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Bought a Porsche

Arthur Comely
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David Nelson
Paid for his wedding

Vivian Giddens
Travelled to the Orient

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Bought a Porsche

"The Stock Study Guide software is magic."
–Josée Sabourin, Alexandria ON

Consistently Superior Returns Since 1987

Stock Study Guide™

For Superior
Stock Selection (& Rejection)

User's Manual

Version 1.1

DISCLAIMERS

The Information and Data
The information and data and their representation in a graphical format in this publication are intended to assist investors in studying stocks using the *Stock Study Guide* ("*Guide*").

To simplify the discussion of numerical data for the companies described in this manual, the text refers to all data as if they were the most recently reported data. For example, "last year" always refers to the fiscal year before the "current fiscal year;" and, the "current year" always refers to the first of five years going forward into the future. The "Recent Price" refers to the price for the stock at the time the Exhibits were prepared.

Users of the *Guide* are solely responsible for the results of any stock analysis using the *Guide* and the information and data contained in this publication. The publisher provides no guarantee, whatsoever, that the use of the information and data contained herein will result in investment results which are satisfactory to a user of the *Guide*.

While care was taken in compiling and verifying the information and data contained in this publication, because of the possibility of human, mechanical or printing errors the accuracy of the information and data cannot be guaranteed.

The Companies
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Views
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Acknowledgments

This *Stock Study Guide* software is a computer-based adaptation of the *Stock Selection Guide* published by the National Association of Investors Corporation("NAIC"). The original version of the *Stock Selection Guide* was created by George Nicholson Jr. who was also instrumental in the formation of NAIC and the World Federation of Investors. I am particularly indebted to Kenneth S. Janke Sr., President & Chief Executive Officer of NAIC, and to Thomas E. O'Hara, Chairman of NAIC for their years of generous encouragement and wise counsel.

I wish to acknowledge and thank several people for their considerable assistance in producing the *Stock Study Guide* software and User's Manual. The process has been arduous and at times torturous, but in the end, a superb team effort produced a very powerful program for discovering the few Great Stocks to buy while rejecting the many Grief Stocks offered in the marketplace.

David Cusson was especially helpful in determining the content of the program's various screens and always provided imaginative suggestions as the program developed. David also made many other significant contributions throughout completion of the project. Oliver Sutherns provided a great deal of very efficient and diligent assistance in the writing, editing and layout of the User's Manual.

Notwithstanding all of our collective creativity and effort, we would still be without our powerful little piece of software if it were not for the exceptional programming talent of Rowan Beasley. Rowan took our vision for the stock study process and turned it into a very fast, robust and user-friendly program in a remarkably short period of time.

Thank you all for a wonderful effort and significant achievement.

John Bart

July 1, 1999

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SECTION 1 – DISCOVERING THE GREAT STOCKS TO BUY

A. The "Great Stock" Strategy

This *Manual* identifies the proven strategy – or plan of action – for obtaining truly superior returns – consistently – from stocks, while minimizing risks over the longer term.

The strategy is the product of a great deal of research and experience by expert educators who are also seasoned investors in common stocks. Furthermore, the strategy has its roots in a set of investment principles that have been proven to provide long term investors with reliable guidance for making investment decisions under all manner of market conditions. These principles were first formulated in 1951 by the U.S.-based National Association of Investment Clubs ("NAIC") and adapted by *ShareOwner* for its educational programs.

The Investing Principles. The proven investing principles for investors to practice in the pursuit of consistently superior returns – with a minimum of risk – are as follows:

Principle #1: Invest regularly, regardless of the market outlook.

Principle #2: Reinvest all gains and earned dividend income.

Principle #3: Invest in growth companies.

Principle #4: Diversify to reduce risk.

The foregoing set of investing principles are great guidelines for deciding how to act during a lifetime of investing in common stocks. Furthermore, the principles lead to a systematic plan of action (an "investing strategy") to guide specific stock selections and purchases. The first component of that strategy is as follows:

> ***To maximize returns and minimize risk, buy only the "Great Stocks" while avoiding the many, many "Grief Stocks" that will be offered to you.***

Despite what some experts say, or would have you believe, it's really quite easy to tell the Great Stocks from the Grief Stocks – when you know what to look for!

But first it's necessary to develop an understanding of the terms Great Stocks and Grief Stocks.

B. "Great Stocks" vs "Grief Stocks"

Generally, a Great Stock has a long history of providing investors with a consistently superior rate of return and solid prospects for continuing to do so during at least the next five years. A Grief Stock has no such record or prospects. Instead, in the past, it has provided long-term investors with relatively low and erratic returns and has little likelihood of significantly improving its performance.

The Fundamentals of Return. The size and consistency of a stock's rate of return is ultimately determined by the extent to which its price increases or decreases after it is purchased.

There is a well-established relationship between growth in a company's share price and growth in two of the company's so-called "fundamentals"; namely, growth in the company's revenues; and, growth in the company's earnings. This relationship is expressed in the following quotation.

The Fundamental Relationship

> " Over the long term:
> Growth in a stock's price
> is driven by
> Growth in the company's earnings
> which is driven by
> Growth in the company's revenues."
> – *Almost Everyone, Everywhere*

The above quote, while hypothetical, reflects a relationship that would be affirmed by almost all stock market theoreticians, portfolio managers, security analysts and gurus.

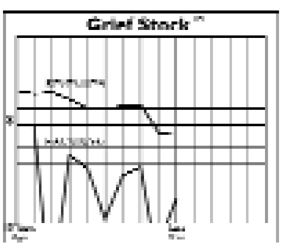
Of course, a stock's price will fluctuate in the short term in response to all sorts of emotions (principally fear and greed) and economic “noise.” But, over the longer term, enduring growth in a company’s revenues and earnings produces an enduring increase in the stock’s price.

Awareness of this fundamental relationship is the key to understanding why the *Guide* is so helpful for identifying Great Stocks and Grief Stocks.

Great Companies and Great Stocks. Great Companies have a long history of generating a high rate of growth in both revenues and earnings – consistently! That is, the management of a Great Company finds or develops products and services with lots of demand. Then management makes and sells these products efficiently to produce profits. The result is a record of revenues and earnings growing at a high rate, consistently, for a long time.

Companies that do not qualify as Great Companies are significantly deficient in one or more of the characteristics of a Great Company. That is, the company’s history of generating revenues and earnings may be short; the growth rates may be generally small; or, the growth rates may be erratic. Any of these characteristics of historical revenue or earnings growth can cause a company to be denied the “Great” label.

When the shares of a Great Company are trading at a sufficiently low price to provide a suitably high rate of return over the next five years with minimum risk, you have a Great Stock. The typical history of revenue and earnings growth that are characteristic of Great Stocks and Grief Stocks are illustrated below.



C. Implementing the "Great Stock" Strategy

The essential requirement for implementing the strategy of buying only Great Stocks is a stock study tool that empowers you to readily identify and distinguish between a Great Stock and a Grief Stock.

This Section of the *Manual* teaches you how to use the *Stock Study Guide* computer program to readily discover the few Great Stocks worth buying and the many, many more Grief Stocks that must be avoided in order to earn consistently superior returns with a minimum of risk.

The *Stock Study Guide* computer program is based upon the printed *"Stock Selection Guide"* first developed by the late George Nicholson Jr. of Detroit in the early 1940s for use by his investment club. When George helped form NAIC in 1951, his pioneering work was incorporated into its educational programs. Today, George's stock analysis tools (in various adaptations) are used by hundreds of thousands of investors in North America and Europe.

In 1987, Canadian ShareOwners Association and *ShareOwner* magazine adapted George's work for their educational programs. The *Stock Study Guide* computer program (hereafter the *"Guide"*) reflects the adaptation and incorporates an intuitive, sequential process for identifying Great Stocks and Grief Stocks.

Evidence of the *Guide*'s power in helping to identify Great Stocks that provide consistently superior returns over the longer term is available in the Table of Contents page of each issue of *ShareOwner* magazine. There, the returns from the magazine's cover stocks – after being featured as "Stocks to Study" – are compared to the TSE 300 Index.

The *Stock Study Guide's* 5-Step Process
Investors use the *Guide* to quickly and easily assign the "Great" or "Grief" label to a stock that comes to their attention from any number of sources (eg. friends, brokers, the print and electronic media, chat rooms on the Internet, etc.).

The process for assigning one or the other label is quite direct. First you study the company's revenues, then its earnings, then its market price, then its rate of return and then its risk. At each step of this process you test history and prospects for "greatness" or "grief".

Step #1 – "Great Revenues?" Screen
The "Great Revenues?" screen provides a chart of a company's historical revenues so that you can see if its "Profile" reflects a long history of consistent growth at a high rate. Then you study the company's prospects for continuing to grow revenues. Finally, you make a judgment about the likely growth rate for revenues during the next five years. Based on that growth rate, the *Guide* automatically calculates an estimate of revenues for the current year and for five years in the future.

Step #2 – "Great Earnings?" Screen
The "Great Earnings?" screen lets you study the company's historical earnings to see if their Profile reflects a long history of consistent growth at a high rate. Then you study the company's prospects for continuing to grow earnings. Finally, you make a judgment about the likely growth rate for earnings during the next five years. Based on that growth rate, the *Guide* automatically calculates an estimate of earnings for the current year and for five years in the future.

A Great Company has both Great Revenues and Great Earnings.

After discovering a Great Company, your next interest is determining if its stock is currently trading at a Great Price.

Please note that if a company does not qualify as a Great Company then there is little reason to pursue studying it any further. In particular, you would have no interest in determining whether or not the company was trading at an attractive price. Instead, you would use your valuable stock study time to seek out another company to study.

Step #3 – "Great Price?" Screen
The "Great Price?" screen lets you study the stock's recent price in relation to the company's earnings to determine if the recent price for $1 of earnings is "low" or "high" in relation to historical prices for $1 of earnings. A relatively low price for $1 of earnings suggests a Great Price.

Next the *Guide* provides you with the opportunity to estimate the price for $1 of the company's earnings in five years.

Step #4 – "Great Return?" Screen
The "Great Return?" screen provides an estimate of the stock's price in five years and the related rate of return. This return reflects both the potential for capital gains as well as dividend income. A relatively high rate of return, generally 15% or greater, suggests a Great Return.

Step #5 – "Great Risk?" Screen
The "Great Risk?" screen provides you with the opportunity to estimate the stock's potential for a price decline. The *Guide* then compares that "downside risk" to the "upside reward" of the stock's price increasing during the next five years. A reward-risk ratio of less than three suggests Great Risk.

Overview
These are the five, intuitive steps of the *Guide*'s stock-study process for identifying Great Stocks.

A Great Stock is from a company with Great Revenue and Earnings Profiles, trading at a Great Price, with a potentially Great Return – but without great risk.

A summary measure of the attractiveness of a stock's recent price is available in the “Great Risk?” screen which calculates a “Buy Zone” for the stock. A Great Stock is typically in the Buy Zone.

In addition, the *Guide* contains a Summary Screen where all the key data and your judgments are available.

Section 2 – Getting Started

A. Installation Requirements

Minimum Requirements	
Processor:	Pentium 166 Mhz
Memory:	32 Mb RAM
Monitor:	SVGA or Better
Resolution:	800 x 600 (higher resolution will alter screen display and printing)
Colour Settings:	True Colour (24 bit)
Hard Drive Storage:	100 Mb
Operating System:	Windows 9x/NT/2000/ME/XP
CD-ROM:	2x or higher

B. Installation Instructions

Please begin to install the *Stock Study Guide* program by inserting the CD-ROM into your computer's CD-ROM Drive.

To activate the installation program, click on the Windows Start menu in the lower left corner of your screen.

Click on the Run option.

Type D:\ SETUP.EXE then click OK.*

*Note: Most computers have D:\ as their CD-ROM drive; however, if you have multiple hard drives or other added peripherals your CD-ROM may be E:\ or F:\ etc. Please make the appropriate substitutions to the above instruction.

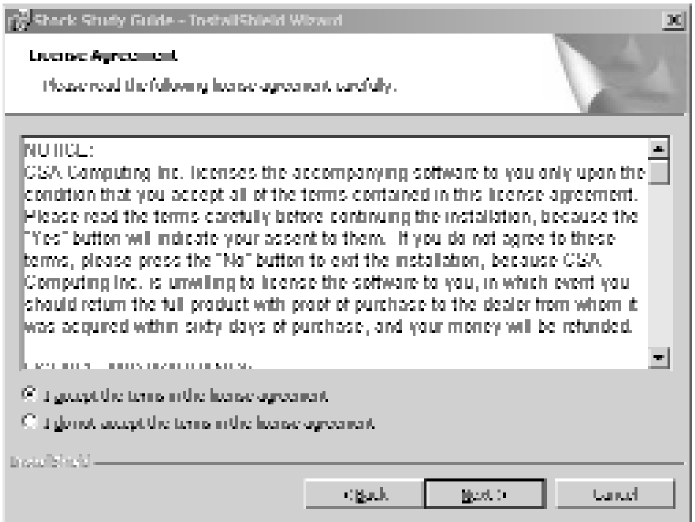
The installation program's Wizard now walks you through several screens that make the program available and your files easily accessible. You proceed through these screens by clicking as required on the "Next" or "Yes" buttons at the bottom of each screen.

The screens are:

(1) **"Welcome" screen.**

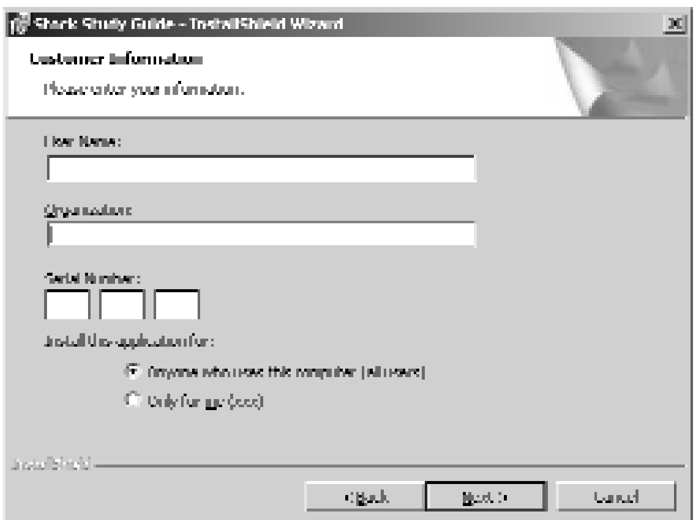
Click on "Next" to Proceed.

(2) **The Software License Agreement.** After reading the agreement click on the Yes button if you agree to adhere to the license and the installation will proceed; or, click on the No button if you do not wish to agree to the license and the installation will be cancelled.



Click on "Yes" if you agree.

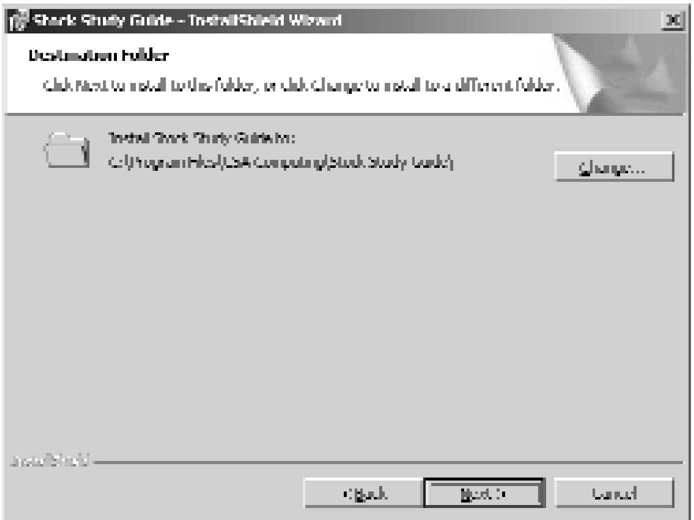
(3) **The "User Information" Screen.** Please enter the required information. Please note that the serial number for your copy of the program is located on the back cover of your *Guide Manual*. The installation will not proceed without a valid license number.



Click on "Next" to Proceed.

(4) **Choose Destination Location.** This screen displays the name of the directory that the installation program creates on your hard drive ("*Stock Study Guide*"). The path that the installation directory sets up is:

C:\Program Files\CSAComputing*Stock Study Guide*.



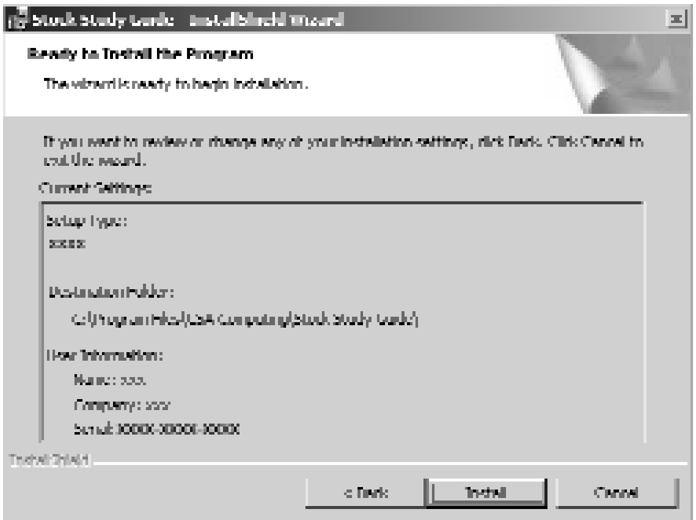
Click on "Next" to proceed.

The *Stock Study Guide* directory will contain: (1) the files for the *Guide* program; (2) the sample data file that is used throughout this *Manual* to demonstrate studying a stock; and, (3) a subdirectory containing 20 more data files of prominent companies for you to use when exploring the program's many features.

You may store the program in a different drive or directory by clicking on the Browse button and making a choice. To accept the default (or to activate your changed path) click on the "Next" button.

(5) **Start Copying Files.** This screen summarizes the information that you provide to the Wizard. If any of this information looks incorrect, you may navigate back to the applicable screen by clicking on the Back button.

Otherwise, click the "Next" button and the next screen will appear indicating that the installation process is underway.



Click on "Next" to Proceed.

After the *Guide* software has been installed completely, you will be prompted to restart your computer. It is recommended that you do so.

Congratulations, your installation of the *Guide* Software is complete!

SECTION 3 – USER LEVEL: INTRODUCTORY ANALYSIS

A. Introduction

The following material is intended to walk the user through the sequential process for thoroughly studying a stock's merit as an investment. That is:

1. First you review a company's history of growing its revenues; then you make your best judgment about the revenue growth rate during the next five years.

2. Next you review a company's history of growing its Earnings per Share ("EPS"); then you make your best judgment about the EPS growth rate during the next five years.

3. Next you review the history of the prices that have been paid for $1 of the company's EPS; then you make your best judgment about the price that investors will pay for $1 of the company's EPS in five years.

4. Next you identify the potential reward (and rate of return) from owning the stock during the next five years.

5. Last, you make your best judgment about the stock's risk – based on a low price for the stock during the next five years; then you compare that risk to the earlier-projected reward.

Please note that at the Introductory Level, only a minimum of attention is given to the art and science of developing judgments about a company's future growth rates, prices, P/E Ratios, etc. At this Level, users of the *Guide* will generally employ judgments based upon some sort of extrapolation of past performance into the future. More meaningful judgments will be possible with the additional information and analysis provided at the *Guide*'s Intermediate Level (Section 4 of this Manual) and at the *Guide*'s Advanced Level (Section 5).

So for now, users of the *Guide* should focus on learning the basic, sequential process for studying a stock's investment merit.

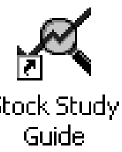
Sample Inc. For convenience the material discussed in this Section refers to a specific company called "Sample Inc." and its ".ssg" data file called "SAMP.ssg. That .ssg file was loaded into the *Guide*'s program and can be accessed through the File/Open option available through the main menu.

Please note that Appendix B contains instructions for studying a company by key-entering data directly into the *Guide*'s various data screens rather than by loading a .ssg file.

B. Studying The "Sample Company"

A quick understanding of the *Guide*'s process for studying a stock is available from the illustrative study of a specific stock (Sample Inc.) contained in this Section and those that follow. The illustrative study is based upon a set of company data contained in a .ssg file ("samp.ssg") in the *Guide*'s directory (created by the installation Wizard during the installation process).

To begin your study of the Sample Company, double click on the *Guide*'s icon that is available on your computer's "Desktop."



Please note that – upon start up – the *Guide* operates at the "Introductory Level" of data and analysis. It is recommended that you master this Introductory Level before operating the *Guide* at the Intermediate Level or Advanced Level. Accordingly, the material in this Section of the Manual is based solely on Introductory functionality. Sections 4 & 5 of the Manual discuss the *Guide*'s functionality at the Intermediate and Advanced Levels.

Next, click on "File" and then on "Open" and you will be presented with the "Open" window for the contents of the *Guide*'s directory.

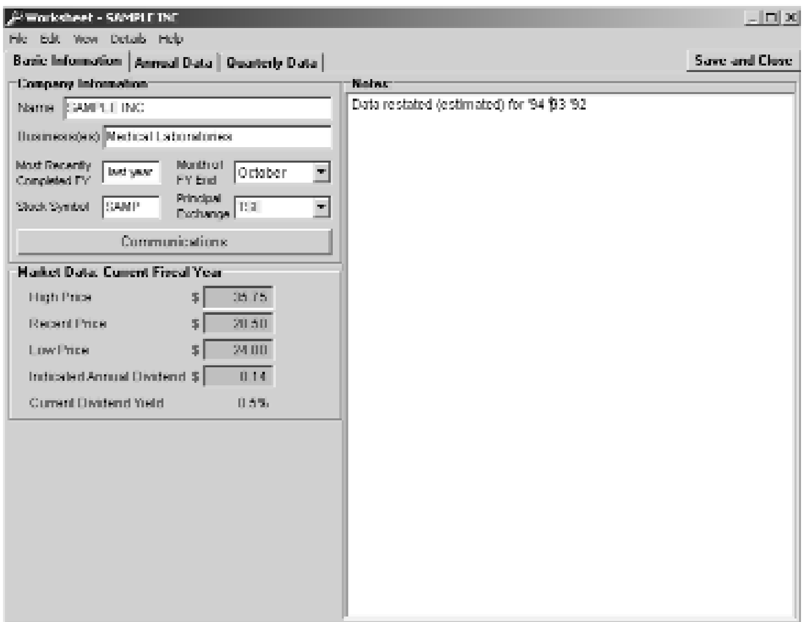
Click once on the file named "Samp.ssg" and then on the "Open" button and you will be presented with the "Worksheet" for Sample Inc.

C. The Worksheet

When the *Guide* is launched at the Introductory Level, you are presented with the "Worksheet" – a window with three tabs. These tabs are "Basic Information," "Annual Data" and "Quarterly Data."

1. "Basic Information" Screen

This screen contains basic information about Sample Inc. and market data about its shares. You are presented with this screen to give you the opportunity to ensure that the information and data are accurate. In particular, you will wish to update the data about the stock's market price and annual dividend.



Company Information.
"Most Recently Completed FY." This field identifies the latest, complete fiscal year ("FY") for which financial statement data have been reported by Sample Inc.

“Month of FY End.” This field identifies the month in which Sample Inc.'s fiscal year ends. This month serves as a benchmark date for anticipating the availability of the company's press releases that report its results for the complete fiscal year and fiscal quarters.

