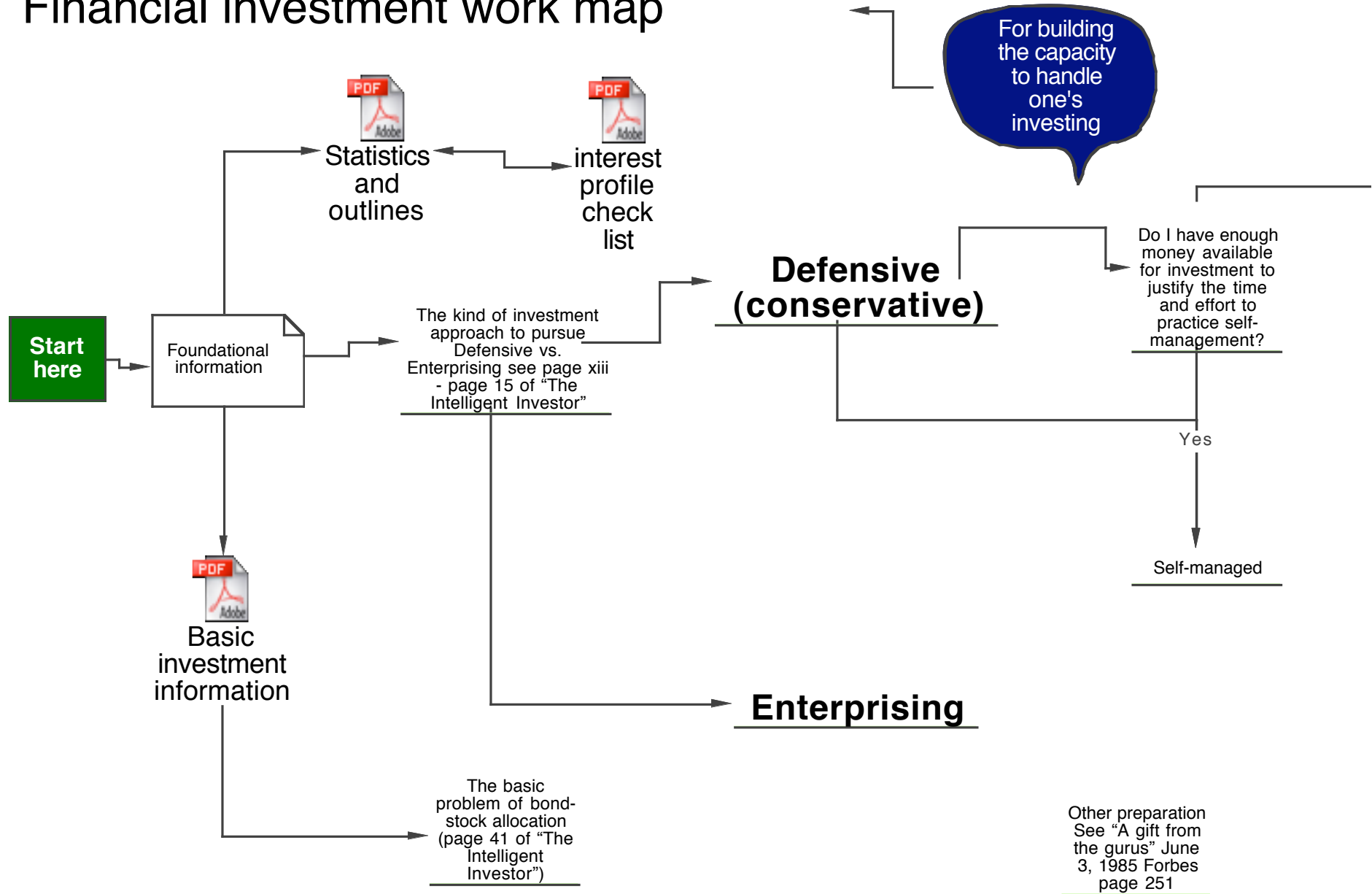
