalization because it cannot be inflated by market mania (This is when the market becomes infatuated with a particular stock or industry and drives up the price.) To achieve diversification for your portfolio by company size, look for three categories:

- Large – sales over \$5 Billion

- Small – sales under \$500 Million
- Medium – sales between \$5 Billion and \$500 Million

A Large Company

Your level of risk changes according to the size of company. A large company can be the most conservative investment. It usually has a long track record that you can assess, the management may be experienced, the company is in a slower but steady growth phase, and it pays a dividend. Such a company may tend to have a more stable stock price, because the market sees it as a safe haven. The downside is that the sales and earnings growth rates are likely to be less than 10%.

A Small Company

A small company is the riskiest category. It often has management that is less experienced or consists of a small number of leaders, it may be selling a product that is new to the marketplace, it is in the rapid growth phase of its life (requiring lots of cash), and it pays no dividend. A small company tends to have a more volatile stock price because the market deems it a riskier investment and tends to buy and sell more frequently. The upside is that sales and earnings growth rates are likely to be 15% or much more if the company is successful.

Portfolio Management Guide

10

Stock price changes constantly. Monitoring stock price helps you keep vigilant of potential company trends and potential undervalued or overvalued situations.

Introduction

The goal of the Portfolio Management Guide (PMG) is:

- To record (typically once a month) the company's share price,
- To determine current value, and
- To determine if buying opportunities exist.

Value is determined in Part 3 of the SSG by calculating and assessing historical Price/Earnings Ratios (P/E Ratios). The historical average PE, as may be modified in Part 4 of the SSG, becomes the basis for value comparison in the PMG.

Beginners

As a beginner, you should follow the step-by-step instructions in the **Prompt Window**. This will ensure that all areas of the PMG report are reviewed.

Follow the instructions and resist the temptation to move ahead of the prompts. Allow the step-by-step approach to guide you.

Use the right mouse button to provide specific information on an item from the **What's This?** and **More Help** selections. Also, click on red-circled items for the **Stock Wiz**'s comments.

As for the SSG, once you can anticipate each step you are likely ready to work at the Experienced Level. Here you may review each report in the manner that best suits your study style.

1 PRICE EARNINGS ZONES

Refer to section 3, columns D and E, line 7, of your Stock Selection guide study of this company for the information in columns 2 and 3 below.

1	2	3	4	5	6
YEAR	Average Price Earnings Ratios for Previous 5 Years		Sum of Cols. 2 and 3	Column 4 Divided by 2	Column 5 Multiplied by 1 1/2
	High	Low		Low P/E Guide Line	High P/E Guide Line
1997					
1998					
1999					
2000					
2001	29.4	17.9	47.2	23.6	35.4

2 PRICE ZONES

See Section 4C of Stock Selection Guide. 1 below is top of Buy Zone, 2 below is bottom of Sell Zone.

YEAR	1. Consider Buying Below	2. Consider Selling Above
1997		
1998		
1999		
2000		
2001	51.04	62.08

3 CUMULATIVE EARNINGS AND CURRENT PRICE-EARNINGS RATIO COMPUTATIONS

1	2	3	4	5	6	7	8	9	10	11	12
3 Months Ending	Earnings per Share	Total Earnings for last 4 Quarters	Date	Price	at Time of Meeting	Date	Price	P/E Ratio at Time of Meeting	Date	Price	P/E Ratio at Time of Meeting
03/97	0.34		Apr 30	30.50		May 31	31.50		Jun 30	33.38	
06/97	0.34		Jul 31	32.72		Aug 31	29.97		Sep 30	31.97	
09/97	0.31		Oct 31	32.72		Nov 30	32.56		Dec 31	32.75	
12/97	0.37	1.36	Jan 31	35.41	26.0	Feb 28	37.41	27.5	Mar 31	37.66	27.7
03/98	0.38	1.40	Apr 30	36.56	26.1	May 31	37.09	26.5	Jun 30	41.00	29.3
06/98	0.38	1.44	Jul 31	41.63	28.9	Aug 31	38.51	26.7	Sep 30	43.44	30.2
09/98	0.35	1.49	Oct 31	47.00	31.6	Nov 30	48.00	32.3	Dec 31	49.00	33.0
12/98	0.41	1.52	Jan 31	46.44	30.5	Feb 28	46.31	30.4	Mar 31	46.81	30.7
03/99	0.44	1.58	Apr 30	48.38	30.6	May 31	45.19	28.6	Jun 30	45.38	28.7
06/99	0.42	1.62	Jul 31	42.94	26.5	Aug 31	43.38	26.8	Sep 30	36.69	22.6
09/99	0.30	1.57	Oct 31	40.38	25.7	Nov 30	38.00	24.2	Dec 31	36.31	23.1
12/99	0.43	1.59	Jan 31	32.56	20.5	Feb 29	33.00	20.8	Mar 31	35.19	22.1
03/00	0.45	1.60	Apr 30	32.56	20.5	May 31	40.69	25.4	Jun 30	44.56	27.9
06/00	0.44	1.62	Jul 31	32.56	20.5	Aug 31	43.75	27.0	Sep 30	47.56	29.4
09/00	0.43	1.74	Oct 31	32.56	20.5	Nov 30	55.06	31.6	Dec 31	48.44	27.8
12/00	0.59	1.80	Jan 31	44.86	24.9	Feb 28	48.99	27.2	Mar 31	47.11	26.2
03/01	-0.14	1.21	Apr 30	46.38	38.3	May 31	51.98	43.0	Jun 30	48.00	39.7
06/01	0.34	1.11	Jul 31	53.59	48.3	Aug 31	49.70	44.8	Sep 30	51.85	46.7
09/01	0.45	1.14	Oct 31			Nov 30			Dec 31		
12/01	0.51	1.16	Jan 31			Feb 28			Mar 31		
03/02	0.56	1.86	Apr 30			May 31			Jun 30		

Judgment areas

Stock Wiz circles

Latest reported Qs (yellow line)

Watch for the red circles. These are placed around data points where particular attention is needed. These are potential ‘red flags’. Red flags are unusual characteristics that require your careful consideration to properly complete a study.

Interpretation

Part 1 and 2

Parts 1 and 2 of the PMG record information from the SSG.

In Part 1 the average high and low P/E Ratios become the basis for on-going valuation assessment. These numbers yield calculations for high and low PE guides. These are used in Part 4, the PMG Graph, to set lower and upper limits for PE below which a buying opportunity may exist and above which a re-assessment should be made to determine if a selling condition should be considered.

1 PRICE EARNINGS ZONES			Refer to section 3, columns D and E, line 7, of your Stock Selection guide study of this company for the information in columns 2 and 3 below.		
1	2	3	4	5	6
YEAR	Average Price Earnings Ratios for Previous 5 Years		Sum of Cols. 2 and 3	Column 4 Divided by 2	Column 5 Multiplied by 1 1/2
	High	Low		Low P/E Guide Line	High P/E Guide Line
1997					
1998					
1999					
2000					
2001	29.4	17.9	47.2	23.6	35.4

Part 2 of the PMG records price targets for comparison with the current stock price. The Buy Below and Sell Above prices are developed in Part 4 of the SSG.

At the Experienced Level you may choose how the zones are calculated. Refer to the SSG section for more information on zoning.

2 PRICE ZONES		See Section 4C of Stock Selection Guide. 1 below is top of Buy Zone. 2 below is bottom of Sell Zone.	
YEAR	1. Consider Buying Below	2. Consider Selling Above	
1997			
1998			
1999			
2000			
2001	51.04	62.08	

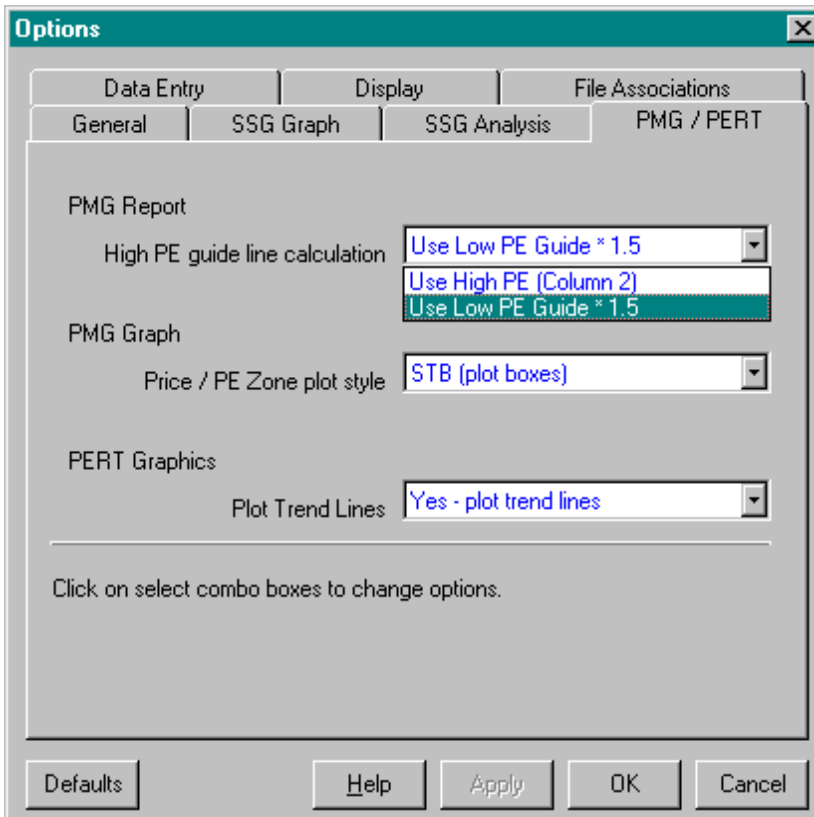
Editing Part 1 and 2

Caution Normally editing is not required as this data is the result of applied judgment in the SSG. If you do enter this information you may refer to the historical average P/E Ratios in the PERT B.

Parts 1 and 2 will fill in as you complete succeeding years of SSG studies with new yearly data.

Options

Experienced The following options are available at the Experienced Level and are set from the **Options | Preferences** menu item. The Beginner Level uses the normal calculations.



- To select either the normal 1.5 times the average PE for the High PE guideline in column 6 of Part 1 or use the selected average high PE as in column 2.
- Using the average high PE selection gives a High PE guideline that reflects the characteristic nature of value for the company.
- To select between the normal 33-33-33 zoning and 25-50-25 zoning. This selection is made in the SSG Analysis Part 4 and its results affect the calculations and graphics in the PMG.

Part 3

Company value is monitored and assessed monthly in Part 3 of the PMG.

Value is assessed from the current PE of the company. PE is calculated from the current price and the sum of the latest 4 quarters of EPS shown in Column 3.

3 CUMULATIVE EARNINGS AND CURRENT PRICE-EARNINGS						
1	2	3	4	5	6	7
3 Months Ending	Earnings per Share	Total Earnings for last 4 Quarters			P/E Ratio	Date
03/00	0.45	1.60	Apr 30	38.44	24.0	May 3
06/00	0.44	1.62	Jul 31	41.63	25.7	Aug 3
	0.42	1.74	Oct 31	52.81	30.4	Nov 3
	0.49	1.80	Jan 31	44.86	24.9	Feb 2
03/01	-0.14	1.21	Apr 30	46.38	38.3	May 3
06/01	0.34	1.11	Jul 31	53.59	48.3	Aug 3
09/01			Oct 31			Nov 3

$\$46.38 / \$1.21 = 38.3$

Add 4 Q EPS = \$1.21

PE calculation in the PMG.

If quarterly EPS is not yet be available but estimated EPS has been entered, the program will use these figures to calculated P/E Ratios.

When no EPS is entered, the PE is calculated from the previous accumulated 4 quarters EPS. The P/E Ratios will be recalculated when reported EPS is entered.

Note that P/E Ratios are not calculated for negative EPS and N/A is shown.

Assessing EPS

The first step in Part 3 is to assess EPS. EPS in column 2 may show variability due to seasonal trends. For example, the retail industry generally has greater sales and EPS in the winter months than in the summer. Some retailers do the bulk of their business over the Christmas period. On the other hand, beverage companies tend to sell more drinks in the summer.

Being aware of seasonal changes provides insight into quarterly trends.

