



Value Line®

# ESSENTIAL STEPS

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# TO PICKING A STOCK

# VALUE LINE'S ESSENTIAL STEPS TO PICKING A STOCK



The Value Line Investment Survey® contains a wealth of data – past, present and future. Here we outline our top six factors to consider when choosing stocks to build your portfolio.



TIMELINESS™



SAFETY™



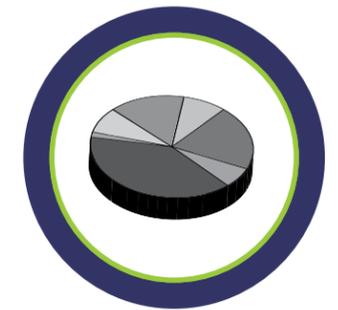
POTENTIAL



CONSISTENCY



ANALYSIS



DIVERSIFICATION

## 1. Look for a Stock Ranked 1 or 2 for Timeliness™

To start your selection process, look for stocks Ranked 1 or 2 by the Value Line Ranking System for Timeliness. Timeliness is Value Line's measure of the expected Relative Price Performance of a stock over the coming six-to-12 months.

Value Line Ranks range from 1 (Highest) to 5 (Lowest). You may also consider purchasing a stock Ranked 3 or 4, but we recommend that you have some particular reason for choosing it. Based on your investment goals, reasons might be that our three-to-five year projected stock price gain is favorable, or that the stock offers an attractive dividend yield supported by a strong balance sheet.

## 2. Look for a Stock with a Safety™ Rank of 1, 2 or 3

Value Line defines our Safety Rank as the combination of the company's financial strength and the volatility of a company's stock price. Safety is not a forecast of stock price performance. As with Timeliness, we Rank all stocks from 1 (Highest) to 5 (Lowest).

Based on your level of acceptable risk, evaluate the stock's Safety Ranking. If you want to invest in a company that is relatively strong financially and is a stock that is relatively less volatile, then choose a stock with a Safety Rank of 1 (Highest), 2 (Above Average) or 3 (Average). Value Line recommends staying away from stocks Ranked 4 or 5 for Safety.

## 3. Look for Stocks with the Best Potential for Growth

Review Value Line's three-to-five year projections for each stock, located just below our proprietary Ranks. As a rule of thumb, stocks with average projected gains of more than 50% are considered attractive, but market conditions do change. You can find the current median figure for average projected gains on the front cover of the Summary & Index each week.

For example, if the median appreciation potential for all stocks is 50%, you will not want to choose a stock that has a projected price gain of less than 50%, unless it is purchased primarily for income. To calculate the average projected gain for a stock from a Value Line page, take the projected high and low % gain, and calculate the average of the two numbers.

**One word of caution:** You will often find stocks that seem very promising based on the Timeliness Rank, but show little appreciation out three-to-five years. You will also find the opposite. The reason is that the time frames for each projection are different.

Value Line's Timeliness Rank is a forecast for the next 6-to-12 months only, while the three-to-five year projected gain is obviously a much longer time period. When there is such a discrepancy, you will have to consider whether a shorter-term or longer-term appreciation fits better with your personal investment strategy and goals.

## 4. Look for Strong and Consistent Growth Characteristics

The Annual Rate of Change box, located in the left-hand column of every Value Line page, shows the Annual Rates of Change in Revenues, Cash Flow, Earnings, Dividends and Book Value over the past 10 years, over the past 5 years, and for the coming three-to-five years as projected by Value Line. By looking at this data, you can see very quickly whether a company has been growing and if we think it will continue to grow satisfactorily. From here, you can also study the results to see if they have been consistent, or if there has been a lot of variability in that time.

If a company's growth characteristics are strong, generally showing increases of at least 10% a year, you may want to consider buying the stock. If the rate of growth has also been consistent, you have another reason for buying the stock.

## 5. Fully Examine the Analyst Commentary

Value Line analysts deliver unbiased commentary about each stock, scrutinizing many notable factors for the company and the industry such as current situation, recent and upcoming events which may affect Stock Price Appreciation, Profits, Earnings Outlook, and more.

Based on the analysts' outlook, you may consider whether the risks outweigh the rewards, and whether this stock fits into your overall investment strategy.

## 6. Diversify

From the start, having a diversified portfolio is important. New investors often don't have a lot of money and frequently cannot buy the ten to twenty stocks that Value Line recommends to create a diversified portfolio. Your goal should be to create a portfolio with stocks in at least ten diverse industries.

For example, if the first stock you purchase is a maker of computer software, you should avoid making your second purchase a computer manufacturer, or even a semiconductor company that sells to the computer industry. In order to minimize your risk, you should purchase a stock in a different area of industry.

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