

Screening for Stocks with the New Prospector

by Brian Lewis
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Editor's note: Special thanks to Brian Lewis for submitting this article on screening for stocks using the new Prospector. As always with BITS editorial features, no investment recommendation is intended.

In the March 2002 issue of BITS, I showed how to use a free online screening tool to find stocks to study. I'm a big fan of free tools — free is hard to beat.

But when the new version of NAIC Stock Prospector came out (from ICLUBcentral, <http://www.iclub.com/prospector>), I knew I had to take a look. The previous version (STB Prospector II) had some nice features, but the new one uses OPS (Online Premium Services) data, which offers several advantages.

In the interest of full disclosure, I should say that I didn't pay for my version of Prospector; ICLUBcentral provided it to me free for evaluation. In addition, Rich Beaubien (a vice president of ICLUBcentral), is a member of my online investment club, and a friend of mine besides. I also count Corry and Barbara DalMaso (original creators of Prospector) as friends.

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Hit the Beach for CompuFest 2003

CompuFest 2003 will be held June 27-29, at the Anaheim Marriott in Anaheim, Calif. See CompuFest2003.com for details or register online at the NAIC Web Site. There's plenty to see and do in Anaheim and great beaches like Laguna Beach (above) to complement the three-day educational program.

Most Frequent SSG Downloads

Here are the most frequently downloaded company Stock Selection Guide data for Jan. 1-14, 2003 from the NAIC Web Site (see Community for most up-to-date listing).

- | | |
|--|--|
| 1. The Home Depot, Inc. (HD) - 1,275 | 11. Dell Computer Corporation (DELL) - 382 |
| 2. General Electric Company (GE) - 1,159 | 12. Paychex, Inc. (PAYX) - 352 |
| 3. Pfizer Inc. (PFE) - 826 | 13. AFLAC Incorporated (AFL) - 343 |
| 4. Lowe's Companies, Inc. (LOW) - 563 | 14. Walgreen Co. (WAG) - 323 |
| 5. Johnson & Johnson (JNJ) - 531 | 15. Bed Bath & Beyond Inc. (BBBY) - 306 |
| 6. Cisco Systems, Inc. (CSCO) - 514 | 16. Starbucks Corporation (SBUX) - 306 |
| 7. Intel Corporation (INTC) - 486 | 17. Cardinal Health, Inc. (CAH) - 299 |
| 8. Microsoft Corporation (MSFT) - 478 | 18. Kohl's Corporation (KSS) - 297 |
| 9. Wal-Mart Stores, Inc. (WMT) - 462 | 19. Amgen Inc. (AMGN) - 288 |
| 10. Harley-Davidson, Inc. (HDI) - 416 | 20. Merck & Co., Inc. (MRK) - 284 |

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That said, I've done my best to give a balanced evaluation of the product. If I don't say *only* nice things, Rich and the DalMasos will forgive me eventually.

The Bottom Line

My conclusion? I think you should seriously consider buying the product. There are some significant advantages to this tool, as well as some areas in which I hope ICLUBcentral will continue to improve it.

To summarize, I'd say it's a very useful tool, more powerful than I had expected, fairly easy to use at a basic level; but pretty hard/complicated to learn if you want to go farther, and sometimes just not intuitive.

I'm sort of a geeky guy, so those downsides don't bother me too much. I asked my wife (definitely less geeky) to

try out the product. She spent a couple hours getting started and playing with it, and she thought it was great that she was quickly able to use OPS data to find interesting stocks. But in trying to go further she ran into user interface or documentation issues that hung her up some. More time and persistence in looking through the documentation would no doubt have cleared up at least some of the issues she ran into.

What Is Screening?

So what does this tool do? I gave a list of articles that talk about stock screening in my March *BITS* presentation (<http://www.better-investing.org/articles/bits/126/1025>). To summarize, stock screening is a process that helps us find a "focused" list of stocks to study. You choose a set of criteria that you're looking for in stocks, such as a historic sales growth rate above 12

percent, a P/E ratio less than 30, etc. Once you've provided all the criteria you care to specify, a computer-based screening tool will spit out a list of companies that meet all of your criteria. There are a number of similar but different tools available, and screening is sort of a mix of both art and science.

