To assist investors learn to manage their money more safely, we provide information about various methods of investing and links to various websites and books that we believe are informative and helpful.

The following information and opinions have been taken from the website **www.VestorVest.com**

VestorVest owns this property.

We showcase their software, ideas and opinions to assist investors in learning to make safer investments.

Although we do not agree with all their opinions, and our own independent research supports a very different approach to safe investing than theirs, we strongly encourage investors to visit their website, to review their system and carefully study their approach to investing.

VestorVest makes a well-articulated case for their investment approach and they provide investors with a great deal of important information, valuable tools and professional insights. I have subscribed to their service on several occasions over the past 15 or so years. Their telephone support staff are knowledgeable, helpful and easy to work with.

We do not receive any compensation from them, what-so-ever.

Not even free access to their software. And, we have not asked for it.

Everything below is from: http://www.VectorVest.com/

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor.

I received a thing in the mail the other day called the "Hot Stocks Review." Phrases like "may even double again in the next twelve months," and "could have you crowing all the way to the bank" riveted my greedy eyes. Never one to pass up great investment opportunities, I decided to look into these "Hot Stocks." The blurb gave an 800 number to call for more information, but I prefer to do my own research.

The first thing I did was check my VectorVest database. Only two of the 29 stocks recommended by the "Hot Stocks Review" were covered by VectorVest. This was not too surprising since only eight of the 29 stocks are traded on American exchanges. Both of the stocks covered by VectorVest had a below average Safety rating. Neither had a Buy recommendation.

Neither of these stocks were covered by Value Line, so I checked Standard & Poor's Stock Guide which covers more than 7,600 stocks. Only one stock was found in this document. It was not ranked in terms of earnings and dividend quality. Obviously, if one were to invest in any of these stocks they would have to believe the promotional material touting the stocks, or use the information sent by the companies. There are two problems here. First, it takes a lot of time and effort to analyze a company's financial statement, and I wasn't sure I wanted to do this even for the eight stocks traded on NASDAQ. Secondly, the investment caveats cited in company literature and prospectuses are designed to protect the seller not the buyer.

Of course, the publication featuring the "Hot Stocks Review" included the usual disclaimers that "all investments carry risks," and made it clear that "the publisher nor anyone else involved would be liable for any investment decision resulting from their recommendations." That's fine, but how does one get a handle on finding out how risky a stock is any way?

Risk has two parts:

1. The probability of an unfavorable outcome
2. The consequences derived from that unfavorable outcome

Simply put, investment risk entails the probability of losing money, and the pain associated with the loss. Each of us needs to know how much money we can afford to lose on any single investment. We may be very comfortable, for example, with buying a lottery ticket even though the risk is extremely high because we can afford the loss. Buying stocks, however, is a lot different. We're using serious money when investing in the market...money that can make a difference in our lifestyles. Once we have established our "tolerance for risk", we can focus on assessing the risks involved with individual stocks.

Good information on stock safety is hard to find. Maybe that's because it's the last thing anybody want to think about. Even the few credible sources that provide some form of risk analysis, do so subjectively. Consequently, most investors do little more than plug intuition into their investment decisions. It's the missing link in assessing stocks.

Knowing how safe (or risky) a stock is can make the difference between making you a winner or loser as an investor. Here are the key factors used by VectorVest in assessing stock safety.

EARNINGS CONSISTENCY

The largest risk that shareholders have is that the company fails to meet earnings expectations. Experienced investors know that the moment of truth comes each quarter for every publicly traded American company. If a company fails to meet analyst's earnings estimates, its stock's price often drops 30% in a single day. Therefore, the single most important factor in assessing stock safety is in quantifying the probability that quarterly earnings will meet investor's expectations. If a company has a well-established record of consistent, predictable earnings performance, it is much more likely to meet the market's expectations.

Companies like Abbott Labs, Coca-Cola, and McDonald's have exemplary records of consistent, predictable earnings performance. These stocks have very high Safety ratings in the VectorVest system of analysis. They also have favorable ratings in Value Line and in S&P's Stock Guide.

COMPANY SIZE

It is true that the stocks of large companies generally are safer than those of smaller companies. Many fund managers are forbidden to invest in companies with less than $500 million in annual sales. Obviously, larger sized companies aren't going to disappear overnight. Investors should not assume, however, that the shares of IBM, GM and Union Carbide are safe just because they belong to big companies. Size is not nearly as important to an equity investor as knowing where the company's earnings are heading. It is virtually impossible to forecast the earnings of IBM, General Motors and Union Carbide with any degree of accuracy. Therefore, the VectorVest ratings on these stocks are below average.