Cumulative 4 Quarter Earnings

By adding 4 quarters of EPS, variations from seasonal characteristics are minimized. In column 3 you want to see constantly increasing EPS figures. Figures that are not increasing consistently indicate possible problems. Find out what may be restricting EPS growth. Dips or flattening of the cumulative 4 quarters EPS could be an early alert that not all is well and further investigation is needed.

Assessing P/E Ratios

Once you have determined that EPS meets your expectations you will want to assess value through the PE calculations in Part 3.

The most direct approach to using the PMG is to compare current value to your targets as set in the SSG Part 3 and 4 (and reported in Part 1 of the PMG) and the current valuation in the PMG in Part 3.

A current PE that is near the high average PE or the High PE guideline suggests an overpriced condition. When PE approaches this level you will want to re-assess the company for material changes. If growth and profit margins are meeting your expectations then you may keep the company rather than sell it. It could well be that investors are finally realizing the value and quality in the company, thus driving P/E Ratios higher.

A current PE that is lower than the average may indicate a possible buy opportunity. Again confirm that the company is meeting your targets. Consistently performing companies are eventually recognized and patience

is rewarded. Buying and holding quality high growth stocks and making additional purchases on price dips can provide additional return on your total investment.

The Market and P/E Ratios

P/E Ratios will vary over time due to economic and market factors. In optimistic times P/E Ratios will expand while in pessimistic times P/E Ratios contract. When assessing value, consider the current economic cycle and where the cycle may be in the next 5 years. This understanding helps you determine whether value is driven by the market's recognition of the company's achievements or something else.

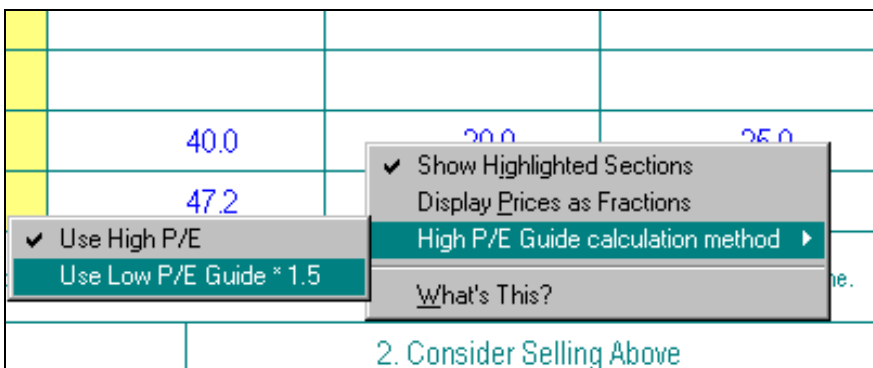
Another way to determine value is to assess the company's industry. Is the company performing better (growing sales and EPS) than its peers? If so, then the increasing P/E Ratios in the PMG may be justifiable.

Characteristic PE

Investors value a company based on both the company's historical achievements and future expectations. Investor sentiments change over time. Typically the changes in value fall within well-defined figures that can be characterized by the low and high average PE calculations in the SSG. The range between the low and high average P/E Ratios is said to be characteristic of the company. This characteristic range serves as a guide to measure current value to help make investment decisions.

PMG Graph

The PMG Graph is the graphical representation of the information in the PMG Parts 1, 2, and 3. The plots for monthly prices and the corresponding P/E Ratios help visualize how the market values the company.



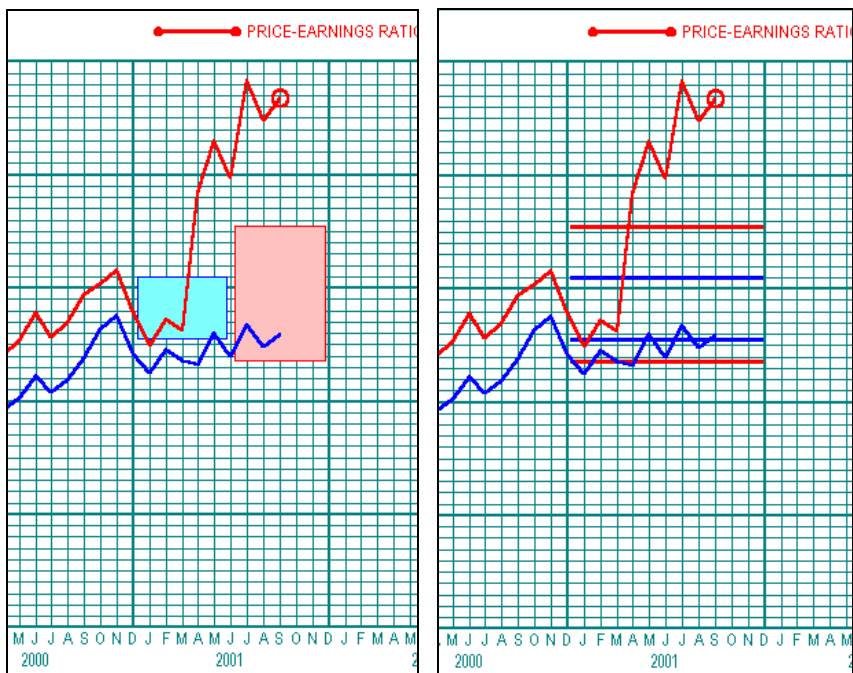
The PMG Graph shows how price, PE, and RV (relative value) compare to the expectations set in the SSG. Price items show in blue and PE items in red. Scales for each are color-coded and may be altered by clicking on a plotted line with the right-mouse button and selecting from the pop-up menu.

Optional PMG Graph Representation

At the Beginner Level the graph uses the normal horizontal lines for price zones and PE guidelines.

Experienced

At the Experienced Level you may choose the alternate vertical bar representation. This choice shows the middle zones for both Prices and PE as colored bars. The blue price bar indicates the Hold Zone in Part 2 of the PMG (Part 4 of the SSG). Below the bar is the lower or Buy Zone; above the bar is the upper or Sell Zone. For the red PE bar below would be the Low PE guide, above the High PE guide.



Choose the representation that is easiest for you to interpret.

You may also change the scale for the plotted lines. Generally the program sets scales based on the data range. However, there may be occasions where you wish to specify the scale. To change scales, click the data line (prices, PE, or RV) with the right mouse button and choose Move Up or Move Down. This changes the scale factor for the chosen item and moves the line. Reset allows you to set to the computer scale.

Monthly Price Plot

Monthly prices as recorded in the Monthly Price Data Entry window are plotted in blue. The scale is shown on the left side, also in blue.

Market Factors

Generally share price will increase as EPS increases. However, the general market can make share price vary more radically and this presents some difficulties. You must try to distinguish between share price changes due to market factors and those driven by a company's continuing success.

Market factors can be short term (news reports) or long term (economic cycles lasting years). Assessing this information will help you understand your company better.

Price Trends

You may notice a flattening or decreasing price trend on the PMG Graph.

This occurs when price is not increasing (or even decreasing) even though EPS is improving. It could be that a buying opportunity exists or alternatively that something else not yet apparent to you is affecting the company. Investigate company activities such as increases in debt, acquiring other businesses, liquidating major assets, changing markets, etc. These may provide clues as to why other investors may be selling and driving the share price lower.

Current Price

Note the location of the current price (the last point in the blue line) in relation to the zone guides. As share price approaches the Sell Above line you may want to re-assess the company to determine whether you still want to keep it. As indicated previously, when a company maintains its capability for growth and profits you will likely want to hold on to it for the long term.

PE Plot

PE plots generally move within well-defined limits dictated by the historical average high and low P/E Ratios. These limits are characteristic of the company and indicate potentially undervalued or overvalued conditions. Use the PE plot in a similar manner to the price plot. If P/E Ratios are getting out of the characteristic range, try to determine if this is caused by the company or symptomatic of the industry or general market. This additional information will help you to assess the company's value.

Relative Value (RV) Plot

Experienced

Relative Value is a ratio that tries to show under and overvalued conditions. RV is calculated from the following formula:

$$RV = \text{Current PE} / \text{Historical Average PE} \times 100$$

The historical average PE becomes the benchmark for determining value, i.e. a value that is greater than 100 would be considered overvalued.

Caution

Be aware that RV may not be a consistent indicator of value. RV of 150 may mean very different things for different companies. An RV of 150 indicates that the current RV is high with respect to the historical average PE. However, it may still be lower than the average high PE as noted in the example below.

	Avg. Low PE	Avg. PE	Avg. High PE
Company A	10	20	30
Company B	15	20	25

In the above example both companies have an average PE of 20 (even though their characteristic High and Low PE are quite different). An RV of 150 would indicate a PE of 30 for both companies. However, for company B this would indicate a PE way beyond its characteristic high PE; not so for company A. Be cautious when reviewing RV.

This same example demonstrates the reason that you would want to use the Average High PE option as the High PE Guide in Part 1 of the PMG.

A Buying Opportunity

Review the historical price changes in relation to the price zones (blue horizontal lines or bar). You may consider purchasing more shares if:

- the current price is below the Buy Below price target,
- the current PE is lower than the Low PE Guideline (or average PE in the SSG),
- all other indications in your assessment are positive.

For a company that is sound, these conditions could imply a buying opportunity. It would seem that investors are not recognizing the company's achievements.

Before making a buy decision, you will want to update your SSG to confirm that all company characteristics (growth, quality, value, and risk/safety) are in your favor.

Formulas

Calculations for the PMG are shown on the report.

The calculation for Relative Value (RV) in the PMG Graph is:

$$RV = (\text{Current PE} / \text{Historical Average PE}) \times 100$$

PERT

PERT (Portfolio Evaluation Review Technique) helps you to manage your stocks. Review company performance quarterly by examining sales, earnings, and profits.



11

Introduction

Whereas PMG tracks value on an on-going basis, worksheets PERT A and B record and calculate data items to track growth and profitability on a quarterly basis. PERT Report gives a summary of the worksheets that is handy for club meetings. It quickly and effectively highlights company results versus your expectations.

Beginner

As for all Beginner steps, follow the guidance in the **Prompt Window**. This ensures that you cover each report completely. Once you can anticipate the prompts, you are likely ready to move to the Experienced Level.

For specific **Help** on an item, right-click the mouse button to select **What's This?** and **More Help**. For red-circled items, activate the **Stock Wiz** and review his comments.

PERT A

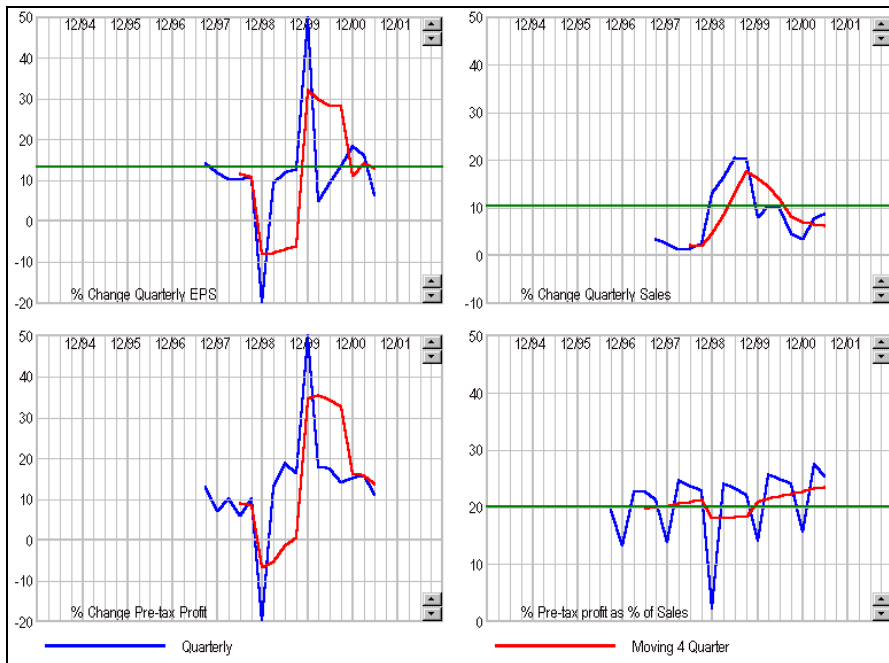
PERT A is a worksheet where calculations from the quarterly data provide additional information about growth and profitability. Enter and edit data for PERT A in the PERT Data Entry window. The convenience of purchased datafiles is that all the information for 5 years (20 quarters) of data is readily available for your assessment.