"Will It Work on My Computer?"

The updated version of Prospector runs on what today are considered relatively low-end machines; a 200 MHz Pentium is the minimum claimed by ICLUBcentral. It runs on any version of the Windows operating system from Windows 98 through XP (I tested it using XP Home edition). Since you're reading this *BITS* article, I presume you already have the other key requirements covered: OPS subscription and an Internet connection. Note that

there's a demo version available for download from the ICLUBcentral Web site (*address given earlier*), so you can try before you buy.

Advantages of Prospector

Okay, so maybe I or others have sold you on the advantages of using free screening tools in other articles you've read. With free options available, why would you want to pay for such a tool?

First off, the price is lower than it had been, so it's not as big of a commitment. Tom Tempero said in an I-Club-List posting on Nov. 11 that at the new (lower) \$49 price, purchase of Prospector is "a no-brainer." I don't go quite that far, but it's certainly more attractive at the lower price.

Second, it uses OPS data — and per the above, given that you're reading this *BITS* article, you've got access to that data

Weighted ranking	Company Name	Symbol	Industry	Hist 10Yr Rev Gr	Rev R2 10Yr	Hist 5Yr Rev Gr	Rev R2 5Yr	Rel Value	Debt / Equity (%)
3.1 Minimum values				12.6	0.75	14.4	0.96	0.24	0.0
4.8 Average values				33.4	0.96	30.3	0.98	0.83	39.0
7.6 Maximum values				95.8	1.00	95.8	1.00	1.39	157.5
1	7.6 FIRST HORIZON PHARMACEUTICAL	FHRX	HEALTH CARE DISTRIBUTORS	95.8	1.00	95.8	1.00	0.32	0.0
2	7.3 CONCORD EFS INC	CEFT	DATA PROCESSING SERVICES	46.7	0.96	66.7	0.98	0.57	6.4
3	7.2 QIAGEN NV	QGENF	BIOTECHNOLOGY	38.9	1.00	37.0	1.00	0.24	37.6
4	7.0 CONCORD EFS INC	CE	DATA PROCESSING SERVICES	46.7	0.96	66.7	0.98	0.59	6.4
5	6.3 HOME DEPOT INC	HD	HOME IMPROVEMENT RETAIL	25.3	1.00	22.2	0.99	0.42	6.9
6	6.2 ORTHODONTIC CENTERS O			46.9	0.98	30.2	0.98	0.30	33.9
7	6.1 COPART INC			38.7	0.85	30.0	1.00	0.76	0.0
8	5.8 DEVRY INC			15.3	0.99	16.4	0.99	0.45	0.0
9	5.7 HENRY (JACK) & ASSOCIATE			34.7	0.99	36.8	0.97	0.60	0.0
10	5.6 EXPRESS SCRIPTS INC			72.1	0.98	63.7	0.97	0.68	41.5
11	5.5 FIRSTSERVICE CORP -SVTE			35.2	0.99	27.4	0.99	0.74	157.5
12	5.3 L-3 COMMUNICATIONS HLDG			35.4	0.99	35.2	0.99	0.81	90.1
13	5.2 KOHLS CORP			24.2	1.00	25.9	0.99	0.91	39.1
14	5.1 RESMED INC			38.2	0.99	32.3	1.00	0.78	63.6
15	5.0 HEALTH MANAGEMENT ASSOC	HMA	HEALTH CARE FACILITIES	24.4	0.99	19.8	0.99	0.75	34.8
16	4.6 LOWES COS	LOW	HOME IMPROVEMENT RETAIL	21.6	1.00	22.0	0.99	0.94	55.7
17	4.6 PROVINCE HEALTHCARE CO	PRHC	HEALTH CARE FACILITIES	79.9	0.75	34.3	0.97	1.02	91.4
18	4.5 SEI INVESTMENTS CO	SEIC	DIVERSIFIED FINANCIAL SER	13.5	0.86	23.5	0.98	0.79	16.0
19	4.4 TOO INC	TOO	APPAREL RETAIL	17.6	0.99	17.6	0.99	0.98	23.3
20	4.2 SUNGARD DATA SYSTEMS INC	SDS	IT CONSULTING & SERVICES	23.6	0.99	21.8	0.97	0.78	19.6
21	4.0 SONIC CORP	SONC	RESTAURANTS	18.7	0.99	15.7	0.99	1.07	52.6
22	4.0 OMNICOM GROUP	OMC	ADVERTISING	21.1	0.99	22.0	0.98	0.67	61.7