PRICE BEHAVIOR

The classic measure of price volatility is given by "Beta." Beta reflects the statistical movement of a stock price compared to the market. If a stock's price moves up and down exactly in sync with the market, it will have a Beta of 1.00. If a stock's price consistently moves up 10% more than the market and down 10% more than the market, it is more volatile than the market, and it has a Beta of 1.10.

Fair enough. High Beta stocks are more volatile than the market, and less predictable. Therefore, they are riskier than the market. Ironically, they are not necessarily riskier than some low Beta stocks. Certain stocks, such as gold stocks, are very volatile, but tend to move counter to the market. These

stocks may have low or even negative Betas. Given this dilemma, I use Betas with a grain of salt. I prefer to analyze absolute price behavior to measure risk.

Absolute price behavior not only provides an unequivocal measure of volatility, but it allows one to assess risk in relation to the stock's price history. Since all things tend to move toward a mean, stocks which are above their price moving averages are more likely to move down, and stocks which are below their price moving averages are more likely to move up. Therefore, a stock which has moved well above its price moving average is riskier than one which has moved well below its price moving average.

LONGEVITY

It's better to deal with the devil you know, than with the one you don't. All other factors being equal, there's less risk in dealing with a company with a long track record than one which is brand new. Young companies offer some of the best investment opportunities, but they also bear potential pitfalls that could be fatal. Regardless of how good a stock looks, it's risky if it hasn't been traded for at least 5 years.

DIVIDEND HISTORY

A company doesn't have to pay a dividend to have a very safe stock. But if it does pay a dividend, it must maintain or increase the dividend without exception. A cut in dividend is a black eye for any company, and reflects poorly on its management and stock safety.

DEBT/EQUITY RATIO

The US government allow companies to deduct interest payments as a business expense. That's nice, but some companies overdo a good thing. They load up on debt beyond the point of being able to report any net earnings. Time Warner is a classic example of such a company. Its businesses are very good, but its balance sheet is a mess. Its Relative Safety rating in the VectorVest system is well below 1.00 on a scale of 0.00 to 2.00.

Beware of companies with excessive debt. Don't be fooled by the line about valuing a company based upon its cash flow. A company that can't report positive earnings after interest and tax payments is in big trouble no matter how you slice it. Safe stocks belong to companies with low debt/equity ratios.

OTHER FACTORS

The items cited above are only a short list of the many things that may be considered in assessing stock safety. Anyone who has studied accounting or read Benjamin Graham's book, "The Intelligent Investor," knows that there are many other things to look for. Regardless of how one might assess stock safety, it is important to do it systematically. Services such as VectorVest, Value Line, and Standard and Poor's use systematic approaches to assessing stock safety. Investors should always factor risk into their investment decisions.

USING STOCK SAFETY

Mr. Graham spends a lot of time in his book, "The Intelligent Investor," discussing the difference between investing and speculating. Basically, this difference is a matter of using knowledge to reduce risk to the point where the odds of winning are in your favor. Mr. Graham approaches the reduction of risk by advocating the purchase of undervalued stocks.

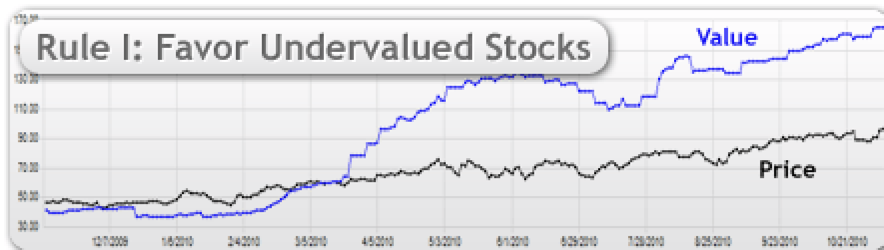
I approach valuation and safety as separate issues; then tie them together. In the previous chapter, High Growth vs. Low P/E stocks, I showed how valuation and stock safety are linked together in assessing a stock's long term investment potential. Both factors also play key roles in establishing Buy, Sell, Hold

recommendations. Intelligent investment decisions cannot be made without including a knowledge of stock safety. Do not let stock safety be your missing link.

