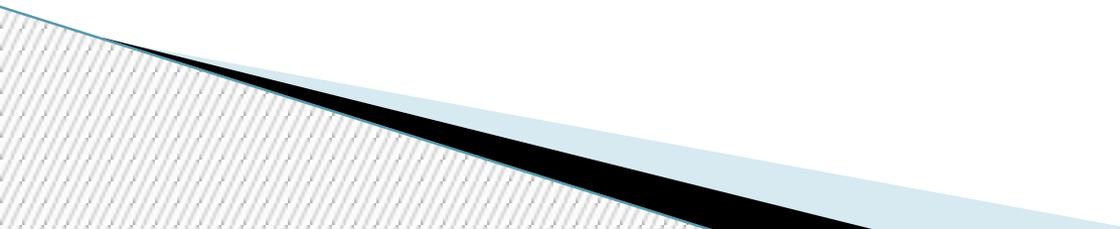


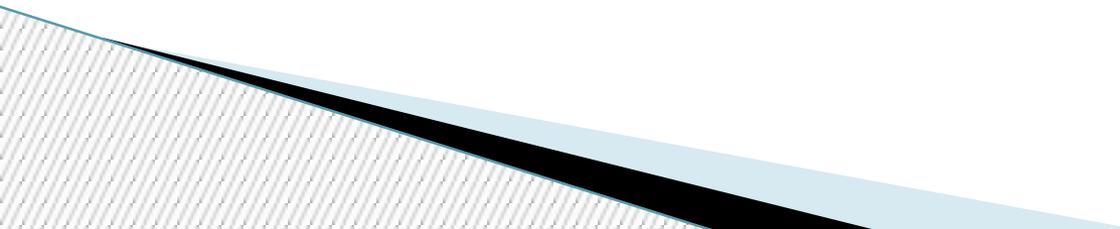
# A Few Things To Look For While Picking Stocks

Please email questions to  
[max.bohall@trincoll.edu](mailto:max.bohall@trincoll.edu)

# Agenda

- ▶ Entrepreneurial Management
  - ▶ Relative Strength
  - ▶ Are Price/Earnings Ratios Important?
  - ▶ Stock Buybacks
  - ▶ Analytical Practice
- 

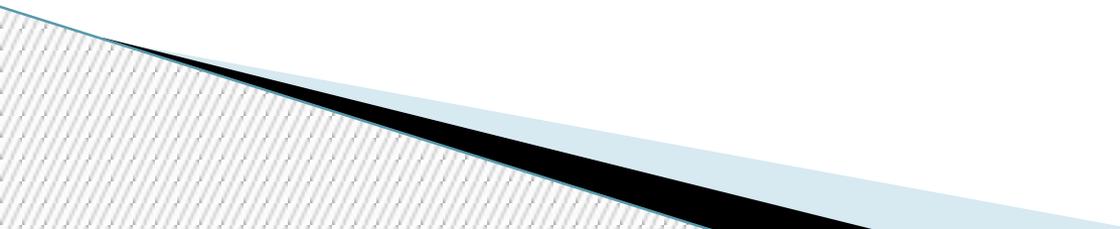
# Entrepreneurial Management

- ▶ Larger, older companies are often run by “Caretaker Managements” that are not willing to take on much risk to improve their company.
  - ▶ Oftentimes, these managers don't personally own a large portion of their company's stock.
  - ▶ We want to see management owning at least 5% of the company, indicating that they have a large personal stake.
- 

