

Course of Study for Beginning Investors

UNDERSTANDING THE JARGON



Diane Amendt

DIRECTOR
BETTERINVESTING
VOLUNTEER ADVISORY BOARD



Gretchen Hurt

PRESIDENT
BETTERINVESTING
VOLUNTEER ADVISORY BOARD
HEARTLAND CHAPTER

February 6, 2012

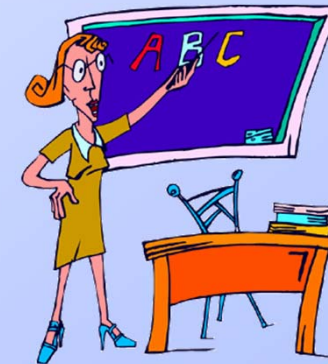
Course of Study for Beginning Investors

Disclaimer:

All stock references are meant to be used
for educational purposes.

No recommendation for purchase or sale
is intended or implied.

*This presentation is being
recorded for future use!*



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- **STOCK MARKET DROPS 6%!**
- **THE DOW REACHES NEW HIGH!**
- **SELL OFF IN MARKET CONTINUES!**
- **PONZI SCHEME SINKS INVESTORS!**



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COMMON COMMENTS ABOUT THE STOCK MARKET



The stock market is a dart game.

I work too hard for my money to gamble it away.

Only professionals can be in the stock market.

I wonder how you learn how to pick a stock?

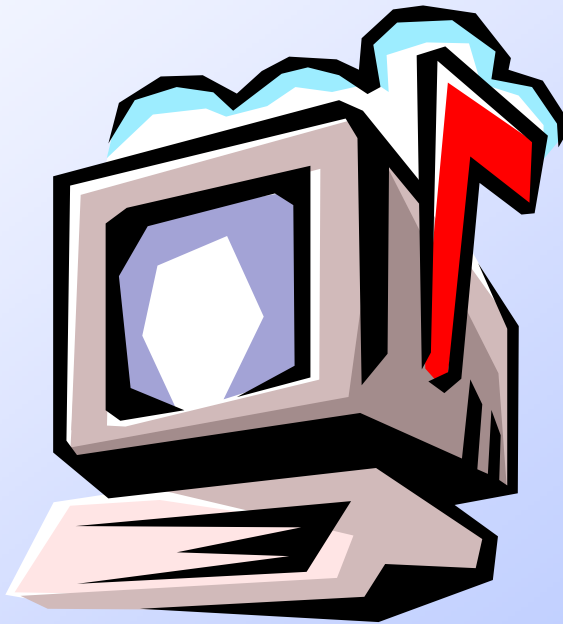
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TODAY WE'LL LEARN

1. How the Stock Market provides a mechanism to share in company profits.
2. The basic vocabulary needed to study stocks.
3. Why price depends on perception as well as supply and demand.
4. How the BetterInvesting method provides a structure to evaluate and select stocks for maximum return.

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WHAT A GREAT IDEA!



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HOW DO WE GET STARTED?

What is needed:

- A factory? Maybe an office?
- Manufacturing Equipment?
- Parts?
- People?

How do we get the money to get started?

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RAISING FUNDS

- Investors provide funding
- In return, investors receive a share of the company
- A new company is formed!
- Why would anyone invest?
 - Profit
 - Prestige
 - Power

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WHAT HAPPENS NEXT?

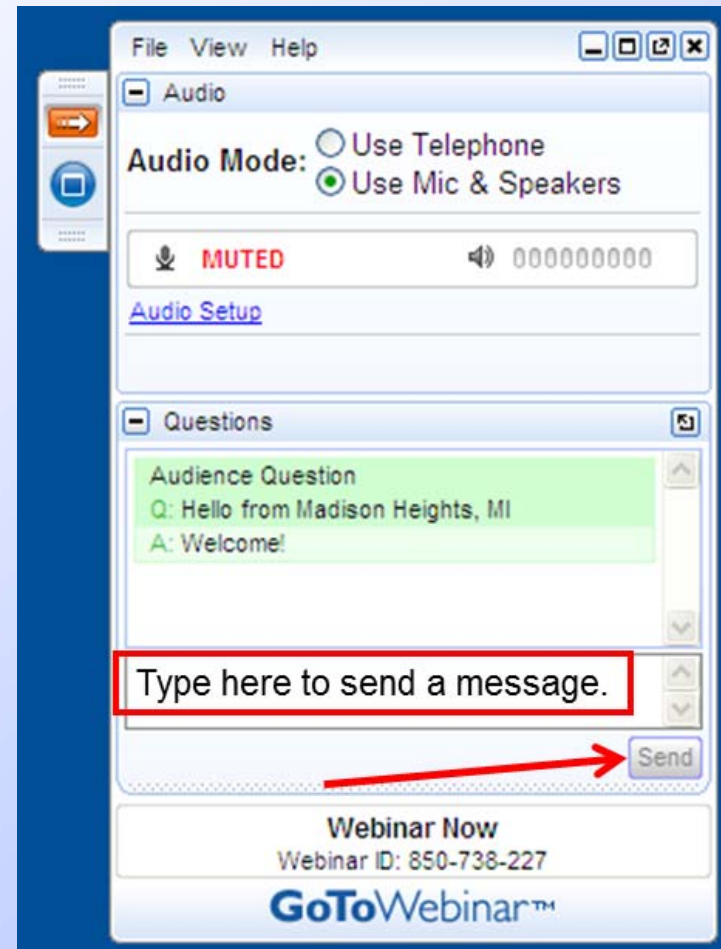
- The Company GROWS!!!!
- We need more money to expand
- We sell shares to the public
 - IPO – initial public offering
 - “going public”
- We could also occasionally borrow money
- The Company GROWS again!