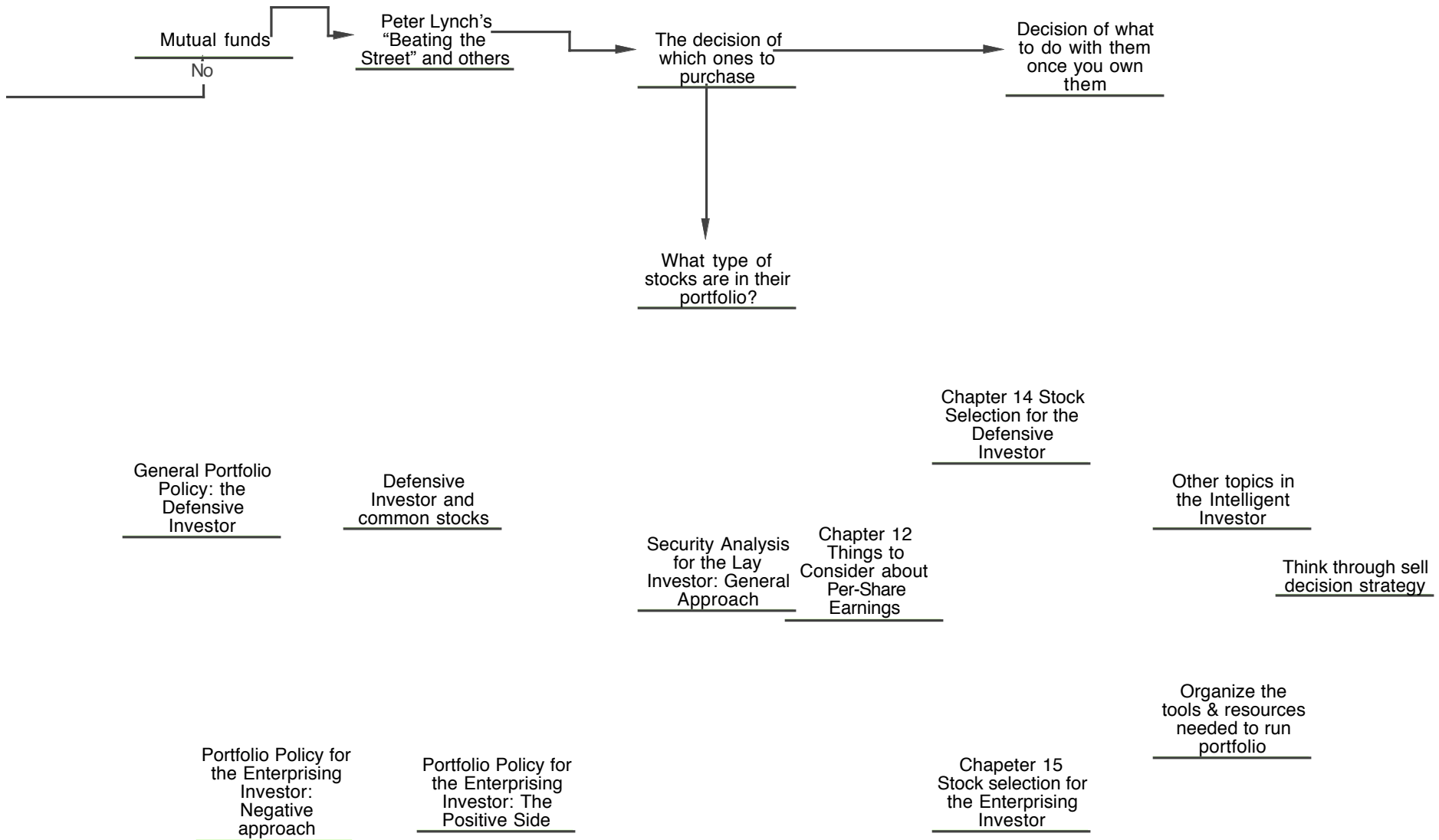


