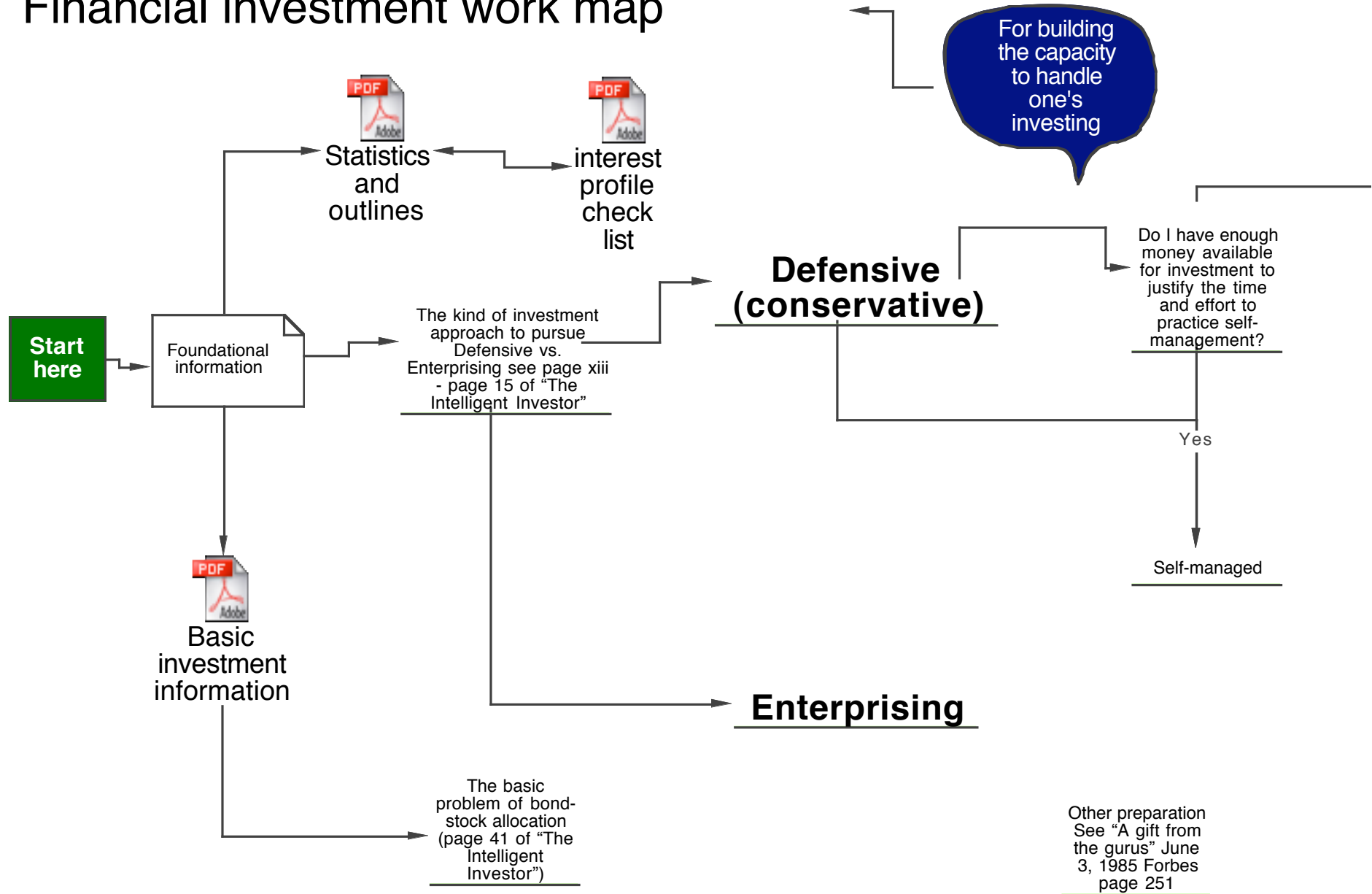
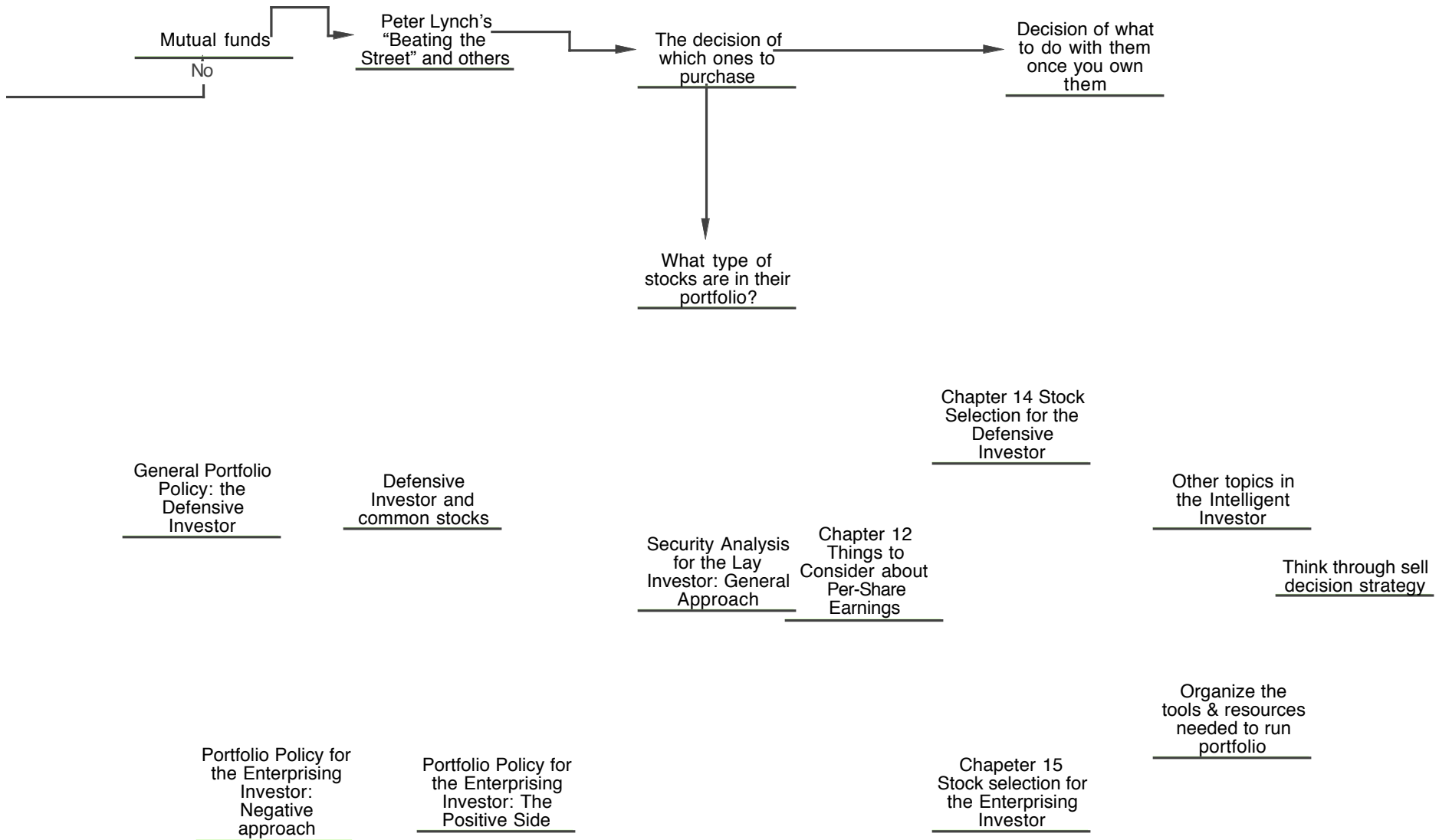