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	Private Co.	Public Co.
<i>Ownership</i>	Smaller group of investors	Large numbers of investors
<i>Buying/Selling</i>	Directly among investors	Directly or Through a third party
<i>Disclosure</i>	Not required	Government rules apply
<i>Rationale for choice</i>	Fewer government regulations; no need for extra money for expansion; closer control	Need to raise money for growth and/or expansion
<i>Control</i>	Relatively direct	Indirect through election of Directors

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Let's pause
for some
questions!



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WHY DO INVESTORS
RISK MONEY
IN A COMPANY?

FOR PROFIT

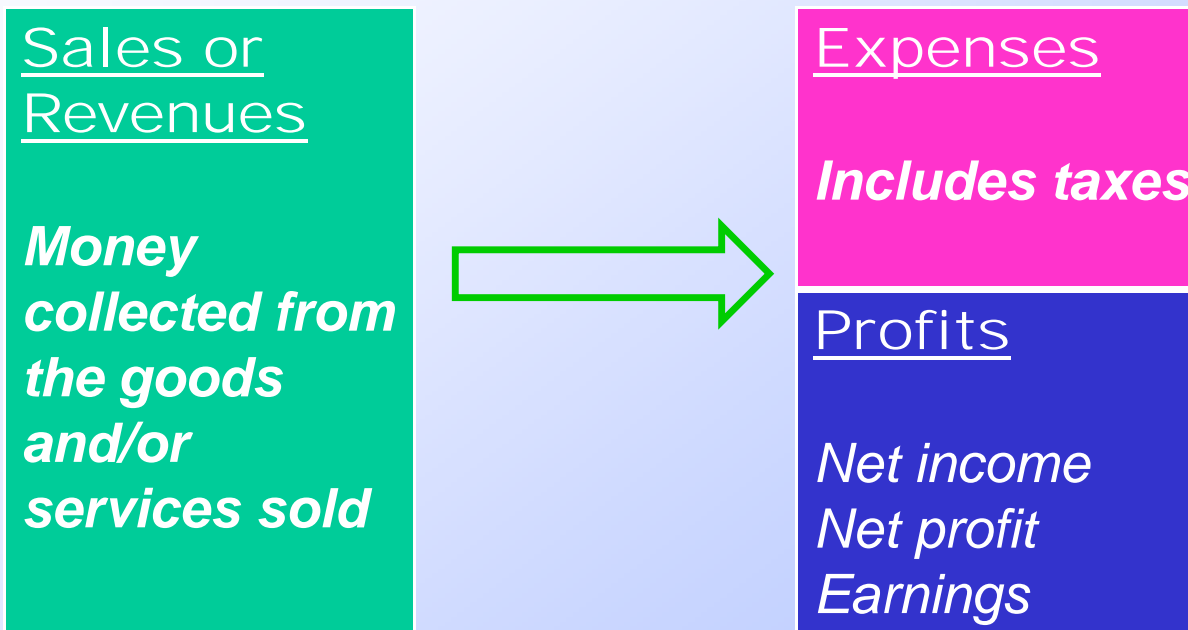
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DEFINING PROFITS

- Money is collected from the goods and services sold.
 - Sales or Revenues
- Expenses are subtracted from the sales.
- What is left are the profits
 - *Net Income, Net Profit, or Earnings.*
- These earnings belong to the shareholders.