How to Pick and Analyze Stocks

Visit the business section of any decent library. You'll find shelves full of books on how to pick stocks and stock analysis. I've read most of them over the last thirty years and some are pretty good. Most are not. It isn't easy, but sorting the good stuff from the not-so-good stuff is absolutely necessary. Anyone who has read John Rothchild's book "*A Fool and His Money,*" knows what I mean.

The biggest obstacle to finding a winning stock picking system is that no system works all the time. Even the great Peter Lynch picked bummers once in a while. Nevertheless, there are some simple, common sense rules that can improve anyone's stock picking skills regardless of the system they use. Here they are:

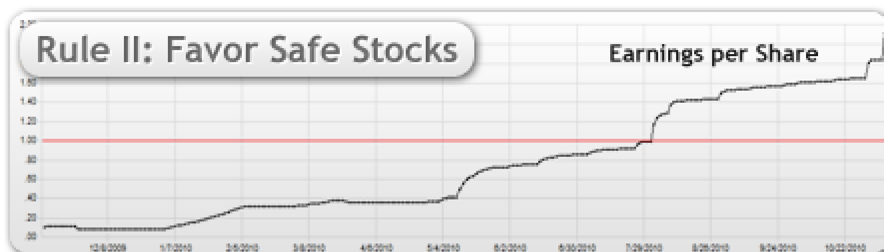


Favor Undervalued Stocks. The first step in picking stocks is to favor stocks of companies that are making money, lots of money. Study stocks of companies with rapidly growing earnings and choose stocks of companies which consistently make more money than they did the year before.

The question of price arises even if you do the above. Profitable, high growth stocks usually sell at very high prices. How high of a price is too high? The only way to answer this question is to know what a stock is really worth.

I answer this question by calculating a stock's value from its earnings growth rate, profitability and other fundamentals. My formulas for calculating value are described in Chapter 3 of my book, "Stocks, Strategies & Common Sense." Click here to get it FREE. If a stock's Value is more than its Price, the stock is undervalued. It's a candidate for selection.

Undervalued stocks offer a higher probability of achieving gains, the potential for very large gains and lower downside risk. In other words, undervalued stocks increase the odds of winning, increase the rewards for winning and decrease the risk of losing compared to overvalued stocks. So, favor undervalued stocks when doing your stock analysis.



Favor Safe Stocks. Have you ever noticed that the prices of stocks like Coca Cola and McDonalds never seem to cause any excitement, yet go up year after year? Stocks like Chrysler are always in the news, and go up and down like a yo-yo. There's a very simple reason for this contrast. The former have track records of steady earnings performance while the latter has an erratic earnings record. Price volatility is a reflection of fear and uncertainty.

Price volatility and risk arise from many sources...rumors, political assassinations, earthquakes and so on. Shareholders with little confidence in their company tend to overreact to rumors and bad news. Consequently, the stock prices of companies with erratic earnings performance suffer more when unfortunate things happen. Stocks of companies with steady, predictable earnings can weather nearly any storm.

Obviously, there's less risk in holding stocks of financially stable companies. Consequently, I analyze the risk factors of stocks very carefully before buying.

The second key factor in picking stocks is to favor safe stocks.

Favor Stocks with Rising Prices. The hardest thing for most investors to do is buy a stock while its price is rising. Most of us have been taught to wait for a stock to go down before buying it. The idea of buying stock at a lower price makes a lot of sense, but is fallacious.

First of all, you'll miss a lot of good opportunities. Really good stocks usually don't look back once they have started moving upward. Witness the hundreds of stocks that have doubled and tripled over the last few years with nary a downturn.

Even more importantly, you never know where the bottom is when buying a stock whose price is falling. Remember when Amazon went from 106.69 to 5.97? Who'd of believed it? I did because VectorVest did not reflect Amazon as being undervalued or safe as it was going down. However, when things started turning around and Amazon's price started rising again, we gave it a buy signal.

Buying stocks on the way down lessens your chances of winning. Most of us dream of buying a stock at its low point and riding it to the moon. It's a great dream, but the chances of doing so are virtually nil. The low points on good stocks don't last long. You have to be very lucky to bag a bottom.

Picking stocks with rising prices not only obviates the above problems, but offers several advantages. First, a stock that is rising in price is already doing what you want it to do. (You don't have to break a rising stock of a bad habit.)

Buying stocks with rising prices does not preclude the idea of buying them right after they hit bottom. Bottom Fishing is a great sport. You just have to know when the price trend has gone from down to up.