# Financial investment work map

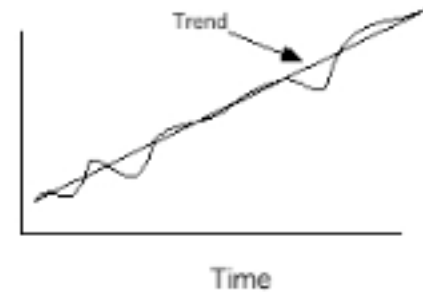
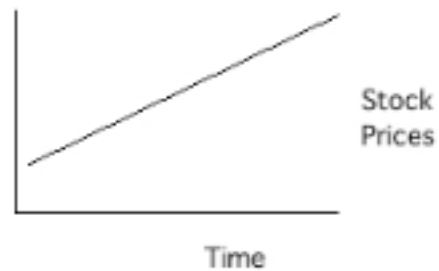
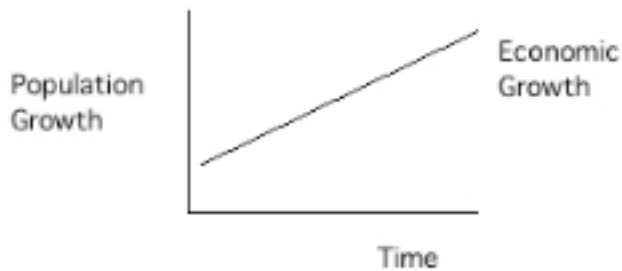