Figure 1: The new version of NAIC Stock Prospector automatically loads and imports the appropriate SSG data.

already. Prospector allows you to get more value, more leverage out of something you're already paying for.

OPS data (vs. the CD-based offering of the past) offers multiple advantages. It's faster, more up-to-date, and based off of better data. In addition, I think there's an advantage to doing your screening based on the data you'll end up using to do your Stock Selection Guide.

Finally, OPS covers a lot more companies. Are you interested in adding some smaller companies to your portfolio? Prospector will use OPS data to help you find them.

These are advantages of the new Prospector vs. the old version. But to beat "free," I want something more. One thing I factor in here is that, once I learn this tool, I have substantial confidence that it will be around when I need it. Perhaps that free online tool I spend time learning will start charging a fee at some point down the road, or even just become unavailable. The NAIC community has been using Prospector since 1996.

Beyond that, I've got some favorite Prospector features, things that will likely keep me using this tool for some time to come. I can't guarantee that these are everyone's favorite Prospector features; I'll just list the ones that most influenced me and you can judge for yourself.

A Favorite Feature: Open an SSG Quickly

One favorite Prospector feature for me is to right click on any "found" company to open the SSG file using whichever NAIC software tool I have set as my default. That's right, you don't have to use one of ICLUBcentral's products (NAIC Classic or Stock Analyst Plus); I happen

to have the Investor's Toolkit as my default choice right now, and I just right-click on a company on the report screen (see Figure 1), and click again on the resulting on-screen menu to have Prospector automatically load Toolkit and import the appropriate SSG data.

Another Favorite Feature: Mini-SSG View

Another great feature is called View Company Data. Again, after my screening criteria has found some companies, I select any one of those companies and click the "company" button on the Toolbar. Now I've got a separate window open (see Figure 2) that shows a mini-SSG view of the company, and provides a lot of other data besides. Note that you can expand this screen so it's not so "mini" if you want to.

The really cool thing about this is that I can start with the first company among those that my screening criteria turned up (clicking on the

"First" arrow shown in Figure 2), and then very rapidly cycle through (via the "Next" button on the toolbar) to glance at the "SSG page 1" view — all within Prospector.

I can think of some neat uses for that. For example, let's say I'm trying to pick some stocks for my club to analyze within a certain industry. I can apply some loose criteria via my stock screen (to weed out the obviously weakest candidates), and specify that I only want companies in that particular industry. Now I go to the company view and cycle through quickly to find companies in that industry that have nice looking sales and EPS plots. Instead I could just apply screening criteria to get pretty nice looking visuals, but I find it useful to see the graphical relationship between revenues and earnings.