While the fiscal year for most companies corresponds with the calendar year (December 31); some companies have fiscal years ending in other months. Sample Inc. is one of those companies with an October 31 year end. This means that its fiscal year spans from November 1 to October 31 of the following year.

Market Data: Current Fiscal Year
“Recent Price.” Typically, the most recent price available to you from the latest newspaper listings or one of the internet portals such as Yahoo.

The recent price and all other market prices used in this program are from the principal stock exchange on which the company's shares are traded.

If you assume that today's date is September 15 and the Recent Price of $28.50 is today's closing price for Sample Inc.

“High” and “Low” Prices. These data are for the company's fiscal year that is in progress. For Sample Inc. the High and Low prices are for the period beginning with the start of the current fiscal year (last November 1) until today (September 15).

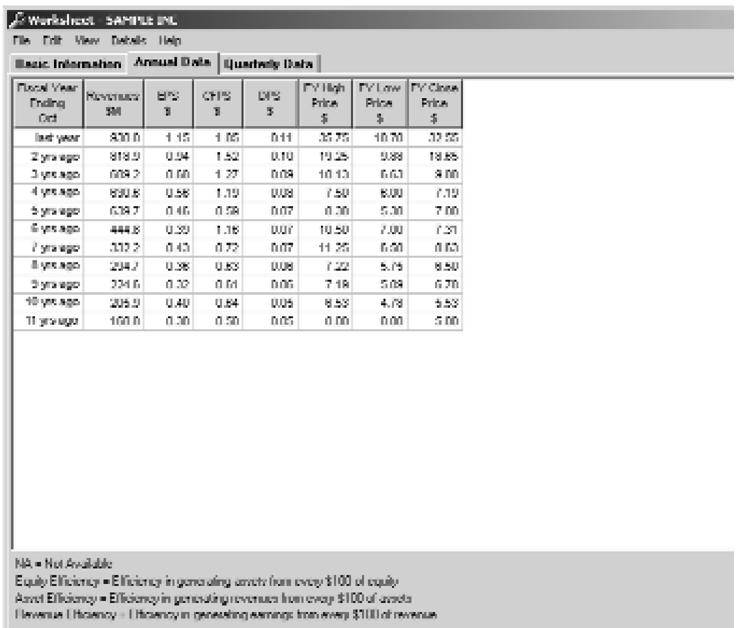
“Indicated Annual Dividend.” This is the total cash dividends (in dollars) expected to be declared payable to shareowners as a result of Sample Inc.'s operations during the current fiscal year (last November 1st to the upcoming October 31st).

"Notes." This area on the right-hand side of the Basic Information screen is available for recording any notes that you wish to make about your analysis of Sample Inc. These notes may also be made at any time during your study of Sample Inc. through the View/Notes menu item.

Notes may also be present in datafiles obtained from *Canadian ShareOwner* (see Appendix B).

2. "Annual Data" Screen

The intuitive process followed by the *Guide* to study Sample Inc's merits as an investment begins with an analysis of the company's historical record of growth in annual revenues and earnings per share ("EPS").



The data used in this historical analysis are contained in the "Annual Data" screen which can be viewed by clicking on the tab labeled "Annual Data." This tab is located immediately to the right of the Basic Information tab.

The “Annual Data” screen lists data for up to 11 fiscal years (depending upon availability). You can move the cursor throughout these data items by using:

(1) the arrow keys to move left/right/up/down; or,
(2) the mouse to point and click on the data item of interest.

To edit one of these data items, simply go to the cell in question and enter the new number in the cell; then press Enter or move off the cell with an arrow key.

Revenues ($ millions). The revenue data generally include the total of cash and other considerations received by the company from the sale of goods and the rendering of services. Industry practice typically varies with respect to reporting “gross revenues” or “revenues net” of various taxes, royalties, returns etc. The numbers reported in .ssg files generally reflect the convention practiced in the company's industry.

Earnings Per Share (“EPS”) ($). The EPS data are “fully-diluted” EPS. These EPS are calculated by the company on the assumption that any and all convertible securities are converted into common shares and that any and all outstanding rights, warrants, options and other contingent share issues are exercised.

The EPS data are generally before any extraordinary items, discontinued operations or unusual items.

Dividend Per Share (“DPS”) ($). The cash distributed by the company each fiscal year to its shareholders.

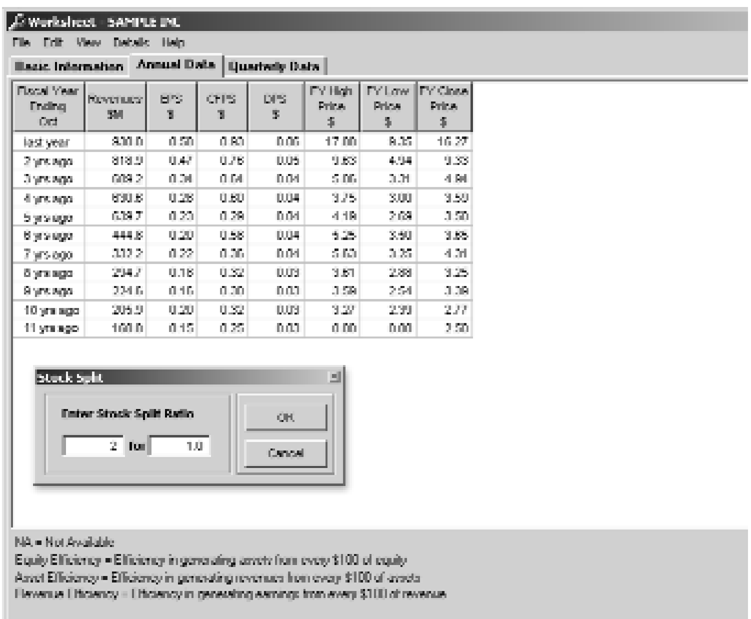
Fiscal Year High, Low and Close Stock Prices ($). The high price and the low price for the company's stock on its principal stock exchange during each fiscal year.

Add or Remove One Year of Data

You can add a new year of data to the analysis simply by accessing the "Details" menu item and selecting the "Add Year" option. This feature is particularly handy when updating your study of a company based upon a press release reporting the company's results for a recently-completed fiscal year. Similarly, you can remove the oldest year of data from the analysis through the "Remove Year" option.

Adjust Per Share Data for Stock Splits & Stock Dividends

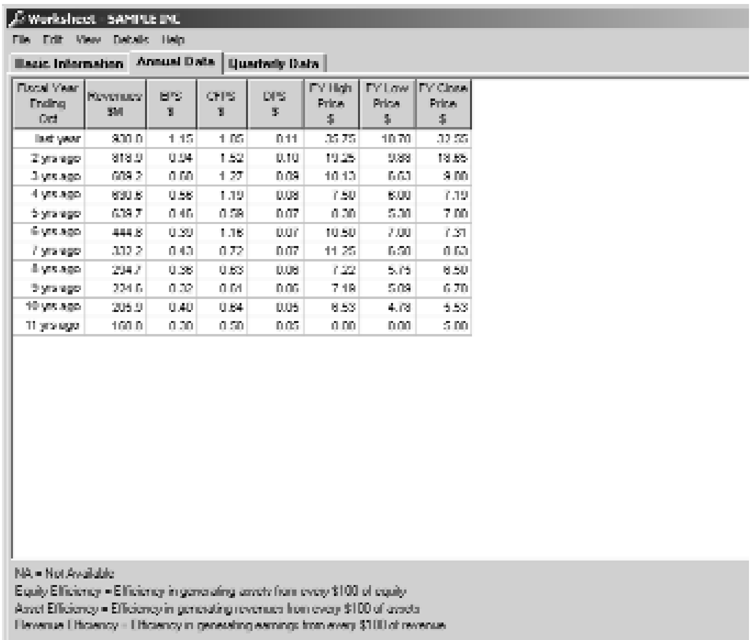
When a company "splits" its stock (e.g. **2 -for-1, 3-for-2, etc.**) all data for prior fiscal periods – that are reported on a "per share" basis (e.g. earnings, dividends, share price, etc.) – must be adjusted to reflect the stock split. The *Guide* lets you make this adjustment easily through the "Details" item in the menu for the Worksheet screens. The screens below illustrate the effect of a 2-for-1 stock split on the data in Sample Inc.'s "Annual Data" screen.



Also note that when a company declares a "stock dividend" you must also adjust any company data reported on a per share basis. For example a 10% stock dividend is the equivalent of a 1.1-for-1 stock split.

3. "Quarterly Data" Screen

To complete the study of a company's revenues and EPS, the *Guide*'s program also has the capacity to analyze historical growth in the company's quarterly revenues and EPS.



The quarterly data for this analysis are contained in the "Quarterly Data" screen which can be viewed by clicking on the tab labeled "Quarterly Data." This tab is located immediately to the right of the "Annual Data" tab.

Note that this screen lists quarterly revenue and EPS data for up to 16 fiscal quarters (depending upon availability). You can move the cursor throughout these quarterly data using the same procedures as discussed for annual data.

Add or Remove One Quarter of Data
This functionality is accessed through the Details menu item. Please see above discussion of “Annual Data” screen.

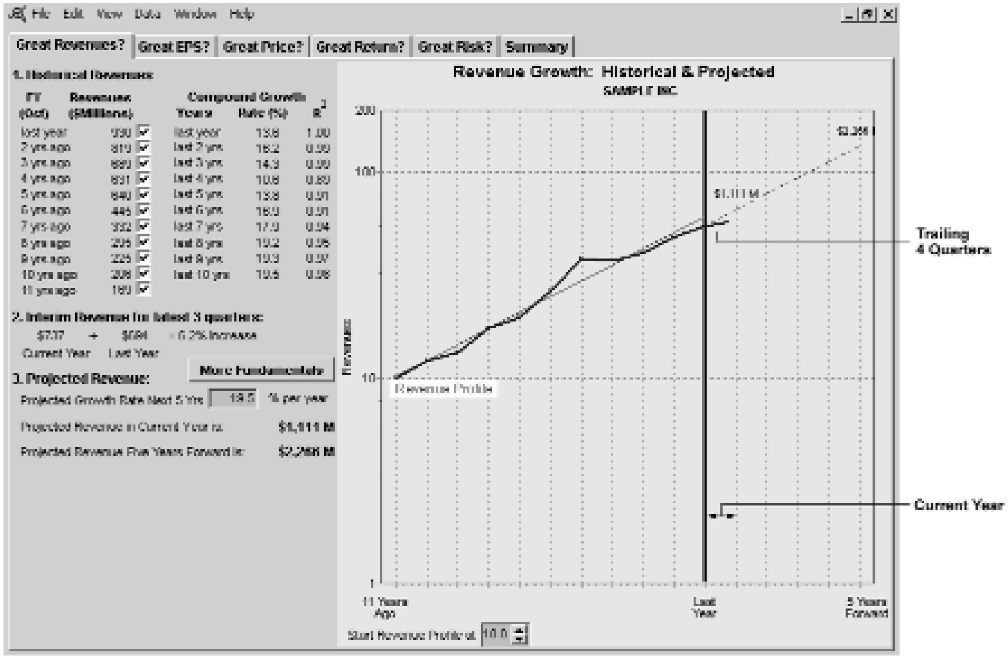
Summary
Following your review and update of the “Worksheet” screens you can move the analysis forward by clicking on the ‘Save & Close’ in the upper right corner of the Worksheet. This action closes the Worksheet and takes you to the “Great Revenues?” screen where an analysis of the company's record of growing its revenues is available.

D. The "Great Revenues?" Screen

After updating the stock's recent market price in the "Worksheet" screen, the *Guide* begins to walk you through the process for discovering a Great Stock. The first step in that process is an analysis of the company's historical revenues to see if they merit being described as Great Revenues. Generally, Great Revenues are evident when a company has a long history of growing revenues at a high rate, consistently from year-to-year and strong prospects for continuing to do so during the next five years.

The history of a company's revenues is easily available from the Revenue Profile presented on the *Guide*'s "Great Revenues?" screen. Great Revenues are reflected in a Revenue Profile that is long, steep and straight.

The Revenue Profile for Sample Inc. is presented below along with details about the information contained on the "Great Revenues?" screen. Together, the Profile and its related information help you decide if a company has Great Revenues.



The following material describes the important features and use of the information contained in the "Great Revenues?" screen.

1. Location of the Revenue Profile

Observe the "Revenue Profile" plotted on the "Growth Chart." The Y axis of the Growth Chart is a semi-logarithmic (or ratio) scale. There is no linear correlation between the actual revenue data and the 1, 10, 100, 200 scale. The profile is the result of a mathematical calculation that allows the company's growth to be plotted.

The company's historical, annual revenue data (Section 1 of the screen) are plotted on, and to the left of, the thick vertical line (labeled "Last Year").

Furthermore, the revenue data have been plotted so that the Revenue Profile begins at the intersection of the horizontal line labeled “10” and the vertical line labeled “11 Years Ago.”

Any revenue number may be added or removed from the analysis by clicking on the “check box” adjacent to the number.

The company's trailing four quarters of revenue for the current year are plotted immediately to the right of Last Year's vertical line.

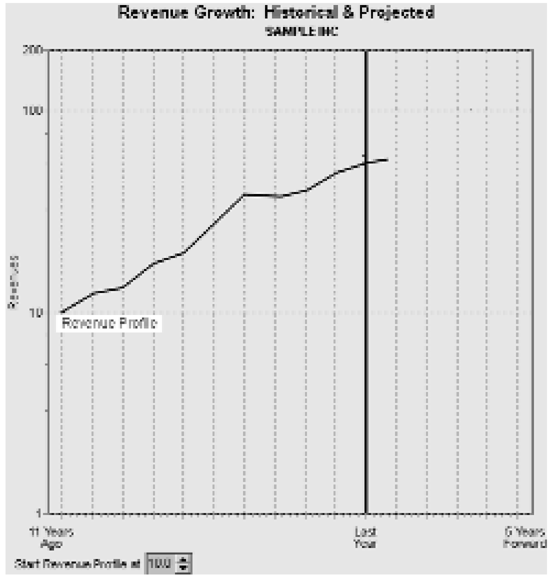
Changing the Location of the Revenue Profile
Sometimes, the historical growth rate for revenues is so large (and the Revenue Profile so steep) that not all of the data is visible on the Growth Chart.

By changing the value in the “Start Revenue Profile at” box (located beneath the Growth Chart), you can relocate the Revenue Profile towards the top or bottom of the Chart so that all of the revenue data can be seen. Change the value in the “Start Revenue Profile at” box by clicking on the ▲ and ▼ arrows or by key-entering values in the box povided.

There is no need to start the Sample Inc. Revenue Profile at any value other than the default “10.”

2. Character of the Revenue Profile
You should next observe that the Revenue Profile for the historical period is (i) long, (ii) quite steep; and, (iii) quite straight. Revenue Profiles with these characteristics are typical of Great Companies.

Note that 11 years of data include only 10 growth periods.



(1) Long
The Revenue Profile of a Great Company is long. Most prudent investors want to see that a company has been growing revenues for at least five years before giving consideration to buying a stock.

(2) Steep
The Revenue Profile of a Great Company is steep and rising from left to right. The steeper the line, the faster the growth rate.

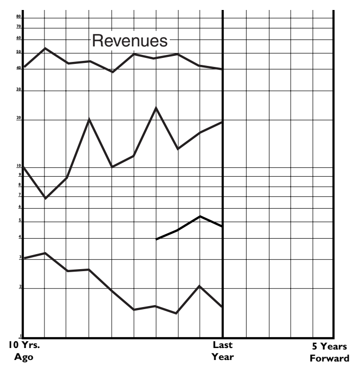
Great revenue growth rates start around 5-10% (for large companies in mature industries) and go up to 25%+ (for small companies in emerging industries).

(3) Straight
The Revenue Profile of a Great Company is quite straight. The straighter the profile, the more consistent the revenue growth.

These characteristics of the company's Revenue Profile support the view that, historically, the company has had Great Revenues.

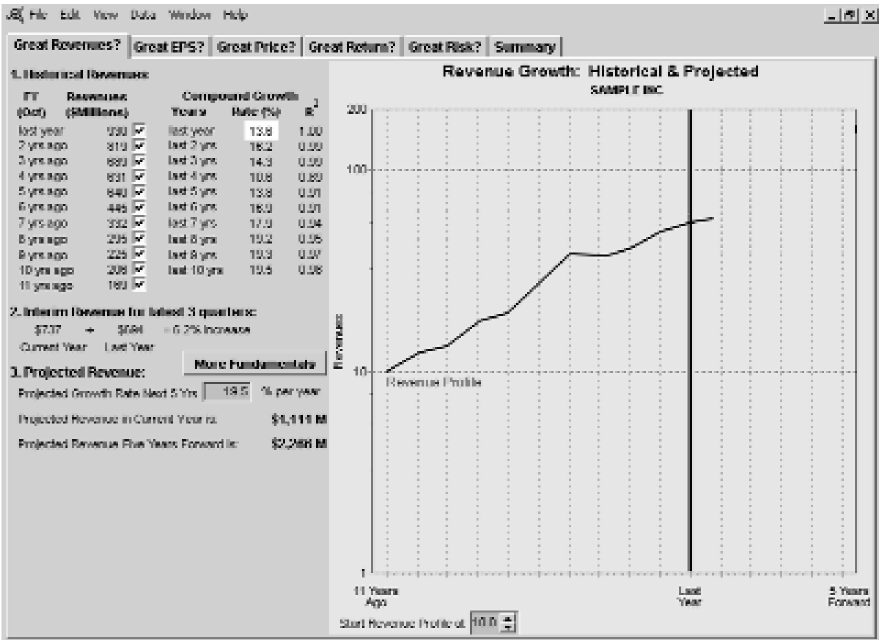
"Grief" Revenue Profiles

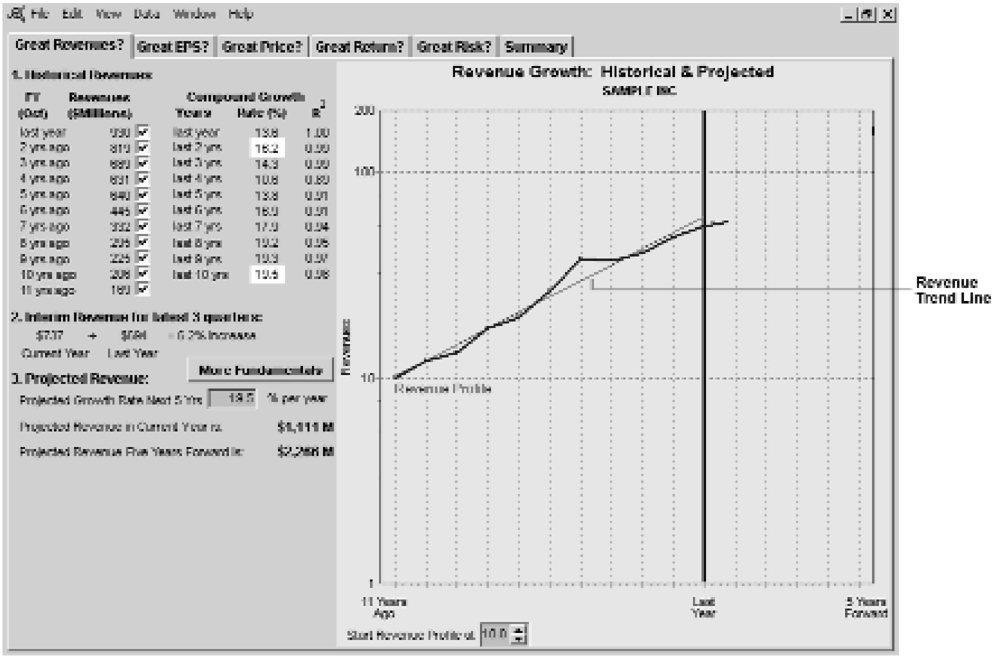
Companies with "Grief" Revenue Profiles are fairly easy to spot. The Profiles are often short (less than 5 years long), flat, choppy or they trend down to the right. These are the stocks that most private investors want to avoid. The accompanying illustration provides examples of what some Grief Revenue Profiles look like.



3. Reading the Compound Growth Table

The Compound Growth table in Section 1 of the screen reports the compound rate of growth in revenues for up to 10 consecutive years. For example, the top line of the table reports the growth rate for the most recent one year of growth; namely, 13.6%. This growth rate is derived from revenues two years ago ($819 million) and last year's revenues ($930 million).





The second line in the Compound Growth table reports the growth rate during the last 2 years at an average compound rate of 16.2% per year. (ie. growth from $689 million to $930 million).

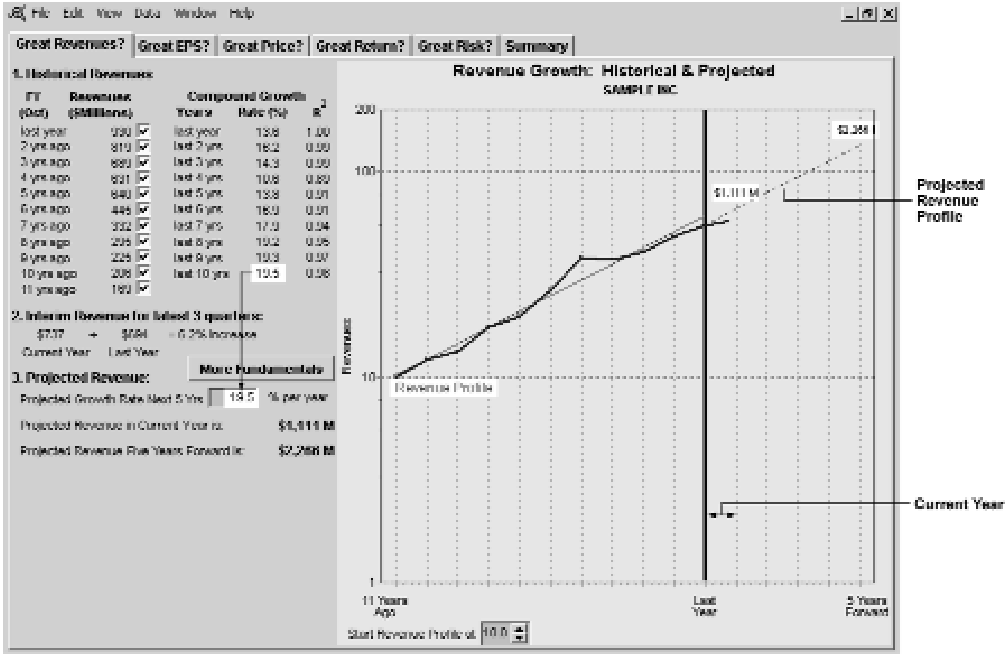
The bottom line in the Compound Growth table reports the average compound growth rate for the entire 10 years of the study period; namely, 19.5% per year.

Note that all growth rates are calculated from the slope of the least-squares regression lines drawn through the applicable set of revenue data. This straight, red line on the Growth Chart is referred to as the "Revenue Trend Line" and represents the longest study period available from the revenue data.

The Quality Statistic
Accompanying each revenue growth rate is the R^2 (pronounced "R squared") statistic which is referred to more simply as the "Quality Statistic." This statistic is used for describing the "straightness" of a Revenue Profile.

The Quality Statistic is available from the regression analysis. The maximum value for the Statistic is 1.00 – when the data all line up and form virtually a straight line. When there is no linear relationship in the data at all, the Statistic has a value of 0. Generally, values for the Quality Statistic between 0.90 – 1.00 indicate very consistent growth.

