

# ***Table of Contents***

Introduction	2
Defining the Problem	3
What Do Today's Investors Need?	12
Stock Scorecard	18
Stocks-Vital Fundamental Factors	20
Mutual Fund Scorecard	33
Mutual Funds-Vital Fundamental Factors	35
Time Tested Trend Analysis -P&F Charts	48
How to Find Point & Figure Charts	54
P&F Charts- The Major Trend	60
P&F Charts- Relative Strength	68
Pulling It All Together	93
Appendix I-Market Dynamics RS	96
Appendix II-Sources of Information	98

# ***Defining the Problem***

Today, there is an avalanche of information available to investors

- Internet
  - Has brought costs of information way down
  - Cost of research has come down
  - While quantity has gone up, the quality of information has gone down, in general
  - Many “research reports” are public relations releases in disguise
  - Inconsistent methods of calculation
  
- Television and radio
  - The search for “content” is relentless
  - Nobody listens to a TV program that is silent
  - The “talking heads” must be saying something newsworthy at all times
  - Who is paying to air the show? Will they be critical of a big advertiser?
  - Inventing the news where none exists
  
- Print media
  - Many sources of this traditional media
  - Increasingly narrow focus to appeal to target audience
  - What are the qualifications of the author? Is he a journalist, or a savvy financial analyst who happens to write well?