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A PICTURE OF PROFIT



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MEASURING PROFIT

- Dividing the company's profits by the number of shares results in:

EARNINGS PER SHARE

- These are the earnings that belong to each shareholder as a result of owning a share.

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PROFITS ARE IMPORTANT

Over the long term....

- It starts with growth in sales
- Sales growth drives the bottom line earnings
- Earnings drive the Stock Price!

Stock prices ultimately follow earnings !

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AND PEOPLE INVEST...

To make

MONEY!



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THE STOCK MARKET

A Giant
Supermarket
for buying and
selling Stock



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WHAT IS WALL STREET?



- NYSE: New York Stock Exchange
- NASDAQ: National Association of Securities Dealers Automated Quotation (System)
- OTC: Over the counter exchanges for smaller companies

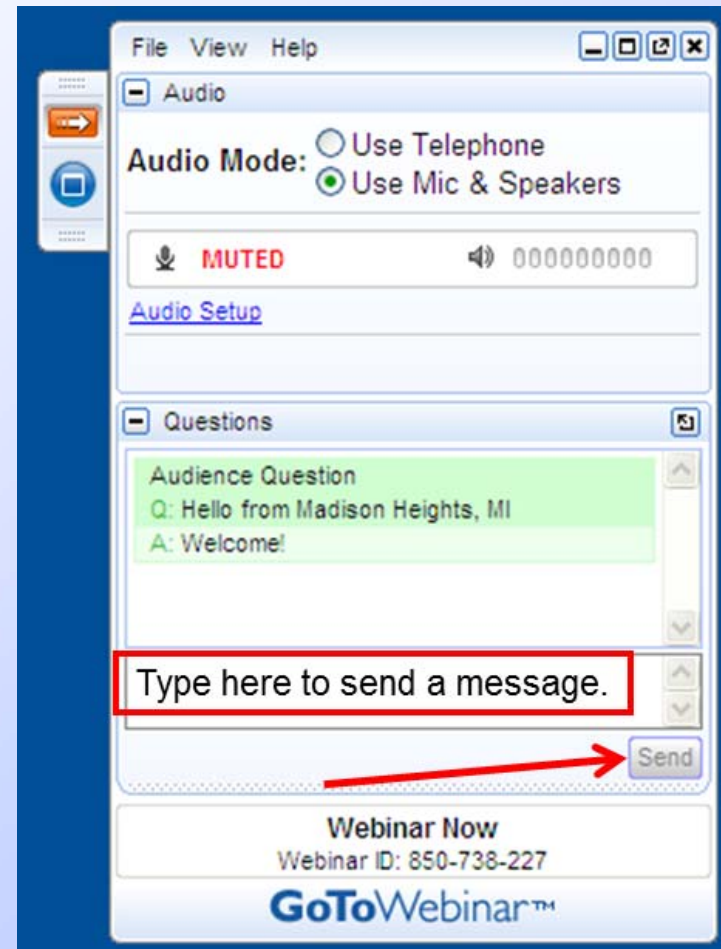
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MEASURING THE MARKET

- Dow Jones Industrial Average
 - 30 stocks of all types of businesses
- S&P 500 Index
 - 500 stocks from the NYSE & NASDAQ
- NASDAQ Composite Index
 - Heavily weighted with technology stocks
- Russell 2000
 - Represents smaller companies

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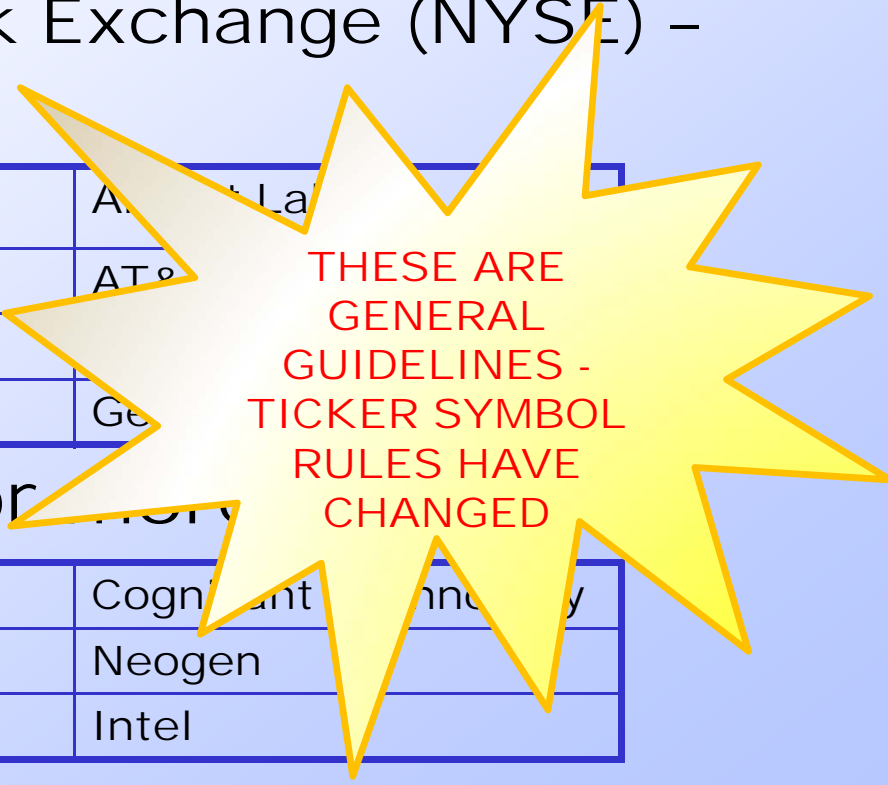
TICKER SYMBOLS