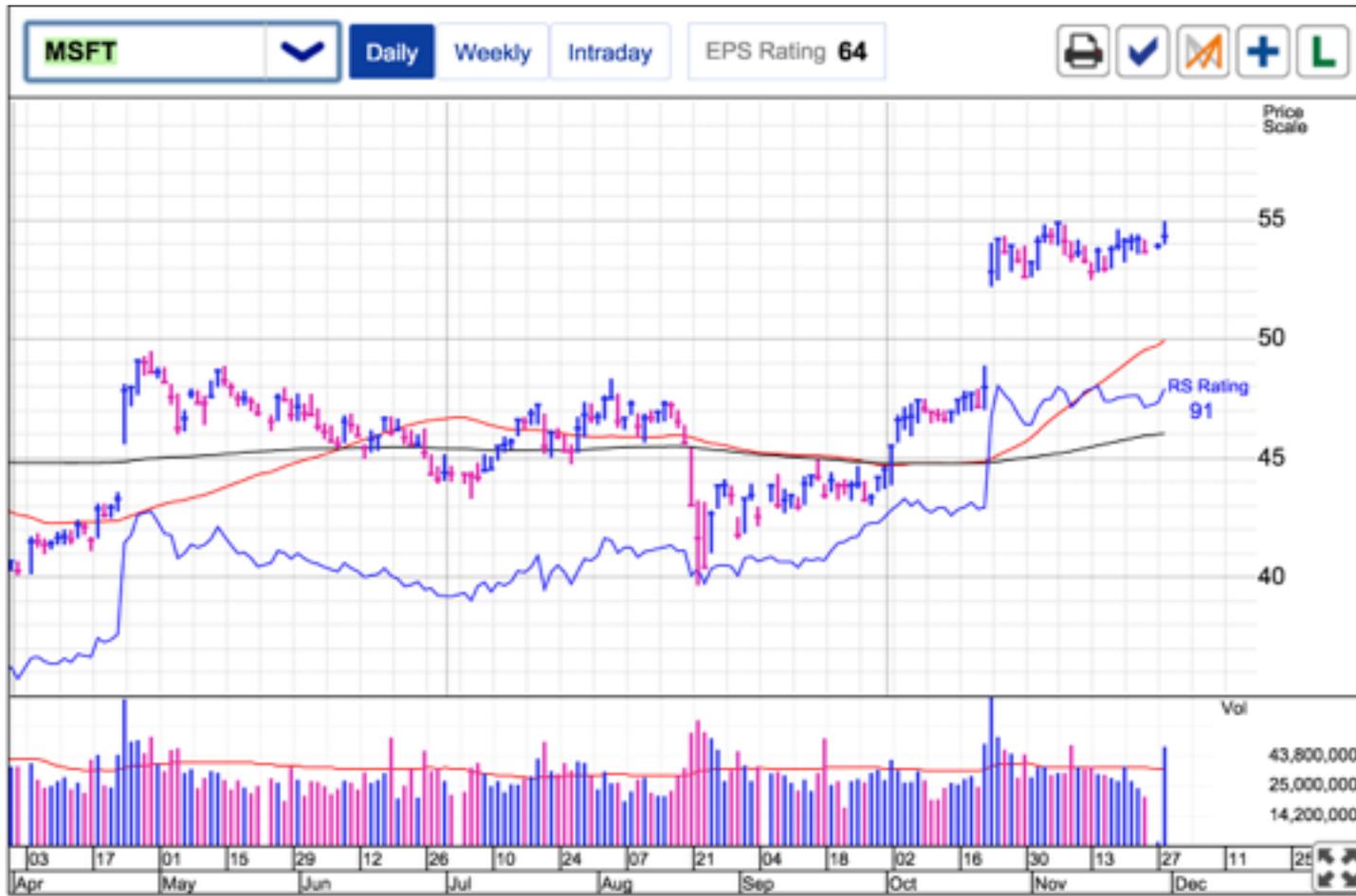
# Entrepreneurial Management (cont.)

- ▶ Most new products, services, and inventions come from young and innovative small- and medium-sized companies with entrepreneurial management.

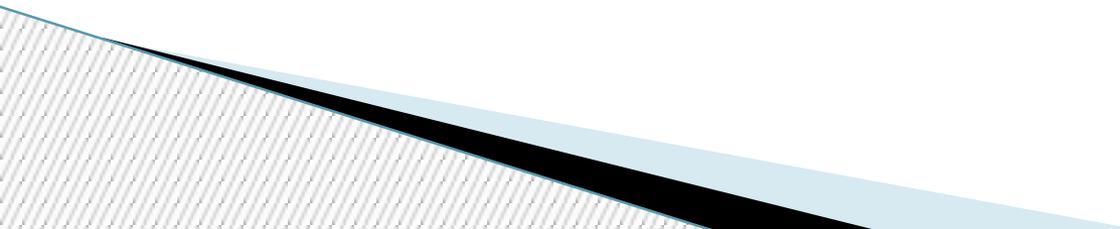
# Entrepreneurial Management Examples

- ▶ Microsoft in 1989: Increased 517% in 121 weeks.
  - ▶ Cisco in 1990: Increased 1602% in 169 weeks.
  - ▶ Ebay in 2002: Increased 282% in 115 weeks.
  - ▶ Syntex in 1963: Increased 451% in 25 weeks.
- 