Calculations

The PERT A report is divided into 2 side-by-side areas: Quarterly Data and Last 12 Months Data.

The Quarterly Data area looks at quarterly progress. Growth calculations are based on a quarter-over-quarter comparison with results 1 year earlier.

The Last 12 Months Data area calculates growth and profitability items based on a running 4-quarter total and compares this with the 4-quarter figure a year earlier. The running 4-quarters calculation helps smooth variations due to possible seasonal effects in company results.



Note the smoothed effect on the 12 month (moving 4 Quarter) lines.

Calculation details are covered in the Formulas section.

Short-term Assessment

The latest quarterly information is a record of the company's short-term achievements and is important for tracking how the company is performing. The yellow line highlights the latest information. Focus your attention on this line of information to assess latest or short-term results.

Growth Assessment

The columns titled % Change (Columns D, G, and I) are key to assessing short-term performance for growth. Specifically, in the Quarterly Data area these are: Sales % Change, EPS % Change, and Pre-tax Profit % Change.

Focus on the highlighted yellow line for the latest quarterly results. Look for % Change figures that match your sales and EPS projections in the SSG Graph.

Next assess the Last 12 Months of Data area for its % Change figures for growth. As with the Quarterly Data area, these should also fall in line with your expectations.

Variations on Growth Assessment

Often interim changes (quarter to quarter) are more variable than yearly changes. See figure on page 140. Changes (quarterly and especially 12-month changes) that are below your SSG projections require investigation. Find out the cause for the unexpected change. Determine if the cause is characteristic (a recurring issue) of the company or explainable as a one-time occurrence.

QUARTERLY DATA								
PERIOD	EPS		PRE-TAX PROFIT			SALES		INCR
	\$	% CHANGE	\$ MIL	% SALES	% CHANGE	\$ MIL	% CHANGE	
03/97	0.34		758.5	25.3%		2,999.8		2
06/97	0.34		739.8	25.5%		2,900.4		2
09/97	0.31	13.0%	653.5	22.8%	9.5%	2,865.2	8.3%	2
12/97	0.37	12.1%	798.1	25.6%	10.2%	3,118.1	4.1%	2
03/98	0.38	11.6%	818.9	26.9%	7.9%	3,044.9	1.5%	2
06/98	0.38	11.8%	813.3	26.5%	9.9%	3,066.8	5.7%	2
09/98	0.35	14.8%	738.5	24.3%	13.0%	3,035.8	6.0%	2
12/98	0.41	10.8%	869.9	26.1%	9.0%	3,330.4	6.8%	2
03/99	0.44	14.3%	928.8	28.0%	13.4%	3,313.3	8.8%	2
06/99	0.42	10.5%	895.8	27.5%	10.1%	3,259.2	6.3%	2
09/99	0.30	-14.3%	650.1	20.7%	-12.0%	3,137.2	3.3%	2
12/99	0.43	4.9%	922.2	26.6%	6.0%	3,467.9	4.1%	2
03/00	0.45	2.3%	949.3	28.3%	2.2%	3,353.2	1.2%	2
06/00	0.44	4.8%	938.6	27.9%	4.8%	3,370.2	3.4%	2
09/00	0.42	40.0%	896.5	27.0%	37.9%	3,317.9	5.8%	2
12/00	0.49	14.0%	1,032.1	27.9%	11.9%	3,704.7	6.8%	2
03/01	-0.14	-131.1%	-388.7	-10.9%	-140.9%	3,559.9	6.2%	4
06/01	0.34	-22.7%	662.9	16.2%	-29.4%	4,099.1	21.6%	2
09/01	0.45	7.1%						

Caution Be careful of too many one-time occurrences, as they may indicate an unstable business. You may want to refer to the “When to Sell” section in the Classic Plus manual for possible identifiable causes for a company’s deteriorating condition.

One-time occurrences or any other reasons for a shortfall from expected results should be recorded in the **Notes** section (**Company Data Entry** window or **File | Notes** menu) for future reference. Your recorded comments serve as a powerful reminder when making future investment decisions.

Profitability Assessment

Three columns assess the latest profitability figures. They are titled Pre-tax Profit: \$ Mil, % of Sales, and % Change. Compare these results with the yearly figures calculated in Part 2A of the SSG.

As with other quarterly results, these figures tend to vary. Ideally, they vary little from historical results. Consistency confirms that the company is in control of its business and provides you with greater confidence that your expectations will be met.

Variations on Profitability

Larger variations (figures varying 30% or more from the historical average) should be investigated. These should be red flags to alert you to the need for investigation. Knowing the cause of changes will enable you to gauge the long-term impact on the company.

Long-term Assessment

Long-term assessment in PERT A involves reviewing all the historical information to discern potential trends. Review each of the % Change columns for Sales, EPS, Pre-tax profit, and profitability (pre-tax profit on sales). The ideal is to see figures that are consistent through time or with minor variations.

Figures with wide variations (especially for the Last 12 Months Data area) indicate that management is having difficulties controlling the company’s business. The task of estimating the company’s future is therefore more difficult and the risk of your investment increases.

Small % Changes are less discernable but if you have 4 or 5 years of quarterly data you should be able to spot this. This information may be spotted in the yearly SSG figures but is typically more apparent in PERT A. Changes that show slow deterioration are likely signs of a maturing company or industry. Your research should identify this.

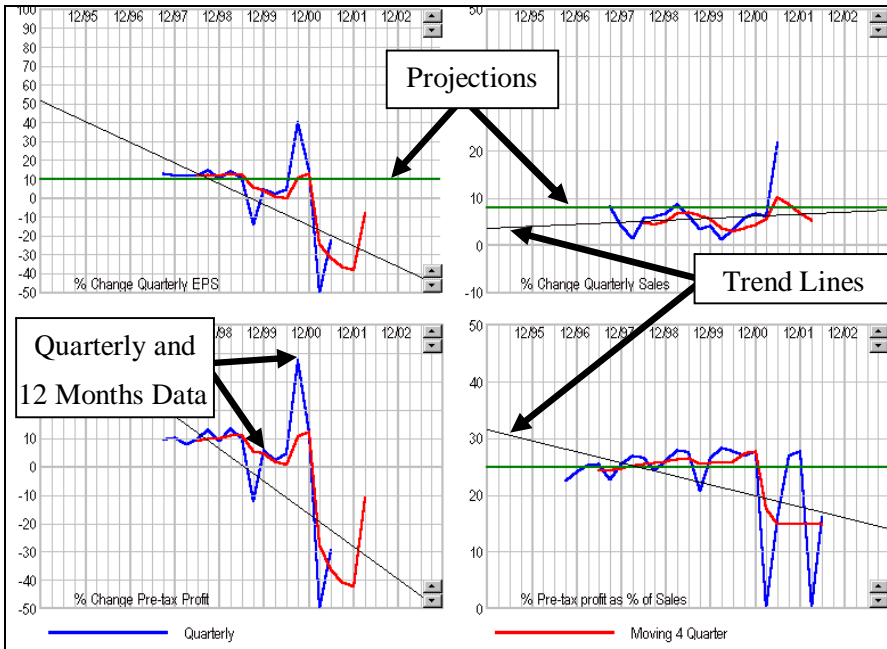
General economic conditions may also play a role. Expect that as the economy moves, so will companies' fortunes. You want to identify the cause for deteriorating conditions. External factors such as from the general economy may prove to be a buying opportunity. Deteriorating internal factors are potential sell indications.

PERT Graphics

The PERT Graphics report helps to visualize the calculations of PERT A. PERT Graphics plots the % Change columns (sales, EPS, and pre-tax profit) and the pre-tax profit on sales from PERT A.

Review each of these graphs in turn. You will note similarities in the plotted information, i.e. a drop in sales will typically affect pre-tax profit and EPS. These relationships will be more apparent as you become familiar with reviewing PERT data.

Ideally these plots would be flat lines indicating consistent company performance. More often they fluctuate. From these fluctuations you should be able to identify possible areas of concern.



Observe the short-term results of the latest quarterly point with respect to the horizontal green line in the graph. The horizontal green line represents the projected growth in the SSG Graph.

Also observe the long-term trend to see if results are maintained or are deteriorating (sloping down).

Changes (either in short-term or long-term results) from your expectations are red flags alerting you to understand the circumstances facing the company. Satisfy yourself that the company is still the quality company that you assessed with the SSG.

PERT B

PERT B is a worksheet that records value information from the SSG. It summarizes this for later inclusion in the PERT Report. It also serves as a recording of historical figures to be used in assessing the company.

PE Assessment

For steadily performing companies the historical average P/E Ratios will be consistent from year to year. You may note increases or decreases that

are attributable to industry or market changes. Market factors have direct influence on all stocks: increasing P/E Ratios in times of optimism and decreasing during pessimistic economic conditions. Your task is to assess these possible changes in light of what has happened in the industry or the economy.

Consider how your company has fared in relation to the general market. Reviewing the 10 years of historical P/E Ratios should provide a basis of this comparison. Look for the characteristic P/E Ratios (the high and low average P/E Ratios) to see how they trend and compare them to the market and the economy. Your company should show trends that are at a minimum performing as the economy or the market.

The variation between the high and low average P/E Ratios is an indication of volatility. The larger the variation, the higher the risk and the more difficult it is to assess the company. Typically, the smaller the gap between high and low average P/E Ratios, the more consistent the company and the easier it is to study.

to invest in such companies. This helps to support the share price of the company (review section 4Bd of the SSG).

For this reason companies are reluctant to reduce dividends and will occasionally borrow if earnings are insufficient to pay the expected dividends. This precarious condition can cause you to lose in two ways. A dividend cut (because of insufficient earnings) will reduce or eliminate your dividend income. You will lose again from the share price drop that results from a dividend cut.

By monitoring % Payout you can assess the risk of a high ratio. Anything above 60% is cause for concern. Also, ratios higher than 20% likely affect growth potential for the company. Review the historic % payout and determine if recent payout ratios are consistent.

Note that some industries (i.e. utilities) are known for their high dividend yield policies and high payout ratios should be expected

PERT Report

PERT Report is the accumulation of recent data and calculations from other reports: SSG, PMG, PERT A, and PERT B. Its objective is to give you a one-page information summary that helps you determine if a company is meeting your expectations for growth, quality, value, and risk.

COMPANY	% YLD DIV	EST EPS	EPS		SALES		PRE-TAX PROFIT			TRAILING 12 MOS EPS		CUR AND LEAD P/E	CUR AND LEAD RV	5 YEAR AVG P/E RATIO			Lead P/E/ EPS Growth	UD TOT. RET.	EST 5 YEARS HI/LOW PRICE			
			QTR END	% CHG	MIL \$	% CHG	MIL \$	% SALES	% CHG	\$	% CHG			\$	% CHG	HI				AVG	LOW	
ABBOTT LABORATORIES	1.7%	1.88	06/01	0.34	22.7%	4099	21.6%	663	16.2%	29.4%	1.11	51.5%	45.0	50.00	191	29.4	23.6	17.9	442	115%	4.5	43.00
	0.84	ACE 4Q	06/00	0.44		3370		309	27.9%		1.62		26.6		113							81.43
JOHNSON & JOHNSON	2.4%	1.36	06/01	0.49	6.5%	8342	8.8%	2129	25.5%	11.3%	1.76	13.1%	33.9	59.85	126	31.6	27.0	22.3	255	12.3%	2.1	40.00
	1.44	ACE 4Q	06/00	0.46		7670		1913	24.9%		1.56		30.5		113							102.07
RPM INC-OHIO	3.5%	0.74	05/01	0.24	166.7%	548	0.1%	39.1	7.1%	109.9%	0.62	63.2%	23.2	14.41	114	23.7	20.5	17.2	147	18.4%	5.0	11.00
	0.50	Q = 4	05/00	0.09		547		18.6	3.4%		0.38		19.5		95							31.52
						Proj Gr 15.8%		Proj Gr 17.5%		Avg PTP 7.5%												

Here are some suggestions for reading this report. For each of the column groups compare the actual results to the expectations in the SSG. First do this for EPS, sales, and pre-tax profit. Do the same for the other column groups, noting the current value. Do the quarterly figures meet your expectations?