- New York Stock Exchange (NYSE) – 1-3 letters

ABT	Abbot Laboratories
T	AT&T
COH	Cohesion Technologies
GE	General Electric

- NASDAQ – 4 or more letters

CTSH	Cognizant Technology Solutions
NEOG	Neogen
INTC	Intel



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COMPANY INFORMATION

ABBOTT LABORATORIES (NYSE: ABT)

NEW Real-time: 50.00 ↑ 0.78 (1.58%) 3:59pm ET ?

Last Trade:	49.92	Day's Range:	49.34 - 50.35
Trade Time:	Jan 16	52wk Range:	45.75 - 60.86
Change:	↑ 0.70 (1.42%)	Volume:	12,845,910
Prev Close:	49.22	Avg Vol (3m):	9,095,320
Open:	49.56	Market Cap:	77.45B
Bid:	N/A	P/E (ttm):	17.13
Ask:	N/A	EPS (ttm):	2.91
1y Target Est:	61.00	Div & Yield:	1.44 (2.90%)

SOURCE: YAHOO! FINANCE

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PRICE OR QUOTE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The 58.60 in the trade column represents the price (in dollars) paid for this stock the last time it traded.

It will change during the trading day.

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CLOSE OR CLOSING PRICE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.00	↓0.22 ↓0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑0.49 ↑0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓0.02 ↓0.28%	6.81 - 14.48	0.65	10.77	N/A

When the market is closed, this number represents the final price from the last trading session.

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CHANGE OR PRICE CHANGE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The upward green arrow and the .49 shows that this stock's price increased \$.49 from the previous day's closing price.

The column next to it represents the gain (or loss) as a percentage of the price at the close of the previous trading day.

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52-WK RANGE

Symbol	Name	Trade	Change		52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓0.22	↓0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑0.49	↑0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓0.02	↓0.28%	6.81 - 14.48	0.65	10.77	N/A

These numbers represent the highest and lowest prices for the stock in the preceding 52-week period.

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EPS OR EARNINGS PER SHARE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.85	10.77	N/A

The 3.61 represents the Earnings per Share (EPS) for the last, or trailing, twelve month period (TTM).

This number will not necessarily be the last fiscal year's EPS.

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DIV/SHR OR DIVIDEND PER SHARE

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
AOB	AMERICAN ORIENTL BIO	7.03	↓ 0.02 ↓ 0.28%	6.81 - 14.48	0.65	10.77	N/A

The .96 figure represents the dividend per share paid by this company. It is a dollar figure and is similar to interest on savings that you might receive from a bank.

N/A means not applicable and indicates the company does not pay a dividend.

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P/E OR PRICE TO EARNINGS RATIO

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
AFL	AFLAC INC	58.60	↑ 0.49 ↑ 0.84%	52.90 - 68.81	3.61	16.23	0.96
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The P/E is a ratio (fraction) that is used to compare stocks.

P/E is the current stock price divided by four quarters of earnings.

The P/E values on the chart are calculated by using the most recent four quarters or trailing twelve months (TTM) earnings.

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P/E OR PRICE/EARNINGS RATIO

Symbol	Name	Trade	Change	52-wk Range	EPS (ttm)	P/E	Div/Shr
ABT	ABBOTT LABORATORIES	59.09	↓ 0.22 ↓ 0.37%	50.09 - 61.09	2.68	22.03	1.44
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Price/Earnings (P/E) ratios can be thought of as how much an investor is willing to pay for \$1.00 of a company's earnings.

The higher the P/E value, the more the investor is willing to pay.