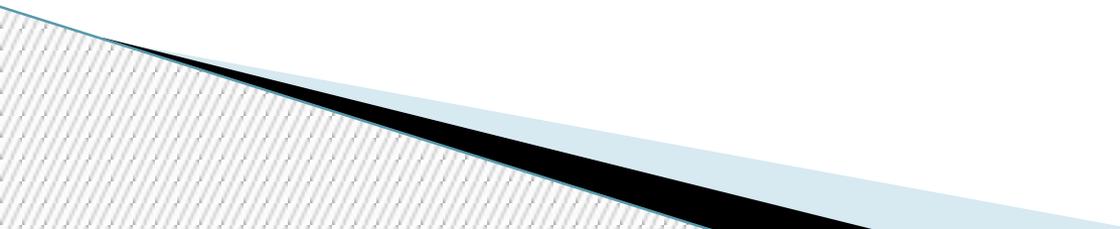
# Relative Strength (RS)



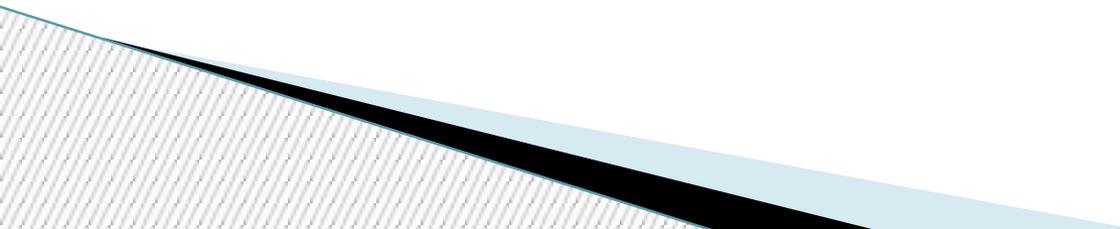
# Relative Strength (cont.)

- ▶ RS Rating measures the price performance of a given stock against the rest of the market for the past 52 weeks.
  - ▶ An RS rating of 99 means that the stock has outperformed 99% of all other companies in terms of price performance.
  - ▶ An RS of 50 indicates that half of all other stocks have done better and half have done worse.
- 

# Relative Strength (cont.)

- ▶ The best way to always buy leaders and never buy a laggard: look for stocks with an RS rating of 90 or higher, never purchase a stock with an RS rating  $< 80$ .
  - ▶ Analogy: The average baseball pitch is 86 mph, but the best performers throw in the 90s.
- 

# Are Price/Earnings Ratios Important?

- ▶ No.
  - ▶ P/E is often used as a basic measurement tool by analysts to determine whether a stock is under or overvalued.
  - ▶ Research by William O'neil & Co. has shown that P/E Ratios are not a relevant factor in Price movement and have very little to do with whether a stock should be bought or sold.
- 

Some stocks you would have missed if you weren't willing to buy growth stocks at 25 to 50 times earnings

- ▶ Microsoft
- ▶ Cisco
- ▶ Syntex
- ▶ Home Depot:
  - ▶ +892% in 64 weeks
- ▶ America Online:
  - ▶ +570% in 75 weeks

# Big Performers with high P/E

- ▶ Xerox:
  - ▶ +1201% in 188 weeks
- ▶ American Online:
  - ▶ +570% in 75 weeks
- ▶ Google:
  - ▶ +536% in 164 weeks

# Stock Buybacks: A Very Good Sign

- ▶ A stock buyback is when a company buys shares of its own stock. This data can be found on the Bloomberg Terminal as well earnings reports.
- ▶ Best combined with rising earnings:
- ▶ Tandy: increased from \$2.75 to \$60 (2081%)
- ▶ MetroMedia: \$30 to \$560 (1766%)
- ▶ Teledyne: \$8 to \$190 (2275%)

