

Stock Selection Criteria Descriptions

Current Closing Price – This is the last trading price recorded when the market closed for the day. If the closing price is higher or lower than 5% from the previous day’s closing price, the entire listing for that stock is boldfaced in some publications.

Hi/Lo (52 wk) – The first two columns listed on the stock tables shows the highest and lowest prices for the stock during the preceding 52-week period. This price does not include the latest trading day.

Dividend – A dividend indicates the annual payment per share of a stock designated by the company for stockholders. Common shares dividends vary with the business condition of the company and are evaluated regularly by a firm’s directors.

% Yield – The yield represent the dividend return an investor can expect on each share of stock purchased. It is calculated by dividing the dividend that each share pays by its current market value, and is expressed as a percentage.

Example: \$1.00 in dividend by a price of \$10.00 = 10% yield
 \$1.00 in dividend by a price of \$5.00 = %20 Yield

P/E Ratio – The P/E ratio is a calculation that evaluates a stocks relative performance and value. It is computed by dividing the stock’s price by the company’s per share earnings for the most recent four quarters. Higher P/E multiples suggest that investors are more optimistic about a stocks prospects than comparable lower P/E stocks, but the reasons for high and low P/Es also include the company’s growth outlook, the industry in which the company is engaged, the company’s accounting policies, and whether the company is a start-up firm or a more established business.

Stock Example: P/E – Stock price compared to the “company earnings” per share (EPS) reported in ratio (i.e., profit divided by the number of shares outstanding). Low P/E – a better return on investment.

	<u>Stock A</u>	<u>Stock B</u> *
Price	\$10.00	\$20.00
Earnings per share	\$2.00	\$2.00
P/E Ratio	5	1

* Stock B is more expensive than Stock A in terms of earnings. For Stock B, you must pay \$20.00 to earn \$2.00, but for Stock A, you pay only \$10.00 to earn \$2.00.

Ratio Example:

	P	\$1.00 = 1 - PE Ratio *
	E	\$1.00
	P	\$1.00 = 10 - PE Ratio
	E	\$.10
	P	\$1.00 = 100 - PE Ratio
	E	\$.01

* The ratio is the number of times greater the stock price is to the corporate earnings.

Beta # - Beta refers to risk measurement or volatility of a stock (i.e., the percentage of change for the stock’s return compared to the change in the return of the market). If the returns are the same, the ratio is 1.00. A beta of 1.00 means that the stock has the same percentage of change as the market. In the Stock market Game one tries to perform better than the market, thus a beta

greater than 1.00 would be desired. A high beta # would indicate more volatility than the current market. When the market indicators shift, the high beta stock will move more in the direction that the stock is presently headed. For example, if a stock has a beta of 1.35 and the market has changed by 10 %, how much has the stock changed in return?

Example: $1.35 - X / 10 \text{ percent}$ $X = 13.5 \text{ percent} *$

* The 13.5% stock return change indicates that this stock has a greater risk of change than the market.

Trading Volume – This figure shows the total number of shares traded for the day (listed in hundreds); thus “363” would mean 36,300 shares. When a “z” precedes the volume number of shares traded, the number is the actual shares traded. For example, “z20” means 200 shares, not 2,000 shares. Stocks with large volume surges compared with their usual range are usually underlined.

Price History – The current stock price versus the past stock price.

Listed Exchange – One of the organized stock markets with a centralized trading floor. In this market, auction-type trading allows traders to sell stocks to the highest bidder, or buy stocks from the lowest seller. These markets consist of the New York Stock Exchange and the American Stock Exchange, both located in New York City. Also included are the regional stock exchanges found outside of New York City: the Boston, Cincinnati, Intermountain (Salt Lake City), Midwest (Chicago), Pacific (Los Angeles and San Francisco), Philadelphia (Philadelphia and Miami) and Spokane stock exchanges.

Management/Labor – The age, vigor, creativity, openness, ability and organizational style of the operating executives are all important considerations when analyzing a corporation. A sound strategic plan, with company objectives and methods to reach them, will eventually be reflected in the financial position of the firm. Good labor-management relations are also favorable to investment strategies. Human resource development and training programs for workers should be an important consideration. A Key way for a firm to increase productivity is to invest in human capital.