4. The "Default" Projected Revenue Profile: The Next Five Years
The dotted line extending from last year's revenues ($930 million) is the "Projected Revenue Profile" for the next five years. This Projected Profile results from projecting Sample Inc. revenues to grow at the average growth rate during the last 10 years; namely, 19.5%.



The resulting estimates of Sample Inc.'s revenues for the current year and in five years are $1,111M and $2,266M, respectively. These values are recorded on the Growth Chart and in Section 3 of the screen. Of course, every investor must make his or her own judgments about a company's future revenue growth rate.

5. Your Own Revenue Growth Projection

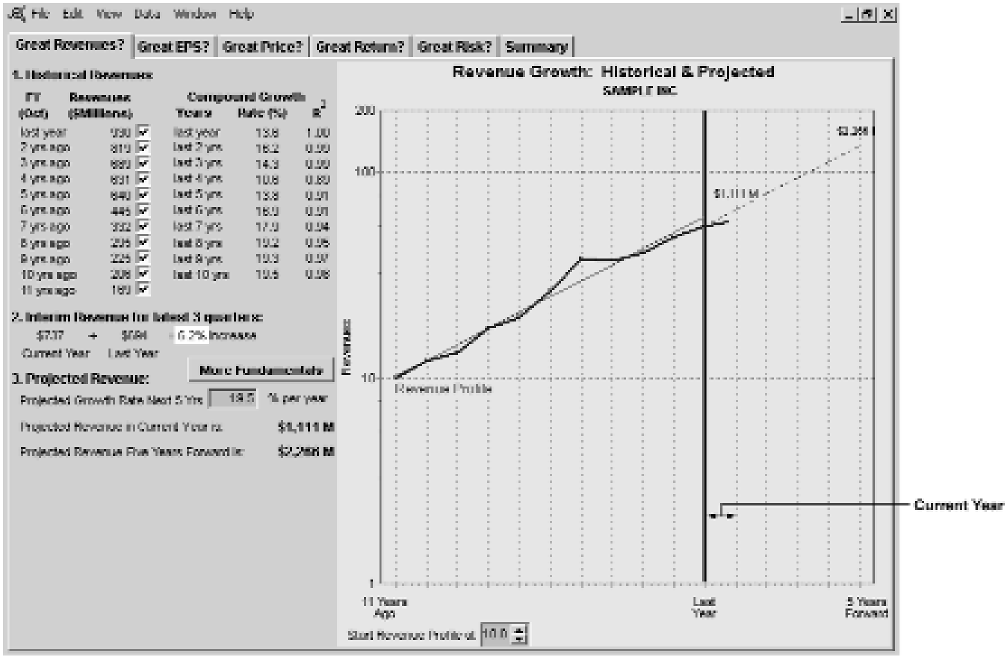
At this stage in the process of studying a stock, you decide, for the first time, whether or not to continue with the study. If the historical Revenue Profile looks like that of a Great Company, you continue your study; if it doesn't, you don't.

The Sample Inc. Revenue Profile looks like that of a Great Company (i.e. it's long, steep and straight) so you would continue your analysis of the company's revenue history and develop a judgment about the future rate of growth in revenues.

Please Note: There is no definitive process or set of information to consult when developing a judgment about a company's future revenue growth. The information available at the *Guide*'s Introductory Level is described below and more information and analysis is available at the *Guide*'s Advanced Level. As well, the publication *Discover the Great Stocks to Buy* provides further discussion and lots of illustrations for developing judgments about future revenue growth.

Introductory Level Judgment
To begin developing a judgment about the future rate of revenue growth for Sample Inc. you would review the data in the Compound Growth table and note that revenue growth rate had generally declined from 19.5% to 13.6% during the study period.

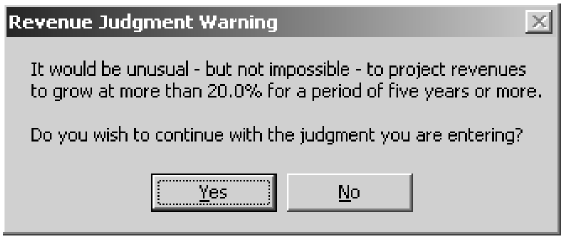
You would also review the "Interim Revenue" data in Section 2 of the screen and note that for the first three quarters of the current year, revenues were up 6.2% over revenues during the first three quarters Last Year.



Guideline for Revenue Growth. A general Guideline is provided to assist you in developing a reasonable judgment for a company's future growth in revenues.

> ***It would be unusual – but not impossible – to project revenues to grow at more than 20% for a period of five years or more.***

Note that the Program emits a warning message whenever the default, projected revenue growth rate exceeds 20%, or whenever the user enters a number greater than “20” in the Projected Revenue Growth Rate field.



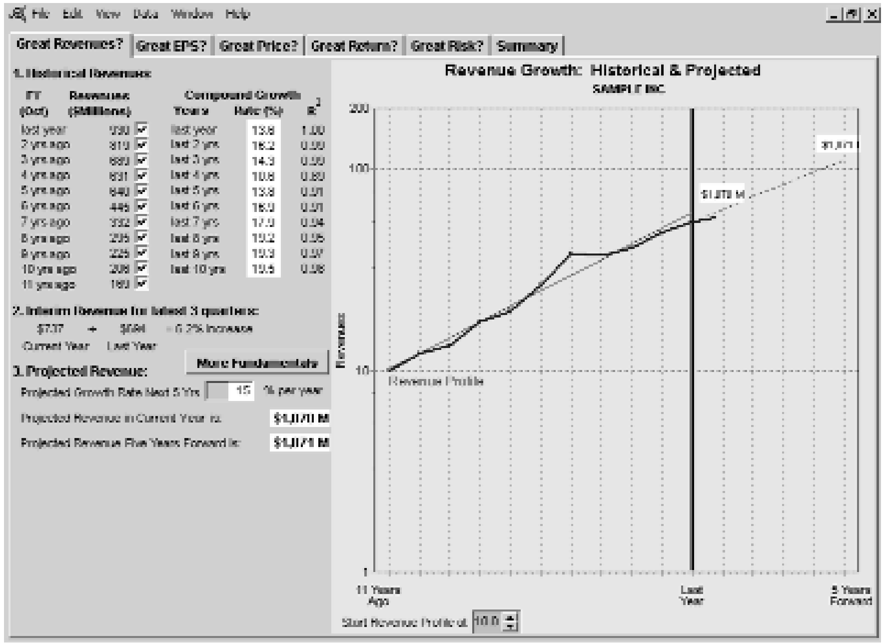
For illustrative purposes, the judgment was made to project Sample Inc.'s revenues to grow during the next five years at an average compound rate of about 15% per year. This rate is somewhat lower than the average annual growth rate during the last 10 years; somewhat higher than recent annual growth; and, quite a bit higher than recent quarterly growth in revenues.

In effect, this illustrative judgment projects revenues to continue their historically strong growth into the future. It should be noted that another investor, using the same limited information as available here, could arrive at a significantly different judgment about the company's future revenue growth rate.

The wisdom reflected in a judgment about a company's revenue growth will become evident during the next five years. Typically, the skill with which you generate judgments about future revenue growth and your level of comfort with the process will increase with practice.

To effect this judgment, "left click" on the highlighted data-entry box labeled "Projected Revenue Growth Rate Next 5 Yrs" and type in the number 15.

Be sure to "right click" on the data-entry box to view other functionality available in data-entry boxes throughout all of the *Guide*'s screens.



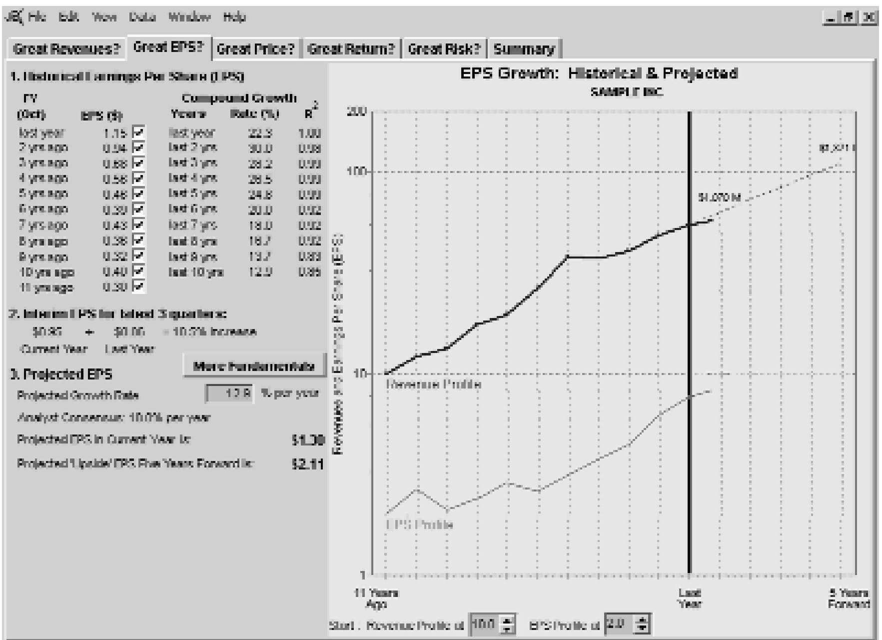
6. Excluding Revenue Data From the Calculated Growth Rate
You can remove any year of Revenue data from the analysis by "unchecking" the "check box" adjacent to each Revenue number.

Please proceed to studying the company's growth in Earnings per Share ("EPS") by clicking on the "Great EPS?" tab at the top of the screen.

E. The "Great EPS?" Screen

After finding a company with a Great Revenue Profile, the *Guide*'s process for discovering a Great Stock continues by focusing on the company's earnings per share ("EPS"). Now the *Guide*'s analysis focuses on the company's historical EPS to see if they merit being described as Great EPS. As with revenues, Great EPS are generally evident when a company has a long history of growing EPS at a high rate, consistently from year-to-year. That is, Great EPS are reflected in an EPS Profile that is long, steep and straight.

The EPS Profile for Sample Inc. and related information are presented below. Together, the EPS Profile and its related information help you decide if a company has Great EPS.

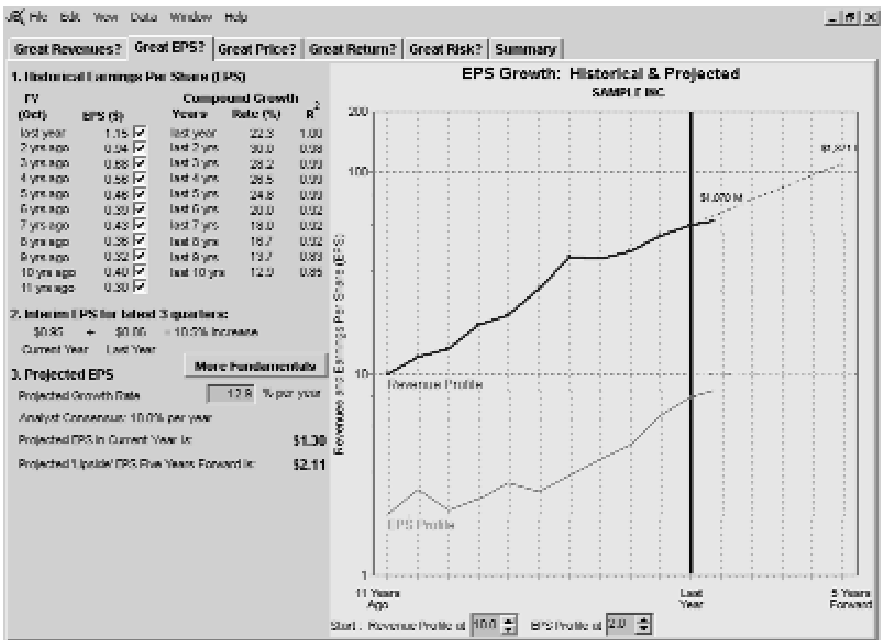


The following material describes the important features and use of the information contained in the 'Great EPS?" screen.

1. Location of the EPS Profile
The historical EPS data have been plotted so that the EPS Profile begins at the intersection of the horizontal line labeled "2" and the vertical line, labeled 11 Years Ago.

Note that any EPS number may be removed from the analysis by clicking on the "check box" adjacent to the number.

Changing the Location of the EPS Profile
You can relocate the EPS Profile by changing the value in the "Start:...EPS Profile at" box. Generally, you prefer to have the EPS Profile located lower on the Growth Chart than the Revenue Profile.



2. Character of the EPS Profile

The EPS Profile of a Great Company has the same characteristics as a Great Revenue Profile. That is, a Great EPS Profile is long, steep and straight.

Furthermore, the EPS Profile (and growth rate) of a Great Company generally tracks its Revenue Profile (and growth rate).

You can observe that the EPS Profile for Sample Inc. is somewhat 'choppy' during the oldest part of the study period beginning 11 years ago and continuing for about five years (two of the five years were 'down' years). Choppiness is typically associated with low quality growth.

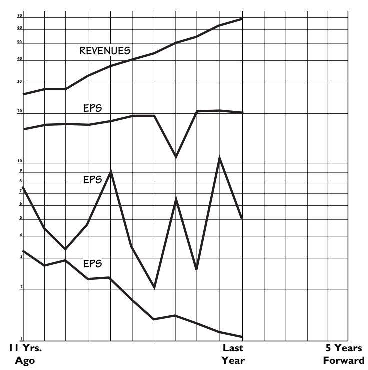
In addition, the EPS growth during this period was slower (i.e. less steep) than revenue growth.

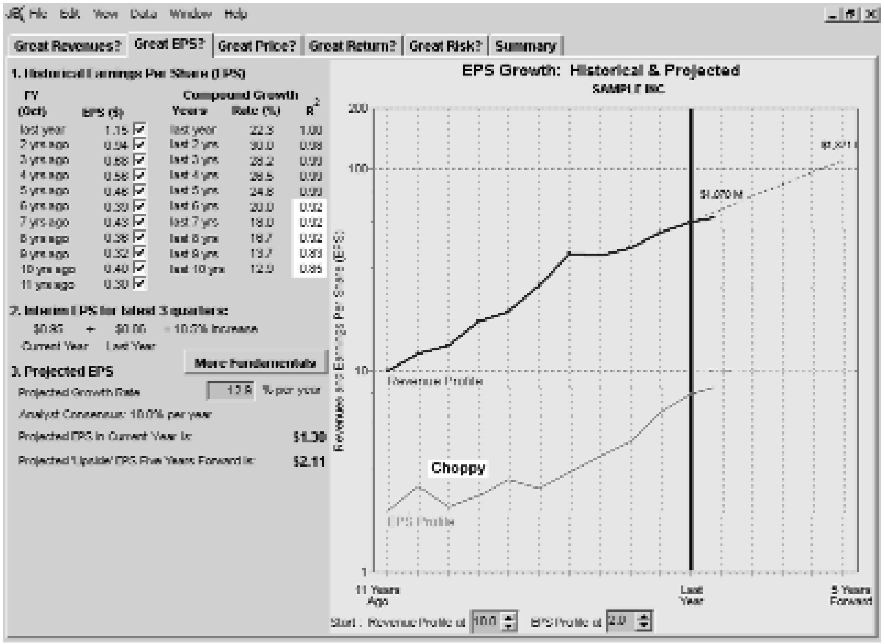
However, during the last five years, the EPS Profile has become (i) quite steep; and, (ii) quite straight. Furthermore, EPS growth has been significantly faster (i.e. steeper) than revenue growth.

During the last five years Sample Inc. has had an EPS Profile that is typical of a Great Company. The choppiness in its earlier EPS record has been replaced with a consistently high rate of growth.

"Grief" EPS Profiles

Companies with "Grief" EPS Profiles are also fairly easy to spot. The profiles are flatter (less steep) than the Revenue Profile; choppy or they trend down to the right. The accompanying illustration provides examples of what some Grief EPS Profiles look like.

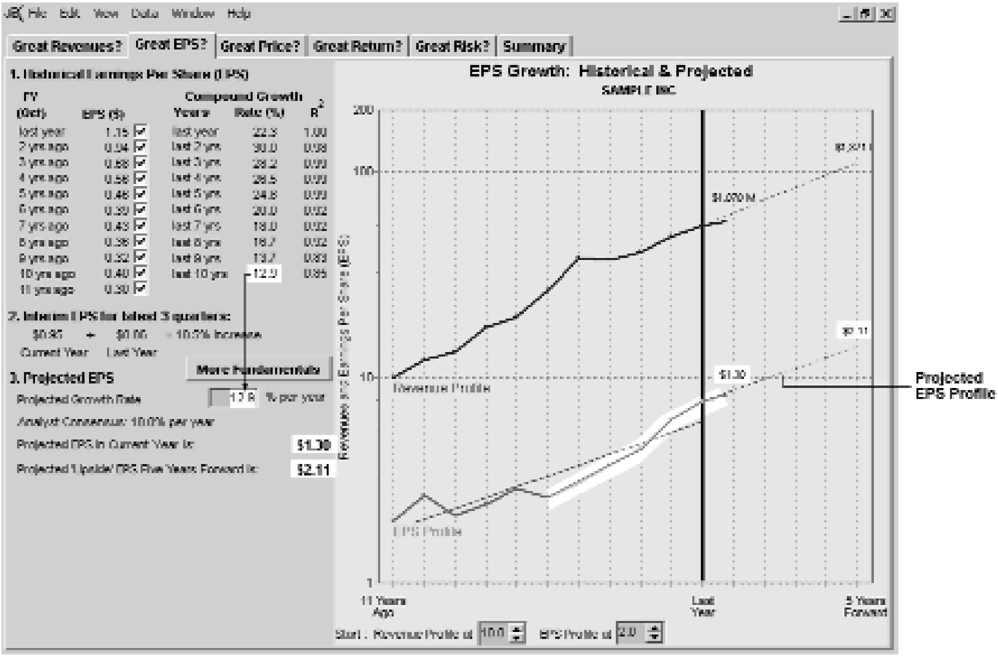




3. Reading the Compound Growth Table.
The data in the "Compound Growth" Table report the compound rate of growth in EPS for the last 10 consecutive years along with the quality statistic R^2 for each period.

The "choppiness" of the EPS Profile is reflected in the low R^2 values ranging from 0.83 to 0.92 (6 to 10 years ago). Note that the recent straightness of the EPS Profile is reflected in the very high R^2 values for the last five years of growth.

4. The "Default" Projected EPS Profile: The Next Five Years.
The dotted line extending from last year's EPS ($1.15) is the projected EPS Profile for the next five years. This Profile results from projecting the company's EPS to grow at the average, growth rate during the last 10 years; namely 12.9%. This growth rate results in estimates for Sample Inc.'s EPS for the current year and in 5 years of $1.30 and $2.11, respectively.



5. Your Own EPS Growth Projection

At this stage in the process of studying a stock, you decide, for the second time, whether or not to continue. If the EPS Profile looks like that of a Great Company, you continue to study the stock; if it doesn't, you move on and find another stock to study.

The Revenue Profile and the recent segment of the EPS Profile for Sample Inc. look like those of a Great Company. In reflecting on the historical growth in the company's EPS you would notice the following:

(1) the EPS growth rate has generally increased during the study period; and

(2) the EPS growth rate has generally exceeded the Revenue growth rate throughout the study period.

Because of these situations, most investors would continue their analysis and develop a judgment about the EPS growth rate during the next five years.

Please Note: Once again you should note that there is no definitive process or set of information to consult when developing a judgment about a company's future growth in EPS. The information available at the *Guide*'s Introductory Level is described below and more information and analysis is available at the *Guide*'s Advanced Level. As well, the publication *Discover the Great Stocks to Buy* provides further discussion and lots of illustrations for developing judgments about future EPS growth.

Introductory Level Judgment

To begin developing a judgment about the future rate of EPS growth for Sample Inc. you would review the data in the Compound Growth table and note that EPS growth during the last five years was at the 20%-30% level while average growth during the entire 10 year period was only 12.9%.

As well, you would also review the "Interim Revenue" data in Section 2 of the screen and note that for the first three quarters of the current year, EPS were up 10.5% over EPS during the first three quarters Last Year.

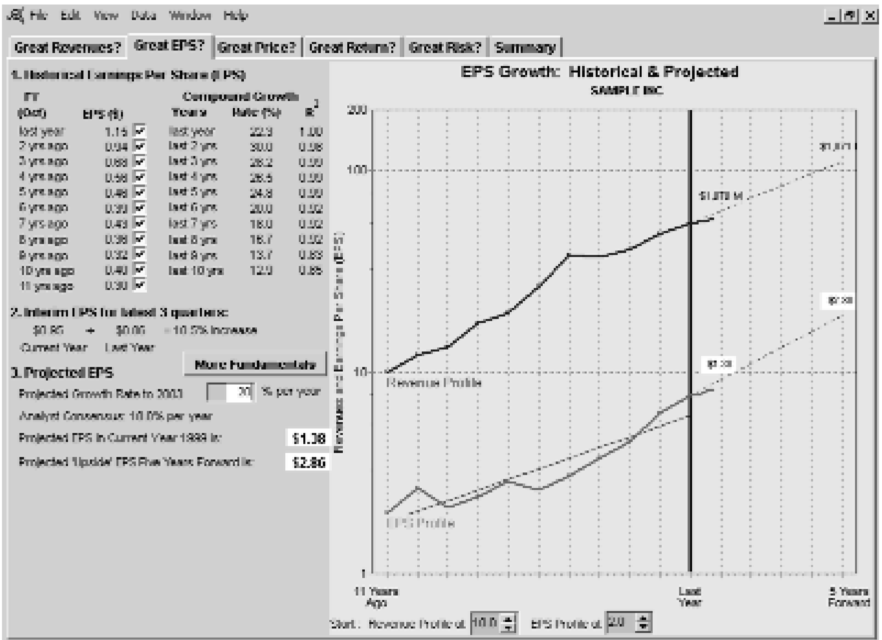
Furthermore, you would note the consensus estimate of security analysts' estimates for the company's EPS growth rate during the next five years available immediately beneath the default EPS projection; namely, 18%.

Guideline for EPS Growth

> ***It would be unusual – but not impossible – to project EPS to grow faster than revenues for a period of five years or more.***

Unless disabled, a warning message pops up whenever the default, projected EPS growth rate exceeds 20%, or whenever the user enters a number greater than "20" in the Projected EPS Growth Rate field.

For illustrative purposes, the judgment was made to project Sample Inc.'s EPS to grow at an average rate of about 20% during the next five years. This rate is comparable to last year's growth and quite a lot faster than recent quarterly growth.



In effect, this illustrative judgment projects EPS growth to continue at quite a strong pace. As noted for revenues, another investor, using the same limited information available here, could arrive at a significantly different judgment about the company's future EPS growth rate.

The wisdom reflected in a judgment about a company's future EPS growth will become evident during the next five years. Typically, the skill with which you generate judgments about future EPS and your level of comfort with the process increase with practice.

To effect this judgment, "left click" on the highlighted data-entry box labeled "Projected EPS Growth Rate Next 5 Yrs" and type in the number 20. This action causes:

(i) the slope of the projected portion of the EPS Profile to become steeper.
(ii) the estimated value for EPS in the current year to increase to $1.38.
(ii) the estimated value for EPS in five years to increase to $2.86 – the "Upside EPS".

These two EPS estimates are used in subsequent Screens.

6. Excluding EPS Data From the Calculated Growth Rate
You can remove any year of EPS data from the analysis by "unchecking" the "check box" adjacent to each EPS number.