Faster growing, higher quality companies usually carry higher P/E values.

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Let's practice these
terms!



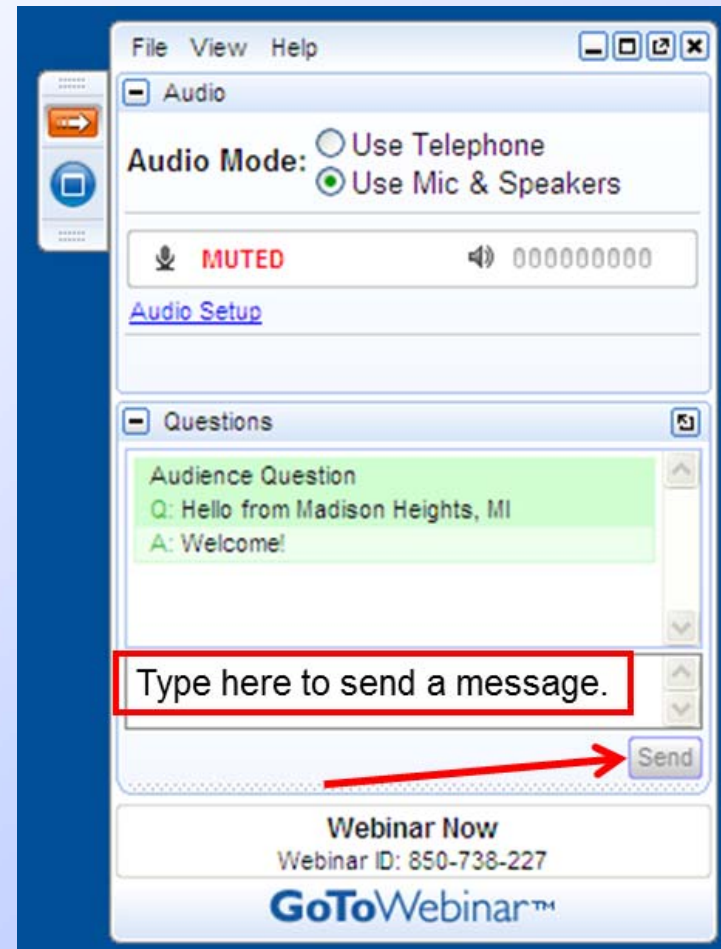
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 Understanding the Jargon

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NAME	TICKER/ SYMBOL	TRADE/ PRICE/ QUOTE	CHANGE	52-WEEK RANGE	EPS	P/E
ABBOTT LABS	ABT	59.62	+0.92	50.09 - 61.09	2.68	22.23
AFLAC	AFL	55.31	-0.46	51.71 - 68.81	3.61	15.32
COACH	COH	31.19	+0.13	23.22 - 50.95	2.17	14.35
COGNIZANT TECHNOLOGY	CTSH	30.77	-0.29	23.37 - 43.00	1.32	23.29
GENERAL ELECTRIC	GE	29.80	+0.28	25.60 - 42.15	2.15	13.86
JOHNSON & JOHNSON	JNJ	71.33	+0.14	61.17 - 71.90	4.12	17.31
KNIGHT TRANSPORTATION	KNX	10.09	-0.39	14.30 - 21.89	0.60	31.61
NEOGEN	NEOG	27.28	-0.15	19.33 - 28.50	0.81	33.80

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Let's pause
for some
questions!



