

Historically, the stock market has an average annual return of 10 to 11 percent.

Growth companies are compelling investment opportunities for several reasons:

- Consistent – not erratic – growth
- Strong management teams
- Competitive advantage

Sales and Earnings growth targets vary based on company size:

- **Large companies** (more than \$10 billion in annual sales): **5%-7% growth**
- **Medium-sized companies** (\$1-\$10 billion in annual sales): **7%-12% growth**
- **Small companies** (less than \$1 billion in annual sales): **12% or more**

Sales growth: Analyzing how companies generate revenue

Keys to a company's long-term success:

- Delivers high-quality products or services
- Achieves consistent growth over time
- Maintains a strong management team
- Adapts to markets changes
- Maintains customer demand
- Effectively competes within its industry

Earnings growth: Measuring a company's profitability

Earnings per share (EPS)

- A measure of a company's profitability
- Calculated by dividing a company's net income by its average number of outstanding shares
- Published in company reports
- There are Earnings variations and Shares Outstanding variations to consider when evaluating EPS.
- A company's EPS should be growing steadily, on average, over a period of at least five years.

Management: Evaluating the leadership of a company

We evaluate management by analyzing a company's profitability and comparing it to its competitors and industry benchmarks.

Profitability Ratios...

- Provide information about the company's health and financial performance.
- Show a company's ability to earn profits.
- Can be used to compare current to past performance, compare to other companies, or compare to the industry average.

Higher ratios are generally better than lower ratios.

Outside of growth companies: Other company types

- **Initial Public Offerings (IPOs)** – no record on the market, more risk, highly volatile
- **Value companies** – have often experienced short- or long-term challenges, and it is hard to tell if they are in long-term decline or will recover
- **Cyclical companies** – fortunes closely tied to the economy, can be volatile

Finding potential investments:

- Personal observations
- Networking
- Financial media
- Online platforms

Always perform your due diligence by investigating and analyzing the stock for yourself.

Screening and Evaluating:

- Filter companies based on size, industry/sector, growth rates, valuation ratios, and analyst estimates.
- Maintain a list of your ideas.
- Conduct a preliminary screening:
 - Five-year track record
 - A reasonable level of growth in sales and earnings
- Then a more in-depth evaluation:
 - Growth consistency
 - Recent news
 - Financial statements
- Maintain a “watchlist” of high-quality companies to purchase when the stock price becomes reasonable.