# Financial investment work map

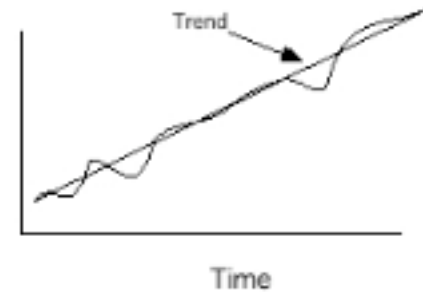
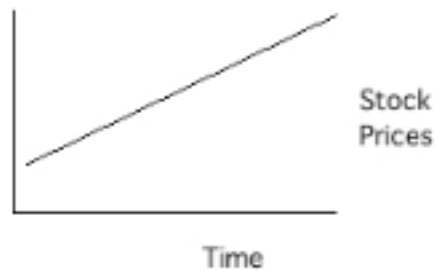
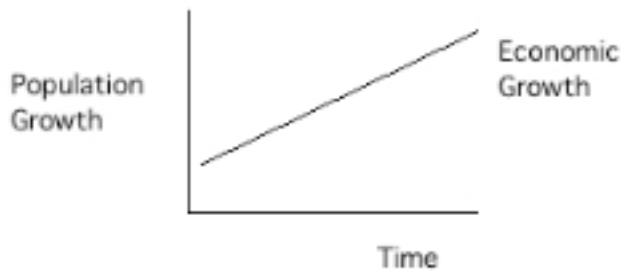




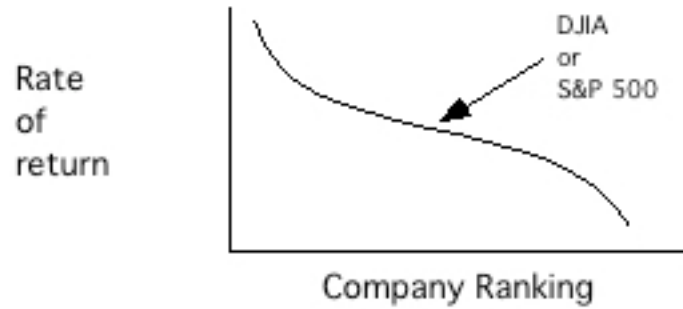
## Some basic investment information

### □ Basic strategic map

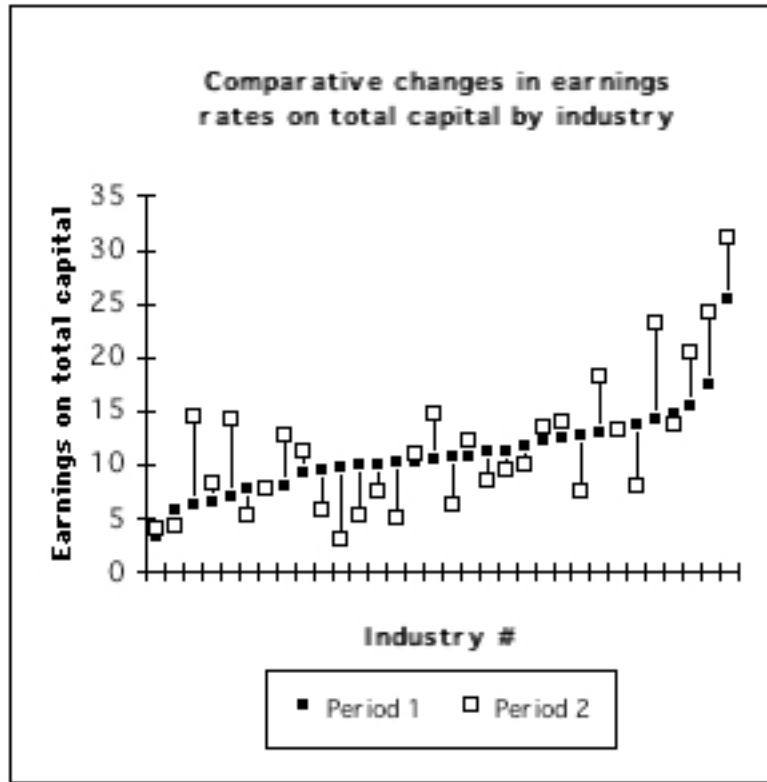
- ▲ Population and economic growth are reflected in the stock market. Productivity and innovation (that has a substantial impact on the social environment) are the real sources of wealth