No Need to Be a Screening Expert

An advantage that I take for granted with Prospector (I almost forgot to list it here)

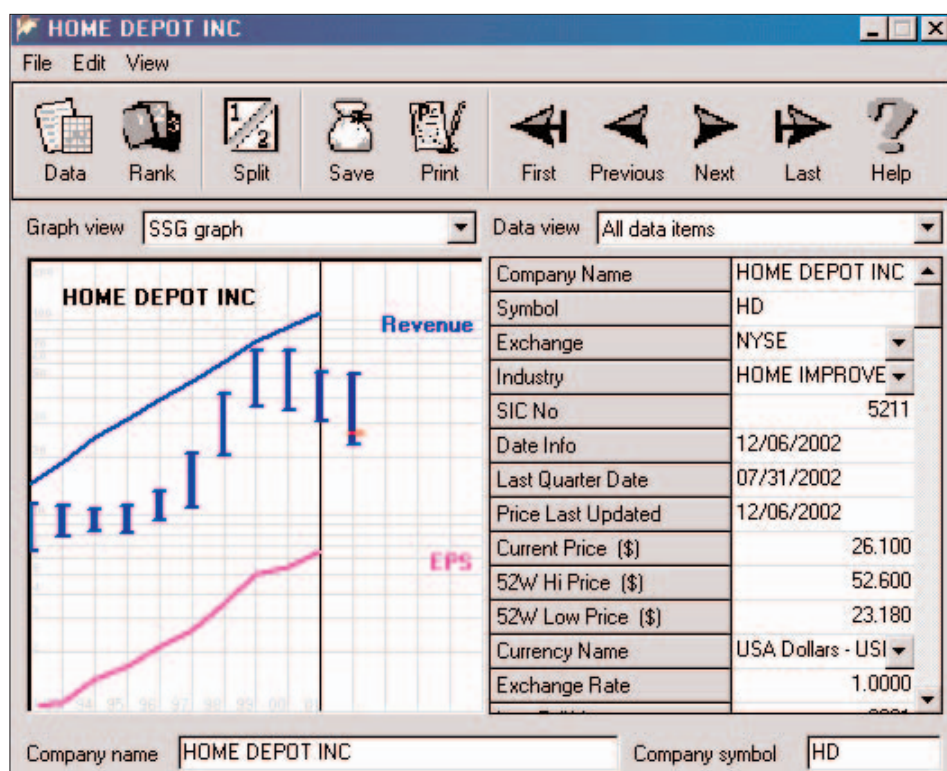
is the wizard. Unlike other screening tools, Prospector has some screening criteria built in that's based on NAIC methodology. Two of the more commonly used pre-defined screens are the NAIC "default," and "NAIC 2" which use criteria suggested by Philip J. Keating, CFA, founder and chairman emeritus of NAIC's Computer Group Advisory Board. It's fast and easy to start screening using pre-defined criteria and the wizard (try it and see for yourself with the demo version).

Weighted Ranking

A novice can quickly take advantage of all of the above features. Prospector also has features that appeal to the more advanced user, those who are willing to spend a little time learning and playing with the tool. Weighted ranking isn't all that hard, but it took me some time to get it to do what I wanted it to.

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Figure 2: The program provides this screen — a mini SSG view of the company and a lot of other helpful data as well.



Screening for Stocks with New Prospector continued

The idea is that, among the companies found by a given set of criteria, I want to give more emphasis to certain factors and less to others to help me find the companies I'm most interested in. So for example, I might put less emphasis on the S&P ranking of a given company and so I can reduce the impact that has on the ranking result in my final report. Then one of the ways I can sort the final report is by this weighted ranking. If I do this often enough, I'll build up an intuition for what the ranking tells me — and maybe tweak the weights a bit if I don't like the results that I get.

Hint: If you're trying this out with the demo version, the way to get a better feel for the weighting process of individual criteria and of groups of criteria is to select a "found" company row on a report, click the "Company" button, and then click the "Rank" button on the resulting window (see Figure 3). Study the results to get an idea of how the weighted ranking value was derived. Then close that, click the "Report" button and then click the "Set Weights" button on the resulting dialog (see Figure 4) to change things to your taste.

Hint: On the window that comes up when you click the "Company" button (Figure 2), you might want to click on the "View" menu item and uncheck "Always on Top." It drives me nuts when I try to switch to another application in Windows, but my previous application insists on staying front and center. You just have to do this once; Prospector will remember your preference.