This report may include up to 50 company studies. You may save the report for easy retrieval and updating in the future.

You or your club may use PERT Report as a monthly summary of your stocks. The concise PERT Report is an efficient method for informing members on recent company achievements.

Growth Assessment

Review columns H and J for quarterly growth of EPS and sales. Within the same cells for sales and EPS, note the growth as projected in the SSG Graph. Comparing actual results with your expectations will help you monitor company performance and manage each stock in your portfolio.

<div style="text-align: right;"> <i>Portfolio</i> PERT Review T Date <u>Jan 29, 2002</u> </div>							
ST	EPS			SALES		PRE-TA	
	QTR END	\$	% CHG	MIL \$	% CHG	MIL \$	SA
1.98	06/01	0.34	-22.7%	4099	21.6%	663	10
10.2%	06/00	0.44		3370		939	27
		Proj Gr	10.2%	Proj Gr	8.0%		Avg
1.88	06/01	0.49	6.5%	8342	8.8%	2129	28
CE 4Q	06/00	0.46		7670		1913	24
		Proj Gr	13.3%	Proj Gr	10.4%		Avg
1.41	05/01	0.24	166.7%	548	0.1%	39.1	7
12.8%	05/00	0.09		547		18.6	3
		Proj Gr	12.8%	Proj Gr	17.5%		Av
	F	G	H	I	J	K	

Latest % Change EPS – 22.7%

Expected growth from SSG 10.2%

Quarterly changes that do not meet your expectations need to be researched. You may have done this when you first updated the quarterly information and noted the information in the SSG or PERT A. Your recorded notes will remind you of circumstances of companies that have missed their targets.

Quality Assessment

Look at column L and compare the profitability (pre-tax profit as a % of sales) for the two reported periods. A substantial change from the year before is an alert that requires investigating. Review the possible causes for the change and be satisfied that they are reasonable.

Make sure that you note and understand the difference between columns L and M. Column L is pre-tax profit as a % of sales and is equivalent to figures in Part 2 A of the SSG. Column M is the % change in pre-tax profit and is related to % change (or growth) for EPS and sales. Compare this with the sales and EPS growth figures: they should be similar.

Value Assessment

Along with information in the PMG, you may assess value from figures in columns P and R. Keep in mind that these figures are calculated using Estimated EPS from column E as may be shown in the SSG Part 3. Review the Leading PE section in the Classic Plus section on the 3 choices of estimated EPS available at the Experienced Level.

Value is also monitored from figures in column W by assessing PE with respect to the expected EPS growth rate.

The reason for using an estimated EPS in PERT is to be forward looking – assessing value based on anticipated earnings. The market as a whole is anticipatory and looks forward to the company's future potential growth. The Lead PE in column P and Lead RV (relative value) in column R are figures that help assess this expectation of the future.

5 YEAR AVG P/E RATIO	CUR AND LEAD P/E	PRICE	CUR AND LEAD RV	5 YEAR AVG P/E RATIO			Lead PE/ EPS Grwth	U/D TOT. RET.	EST 5 YEARS HI/LOW PRICE
				HI	AVG	LOW			
15%	45.0 26.6	50.00	191 113	29.4	23.6	17.9	442	4.5 11.5%	43.00 81.49
8.1%	33.9 30.5	59.85	126 113	31.6	27.0	22.3	255	2.1 12.3%	40.00 102.07
8.2%	23.2 19.5	14.41	114 95	23.7	20.5	17.2	147	5.0 18.4%	11.00 31.52
O	P	Q	R	S	T	U	V/W	Y/Z	AA/AB

Lead PE and Lead RV

Lead PE should be compared to the 5-year high, average, and low P/E Ratios in columns S, T, and U. These figures are derived from Part 1 of the PMG. A stock could be over priced as the lead PE approaches the high PE. At that point you would want to review the company to assess that it still meets your investment objectives. Extremely low P/E Ratios (those that are lower than the average low PE) also indicate potential problems. Investors are selling stock and bidding the price lower in possible anticipation of a poor future for the company.

RV (column R) is a ratio that compares the current PE to the anticipated average PE for the company. It can be used in the same way as the PE comparison above. Values of RV greater than 150 suggest a potentially over priced stock. Review the Relative Value topic in the PMG Graph section to understand the peculiarities with RV.

PE and EPS Growth

Column W calculates the PE to projected EPS growth ratio, also known as the PEG ratio. Peter Lynch considers this an important measure of value. Generally a ratio that is 150 or higher may indicate an over-priced stock. As with RV, you would want to review and reassess the company to determine if it still meets your investment objectives.

Risk Assessment

Columns Y and Z report Upside/Downside Ratio and Total Return. They are calculated from the low price (Column AA) and the high price (Column AB). The high and low prices are referenced in Columns AA and BB. Note that Column AB (the high price) is calculated using the estimated EPS in Column E.

Column Y shows the Upside/Downside Ratio. If the ratio falls near a value of 1 it indicates a poor reward for your investment.

In Column Z a Total Return of less than 8% may suggest that the investment may not meet long term investment goals.

PERT Report – Estimated EPS

PERT Report calculates some figures that are unique and not related to other reports. These are columns P, R, Y, Z, and AB which use the Estimated EPS figure as displayed in Column E for their calculations.

The SSG uses reported EPS figures for the latest 4 quarters when calculating current PE. Here in PERT Report we also look at value based on the anticipated EPS. The reason for using an estimate of future earnings is to reflect the anticipatory nature of the stock market. Using estimated future earnings calculates a Leading PE along with other items calculated in Parts 4 and 5 of the SSG. These items are:

lead PE	Column P
lead RV (relative value)	Column R
estimated U/D ratio	Column Y
estimated Total Return	Column Z
estimated high price	Column AB

For reference, the second row of Columns P and R show the trailing PE and RV figures recorded in the SSG.

Review the Formulas area for details on these calculations.

PERT Report Summary

The summary information in the PERT Report was previously reviewed in other reports. However, the concise PERT Report makes for a quick and simple report to share key information with other members of your club.

Remember that the results of PMG and PERT (including PERT Report) should lead you to confirm whether or not the company is meeting to your expectations set in the SSG. Variations from expectations alert you to explore the company further and discover if it still meets your investment objectives.

For specific sell conditions, review the “When to Sell” section in the Classic Plus manual.

Formulas

The following table lists definitions and formulas for the PERT reports.

PERT A

Col B/C	Quarterly EPS
Col D*	% Change in EPS* $\{(recent\ Q\ EPS/Year\ ago\ Q\ EPS) - 1\} \times 100$
Col E	Quarterly Pre-tax Profit
Col F	Pre-tax Profit as a % of Sales* $\{(recent\ Q\ Pre-tax\ Profit /Year\ ago\ Q\ Pre-tax\ Profit) - 1\} \times 100$
Col G*	Pre-tax Profit % Change* $(Col\ E /Col\ H) \times 100$
Col H	Quarterly Sales
Col I*	% Change in Sales* $\{(recent\ Q\ Sales/Year\ ago\ Q\ Sales) - 1\} \times 100$

Col J	Quarterly Tax Rate As entered or calculated from pre-tax profit and net income
Col K/L	Last 12 Months EPS (4 quarters) Sum of the current and preceding 3 Quarters of Col B/C
Col M	Last 12 Months Pre-tax Profit (4 quarters) Sum of the current and preceding 3 Quarters of Col E
Col N *	Last 12 Months Pre-tax Profit as a % of Sales (4 quarters)* (Col M / Col O) x 100
Col O	Last 12 Months Sales (4 quarters) Sum of the current and preceding 3 Quarters of Col H
Col P	Last 12 months Taxes Sum of the current and preceding 3 Quarters of (pre-tax profit – net income) as entered in the Data Entry window.
Col Q	Last 12 months Tax Rate (Col P / Col M) x 100
Col R*	Last 12 Months % Change in EPS (4 quarters)* (Current year Col KL) / (Col KL 4 quarters back)
Col S*	Last 12 Months % Change in Pre-tax Profit (4 quarters)* (Current year Col M) / (Col M 4 quarters back)
Col T*	Last 12 Months % Change in Sales (4 quarters)* (Current year Col O) / (Col O 4 quarters back)

* Asterisk items are graphed in the PERT Graph report.

PERT B

Col B	Yearly EPS
Col C	High stock price for the fiscal year of the company

Col D	Low stock price for the fiscal year of the company
Col E	$\text{Col C} / \text{Col B}$
Col F	$\text{Col D} / \text{Col B}$
Col G	Sum of the current and preceding 4 years of Col C divided by 5
Col H	$(\text{Col G} + \text{Col I}) / 2$
Col I	Sum of the current and preceding 4 years of Col D divided by 5
Col J	Yearly Dividend
Col K	$(\text{Col J} / \text{Col B}) \times 100$
Col L	Sum of the current and preceding 4 years of Col K divided by 5
Col M	$(\text{Col J} / \text{Col D}) \times 100$

PERT Report

Square brackets [] are used to define more clearly specific items in the formulas, i.e. [Col P (top value)].

Col B	Yearly Dividend, shown as 2 nd line of column D
Col C	Company Name
Col D	Col B/ Col Q
Col	This is the selected Projected EPS in the Extras section in

E	Part 3 of the SSG. At the Experienced Level, there are 3 possible selections for this. Review the Leading PE section of Classic Plus.
Col F	Quarterly date of last reported and recorded data. This is equivalent to the quarterly data highlighted with the yellow line in the data entry window.
Col G	The EPS for the corresponding quarter dated in Col F
Col H	$\{(recent\ Q\ EPS/Year\ ago\ Q\ EPS) - 1\} \times 100$
Col I	The Sales for the corresponding quarter dated in Col F
Col J	$\{(recent\ Q\ Sales/Year\ ago\ Q\ Sales) - 1\} \times 100$
Col K	The Pre-tax Profit for the corresponding quarter dated in Col F
Col L	$(Col\ K / Col\ I) \times 100$
Col M	$\{(recent\ Q\ Pre-tax\ Profit/Year\ ago\ Q\ Pre-tax\ Profit) - 1\} \times 100$
Col N	Sum of 4 Q of EPS starting with the latest Quarter (yellow highlighted data) and previous 4 quarters.
Col O	$\{(sum\ of\ 4\ Q\ of\ EPS/Previous\ 4\ Q) - 1\} \times 100$
Col P	Top line is PE from Part 3-9 of the SSG, bottom line is Col Q/ Col E
Col Q	Stock price
Col R	Top line is "Cur RV" = $\{[Col\ P\ (top\ value)] / Col\ T\} \times 100$ Bottom line is "Lead RV" = $\{[Col\ P\ (bottom\ value)] / Col\ T\} \times 100$
Col	P/E Ratios from the latest year row of Part 1 of the PMG

S, T, U	(Cols 2, 3, 4)
Col V	This is the projected EPS growth from the SSG Graph
Col W	{Col P(bottom value) /Col V} x 100, shown as 2 nd line of column V
Col Y	Up/down ratio using the high price of Col AB
Col Z	Total Return using the high price in Col AB, shown as 2 nd line of column Y
Col AA	Selected low price from Part 4 of the SSG
*Col AB	<p>Selected high price** calculated from the estimated EPS and lead period (both from column E) and the projection of earnings from the SSG Graph. Shown as 2nd line of column AA</p> <p>** high price = [average high PE] x estimated EPS x (1 + [EPS projected growth rate])^L</p> <p>where L = 5 – (lead period/4) and growth rate is a decimal fraction</p> <p>Lead period (as shown in column E) is in quarters and is an option set in the SSG Analysis, Projected Values section.</p>

*Review the Projecting a Full 5 Years topic in the Classic Plus manual.

Options

12

Classic Plus has numerous options, many of which are geared to Experienced users.