Finally, a stock that is hitting new highs has essentially no overhead resistance. There are no unhappy buyers waiting to get their money back. I especially like to buy stocks hitting their very first 52-WEEK high. These stocks have had plenty of time to consolidate, and are showing new signs of life.

It's fun to own stocks with rising prices. So pick stocks with rising prices.

Rule of Rules:

Pick Safe, Undervalued Stocks with Rising Prices. That's easy to say, but how does one find safe, undervalued stocks rising in price? Try following these steps:

1. Look at the financial section of your local paper, the Wall Street Journal, Investor's Business Daily, Barron's, the internet or whatever. Find the list of stocks that have just hit new 52-WEEK highs. All of these stocks are definitely rising in price.
2. Rank all these stocks in ascending order of Price to Earnings ratio, i.e., P/E ratio. This may take some work, but low P/E ratio stocks of course, are undervalued.
3. Assess each stock for safety. Since the subject of safety is not touched upon in the papers, you'll have to turn to other sources. Take a look at Value Line, for example or Standard & Poor's Stock Guide.
4. Now put all the information together in a logical, quantitative, unemotional way. Pick the ones you think are the safest, most undervalued and rising in price the fastest.

Once you have prepared your list of stocks, check them out using VectorVest. VectorVest's stock analysis and graphics software analyzes over 21,500 stocks every day for Value, Safety and Timing. It unifies these factors into a comprehensive indicator called VST-Vector. Stocks with the highest VST-Vector ratings have the best combinations of Value, Safety and Timing.

Analyze Any Stock FREE! Get a FREE VectorVest stock analysis report now. Click Here

There's no need to spend hours and hours doing what VectorVest has already done. You can obtain a complete, rank analysis of any list of stocks with VectorVest in just a few seconds. Our records show that stocks with the highest VST-Vector ratings outperform the market over the long-term.

This comes as no surprise. Common sense and simple logic dictate that picking safe, undervalued stocks rising in price should result in above average performance.

MYTHs of Investing

To a large degree, the investment community is its own worst enemy in scaring off the individual investor. This is very unfortunate because stock investing is one of the best avenues the average person has of accumulating substantial wealth.

MYTH #1: PRICE TO EARNINGS RATIOS TELL YOU WHETHER STOCKS ARE CHEAP OR EXPENSIVE.

P/E ratios are easy to find. Just about every newspaper, magazine and stock report publishes P/E ratios. Everybody seems to talk about them when discussing stocks. So P/E ratios must be a great way to compare stocks. Right? Wrong!

If you were told that Fly-By-Nite Industries had a P/E of 7, and Fantastic Plastics Inc. had a P/E of 14, would you buy Fly-By-Nite Industries instead of Fantastic Plastics Inc.? You might, but you wouldn't be comfortable making that decision. Why? Because you need more information. You'd like to know a whole lot of things before you decide which stock to buy. One of the most important things you'd like to know is the worth of each stock based upon its earnings, profitability and other key financial data. In other words, you'd like to have a sense of the stock's intrinsic value. P/E ratios don't say anything about a stock's value!

What investors need is a Value to Price ratio. With a Value to Price ratio, investors would know immediately whether a stock was cheap, expensive or fairly priced. But this means we have to have a way of computing value. Of course there are theories and formulas for computing intrinsic value. But they are complex, and some sophisticated investors even say they are unfathomable. Consequently, most investors, even the pros, don't begin to look at stock's intrinsic value! They resort to trivial devices like comparing P/E ratios.

MYTH #2: YOU MUST ASSUME HIGH RISKS TO MAKE GOOD MONEY IN THE STOCK MARKET.

A woman recently said to me, "I'm just scared to death of stocks. I can't afford to lose my hard earned money." The perception of high risk in stock investing is not totally without merit. Many investors have lost substantial sums of money in the market. Visions of investors jumping out of windows back in 1929 are graphic reminders of the risk inherent in stock investing.

Recent events in the market...the Great Crash of '87, the Friday the 13th Mini-meltdown, the ills of Program Trading, insider trading, the Mercury Financial and Bre-X scandals, have also contributed to the casino image associated with stock investing. This is very unfortunate because stock investing is one of the best ways the average person has of accumulating substantial wealth. It just requires a few

simple techniques and some discipline. In fact, it can be a lot safer than investing in real estate, collectibles, or your own business.