Running Totals

Here's something that's slightly geeky, but not too

much: if you check the "running totals" box when building your criteria, then you can pre-screen within that dialog box and see how many companies were filtered out at by each criteria. For example, in Figure 5, before the "projected 5 year EPS growth" criteria was applied, 912 companies had passed the previous two tests. But after that criteria, only 417 companies still passed, so 495 companies were filtered out by that third test. By the time all of my criteria were applied, only 32 companies passed, out of 12,116 companies covered by OPS on the particular week in which I tried this.

This feature can be useful if,

for example, you want a lot of companies in your final result; just pick the criteria that's filtering out most of the companies and consider whether you want it to be so restrictive. Note that this is also helpful in just building up your intuition about the factors that show the biggest differences between companies.

It's Pretty "Open"

I like the fact that Prospector is somewhat open; by that I mean you're not completely locked into what the original designers envisioned. Don't like the formatting or printing choices available to you in the report tool? Then just export your query results

and load them up in the spreadsheet of your choice. Can't figure out how to do a particular query? Ask someone else to try it; if they can figure it out, they can export that query to a file, e-mail it to you, then you can import and run it on your system.

I'm also not locked into looking at the full set of companies that OPS defines. For example, I've found that I'm rarely interested in companies whose ticker symbols start with a number rather than a letter (typically a 3 or sometimes a 2). So I ran a query on companies like that, and then just deleted these from my database in one step. Of the 12,116 compa-