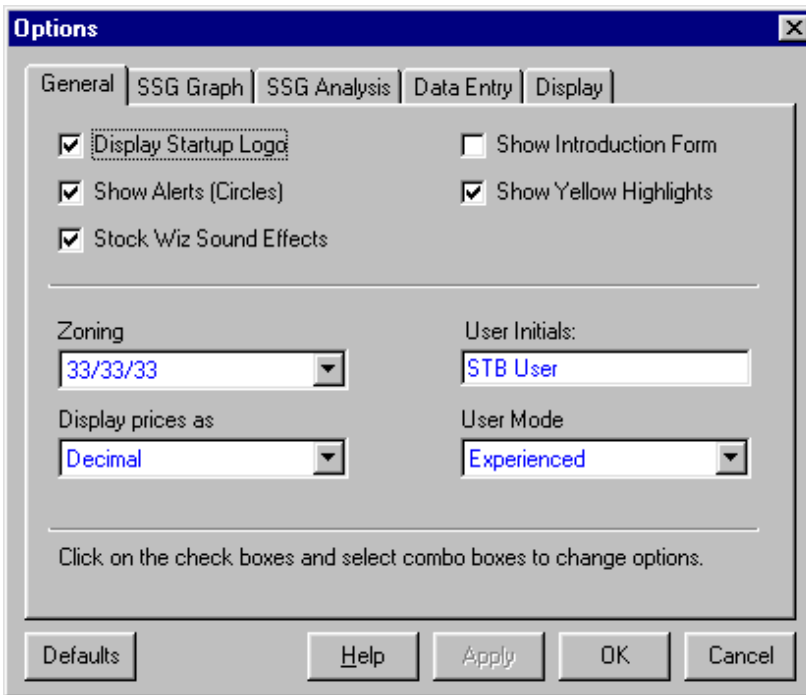
Experienced Operation

The Experienced level of operation is used when you have mastered the basic process for studying a company. At a minimum, you will be able to discern (by the SSG Graph) a company with good potential. You will know how to focus on the ‘obvious’ irregularities that occur frequently in stock studies and you will use them as keys to understanding a company. Options for entering data are included in the **Company Data** section of this manual.

Options

Preferences

The **Preferences** menu item opens the **Options** window containing five tabs labeled: **General**, **Graph**, **Analysis**, **Data Entry**, and **Display**.



Other options may be available by clicking the right mouse button. (Read further in this chapter for details).

General Tab

You may choose which windows to display. You can elect to ‘turn off’ any particular window when it is displayed. Beginners will want to be informed of the contents of these windows. When no longer needed, they can be turned off.

You can also set options to process information specifically for your method of operation. This includes:

- **zoning** – 33/33/33 or 25/50/25
- **how to display** figures – fractional or decimal digits

This is also where you enter your initials for printout on the reports.

Graph Tab

The options here are set as defaults when starting the program. Individual choices can be made by clicking the right mouse button on the graph window.

You may want to ‘turn off’ certain portions to suit your way of working or to temporarily remove an item on the graph to give you a clearer picture of other information

Analysis Tab

At the Experienced level you may display additional information.

Part 3 Extras is the only option in this window

Data Entry

Lists of industries and exchanges are provided with Classic Plus. Here you may add, edit, or delete entries

Display

Here you may set foreground and background colors for the various windows. Foreground color is the color of text information. Background is the color of the form graphics

File Associations

File associations allow the Classic Plus program to recognize specific file extensions and open them (and Classic if necessary) in one step. As an example, if you see a company file (with an SSG or SDF file extension), you may open it simply by double clicking on the file name. This is the case whether the file is on your computer, the Internet, or elsewhere.

File association also helps you to quickly work on companies from other programs (such as the screening program Stock Prospector .)

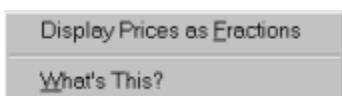
You may set file associations for various types of files:

- SDF files that are native to Classic Plus.
- SSG files that are common to ICLUBcentral software.
- PRC files that are unique to Classic Plus for Internet price information (instead of CSV files).

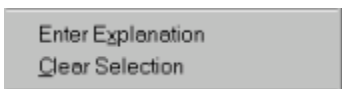
- CSV files that are often used for price data (not normally recommended as association can conflict with spreadsheet programs).

Stock Check List Options

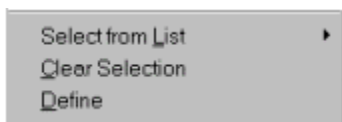
The following are selections available by clicking the right mouse button within the Stock Check List report. In each instance, options are selected or de-selected by clicking on the item. The majority of options listed are available once the Experienced operating mode is selected.



Prices can be displayed in fractional or decimal figures. The **What's This** Help is available in all popup menus.



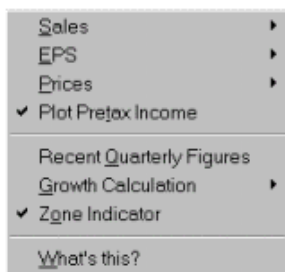
For some judgment areas you may enter a lengthy explanation or clear it.



For others, you may select an appropriate phrase by selecting from a list. Alternatively you can define your own or clear it to re-type your explanation.

SSG Graph Options

The following options and selections are available when you right-click the mouse button on the SSG Graph. Some options are available only when using the Experienced mode.



Recent Quarterly Figures displays the quarterly information box on the top left corner. You may want to remove this box for a better view of historical data on the graph.

Growth Calculation is either mid-point or least squares.

Zone indicator shows the zones calculated in Part 4. Green is the buy zone, yellow for hold, and red for sell.

Choose Sales and EPS selections to display any of the data, trend and projection lines. For EPS, you may select the Preferred Procedure to calculate projected EPS based on a projection of sales.

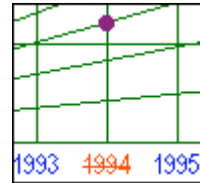
Select Prices or Pre-tax income for data plots of those items.



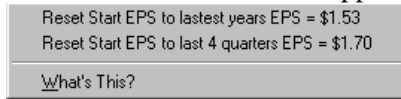
Click on a data item (EPS, sales, pre-tax income, and prices) to bring up this prompt. You can move data up or down if necessary for better viewing. Reset scale sets the data to the computer setting.

The scale factor for EPS and sales is shown in the Latest Quarterly Figures box in the top left corner of the Graph.

Outliers: judgment may be applied to the Graph by excluding data from calculations. Click on the year label at the bottom to exclude/include a specific year's unusual data. Clicking an outlier will automatically recalculate the trend line using the least squares growth formula.



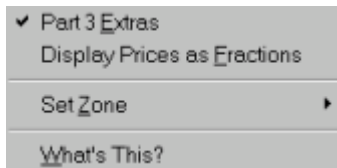
The **Preferred Procedure** applet (Experienced level) allows you to choose from the last fiscal year or the cumulated 4 quarters total when resetting sales and EPS start values.



Choosing the 4 quarters total will calculate the future value based on this additional information and provide a proper 5 year projection. This would be the choice if you are studying a stock for the first time.

SSG Analysis

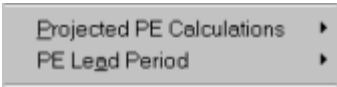
The following options and selections are available with a click of the right mouse button on areas of the SSG Analysis. Some options are available only when using the Experienced mode of operation.



Part 3 Extras shows the projected values for EPS, Price/Earnings Ratio, and the method of calculating projected P/E Ratio.

You may display price data in decimal or fractional format.

Set Zone provides the choice of the normal 33-33-33 or the 25-50-25 zone ranges for buy, hold, and sell.

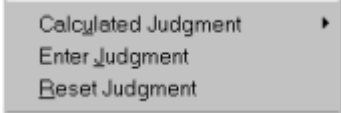
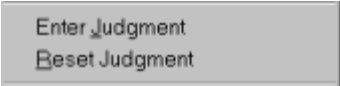


If the **Part 3 Extras** are displayed you may choose from 3 methods of estimating EPS for the projected P/E Ratio calculation. The

choices are:

1. **Last 4 quarters EPS** as entered in the Quarterly Data window beyond the latest quarter (above the yellow line).
2. **ACE Forecasted EPS** uses the Analysts' Consensus Estimate figure entered in the Company Data window (from a Datafiles source).
3. **EPS Growth** uses your EPS projection from the graph.
4. **P/E Ratio Lead Period** allows you to select how far ahead you wish to calculate the projected EPS. 2 to 4 quarters is the usual selection.

In some cells you may enter a value other than what is calculated. **Enter Judgment** allows you to set a value to suit your expectations.



Reset Judgment uses the value that Classic Plus would normally calculate. Note that you may also reset judgment for one or all reports from the **Options** menu item.

For the **Estimated Low Price** you may choose from Part 4B values. Alternatively enter your own value using **Enter Judgment**. **Reset Judgment** selects the value in Part 4Ba.

Yellow highlighted areas indicate where judgment may be added. Strike out data that you consider not representative. Click on the cell to exclude/include the item. Review appropriate sections in this manual to determine why you may want to exclude certain data.

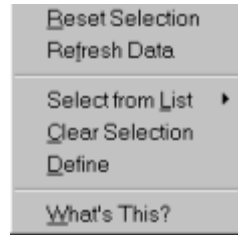
Earnings Per Share	Price Earnings Ratio	
	HIGH (A+C)	LOW (B+C)
0.53	48.1	44.8
0.23	54.3	33.7
0.61	30.7	13.9
0.46	64.1	31.5
1.04	N/A	N/A

SSG Report Options

Many sections in the report allow you to choose from a pre-defined list of phrases. If none is suitable, then you can define your own.

Comparison Guide Options

Reset Selection changes the ‘best’ selections to the way Classic Plus would select them.



Refresh Data is used for retrieved Comparison reports. This function updates items for the companies in the list based on new study information. Judgment items are reset to conform to the new data.

Select from List presents pre-defined optional entries that can be included for lines 27 and 28.

Define and **Clear Selection** allow you to define (or clear) any comparison item that you consider important.

PMG and PERT Options

These provide alternative selections for calculating figures and displaying results.

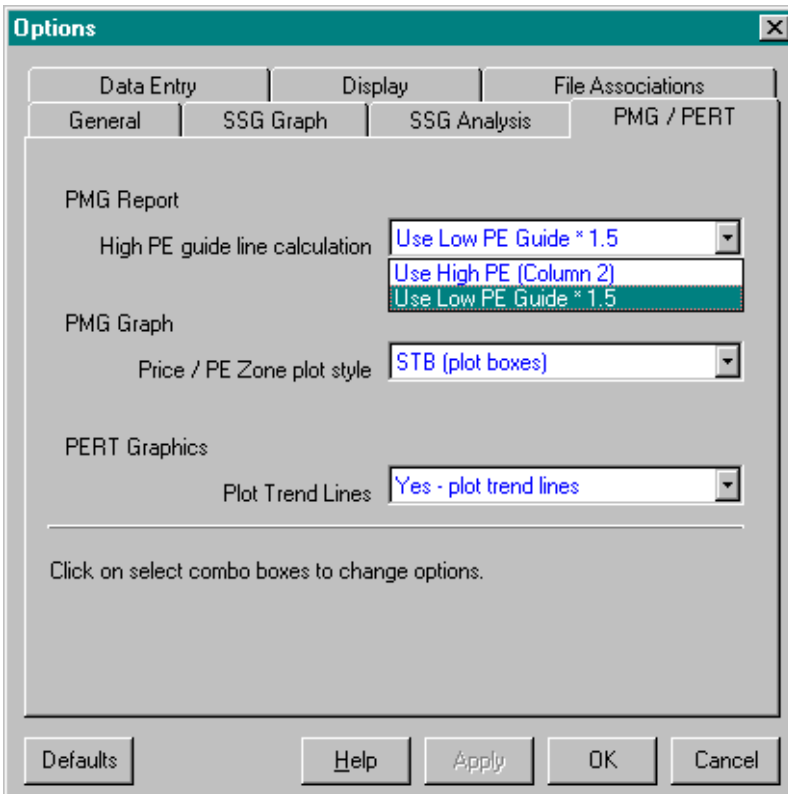
Preferences

There are 3 options for the PMG and PERT Graphics reports.

1. High PE Guideline

The normal calculation for the High PE guideline in the PMG Part 1 is 1.5 times the average PE. The problem with this guideline is that it does not account for a company’s variation in PE. Review the Relative Value (RV) Plot, on page 136 for details regarding this dilemma.

The alternate selection is a High PE guideline based on the Average High PE. This choice considers the company’s characteristic variations in PE.



2. Display Bars/Lines

The PMG Graph contains a lot of information. The normal horizontal lines that indicate the price zones and PE guidelines may at times be confusing and difficult to interpret.

