

Six Steps for Picking a Stock

Using *The Value Line Investment Survey*™



The Value Line Investment Survey contains a wealth of information on approximately 1,700 stocks. Here we show just one way that an investor can use that information to pick a stock.

1. LOOK FOR A STOCK RANKED 1 OR 2

First, look at Value Line's Timeliness rank. Timeliness™ is Value Line's measure of the expected relative price performance of a stock over the coming six to 12 months. Ranks go from 1 (Highest) to 5 (Lowest).

To start your selection process, look for stocks ranked 1 or 2. You may also buy a stock ranked 3, but Value Line recommends that you have some special reason for choosing it. (One such reason might be that Value Line's 3- to 5-year projected stock price gain is favorable.) Never buy a stock ranked 4 or 5.

TIMELINESS	2	Lowered 11/11/11
SAFETY	3	Lowered 9/27/02
TECHNICAL	3	Raised 7/1/11
BETA	1.10	(1.00 = Market)

2. LOOK FOR A STOCK WITH A SAFETY RANK OF 1, 2, OR 3

Then, if you are concerned about the risk of your investments, you should look at a stock's "Safety" rank. (If safety, or risk, is of no concern to you, you can skip this section.) Value Line defines Safety as the combination of the financial strength of a company and the volatility of a company's stock price. It is not a forecast of stock price performance. As with Timeliness, we rank all stocks from 1 (Highest) to 5 (Lowest). If you want to invest in a company that is relatively strong financially and in a stock that is relatively less volatile, pick a stock with a Safety rank of 1 (Highest), 2 (Above Average), or 3 (Average). Stay away from stocks with ranks of 4 or 5.

2014-16 PROJECTIONS			
	Price	Gain	Ann'l Total
		Return	Return
High	105	(+145%)	25%
Low	70	(+60%)	13%

3. LOOK FOR A STOCK THAT IS EXPECTED TO RISE BY MORE THAN MOST OTHERS

Next, look at Value Line's three- to five-year stock price projections. As a rule of thumb, stocks with average projected gains of more than 80% are considered attractive,

but market conditions do change, and you should check the front cover of *Summary & Index* each week to see what the current median figure is.

If the median appreciation potential for all stocks is 80%, for example, you will want to choose a stock that has a projected price gain of more than 80%. To calculate the average projected gain for a stock from a Value Line page, take the projected high and low % gain (see box), and calculate the average of the two numbers. If the average for the stock at which you are looking is more than 80%, you should consider buying it.

One Word Of Caution: You will often find stocks that are very promising based on the Timeliness rank, but show little appreciation out 3- to 5-years. You will also find the opposite. The reason is that the time frames are different: Timeliness is a forecast for the next six to 12 months; the 3 to 5 year projected gain is obviously for a much longer time period. When there is such a discrepancy, you will have to decide if shorter-term or longer-term appreciation is your goal.

4. LOOK FOR A STOCK WITH STRONG AND CONSISTENT GROWTH CHARACTERISTICS

Look at the Annual Rates of Change box in the left-hand column of every Value Line page. This box shows the annual rates of change in revenues, cash flow, earnings, dividends, and book value over the past 10 and 5 years and for the coming 3 to 5 years (as projected by Value Line). By looking at the data here, you can very quickly see if a company has been growing nicely, and if Value Line thinks it will continue to grow satisfactorily. You can also see if a company's results have been consistent, or if there has been a lot of variability.

ANNUAL RATES of change (per \$)	Past	Past	Est'd '08-'10
	10 Yrs.	5 Yrs.	to '14-'16
Revenues	9.0%	11.0%	6.5%
"Cash Flow"	7.0%	11.5%	9.5%
Earnings	7.5%	12.0%	10.5%
Dividends	-20.0%	-26.5%	2.5%
Book Value	4.5%	8.5%	17.0%

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 growth has been consistent, you may have another reason for buying the stock..

5. LOOK FOR A STOCK THE ANALYST LIKES

Next, read the text in the lower right that was written by a Value Line analyst. Does the analyst think the earnings outlook for this stock is positive? Does the analyst think that the stock price is likely to appreciate? Do you get a positive feeling when you finish reading the commentary?

Analyst's Commentary

CIGNA Corp is on track to having a strong year. Third-quarter share net ad- vider based in the United Kingdom. The record 46-year streak to \$1.50 on pro- ceedings was completed at the beginning of this month. Not only has this enabled minimum revenues of \$4.7 billion. We are CI to offer protection against travel- related and medical emergencies, but the company can now also extend its existing \$2.30 per share. **The company has sought to expand its footprint in the Medicare managed care business to FirstAnest's three million October 24th, CI announced a definitive agreement to purchase management of genentax HealthSpring, Inc., whose price tag is in the over-60 age group. The Medicare market represents a high-growth opportunity, considering the aging of the baby-boomer generation. Although there is a recent amount of uncertainty surround- ing government action with regard to Medicare reimbursement, CIGNA is con- fident that HealthSpring will maintain its track of strong performance and will con- tribute to earnings growth in the future. The acquisition is scheduled to close in the first half of 2012, pending regulatory ap- proval. CIGNA has also added a new product line to its offerings. In September, CIGNA announced the acquisition of Fir-**

estAnest, a travel insurance coverage pro- vider based in the United Kingdom. The record 46-year streak to \$1.50 on pro- ceedings was completed at the beginning of this month. Not only has this enabled minimum revenues of \$4.7 billion. We are CI to offer protection against travel- related and medical emergencies, but the company can now also extend its existing \$2.30 per share. **We have raised our long-term es- timate.** CIGNA appears to be making tactical moves to attract new clients, both domestically and on an international basis. We think this appetite for expansion will continue and ultimately be reflected in the widening of the company's top and bottom lines. **These shares would make a nice addi- tion to a number of portfolios.** In the short term, the issue is ranked to out- perform broader market averages, which may appeal to momentum investors. Too, the 3- to 5-year Target Price Range dis- plays above average price appreciation potential, suggesting that patient inves- tors may find some interest in these shares as well. Meris Daboltz December 16, 2011

If the commentary is positive, you should consider buying the stock.

6. DIVERSIFY

New investors often don't have a lot of money, and they frequently can't buy the six to ten stocks that Value Line recommends to create a diversified portfolio. However, even in the beginning, diversification is important. If the first stock you buy is in a company that makes computer software, don't make your second purchase a computer manufacturer or even a semiconductor company that sells to the computer industry. Your second purchase should be in a very different industry (maybe drugs, or restaurants or petroleum).

Your goal should be to create a portfolio with stocks in at least six diverse industries.

Note: In order to calculate a Timeliness rank, Value Line needs two full years of financial statements and stock trading history. Stocks that lack this information don't have Timeliness ranks.