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SUPPLY AND DEMAND CAN INFLUENCE PRICE / VALUE

- Beanie Babies



- World Series Tickets

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SUDDEN CHANGE IN PRICE



Announcement of iphone

January 9, 2007

Jan 8 = \$85.47 Jan 9 = \$92.57

Apple's price up over \$7.00

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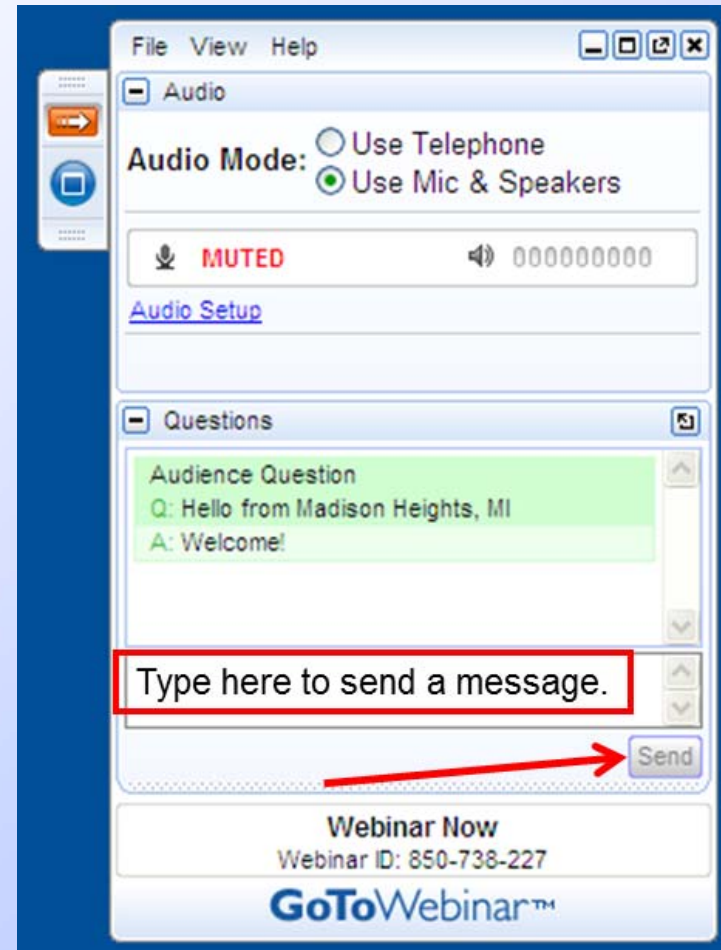
FACTORS AFFECTING PRICE

- Good news
 - New product
 - Lower oil prices
 - Economic recovery
- Bad news
 - Product recall
 - Lawsuit
 - Recession



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Let's pause
for some
questions!



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WHERE DO WE GO FROM HERE?

- We know some basic terms, some “investing jargon”.
- We understand some market psychology.
- Is there an investing methodology which allows us to invest for the long-term?
- Are there tools which will help us make investment decisions?



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BetterInvesting believes
that you should ...

**INVEST
REGULARLY**

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BetterInvesting believes
that you should ...

**REINVEST ALL
EARNINGS**

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BetterInvesting believes
that you should ...

**BUY
HIGH-QUALITY
GROWTH STOCKS
AT FAIR PRICES**

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BetterInvesting believes
that you should ...

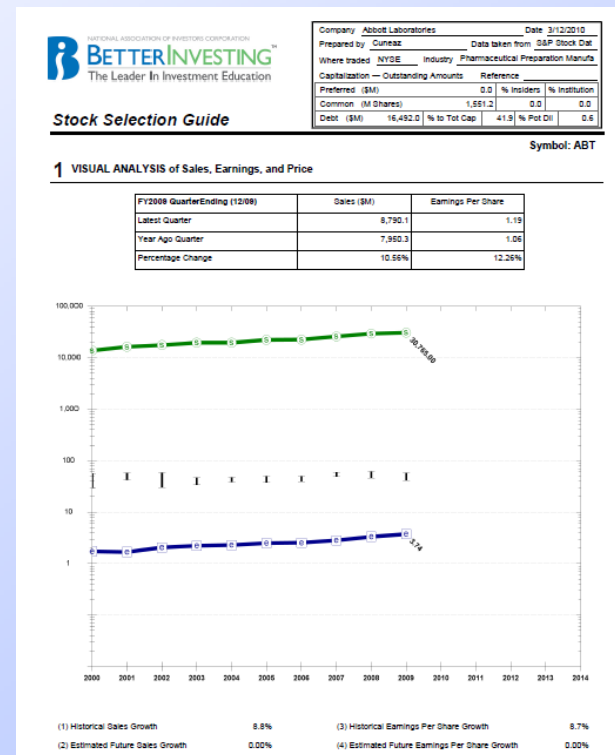
DIVERSIFY

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The BetterInvesting Stock Selection Guide (SSG)

Organizes all of the jargon to determine answers to two key questions:

1. Is the stock a quality growth stock?
2. Is it selling at a fair value?



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The SSG is:

- A Tool
- A Guide to Your Judgment

The SSG is not:

- A Black Box
- A Substitute for Study and Judgment

2 EVALUATING Management

Abbott Laboratories

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Last 5 Year Avg.
Pre-tax Profit on Dates (Net Before Taxes/Sales)	26.81%	21.76%	24.39%	23.31%	23.90%	22.89%	22.36%	20.93%	21.96%	21.95%	22.02%
% Earned on Equity (E/B / Book Value)	31.02%	28.83%	30.19%	26.45%	24.83%	26.48%	27.67%	24.58%	29.48%	26.38%	26.72%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.
PRESENT PRICE \$4.5 HIGH THIS YEAR \$6.79 LOW THIS YEAR \$1.27