Negative EPS Last Year

When a company's reported EPS for Last Year is negative, a warning message appears on the EPS Screen. To proceed with the analysis the Program requires you to: (a) cancel and return to the previous tab (b) restate the negative EPS value using a positive EPS; (c) project from next years EPS; or, (c) project from the last positive EPS.

The Power of Revenue and EPS Profiles

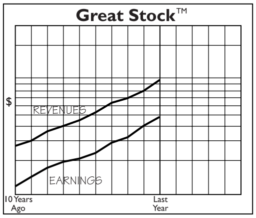
The visual analysis of a company's fundamentals available in the Revenue Growth and EPS Growth screens is very powerful. These Profiles let you easily comprehend management's success in growing revenues and EPS at a high rate, consistently, for a long time. This visual analysis is a principal input to your decision to characterize a company as having “Great” or “Grief” Profiles.

The power of this visual analysis is particularly evident when comparing the Revenue and EPS Profiles of companies in the same industry. The accompanying illustrations contain the revenue and EPS Profiles for eight stocks in the “Retailing “sector. Of the eight, Home Depot and Wal-Mart have the best-looking, historical fundamentals; namely the best revenue and EPS Profiles.

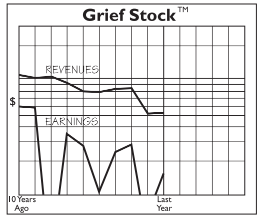
If you wanted to own only one company from the Retailing sector, which one would you buy? That is, which stock has the strongest record of growth in revenues and EPS? Which one has the best prospects for future revenue and EPS Profiles being relatively steep and straight?

Please proceed to determining if the company's stock is currently “on sale” or “over-priced” in relation to previous prices by clicking on the “Great Price” tab at the top of the screen.

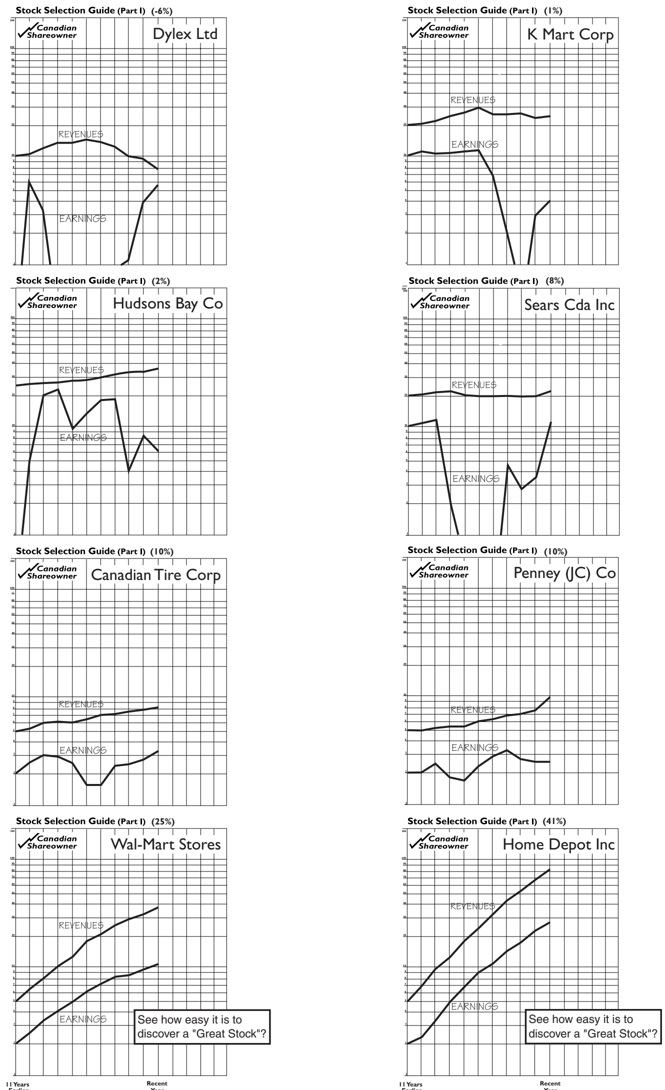
For Long-Term Investors



"Over the longer term:
Growth in a stock's price
is driven by
Growth in a company's earnings
which is driven by
Growth in the company's revenues."
-Almost Everyone, Everywhere



Which *one* Retailing stock would you want in your portfolio?

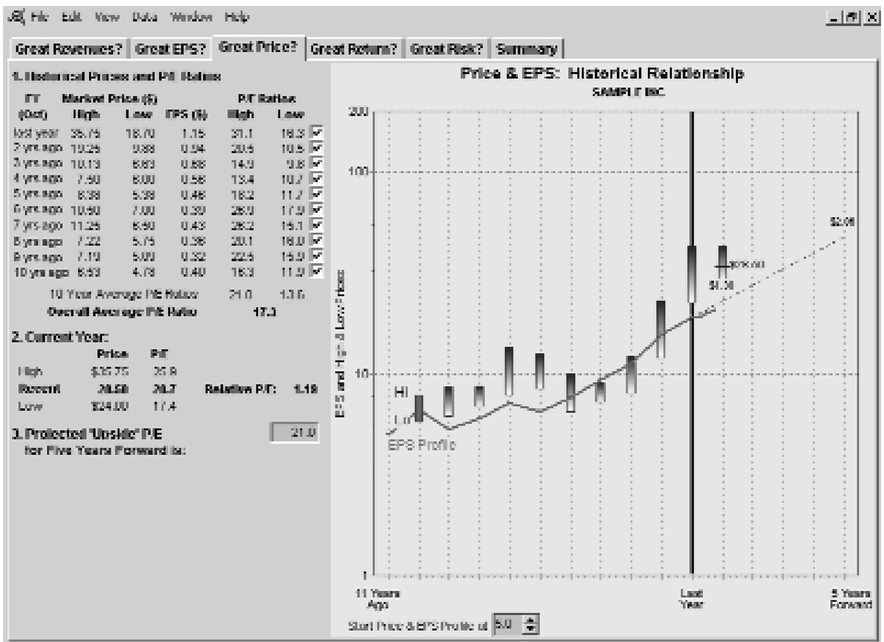


As of November, 1998

F. The "Great Price?" Screen

After finding a company with Great Revenue and EPS Profiles you can conclude that you've found a Great Company. Now the *Guide*'s process for discovering a Great Stock continues by investigating whether or not the Great Company's stock is currently trading at a Great Price.

The focus of that investigation is a comparison of the price that investors are currently paying to become the owner of $1 of the company's EPS, and the price they have paid in the past. A Great Price is indicated when the current price is relatively low.



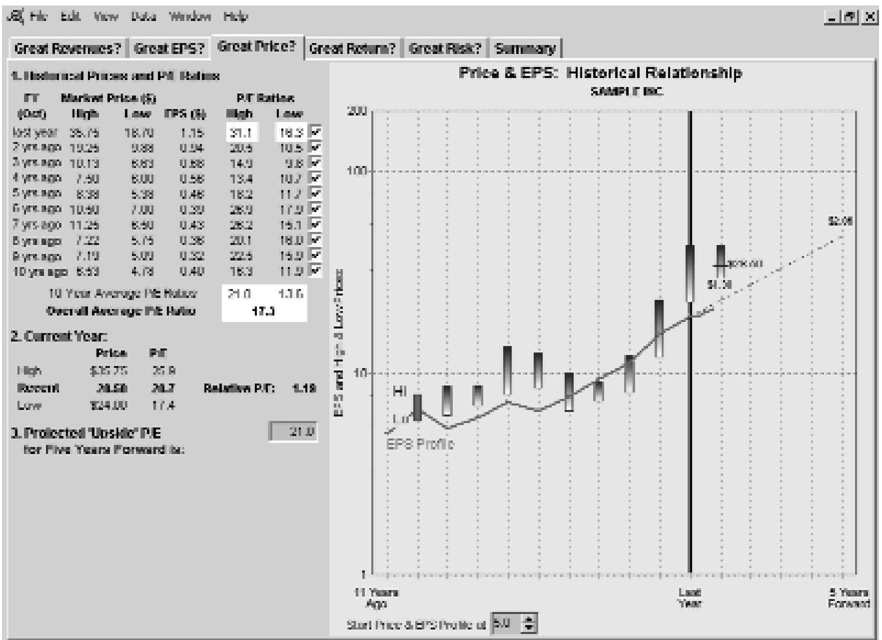
The following material describes the information and analysis available in the "Great Price?" screen.

1. Calculating and Interpreting P/E Ratios

Observe the high and low P/E ratios contained in the "P/E Ratios" table. P/E ratios are calculated as:

$$\text{High P/E Ratio} = \frac{\text{High Price}}{\text{EPS}} \qquad \text{Low P/E Ratio} = \frac{\text{Low Price}}{\text{EPS}}$$

A P/E ratio is interpreted as the "price that is being paid by buyers to own $1 of the company's earnings." For "last year," the High P/E and Low P/E were 31.1 and 16.3, respectively.



Exercise judgment and decide either to: (i) keep all of the P/E ratios in the analysis; or, (ii) remove any 'unrepresentative' P/E ratios from the analysis. To remove the P/E ratios for a particular year, click on the applicable "check box" for that year.

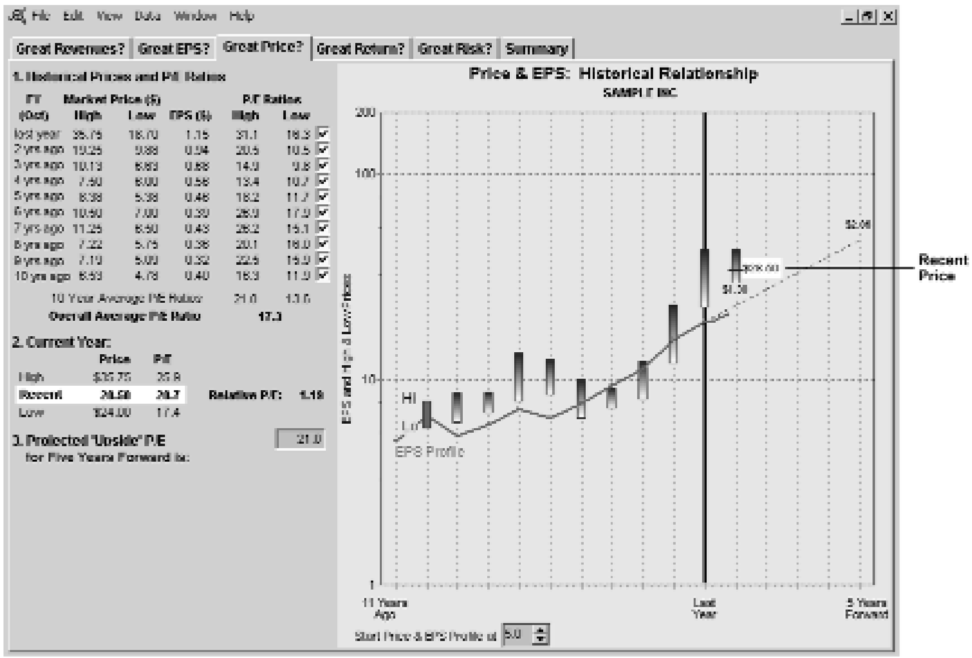
A detailed discussion of the justifications for removing P/E ratios from the analysis is available in *Discover Great Stocks to Buy*.

Also observe that 10-Year Averages have been calculated for the High and Low P/E Ratios as well as for all of the P/E Ratios; namely, 21.0, 13.6, and 17.3, respectively.

2. Calculating and Interpreting the "Relative" P/E Ratio
Observe that the Recent Price for the stock ($28.50) is the price loaded with the .ssg file when the *Guide* for Sample Inc. was created. This price may be updated on the "Basic Information" screen available through the Data/Worksheet menu items. The Recent Price is used to calculate the Recent P/E Ratio for the stock.

You should interpret the Recent P/E Ratio as follows:

> *At today's price of $28.50 per share, investors are willing to pay $20.70 to buy $1 of Sample Inc.'s expected EPS for the current year.*



Also observe the Relative P/E ratio. This ratio is calculated as:

$$\text{Relative P/E} = \frac{\text{Recent P/E}}{\text{Average P/E}} = \frac{20.7}{17.3} = 1.19$$

You should interpret the result of this calculation as follows:

> *Today's price for $1 of the company's expected EPS is 19% higher than the average price for $1 of EPS during the last 10 years.*

When the Relative P/E Ratio equals 1.0, the recent price for $1 of the company's EPS is the same price that has prevailed in the past for $1 of the company's EPS.

Great Price or Grief Price
At this stage in the process of studying a stock, you decide, for the third time, whether or not to continue with this stock. If the Relative P/E Ratio indicates that the recent price is more like a Great Price than a Grief Price, you continue to study the stock; if it doesn't, you don't.

Guidelines for a Great Price
That is, a relative P/E of about .80 or less is a Great Price in the absence of:
(1) a definite trend in the company's P/E Ratio during the study period; or,
(2) a recent significant development affecting the company's earnings potential.

A Grief Price is indicated when the Relative P/E is greater than about 1.2.

With a Relative P/E of 1.19, buyers of Sample Inc. are paying somewhat more than the average price for $1 of EPS over the last ten years. But not an excessive amount, particularly if you were to remove the perhaps unrepresentative P/E ratios for 3, 4 and 10 years ago.

Accordingly, at the recent price of $28.50 – the stock is neither “on sale” nor “over-priced” in relation to historical prices and so you would continue studying the stock.

Caution. Considerable caution should be exercised in characterizing a stock's Relative P/E Ratio as reflecting either a Great Price or a Grief Price. A stock's price and P/E ratio are influenced by many company-specific and economy-wide developments which can introduce volatility and trends into a company's price and P/E ratio.

For example, during “bull markets” the general level of P/E ratios in the stock market tends to rise; during “bear markets” the general level of P/E ratios tends to fall.

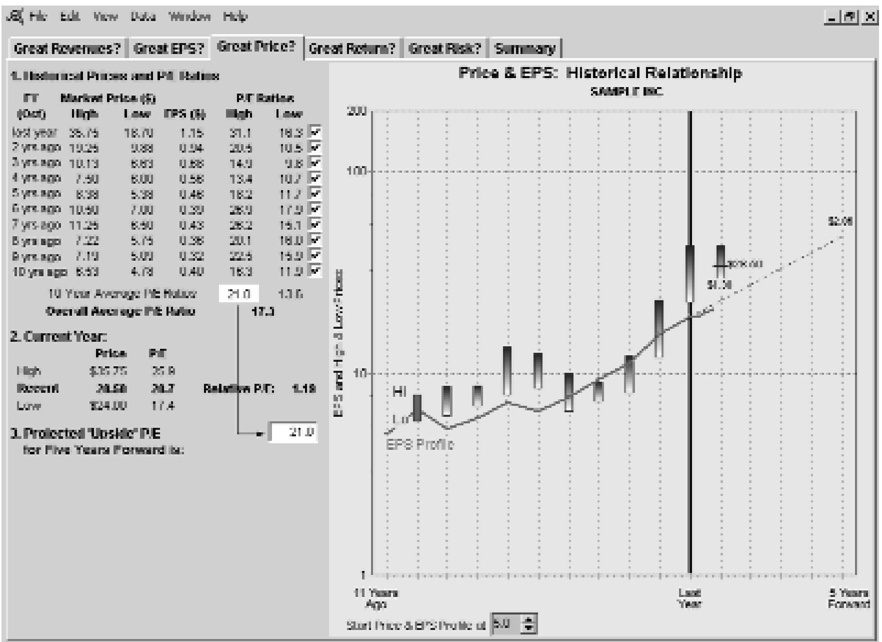
Visual Assessment of “On Sale” or “Over-Priced”
The stock's annual High and Low prices for the last 10 fiscal years and its EPS are plotted on the growth chart available on the “Great Price?” screen. This chart helps you to see if growth in the stock's price is getting ahead or behind growth in its EPS.

You should note that the High and Low prices have been plotted and indexed so that the average price of the first available fiscal year is located on top of the EPS value for that year.

The location of the High-Low price bar in subsequent years can help you decide if the stock is currently “on sale” or “over priced.” For example, when the price bar moves above the EPS value, the stock's price may becoming over priced; when the price bar moves below the EPS value, the recent price may becoming a “sale” price.

3. The Default Projected Upside P/E Ratio in 5 Years
The *Guide*'s analysis requires an estimated P/E Ratio for the stock in five years. The default value for that estimate is the Average High P/E Ratio during the study period. This value appears in the data input box labeled "Projected Upside P/E Ratio in 5 years"; namely 21.0.

Note that removing P/E Ratios from the analysis alters the Average High P/E Ratio and the default value for the Projected Upside P/E Ratio.



4. Making Your Judgment about the Upside P/E
Every investor must make his/her own judgment about the price that the market will be willing to pay for $1 of a company's EPS in five years.

There is a Guideline to help you develop a value for the company's Upside P/E in five years.

Guideline for the Projected Upside P/E Ratio:

> ***It would be unusual – but not impossible – to project a growth stock to have an Upside P/E Ratio in 5 Years greater than 20.***

Unless disabled, a warning message pops up whenever the user enters a number greater than "20" in the Projected Upside P/E Ratio field.

Discover the Great Stocks to Buy provides a detailed discussion of the process for developing a judgment about an appropriate Projected Upside P/E Ratio.

A review of the data in the P/E Ratio table indicates that the company's P/E Ratio has been experiencing increased volatility during its recent history. You would also note that the range of P/E ratios for the current year (17.4 to 25.9) is smaller than in recent years.

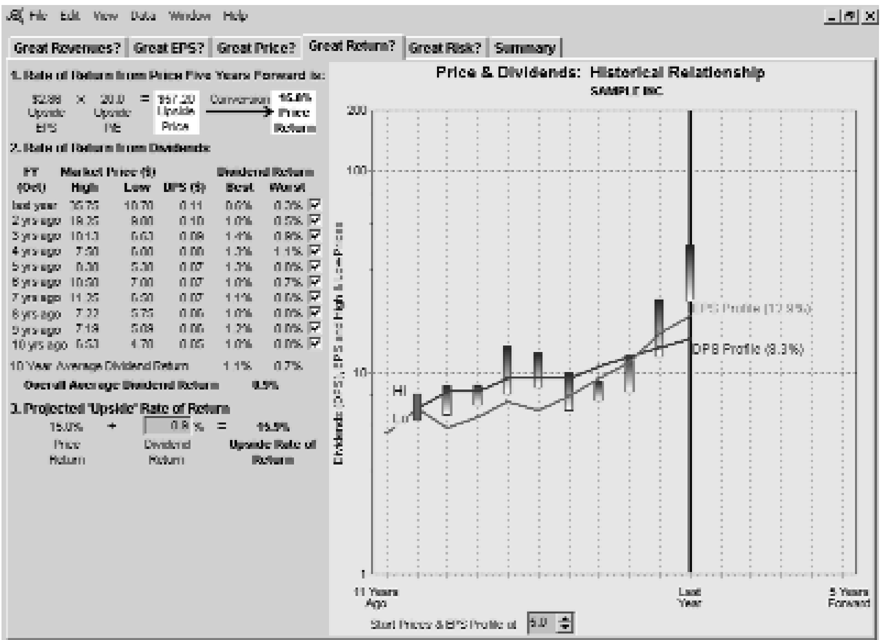
For illustrative purposes the judgment was made to proceed with the study using an Upside P/E ratio of 20. This value is similar to the average high P/E ratio during the latest five years (ie. 19.6 – not shown).

Please proceed to determining if the company's stock is currently "on sale" or "over-priced" in relation to a possible future price by clicking on the "Great Return?" tab at the top of the screen.

G. The "Great Return?" Screen

After finding a Great Company currently trading at a Great Price the *Guide* continues by investigating whether or not a Great Rate of Return is available from the stock during the next five years.

The focus of this investigation is on estimating the stock's price in five years and the rate of return that would be realized if the stock were purchased at the recent price. A Great Rate of Return is generally considered to be 15% or higher.



The following material describes the information and analysis available in the "Great Return?" screen.

1. Calculating the Upside Price
Observe that the Upside EPS (repeated from the "Great EPS?" screen) and the Upside P/E Ratio (repeated from the "Great Price?" screen) are multiplied to project an "Upside Price" in 5 years for the stock; namely, $57.20.

The Program calculates the compound rate of return available from the stock's price increasing from the Recent Price to the Upside Price during the next five years; namely, 15.0%.

2. Calculating the Best, Worst and Average Dividend Yields
Observe the range of "Best" and "Worst" dividend yields during the study period. These yields are calculated as follows:

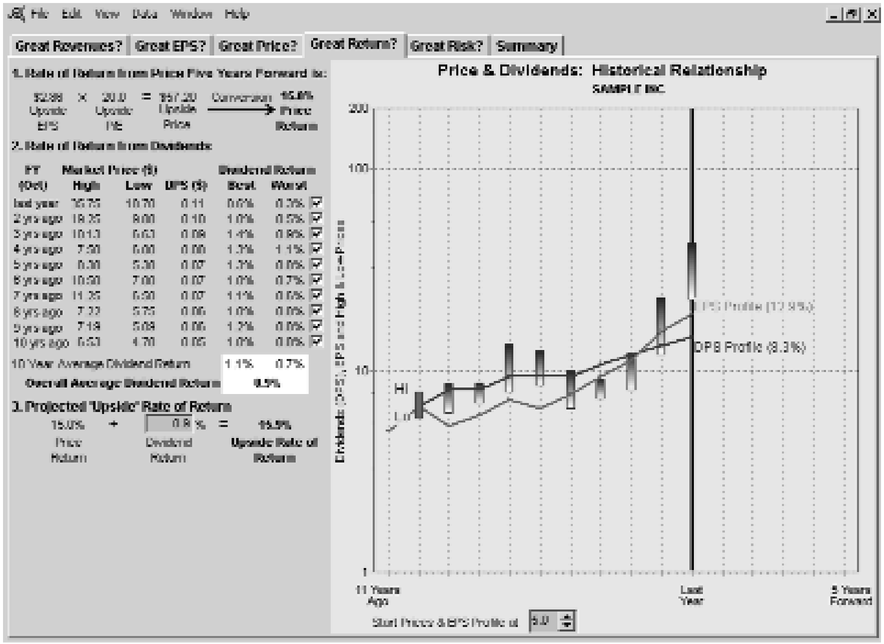
$$\text{Best Yield} = \frac{\text{Dividend per share}}{\text{Low price}} \times 100\%$$

$$\text{Worst Yield} = \frac{\text{Dividend per share}}{\text{High price}} \times 100\%$$

Exercise judgment and decide either (i) to keep all of the dividend yields in the analysis; or, (ii) to remove 'unrepresentative' dividend yields from the analysis.

To remove the dividend yields for a particular year, click on the box adjacent to the Worst Dividend yield for that particular year. A detailed discussion of the justifications for removing dividend yields from the analysis is available in *Discover the Great Stocks to Buy*.

Also reported are: (i) the average of the Best dividend yields during the study period (1.1%); (ii) the average of the Worst dividend yields (0.7%); and, (iii) the average of the Best and Worst averages (0.9%).



Visual Analysis. The growth chart available on the "Great Return?" screen helps you to see if growth in the company's share price is getting ahead or behind growth in its annual cash dividend.

3. The Projected Upside Total Rate of Return

The *Guide* calculates an Upside Total Rate of Return (15.9%) from the stock during the next five years by adding the Compound Annual Price Return (15%) and the Average Dividend Yield (0.9%).

