

Buy Growth Stocks At a Reasonable Price

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Growth Stocks...

- #1 Sales growth drives earnings growth drives share price
 - We'll test to see if **earnings drive share price**

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Growth Stocks...

- #2 Buy growth companies at a reasonable price
 - Be guided by historical P/E ratios

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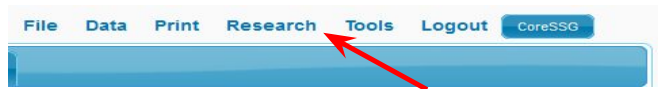
Big Charts (free)

- Charts of Stocks & Funds
- 1 day to 20+ years
- 1 min to yearly data
- Compare charts, funds & market indexes
- Earnings, dividends, splits
- P/E ranges
- Does not chart **Sales**...

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Finding Big Charts

- Open SSG PLUS
- Open a stock to study
- Research Tab



- Select Price Charts
- Select “Big Charts 5 Year Charts”

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Price, Earnings and P/E

- #1 Price and Earnings allow you to see how well price follows earnings
 - If price doesn't follow earnings, valuation is a problem

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Price, Earnings and P/E

- #2 P/E history allows you to see if a stock is at an acceptable price
 - Should you buy now or wait?

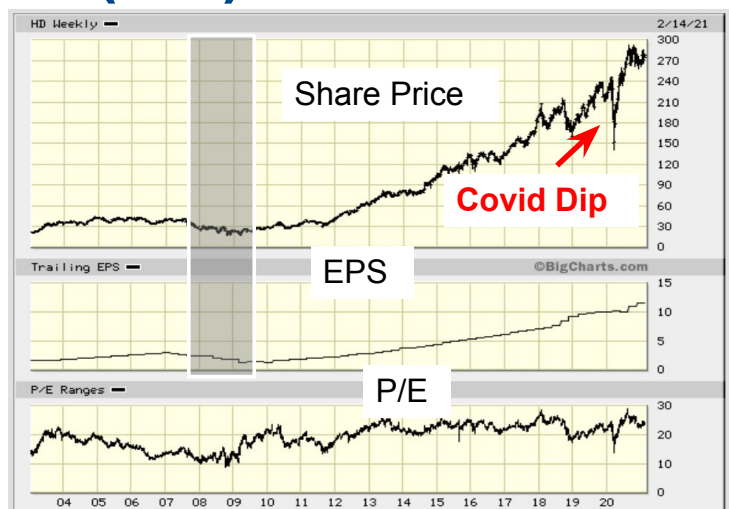
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Home Depot (HD) 2003-2021

P/E is stable, sales have slowed, don't pay more than P/E = 20.

HD was hit hard during the Great Recession.

Auto check-out has improved HD earnings for years.



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Vmware (VMW) 2016-2021

Stock prices do not track earnings well.
Stop the study.



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Ulta Beauty (ULTA) 2010-2021

Price tracks EPS well.

Covid dropped price from \$300 to \$130 before it bounced back to \$200 before rising to \$325.

There is likely a pent up demand for their services once the pandemic is over. That demand may (or may not) justify the P/E of 80.



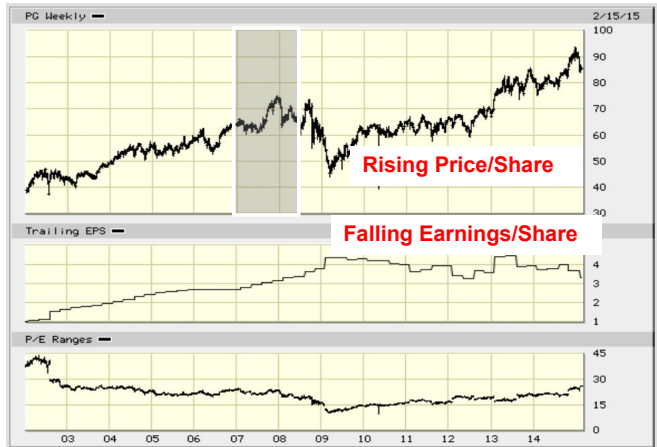
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Proctor & Gamble (PG) 2002-2015

Note PG EPS grew throughout the Great Recession (greyed out area.)

This is not a growth stock and price does not follow earnings growth, (earnings declined from 2010-2021 as the stock price rose).

End Study.



Microsoft (MSFT) 2006-2021

Price rose from \$25 in 2013 to \$250 in February 2021, 8 years for a compound annual return of $(\$250/\$25)^{(1/8)} = 1.33$ or 33% per year.

Earnings growth experienced a few sputters but grew from \$2 in 2013 to \$7 in 2021 or 3.5 times = $3.5^{.0125} = 17\%$ per year.

The P/E is historically high (40). More study is justified.



Setting up: Big Charts

Open an SSG PLUS Stock Study...Research Tab, Price Charts, Big Charts
Select “Advanced Charting” from near the top of the screen. That brings up the setup menu.



- Set time and frequency
- Set Lower Indicator 1 to Rolling EPS
- Set Lower Indicator 2 to P/E Range
- Set Chart Style to your preferences (medium)
- Click to save, then ok and ok again
- Click “Draw Chart” to display the chart

Remember...

- Always check to see if earnings drive share prices
- Always make sure you are paying historically reasonable prices for your treasures.

Over to
Linda