Year	Price		Earnings		Price Earnings Ratio		Dividend Per Share	% Payout F / C * 100	% High Yield F / B * 100
	High	Low	Per Share	High A / C	Low B / C				
1 2005	50.00	37.80	2.48	20.16	15.12	1.085	43.78	2.89	
2 2006	49.87	39.18	2.53	19.71	15.49	1.160	45.85	2.95	
3 2007	59.50	48.75	2.82	21.10	17.29	1.270	45.04	2.61	
4 2008	61.09	45.75	3.32	18.40	13.78	1.405	42.32	3.07	
5 2009	57.39	41.27	3.74	15.34	11.03	1.560	41.71	3.78	
6 TOTAL		212.5		94.7	72.7		218.7		
7 AVERAGE		42.5		18.9	14.5		43.7		
8 AVERAGE PRICE EARNINGS RATIO	16.7		9 CURRENT PRICE EARNINGS RATIO		14.6				

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 P/E 0.00 X Estimate High Earnings/Share 0.00 = Forecasted High Price \$ 0.00

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 14.54 X Estimate Low Earnings/Share 3.74 = Forecasted Low Price \$ 0.00

(b) Avg. Low Price of Last 5 Years 42.49

(c) Recent Market Low Price 41.27

(d) Price Dividend Will Support

Present Dividend 1.760
High Yield 3.80% = 46.32

Selected Forecasted Low Price 0.00

C ZONING using 25%-50%-25%

Forecasted High Price 0.00 Minus Forecasted Low Price 0.00 = 0.00 Range 25% of Range 0.00

Buy Zone 0.00 to 0.00

Hold Zone 0.00 to 0.00

Sell Zone 0.00 to 0.00

Present Market Price of 54.52 is in the Sell Zone

D UP-SIDE DOWN-SIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

High Price 0.00 Minus Present Price 54.52 = -54.52

Present Price 54.52 Minus Low Price 0.00 = 54.52 = -1.00 To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

High Price 0.00

Present Market Price 54.52 = 0.00 X 100 = 0.00 - 100 = -100.00 % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A Present Full Year's Dividend \$ 1.760 = 0.03 = 3.23 % Present Yield
Present Price of Stock 54.52

B AVERAGE YIELD - USING FORECAST HIGH P/E AVERAGE YIELD - USING FORECAST AVERAGE P/E
Avg. % Payout = % = % Avg. % Payout = % = %
Forecast High PE 0.00 Forecast Average PE 7.27

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E
Annualized Appreciation % Annualized Appreciation %
Average Yield % Average Yield %
Annualized Rate of Return % Annualized Rate of Return %

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The screenshot shows the homepage of BetterInvesting.org. At the top, there is a navigation menu with tabs for MISSION, REAL INVESTORS, EDUCATION, CLUBS, RESOURCES, and MEMBERSHIP. To the right are buttons for 'Join Now!' and 'Member Login'. Below the navigation is a main banner with the text 'Empowering Investors Since 1951' and a 'History' button. A red arrow points from this button to a 'Make It Easy...' sidebar. This sidebar contains a list of resources: 'Select quality growth stocks and mutual funds.', 'Stock Analysis Tool Trial Version (no CC req'd)', 'Mutual Fund Tools Demo', and 'Stock Selection Guide Demo'. A red oval highlights the 'Stock Analysis Tool Trial Version (no CC req'd)' link. Another red arrow points from the 'History' button to the footer of the page. The footer contains the website URL 'Betterinvesting.org', the page number '46', and the BetterInvesting logo with the tagline 'The Leader In Investment Education'. Other elements include a 'Sample Our Resources' button, a 'Learning Events Near' section, and social media links for Twitter and Facebook.

Betterinvesting.org

46



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tools.betterinvesting.org/stockanalysis

BETTER INVESTING
ONLINE TOOLS
Trial Version

Not a member? [JOIN NOW](#) Member? [UPGRADE HERE](#)

[Stock Selection Guide](#)
Files Research Help Close

Choose the Company to Study

Enter Ticker or Company Name

Ticker:

Company:

Or select a company based on

Size/Growth:

Sector:

Click "Find" button to list companies =>

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Available Companies

Company Name	Ticker
CBS Corporation	CBS
Chesapeake Energy Corp	CHK
Cognizant Technology Solutions Corporation	CTSH
Exxon Mobil Corporation	XOM
Green Mountain Coffee Roasters, Inc.	GMCR
Illinois Tool Works Inc	ITW
Intel Corp	INTC
Jones Lang LaSalle, Inc.	JLL
JPMorgan Chase & Co	JPM
O'Reilly Automotive Inc	ORLY
Oracle Corporation	ORCL
PepsiCo Inc	PEP
Praxair, Inc.	PX
Shire PLC	SHPGY
Teva Pharmaceutical Industries Ltd	TEVA
The Coca-Cola Co	KO
The Procter & Gamble Co	PG
Thoratec Laboratories Corporation	THOR
Varian Medical Systems, Inc.	VAR
VF Corporation	VFC

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Register at www.betterinvesting.org/introssg

Introduction to the Stock Selection Guide

A 5-Part Webinar Series - February 27 Through April 9



Introduction to the Stock Selection Guide Series (5 sessions)

8:30 PM – 10:00 PM ET

An introductory series designed to help the new investor learn how to use and complete the Stock Selection Guide. This five part series includes 4 class presentations and a final review session.

February 13 - Selecting the Best Companies
February 27 - Determining a Fair Price
March 12 - Estimating Future Growth
March 26 - Estimating Future P/Es
April 9 - Review/Q&A Wrap-Up

Cost: \$40 for BetterInvesting Members
\$60 for others

[Register Now](#)

[More Information](#)

Also access the recordings
and handouts from
Why Invest in Stocks and
Understanding the Jargon.

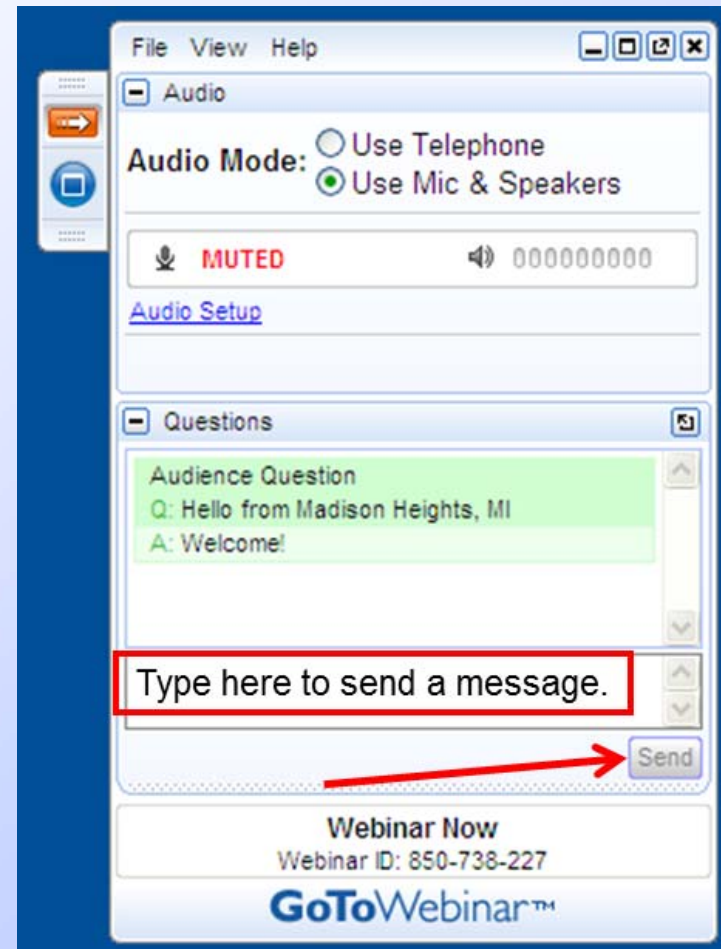
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LET'S RECAP

1. People buy stocks to make money.
2. The Stock Market provides a mechanism to share in company profits.
3. There is basic vocabulary you need to know to study stocks.
4. Price depends on perception as well as supply and demand.
5. The BetterInvesting method provides a structure for evaluating and selecting stocks for maximum return.

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Last chance
for some
questions!



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Future Webinars

- Introduction to the Stock Selection Guide
 - 5 sessions on Mondays from 8:30 PM to 10:00 PM ET (homework review 8:00 PM – 8:30 PM)
 - Selecting the Best Companies (2/13/12)
 - Determining a Fair Price (2/27/12)
 - Estimating Future Growth (3/12/12)
 - Estimating Future P/Es (3/26/12)
 - Interactive Wrap-Up Session (4/9/12)
 - Total Series Cost: \$40 Members; \$60 Non-Members
 - Recordings will be available until 5/24/2012
 - SIGN UP NOW AT BETTERINVESTING.ORG/IntroSSG

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gahurt@mchsi.com

dianeamendt@flash.net