Great Return or Grief Return. Once again during the study process, you decide whether or not to continue with this stock. If the projected Upside Total Rate of Return is attractive, you continue to study the stock; if it isn't, you don't.

Guideline. In general, investors expect a typical Great Stock to provide an Upside Total Rate of Return of about 15% or more.

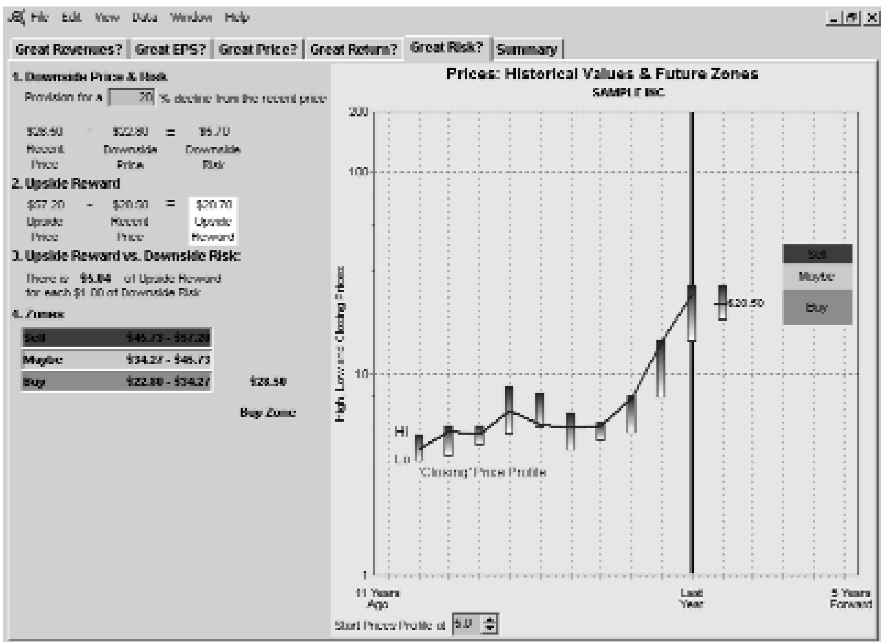
At 15.9%, Sample Inc. offers what could be characterized as a Great Return.

Caution. You should exercise caution when assigning the “Great” or “Grief” label to a stock's rate of return. The greatness of a stock's rate of return is a function of many factors unique to the company as well as those influencing the entire economy – most notably, the riskiness of the company's business and the level of interest rates. A detailed discussion of these factors is available in *Discover the Great Stocks to Buy*.

Please proceed to the “Great Risk?” screen by clicking on the tab at the top of screen.

H. The "Great Risk?" Screen

After finding a Great Company trading at a Great Price, and with a Great Rate of return, the *Guide* continues by investigating whether or not a great deal of risk is involved in owning the stock. In particular, the *Guide* focuses on estimating how much money you might lose – your risk – if you buy the stock and it subsequently goes "down" rather than "up." Great Risk is indicated when there is much more downside potential in the stock's price than upside reward.



The following material describes the information and analysis available in the "Great Risk?" screen.

1. Calculating the Downside Price

It would be heroic not to expect a stock to decline, at least temporarily, after you purchase it. The Program takes a 20% decline as the default decline in a stock's price from the Recent Price.

That is, the default Downside Price is set at 80% of the Recent Price.

Downside Price = Recent Price X 80%
= $28.50 X 80%
= $22.80

Guideline for the Downside Price

> ***It would be unusual – but not impossible – to allow for less than a 20% decline in the price of a stock following its purchase.***

2. Calculating Downside Risk
The Downside Risk for a stock is calculated as:

Downside Risk = Recent Price - Downside Price
= $28.50 - $22.80
= $5.70

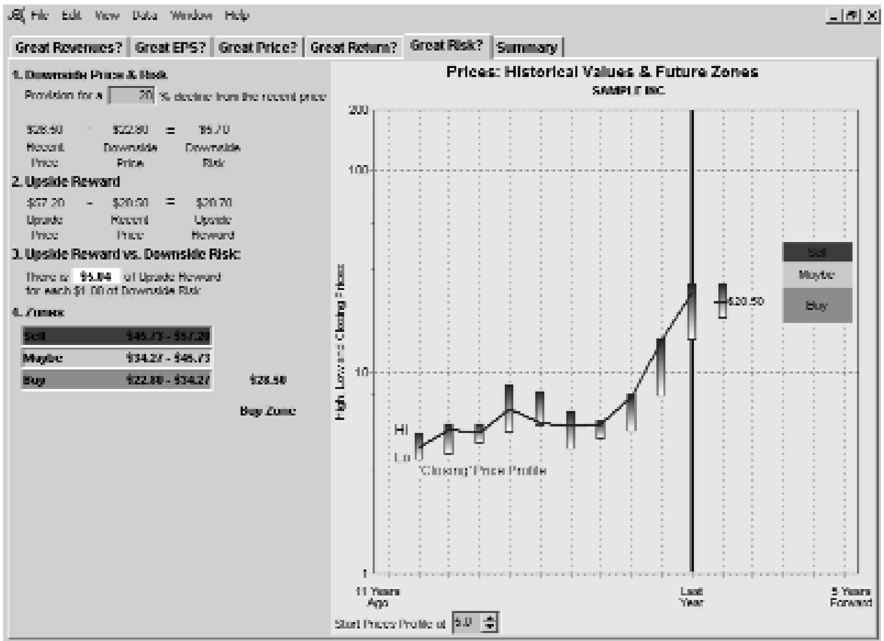
3. Great Risk?
It is difficult to characterize the potential loss of $5.70 per share as representing Great Risk without reference to the amount of money used to purchase the stock and the potential gain from owning the stock if one's judgments prove accurate. Accordingly, the *Guide* calculates the Upside Reward for the stock based upon the recent price and the estimated future price.

Upside Reward
The Upside Reward for a stock is calculated as:

Upside Reward = Upside Price - Recent Price
= $57.20 - $28.50
= $28.70

The Reward/Risk Ratio
This ratio is calculated as:

$$= \frac{\text{Reward}}{\text{Risk}} = \frac{\text{Upside Reward}}{\text{Downside Risk}} = \frac{28.70}{5.70} = \$5.04$$



Guideline
In general, Great Risk is present for risk adverse investors when there is less than $3 of Upside Reward for every $1 of Downside Risk.

Great Risk is not apparent for Sample Inc. because there is $5.04 of Upside Reward for every $1 of Downside Risk.

4. Price Zones
The price range defined by a stock's Upside and Downside Prices can be divided to identify three price zones for a stock; namely, the Buy Zone; the Maybe Zone; and, the Sell Zone.

The stock's "Buy Zone" is calculated as the lower third of the price range defined by the Upside Price and the Downside Price;

The stock's "Sell Zone" is calculated as the upper third of the price range.

The stock's "Maybe Zone" is calculated as the middle third of the price range.

Conclusion
The *Guide*'s analysis of Sample Inc. has produced a number of judgments about its history and future prospects. These include:

1. The company has a long history of growing both its revenues and EPS at a high rate, consistently and strong prospects for continuing to do so.

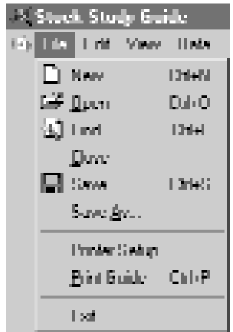
2. The price that investors are currently paying for $1 of the company's EPS is generally in line with the prices that have been paid in the past.

3. The stock's recent price and its expected future prices (both upside and downside) offer the prospect of a sufficiently high rate of return without a great amount of risk.

When you can make these types of statements about a company and its stock, your conclusion is that you have discovered a Great Stock to buy.

I. Saving the Analysis as a ".gr8" file

Now that you have completed this analysis of Sample Inc. you will want to save it for future reference. To do so, click on "File" in the Main Menu and choose either "Save" or "Save As".



1. Choosing the "Save" option lets you save (or re-save) the *Stock Study Guide* for Sample Inc. with the indicated default file name "Samp.gr8" in the indicated default directory **C:/ProgramFiles/CSA Computing/Stock Study Guide/ssgdata** Click on the Save menu item to accept these default actions.

2. Choosing the "Save As" option lets you save the *Stock Study Guide* for Sample Inc. with a different name or in a different directory.

Printing the Results. In addition to saving the Samp.gr8 file for Sample Inc., you may wish to print one or all of the screens from the *Stock Study Guide* software. To do so, click on File/Print/ in the Main Menu and select the desired page from the drop down list. An example of the resulting printout from selecting is shown on the following pages.

Stock Selection Guide

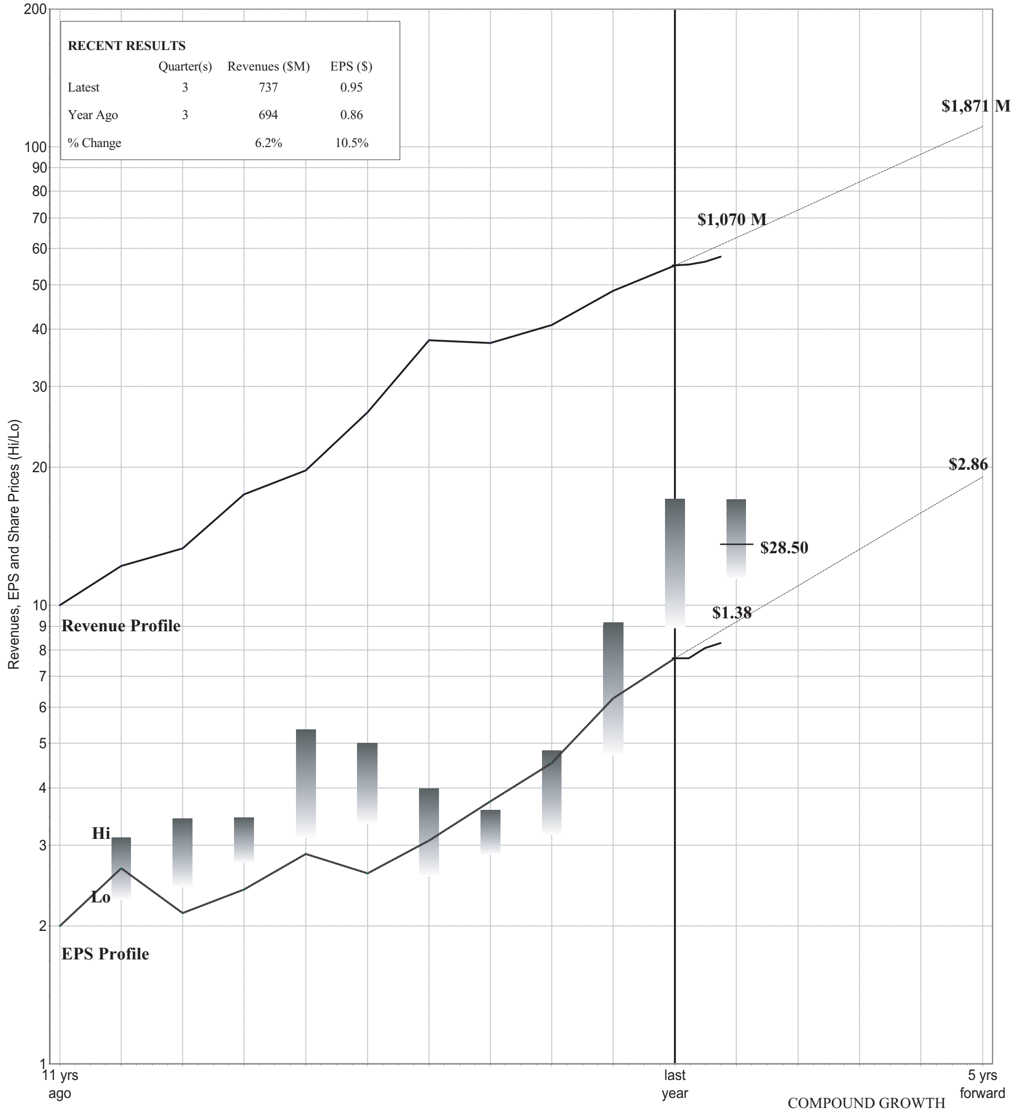
Superior Stock Selection — and Rejection

Company: SAMPLE INC (SAMP on TSE)

Major product/service: Medical Laboratories

1. Great Revenues?...Great EPS?

Friday, September 15



RECENT RESULTS

	Quarter(s)	Revenues ($M)	EPS ($)
Latest	3	737	0.95
Year Ago	3	694	0.86
% Change		6.2%	10.5%

REV ($M)	169	206	225	295	332	445	640	631	689	819	930
EPS ($)	0.30	0.40	0.32	0.36	0.43	0.39	0.46	0.56	0.68	0.94	1.15

COMPOUND GROWTH

HISTORICAL	PROJECTED
19.5	15.0%
12.9	20.0%

SAMPLE INC

EPS Estimates (from graph)

Current	Upside
EPS (Current Year) $1.38	EPS (5 yrs forward) $2.86

Per Share Data (current fiscal year)

Recent	High	Low	Indicated Annual
Price $28.50	Price $35.75	Price $24.00	Dividend $0.14

Recent P/E Ratio = Recent Price / EPS Estimate (Current Year) = $28.50 / $1.38 = 20.7

Dividend Return = Dividend / Price x 100%

2. Great Price?

3. Dividend Returns

Years Ago	Fiscal Year Ending Oct	A Share Prices High Price ($)	B Low Price ($)	C Earnings Per Share ($)	D P/E Ratios High P/E [A ÷ C]	E Low P/E [B ÷ C]	F Dividend per Share ($)	G Dividend Returns Best [F ÷ B] (%)	H Worst [F ÷ A] (%)
1	last year	35.75	18.70	1.15	31.1	16.3	0.11	0.6	0.3
2	2 yrs ago	19.25	9.88	0.94	20.5	10.5	0.10	1.0	0.5
3	3 yrs ago	10.13	6.63	0.68	14.9	9.8	0.09	1.4	0.9
4	4 yrs ago	7.50	6.00	0.56	13.4	10.7	0.08	1.3	1.1
5	5 yrs ago	8.38	5.38	0.46	18.2	11.7	0.07	1.3	0.8
6	6 yrs ago	10.50	7.00	0.39	26.9	17.9	0.07	1.0	0.7
7	7 yrs ago	11.25	6.50	0.43	26.2	15.1	0.07	1.1	0.6
8	8 yrs ago	7.22	5.75	0.36	20.1	16.0	0.06	1.0	0.8
9	9 yrs ago	7.19	5.09	0.32	22.5	15.9	0.06	1.2	0.8
10	10 yrs ago	6.53	4.78	0.40	16.3	12.0	0.05	1.0	0.8
					Average 21.0	Average 13.6		Average 1.1	Average 0.7
					Average P/E Ratio 17.3			Average Dividend Return 0.9	

Relative P/E Ratio = Recent P/E Ratio / Average P/E Ratio = 1.19

PE/G Ratio = 1.03

4. Great Return?

$2.86	x	20.0	=	**$57.20**	minus	$28.50	=	**$28.70**	→	$28.70 / $28.50	x 100% =	101%
Upside EPS		Upside P/E		**Upside Price**		Recent Price		**Upside Reward**		Recent Price		(Simple 5-year Price Return %)

Conversion Table

Simple Price Return %	27	34	47	61	75	93	101	110	129	149	182	205	244	271
Compound Annual %	5	6	8	10	12	14	15	16	18	20	23	25	28	30

15.0% Compound Annual Price Return + 0.9% Dividend Return = **15.9% Upside Rate of Return**

5. Great Risk?

Provision for a 20.0% decline in the Recent Price to = **$22.80 Downside Price**

$28.50 Recent Price minus $22.80 Downside Price = **$5.70 Downside Risk**

6. Reward versus Risk

Reward / Risk = $28.70 / $5.70 = $5.04 of Reward per dollar of Risk

7. What is the Buy Zone?

Zone Size = Upside Price minus Downside Price / 3 = $57.20 minus $22.80 / 3 = $34.40 / 3 = $11.47 Zone Size

BUY ZONE | **MAYBE ZONE** | **SELL ZONE**

Downside Price $22.80 + $11.47 Zone Size = $34.27 + $11.47 Zone Size = $45.73 → **Upside Price** $57.20

The Stock's Recent Market Price of $28.50 is in the Buy Zone

Section 4 – User Level: Intermediate Analysis

A. Introduction

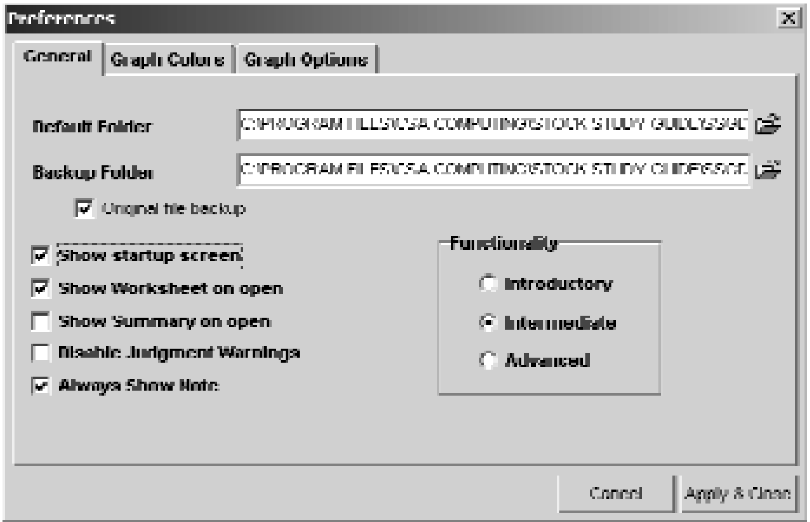
The material in this Section describes the operation of the *Guide* when the functionality preference is set at the Intermediate Level.

The Intermediate Level introduces users of the *Guide* to its "Summary" screen and to some additional data that are available for studying a company's profitability in greater detail. In part, this additional functionality is available to help users appreciate and test the sensitivity of a stock's projected rate of return and Buy Zone to different judgments about the company's growth rates and P/E Ratio.

Additional information and analysis for developing "best" judgments based on more than extrapolations of past performance into the future are provided at the *Guide*'s Advanced Level.

So for now, users of the *Guide* should focus on learning the refinements to the basic, sequential process for studying a stock's investment merit that are available at the Intermediate Level.

To access the *Guide*'s Intermediate Level click on Edit/Preferences and select the Intermediate Level on the "General" screen. (See Appendix A for a detailed discussion of all available preferences.)



Preferences – Default Settings. Two new functionality options are available on the General screen. You may change these preferences by clicking on the applicable check box.

1. The "Show Summary Screen on Open" preference is unchecked. This preference is available because the program provides users with a "Summary" screen at the Intermediate Level – in addition to those screens available at the Introductory Level. The Summary screen contains all of the key data and judgment boxes needed to complete an initial study of a stock.

Once you've studied a number of stocks at the Introductory Level and are familiar with the program's stock-study process, you may find it convenient to study a stock initially from the Summary screen with reference, as needed, to the detailed screens available at the Introductory Level.

Simply click on the check box to enable access to the Summary screen when the program is opened.

2. The "Disable Judgment" warnings preference is unchecked. This preference is available to users who have learned the various Guidelines for judgment – available at the Introductory Level – that are an integral part of the stock-study process.

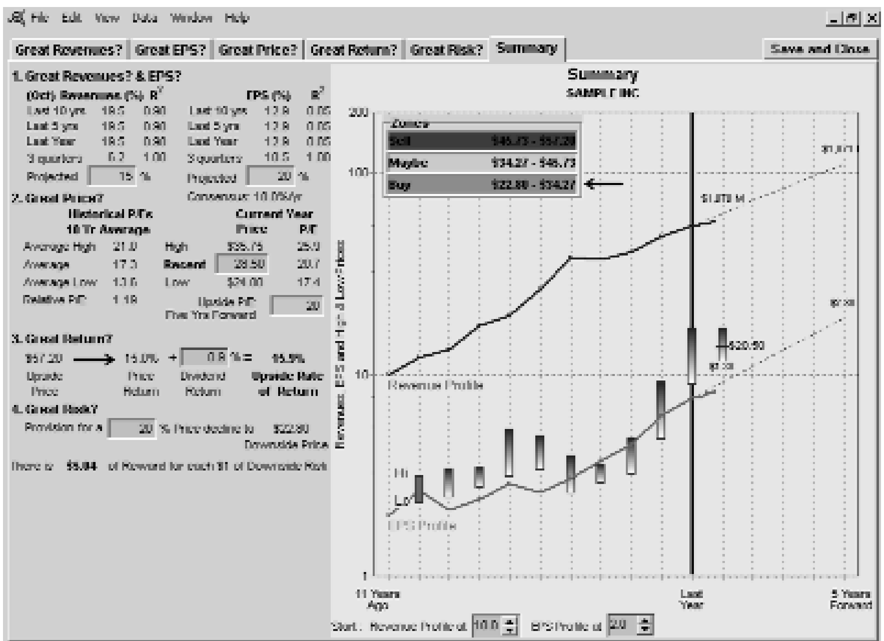
Simply click on the check box to disable the appearance of these judgment warnings.

Once you have selected your preferences at the Intermediate Level, click the "Apply & Close" button.

B. Using the "Summary" Screen

When operating at the Intermediate Level the "Summary" screen is available through the tab to the right of the "Great Risk?" tab. The process for studying a stock via the "Summary" screen is the same as that used with the detailed screens. First you make a judgment about the company's revenue growth during the next five years; then about its EPS growth; then about its P/E Ratio in five years; and, finally you develop a judgment about the stock's potential downside price.

The "Summary" screen is also a convenient place to test the sensitivity of the Total Rate of Return and Buy Zone to alternate judgments about the company's future growth rates and P/E Ratios. You should note that the "Summary" screen contains the same default values for growth rates and P/E Ratios that are found on the detailed screens. However, you cannot exclude data for a particular year from the analysis at the "Summary" screen; you must visit the detailed screens to do so.

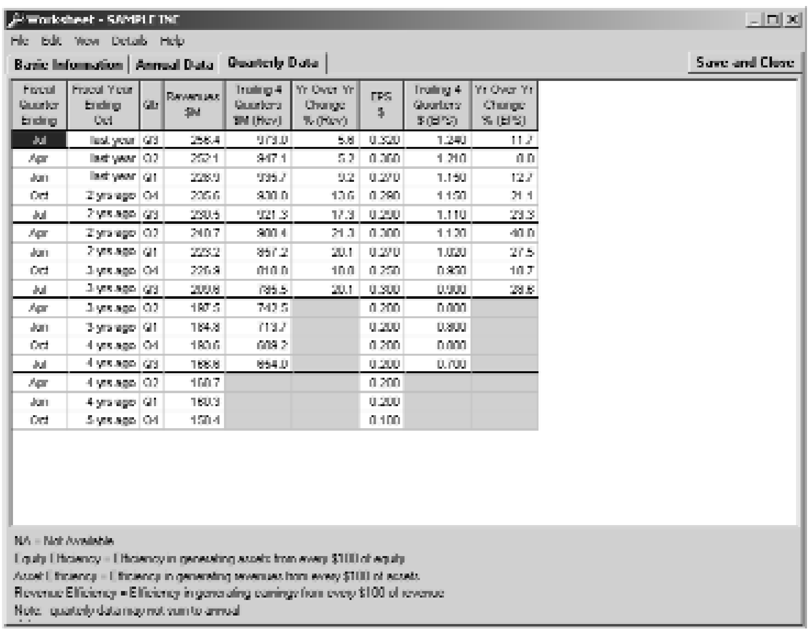


C. Additional Data

The Intermediate Level provides additional data to assist you in developing judgments about a company's future revenue and EPS growth rates. These data are discussed below.

