1 VISUAL ANALYSIS of Sales, Earnings and Price

RECENT QUARTERLY FIGURES
SALES  EARNINGS PER SHARE

Latest Quarter

Year Ago Quarter

Percentage Change

See Chapters 8, 9, and 10 of the NAIC Official Guide for complete instructions.
Use this Guide as working section of NAIC Stock Selection Guide & Report.

19 19 19 19 19 19 19 19
(1) Historical Sales Growth %
(2) Estimated Future Sales Growth %
(3) Historical Earnings Per Share Growth %
(4) Estimated Future Earnings Per Share Growth %
### EVALUATING MANAGEMENT

| % Pre-tax Profit on Sales (Net Before Taxes / Sales) |
| % Earned on Equity (E/S - Book Value) |

### PRICE-EARNINGS HISTORY as an Indicator of the Future

This shows how stock prices have fluctuated with earnings and dividends. It is a building block for translating earnings into future stock prices.

<table>
<thead>
<tr>
<th>Year</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>H</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HIGH</td>
<td>LOW</td>
<td>Earnings Per Share</td>
<td>Price Earnings Ratio</td>
<td>Dividend Per Share</td>
<td>% Payout</td>
<td>% High Yield</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVERAGE PRICE EARNINGS RATIO</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### CURRENT PRICE EARNINGS RATIO

### EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A **HIGH PRICE — NEXT 5 YEARS**

\[ \frac{\text{Avg. High P/E}}{\text{357 at 65\%}} \times \text{Estimated High Earnings/Share} = \text{Forecast High Price} \]

B **LOW PRICE — NEXT 5 YEARS**

(a) \[ \frac{\text{Avg. Low P/E}}{\text{367 at 65\%}} \times \text{Estimated Low Earnings/Share} = \]

(b) \[ \text{Avg. Low Price of Last 5 Years} = \]

(c) \[ \text{Recent Severe Market Low Price} = \]

(d) \[ \frac{\text{Price Dividend Will Support}}{\text{Present Div.}} = \]

\[ \text{Selected Estimated Low Price} = \]

C **ZONING**

\[ \frac{\text{High Forecast Price}}{\text{441}} \text{ Minus} \frac{\text{Low Forecast Price}}{\text{481}} = \text{Range} \]

\[ \frac{1}{3} \text{of Range} = \]

\[ \frac{\text{Lower 1/3}}{\text{481}} \text{ to } \text{Buy} \]

\[ \frac{\text{Middle 1/3}}{\text{481}} \text{ to } \text{Maybe} \]

\[ \frac{\text{Upper 1/3}}{\text{481}} \text{ to } \text{Sell} \]

Present Market Price of ______ is in the ______ Range

D **UP-SIDE DOWN-SIDE RATIO (Potential Gain vs. Risk of Loss)**

\[ \frac{\text{High Price}}{\text{441}} \text{ Minus Present Price} = \]

\[ \text{Present Price} \text{ Minus Low Price} = \]

To 1

E **PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)**

\[ \frac{\text{High Price}}{\text{441}} \text{ Minus Present Market Price} = \]

\[ \frac{1}{100} = \]

\[ % \text{ Appreciation} \]

### 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A **Present Full Year's Dividend $**

\[ \frac{\text{Present Price of Stock}}{\text{5A}} \times 100 = \]

Present Yield or % Returned on Purchase Price

B **AVERAGE YIELD OVER NEXT 5 YEARS**

\[ \frac{\text{Avg. Earnings Per Share Next 5 Years}}{\text{X Avg. % Payout}} = \]

\[ \text{Present Price} = \]

\[ % \]

C **ESTIMATED AVERAGE ANNUAL RETURN OVER NEXT FIVE YEARS**

5 Year Appreciation Potential =

\[ \frac{\text{Average Yield}}{\text{5A}} \times % \]

\[ \frac{\text{Average Total Annual Return Over the Next 5 Years}}{\text{5C}} \times % \]

Table to Convert From Simple to Compound Rate

© 1996 National Association of Investors Corporation; 711 West Thirteenth Mile Road, Madison Hts., Michigan 48071

ST-1060