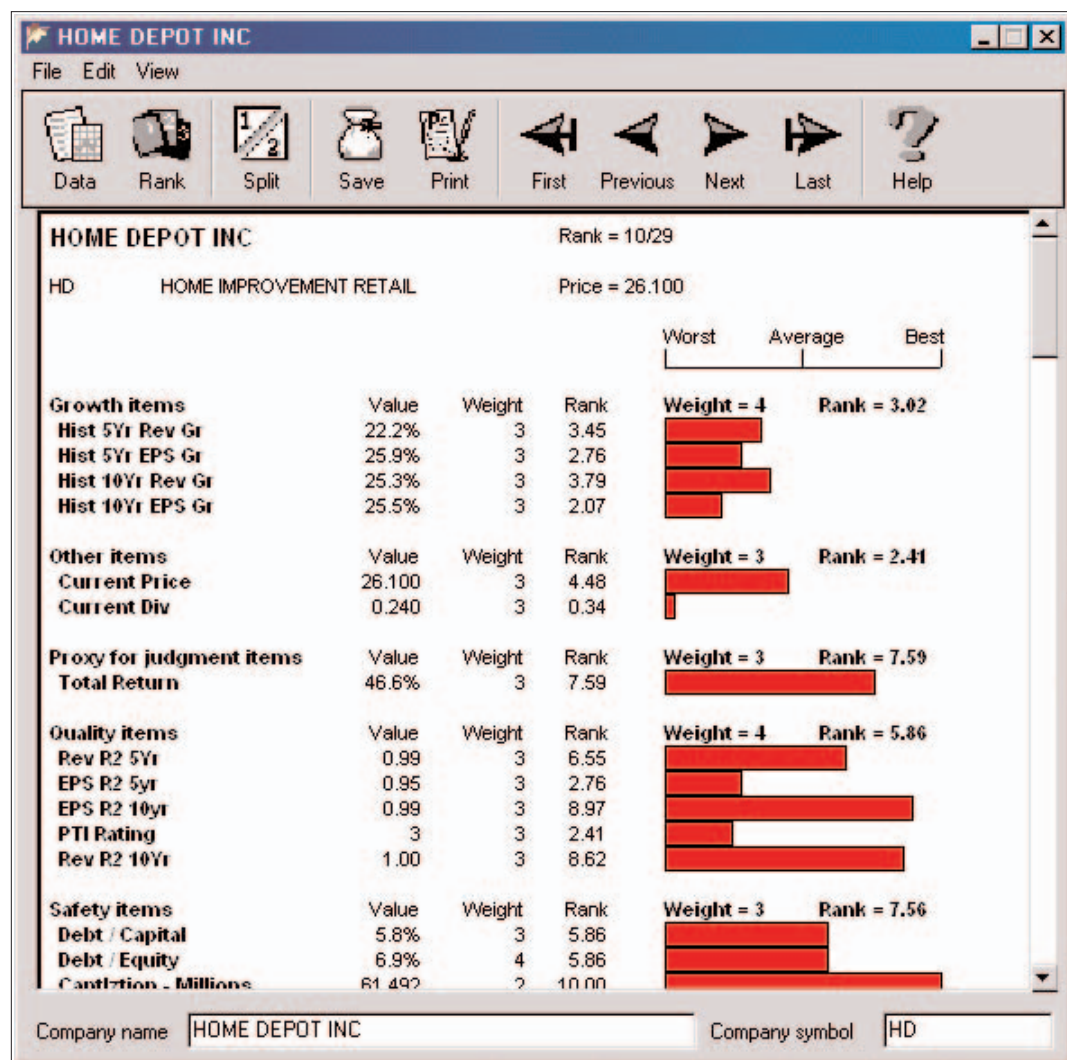


Figure 3: Prospector's weighted rankings appeal to the more advanced users.

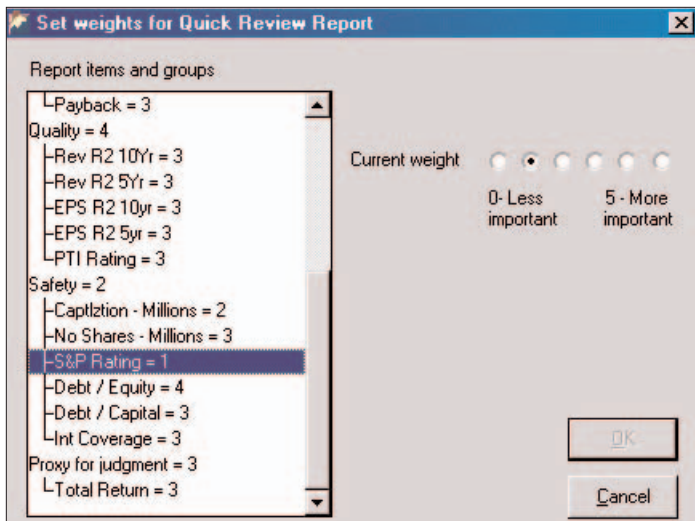


Figure 4: The program allows users to set weights for the Quick Review Report.

nies that OPS offered initially, 25 percent are these number-ticker companies. Now (until I download updated data from OPS) my screening will just be for the 9,086 companies left. I was also able to tell Prospector to recalculate industry and database average numbers, so these are just based on this smaller set.

Of course I could choose to do some additional pre-screening and delete another big chunk of companies from the subset I like to look at — for example, companies with only a couple years of history. This isn't something I found in the Prospector documentation, but another example of the flexibility provided to make this tool do what I want it to.

A Lot of Horsepower

There are some features that I knew I wanted in a screening tool, but at first thought that Prospector didn't provide. There are also some features I didn't even think of — but that I like and will use. If you're willing to do some work you can learn to do all sorts of things with it.

One neat thing that's easy to do is to generate the list of industries defined by OPS, and arrange them along with a lot of summary information on each industry in a report format that can then be sorted based on different factors.

Another example is the so-called proxy items — SSG judgments that Prospector will

Report item	Criteria	Records selected
Industry	= 'HEALTH CARE EQUIPMENT'	243
Hist 5Yr EPS Gr	> .13	29
PE / Hist EPS Gr	< 1.25	18
Proj 5Yr EPS Gr	> .15	11
Total Return	> .15	4

Figure 6: The running total feature shows how many companies in a specific industry are filtered out by various other criteria.

sort of do for you. This is dangerous, if you don't keep in mind that many of these would not be reasonable if you were to look at the SSG yourself and apply your own judgments. But I tried combining the total return proxy item with the industry list, and then sorted the list of industries according to the proxy value for total return of each industry. I'd probably pass on the industries with the very highest proxy total return values (such as the Internet Retail industry) but the next set down could be an intriguing list of industries to consider for stock studies by my club.