1. Quarterly Data

To view the additional quarterly data that are available at the Intermediate Level click on Data/Worksheet in the main menu. Then click on the "Quarterly Data" tab.



Fiscal Quarter Ending	Fiscal Year Ending Oct	Qtr	Revenues $M	Trailing 4 Quarters $M (Rev)	Yr Over Yr Change % (Rev)	EPS $	Trailing 4 Quarters $ (EPS)	Yr Over Yr Change % (EPS)
Jul	last year	Q3	256.4	973.0	5.8	0.320	1.240	11.7
Apr	last year	Q2	252.1	947.1	5.2	0.300	1.210	0.0
Jan	last year	Q1	228.9	935.7	9.2	0.270	1.150	12.7
Oct	2 yrs ago	Q4	235.6	930.0	10.6	0.290	1.150	21.1
Jul	2 yrs ago	Q3	230.5	921.3	17.3	0.250	1.110	23.3
Apr	2 yrs ago	Q2	240.7	900.4	21.3	0.300	1.130	40.0
Jan	2 yrs ago	Q1	223.2	857.2	20.1	0.270	1.020	27.5
Oct	3 yrs ago	Q4	226.9	810.0	10.0	0.250	0.930	10.7
Jul	3 yrs ago	Q3	200.8	785.5	20.1	0.300	0.900	28.6
Apr	3 yrs ago	Q2	187.5	742.5		0.200	0.800	
Jan	3 yrs ago	Q1	184.8	713.7		0.200	0.800	
Oct	4 yrs ago	Q4	180.6	689.2		0.200	0.800	
Jul	4 yrs ago	Q3	166.8	654.0		0.200	0.700	
Apr	4 yrs ago	Q2	160.7			0.200		
Jan	4 yrs ago	Q1	160.3			0.200		
Oct	5 yrs ago	Q4	150.4			0.100		

NA = Not Available
Equity Efficiency = Efficiency in generating assets from every $100 of equity
Asset Efficiency = Efficiency in generating revenues from every $100 of assets
Revenue Efficiency = Efficiency in generating earnings from every $100 of revenue
Note: quarterly data may not sum to annual

The enhanced "Quarterly Data" screen provides you with two additional data items regarding the company's quarterly revenue and EPS data.

(a) The "Trailing 4 Quarters" values; namely, the sum of the latest four quarters of revenues and EPS. For example, the Trailing 4 Quarters value for the company's revenues, as of the 3rd quarter ending July of the current year was $973.0 million. This value is the sum of:

$256.4 million (3rd quarter ending July 31)
+ $252.1 million (2nd quarter ending Apr 30)
+ $228.9 million (1st quarter ending Jan 31)
+ $235.6 million
(4th quarter ending Oct 31 of the previous fiscal year).

(b) The "Yr over Yr Change %" calculated on the Trailing 4 Quarter values. For example the Year over Year Change % for the company's revenues, as of the 3rd quarter ending July of the current year was 5.6%. This percentage is calculated as follows:

$$\frac{\text{Trailing 4 Quarters, as of the 3rd quarter ending July of the current year}}{\text{Trailing 4 Quarters, as of the 3rd quarter ending July of last year}} \times 100\%$$

$$\frac{973.0}{921.3} \times 100\% = 5.6\%$$

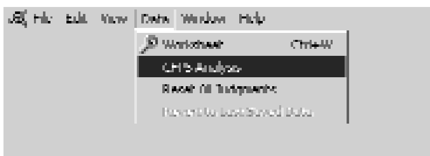
The calculation of the % Year over Year Change % enables you to easily identify any slow down or acceleration in growth that may be occurring during the last 16 fiscal quarters, and particularly, since the end of the last fiscal year. For Sample Inc. you might note that revenue growth has generally slowed since the end of the last fiscal year.

2. Cash Flow Per Share Data

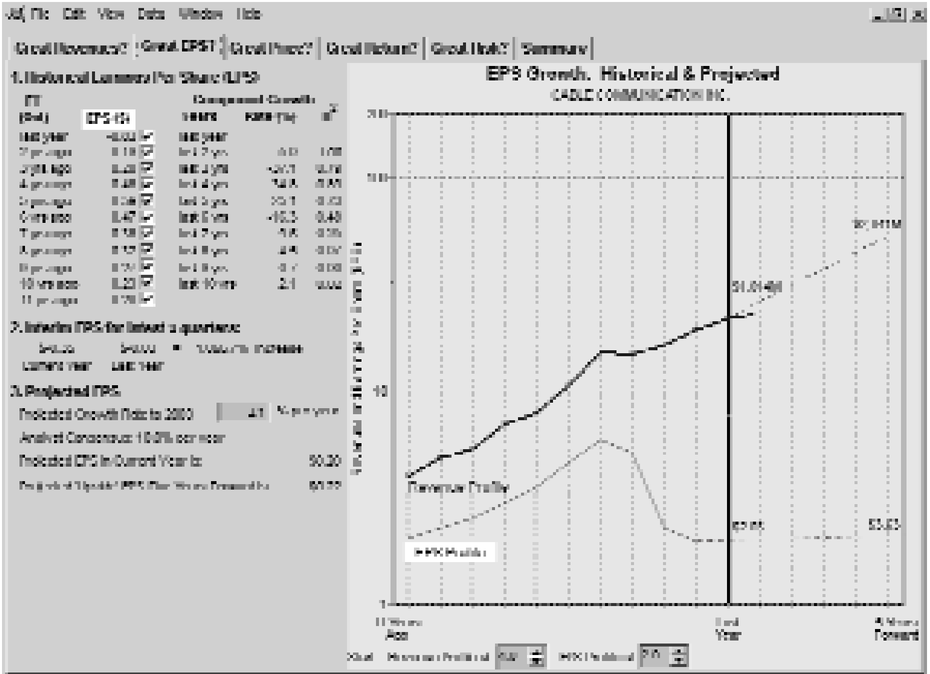
The Intermediate Level provides an option to study a company's profitability expressed as cash flow per share (“CFPS”) instead of, or in addition to, its ability to generate EPS.

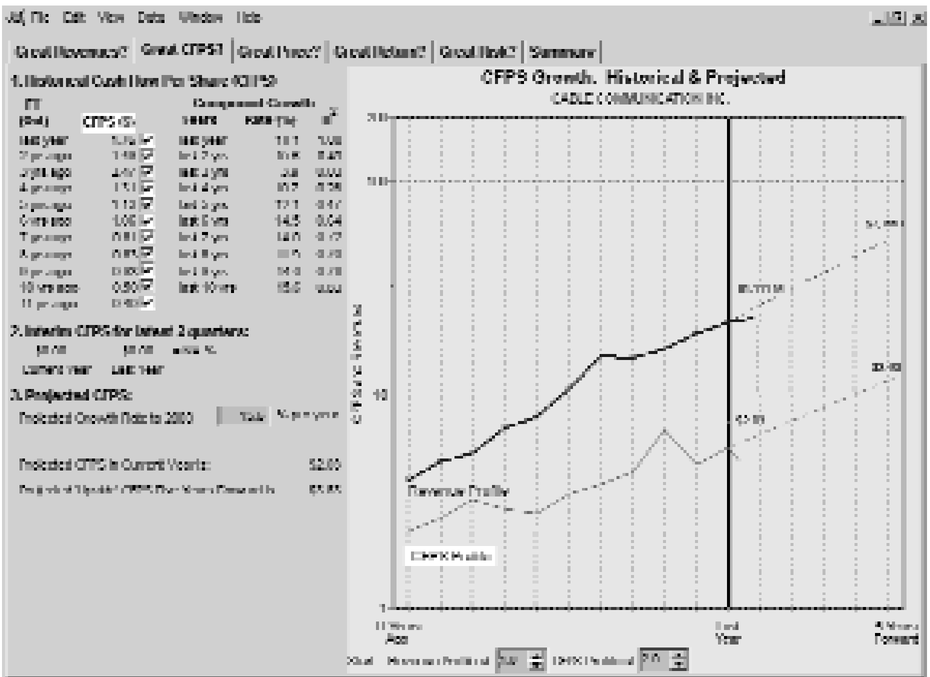
For example, companies that operate in an industry where very large expenditures are made to build an infrastructure for delivering products or services to a market often have relatively large, “non-cash” charges on their income statements (e.g. depreciation and amortization). These charges typically reduce reported EPS by significant amounts – even though the excess of revenues over cash costs may actually be increasing. This contradiction is avoided by studying a company's Cash Flow Per Share (“CFPS”) rather than EPS until the non-cash charges become less significant relative to net income.

You can substitute a company's CFPS for its EPS in the analysis by clicking on “Data” in the main menu and selecting “CFPS Analysis” (which toggles between EPS and CFPS). Where available, a company's CFPS data are recorded in the Annual Data screen that is accessible through Data/Worksheet.



Sample Inc. is not a company that you would study using CFPS. So for illustrative purposes two screens for Cable Communications Inc. are presented on the following page; one illustrates revenues and EPS; the second shows the effect of switching to CFPS.


EPS Growth, Historical & Projected
CABLE COMMUNICATION INC.


CFPS Growth, Historical & Projected
CABLE COMMUNICATION INC.

Section 5 – User Level: Advanced Analysis

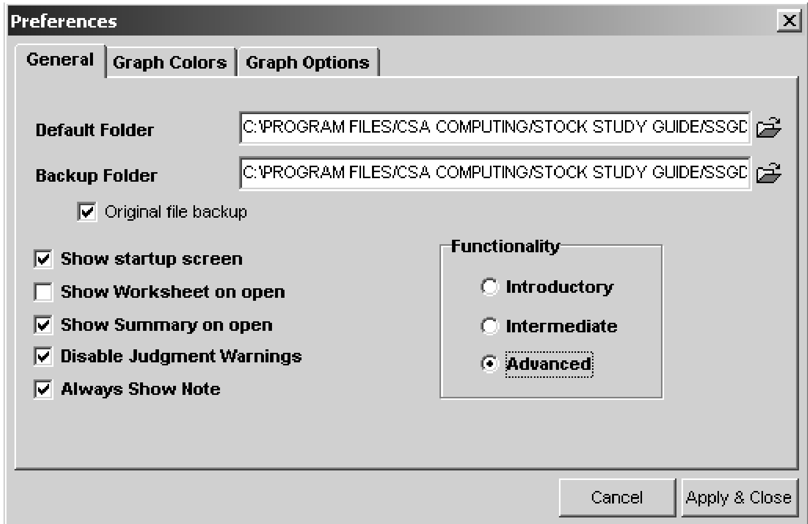
A. Introduction

The material in this Section describes the operation of the *Guide* when the functionality is set at the Advanced Level.

The Advanced Level introduces users of the *Guide* to a selection of financial and operating data from the company's balance sheet and income statement. It's these additional "fundamental" data that can provide investors with a more informed basis for developing their "best" judgments about a company's future revenue and EPS growth rates.

To access the *Guide*'s "Advanced Level" functionality for studying a stock, click on Edit/Preferences and select the Advanced Level on the General screen. (See Appendix A for a detailed discussion of all available preferences.)

Note the default selection of preferences; you may change these preferences by clicking on the applicable check box.



Once you have selected your preferences at the Advanced Level, click the "Apply & Close" button.

B. The PE/G Ratio

At the Advanced Level, the *Guide* provides a benchmark for assessing an investor's projected EPS growth rate for a stock. This additional perspective on the EPS growth rate is available through the “PE/G Ratio” located in Section 2 of the “Great Price?” screen.

The PE/G ratio is calculated as:

$$\text{PE/G Ratio} = \frac{\text{Recent P/E}}{\underset{\text{(from the Great EPS? Screen)}}{\text{Projected EPS Growth Rate}}} = \frac{20.7}{20.0} = 1.03$$

Guidelines for interpreting the PE/G Ratio
The following general guidelines are available for interpreting a PE/G Ratio; they may not be applicable for the analysis of a specific stock.

When the PE/G Ratio equals 1.0, the recent price for $1 of the company's EPS is the same as the growth rate projected for the company's EPS during the next five years. That is, the projected growth rate is consistent with the price being paid for $1 of the company's EPS.

When the PE/G ratio is about 0.80 or less, it may be indicative of a projected EPS growth rate that is unduly optimistic.

Alternatively, a PE/G Ratio greater than about 1.2 may indicate a projected EPS growth rate that is unduly pessimistic.

As with all ratios, a second set of interpretations for the PE/G Ratio is possible. For example, a PE/G ratio of about 0.80 or less may be indicative of the market underpricing the company's future EPS growth prospects. Alternatively, a PE/G Ratio greater than about 1.2 may indicate a market that is paying an excessive price for future EPS growth. Neither underpricing nor overpricing of future EPS is indicated with a PE/G ratio of about 1.0.

Caution is clearly required when interpreting the significance, for you, of a stock's PE/G Ratio.

With a PE/G Ratio of 1.03, buyers of Sample Inc. are paying a bit more for $1 of EPS than the company's projected EPS growth rate which suggests that the stock's recent price does not reflect "over pricing."

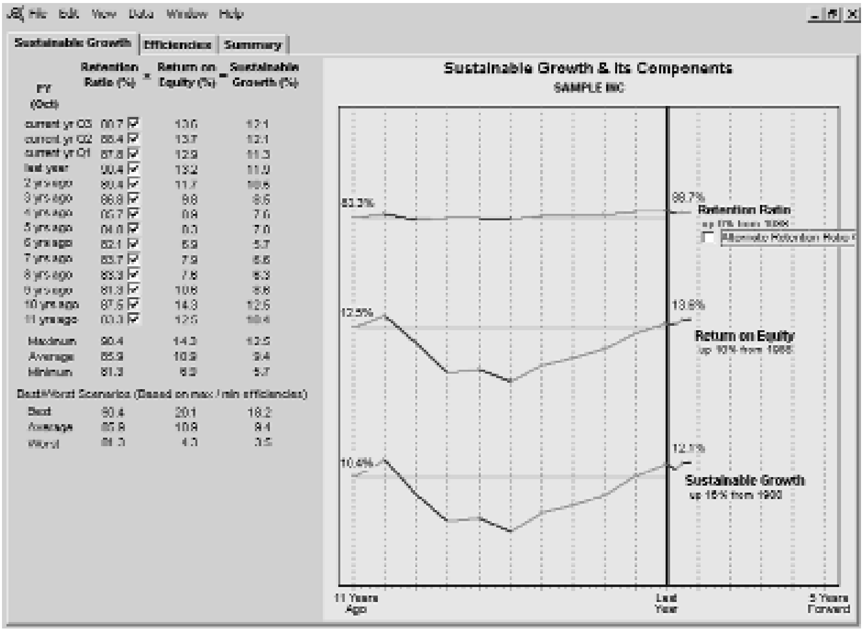
C. More Fundamentals

When operated at its Advanced Level, the *Guide* gives you access to additional company data and analysis that can help you develop a more-informed "best" judgment about the company's future rate of growth in revenues and EPS than available at the Introductory and Intermediate Levels.

Access to this material is provided through the "More Fundamentals" button located in Section 3 of the "Great Revenues?" screen and "Great EPS?" screen and in Section 1 of the "Summary" screen.

1. The "Sustainable Growth" Screen

The "Sustainable Growth" screen provides several estimates of the theoretical, steady-state, growth rate for a company's revenues and EPS. These estimates often provide a useful benchmark for assessing the reasonableness of various growth rates developed by more intuitive methods.



Note that the Sustainable Growth Rate for a company's revenues and earnings are represented by the formula:

Sustainable Growth Rate (%)
= Earnings Retention Ratio x Rate of Return on Equity (%)

The growth rate calculated from this formula is also referred to as the "rate of return on reinvested equity capital" or the "implied growth rate."

The formula reflects the fact that growth in a company's revenues and EPS is driven by:

(a) the proportion of annual net earnings retained in the company; and,
(b) the profitability of these retentions.

The significance and interpretation of these fundamentals is discussed in the following material.

(1) Retention Ratio

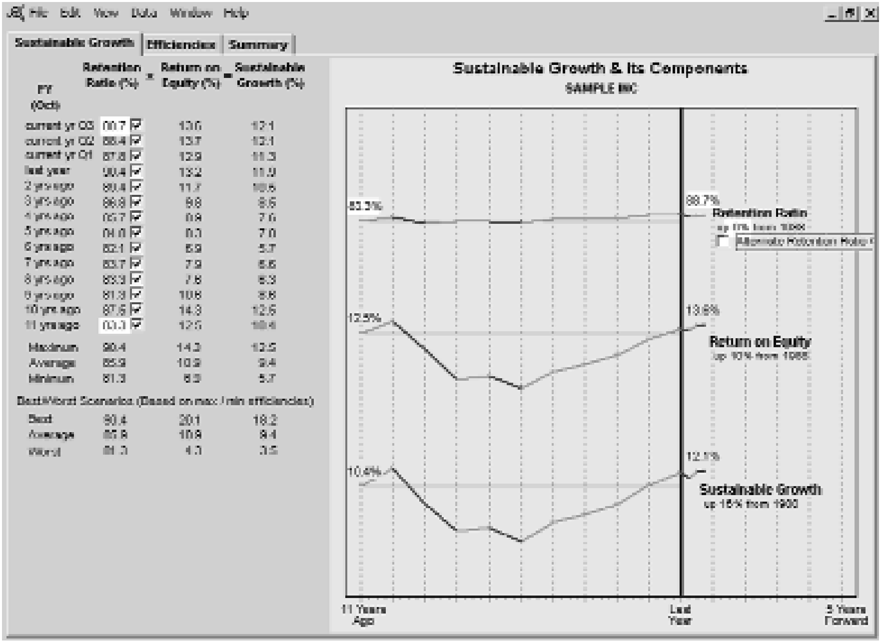
Generally, a company can do only two things with its annual net earnings; retain them in the business or pay them out as cash dividends to shareowners (or a combination of both). A company's board of directors makes this decision.

The Retention Ratio is defined as:

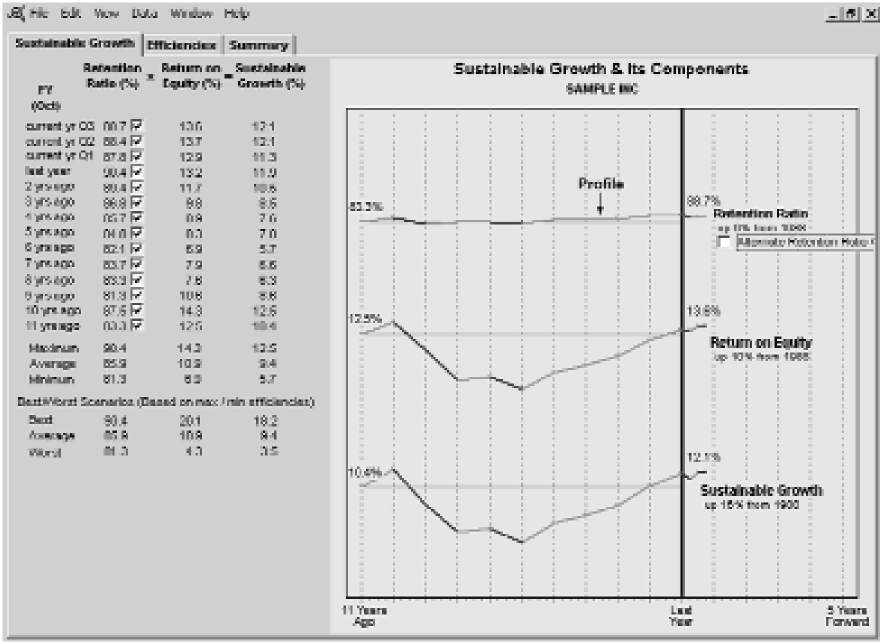
$$= \frac{\text{Earnings } \textit{minus} \text{ Dividends}}{\text{Earnings}} \text{ (x 100\% } \textit{for descriptive purposes)}$$

the proportion of net earnings retained by the firm and available for: (1) investment in revenue-producing assets such as receivables, inventories, plant and equipment; (2) paying down debt; etc.

For the trailing four quarters, Sample Inc. retained 88.7% of its Net Earnings. That is, it paid out 11.3% (ie. 100% – 88.7%) of its Net Earnings as dividends to shareowners. Furthermore, as indicated in the accompanying Growth Chart, that Retention Ratio was up 5.4% over the Retention Ratio 11 years ago (i.e. 83.3%).



All other things being equal, the higher the Retention Ratio, the higher the Sustainable Growth Rate. Accordingly, growth-oriented investors generally look for a Retention Ratio Profile that is at a high level with a flat or rising trajectory.



A review of the annual data and the Earnings Retention Profile on the Growth Chart indicates that Sample Inc. has had a generally high and consistent Retention Rate throughout the entire study period.

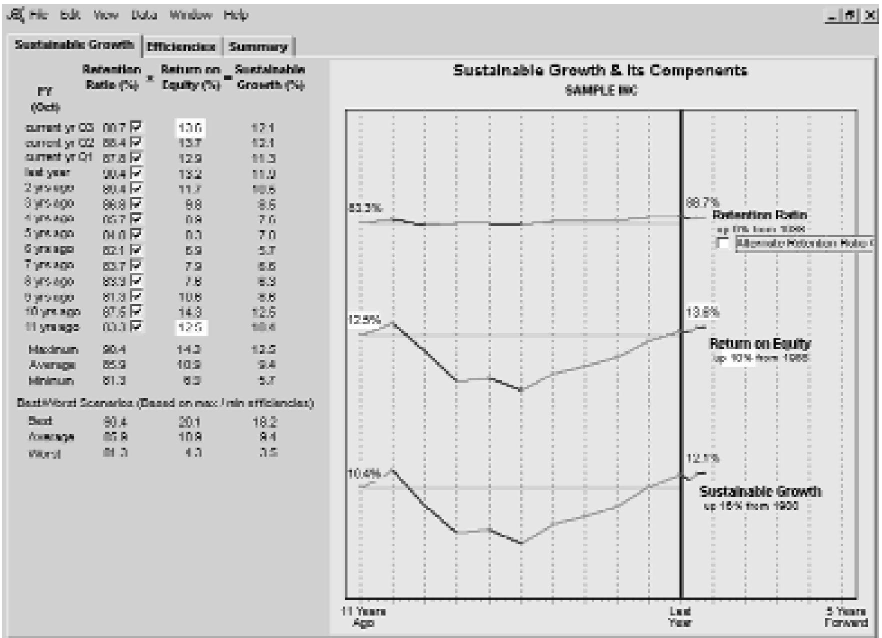
(2) Rate of Return on Equity ("ROE")

A company's "equity" consists of all the money ever raised from the sale of shares to the public plus all of the money that the company has ever earned – and retained in the business (rather than paying cash dividends).

