

- Investment Interest Profile Exploration**
 - I. Informed decisions**
 - II. Objective is a risk compensated RATE of RETURN?**
 - A. Future Wealth depends on Rate of Return (Before Taxes)
 - B. Percentiles of Annual Performance of Stocks, Bonds, T-Bills, CPI
 - C. High Rates of Return
 - 1. Result from BUYING LOW & SELLING between NORMAL & HIGH
 - a. Bonds
 - b. Stocks
 - (1) Foundation
 - (a) Mechanics of ROE and Dividend Payout on Growth
 - (b) Returns from stock ownership
 - (c) Value Line Study
 - (d) Theoretical Dividend Values vs Value Line Study
 - (2) Application
 - (a) Portfolio Results
 - (b) Target Purchase Price
 - 2. Cannot base Plan Upon
 - 3. Practices must be sound & different from most speculators & investors.
 - a. Mutual Fund Performance
 - D. PMT = not too important if value growth potential is there
 - III. Stock Market performance**
 - A. DJI Average Price
 - B. Growth Rate of Market Averages
 - C. Price Changes of Individual Issues
 - D. SMP and Profitability and Growth
 - E. Correlation between Stock Market Performance and Growth & Profitability
 - F. Stock market performance is not correlated with either grow or profitability

- G. Correlation between 79 & 85 SMP
- H. Does Past Stock Market Performance Predict Future Performance?
- I. Correlation: SMP & Δ in EPS rankings
- J. Characteristics of the best performing stocks
- K. Characteristics of the worst performing stocks
- IV. Business Background-See Supporting Talking Papers's (TP)**
 - A. ECONOMY TP
 - B. Basic Data on Business TP
 - 1. Preview
 - a. Profitability
 - b. Growth
 - c. Dividend Payout
 - d. Debt
 - e. Stability
 - 2. Charts
 - a. Chart: Distribution of Ratios: ROE, EPS Growth, Sale Growth
 - b. Table: Distribution of Ratios: ROE, EPS Growth, Sale Growth
 - c. Dividend Payout Ratios
 - d. Correlation between EPS Growth & Profitability
 - e. Correlation between EPS Growth & Sales Growth
 - f. Debt as a percent of Equity
 - g. Interest Coverage, Debt Levels, & ROE
 - h. Relationship between ROE & Debt Levels
 - i. Relationship between Debt Levels & Earnings Stability
 - j. Correlation 79 & 85 EPS rankings
 - k. Correlation between EPS growth rankings
 - l. Up & Comers Criteria
 - m. Up & Comer Distributions
 - n. LT revenue growth expectations
 - 3. Changing composition

- a. Profitabilty changes
 - (1) Roc Comparison
 - (2) ROE comparison
 - (3) Roe Δ individual companies
- b. Nominal Gnp & Corp Profits
- c. Employees
 - (1) # of employees by industry category
 - (2) Employment by Industry
- d. Top 100 Companies
- e. Relationship between new products and existing products
 - (1) 55%
 - (2) 65%
 - (3) 75 %
 - (4) 85%
 - (5) 95%
- C. Changing Character & Quality of Most Businesses
- V. Investment Decisions & Portfolio policy**
 - A. What's my situation?
 - 1. Size of funds involved
 - 2. Age
 - 3. Cashflow pattern
 - a. Assets
 - b. Savings
 - c. Expenditure Requirements
 - d.
 - 4. Tax Status
 - 5. Cash reserve for mkt opp.
 - B. What to Buy @ what price
 - 1. Purchase Candidates
 - a. Defensive Investor
 - (1) Fixed Income
 - (2) Stocks
 - (a) Large