# Analytical Practice

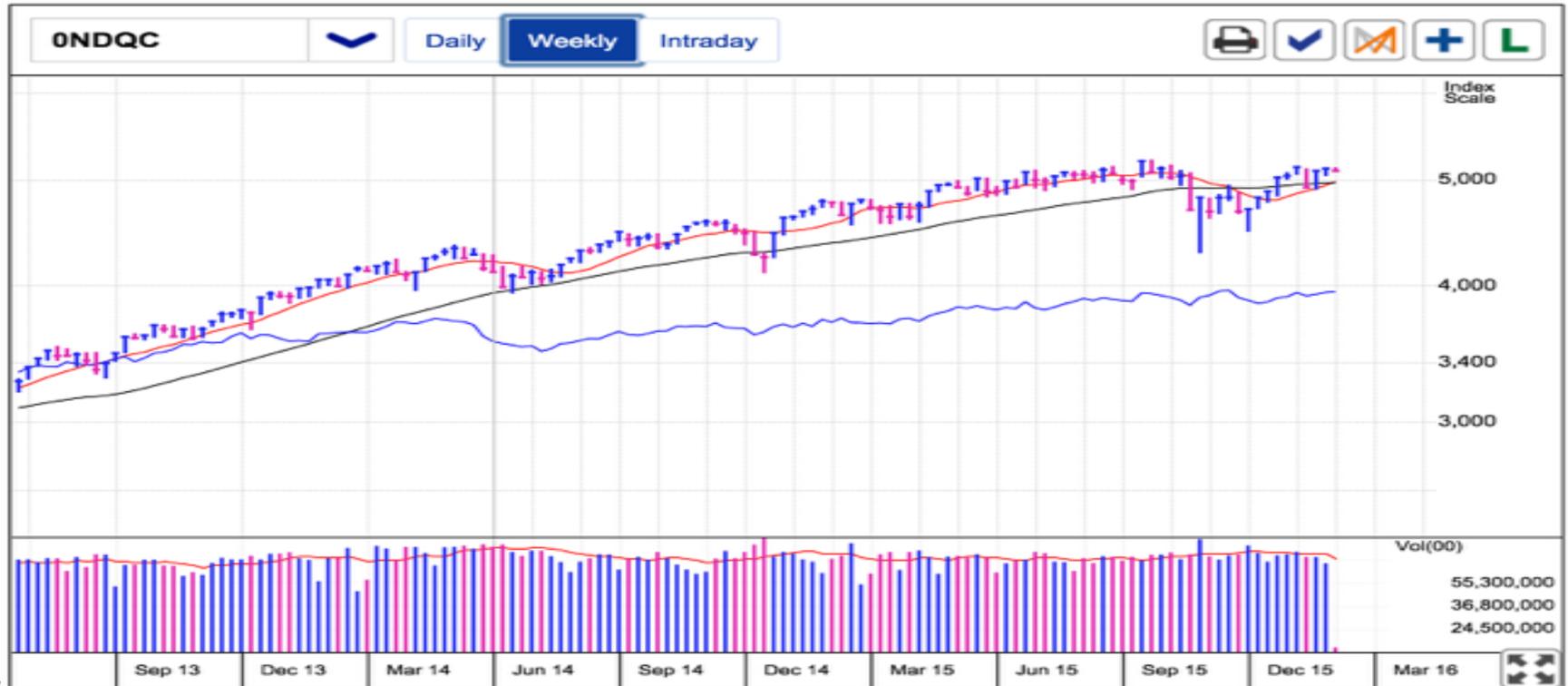
## Nasdaq Composite (0NDQC)

5108.67 ↓ 18.85 (0.37%) NASDAQ



Left mouse click on graph to display price and volume data

Volume: 1.8 Bil | ↓ 1% vs 10-week MA | Avg Daily Volume: 1.9 Bil | Off 52-week high: -2%



# Analytical Practice (cont.)

General Motors Company (GM)