The alternate choice to horizontal guidelines is shaded bars. The bars are color-coded to represent the hold zone for prices in blue and the PE guidelines in red.

When printed on a black and white printer, the bars can be differentiated by their location. The price zone bar is on the left side of the fiscal year and corresponds to the price scale on the left side of the graph. The PE bar is on the right and corresponds with the PE scale on the right side.

3. PERT Graphics

The PERT Graphics option displays a trend line for the moving 4-quarter data plot. The trend line can be used to assess the historical trend for the items indicated.

Glossary

ACE – Analysts’ Consensus EPS: An estimate of the current fiscal year EPS. This value is available in the BetterInvesting/S&P Datafiles or Value Line sheets. It is one of 3 choices that can be used to calculate projected P/E Ratio in Part 3 of the SSG Analysis.

Annual Report: The formal financial statements and report on operations issued by a corporation to its shareholders after its fiscal year end.

Asset Allocation: The diversification of investments among different asset classes, e.g. stocks, bonds, short-term money market instruments.

Assets: Items of value owned by and owed to the company and used to produce products for sale and to generate profits. Total assets are listed in the Balance Sheet of the company’s annual report.

Average Dividend Yield: Part 5 of the SSG expresses the potential for average annual dividend yield. This combines with price appreciation to show a potential total return. The formula for Average Dividend Yield is $\text{EPS} \times \text{Average Payout} \div \text{current price}$ where $\text{EPS} = \text{Estimated High EPS} \div \text{by } (1 + \text{EPS Growth})^{2.5}$.

Companies that pay a dividend will generally increase the dividend as EPS grow. Share price growth will usually follow the dividend increases and thus keep dividend yield at a constant percentage.

Average High P/E Ratio: The average high price to earnings ratio (P/E Ratio) for the past 5 years, in Parts 3 & 4 of the SSG. Used to calculate a forecast high price.

Average Low P/E Ratio: The average low price to earnings ratio (P/E Ratio) for the past 5 years, Parts 3 & 4 of the SSG. Used to calculate a forecast low price.

Average Low Price: The average of low prices for the last 5 years, in Parts 3 and 4 of the SSG. This represents a possible low price for a cyclical company (e.g. General Motors) whose stock price tends to fluctuate in cycles over approximately a 5 year period.

Average % Payout: The 5-year average of the percentage of the company's profits paid out in dividends to shareholders. Found in Part 3 of SSG. Calculated as dividend per share divided by EPS x 100.

A high % payout can be a danger sign. Recent payout figures higher than 50%, and higher than the average payout, may forewarn of a dividend cut. A dividend cut would likely cause the stock price to fall. Generally, the higher the payout ratio, the lower the expected growth rate for the company's EPS in the future.

Sometimes, although the dividend payout is more than earnings, the company has strong cash flow and can cover the dividend in the short term. However, a company paying out dividends in excess of earnings on a recurring basis is a risky investment.

Average P/E Ratio (Ratio): In Classic Plus, the average of the Average High and Average Low Price to Earnings ratios for the past 5 years. Used in Part 3 of SSG as a measure of value by comparing it to the Current P/E Ratio.

Current P/E Ratio divided by Average P/E Ratio = Relative Value.

Average Pre-tax Profit Margin: Pre-tax Income divided by Sales as used in evaluating management, Part 2A of the SSG. This measures how well management converts sales dollars into profits, after deducting all the operating expenses for making and selling its products. The last two years' figures are compared with the 5-year average to show the trend of growth.

Balance Sheet: A financial statement showing the nature and amount of a company's assets, liabilities, and shareholders' equity on a given date. It is issued annually and quarterly.

Basic EPS: There are two kinds of Earning per Share: basic and diluted. Basic shares are fewer in number than diluted. For Basic EPS, net income is divided by the number of common shares outstanding. This produces a larger EPS number than when using a diluted number of shares. Be consistent in the kind of EPS you use.

Beta: The Standard and Poor's 500 Stock Index has a beta coefficient of 1. Any stock with a higher beta shows more volatile price movement than the market, while a lower beta suggests a stock price will rise and fall more slowly than the market. There are differing opinions about the value of using beta.

Blue Chip: A common stock of a nationally-known company that has a long record of profit growth and dividend payments, as well as a reputation for quality management, products, and services.

Book Value/Share: This is the value of the common shares as accounted for on the company's balance sheet. It is the amount of net assets (which is all assets minus all liabilities and preferred stock issues) divided by the number of common shares outstanding.

The book value may have no similarity to the actual cost per share on the stock market (called market value), or even to the sum of money that the shareholder would receive if the company dissolved. Companies that are running their businesses very successfully may sell at many times their book value, while those doing poorly may sell at a discount to their book value.

Increasing book value generally indicates that the company is accumulating assets faster than debt - a good sign. Decreasing book value may be due to research and development expenses, writing down assets, losing money from operations, or issuing more shares. Book value is used to calculate Return on Shareholders' Equity (ROE) in Part 2B of the SSG.

Buy Zone: Found in Part 4 of the SSG. The price range within which you may buy the stock. This range was developed by forecasting high and low prices for the company. The total high to low range was divided into price segments.

The current stock price should be well within the Buy zone to make a conservative investment choice and to provide a good opportunity for price appreciation. (This assumes that all other criteria indicating a good company are met.)

Capital Gain (Loss): The profit or loss from the sale of a capital asset such as a stock.

Cash Flow: A company's net earnings plus any deductions that are not paid out in cash, such as depreciation and deferred income taxes. A company pays dividends from this cash amount. Some analysts consider this figure more meaningful than net income because it is the actual amount of money generated.

Click and Drag: The process of moving an item on the screen. In Classic Plus do this to move the trend or projection lines or the **Stock Wiz**.

To move an object, click and hold the mouse button and then move (drag) the object to the new location.

Also see Drag and Drop.

Coefficient of Correlation: See R^2 (R-squared).

Common Equity: The ownership of the company may be held by two classes of shareholders - preferred and common. The stock held by the second group is called the common equity of the company. Common equity = Shareholders' equity less the redemption value of any outstanding preferred shares.

Common equity is useful in measuring the performance of a company's management. See Part 2B of the SSG, Return on Equity (ROE).

Common Dividends: Newer companies growing rapidly may pay a modest dividend, preferring to reinvest their profits to grow the business. More established companies often pay a dividend quarterly. Found in Part 3 of SSG.

Note Column F to see whether dividends have been growing over time and compare to the current year's dividend. Regular payment and growth of the dividend will help support the stock price.

Common Stock: A unit of ownership in a company. Common shareholders receive dividends after preferred shareholders (if the company has issued preferred shares). In the event of the company's breakup, owners of common shares are the last in line to receive their interest in the company's assets.

Compounding: In Part 5 of the Stock Selection Guide, compounding is used to calculate the 5-year potential return. By holding the stock over 5 years and investing the dividends back into the company, the money you originally invested will grow larger through price appreciation, dividend growth, and dividends growing upon dividends.

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 P/E Ratio: In Classic Plus, it is calculated using the last 4 reported quarters of earnings per share.

Current P/E Ratio = Current Price / Current EPS.

Found in Part 3 of SSG. Comparing it to the average P/E Ratio shows over or under valuation of the company. Divide the current P/E Ratio by the 5-year average P/E Ratio. If the result is 1 or less, the stock is undervalued.

Current Return: The annual rate of yield on an investment. For stock, calculated by dividing the yearly dividend by the market price. For bonds, calculated by dividing the interest rate by the current price.

Current Yield: Measures the percentage annual return from dividend payments.

Current Annual Dividend Yield = Current Dividend / Current Price

Found in Part 3 of SSG. Note Column H refers to the High Yield, using the low stock price for the calculation.

Cyclical Stock: A stock in an industry particularly sensitive to swings in economic conditions. Examples are housing and autos.

Database: A special computer file that holds information. Within Classic Plus, the database holds all the information for companies you have studied and saved, as well as comparisons saved. The database can be seen in Windows Explorer in the Classic Plus directory. It is labeled as Classic.mdb.

Datafile: This term identifies a specially formatted file containing data for a company. You can use datafiles to exchange studies with others that have analysis software. The two file formats are .SSG and .SDF. These files are normally available by subscription from organizations like BetterInvesting and ICLUBcentral. Contact BetterInvesting or ICLUBcentral for more information about company data.

Debt to Capital Ratio: Total debt (i.e. short + long term debt) divided by total capital (long-term debt + shareholders' equity). Check the **Glossary** for further definitions for total debt and total capital.

The percentage Debt to Total Capital is found in the heading of the SSG Graph. A suggested acceptable percentage is up to 33%. Debt must be funded in good times and bad, so a company going through a bad slump has a better chance of recovering if its debt load is not too high.

Keep in mind that debt serves the useful function of helping the company grow. It is up to management to use it wisely and grow the sales and earnings.

Debt to Equity Ratio: Long term debt divided by book value times the number of shares outstanding. Also calculated as: long-term debt divided by common shareholders' equity. Debt/Equity shows the company's reliance on borrowed money to maintain and grow the business. It varies among industries.

If a company has predictable sales and can control the pricing of its products in the marketplace, then the risk of carrying debt is lessened. This is why regulated utility companies may carry much higher debt loads (up to 70% of equity) than companies in highly competitive businesses.

Generally the amount of debt and the fluctuation of the debt ratio from year to year are indicators of how well the management is running the business.

Default: Choice (of a value or option) made by Classic Plus when the user does not specify otherwise.

Diluted Earnings per Share: There are two kinds of EPS: basic or diluted. Since 1997 U.S. companies have been required to report diluted EPS as well as basic.

Diluted EPS account for potential additional shares being distributed from options, warrants, or rights that may be converted or exercised.

If there is a choice, choose diluted EPS.

Directory: In computer terms, a directory, also call a folder, is a location where computer files are stored on your floppy, hard disk, or CD. Directories can contain other directories as well as files.

Diversification: In order to reduce risk, it is wise to own the best company in at least 10 industries (depending upon the size of your portfolio). Choose industries that are likely to have better growth than the economy as a whole.

Another way to diversify is to buy companies of various sizes in different industries. Size can be measured by the dollar figure for sales, (up to \$400M = small company; above \$4Billion = large company; middle-sized companies are in between.

Dividend: Dividends are paid to two kinds of shareholders. Preferred dividends are paid at a specified rate to shareholders who have purchased Preferred shares. Should the company be in financial difficulty, the preferred shareholders would receive their due before the common shareholders.

Common shareholders may or may not receive a dividend. It depends upon the wishes of the Board of Directors. If a company has a history of paying dividends, it will likely continue to do so. If the dividend is cut, the stock price is likely to fall.

Dividends may be paid in the form of cash or stock. Generally a growth company pays out no more than 50% of its earnings in dividends to

shareholders. When a company has been growing rapidly over several years, it is likely to pay a modest dividend so that it can reinvest earnings in the business. In this way it will build value over the long term. Part 3 of the SSG reports the dividend paid, as well as the high dividend yield and the payout ratio.

Dividend Payout Ratio: A measurement of the percentage amount of net income paid out in dividends rather than retained by the business to help it grow. The historical % payout is found in Part 3 of the SSG. The formula is: dividend divided by EPS x 100.

Recent payout figures higher than 50% (and higher than the average payout) may forewarn of a dividend cut. This cut may result in the stock price falling. Sometimes, although the dividend payout is more than earnings, the company has strong cash flow and can cover the dividend. However, a company paying out dividends in excess of earnings on a recurring basis is a risky investment.

Dividend Reinvestment Plan – DRIP: An investor can set up this kind of account to automatically reinvest shareholder dividends by buying more shares of the company’s stock. This allows dollar cost averaging to occur. This is also good for companies, giving them a steady source of new funds for growing the company.

Dividend Yield: The dividends per share paid to shareholders, expressed as a percentage of share price (Part 3 of SSG). Column H reports the % high dividend yield (annual dividend divided by the low price x 100). The top line reports the current dividend yield (current dividend divided by the current price).

Total return on your stock investment is usually measured by adding the dividend yield percentage to the percentage return from price growth of the stock.

Dollar Cost Averaging: Investing equal amounts of money in a specific security at regular intervals over a period of time. This averages the cost paid per unit.