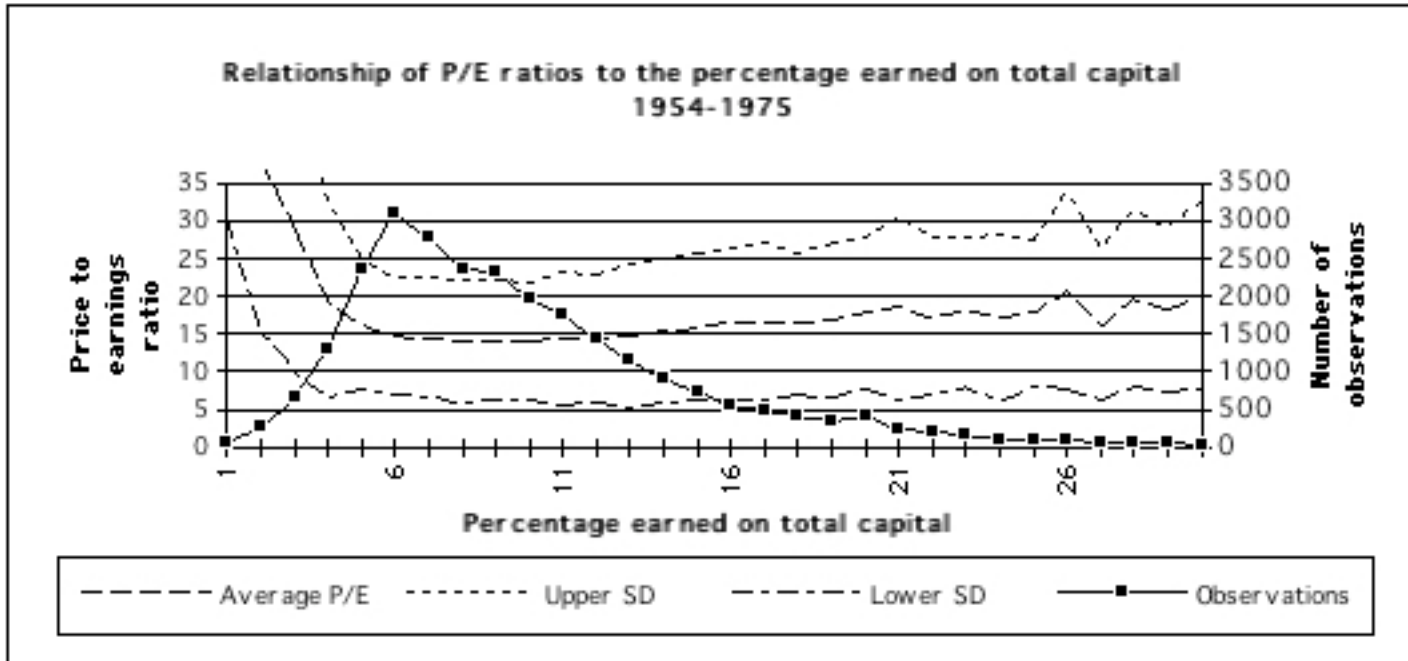
- ▲ Prices of individual securities between any two dates form a curve. The market averages (DJI & S&P) tend to fall below the median individual stock price



- ▲ Individual corporate and industry profits are constantly shifting position



- ▲ Prices that stock buyers pay for a given level of profitability vary considerably



□ **The Investor and His Advisors**

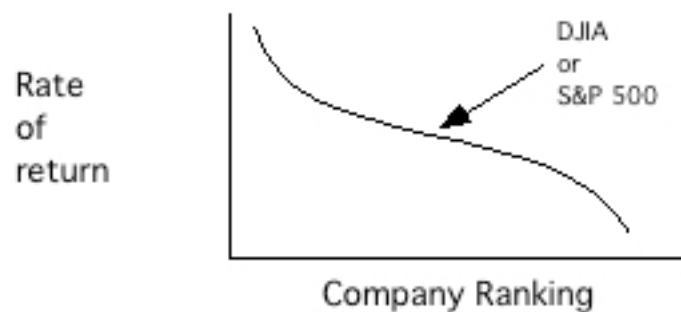
Chapter 10 of "The Intelligent Investor" by Benjamin Graham

▲ **Be careful ...**

- Dishonest people
- Misinformed people
- Uniformed people

▲ **If anybody actually believed they knew what they were doing they would:**

- Not bother advising other people
- Borrow money at low rates (3-5%) and invest at high rates (above 15%) and their names could be found on the Forbes wealthiest list.
- Have small portfolios consisting of only those stocks at the top whose rates of return are well above 40%



❑ **The New Speculation in Common Stocks**

Page 292 of "The Intelligent Investor" by Benjamin Graham

- ▲ The uncertain validity of past phenomena as a guide to the present and future
- ▲ The paradoxes and pitfalls of primary emphasis upon future expectations
- ▲ The margin of safety and the middle course
- ▲ and more ...
- ▲ See what am I going to do about high P/E ratios?