Competition – Domestic and foreign competition requires managing, marketing, advertising and efficient use of productive resources (land, labor and capital) to maintain a healthy market share and earnings. In a case where foreign competition offers lower labor and raw material costs, the firm may be faced with difficult decisions about how to lower costs to be price competitive.

New Technology – A firm must be willing to use new human and capital resource management techniques to solve business challenges. It is important that firms use available technology to compete with similar firms. Firms should use the necessary computer technology to facilitate management and production. Does the firm plan for the use of new technology as it becomes necessary to maintain and improve earnings and market share?

Research & Development – Research and development is significant to the progress of new projects and ideas for innovation. The type of industry and firm will determine the costs and significance of research and development.

Annual Report – A report conducted on a company’s financial status over a period of time is helpful in analyzing the firm’s financial position. The income statement in the report totals the firm’s revenue, subtracts expenses and pinpoints how much money the company made or lost during this time period.

Strikes/Scandals – A strike is the act of stopping work in order to receive better conditions such as higher wages and safer working conditions, whereas a scandal is an act that could result in a

bad reputation for the firm. A firm's stability can often be affected by acts such as strikes and scandals.

Accidents/Hazards – An accident is an occurrence which results in damage or loss to a firm. A hazard is something that causes the change or risk or danger.

Safety – This criteria refers to the financial safety of the principal and risk involved in investing. Risk is the likelihood of a loss or an expected return. There is a direct relationship between risk and reward. Generally, the lower the risk, the lower the potential reward. Investors to whom savings for retirement, the purchase of a home, or their children's education are major considerations would probably choose safety (low risk stocks) as an objective. Although no stock is absolutely safe, diversification of the portfolio can minimize the risk. The types of investment instruments with the lowest risk factor include high quality, highly rated, "blue chip" stocks, utility stocks such as many mutual funds, and government bonds.

Takeover Bids – This is an offer to buy controlling or full interest in a corporation through the purchase of voting shares of stock.

Products/Services – The good or service produced by the firm should be considered along with the supply and demand for that good or service in the market.

Current Debt Ratio – A balance sheet sets forth the various types of assets and liabilities of the firm. An excess of current assets (cash, inventory, account receivable) over current liabilities (accounts payable, short-term debt) is viewed as favorable. This information is expressed in the current debt ratio. A ratio of 1.0 means that assets are equal to liabilities. A ratio greater than 1.0 means that assets are greater than liabilities. A ratio less than 1.0 means that assets are less than liabilities. While there are many exceptions, analysts often say that minimum safety requires a current ratio of 2.0. This means that for each dollar in current liabilities, there are two dollars in current assets.

Speculation – To speculate means to take a risk. Speculation is usually referred to as short-term profit rather than long-term investment. There are thousands of stocks that do not provide income, nor do they have growth records. When such stock is purchased, a change is taken that the company will become successful and the stock price will go up (possibly double or triple in price). For example, suppose that you had purchased stock in a bicycle company just before bicycles became popular; you might now be rich because you purchased stock at a time of low demand. So, speculation means prediction. If you are not good at predicting outcomes, there is a change that you will lose some money with speculative stocks. The risks are great for investing in these types of stocks, but so are the rewards.

Broker Recommendation – Financial ideas or suggestions for investments are offered by brokerage firms or brokers who act as intermediaries between a buyer and a seller. A commission is charged for this service.

Charting – The plotting of the high, low, and closing prices of a stock for a period of time.

Factors of Production – The factors of production used by a firm to produce their goods or services should be considered when investing in a company.

Land – natural resources; gifts of nature in and on the land.

Labor – human resources; education, skills, talent, strength, training, health, etc.

Capital – business capital; equipment, machinery, new factories, roads, ports, computers, etc.

Entrepreneurship – innovation, creation, risk; combines land, labor, and capital.

Profit – The amount by which revenue exceeds cost.