Here's how to make good money in stocks at low risk:

- *Buy stocks with consistent, predictable earnings growth*
- *Buy stocks with earnings growth rates of at least equal to the sum of current inflation and interest rates*
- *Do Not put more than 10% of your money into any single stock*
- *Do Not own more than two stocks in the same industry*
- *Do Not plunge into the market. Spread the investments over time.*
- *Use Stop-Sell orders to limit risk*

Stocks with consistent, predictable earnings growth are the safest stocks you can buy. They represent the best managed companies in America. A stock portfolio with an average earnings growth rate of at least 14%/yr. has a high probability of doubling in five years. In twenty years it will have increased by 1,500 percent.

If you bought 10 stocks, and limited your loss on any single stock to 10% by using Stop-Sell orders, your total portfolio risk is only 10%. Your risk on any single stock is only 1% of your total portfolio. How many investments can you think of that have the upside potential of stocks with such limited risk exposure?

MYTH #3: BUY STOCKS ON THE WAY DOWN AND SELL ON THE WAY UP.

There's an old adage that says the way to make money in the stock market is to buy low and to sell high. That, of course, is an irrefutable truth. The only problem is that many investors confuse this bit of conventional wisdom with the assumption that if the price of a stock is going down it is low, and if it is going up it is high. Consequently, they buy stocks on the way down and sell on the way up. There's hardly a worse thing an investor could do.

Stocks are bought on the expectation that they will go up. If a stock is going up in price, it is fulfilling that expectation. When the price is going down, it is denying that expectation. Therefore, it is logical to buy a stock when its price is going up. Moreover, one of the best times to buy a stock is when the price has broken above an old high. At this point there are no unhappy holders who are waiting to dump the stock. If the stock is fairly valued, there should be clear sailing ahead.

MYTH #4: STOCKS ARE A HEDGE AGAINST INFLATION

For many years stockbrokers and mutual fund salesmen have been saying that stocks are a hedge against inflation. Well, they are and they aren't. It depends on how you look at it.

A true inflation hedge is one that goes up in value with higher inflation...like a house, or gold, or collectibles. But, the fact is, inflation is the stock market's number one enemy. When inflation goes up, interest rates go up and two things happen. For one thing, investors say, "Golly, I can make all that money on high interest rate bonds so why should I invest in stocks." So they take their money out of the stock market, and stock prices go down. The second thing that happens is that the cost of doing business goes up. So corporate earnings go down, and stock prices go down.

So why in the world would anybody say that stocks are a hedge against inflation? It's because they can make money in stocks faster than inflation will eat it up. All they have to do is invest in stocks which have earnings growth rates higher than the sum of inflation and long-term interest rates. When they do that, the price of the stock will go up faster than inflation. And they will be whipping inflation by staying ahead of it.

MYTH #5: YOUNG PEOPLE CAN AFFORD TO TAKE HIGH RISK

Of all the myths in the market, this may be the cruelest and the most foolish. Everyone knows that the elderly are not supposed to take risks. They must be very conservative because their earnings power is limited. They can't afford to lose their money! Well, who decided that young people could afford to lose their money?

If any group needed to watch every penny, it's the young. They need money to start a family, buy a house, buy furniture, save for the future and on and on. Furthermore, young people usually are at the low end of the earnings scale. They have precious little disposable income.

Young people have an invaluable asset on their side, however. Time. They don't need to take risk. They can invest in tried and true companies that make money year in and year out. At 10%/year growth, their investments will double every seven years. By the time baby is off to college that initial safe investment has increased by a factor of eight.

When you have time, you can afford patience. Patience pays off in the market.

Valuation

"Astute investors know that three powerful forces drive the stock market. These forces are known to everyone, but are often misunderstood."

There's a terrific battle raging on Wall Street. The Bulls are looking for new market highs, and the Bears are saying the party's over. Both camps are making their point with a plethora of facts, fiction and fluff. How can we cut through the flak and focus on what's really going to happen?

Astute investors know that three powerful forces drive the stock market. These forces are known to everyone, but often misunderstood. They are related, but independent. They are measurable, but controversial. They convey the effects of all that happens, and ultimately determine the fate of the market.

When a major event such as a product introduction, an earthquake, or assassination occurs, investors instinctively speculate on whether the event will help or hurt the stocks they own. If the event seems likely to help earnings, prices rise. Conversely, prices fall if the news is perceived to be harmful. Corporate earnings is the first powerful force driving the stock market.