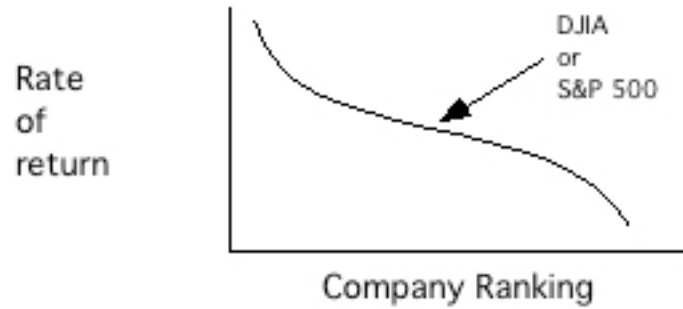
## Some basic investment information

### □ Basic strategic map

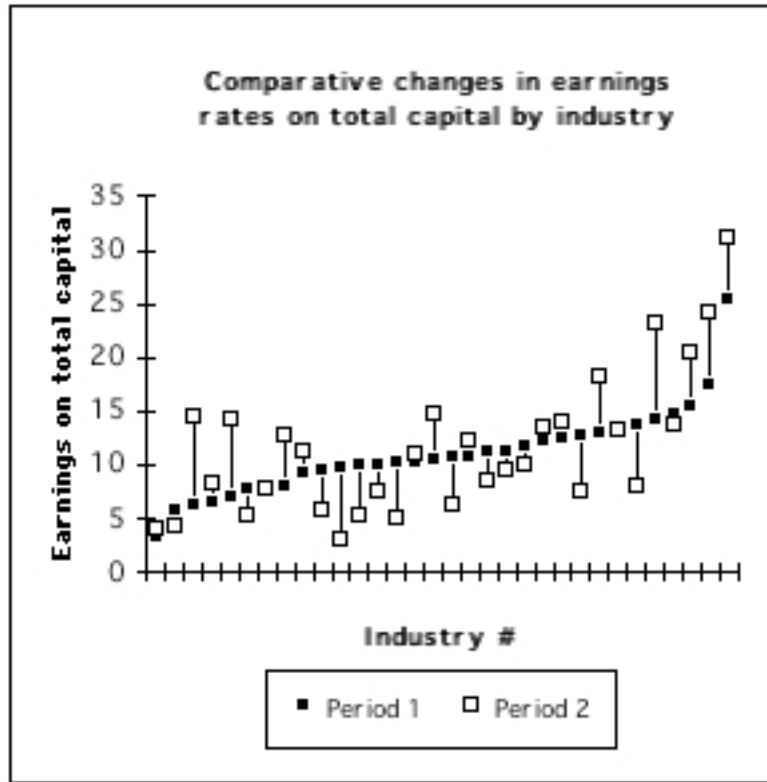
- ▲ Population and economic growth are reflected in the stock market. Productivity and innovation (that has a substantial impact on the social environment) are the real sources of wealth