The profitability of the incremental assets which the company purchases with the incremental retained earnings is defined as:

$$= \frac{\text{Net Earnings}}{\text{Equity}} \quad \text{(x 100\% \textit{for descriptive purposes})}$$

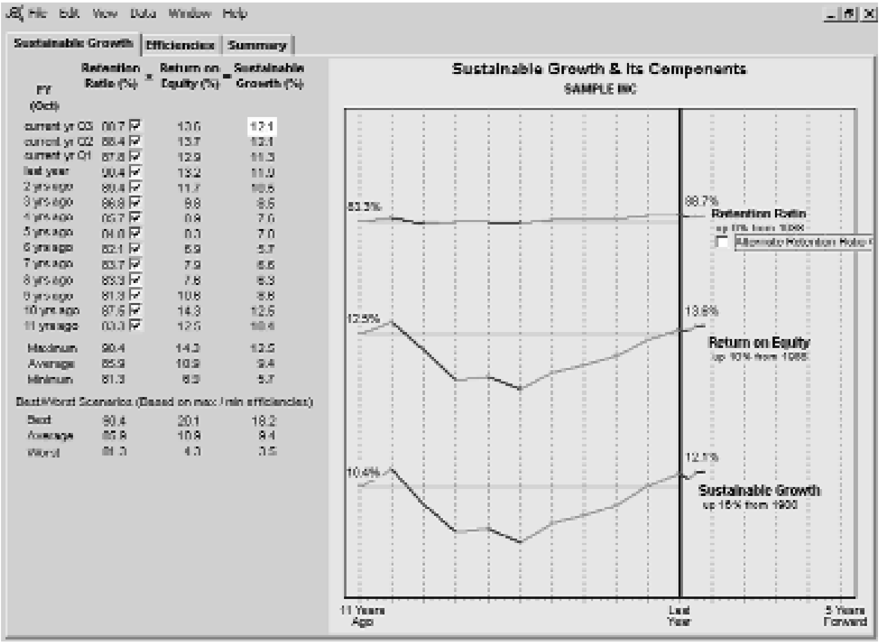
In the trailing four quarters, Sample Inc. had a Return on Equity of 13.6%. That is, last year, every $100 of equity money that shareowners had invested in the company produced $13.60 of net earnings. That Return on Equity was almost 9% higher than the Return earned at the beginning of the study period (12.5%).



All other things being equal, the higher the Return on Equity, the higher the Sustainable Growth Rate. Accordingly, growth-oriented investors generally look for a Return on Equity Profile that is at a high level with a flat or rising trajectory.

A review of the annual data and the Return on Equity Profile for Sample Inc. indicates that the Return on Equity had declined significantly during about the first half of the study period (to $6.90 of earnings for every $100 of equity) but then returned to the $12-$13 level quite steadily during the latter part of the period.

(3) Sustainable Growth Rate



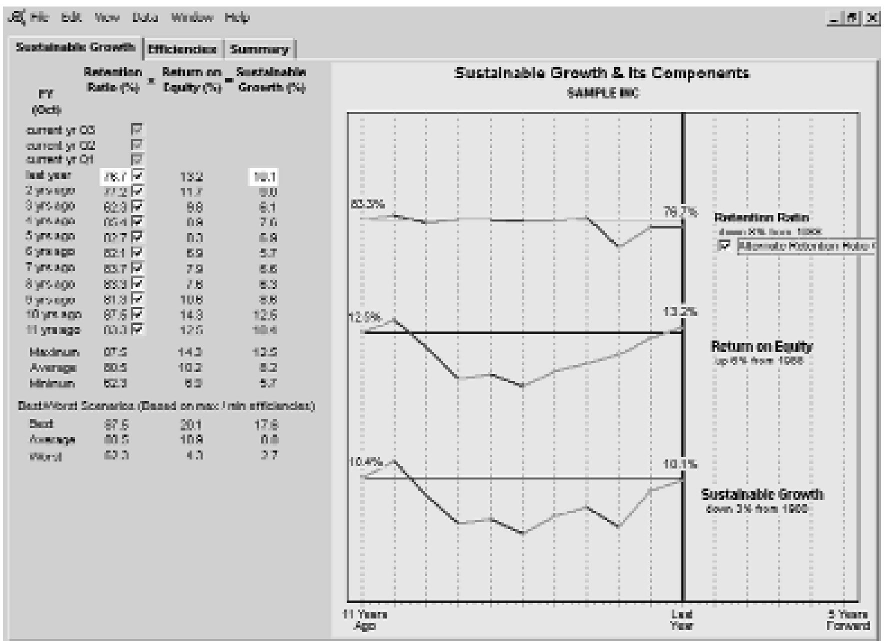
The Sustainable Growth Rate for the trailing four quarters of 12.1% is derived by multiplying its two component fundamentals; namely, the Retention Ratio, 88.7 and the Return on Equity, 13.6%.

The visual display of the historical Profiles for the Sustainable Growth Rate and its two principal components illustrates, clearly, the strong influence of the company's Return on Equity on its Sustainable Growth Rate.

Anomaly
When a company repurchases a significant number of its shares each year, the “effective” Retention Ratio is reduced. Such repurchases tend to reduce the company's sustainable growth rate.

You can observe the effect of repurchase activities on a company's Retention Ratio and sustainable growth rate by clicking on the check box labeled “Alternate Retention Ratio Calculation.”

For Sample Inc., repurchase activity reduces the effective Retention Ratio for last year to 76.7% (from 90.4%) which causes the Sustainable Growth Rate to decline to 10.1% (from 11.9%)

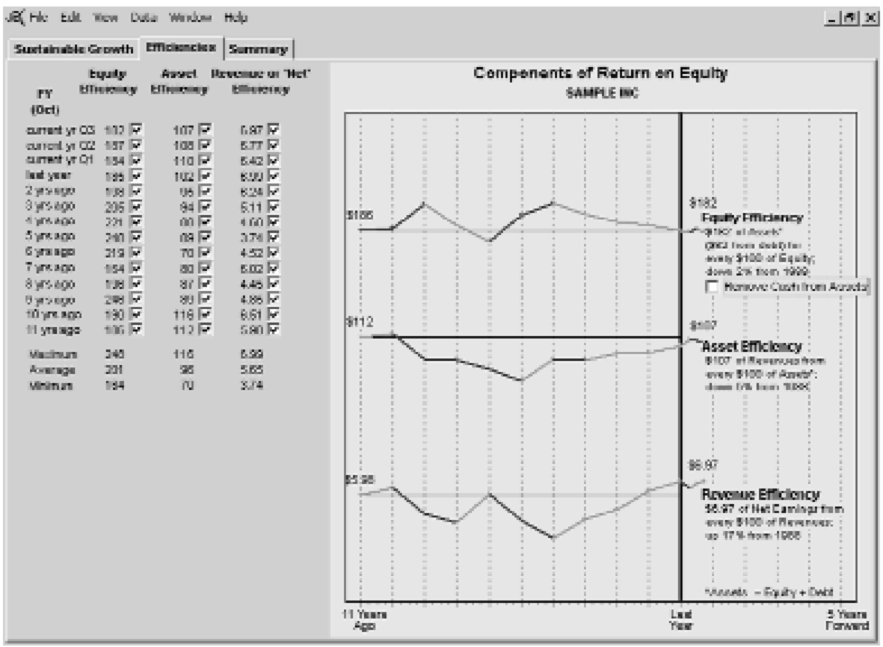


(4) Summary Estimates of the Sustainable Growth Rate
The “Maximum,” “Average” and “Minimum” values for all of the annual Sustainable Growth Rates calculated during the study period are reported in this screen.

In addition, the theoretical "Best," "Average" and "Worst" values for the company's Sustainable Growth Rate are also reported. These values are based upon data available on the "Efficiencies" screen (discussed in detail below) which is accessible through the "Efficiencies" tab at the top of the screen.

2. The "Efficiencies" Screen

Just as the value for a company's Sustainable Growth Rate is driven by the value of its component fundamentals, so too is the value of one of those fundamentals – the Rate of Return on Equity – driven by several additional fundamentals.



The Rate of Return that a company earns on its equity money is driven by:

(a) the company's efficiency in using that equity as a base for borrowing money that can also be used to acquire assets that can generate revenues ("Equity Efficiency").

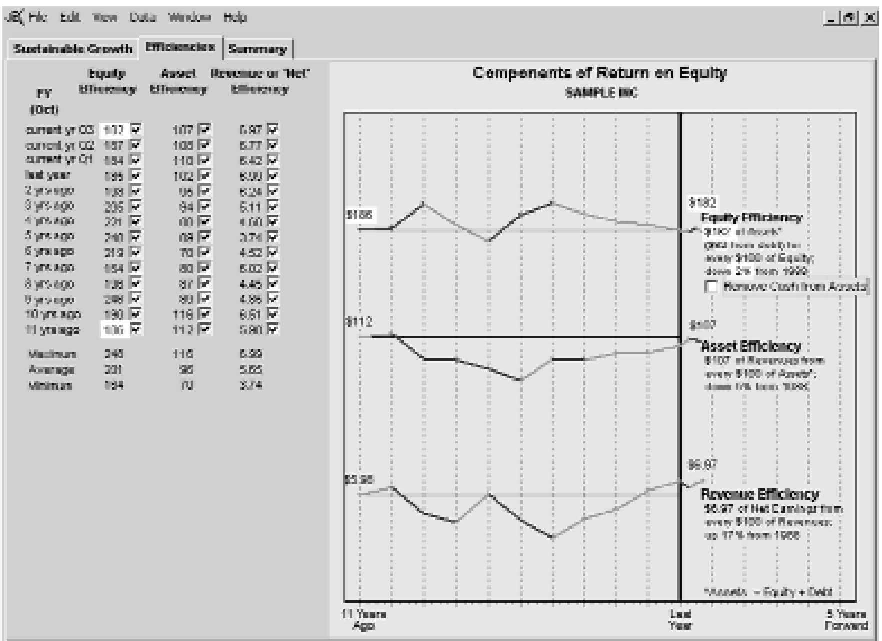
(b) the company's efficiency in generating revenues from its assets ("Asset Efficiency').
(c) the company's efficiency in converting its revenues into earnings ("Revenue Efficiency" or "Net Efficiency")

The Rate of Return on Equity is calculated as:

= Equity Efficiency X Asset Efficiency X Revenue Efficiency

Components of Return on Equity

(1) Equity Efficiency measures the company's capacity to generate assets from its equity by bringing in additional money in the form of some sort of loan.



Equity efficiency is calculated as:

$$= \frac{\text{Total Assets}}{\text{Total Equity}} \quad (\text{x } \$100 \textit{ for descriptive purposes})$$

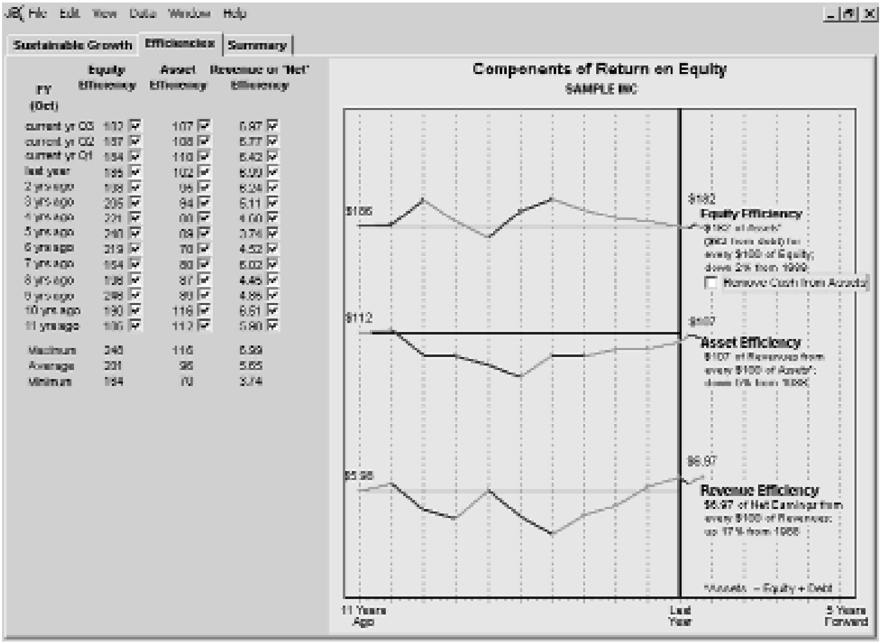
For Sample Inc.'s trailing four quarters the company had $182 of assets for every $100 of equity. Given that assets = equity + debt, the company had $82 of debt for every $100 of equity – virtually unchanged from the start of the period when there was $86 of debt for every $100 of equity.

Pros & Cons

Generally growth-oriented investors experience mixed feelings about the level of a company's Equity Efficiency.

For example, these investors generally prefer a "prudently-high" value for Equity Efficiency because it contributes to a high value for Return on Equity and for the Sustainable Growth Rate. Accordingly, growth-oriented investors would be looking for an Equity Efficiency Profile that is at a high value with a flat or rising trajectory.

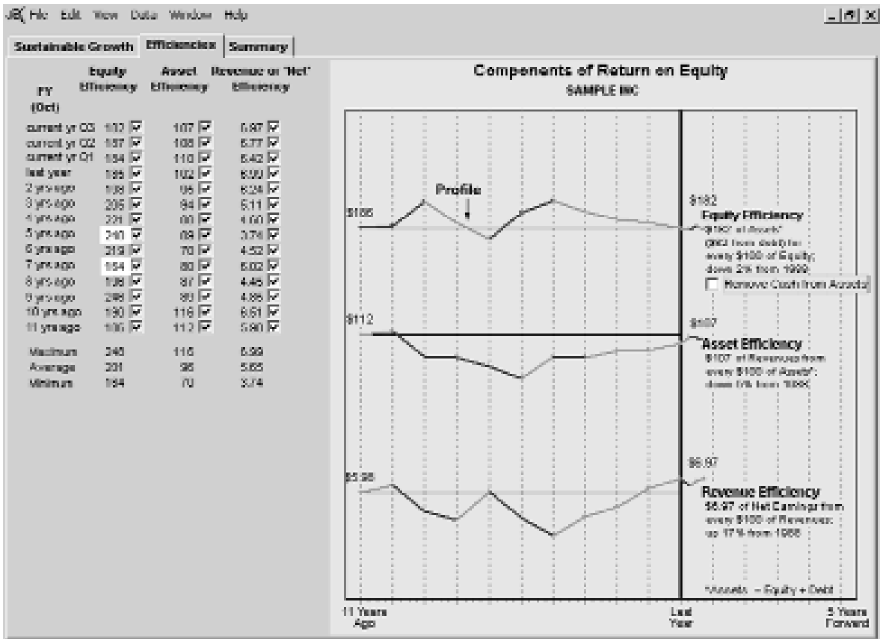
Possible reference points for defining a "prudently-high" value are the historical values for the company's Equity Efficiency; and, the Equity Efficiency values achieved by "comparable" firms.



However, a high value for Equity Efficiency indicates the presence of a high level of debt which could prejudice the company's ability to survive a decline in its business or a significant rise in interest rates.

Accordingly, growth-oriented investors may prefer an Equity Efficiency Profile that is at a low value with a flat or declining trajectory. Such a Profile indicates little reliance on debt (a high likelihood of surviving business adversity and high interest rates) and the presence of unused debt capacity which could be called upon to finance asset expansion (e.g. inventories, receivables, equipment, etc.) to support revenue growth.

A review of the annual data and the Equity Efficiency Profile indicates that Equity Efficiency has varied somewhat throughout the study period from a low of $164 for every $100 of equity to a high of $248. Generally though, no significant trend in Equity Efficiency is evident from the profile - other than what might be characterized as "normal" fluctuations.

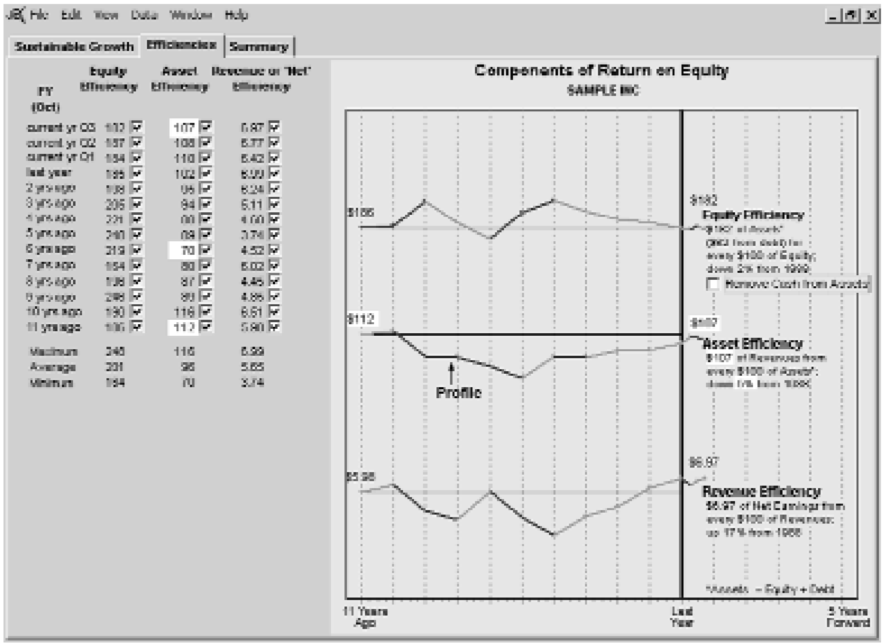


(2) Asset Efficiency measures the company's capacity to generate sales from its assets by having the right amount of inventory, credit policies, physical facilities, etc. available to generate and satisfy demand for its products and services.

Asset efficiency is calculated as:

$$= \frac{\text{Revenues}}{\text{Total Assets}} \quad (\text{x } \$100 \textit{ for descriptive purposes})$$

For the trailing four quarters, Sample Inc. generated $107 of revenues from every $100 of assets (at year end). This performance compares with the start of the study period when the company was generating $112 revenues for every $100 of assets.



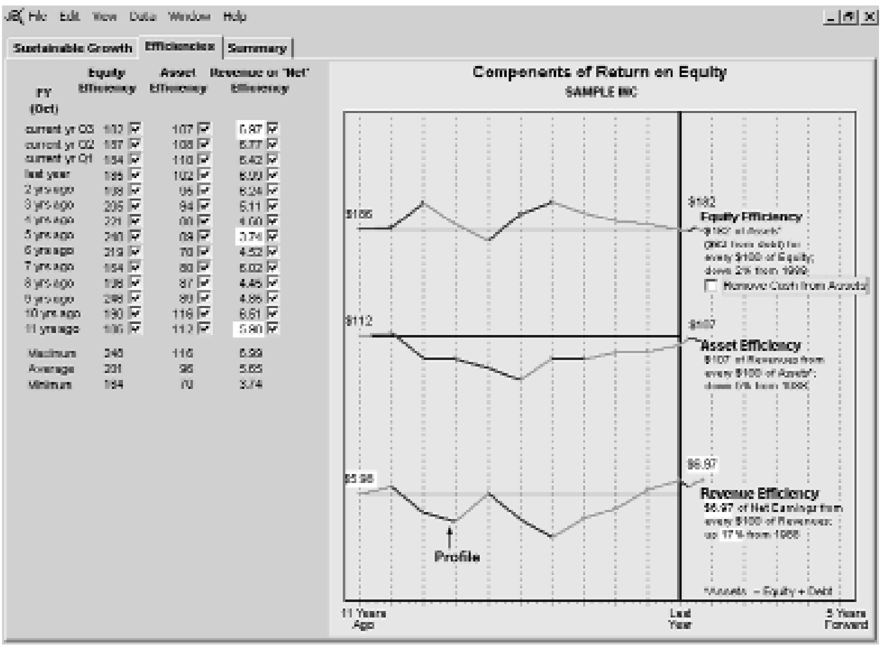
All other things being equal, the higher the Asset Efficiency, the higher the Return on Equity and the Sustainable Growth Rate. Accordingly, growth-oriented investors generally look for an Asset Efficiency Profile that is at a high level with a flat or rising trajectory.

A review of the annual data and the Asset Efficiency Profile indicates that Asset Efficiency declined significantly during about the first half of the study period (to $70 of revenues for every $100 of assets) but then returned to the $100 level quite steadily during the latter part of the period.

(3) **Revenue or "Net" Efficiency** measures the company's capacity to convert revenues into net earnings (also called "profits") after all costs of making and selling products; interest expenses on borrowed money; and, after income taxes.

Revenue Efficiency is computed as:

$$= \frac{\text{Net Earnings}}{\text{Revenues}}$$ (x 100 (% or \$) *for descriptive purposes)*

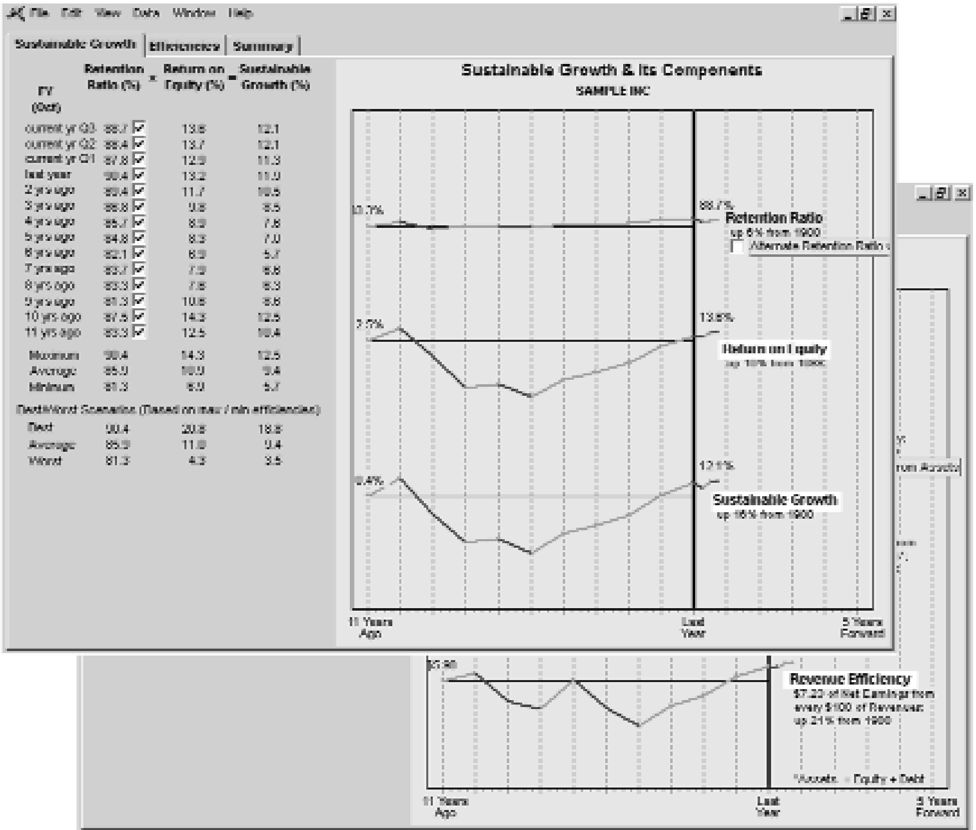


Most recently, Sample Inc. generated \$6.97 of earnings from every \$100 of revenues. This efficiency in generating earnings from revenues is a 17% improvement from the start of the study period when only \$5.98 was being generated from every \$100 of revenues.

All other things being equal, the higher the Revenue Efficiency, the higher the Return on Equity and the Sustainable Growth Rate. Accordingly, growth-oriented investors look for a Revenue Efficiency Profile that is at a high level with a flat or rising trajectory.

A review of the annual data and the Revenue Efficiency Profile indicates that Revenue Efficiency declined significantly during about the first half of the study period (to $3.74 of earnings for every $100 of revenues) but then returned to the $6 - $7 level quite steadily during the latter part of the period.