# ***Stocks: Vital Fundamental Factors***

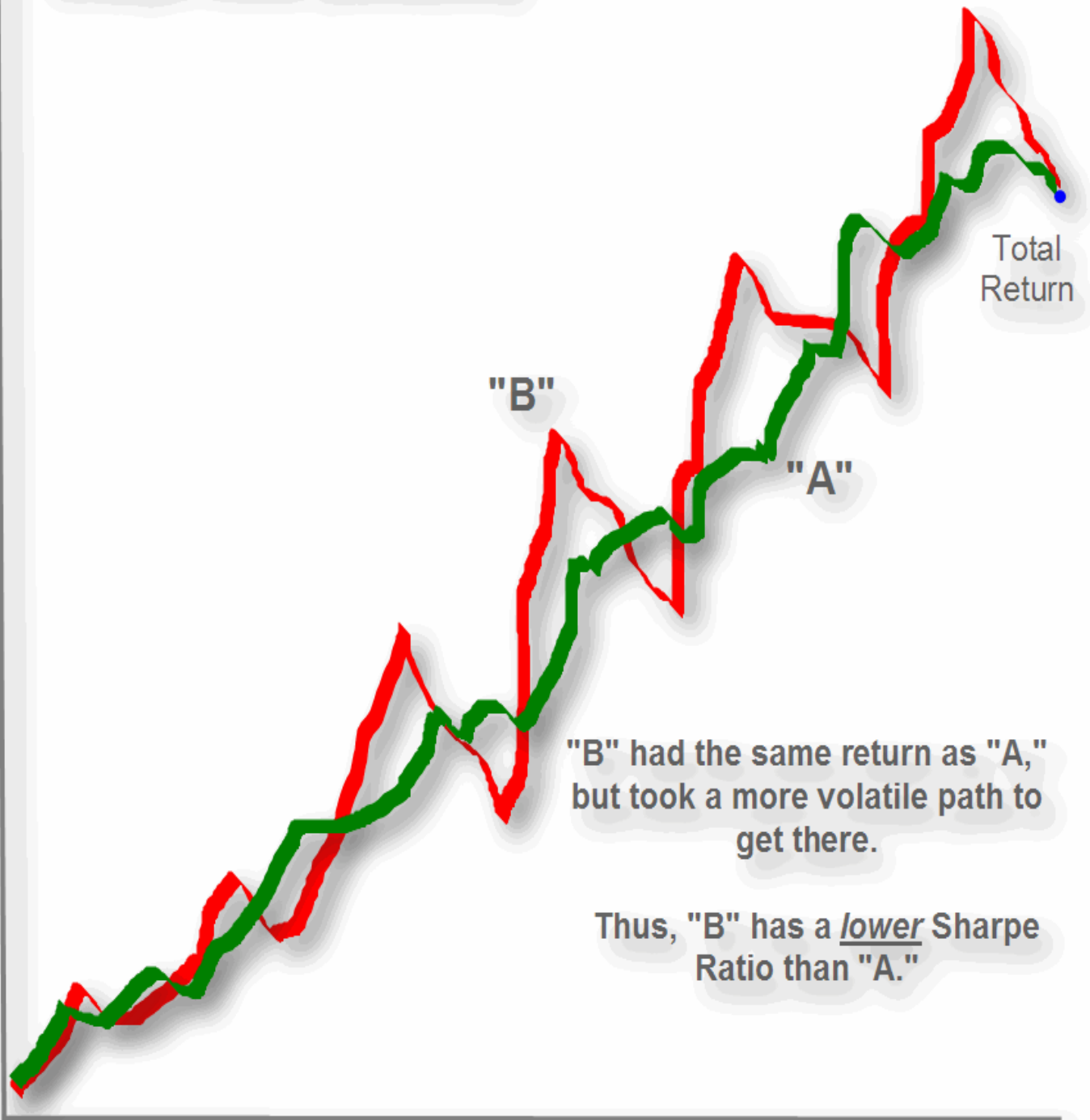
## **Return on Total Capital (ROTC)**

- What is the company earning on ALL the capital it employs?
  - Accounts for use of equity and debt financing
  - A common denominator for all companies
    - Allows you to compare one company to any other company
  - The higher the ROTC, the better
  - ROTC is NOT the same as "Return on Equity" (ROE)
- ROTC Nuts and Bolts

$$\text{ROTC} = \frac{\text{Net Income} + \text{Interest Expense}}{\text{Avg. Total Capital}}$$

- For companies with debt on the balance sheet:
  - ROTC < ROE
- For companies with no debt:
  - ROTC = ROE
- Where to find ROTC
  - Value Line Investment Survey
    - At most libraries
    - Use current year's ROTC
    - First bold, italicized column
      - Examine trend of past years

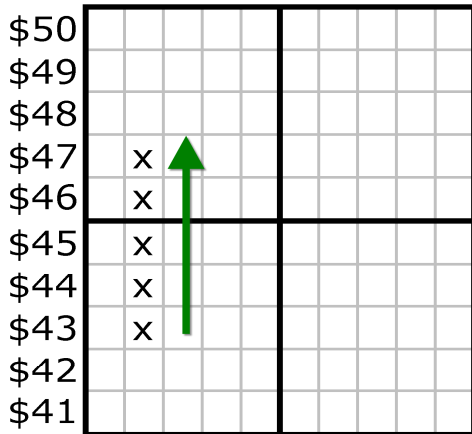
## Sharpe Ratio (idealized)



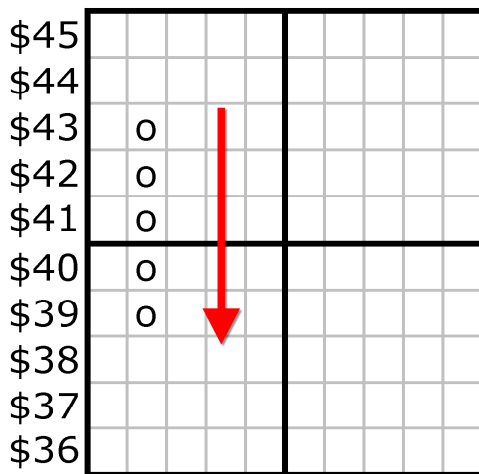
"B" had the same return as "A," but took a more volatile path to get there.

Thus, "B" has a lower Sharpe Ratio than "A."