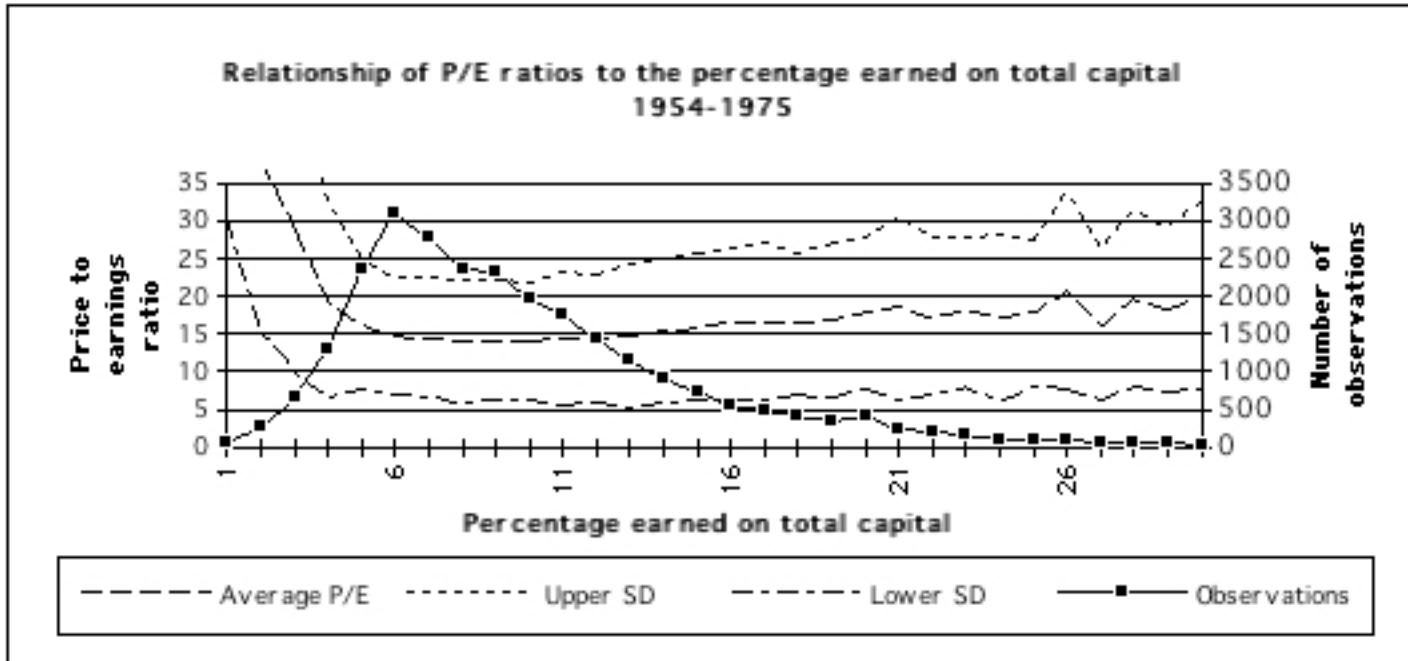
- ▲ Prices of individual securities between any two dates form a curve. The market averages (DJI & S&P) tend to fall below the median individual stock price



- ▲ Individual corporate and industry profits are constantly shifting position



- ▲ Prices that stock buyers pay for a given level of profitability vary considerably



□ **The Investor and His Advisors**

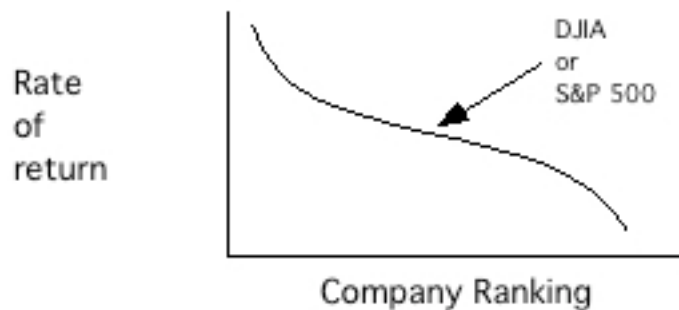
Chapter 10 of "The Intelligent Investor" by Benjamin Graham

▲ **Be careful ...**

- Dishonest people
- Misinformed people
- Uniformed people

▲ **If anybody actually believed they knew what they were doing they would:**

- Not bother advising other people
- Borrow money at low rates (3-5%) and invest at high rates (above 15%) and their names could be found on the Forbes wealthiest list.
- Have small portfolios consisting of only those stocks at the top whose rates of return are well above 40%



❑ **The New Speculation in Common Stocks**

Page 292 of "The Intelligent Investor" by Benjamin Graham

- ▲ The uncertain validity of past phenomena as a guide to the present and future
- ▲ The paradoxes and pitfalls of primary emphasis upon future expectations
- ▲ The margin of safety and the middle course
- ▲ and more ...
- ▲ See what am I going to do about high P/E ratios?