- (b) Prominent
- (c) Conservatively Financed
- (d) Long Period of Continuous Dividends
- (e) Reasonable Price
- b. Enterprising Investor - Knowledge equivalent to business manager
 - (1) Stocks
 - (a) General Market Timing
 - (b) Carefully Chosen Growth Stocks
 - i) Growth not already in the price
 - (c) Relatively unpopular large companies
 - i) Low p/e
 - (1) current
 - (2) average
 - ii) Additional Quantitative & Qualitative Factors
 - (d) Bargain Issues: price < 50% of indicated value
 - i) Tests:
 - (1) Intrinsic Value
 - (2) Private Owner
 - (a) Earning from above realizable value from assets
 - ii) Price < NWC
 - iii) Secondary Companies: Neglect
 - (2) Fixed Income
- c. Conservative Investment
- d. Prime Growth Stock
- e. Emerging Growth
- f. Great Little Specialties
- 2. Concentration vs Random
- 3. Dividends -- the main source of value
 - a. YIELD + GROWTH
 - (1) $BV * ROE = \text{Earnings}$
 - (2) $\text{Earnings} - \text{Dividends} = \Delta \text{ in BV}$

- (3) $ROE\% - DPO\% = \text{Growth}$ ($14\% - 40\% = 8.4\%$ growth)
- b. Δ in BV that translates into real investment value is small
 - (1) Transitions in ROE & DPO
 - (a) Rankings of ROI: in different time periods
 - (b) Most Managements not trying to max profits
 - c. Dividend Yields
- 4. Earnings Yield
- 5. Earnings Yield \div LT Gov Bond Yld
- 6. Table: Earning Yield & Earnings Yield \div LT Gov Bond Yld
- 7. Fixed Income Component & Stock Mkt Level
- 8. How much diversification do I need? 10-30
- 9. Avoid
 - a. Popular
 - b. FAD industries
 - c. New Ventures
 - d. Official Growth Stocks
 - e. Heavy Blue Chips
 - f. Gimmicks
 - (1) options
 - (2) commodities
 - g. Technical Analysis
- 10. Valuation
 - a. P/E Ratios and ?
 - b. Target Purchas Ratios of Present FMV
 - c. Part of the Mechanics of profitablity, dividend value
 - d. Part of the Mechanics of profitablity, dividend value
 - e. Part of the Mechanics of profitablity, dividend value
 - f. Valuation of dividends table using ROE & DPO
 - g. Dividend schedule and valuation concept—the indifference value
 - h. ROE/DPO map
- C. Shopping/Investigating

- 1. Discipline
- 2. Write out a specific plan
 - a. Reason for buying Or selling
 - (1) assumptions
- 3. alternative investment vehicles
- 4. their potential & expected roi's
- 5. Value
 - a. ROE & DPO Chart
 - b. Liquidation (sometime in the future) the other source of value
 - (1) Rare in large co's
 - (2) Mergers more often
 - (3) Value
 - (a) Assets at time of liq
 - i) AT TIME OF Liquidation
 - (1) Undergone a period of losses
 - ii) By Asset Type
 - (1) Cash
 - (2) A/R maybe 85%
 - (3) Inventories 75%
 - (4) Real Estate
 - (a) Depends on
 - i) Location
 - ii) Usefulness for other purposes
 - iii) Cost of development
 - (5) Machinery & Equip
 - (b) Less Debt
 - (c) = For common
 - (d) Compute PV
- 6. organizing the:
 - a. measurements,
 - b. analysis
 - c. selection processes
 - d. business analysis

- e. stk selection
- f. port mgt
- g. alternative invest policies & mgt concepts
- 7. Financial Analysis
 - a. Ratio analysis from my analysis worksheet
 - b. Ratio analysis from my analysis worksheet
 - c. Trend analysis from my analysis worksheet
 - d. Ratio analysis from my analysis worksheet
 - e. Ratio analysis from my analysis worksheet
- D. What to do next?
 - 1. Sell @ today's quoted price
 - 2. Wait for tomorrow's Quoted price
 - 3. Track performance of company
 - 4. Maintain a perspective on the market level
- E. Stock promoters dressing up companies with good recent performance.
 - 1. during bull mkts.
- VI. Current Situation**
 - A. Forbes 500 Earnings
 - B. Relative Price Levels
 - 1. Yahoo model portfolios
 - a. Dow-Jones
 - b. Forbes 40
- VII. Business Situations and Financial actions**