Drag and Drop: This term is a Windows signifying a mouse action to move an item on the screen. It consists of 3 steps, 1) click and hold with the left mouse button the item to be moved, 2) while holding the mouse button down, drag the item to the new location, 3) lift the mouse button to drop the item in the new location.

DRIP: See Dividend Reinvestment Plan.

EPS - Earnings per Share: The net income or profits (after taxes) divided by the number of shares of common stock outstanding. The history of EPS is found on the SSG Graph and also in Part 3.

There are several kinds of EPS reported. Two of the most common are basic or diluted. It is wise to consistently use either basic or diluted EPS in your stock analyses.

Another kind of EPS reported may be non-recurring EPS. This happens on occasions when a company has had an unusual, non-repeating occurrence that affected its earnings. Generally you would exclude this non-recurring event. However, you would want to understand any possible long-term consequences of the occurrence.

Beware companies whose earnings are erratic over time, negative, or declining in value.

Equity (or Shareholders' Equity): The equity ownership of the company may be held by two classes of shareholders – preferred and common. The accounting definition is: the difference between the assets and liabilities of a corporation.

Sometimes called net worth. Equity is useful in measuring the performance of a company's management (called Return on Equity – ROE). See Part 2 of the SSG.

Estimated Low Price: The estimated lowest price that the stock may reach over the next 5 years. Found in Part 3 of the SSG. The formula is:

Average Low P/E Ratio x Estimated Low EPS = Estimated Low Price

This very important number sets the bottom of the Buy Zone. If you have an extreme upside-downside ratio (10 or higher), then likely your low price has been set too close to the current price.

Exchange: The market where stocks are bought and sold. E.g. New York Stock Exchange (NYSE), American Stock Exchange (AMEX), National Association of Securities Dealers Automated Quotations Stock Market (NASDAQ), Over the Counter (OTC).

Fiscal Year: A corporation's accounting year, which may differ from the calendar year. Fiscal year is defined in various ways, according to the source of the data.

Value Line: If FY ends prior to May 15/08, the label will be FY 2007. May 15/08 or later will be FY 2008.

Standard & Poor's Reports: Regardless of date, FY is the calendar year in which FY ends.

BetterInvesting S&P Datafiles: If FY ends prior to June 1/08, the label will be FY 2007. June 1/08 or later will be FY 2008.

Forecast High Price: The estimated highest price that the stock may reach over the next 5 years, assuming that the company reaches the targeted EPS and sells for its High P/E Ratio. Found in Part 3 of the SSG.

Forecast High Price = Average High P/E Ratio x Estimated High EPS.

This number sets the top of the Sell Zone.

Forecast Low Price: The estimated lowest price that the stock may reach over the next 5 years, assuming that the company operates normally. Found in Part 3 of the SSG.

Forecast Low Price = Average Low P/E Ratio x Estimated Low EPS.

This number sets the bottom of the Buy Zone.

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. It is available on the Internet or from the company.

Form 10-Q: The quarterly report of a company 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 the specific quarter or it may be cumulative. It should include comparative figures for the same period of the previous year. It is available on the Internet or from the company.

Fundamental Analysis: A method of security analysis based on fundamental facts found in a company's balance sheet and income statement e.g. sales, earnings, dividends. These past records are examined to attempt to predict the company's future growth of sales and earnings as well as stock price growth, for example. This is the methodology used in Classic Plus.

Global: Universal, applying to all. For example, global defaults in Classic Plus are defaults that apply to all companies.

Growth Objectives: Look for a company growing sales and earnings fast enough to grow price 100% over 5 years. This equates to 15% annual price

appreciation when compounded. A company whose sales and earnings are growing at 8%-10% can achieve price appreciation of 15% if purchased at a lower than average price to earnings ratio (P/E Ratio).

Growth Stock: A company with excellent prospects for above-average future increases (or growth) for sales, earnings, and price. Look for a company that is a leader in its industry.

High P/E Ratio: The highest Price/Earnings Ratio at which the stock sold during the year. See Part 3 of the SSG for the five-year history for P/E Ratios.

High P/E Ratio = High Price divided by EPS.

High Yield: The highest dividend yield for a particular year (in SSG Part 3). Calculate by dividing the yearly dividend by the year's low price x 100.

It is useful to measure the current dividend yield against the historical high yield. If the current yield is lower, then there may be room for an increase in dividend to bring the yield closer to the former high.

Hold Zone: Found in Part 4 of the SSG. This range was developed by forecasting high and low prices for the company and dividing the total into 3 price segments.

When the current price reaches the hold range, you should continue holding the stock, neither selling your position nor buying more shares. Continue to track the sales and earnings results quarterly to see how the company is meeting your expectations for growth.

Income Statement: The portion of a financial report showing income and expenses and comparing them to the same period last year. The income statement is also called the earnings report.

Industry: Category groupings for companies according to their business. These may vary somewhat according to the authority doing the grouping, e.g. Value Line, Standard & Poor's, etc. When looking for good investments, it is wise to compare several companies in the same industry and to pick the best of the group for purchase.

Industry Sector: A grouping of industries into a broader economic definition. (e.g. transportation).

Insider Ownership: Employees, executives and directors who have their own money invested in the company are 'insiders'. By holding shares, they show that they have confidence in the security and future of their investment. They have extra incentive to make the company profitable.

The percentage of insider ownership desirable is a judgment call. At 51% or more, the insiders definitely have the controlling interest. This term is found in the header of the SSG Graph.

Institutional Ownership: The percentage of shares held by mutual funds, trust funds, and other professional managers who hold large blocks of shares for their clients. Fund managers tend to make changes in their portfolio of stocks more frequently and for different reasons than individual long-term investors do. These large sales can create larger than normal price changes. This is why a substantial percentage of institutional ownership may be considered a disadvantage. This term is found in the header of the SSG graph.

Investor: A person who seeks to minimize risk in the purchase of securities. Companies with good track records are preferred and purchase at fair value is important. Companies are held for the long-term (at least 3 to 5 years) rather than trying to time the market.

Investor Sentiment: Investors' expectations of how a market will perform. It is described as bullish (with expectation of higher prices) or bearish (lower prices).

Judgment: The human element which is necessary for successful investing. Computers can crunch numbers, follow formulas, and provide some artificial intelligence; but judgment is crucial for making the careful decisions. The investor must be informed about the company's past, its future plans, and be prepared to make some educated estimates about future trends.

In all cases, judgment must be applied when doing the Stock Check List, Stock Selection Guide and Report, and the Stock Comparison Guide.

Leading P/E Ratio: Current price / EPS, using 4 consecutive quarters, at least one quarter of which uses forecasted figures. This is called Projected P/E Ratio in Part 3 of the SSG.

The market drives stock prices up or down in anticipation of company results. Using forecasted EPS with the current price gives a P/E Ratio which is more balanced with the current market value of the stock.

Least Squares: A method to calculate the growth of the lines on the SSG graph. This growth calculation uses the logarithm of the values. As the log of numbers less than 1.0 is mathematically undefined, the computer tests for this condition and alters the data values so that a calculation can be

made. A least squares calculation produces a more conservative result than the mid-point method.

Leverage: The extent to which a company uses debt to finance expansion and growth. It is measured by the Debt to Equity and Debt to Capital Ratios. When comparing companies' leverage ratios, do so within the same industry, to be fair.

Liabilities: Debts of a corporation, usually divided into current (those due within one year) and long-term (those payable after one year).

Long-term Debt: Often companies need more funds to support their activities than their profits can provide. Therefore they will borrow money and make interest payments regularly. Long-term debt describes the debt amount due after one year or more.

Low P/E Ratio: The lowest P/E Ratio at which the stock sold during the year. See Part 3 of the SSG for the five-year history of P/E Ratios. Low P/E Ratio = Low Price divided by EPS.

Low Price Estimate: Part 4B of the SSG. The investor must estimate the lowest price that will occur during the next five years in order to set the zoning. There are several choices here, depending upon the type of company and its market history.

Market Capitalization: The dollar valuation of the total number of shares times the current price. This value is sometimes used by investors to classify stocks by size. It is not as reliable as classifying by sales dollar value because the price of a stock can be very inflated by the market and not truly representative of its size.

Mid-Point: This is a method of calculating sales and EPS growth on the SSG Graph. It bases growth on averaged values. For 10 years of data, averages are calculated for the first and last 5 years. Each average determines a point between which an imaginary line is drawn to calculate the growth of the slope. For an odd number of years, the data is split so that the middle year is accounted in both averaged sums.

Net Income: Also called Net Profit or Net Earnings. Profits remaining after all expenses and taxes are applied. From this amount dividends are payable.

Net Income = EPS x Number of Shares

Operating Income: The income from normal company operations, after deducting all expenses except taxes.

Outlier: A data figure that appears unusual from the normal trend. It is generally caused by extraordinary or non-recurring financial events.

Payout: The percentage of the company's profits (EPS) paid out in cash dividends to shareholders. See Part 3 of the SSG. The formula is:

Dividends per Share divided by EPS X 100

The remaining EPS not paid in dividends are reinvested in the company.

Young, fast-growing companies often have a low payout percentage because they can better use the funds to grow the company. An increasing payout ratio may show that the company is maturing and growing more slowly, so has less need for cash for expansion.

If the payout ratio is unusually and overly large (60%+) the company may be paying out too much dividend. There may be a risk that the dividend will be cut, with a resulting fall in the stock price. Remember that some kinds of companies, such as utilities, normally have a high payout ratio.

Potential Annual Appreciation: Found in Part 5A of the SSG. Refers to the potential percentage growth of the price of the stock, from the current price to the forecast high price 5 years ahead, compounded annually. This number is based on the analysis decisions that you made in your SSG. Combined with a dividend yield, it makes up the possible Total Return percentage.

Potential Dilution: Reported in the heading of the SSG graph as a percentage. Any outstanding options, warrants, or convertible debentures that are converted to common shares will dilute the value of those shares.

Potential Dividend Yield – Average: Found in Part 5B of the SSG. Suggests the potential percentage dividend payments, compounded yearly over the next 5 years. Combined with price appreciation, yield makes up the possible total return percentage. Also see Yield.

Potential Total Return: Found in Part 5C of the SSG. Suggests the potential compounded return on your investment over 5 years, based on the analysis decisions that you made in your SSG. It supposes that you bought the stock at the current price, earned the average dividend yield, and sold at the forecast high price to achieve the potential annual price appreciation.

Preferred Dividends: These dividends are paid at a specified rate to shareholders who have purchased preferred shares. Should the company be in financial difficulty, the preferred shareholders would receive their due before the common shareholders. Preferred dividends are used as part of

the SSG Graph Preferred Procedure method for predicting EPS 5 years into the future.

Preferred Procedure: A formula that may be used in the SSG Graph to estimate earnings per share five years ahead. It starts with the sales growth projection developed in the SSG Graph. (This is used because sales growth is historically more consistent and stable than earnings growth.) From sales are subtracted expenses, taxes and preferred dividends. The result is then divided by the shares outstanding to show the 5-year forecast for EPS.

It is worthwhile to compare this sales-based EPS projection with other methods. This should help to confirm the reasonableness of your future 5-year EPS projection.

Preferred Shares: Used in the calculation for Preferred Procedure. Preferred shares rank higher in importance than common shares. Dividends are an obligation and have to be paid before common share owners can benefit from company profits.

Pre-tax Income: Also may be called net income before taxes, income before profit, or income before taxes.

This is the profit made by the company before paying taxes.

Pre-tax Income = Net Income / (1 - tax rate as a decimal)

Pre-tax Profit on Sales: This is expressed as a percentage in Part 2A of the SSG. Dividing the pre-tax income by net sales determines the pre-tax profit on sales. This is also called the profit margin or profitability. This measures the effectiveness of management in controlling expenses.

A declining profit margin can be caused by declining sales, declining efficiency, aging plant and equipment, or inappropriate management decisions.

Price/Earnings Ratio (P/E Ratio): This may also be called the stock's multiple. It is a measure of value found in Part 3 of the SSG. The formula is: Price divided by EPS.

P/E Ratio represents the amount investors are willing to pay for each \$1 of earnings. This P/E Ratio value will fluctuate. The higher the P/E Ratio, the riskier and more volatile the stock. Investors are willing to pay a higher P/E Ratio for faster growth and potential return.