Speaking of industry groupings, the most common screen that I do is to start with a particular industry. It's pretty easy in Prospector to apply other criteria and then just sort the results by industry to see if any companies made the list in my target industry. What I would rather do, however, is to put the industry name as one of my criteria, and in fact, make it my first criteria, so that the running total feature

shows me how many companies in that industry are filtered out by various other criteria. No problem. See Figure 6 for an example of this.

By the way, if some of the last few paragraphs seem like I'm writing in a foreign language or something, try out the demo version, or just take my word for the fact that there's just a ton of potential functionality in this product. I'm trying to give a sense for how much you can do with the product, and that's hard to do without some geek-speak creeping in.

It's Not Perfect...

While Prospector strikes me as having some great advantages, there are some things that could be improved. I hope that ICLUBcentral will continue to improve the product. In fact, one of the reasons I hope a lot of people buy the product is that ICLUBcentral is more likely to spend its time and money improving Prospector if it sells enough copies of the current version to make that seem worthwhile.

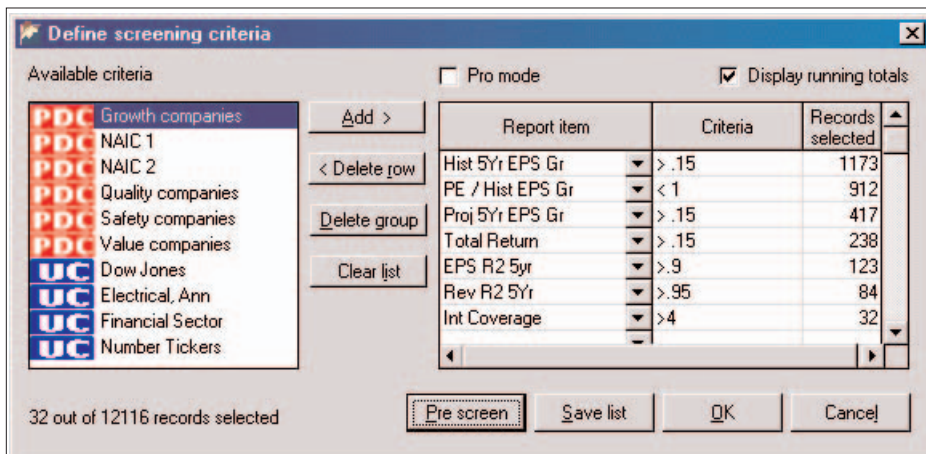


Figure 5: Users are able to define and select their own screening criteria.

Some of the examples above are not only great examples of the power of Prospector, but also of how hard it can be to figure out how to do some things that seem pretty basic to me. If you're happy with the pre-defined screens, Prospector is a great tool. If you're lucky, then you'll find or pretty easily figure out how to do the things that you most want to do from the documentation or just from playing around with the product.

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Screening for Stocks with New Prospector continued

But I think it could be easier, and my friend Rich Beaubien is already tired of me telling him that in private discussions. It's a wonderful tool, but a little geeky and awkward to learn and use if you want to harness the full power of what it provides.

One thing that could really help would be a list of screening techniques along with detailed step-by-step examples showing exactly how to do each one.

In my opinion, a big improvement would be if I could very easily specify an entire sector to screen on, in a very intuitive way. I was finally able to screen for a specific sector (all financial stocks in the example I tried) via some special (SIC) codes, but it took me a ridiculous amount of effort.

Of course there are other (fortunately minor) improvements I'd like to see. For example, I'd like to be able to do multi-level sorting in the report — i.e., sort the report by, say, industry name, and then sort within each set of industries by something else, perhaps the weighted ranking or capitalization, or whatever. I wish that I could know or be reminded of when it's time to import a new set of company data, or even that I could set up my system to do this once a week in the background (kind of like I get my virus checking software updated).