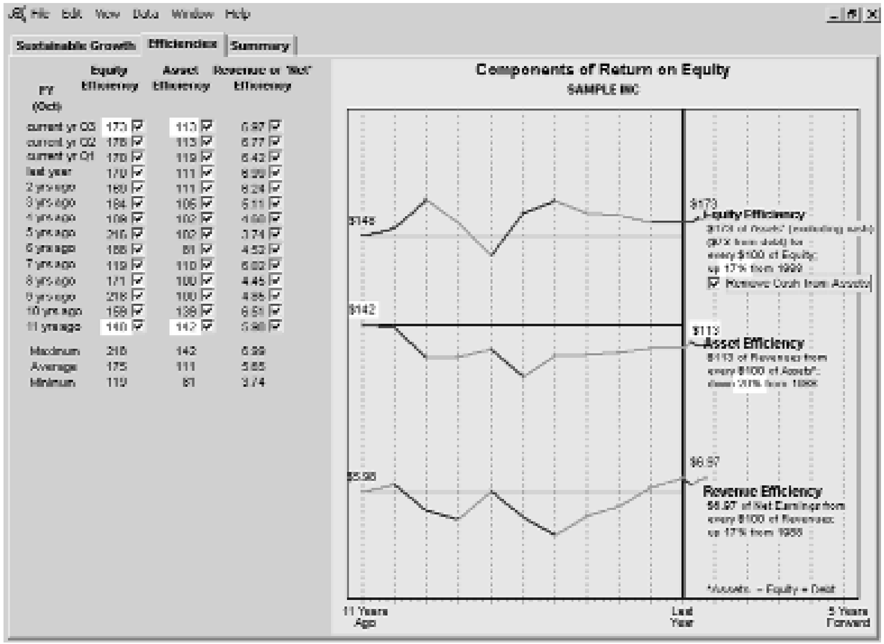
(4) **Return on Equity**
It is worth observing that of the three efficiency Profiles, the shape of the Revenue Efficiency Profile is reflected the most in the earlier noted Return on Equity Profile – whose shape is reflected strongly in the company's Sustainable Growth Profile. Thus, the driving force behind the resurgence in the company's Sustainable Growth Rate during the last five years has been improvements in the efficiency with which the company makes and sells its products and/or its ability to increase selling prices.



Anomaly

Companies often build up their cash balances in anticipation of acquisitions, major asset expansions, etc. Because of the low returns earned on cash, the Asset Efficiency Profile of these companies often indicates a downward trend for several years until the cash is actually used. This trend is also reflected in the company's Return on Equity and Sustainable Growth Rate calculations.

You can check for significant cash balances by clicking on the check box labeled Remove Cash From Assets.



For Sample Inc., removing idle cash from the Asset Efficiency calculation shows that the efficiency of the rest of the assets (typically, receivables, inventory, fixed assets etc.) in generating revenues has declined by 17% during the study period (instead of 2%).

Similarly, the company's Equity Efficiency calculation shows a 17% increase in reliance on debt to finance non-cash assets during the study period (instead of “no increase” in reliance on debt).

(5) Summary Values for the Efficiencies
The “Maximum,” “Average” and “Minimum” values for each of the three components of Return on Equity are reported in this screen.

Note that the Maximum values for each of the three components, when multiplied together, produce the “Best” value for the Return on Equity reported on the “Sustainable Growth” screen (i.e. 2.48

x 1.16 x 6.99 = 20.1 due to rounding). This theoretical Best Return on Equity is the best that the company could have earned during the study period if its financing and operations had all been at maximum efficiency.

When the Maximum (also the Best) Retention Ratio of 100% is multiplied by the Best Return on Equity (20.1), the Best Sustainable Growth Rate results.

Alternatively, the Worst Sustainable Growth Rate (3.5%) results from a multiplication of the Minimum (also the Worst) Retention ratio of 81.3% and the Worst Return on Equity of 4.3.

Why Sustainable Growth May Not = Actual Growth

Sustainable Growth Rate (%)
= Earnings Retention Ratio x Rate of Return on Equity (%)

The sustainable growth rate resulting from the application of the above formula assumes that the company is operating in a "steady-state" condition and at full capacity. If these assumptions are unreliable – and they typically are – the company's actual revenue and EPS growth rates will differ from the calculated sustainable growth rate for that year.

For example, suppose a firm follows the practice of retaining all of its earnings and using them to buy more inventory and lend more money to customers (i.e. more accounts receivable). Using data from the last fiscal year, you can calculate the firm's sustainable growth rate for the current fiscal year. However, if the firm changes one or more of its practices during the current year, the actual growth rate for the current year will differ from the calculated growth rate.

Reducing the Growth Rate
Here are some practices that cause a company's actual growth rate for the current year to be less than the calculated sustainable growth rate:

- Using retained earnings to pay down debt, repurchase shares, or hold as cash
- Increasing the cash dividend paid to shareowners
- Selling more common shares

Increasing the Growth Rate
Some practices that cause the actual rate of growth in the current year to exceed the calculated sustainable growth rate include:

- Raising the selling price of products and services or lowering production costs
- Reducing any excessive cash, inventories or plant and equipment
- Increasing the effectiveness of product advertising or sales force incentive programs

A Benchmark For Judgments About Future Growth
The availability of the sustainable growth rate calculations provides users of the *Guide* with an understanding of the key financial and operating fundamentals that influence a company's growth in revenues and EPS. In addition, the calculated values for the Sustainable Growth Rate often provide useful benchmarks for developing a well-informed judgment about the reasonableness of various revenues and EPS projections that may be developed with more intuitive methods.

Appendix A – Preferences

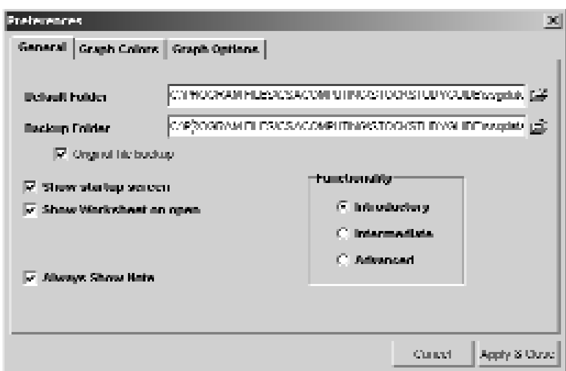
A. General Preferences

The *Guide*'s software can operate on any one of three types of functionality: Introductory, Intermediate and Advanced. Each type of functionality has default preferences to best accomodate the different levels of analysis.

The default setting for the functionality is the Introductory Level. This default level may be changed through the Edit/Preferences menu item which takes you to the "General" screen. To change the User Level simply select the desired level and click on the "Apply & Close" button.

General Preferences – Inroductory Level. At the Introductory Level, you may:

1. choose to open the program without showing its start-up or "splash" screen; and,
2. choose to open the *Guide* at the "Worksheet" screen rather than at the "Great Revenue?" screen. The default choice at the Introductory Level is to set the program to open at the "Worksheet" screen where you can update the stock's recent price.

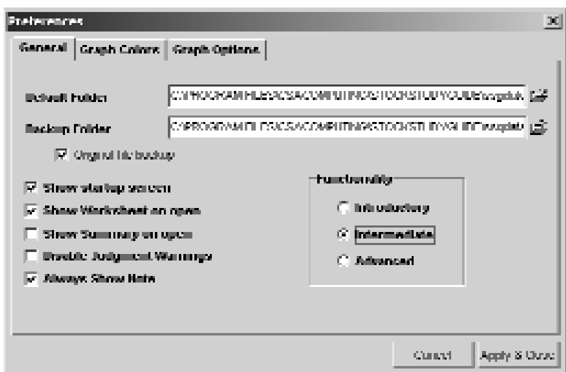


The "General" Screen also lets you set the default folder and a backup folder for locating .ssg files or saving .gr8 files. Please note that ".ssg files"are data files that the *Guide* uses in its analysis of a stock; ".gr8" files are the output files from your analysis of a company's data.

To change the default directories click on the "folder icon" to the right of the Default or Backup Folder fields and select the directory that you want the *Guide* to default to when looking to open or save .ssg or .gr8 files.

Once you have selected your preferences at the Introductory Level, click the "Apply & Close" button.

General Preferences – Intermediate Level. When the Intermediate Level is selected on the General Screen, two new default preferences become available. You may change these preferences by clicking on the applicable check box.



1. **The "Show Summary Screen on Open" preference is unchecked.** This preference is available because the program provides users with a "Summary" screen at the Intermediate Level – in addition to those screens available at the Introductory Level. The Summary screen contains all of the key data and judgment boxes needed to complete an initial study of a stock (see page 70).

   Once you've studied a number of stocks at the Introductory Level and are familiar with the program's stock-study process, you may find it convenient to study a stock initially from the Summary screen with reference, as needed, to the detailed screens available at the Introductory Level.

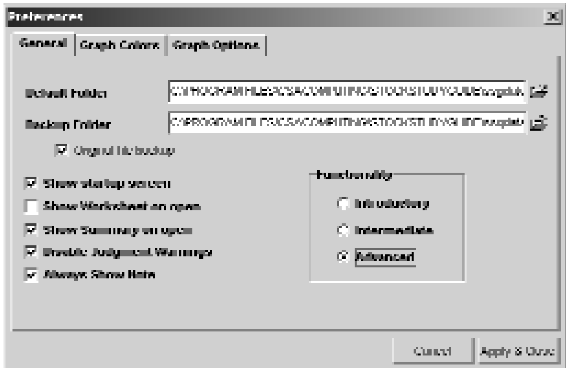
Simply click on the check box to enable access to the Summary screen when the program is opened.

2. **The "Disable Judgment" warnings preference is unchecked.** This preference is available to users who have learned the various Guidelines for judgment – available at the Introductory Level – that are an integral part of the stock-study process.

Simply click on the check box to disable the appearance of these judgment warnings.

Once you have selected your preferences at the Intermediate Level, click the "Apply & Close" button.

General Preferences – Advanced Level. When the Advanced Level is selected on the General Screen, the default preferences change to better accomodate an advanced analysis of a stock; you may change these preferences by clicking on the applicable check box.

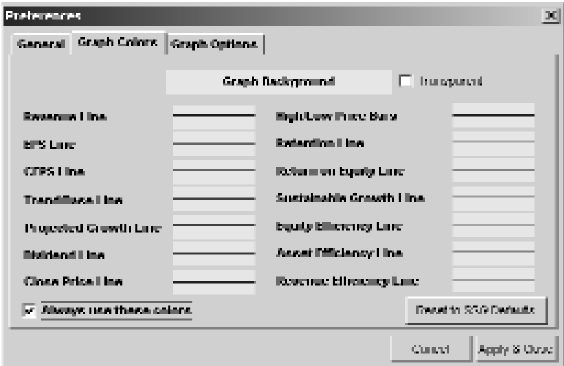


Once you have selected your preferences at the Advanced Level, click the "Apply & Close" button.

B. Other Preferences – Graph Colors and Options

Also available through the Preference menu item are the following options:

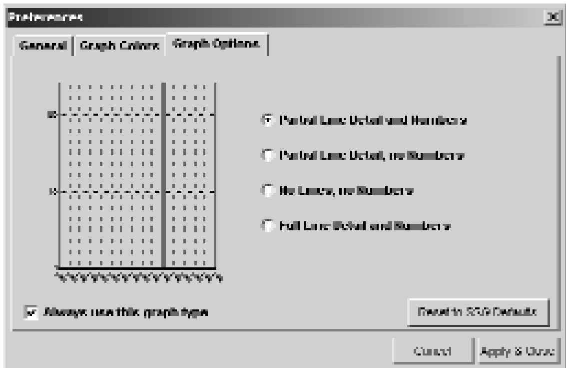
1. Set colors for lines on charts found throughout the *Guide*'s screens ("Graph Colors" screen); and,



Helpful Hint: If you set one or more of the line colors to be the same color as the Graph Background, the line(s) will not be visible on your monitor.

Clicking on the "Reset to SSG Defaults" button will return the lines and Graph Background to their original colors.

2. Set the number of background lines on the charts ("Graph Options" screen).



Clicking on the "Reset to SSG Defaults" button will return the preferences to the original selection.

Appendix B

A. Key-Entering Data

Throughout this Manual it has been assumed that the user has access to a .ssg file for Sample Inc. that the *Guide* could open and analyze.

The most ready source for .ssg files is a subscription to the *Database on CD* Service available from *ShareOwner*. Six times each year you receive a CD containing updated .ssg files for thousands of North American companies.

Visit our online store
at www.ShareOwner.com for more details.

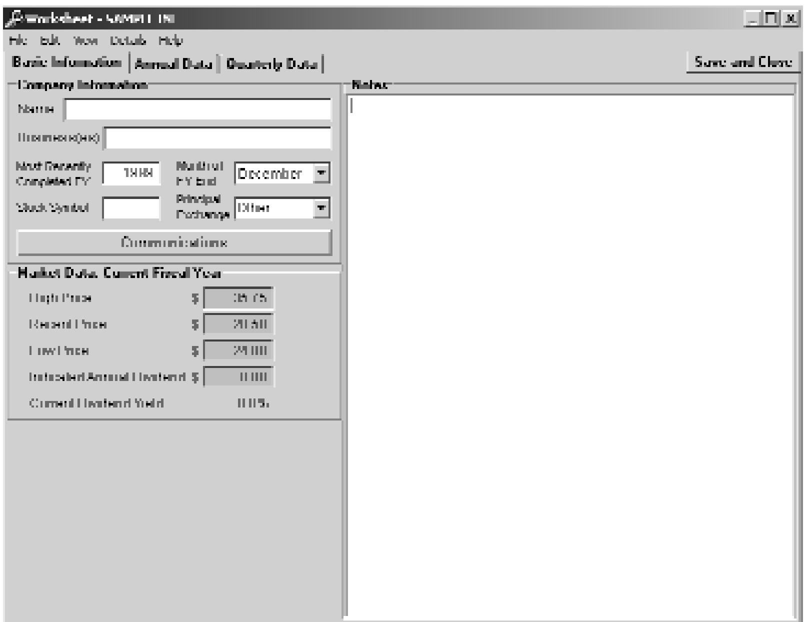
Alternatively, you can access the Data on the Internet Service – where .ssg files are updated weekly – by visiting www.ShareOwner.com and downloading individual .ssg files.

When you do not have access to a .ssg file for a stock that you wish to study you can still use the *Guide* to analyze the company's investment merits.

First though, you will have to collect the required financial data about the company.

You may obtain the required company data from, possibly: the company's annual report or web site; a third-party source such as the Financial Post Data Group, Value Line, Standard & Poors; a full service broker; etc.

Once collected, you can begin key-entering data into the program by clicking on "File" in the main menu and selecting the "New" option which will take you to the "Basic Information" screen in the Worksheet window.



Begin entering information and data in the “Basic Information” screen, the “Annual Data” and the “Quarterly Data” screens.

There is no minimum amount of information or data required for these screens; however, it is preferable to have:

(1) at least 5 years of annual Revenues, EPS, DPS and fiscal year High & Low Prices; and,
(2) at least 8 fiscal quarters of Revenues and EPS.

After entering all available annual data click on “File” in the main menu and select the “Save & Close” option to save your file as a .gr8 file.

In addition, you can save the data that you've key-entered as a .ssg file by accessing the Details/Export to File functionality in the Worksheet Screen.

B. Finding an .SSG or .GR8 file

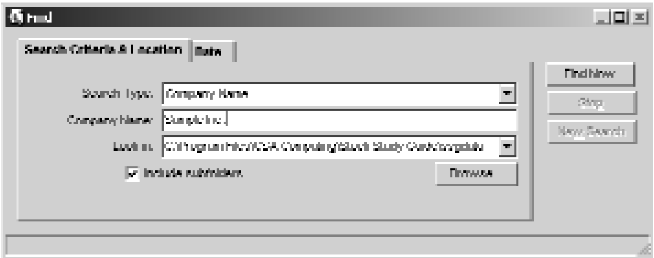
Stock Study Guide lets you search for .ssg files or .gr8 files using several conditions.

You can search for a file by Company Name, Ticker Symbol, Exchange, Industry, Most Recent Fiscal Year or by performing a Generic Text Search.

Note: All .ssg files are named according to the company's ticker symbol. The ticker symbol for a U.S. based company is followed by "-US".

To perform a search, click on "File" and then "Find" to open the "Find" window.

The “Find” window below defaults to the most common type of search which is the search by company name. To choose a different search press the drop down button to see the list of available criteria.

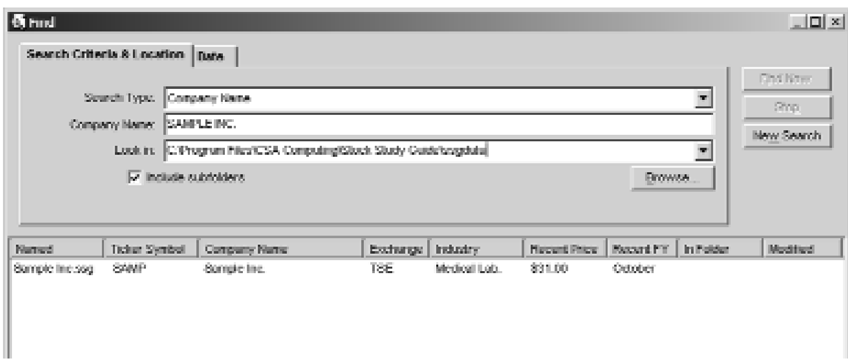


Using the example of searching by company name, enter all or part of the company's name (we'll search for Sample Inc.) in the Company Name Field that is currently blank.

Finally, specify the folder to search in by clicking on the “Browse” button. For maximum search power select your root folder on your hard drive (e.g. C:\ or D:\).

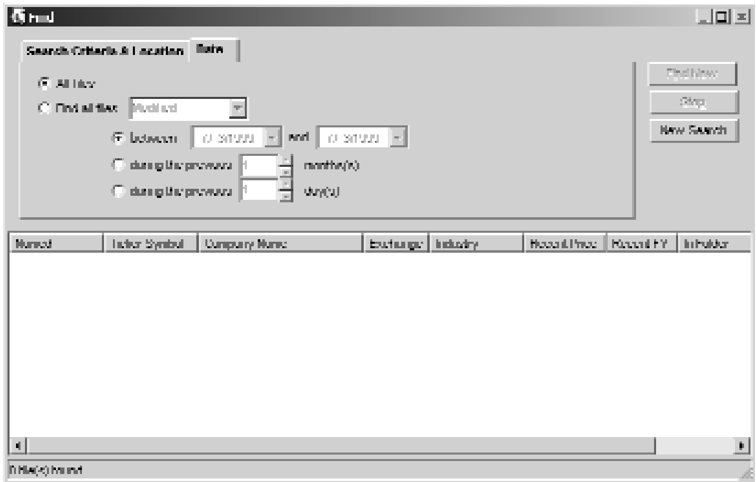
Click “Find Now” to start the search.

The search will result in a listing of all .SSG or .GR8 files containing the company name you have specified (in our example, Sample Inc.).



Double-click on the file that you wish to open. The same process can be used to search on the other criteria identified earlier.

You can also perform a search by looking for files modified, created or last accessed between two specific dates, during the last x number of months or the last x number of days. This option is available by clicking on the "Date" tab in the "Find" window. This option must be used in conjunction with a search of the "Search Criteria & Location" information.



Appendix C – Service and Support Solutions

Product Support

ShareOwner is proud of the quality of the *Guide* program and has spent a great deal of time making it intuitive to use. If, however, there is something you can't figure out how to do, we suggest you consult this Manual or the extensive on-line help Help System. The Help System can be accessed in the *Guide* at any time by depressing the F1 key, or by choosing help from the main *Guide* menu. The Help System contains most of the information from this Manual and includes numerous examples.

Should you have questions that cannot be answered through the use of the Help System or this Manual, the following alternatives are available to you.

Before You Call for Technical Support

There are three important steps you should take before seeking FAX, Mail or Telephone Support. Performing these steps can solve many problems and often eliminate the need for telephone assistance.

(1) Review What's New from the Help Menu
For last minute information not included in this Manual, see the What's New section available by clicking on the Help Menu, then What's New.

(2) Check for any Program Updates

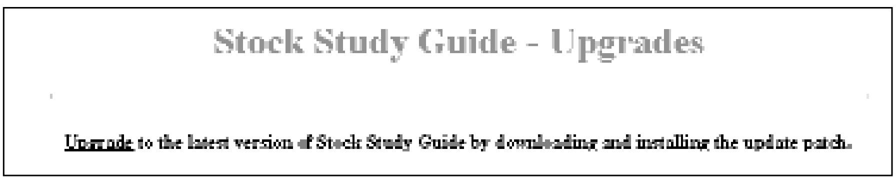
From time to time new versions of the *Guide* will be made available on our website to fix bugs or add new functionality. To access these updates you need to:

a) connect to the internet as you normally would;

b) start your *Guide* Software;

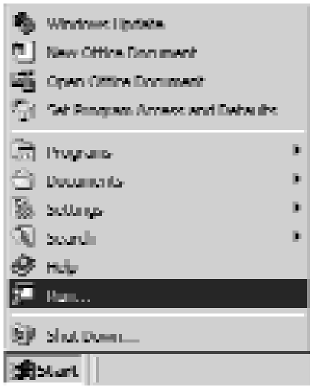
c) click on Help Menu, then World Wide Web, then Software Updates as shown below;

d) this takes your internet browser to the following webpage;



e) click on the "Upgrade" link and select the directory where you want to save the Update.exe file on your hard drive;

f) click on your Windows Start button and select the "Run" option;



g) Click on the browse button, then double click on Update.exe in the directory you saved it in and click OK;

h) Follow the on-screen instructions of the installation program to install the update.

(3) **Reinstall Stock Study Guide**
Many operational problems can be solved by simply reinstalling the program. If you encounter problems reinstalling the *Guide* software, delete all of your *Guide* application files. Do this by using Add/Remove Programs located in the Control Panel (from Windows Start Button).

Internet Support – FREE!

Review our internet knowledge base 24 hours a day – all year long – to review questions and problems posed by the users themselves and the responses from the technical support staff.

Internet Support
www.ShareOwner.com/support.htm

Fax Support – FREE!

Another way to receive support is to FAX your technical support request. Please include the following information:

- **List of steps necessary to recreate the problem.**
- Product Version Number (available from the Help About main menu of the *Guide*).

After our technical support staff has had a chance to review your FAX, one of our support representatives will respond to you.

FAX Support – (416) 595-0400

Mail-in Support – FREE!

If you prefer, you can also contact us by mail with written questions or comments. Please include the following information:

- **List of steps necessary to recreate the problem.**
- Product Version Number (available from the Help/About in the main menu of the *Guide*).

After our technical support staff has had a chance to review your letter, one of our support representatives will respond to you.

Our mailing address is:

Stock Study Guide Technical Support
4 King Street West, Suite 806
Toronto, ON   M5H 1B6

Telephone Support

Registered users of the *Guide* are entitled to free telephone support (subject to availability) for 30 days from the time of their purchase. *Guide* support is available from 8:30 a.m. to 5:00 p.m. E.S.T. Please have available the following information:

- **List of steps necessary to recreate the problem.**
- Product Version Number (available from the Help About main menu of the *Guide*).

Telephone Support	**(416) 595-9600**
Toll Free	**1-800-268-6881**

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