The bug-a-boo of a strong economy, and the thing that's currently haunting the market is inflation. Inflation, of course, causes raw material, labor and service costs to increase. Unless a company increases productivity and raises prices, profit margins narrow and earnings go down. Rising inflation rates ultimately push stock prices down. Inflation is the second powerful force driving the stock market.

Inflation not only lessens the value of financial assets, it erodes the purchasing power of consumers. Left unchecked, inflation destroys monetary stability, and leads to a weak economy. The Federal Reserve Board (The Fed) is charged with the responsibility of maintaining monetary stability. It fulfills this task by controlling the money supply. When The Fed sees inflation increasing, it tightens the money supply, and interest rates go up.

Ironically, higher interest rates raise costs. It stifles investment, weakens the economy, hurts corporate earnings, and eventually leads to a Bear market. The third and perhaps most powerful force driving the stock market is interest rates.

In Summary:
Stock prices rise when earnings go up. Stock prices fall when inflation rises, and stock prices fall when interest rates increase.

While most investors are familiar with these basic observations, the stock valuation formula published in last month's Investors Alliance News is the only relationship which ties them together. Here it is:

V = 100 * (E/I) * SQR[(R+G)/(I+F)]
Where:
V = Stock Value in $/Share
E = Earnings Per Share in $/Share
I = AAA Corp. Bond Rate in Percent.
SQR = Square Root
ROTC = Return on Total Capital in Percent.
R = I * SQR(ROTC/I)
G = Annual earnings growth rate in %/yr.
F = CPI inflation rate in %/yr.

The equation clearly shows that Stock Value increases when Earnings Per Share, Profitability, and Earnings Growth Rate go up. Stock Value decreases when Interest rate and CPI inflation go up. Let's see how Eq. (1) can help us understand why and how the market cycles.

First, let's calculate the Value of the S&P 500 stock index to see where it stands today. As of September 23, 1994, the following data was available on the S&P 500:

E = 31.50 $/Share
I = 8.4 Percent
ROTC = 10.0 Percent
R = 9.2
G = 8.0 Percent/yr.
F = 2.9 Percent/yr.

Substituting these figures into the equation gives:

V = 100*(31.50/8.4)*SQR[(9.2+8.0)/(8.4+2.9)]
= 100 * (3.75) * SQR(17.2/11.3)
= 100 * (3.75) * (1.23)
= 461.25

The S&P 500 closed at 459.68 on September 23, 1994.

The equation is saying that the S&P 500 is fairly valued. The race between higher earnings and higher interest and inflation rates is even. Neither Bull nor Bear currently has the upper hand.

Bull markets are born when the economy is very weak. Consider the most recent cycle. The Bull market began in October, 1990 when the economic outlook was dismal and earnings were falling. That may sound absurd, but one must remember that interest and inflation rates were also falling.

The power of lower interest rates can be illustrated by noting that the S&P 500 index would rise 79 points (about 17 percent) if the AAA Corporate Bond rate fell only 1.00 percentage point. Obviously, when both interest and inflation rates were going down the market had extraordinary lifting power. This is exactly what happened in late 1990 and throughout 1991. It was the interest sensitive phase of the Bull market. Stocks of financial companies soared.

The economy began improving in March 1991, and earnings began to rise. Inflation and interest rates continued to fall, and the Bull market was in full swing. Stocks in housing, furniture, appliance, and other associated industries were on fire. It was the best of all worlds.

The Fed's last major move to lower interest rates was made in December 1991. The economy and the Bull market rolled on. Cyclical stocks such as autos and producers of large capital equipment were in vogue.

But things began to change with the subtle rise in interest rates in September 1993. The investment climate turned cloudy when The Fed tightened monetary policy in February 1994.We are now in a classic final phase of this Bull market. Stocks of commodities such as steels, paper and basic chemicals are on the rise. They are the last groups to see the boom in earnings. But the deadly duo of rising inflation and interest rates are also taking their toll.

Investors are torn between betting on the Bulls or going with the Bears. The game isn't over yet, but the economy will eventually defeat itself. The better the economy gets, the more it will force the Fed to raise interest rates. The Bull market will continue until stocks become grossly overvalued, and high interest rates strangle economic growth. Then the Bear market will come, and the cycle will begin anew.

That ends the summary of the information that we have taken from their website.

VestorVest provides a wealth of important information. WE WANT TO HEAR FROM YOU!

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We do not sell any products. We are fiduciaries.