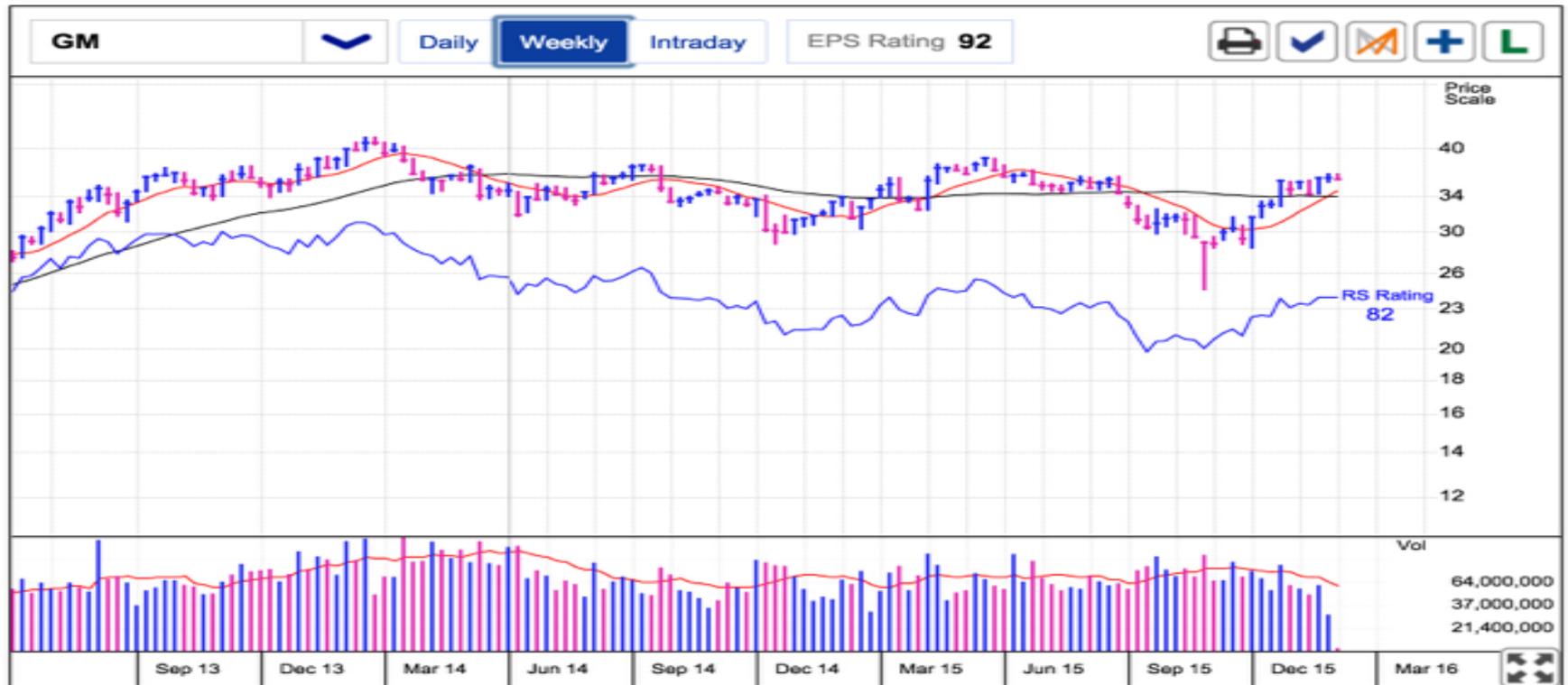
www.gm.com

\$36.20 ↓ 0.17 (0.47%) NYSE



Left mouse click on graph to display price and volume data

Volume: 13.7 Mil | ↑ 1% vs 10-week MA | Avg Daily Volume: 13.6 Mil | Market Cap: \$56 Bil | Off 52-week high: -7%



# Analytical Practice (cont.)

Tesla Motors Inc (TSLA)

www.teslamotors.com

\$230.26 ↓ 1.35 (0.58%) NASDAQ



Left mouse click on graph to display price and volume data

Volume: 2.6 Mil | ↓ 8% vs 10-week MA | Avg Daily Volume: 4.3 Mil | Market Cap: \$30 Bil | Off 52-week high: -20%



# Summary

- ▶ Look for entrepreneurial management that is introducing game-changing products.
  - ▶ Try and buy stocks with a RS rating greater than 90. Never buy a stock with an RS rating of less than 80.
  - ▶ Do not take companies off of your “buy” list because of high P/E Ratios.
  - ▶ Fundamentals are the most important but be aware of a stock’s technical movements.
- 