Click link to go to document

❑ **Technological Companies as Investments**

Page 305 of "The Intelligent Investor" by Benjamin Graham

- ▲ Very risky, low expected return, often a sucker's game

❑ **The Investor and Market Fluctuations**

Chapter 8 of "The Intelligent Investor" by Benjamin Graham

- ▲ Buy low (when other people have given up hope)
- ▲ Sell high (when other people think that prices will go up, up, up!)
- ▲ Acquiring and holding suitable securities and suitable prices
- ▲ "If it is virtually impossible to make worthwhile predictions about the price movement of stocks, it is completely impossible to do so for bonds"



- ❑ **The decision on whether to be a speculator or an investor**  
Chapter 1 of "The Intelligent Investor" by Benjamin Graham
- ❑ **The decision on whether to be a "defensive" or an "enterprising" investor**  
Chapter 1 of "The Intelligent Investor" by Benjamin Graham
- ❑ **Mutual fund decision**
  - ▲ **Chapter 9 of "The Intelligent Investor"**
  - ▲ **See Peter Lynch's "Beating the Street" (also available on tape)**
  - ▲ **Warren Buffett web site info**
  - ▲ **Decisions**
    - **Which type to buy**
    - **Which specific ones to buy**
    - **Whether to jump from one fund to another chasing performance**
    - **See the Investor and Market Fluctuations**
  - ▲ **What type of stocks are in their portfolio?**

□ **Summary of investment principles**

Page 286 of "The Intelligent Investor" by Benjamin Graham

▲ **Know what you're doing**

- **or stick to normal interest & dividend income**

▲ **Keep other people's hands off your money**

▲ **Do your arithmetic**

A fair chance to yield a reasonable profit

- **See Stock Return Calculator**

▲ **"To achieve satisfactory investment results is easier than most people realize. To achieve superior results is harder than it looks"**

- **Have the courage of your knowledge and experience**

\* **Or ...**

▼ **Limit ambition to capacity**

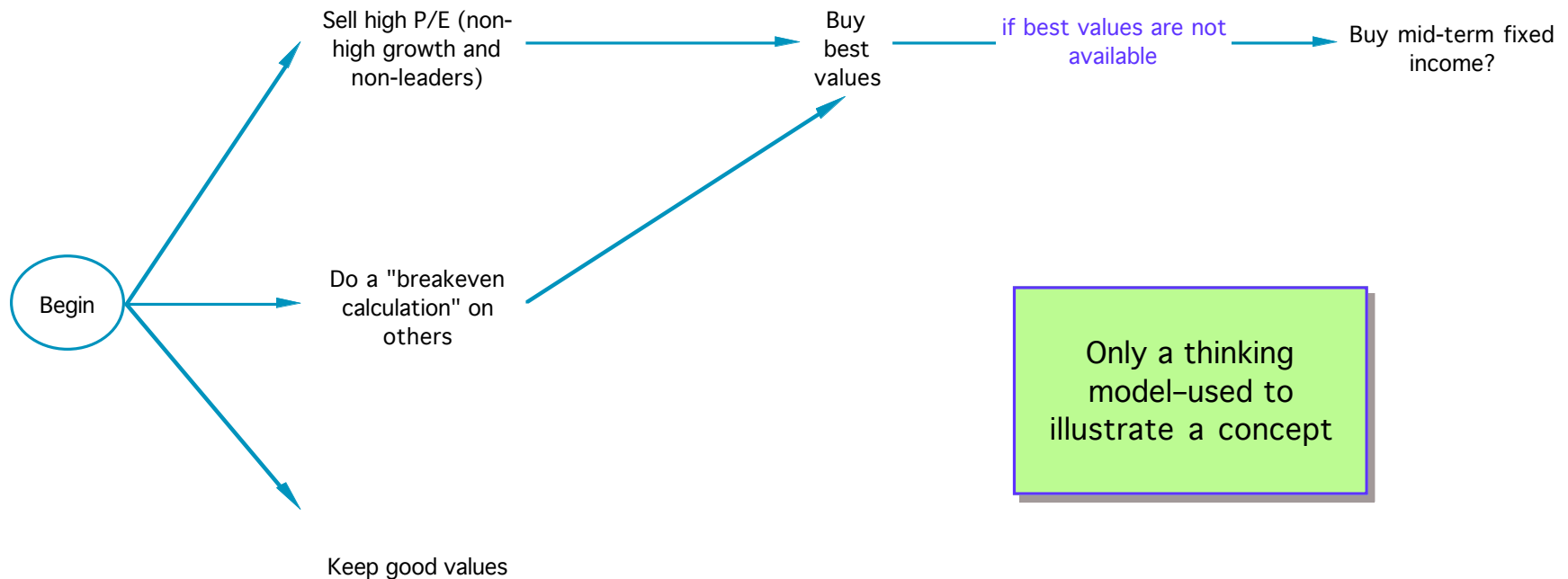
▼ **And confine activities within safe and narrow path of standard, defensive investment**