There are various EPS formulas for P/E Ratio. A trailing P/E Ratio uses reported earnings from the last fiscal year. A current P/E Ratio uses

earnings from the current quarter back 4 quarters. A leading P/E Ratio uses earnings forecasted up to a year ahead.

Price Appreciation: Growth from the current price to the forecast high price gives us the price appreciation calculation. Price appreciation is shown in Part 4E of the SSG using a simple interest calculation.

Part 5C of the SSG shows the simple and compounded yearly rate of return. 15% compounded approximately equals 100% in simple interest.

Price Dividend Will Support: A company with a large dividend yield will have substantial price support. A large dividend yield is anything larger than $\frac{1}{2}$ the bank interest rate. This support price is calculated in Part 4Bd of the SSG.

Price Target: Part 4E of SSG. This shows the potential percentage appreciation over the next 5 years if the current stock price increases to the forecast high price. (Simple interest is calculated.)

Projection Line: In the SSG Graph, this line is drawn by the computer or the user to estimate future growth for EPS or sales.

Projected EPS: Found in the SSG Graph. Your projection for EPS from the last fiscal year line, five years into the future.

Projected P/E Ratio: Current price / projected EPS. This ratio uses 4 consecutive quarters of EPS, at least one quarter of which is forecasted. This is an Experienced level option used in Part 3 of the SSG. The market drives stock prices up or down in anticipation of company results. Using forecasted EPS with the current price gives a P/E Ratio that reflects how the market is currently valuing the stock.

Quarterly Percentage Changes: Found in the box at the top left of the SSG Graph. This reports the latest quarterly results for sales and earnings and compares them to the same quarter last year. The percentage growth quarter over quarter is given.

Quarterly Sales: Sales for the most recent quarter. Found in the Quarterly Data window.

R2 (R-squared): The result from calculating growth, using the Least Squares method, which indicates variability of data to an ideal growth curve. A value of 1 would indicate a perfect fit and therefore no variability to the ideal. Values vary between 0 and 1. Also known as Coefficient of Correlation.

Recent Severe Market Low: The lowest stock price during the last 3 years. It is one of the choices for estimating the Future Low Price in Part 3 of the SSG. It is usually considered for cyclical companies or companies doing a turnaround from bad times.

Relative Value: The ratio of the current P/E Ratio to the average P/E Ratio. It measures whether the current value of the stock is less or more than the average value that investors were willing to pay during the last 5 years.

The **current P/E Ratio** is affected by current price and earnings. (P/E Ratio = Price divided by earnings) The **average P/E Ratio** depends upon any changes made to average high and low P/E Ratios during analysis in Part 3. Attractively valued stocks have a relative value of 1 or less. A range of about 0.75 to 1.10 may be acceptable. Lower relative values may indicate a risky situation, rather than a 'great buy'.

Retained Earnings: The earnings retained by a company after payment of all expenses and dividends. Retained earnings grow as they accumulate year after year. They are shown on the company's books as a cumulative amount in the Balance Sheet section under Shareholder Equity.

Return on Equity (ROE): ROE tells how effectively company management is using the shareholders' money to make a profit. This is useful for comparisons among companies. See Part 2B of the SSG for ROE results. It is also called Earned on Equity.

A simple formula is Net Income divided by Shareholders' Equity. Generally, the higher the ROE, the more efficient the management and the better the return to shareholders.

It is expected that there will be some variation in the ROE numbers over time. For example, issuing more shares increases shareholders' equity. This causes the return on equity to decline until management can invest the new funds and generate new earnings.

Another decline in the ROE trend can occur when a company relies heavily on debt. If interest expenses rise significantly, net income will likely be reduced. Therefore ROE will be less. Return on equity is a balancing act between careful use of debt and good use of assets.

Revenues or Sales: The amount collected for all goods or services sold during the period. Sales are crucial to the success of the company because sales provide the income for operations. (although the company may also

borrow money.) There must be enough sales to support company activities and debt repayment.

Sales may also be called total revenues or total income.

Historical sales growth is shown on the SSG Graph. The percentage growth rate is measured by the trend line.

Rule of 72: A formula for approximating the time it will take for a given amount of money to double at a given compound interest rate. The formula is: divide 72 by the interest rate. To double your money at 6% interest takes 12 years (72 divided by 6% interest = 12).

Rule of 5: Experience in using Classic Plus's investment methods suggests that of 5 stocks purchased, 1 will do better than you expect, 3 will do as you expect, and 1 will do worse than you expect.

S&P Financial: This Standard and Poor's ranking rates the company's growth, quality, and stability of earnings and dividends using 8 levels, from A+ (highest) to B+ (average) to C (lowest) to D (in reorganization).

Scale Factor: On the SSG Graph, the values for the points on the growth lines (as shown by the vertical numbers on the left of the graph) are multiplied by this factor to give the actual value.

The scale shows in the Recent Quarterly Figures box on the left top corner of the Graph. Alter the scale factor by right-clicking on the data line on the Graph. Select Move Up, Move Down, or Reset Scale.

SDF Files: Stock Data Format files contain company information generated from the Classic Plus program. This is the recommended format for exchanging company studies with other Classic Plus users or for archiving individual company information.

SSG Files: SSG is the standard format used for stock datafiles. This format contains some but not all the data used in Classic Plus. To exchange information with users of other ICLUBcentral software, use the SSG file format. For other Classic Plus users, choose the SDF file format.

Security: An investment vehicle such as a stock, bond, option, or warrant.

Sell Zone: Found in Part 4 of the SSG. This range is developed through forecasting high and low prices for the company and dividing the total range into 3 price segments.

When the current price moves into the upper zone, it is time to re-examine the fundamentals of the company and consider replacing it with another stock of equal quality but better value and potential.

If the company's growth rates for sales and earnings are continuing, you may decide to hold. If the growth rates are dropping and prospects are declining, you may decide to sell. If the fundamental growth is good, the price continues to climb, but the P/E Ratio is very high, you may decide to sell a portion of your holdings. Continue to monitor the stock closely each quarter.

Shareholders' Equity: Also known as equity and net worth. The term identifies shareholders' ownership interest in a company. It may include preferred and common shares, paid-in capital (capital surplus), retained earnings (earned surplus), and Treasury stock.

Shares Authorized: The number of shares of stock provided for in the Articles of Incorporation of a company. This figure is usually found in the capital accounts section of the Balance Sheet and is usually well in excess of the shares Issued and Outstanding. It can be increased by a vote of the shareholders.

Share Split: Directors of a company may order a share split to make the shares more affordable for investors. If a shareholder holds 100 shares at the current share price of \$40 and the stock splits 2 for 1 (2 new for 1 old share), the new share price would be \$20 and the shareholder would then hold 200 shares.

In both cases, the value of the shares would remain at \$4000. Dividends would be treated the same way, with the total value remaining the same. Share splits only change items relating to numbers of shares. Sales and net income do not change, for example.

Short Term Debt: All debt due in the next 12 months. This figure is found on the Balance Sheet under current liabilities.

Simple Average Calculation: Five years of earnings per share divided by five. Found in Part 3 of the SSG.

Stock Comparison Guide (SCG): A form used to compare the features of 2 to 5 stocks in order to find the best for purchase. Its use is preceded by an SSG analysis for each stock to make sure each is worthwhile for comparison. Note that comparisons are most meaningful when made among companies with similar characteristics or in the same industry.

Club members could also use the SCG to combine several members' analyses for the same company. This would provide a focus point and easy reference for discussion about a single stock.

Stock Dividend: A payment of additional stock to shareholders, rather than a cash dividend. Such payment increases the number of shares held but does not alter a shareholder's proportional investment in the company.

Stock Selection Guide (SSG): A form that helps you to determine whether a stock is a worthy investment. It measures growth and evaluates value.

Technical Analysis: Market or security analysis involving the study of price movement and trading volume for stocks by plotting graphs or charts. Using this method, technicians seek to make investment decisions by understanding and predicting investor sentiment and psychology.

Total Assets: This denotes the financial framework (capital structure) of a company, including long term debt and all forms of equity. If you are working from a company's Balance Sheet, add current assets, property, plant equipment, and "other" assets. The accounting formula is: Total Assets = Total Liabilities + Shareholders' Equity. This formula demonstrates the "balance" in the Balance Sheet.

Total Capital: Long term debt + shareholders' equity. The capitalization box on the SSG Graph gives information about how the company is financed or "capitalized." This can be a combination of stock (preferred and common shares) and debt.

Debt to Capital is the percentage used in the header of the SSG Graph. Refer to this in the **Glossary** for further information.

Total Debt: Long term debt + short term debt. (i.e. debt due within the next 12 months) Total Debt is found in the SSG Graph header. Companies have debt due within one year, as well as long-term debt payable over a longer period of time. The total debt figure includes both kinds of debt.

Debt can consist of bonds, debentures, or shorter term bank debt. Bondholders differ from stockholders in that they are lenders. They must receive their interest payments and when their bond comes due, they will get their principal back as well.

Total Return: The compounded annual return on an investment, including price appreciation and dividends or interest. See Potential Total Return for specifics regarding Part 5C of the SSG.

Trailing P/E Ratio: The price to earnings ratio based on actual EPS over the last 4 quarters. Price divided by last 4 quarters' EPS. In Classic Plus Part 3 of SSG it is called Current P/E Ratio.

Comparing current P/E Ratio to the average P/E Ratio shows over or undervaluation for the company. Divide the current P/E Ratio by the 5-year average P/E Ratio. If the result (called Relative Value) is 1 or less, this is one indicator that the stock is undervalued.

Treasury Stock: Shares which have been repurchased from shareholders. The stock is held in the 'treasury' and is listed on the company's Balance Sheet. It is available for retirement or resale. It is issued but not outstanding.

Trend Line: In the SSG Graph, the computer or the user draws a straight line through the historical plot of data for the company's EPS or revenues, in order to estimate the historical percentage of growth.

Undervalued: A stock selling below its liquidation value or the market value that analysts believe it deserves. Fundamental analysts try to spot such companies to buy them before they become fully valued. A stock may be undervalued because the industry is out of favor or because the company is not well known or has an erratic history of earnings, for example.

Units: Within Classic Plus, units are used to deal with large numbers. The most common unit designation is millions. Use sales as the basis to determine unit size: thousands, millions, or billions. For companies whose sales are over 100 billion, you may choose to use billions as the unit designation.

Upside/Downside: The ratio of the potential gain to the risk of loss. This is based on the potential gain from the current price rising to the forecasted high price compared to the potential loss from the current price dropping to the estimated low price. An upside/downside minimum ratio of 3 to 1 is recommended. See Part 4 of the SSG.

Value Line Financial: A ranking which rates companies in ten categories according to their financial strength, from A+ (excellent) to C (poorest).

Value Line Safety: A ranking which assesses a company's financial strength and measures the total risk by ranking from 1 to 5. 1 is highest for safety, 3 is average, and 5 is lowest.

Visual Analysis: Refers to the Stock Selection Guide Graph that represents a company's history of sales, earnings per share, and price ranges. By

viewing this graphical picture it is relatively easy to see by the slope and consistency of the lines whether the company has performed well enough to warrant further investigation.

Yield: Percentage return on an investment. A stock yield is calculated by expressing the annual dividend as a percentage of the current market price of the stock. (dividend divided by price) See Part 3 of the SSG for current and high dividend yields and Part 5 for potential average annual dividend yield over 5 years.

Zoning: Found in Part 4 of the SSG. Zones are used to determine whether the current price is reasonable. By forecasting high and low prices for the company and dividing the total price range into 3 price segments, buy, hold, and sell zones are developed. The current price is compared to these zones in order to evaluate the risk and reward ratio over the next 5 years.

The zone may be segmented according to two methods. The traditional (though now outdated) formula is **33/33/33**. This divides the zones into three equal segments. The formula is: forecast high price minus forecast low price divided by 3 = zone range.

Another increasingly common formula is **25/50/25**. This formula is: forecast high price minus forecast low price divided by 4 = zone range.

- Buy Below Price = low price + zone range.
- Sell Above Price = high price - zone range.

The 25/50/25 range selection provides for a smaller buy zone, a larger hold zone, and an upside/downside ratio of 3 to 1 or better if the current price is in the Buy zone. However, it does create a higher Sell price, which may be a less cautious point at which you should do another analysis of the company.

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