Click link to go to document

❑ **Technological Companies as Investments**

Page 305 of "The Intelligent Investor" by Benjamin Graham

- ▲ Very risky, low expected return, often a sucker's game

❑ **The Investor and Market Fluctuations**

Chapter 8 of "The Intelligent Investor" by Benjamin Graham

- ▲ Buy low (when other people have given up hope)
- ▲ Sell high (when other people think that prices will go up, up, up!)
- ▲ Acquiring and holding suitable securities and suitable prices
- ▲ "If it is virtually impossible to make worthwhile predictions about the price movement of stocks, it is completely impossible to do so for bonds"

- ❑ **The decision on whether to be a speculator or an investor**  
Chapter 1 of "The Intelligent Investor" by Benjamin Graham
- ❑ **The decision on whether to be a "defensive" or an "enterprising" investor**  
Chapter 1 of "The Intelligent Investor" by Benjamin Graham
- ❑ **Mutual fund decision**
  - ▲ Chapter 9 of "The Intelligent Investor"
  - ▲ See Peter Lynch's "Beating the Street" (also available on tape)
  - ▲ Warren Buffett web site info
  - ▲ Decisions
    - Which type to buy
    - Which specific ones to buy
    - Whether to jump from one fund to another chasing performance
    - See the Investor and Market Fluctuations
  - ▲ What type of stocks are in their portfolio?

□ **Summary of investment principles**

Page 286 of "The Intelligent Investor" by Benjamin Graham

▲ **Know what you're doing**

○ **or stick to normal interest & dividend income**

▲ **Keep other people's hands off your money**

▲ **Do your arithmetic**

A fair chance to yield a reasonable profit

○ **See Stock Return Calculator**

▲ **"To achieve satisfactory investment results is easier than most people realize. To achieve superior results is harder than it looks"**

○ **Have the courage of your knowledge and experience**

\* **Or ...**

▼ **Limit ambition to capacity**

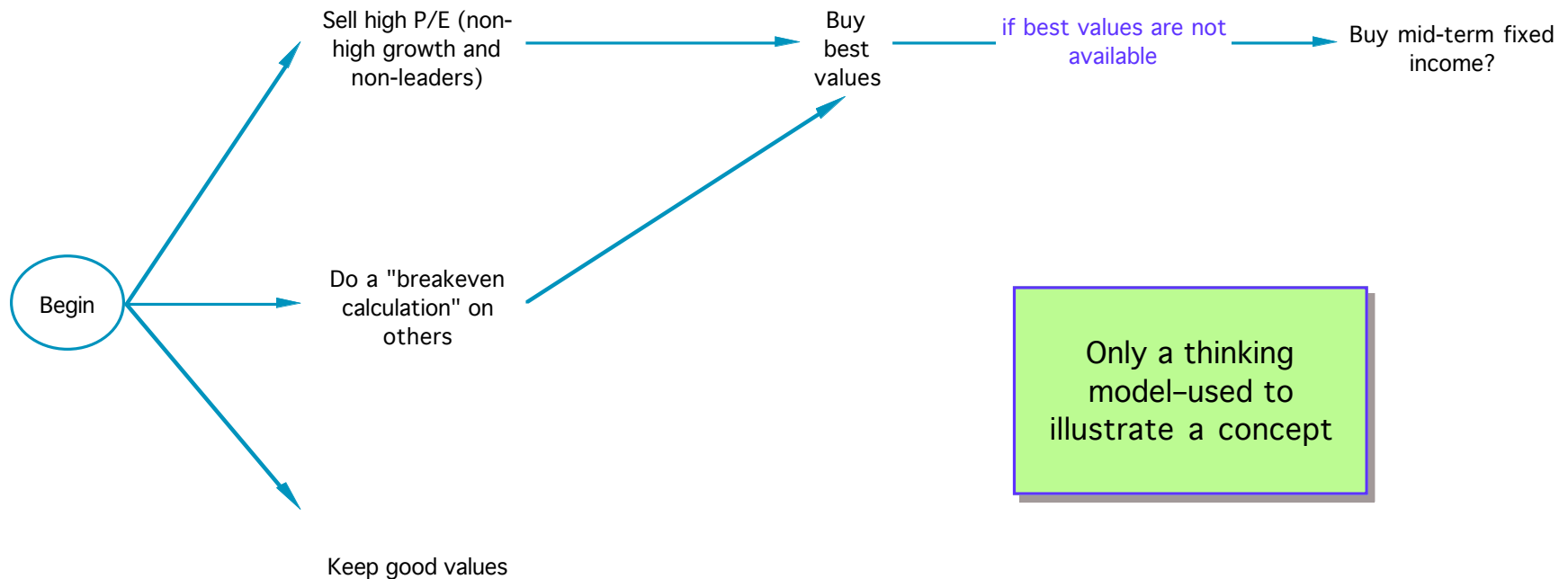
▼ **And confine activities within safe and narrow path of standard, defensive investment**

□ **Organization Evolution**

Page 288 of "The Intelligent Investor" by Benjamin Graham

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# What am I going to do about high P/E ratios?