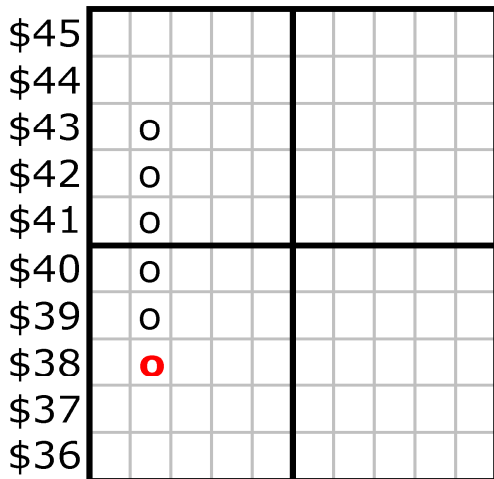




The stock has moved from \$43 to \$47



The stock has fallen from \$43 to \$39



The stock has moved down \$1 to \$38

It can move in the same direction 1 box at a time

Quest Diagnostics Inc. (DGX) NYSE



Is it ABOVE the up trend line?

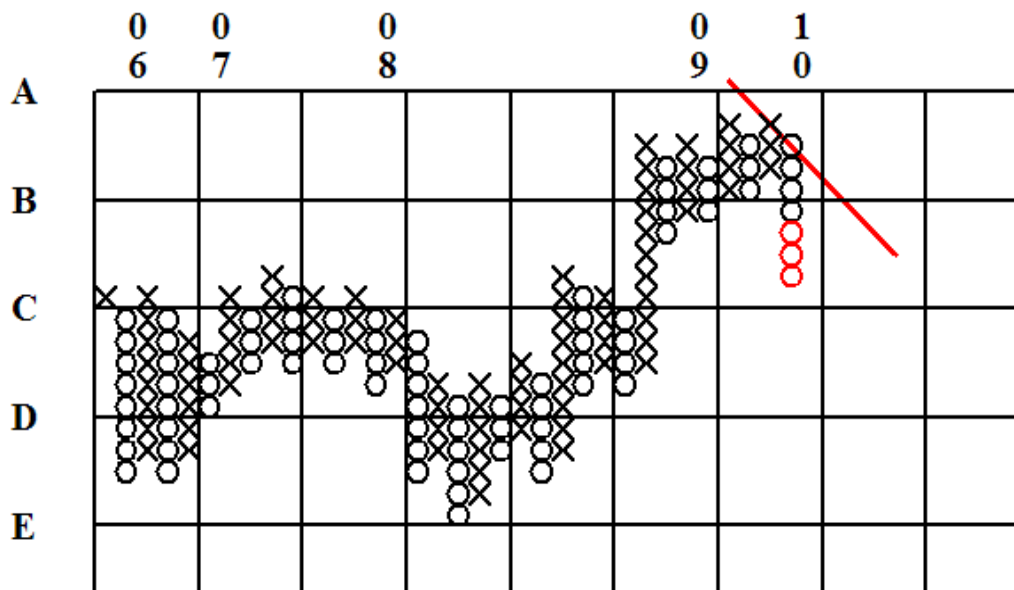
Above  
(+)

Below  
(-)

## Factors Derived from Relative Strength (RS) signals

- First, is the signal a "buy" or "sell?"
- RS signals look just like P&F price signals
- Interpret them exactly the same way
  - Buy = X above a previous X
  - Sell = O below a previous O
    - Example: BMY has just given a relative strength sell signal

**MARKET DYNAMICS - RELATIVE STRENGTH vs S&P 500**  
**BRISTOL-MYERS SQUIBB CO 03/22/2010 26.48 BMY**



## ***Pulling It All Together***

### **Emotion Reduced?**

- Quantitative;
- Same recipe for all stocks (or mutual funds)
- Information overload avoided

### **Objective Yardstick?**

- Data are consistent
- Repeatable
- Adapts to changing conditions

### **Ignore Wall Street?**

- Take back control over buy and sell decisions
- Objective
- Use common sense, not fancy mathematics

### **Evaluating the Scorecards**

- Common stock \_\_\_\_\_ vs. \_\_\_\_\_
- Mutual fund \_\_\_\_\_ vs. \_\_\_\_\_
  - Fundamental/value side
  - Trend side
    - What does the total score mean?
    - Good score vs. poor scores
    - What to expect