I've sent a number of suggestions like this to the ICLUBcentral team, just various ways that I'd like to see the product improved or extended. By the way, you can do the same thing; just send your suggestions or comments to ideas@iclub.com.

I'll certainly be a happy user of the product as it is now, however. Here are some sug-

gestions I have for you (a potential new user) to make sure you get the most out of the product.

Read the Manual

Sounds kind of obvious, right? Read or at least skim through the manual. There are actually two documents (in Adobe Acrobat .pdf format) placed in your `c:\program files\prospector` directory when you install Prospector. Start with the 12-page Quick Start Guide; a printed copy comes with the CD, but if you start with the demo version of Prospector you might want to print out these 12 pages and work through them until you understand (to that level) what the product has to offer.

Then at least take a quick look at the full user guide — this is a 74-page manual. Yes, I know we all preferred the old days when software products gave us real paper manuals. Those days are vanishing, however. Just as with shrinking airline seat spacing, we customers vote with our pocket books, and it seems that we generally buy cheaper products when given the opportunity. I'm not defending the practice, just pointing out that you *do* get a manual with Prospector, if only in an electronic format. And remember, the product now only costs \$49, whereas the less functional predecessor was \$95. With the \$46 you save, you can take the .pdf file to Kinko's and have them print you out a 74-page manual if you like.

Personally, I never print out long software manuals. What I might do is put a shortcut icon for the manual onto my desktop (search your Windows Help system for information on how to do

this). Then if I want to know something, I've got the usual Help system interface (via the question mark icon in Prospector), but I can also quickly load up the manual. The manual and Help system seem to contain the same information for this product, organized the same way. I prefer to read it using Adobe Acrobat, however, so it's all continuous, and not chopped up in the pieces that the Help system puts it in. Other times I find that the Help system groupings make it easier to find things.

The Help system does have the advantage of allowing you to search. Something that a lot of people seem unaware of, however, is that you can search for text within an Acrobat file; just click on the little binoculars icon near the top, and do your search. Then if there are a few pages I find myself referencing over and over, I'll print out just those pages.

Play With it — You Won't Break Anything

My next suggestion is to just wade in there and start doing some screening. Look for a group of stocks for either yourself or your club to study. Think up criteria that make sense to you, and then look around in the manual or Help system to figure out how to do it.

Don't get discouraged if you can't figure out how to do something. Maybe you're trying something that really can't be done. Or maybe there's a way and you just haven't found it. In that case, contact ICLUBcentral's support group for help. ICLUBcentral offers free support for this product (note, however, that the documentation only guarantees free support for the first 90 days). Or you can ...

See if Your Chapter Can Help

A huge benefit of NAIC membership is that we've got a small army of volunteers deployed around the country, ready to help other investors. In my chapter, for example, our quarterly newsletter always carries a list of phone numbers for volunteers willing to take calls and help out with questions. Looking at the current issue, I see three volunteers listed who will take calls about Prospector (note: for help in using the product, not for installation issues or figuring out how to use a computer ...).

In addition, many chapters have Computer Group meetings, or something along that line. Where I live, these are held almost every month; this is a great way to see software tool techniques explained, and to ask questions in person.

Ditto, of course, with regional or national investor fairs and programs.

Try It and Decide for Yourself

I've laid out a lot of my thinking about this product. It may not be for everyone, but it offers some pretty incredible functionality, and once you've figured out how to use it, the possibilities seem very wide open. Once I learned some key aspects of the tool, I also found it to be a lot of fun. There are 118 distinct criteria you can screen on (and report on if desired), and if that's not enough, the more advanced user can define additional criteria. Every time I sit down and play with it, I think of new queries to try or other statistics to generate.

So even if you're satisfied with free alternatives, you might want to download the demo and see what this tool has to offer: <http://www.iclub.com/registration.asp?download=prospector.zip>.