# Stock Return Calculator

## Rate of return

### Facts & assumptions:

\$2.15 Current earnings (EPS)  
 10.00 % EPS growth rate 1  
 5 yrs EPS growth period 1  
 5.00 % EPS growth rate 2  
 0.25 Current dividends  
 5.00 % Dividend growth rate 1  
 5 yrs Dividend growth period 1  
 3.00 % Dividend growth rate 2  
  
 \$45.00 Current price  
 \$0.25 Spread  
 1.00 % Commission rate  
  
 15 yrs Length of time stock is to be held (25 years is the maximum)  
 13.0 x Future P/E ratio  
 5.00 % Before tax rate of return on dividends re-invested elsewhere  
 35.00 % Marginal income tax rate (now and in the future)

### Calculations:

\$45.70 Current net price (spread & commission)  
 20.9 x Current P/E ratio  
 4.5 x Current Price/Book Value  
 3.25 % After-tax rate of return on dividend re-investment  
 \$5.64 EPS when sold  
 0.6 x Ratio of future P/E to current P/E  
 \$72.34 Net price when sold (spread & commission)  
 \$6.46 Future value of dividends (after tax)  
 \$9.32 Taxes on capital gain  
 \$69.48 Total proceeds after taxes  
 2.83% Rate of return (after tax)

## Growth check

\$10.00 Book value per share (BVPS)

### Growth check calculations

21.50 % Return on equity (ROE=EPS÷BVPS)  
 11.63 % Dividend payout (DPO=DPS÷EPS)  
 19.00 % Sustainable growth

Compare to  
EPS growth  
rate

Add some comparison  
data.  
What are the  
probability  
distributions for  
growth rates, future  
P/E ratios, interest  
rates and tax rate  
assumptions?

This is the "answer" to  
use in the comparison  
of investment  
alternatives

| Year | EPS<br>growth<br>rate | Dividend<br>growth<br>rate | EPS  | Dividends | Dividend<br>payout | BVPS    | ROE    |
|------|-----------------------|----------------------------|------|-----------|--------------------|---------|--------|
| 1    | 10.0 %                | 5.0 %                      | 2.37 | 0.26      | 11.1 %             | \$12.10 | 21.4 % |
| 2    | 10.0 %                | 5.0 %                      | 2.60 | 0.28      | 10.6 %             | \$14.43 | 19.6 % |
| 3    | 10.0 %                | 5.0 %                      | 2.86 | 0.29      | 10.1 %             | \$17.00 | 18.2 % |
| 4    | 10.0 %                | 5.0 %                      | 3.15 | 0.30      | 9.7 %              | \$19.84 | 17.1 % |
| 5    | 10.0 %                | 5.0 %                      | 3.46 | 0.32      | 9.2 %              | \$22.99 | 16.2 % |
| 6    | 5.0 %                 | 3.0 %                      | 3.64 | 0.33      | 9.0 %              | \$26.30 | 14.8 % |
| 7    | 5.0 %                 | 3.0 %                      | 3.82 | 0.34      | 8.9 %              | \$29.77 | 13.6 % |
| 8    | 5.0 %                 | 3.0 %                      | 4.01 | 0.35      | 8.7 %              | \$33.43 | 12.7 % |
| 9    | 5.0 %                 | 3.0 %                      | 4.21 | 0.36      | 8.5 %              | \$37.28 | 11.9 % |
| 10   | 5.0 %                 | 3.0 %                      | 4.42 | 0.37      | 8.4 %              | \$41.33 | 11.2 % |
| 11   | 5.0 %                 | 3.0 %                      | 4.64 | 0.38      | 8.2 %              | \$45.59 | 10.7 % |
| 12   | 5.0 %                 | 3.0 %                      | 4.87 | 0.39      | 8.1 %              | \$50.07 | 10.2 % |