□ **Organization Evolution**

Page 288 of "The Intelligent Investor" by Benjamin Graham

Click link to go to document

# What am I going to do about high P/E ratios?



# Stock Return Calculator

## Rate of return

### Facts & assumptions:

\$2.15 Current earnings (EPS)  
 10.00 % EPS growth rate 1  
 5 yrs EPS growth period 1  
 5.00 % EPS growth rate 2  
 0.25 Current dividends  
 5.00 % Dividend growth rate 1  
 5 yrs Dividend growth period 1  
 3.00 % Dividend growth rate 2  
  
 \$45.00 Current price  
 \$0.25 Spread  
 1.00 % Commission rate  
  
 15 yrs Length of time stock is to be held (25 years is the maximum)  
 13.0 x Future P/E ratio  
 5.00 % Before tax rate of return on dividends re-invested elsewhere  
 35.00 % Marginal income tax rate (now and in the future)

### Calculations:

\$45.70 Current net price (spread & commission)  
 20.9 x Current P/E ratio  
 4.5 x Current Price/Book Value  
 3.25 % After-tax rate of return on dividend re-investment  
 \$5.64 EPS when sold  
 0.6 x Ratio of future P/E to current P/E  
 \$72.34 Net price when sold (spread & commission)  
 \$6.46 Future value of dividends (after tax)  
 \$9.32 Taxes on capital gain  
 \$69.48 Total proceeds after taxes  
 2.83% Rate of return (after tax)

## Growth check

\$10.00 Book value per share (BVPS)

### Growth check calculations

21.50 % Return on equity (ROE=EPS÷BVPS)  
 11.63 % Dividend payout (DPO=DPS÷EPS)  
 19.00 % Sustainable growth

Compare to  
EPS growth  
rate

Add some comparison  
data.  
What are the  
probability  
distributions for  
growth rates, future  
P/E ratios, interest  
rates and tax rate  
assumptions?

This is the "answer" to  
use in the comparison  
of investment  
alternatives

Year	EPS growth rate	Dividend growth rate	EPS	Dividends	Dividend payout	BVPS	ROE
1	10.0 %	5.0 %	2.37	0.26	11.1 %	\$12.10	21.4 %
2	10.0 %	5.0 %	2.60	0.28	10.6 %	\$14.43	19.6 %
3	10.0 %	5.0 %	2.86	0.29	10.1 %	\$17.00	18.2 %
4	10.0 %	5.0 %	3.15	0.30	9.7 %	\$19.84	17.1 %
5	10.0 %	5.0 %	3.46	0.32	9.2 %	\$22.99	16.2 %
6	5.0 %	3.0 %	3.64	0.33	9.0 %	\$26.30	14.8 %
7	5.0 %	3.0 %	3.82	0.34	8.9 %	\$29.77	13.6 %
8	5.0 %	3.0 %	4.01	0.35	8.7 %	\$33.43	12.7 %
9	5.0 %	3.0 %	4.21	0.36	8.5 %	\$37.28	11.9 %
10	5.0 %	3.0 %	4.42	0.37	8.4 %	\$41.33	11.2 %
11	5.0 %	3.0 %	4.64	0.38	8.2 %	\$45.59	10.7 %
12	5.0 %	3.0 %	4.87	0.39	8.1 %	\$50.07	10.2 %