

Is This a Growth Stock?



Mini Investment Classes by the OKI Tri-State Chapter

*Credit Area: Example -
Based on Original Presentation by Gretchen and Jim Hurt
Revised 8/09 by Sandy and Bob Lowery*

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 **BETTERINVESTING**[™]
OKI Tri-State Chapter

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Is This A Growth Stock?

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E X Estimated Low Earnings/Share = \$ **Growth Stock**

(b) Avg. Low Price of Last 5 Years = } **Cyclical Stock**

(c) Recent Severe Market Low Price = }

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}}$ = = **Income Stock**

Selected Estimate Low Price

Gretchen Hurt, Director, NAIC Computer Group

Invest in Quality Growth Companies

- **The Stock Selection Guide was designed for buying growth stocks.**
- **“Growth companies increase their revenues and earnings faster than the overall economy and inflation combined.”**

Better Investing Stock Selection Handbook

Growth Companies

- **Why BI recommends buying growth companies**
 - **Beginning investors can pay too much for a growth company and still make some profit from the investment**
 - **The most common error investors and clubs make is paying too much for the stocks they buy.**
 - **There is no “wrong” time to buy.**

Characteristics of a Growth Stock

- **“Railroad tracks” at an up angle.**
- **Sales and earnings growth rates well above the rate of inflation.**
- **High PE’s.**
- **Low or no dividend.**
 - **Reinvesting earnings back into the company.**

Selecting a Low Price

- **If you are looking at a growth stock you will select the first low price in Section 4B row (a).**

B LOW PRICE -- NEXT 5 YEARS (4A1)

(a) Avg. Low P/E (3D7 as adj.) X Estimated Low Earnings/Share (3E7 as adj.) = \$

(b) Avg. Low Price of Last 5 Years = (3B7)

(c) Recent Severe Market Low Price =

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}}$ = =

Selected Estimate Low Price = \$ (4B1)

Not all stocks are growth stocks!

Income Stocks

Cyclical Stocks

Characteristics of Income Stocks

- **Usually large, mature companies**
- **Slower growth rates for sales and earnings**
- **Frequently have less price volatility**
- **Lower P/E's**
- **High Payout ratio, 30% or greater.**
- **High Yield, 2% or greater**

Income Stocks

- **People buy these stocks for the dividend yield, not price appreciation.**
- **People buy these stocks because they are less risky than Growth or Cyclical Stocks.**

Income Stocks

- **If you study Income stocks expect:**
 - **“Railroad tracks”**
 - **Lower growth rates for sales and earnings**
 - **High Return on Equity**
 - **High Payout Ratio**
 - **High Yield**

Selecting a Low Price

(3D7 as adj.) (4A1)

B LOW PRICE -- NEXT 5 YEARS

(a) Avg. Low P/E X Estimated Low Earnings/Share = \$ _____

(b) Avg. Low Price of Last 5 Years = _____ (3E7 as adj.)

(c) Recent Severe Market Low Price = _____ (3B7)

(d) Price Dividend Will Support = _____ Present Div. = _____

Selected Estimate Low Price High Yield (H) _____ (4E1)

- **If you are looking at an Income Stock you will select the last choice in Section 4B which is 4Bd.**
- **This is the price the dividend will support.**

Cyclical Stocks

- **Cyclical companies follow their economy.**
 - **Fundamentals grow when their economy is improving**
 - **Fundamentals decline when their economy declines**
- **A company in a cyclical industry is a cyclical company.**

Cyclical Stocks

- **Beginning investors should avoid investing in cyclical companies.**
 - **Require more knowledge about investing**
 - **Have to be a contrarian**
 - **Be aware of where the economy and the company are in their cycle.**

Cyclicals Require More Work

- **Must be knowledgeable about the company**
 - Includes things like the **Balance Sheet**
- **Must be knowledgeable about the industry**
 - Industry problems or opportunities
- **Is this an economic downturn or a problem with the company?**

Cyclicals Require You to Be Contrarian

- **Buy when the earnings are down**
 - **When the company is near the bottom of its cycle.**
 - **This is when PE's will be high.**
- **Sell when the earnings are up**
 - **When the company is near the top of its cycle.**
 - **This is when PE's will be low.**

Projecting Growth

- **Projecting the future sales and earnings growth of cyclicals is much more difficult.**
- **Historical growth rates may only be of limited value.**
- **Knowledge of company and industry are crucial.**

Selecting a Low Price

(4A1)

B LOW PRICE -- NEXT 5 YEARS (3D7 as adj.)

(a) Avg. Low P/E X Estimated Low Earnings/Share = \$ _____

(b) Avg. Low Price of Last 5 Years = (3E7 as adj.)

(c) Recent Severe Market Low Price = (3B7)

(d) Price Dividend Will Support $\frac{\text{Present Divd.}}{\text{High Yield (H)}}$ = _____ = _____

Selected Estimate Low Price _____ = \$ (4E1)

} **Cyclical Stocks**

- **For a growth cyclical select the Average low price, 4Bb.**
- **For a cyclical stock select the recent severe low price, 4Bc.**
 - **May want to look at low prices for last ten years.**

The End is Here



Conclusions

- **Be sure you select the right low price for the stock you are studying.**
 - **Growth Stocks provide greatest price appreciation. Recommended for beginning investors.**
 - **Income stocks are bought for the dividend and yield.**
 - **Cyclicals require more investing knowledge.**

For more ways to learn:

Contact the OKI Chapter Board for a One Hour “Classes to Clubs”
(We Bring OKI Classes Directly to Your Club) Or
Attend One of Our OKI Special Events or Edufests



Cincinnati:

Mary Thomas
Mcthomasp@fuse.net

Dayton:

Gene Senter
EMIDDLE42@aol.com

Columbus:

Dianne Jordan
dijord00@aol.com